State of Oklahoma
Incentive Evaluation Commission
21st Century Quality Jobs Program

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PFM Group Consulting LLC
BNY Mellon Center
1735 Market Street
43rd Floor
Philadelphia, PA 19103

Contents

Executive Summary

Overview

State incentives focused on job creation are common across the United States. During and following the Great Recession, these programs increased in use as ways to help start and sustain economic recovery. A list compiled by the National Conference of State Legislatures in 2013 showed 40 states with some form of job creation incentive program.[1] Oklahoma created a key job creation incentive in 1993, the Quality Jobs Program. The program has since incentivized hundreds of companies across various industries that have chosen to locate a new facility or expand existing facilities in the State.

Oklahoma's 21st Century Quality Jobs program was created in 2009 under the 21st Century Quality Jobs Incentive Act. The intent of the legislation is to "provide appropriate incentives to attract growth industries and sectors to Oklahoma in the twenty-first century through a policy of rewarding businesses with a highly skilled, knowledge-based workforce". The program offers quarterly payments of up to 10 percent of newly created payroll for a period of 10 years.

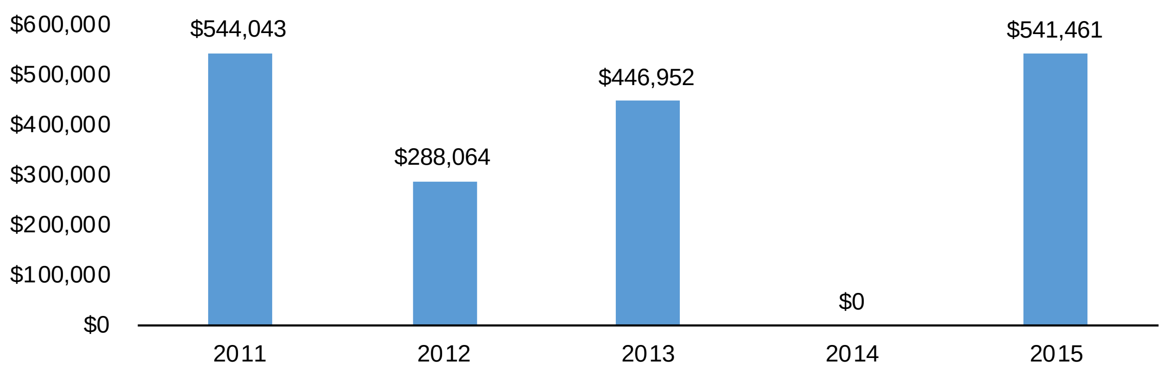
Primary Recommendation: Retain, with modifications

Since its inception, the 21st Century Quality Jobs program has incented the creation of 900 jobs in various industries. The program has performed well in terms of economic impact and appears to be a net benefit to the State. However, there are aspects of the program that may be improved to enhance its performance and better meet the State's goals.

Key Findings

- **The program is a net benefit to the State.** If each company that entered the program in 2011 qualified for full payments that year, the economic activity generated by those companies would have an economic impact, net of incentive costs, of over $544,000. The same calculation is consistently positive in each year a contract was issued since 2011.

Figure 1: Estimated Net Fiscal Impact of Contracts Issued Each Year, 2011 to 2016[2]



- **The cost per job over the life of the program is approximately $45,000.** A total of $40.8 million has been paid to participating companies. Companies receiving payments created a total of 895 qualifying jobs. The cost per job is significantly higher than the standard Quality Jobs program and the Small Employer Quality Jobs program. This higher cost is likely driven by the higher wages associated with these jobs, and the higher net benefit rates offered by the program.

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[1] National Conference of State Legislatures, "Job Creation Tax Credits – 50 State Table", 2013
[2] This represents the annual tax revenue as a result of economic activity generated by the incentive, net of incentive costs. This analysis assumes each company offered a contract qualifies for payments in each quarter of the year

- **Industries incentivized by the 21st Century Quality Jobs Program have exceeded or matched overall State growth in employment, average annual wages, and total wages over the last five years.** In this respect, the program has outperformed the other Quality Jobs programs; given the higher wage levels associated with it, this is not surprising.

- **Almost all payments over the last five years have gone to industries outperforming State growth.** This suggests the program is meeting its goal of incentivizing growth industries in Oklahoma.

- **Cost controls associated with the administrative process have been effective.** Over the life of the program, the administrative process and the statutory requirements involved in it have done a good job of safeguarding State investments.

- **Data collection and storage methods complicate the evaluation process.** Specifically, more uniform data collection and storage among the databases maintained by the Oklahoma Tax Commission (OTC) and Department of Commerce (Department) would ease the data analysis process in the future.

The program can be improved by:

- **Requiring companies to file information for payment each quarter.** Adding a requirement that companies file quarterly claims for payment may improve both the predictability of costs to the state, and the efficacy of the program.

- **Establishing a schedule for regular review of eligible industries.** Although the incentive has been succeeding in incentivizing growing industries in the State, reviewing the eligible industries regularly can help ensure this success continues. Keeping in mind that the establishments that qualify today may receive payments for the next 10 years, it is important that the State focuses on the industries it sees as playing a part in future development.

