State of Oklahoma
Incentive Evaluation Commission
Five Year Ad Valorem Tax Exemption Evaluation

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Key Findings and Recommendations

Overview

The exemption was approved by voters through state question 588 in April 1985. The property tax exemption applies to all real and personal property necessary for the manufacturing of a product and facilities engaged in qualifying industries, and the Legislature has implemented it via State statute.[1] The property tax exemption applies to new, acquired or expanded manufacturing facilities in qualified industries. Facilities may qualify for the property exemption for up to five consecutive years, if they continue to meet payroll and other requirements.

In its inception, the program focused on what might be considered 'traditional' manufacturing of durable goods, but other industries qualify as well. These have included aircraft repair and rebuilding, computer services and data processing, distribution and warehousing, research and development, and electric power generation.[2]

Since the exemption was last reviewed in 2016, statute has been modified only to clarify the definitions of qualifying construction costs and payroll. These changes have not made a significant difference in the administration of the program. The most significant change to the program since the last review is the removal of wind facilities from eligibility. The Legislature made this modification in 2015, but it did not take effect until January 1, 2018, when wind facilities were prohibited from applying for new exemptions.

It should be noted that in the closing days of the 2020 session, the legislature (in SB 1595) repealed 68 O.S. 2011, section 2902, which provides for the ad valorem tax exemption (the language of section 2902 is included in the Appendix A). However, Governor Stitt vetoed the bill, leaving the exemption in place.

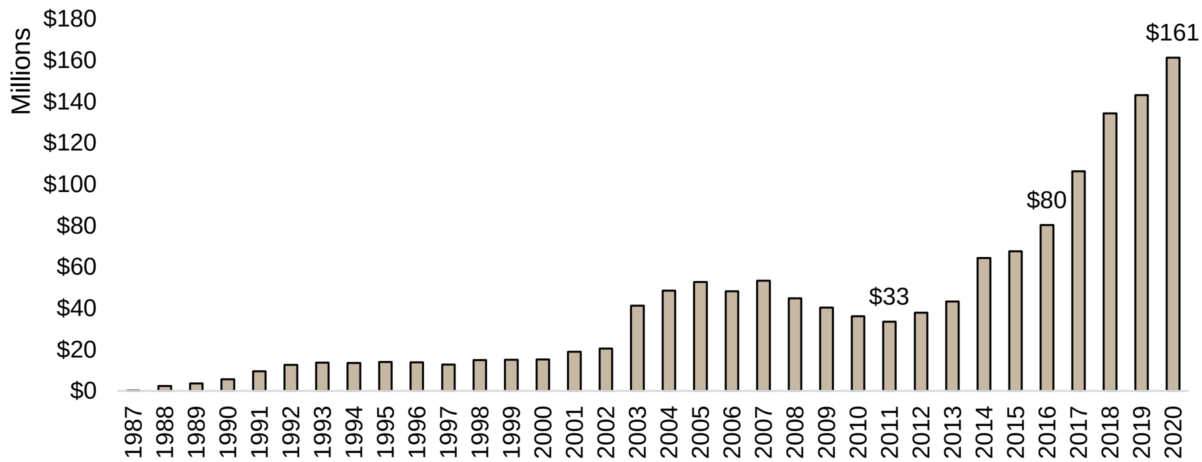
Recommendation: Retain, with modifications.

Key Findings Related to Established Criteria for Evaluation

- **From FY 2016 to FY 2020, total exemption reimbursement payments made by the State more than doubled, from $80.3 million to $161.2 million – equal to 2.5 percent of the State's budgeted FY 2020 general revenue.** The increase is largely driven by manufacturing facilities and computer data processing facilities, which received $76.3 million and $40.5 million in exemptions in FY 2020, respectively, and computer data processing facilities, which received $40.5 million in exemptions in FY 2020.

[1] The implementing language has been revised numerous times. It may be found in Oklahoma Revised Statutes, Chapter 68, Section 2902.
[2] No electric power generation facilities may qualify after December 31, 2017.

Figure 1: State Reimbursements Paid by Fiscal Year



Source: Oklahoma Tax Commission

- **Qualifying manufacturing facilities in the first year of exemption increased payroll by an average of $249.3 million, in aggregate, from FY 2016 through FY 2020.** This is equal to a 10.3 percent increase from the facilities' aggregate average initial payroll of $2.4 billion over this period.