- **Maintaining a centralized database of information collected by the Department and the OTC.** Maintaining a single database of Quality Jobs program information that includes the data collected by both the Department and the OTC can improve future evaluations. This centralized database should include the following information:

    - A unique identifier for each establishment/contract;
    - Location;
    - NAICS code;
    - Contract terms;
    - Dollar amount for each quarterly payment made;
    - Number of jobs and payroll information reported by companies for each quarterly payment.

Key Findings and Recommendations

Key Findings

The 21st Century Quality Jobs program has created almost 900 jobs in various industries since its inception in 2009. The transportation equipment manufacturing sector has been responsible for over 90 percent of the jobs created under the program. The program has performed well in terms of economic impact and appears to be a net benefit to the State. However, there are aspects of the program that may be improved to enhance its performance and better meet the State's goals.

The following provides an analysis of the program's performance related to the criteria established for its evaluation.

- **The program is a net benefit to the State.** If each company that entered the program in 2011 qualified for full payments that year, the economic activity generated by those companies would have an economic impact, net of incentive costs, of over $544,000. The same calculation is consistently positive in each year a contract was issued since 2011.

- **The cost per job over the life of the program is approximately $45,000.** A total of $40.8 million has been paid to participating companies. Companies receiving payments created a total of 895 qualifying jobs. The cost per job is significantly higher than the standard Quality Jobs program and the Small Employer Quality Jobs program. This higher cost is likely driven by the higher wages associated with these jobs, and the higher net benefit rates offered by the program.

- **Industries incentivized by the 21st Century Quality Jobs Program have exceeded or matched overall State growth in employment, average annual wages, and total wages over the last five years.** One of the criteria for evaluating the 21st Century Quality Jobs program is payroll and job growth associated with the incentive. This is relevant both for quality job creation and also for the stated goal of incentivizing industries with the potential to bring significant growth to the State economy.

  Between 2012 and 2016, over $32.4 million was paid to participating companies across five different three-digit NAICS codes. This group of NAICS codes in Oklahoma increased employment by 5.2 percent over this period. At the same time, overall State employment and national employment expanded by 2.5 and 5.7 percent, respectively. The following table shows these rates as well as comparisons to overall State and national average annual pay and total wages growth rates.

Table 1: Growth of Industries Receiving Payments, 2012 to 2016

	Incented Industries	OK Total	US Total
Employment	5.2%	2.5%	5.7%
Average Annual Pay	7.2%	7.2%	8.9%
Total Wages	10.9%	5%	15.7%

Source: Bureau of Labor Statistics Quarterly Census of Employment and Wages

- **Nearly all payments over the last five years have gone to industries outperforming State growth.** A closer look at how much of the total payments has gone to industries growing faster than the State as a whole is shown below. The results of this analysis suggest the program is meeting its goal of incentivizing industries with the potential to bring growth to the State economy.

Table 2: Payments by Industry Performance Relative to Oklahoma Overall

	Total Payments	Percent of Total
Outperforming Industries	$32,234,404	99%
Underperforming Industries	$186,537	1%

Source: Bureau of Labor Statistics Quarterly Census of Employment and Wages

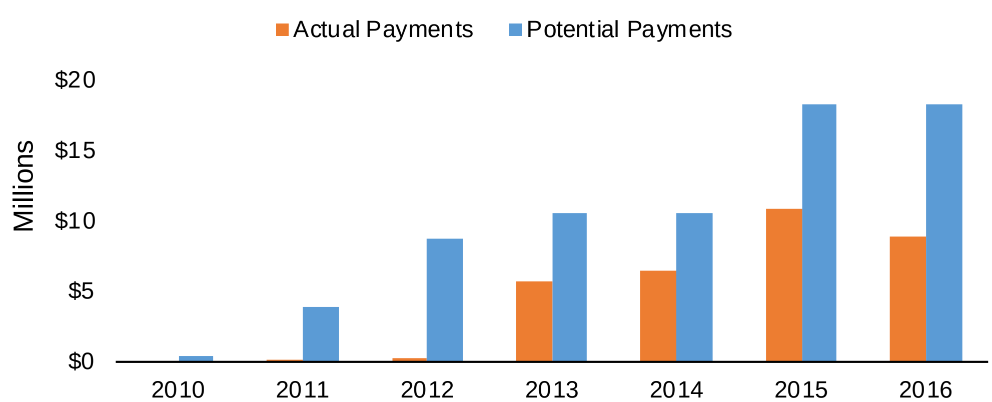
- **Cost controls associated with the administrative process have been effective.** The 21st Century Quality Jobs program's administrative process is designed to control costs to the State. The net benefit rate is a significant cost control built into the program. This rate and the maximum benefit amount limiting total payments made to establishments in the program are intended to ensure the State does not spend more than each project is expected to return to the State in new tax revenue. The Department of Commerce (Department) performs thorough modeling of projected costs and revenues resulting from projects to determine these amounts.

  The 21st Century Quality Jobs program furthers these cost controls by using an initial benefit rate as companies grow toward required thresholds. The initial benefit rate, with a lower cap than the fulfillment net benefit rate, protects the State from paying excessive amounts to companies who may not reach the required thresholds.

  After contract parameters are set by the Department, the Oklahoma Tax Commission (OTC) further controls costs to the State by verifying that each establishment filing for quarterly payments is meeting program criteria and that payments are only made to qualifying establishments.

  The following chart shows the impact of these cost controls. Between 2010 and 2016, a total of $32.6 million in payments were issued. The estimated potential payments over the same period based on contract amounts spread evenly over a 10-year time period total about $71 million.

Figure 2: Actual vs Potential 21st Century Quality Jobs Payments, 2010 to 2016



Source: Oklahoma Department of Commerce and Tax Commission

Four out of twelve total companies that have entered into a 21st Century Quality Jobs contract have never received a payment. One company has been removed from the program due to failure to meet the job creation requirement. Failure to file for payment within the first three years of the program caused one company to be removed from the program. Other factors, such as lower than expected payroll growth, can cause actual payments to be significantly lower than projections based on the maximum contract amount.

- **Data collection and storage methods complicate the evaluation process.** Although the Department and the OTC collaborate effectively to accomplish the administrative tasks associated with the program, there appears to be a lack of communication when compiling data associated with the incentive.

  The Department has files detailing the terms of each contract issued. Separately, the OTC maintains records of payments made to qualifying companies. Each of these databases hold key information for evaluating the incentive. However, there is no unique identifier that can be used to track one company from the Department's contract database to the OTC's payment database. This is particularly challenging when a company has changed its name since entering a contract or is known by multiple names. The project team was able to reconcile the two files by combining identifying information in each file such as the net benefit rate, location, or projected jobs.

  A notable weakness in the data available for evaluation is that while the OTC tracks payment data by year, it does not maintain a complete database of program payments by quarter. That information, combined with the job and payroll information each company must report in order to receive quarterly payments would be very helpful.

Overall Recommendation: Retain the 21st Century Quality Jobs Program

The project team recommends retaining the Quality Jobs program. While the program is providing sufficient benefit to the State to be retained, there are also areas where the program can be improved.

- **Recommendation 1: Require filing for incentive payments each quarter.** Irregular payments create two disadvantages for the 21st Century Quality Jobs Program. First, this creates a challenge in predicting State liabilities associated with the program. Inability to forecast incentive payments due to irregular payment schedules is a significant budget risk for state incentive programs.[3] Second, allowing participants to defer payments earned in one quarter to a later date diminishes the impact of the payment. New and expanding businesses generally apply a significant discount rate to future cash flows.[4] Given that payments are significantly more valuable to them the faster they are received, it is unclear why companies would choose to defer these payments to a later date. Interviews with both the OTC and representatives of the State Chamber of Commerce suggest the process of filing for payment is not overly burdensome for participating companies. However, it is clear that the value of these payments for both participating companies and the State is highest when received as soon as possible. Adding a requirement that companies file quarterly claims for payment may improve both the predictability of costs to the State, and the efficacy of the program.

- **Recommendation 2: Regularly review eligible industries.** Although the incentive has been succeeding in incentivizing growing industries in the State, reviewing the eligible industries regularly can help ensure this success continues. Keeping in mind that the establishments that qualify today may receive payments for the next 10 years, it is important that the State focuses on the industries it sees as playing a part in future development.

- **Recommendation 3: Centralize data tracking.** Maintaining a single database of Quality Jobs program information that includes the data collected by both the Department and the OTC can improve future evaluations. This centralized database should include the following information:

  - A unique identifier for each establishment/contract;
  - Location;

[3] The Pew Charitable Trusts, "Reducing Budget Risks" December 2015
[4] Anderson Economic Group, "The Economic Impact of Business Tax Credits in Tennessee" December 26, 2016

- NAICS code;
- Contract terms;
- Dollar amount for each quarterly payment made;
- Number of jobs and payroll information reported by companies for each quarterly payment.

Much of this information is already tracked by either the Department or the OTC, but centralizing data tracking will make the information more useful.

Introduction

Introduction

Overview

In 2015, HB2182 established the Oklahoma Incentive Evaluation Commission (the Commission). It requires the Commission to conduct evaluations of all qualified state incentives over a four-year timeframe. The law also provides that criteria specific to each incentive be used for the evaluation. The first set of 11 evaluations was conducted in 2016.

The 21st Century Quality Jobs Program is one of the 12 incentives scheduled for review by the Commission in 2017. It is one of the off-shoots of the Quality Jobs Program – which also include the Small Employer Quality Jobs Program, and the High Impact Quality Jobs Program. Each of these, as well as the original Quality Jobs Program are being evaluated separately this year. Based on this evaluation and their collective judgement, the Commission will make recommendations to the Governor and the State Legislature related to each of these incentives.

Introduction

State incentives focused on job creation are common across the United States. During and following the Great Recession, these programs increased in use as ways to help start and sustain economic recovery. A list compiled by the National Conference of State Legislatures in 2013 showed 40 states with some form of job creation incentive program.[5]

Whether they are provided as tax credits or rebates, job creation incentives like Oklahoma's Quality Jobs program often seek to reduce employee costs (primarily related to wages). Reduction in wage costs can make it easier for firms to expand operations and/or hire more employees at existing locations.

Labor costs in general can be a critical factor in location decisions. A 2016 survey of corporate executives conducted by Area Development found that labor cost is the third most important factor in location decisions, trailing only highway accessibility and availability of skilled labor.[6] This supports the approach of concentrating incentives on reducing the cost of employment to promote economic growth.

While many job creation incentives target new or maintained jobs, there has been a trend to create specific incentives that target high wage jobs, often in targeted industries and/or with additional requirements (in many instances the provision of health care or other employee benefits). For example, many states target job creation in high-technology industries that help diversify the economy and help establish a foundation in developing industries.

Incentive Characteristics

Oklahoma's 21st Century Quality Jobs program was created in 2009 under the 21st Century Quality Jobs Incentive Act. The intent of the legislation is to "provide appropriate incentives to attract growth industries and sectors to Oklahoma in the twenty-first century through a policy of rewarding businesses with a highly skilled, knowledge-based workforce". The program offers quarterly payments of up to 10 percent of newly created payroll for a period of 10 years.

The program generally functions similarly to the Quality Jobs program. It has a few key differences that target high-skill employment. These are:

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[5] National Conference of State Legislatures, "Job Creation Tax Credits – 50 State Table", 2013
[6] Area Development, "31st Annual Survey of Corporate Executives: Confidence in U.S. Economy, Need for Investment in Infrastructure Reflected", 2016

- Qualifying companies must be operating in a “basic” industry as defined in statute. All industries qualifying under the standard Quality Jobs program are included in the list, **except that oil and gas companies are excluded.** Several industries were also added, including certain hospitals, performing arts companies, financial vehicles, insurance carriers, certain engineering, motion picture and video, scientific and technical services, and sound recording. This industry list reflects the desire to target high-skill fields, and to help diversify the State’s economy as other growth industries emerge. The full list of eligible basic industries is found in Appendix B.

- 21st Century Quality Jobs program **does not require companies to meet a specific payroll threshold** to qualify for benefits. Instead, a qualifying project must create at least 10 new jobs, **each paying at least 300 percent of the average county wage.** If a qualifying company fails to meet this requirement within three years, it is ineligible to receive future payments. The employer must also offer employees in these new jobs health insurance which requires an employee to pay no more than 50 percent of premiums.

Evaluation Criteria

A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals as established in state statute or legislation. In this case, the legislative intent as articulated in the statute is to:

> *“provide appropriate incentives to attract growth industries and sectors to Oklahoma in the twenty-first century through a policy of rewarding businesses with a highly skilled, knowledge-based workforce”*

To assist in a determination of the effectiveness of the program, the Incentive Evaluation Commission has adopted the following criteria:

- Change in jobs associated with the cash rebates;
- Change in payroll associated with the cash rebates;
- Ability of program administrative processes to establish the factual basis for claims related to hours, wages and benefits;
- Number/amount of incentives by industry;
- Ability of program administrative processes to establish the factual basis for claims related to hours, wages and benefits;
- But-for test – change in jobs/payroll associated with the cash rebates versus state growth rates as a whole;
- Change in jobs/payroll in the qualifying industries versus state industries as a whole;
- Return on investment – economic activity versus financial net cost.

The criteria address the key goals of the program, primarily focusing on job creation and payroll growth. Return on investment is also part of the criteria to determine whether the benefits to the State outweigh the cost of incentives. These criteria will be discussed throughout the balance of the evaluation.

Administration and Use of the Incentive

Program Administration

The 21st Century Quality Jobs program is jointly administered by the Oklahoma Department of Commerce (Department) and the Oklahoma Tax Commission (OTC). Eligibility guidelines and administrative responsibilities are established in State statute and administrative rules.[7] The essential components of program administration are summarized below.

1. **Eligibility.** An establishment starts the qualification process by submitting an application to the Department. The application must show that the establishment meets program requirements:

    - Operate in a basic industry as defined in statute. This list notably excludes oil and gas industries.
    - Provide a plan to 10 new jobs within the next three years.
    - The average wage of newly created jobs must be greater than or equal to 300 percent of the average wage of the county where the establishment is located.
    - Provide health care benefits to new employees which requires employees to pay no more than 50 percent of premiums.[8]

2. **Determining Payments.** Once the initial application is approved, the Department prepares a project profile. This profile summarizes information about the establishment and its plans including the project start date, projected employment over the next five years, projected average salary of new employees hired in new direct jobs in the first and third year of program participation, and the health benefits plan to be offered to new employees. This information is analyzed by the Department and used to calculate two key factors in the 21st Century Quality Jobs program benefits: **the net benefit rate and the maximum benefit amount.** These figures determine the quarterly payments the project may receive and the maximum sum of these payments over the contract term.

    The **net benefit rate** is a percentage representing the amount of benefit the State expects to receive in excess of projected costs. It is calculated as the projected tax revenue to be received as a result of the new jobs less the projected costs to the State associated with those jobs including the cost of education, public safety, and transportation. Quarterly benefit payments are calculated as the net benefit rate multiplied by the quarterly payroll of newly created jobs. The **maximum benefit amount** is the net benefit to the State as a dollar amount rather than a percentage. The sum of quarterly payments made to the project may not exceed this dollar amount.

    The 21st Century Quality Jobs program benefits differ from other Quality Jobs program benefits in that **the net benefit rate may vary over the term of the contract.** Establishments have three years to reach the job creation threshold in order to stay in the program for the maximum 10 year period. During this three year period, if an establishment has not reached this threshold, it receives payments calculated using an initial net benefit rate, which is capped at seven percent. Once the establishment creates 10 new jobs while meeting all other program requirements, payments are calculated using the fulfillment net benefit rate, which is capped at 10 percent.

    If the Department recommends a contract offer, the Office of the General Counsel prepares a contract to be reviewed by the Director of the Department and issued to the eligible establishment. The contract details the net benefit rates, maximum benefit amount, project start date, initial employment, employment projections, and average annual wage levels needed to qualify for quarterly payments.

[7] Administrative rules for the Department of Commerce are contained in Title 150, Chapter 65. Tax Commission administrative rules are contained in Title 710, Chapter 85

[8] Establishments must provide such coverage within 12 months of employment

The OTC is responsible for issuing payments during the term of the contract. Establishments submit quarterly reports to the OTC that include the number of new employees hired and the new payroll associated with these jobs. The OTC verifies that each reporting company is meeting the requirements set forth in its contract. Payments are only issued if an establishment is meeting contract criteria. Establishments meeting program criteria are able to receive quarterly payments for up to 10 years.

3. **Reporting.** The OTC maintains records of payments made by year to each participating company. The Department separately maintains records of each company that has entered the program.

Use of the Incentive

The following table shows how contracts have been issued over the life of the program and the total maximum benefit amounts associated with those contracts.

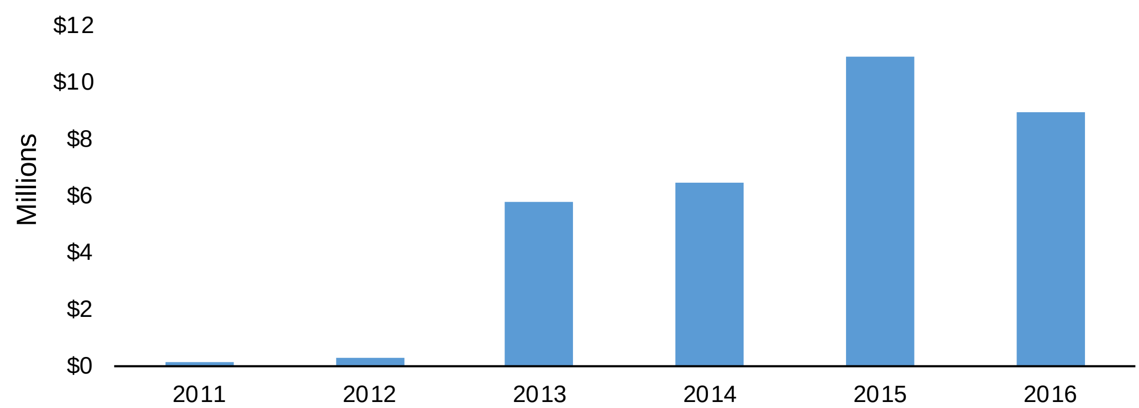
Table 3: 21st Century Quality Jobs Contracts

Year	Contracts	Total Maximum Contract Amount
2010	1	$3,600,000
2011	6	$36,000,000
2012	2	$48,600,000
2013	2	$18,200,000
2014	0	$0
2015	1	$76,600,000
2016	0	$0

Source: Oklahoma Department of Commerce

Since the first payment was made in 2011, total payments have generally increased. A total of $32.6 million was paid to 21st Century Quality Jobs program participants between 2011 and 2016. Payments reached their peak at $10.9 million in 2015 and declined to $8.9 million in 2016.

Figure 3: 21st Century Quality Jobs Payments, 2011-2016



Source: Oklahoma Tax Commission

Businesses located in the Cities of Oklahoma City and Tulsa have been the most frequent users of the program. Oklahoma City's projected job total accounts for 81.5 percent of the total projected jobs and is largely driven by three Boeing projects.[9]

Table 4: 21st Century Quality Jobs Projects by Location, 2010-2015

City	Contracts	Projected Jobs
Oklahoma City	5	1,363
Tulsa	4	152
Altus	1	110
Edmond	1	28
Lawton	1	19

Source: Oklahoma Department of Commerce

The distribution of actual jobs created by industry is shown in the following table. Similarly, these figures are driven by the Boeing projects in the Transportation Equipment Manufacturing industry.

Table 5: Jobs Created by Industry

NAICS	Description	Jobs Created	Percent of Total
336	Transportation Equipment Manufacturing	812	90.7%
541	Professional, Scientific, and Technical Services	61	6.8%
324	Petroleum and Coal Products Manufacturing	11	1.2%
523	Securities, Commodity Contracts, and Other Financial Investments and Related Activities	6	0.7%
611	Educational Services	5	0.6%
	Total	**895**	

Source: Oklahoma Tax Commission

[9] It is worth noting that Boeing is also a recipient of Aerospace Engineering Incentives. These incentives were evaluated in 2016.

Fiscal and Economic Impact

Economic Impact Methodology

Economists use a number of statistics to describe regional economic activity. Four common measures are **Output,** which describes total economic activity and is generally equivalent to a firm's gross sales; **Value Added,** which equals gross output of an industry or a sector less its intermediate inputs; **Labor Income,** which corresponds to wages and benefits; and **Employment,** which refers to jobs that have been created in the local economy.

In an input-output analysis of new economic activity, it is useful to distinguish three types of effects: **direct, indirect, and induced.**

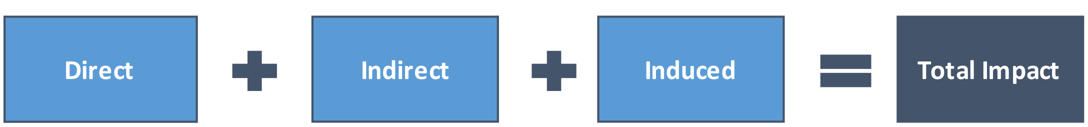
Direct effects are production changes associated with the immediate effects or final demand changes. The payment made by an out-of-town visitor to a hotel operator or the taxi fare paid for transportation while in town are examples of direct effects.

Indirect effects are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services. The taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic output of other local merchants.

Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor's stay, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which increased income is spent in the local economy.

A multiplier reflects the interaction between different sectors of the economy. An output multiplier of 1.4, for example, means that for every $1,000 injected into the economy, all other sectors produce an additional $400 in output. The larger the multiplier, the greater the impact will be in the regional economy.

Figure 4: The Flow of Economic Impacts



For this analysis, the project team used the IMPLAN online economic impact model with the dataset for the State of Oklahoma (2014 Model).

State of Oklahoma Tax Revenue Estimate Methodology

To provide an "order of magnitude" estimate for state tax revenue attributable to the incentive being evaluated, the project team focused on the ratio of state government tax collections to Oklahoma Gross Domestic Product (GDP).[10] Two datasets were used to derive the ratio: 1) US Department of Commerce Bureau of Economic

[10] Gross State Product (GSP) is the state counterpart of Gross Domestic Product (GDP) for the nation. To assist the reader, the project team has decided to use GDP throughout this section of the report instead of mixing the two terms. This decision was made because more people are familiar with the term GDP.

Analysis GDP estimates by state;[11] and 2) the OTC's Annual Report of the Oklahoma Tax Commission.[12] Over the past 10 years, the state tax revenue as a percent of state GDP was 5.4 percent.

Table 6: State of Oklahoma Tax Revenue as a Percent of State GDP

Year	Oklahoma Tax Revenue[13]	Oklahoma GDP	Ratio
2006-07	$8,685,842,682	$144,171,000,000	6.0%
2007-08	$9,008,981,280	$155,015,000,000	5.8%
2008-09	$8,783,165,581	$143,380,000,000	6.1%
2009-10	$7,774,910,000	$151,318,000,000	5.1%
2010-11	$8,367,871,162	$165,278,000,000	5.1%
2011-12	$8,998,362,975	$173,911,000,000	5.2%
2012-13	$9,175,334,979	$182,447,000,000	5.0%
2013-14	$9,550,183,790	$190,171,000,000	5.0%
2014-15	$9,778,654,182	$180,425,000,000	5.4%
2015-16	$8,963,894,053	$182,937,000,000	4.9%
Average	**$8,908,720,068**	**$166,905,300,000**	**5.4%**

Source: US Department of Commerce Bureau of Economic Analysis and Oklahoma Tax Commission

The value added of an industry, also referred to as gross domestic product (GDP)-by-industry, is the contribution of a private industry or government sector to overall GDP. The components of value added consist of compensation of employees, taxes on production and imports less subsidies, and gross operating surplus. Changes in value added components (such as employee compensation) have a direct impact on taxes such as income and sales tax. Other tax revenues (such as alcoholic beverage and cigarette taxes) are also positively correlated to changes in income.

Because of the highly correlated relationship between changes in the GDP by industry and most taxes collected by the state, the ratio of government tax collections to Oklahoma GDP forms the evaluation basis of the fiscal implications of different incentive programs offered by the State. The broader the basis of taxation (i.e., income and sales taxes) the stronger the correlation; with certain taxes on specific activity, such as the gross production (severance) tax, there may be some variation in the ratio year-to-year, although these fluctuations tend to smooth out over a period of several years. This ratio approach is somewhat standard practice, and is consistent with what IMPLAN and other economic modeling software programs use to estimate changes in tax revenue.

To estimate State of Oklahoma tax revenue generated in a given year, the project team multiplied the total value added figure produced by the IMPLAN model by the corresponding annual ratio (about 5.4 percent). For example, if the total value added was $1,000,000, then the estimated State of Oklahoma tax revenue was $54,000 ($1,000,000 x 5.4 percent).

[11] http://www.bea.gov/regional/
[12] https://www.ok.gov/tax/Forms_&_Publications/Publications/Annual_Reports/index.html
[13] Gross collections from state-levied taxes, licenses and fees, exclusive of city/county sales and use taxes and county lodging taxes.

Table 7: Economic Impact

Year		Output	Value Added	Labor Income	Employment	Estimated Oklahoma Tax Revenue
2011	Direct Effect	$161,425,215	$25,197,496	$29,980,670	295	
	Indirect Effect	$38,223,857	$19,729,614	$12,905,318	244	
	Induced Effect	$33,133,785	$18,136,963	$10,266,954	263	
	Total Effect	$232,782,857	$63,064,073	$53,152,942	802	$3,279,332
2012	Direct Effect	$279,549,125	$39,979,736	$49,534,547	499	
	Indirect Effect	$63,906,500	$33,004,032	$21,428,371	391	
	Induced Effect	$54,811,854	$30,018,705	$16,993,397	428	
	Total Effect	$398,267,479	$103,002,473	$87,956,315	1,317	$5,150,124
2013	Direct Effect	$44,670,586	$22,180,343	$19,623,027	143	
	Indirect Effect	$20,613,917	$11,643,768	$7,233,088	159	
	Induced Effect	$20,746,142	$11,331,589	$6,413,121	159	
	Total Effect	$86,030,645	$45,155,700	$33,269,236	461	$2,270,899
2014	Direct Effect	$0	$0	$0	0	
	Indirect Effect	$0	$0	$0	0	
	Induced Effect	$0	$0	$0	0	
	Total Effect	$0	$0	$0	0	$0
2015	Direct Effect	$490,319,321	$61,631,138	$77,415,090	574	
	Indirect Effect	$109,967,907	$57,275,814	$37,058,292	637	
	Induced Effect	$88,418,094	$48,433,492	$27,418,363	660	
	Total Effect	$688,705,322	$167,340,444	$141,891,745	1,871	$8,199,682

Table 8: Estimated Annual Net Impact for Each Cohort

Year	Average Annual Incentive	Estimated State of OK Tax Revenue	Net Impact
2011	$2,735,289	$3,279,332	$544,043
2012	$4,862,060	$5,150,124	$288,064
2013	$1,823,947	$2,270,899	$446,952
2014	$0	$0	$0
2015	$7,658,221	$8,199,682	$541,461

As depicted in the table above, the 21st Century Quality Jobs program results in increased economic activity in multiple industry sectors. The level of economic activity varies each year and is directly linked to the industry sector of the applicant firm as well as net new employment and wages. Multiplying the total value added figure produced by the IMPLAN model by the corresponding annual tax ratio, provides an estimate for total annual State of Oklahoma tax revenue. Over the past 5 years, the 21st Century Quality Jobs program (direct + indirect + induced economic effects) has committed about $170.8 million in total state incentives. Over this same period, the state should collect $189.0 million in state tax revenue assuming all companies reach their employment and payroll targets.

Based on the economic and fiscal impact analysis, it appears the annual incentives offered under this program do not exceed the tax revenue generated. The ROI for this program is positive.

Incentive Benchmarking

Benchmarking

A detailed description of comparable state programs can be found in **Appendix A.**

For evaluation purposes, benchmarking provides information related to how peer states use and evaluate similar incentives. At the outset, it should be understood that no states are 'perfect peers' – there will be multiple differences in economic, demographic and political factors that will have to be considered in any analysis; likewise, it is rare that any two state incentive programs will be exactly the same.[14] These benchmarking realities must be taken into consideration when making comparisons – and, for the sake of brevity, the report will not continually re-make this point throughout the discussion.

Figure 5: Other States Offering Job Creation Incentives

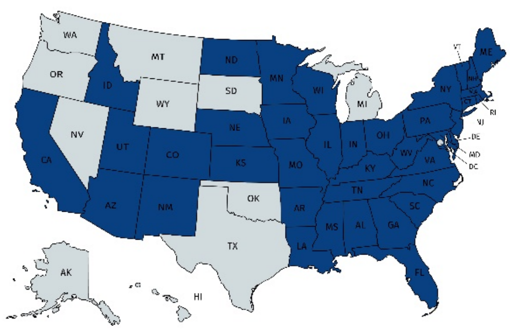
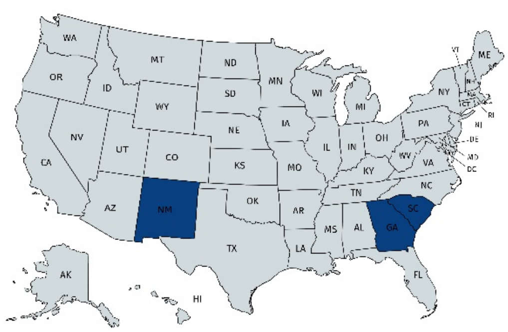


Figure 6: States Chosen for Comparison



The search for comparable programs begins with Oklahoma's neighboring states. This is a typical starting point since states often compete with nearby states for the same opportunities. Neighboring states also typically share similar economic and demographic characteristics that lend themselves to comparison. Oklahoma's 21st Century Quality Jobs program is a relatively uncommon approach to incentivizing business investment. Only one neighboring state, New Mexico, has a similar program. Aside from New Mexico, Georgia and South Carolina also have comparable programs.

The notable feature of Oklahoma's program is its requirement that new jobs pay a wage that is equal to or greater than 300 percent of the average county wage. While three states have incentives that strongly emphasize high-wage job creation, none require this high of a relative wage level.

South Carolina offers a tax credit for companies creating at least 25 new jobs that earn a wage equal to at least 2.5 times the lesser of county and state average wage. This is the program in the comparison group that comes the closest to matching Oklahoma's 300 percent requirement.

Georgia's Quality Jobs Tax Credit has the ability to provide special incentives to jobs paying 200 percent or more of the average county wage. Georgia's program is fundamentally different from Oklahoma's in that at least 50 jobs need to be created in order to participate; however, not all 50 jobs need to pay 200 percent or more of the average county wage.

New Mexico's program also has a focus on high-wage jobs. Participants must create at least one new job and must pay at least $40,000 or $60,000 in annual salary, depending on the location of the company.[15] Similar to Oklahoma's 21st Century Quality Jobs program, New Mexico offers 10 percent of new payroll for qualifying companies.

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[14] The primary instances of exactly alike state incentive programs occur when states choose to 'piggyback' onto federal programs.

[15] $60,000 if the job is performed or based in or within ten miles of the external boundaries of a municipality with a population of sixty thousand or more according to the most recent federal decennial census or in a class H county; and $40,000 if the job is performed or based in a municipality with a population of less than sixty thousand according to the most recent federal decennial census

In general, Oklahoma's incentive is highly competitive among the comparable programs. In Oklahoma, a company creating 10 new jobs each paying $100,000 per year would receive up to $100,000 per year in cash rebates. While that same company could also receive $100,000 in tax credits per year in New Mexico, it would only be able to receive the benefit for 4 years, compared to 10 in Oklahoma. In Georgia, the same company is only eligible for $50,000 per year in tax credits. The same company would not qualify for the South Carolina program due to the job creation requirement.

Appendices

Appendix A: 21st Century Quality Jobs Benchmarking

21st Century Quality Jobs Benchmarking				
	Oklahoma	**Georgia**	**New Mexico**	**South Carolina**
Name	21st Century Quality Jobs	Quality Jobs Tax Credit	High-wage Job Tax Credit	Job Tax Credits
Job Creation Requirement	10 new jobs	At least 50	At least 1 new job	25 new jobs
Payroll Requirement	N/A	None	None	None
Wage Requirement	300 percent of the average county wage, not including healthcare	110 to 120 percent of the average county wage for $2,500 credit 120 to 150 percent of the average county wage for $3,000 credit 150 to 175 percent of the average county wage for $4,000 credit 175 to 200 percent of the average county wage for $4,500 credit 200 percent or more for $5,000 credit	$40,000 or $60,000 annual salary, depending on location	2.5 times the lesser of county and State average
Health Insurance Requirement	Companies must offer employees health insurance and pay at least 50 percent of premiums	None	None	None
Capital Investment Requirement	None	None	None	None
Benefit Type	Cash Rebate	Tax Credit	Tax Credit	Tax Credit
Benefit Amount	Up to 10 percent of qualifying new payroll	$5,000 per job	10 percent of qualifying new payroll	$1,500, $2,750, $4,250, or $8,000 per job depending on county development tier
Benefit Period	Up to 10 Years	5 Years	A job may qualify for the credit for 4 years	5 years
Aggregate Program Cap	None	None	None	None

Appendix B: 21st Century Quality Jobs Industries

21st Century Quality Jobs Basic Industries	
Industry	**NAICS Codes**
Adjustment and Collection Services (75% out-of-state debtors)	561440
Agricultural Production	112120
Alternative Energy Equipment Installation	238160
	238220
Alternative Energy Structure Construction	237130
Arrangement of Passenger Transportation	561510
	561599
Central Administrative Offices, Corporate Offices and Technical Services	5611
	5612
	51821
	519130
	52232
	56142
	524291
	551114
Certain Communications Services	517110
	51741
	51791
Certain Refuse Systems that distribute methane gas	5622
Certain Warehouse/Distribution Operations Where 40% of inventory is shipped out-of-state	No Codes Listed
Computer Programming, Data Processing and other Computer Related Services	5112
	5182
	5191
	519130
	5415
Electric Service Companies (90% of energy input sourced in-state, 90% of sales out-of-state)	221111-221122

21st Century Quality Jobs Basic Industries (continued)	
Engineering, Management and Related Services	5412
	5414-5417
	54131
	54133
	54136
	54137
	541990
Federal Civilian Workforce of the FAA Where jobs are migrating to Oklahoma from other Federal sites, or expansion here	No Codes Listed
Flight Training Services	611512
Grocery Wholesale Distributing	4244
	4245
Insurance Carriers	5241
Insurance Claims Processors Only	524210
	524292
Manufacturing	31
	32
	33
	5111
	11331
Miscellaneous Business Services	561410
	56142
	51911
Miscellaneous Equipment Rental	5324
Motor Freight Transportation and Warehousing	493
	484
	4884-4889
Offices of Real Estate Agents & Brokers (75% of transaction out-of-state)	53120
	6215
Other support activities for air transportation	488190
Professional Organizations	813920
Rail Transportation	482

Appendix B: 21st Century Quality Jobs Industries

21st Century Quality Jobs Basic Industries (continued)	
Research, development and testing Labs	541711
	541712
	541380
Securities, Commodities, Investments	523
Sports Teams & Clubs	711211
Support Activities for Rail and Water Transport	4882
	4883
Transportation by Air, If corporate HQ and some reservation activities are within the state or 75% of air transport sales are to out-of-state consumers	4811
Transportation of Freight or Cargo	541614
Wind Power Electric Generation Equipment Repair & Maintenance	811310
NAICS Codes added for 21st Century Quality Jobs Only	
Specialty Hospitals	62231
Performing Arts Companies	7111
50% out-of-state sales requirement for:	
Funds, Trusts, and other Financial Vehicles	525
Insurance Carriers and Related Activities	524
Heavy and Civil Engineering Construction	237
Motion Picture and Video Industries	5121
Professional, Scientific, and Technical Services	5411
	5412
	5413
	5414
	5418
	5419
Sound Recording Industries	5122