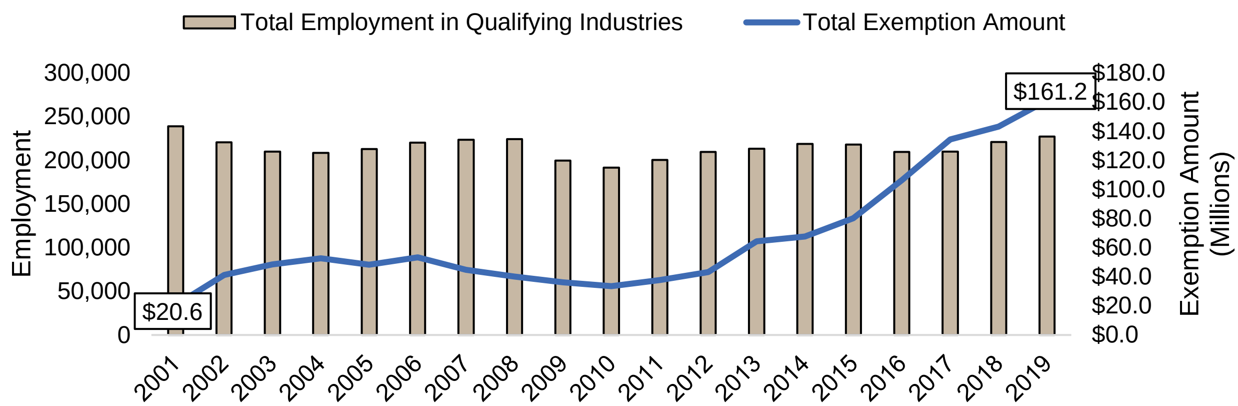
- **The Oklahoma Tax Commission collects payroll information but does not collect the number of jobs associated with exempt manufacturing property as part of its application.** Based on available total payroll increase data for manufacturing facilities in the first year of exemption from FY 2016 to FY 2020, and assuming each was paid the state's average annual manufacturing wage in these years, an estimated 24,654 jobs were associated with exempt property.

- **Aggregate capital investment by qualifying manufacturing facilities in the first year of exemption averaged $1.9 billion from FY 2016 through FY 2020.** Personal property represents 94.1 percent of total exempt manufacturing property over this period.

- **Economic impact analysis suggests exemptions for manufacturing facilities provide a net return to the State.** If all payroll increases at manufacturing facilities over the five-year exemption period are attributed to the exemption, return to the State ranges from $3.19 to $8.64 per dollar of exemption. If only first-year payroll increases are attributed to the exemption, the economic impact analysis shows the program as a net cost to the State in one of five years reviewed. Under this assumption, return to the State ranged from $0.81 to $2.42 per dollar of exemption.

- **Increases in costs to the State have not coincided with significant employment increases in eligible industries since 2001.**

Figure 2: Employment Levels and Exemption Amounts[3]



Source: Tax Commission and US Bureau of Labor Statistics Data

- **Exemptions for wind facilities peaked in their last year of eligibility, at $60.5 million in FY 2018 and have since been declining.** The last reimbursement payments for wind facilities will be made in FY 2022.

- **Reimbursements have been paid to 60 counties from FY 2016 through FY 2020.** Total exemption amounts among counties receiving reimbursements over this period range from $20,322 (in Major County) to $142.7 million (in Mayes County), with a median of $3.9 million.

- **Exempt manufacturing property accounted for 71.2 percent of all manufacturing capital expenditures in 2015, and 89.9 percent in 2016.**[4] The value of all exempt manufacturing property was $1.7 billion in 2015 and $2.0 billion in 2016.

- **The Ad Valorem Reimbursement Fund's dedicated funding equal to 1.0 percent of annual income tax collections continues to be insufficient to cover the cost of reimbursements.** From FY 2016 through FY 2019, the dedicated one percent of income tax revenue averaged just 30 percent of total reimbursement payments, necessitating additional appropriations each year, which have grown from $47.7 million in FY 2016 to $105.7 million in FY 2019. The total FY 2019 reimbursement payment equates to 3.8 percent of income tax revenue.

Recommended Program Modifications

- **Establish requirements that better target the program toward the State's economic development goals.** Targeting the program toward more specific industries could help control costs, which have increased dramatically in recent years. Requirements related to average wage would also control costs and increase the potential economic impact of the program and return on investment for the State. Targeting high wage industries has been shown to improve the chances that an incentive program provides a net return for the State. However, even among manufacturing facilities, the exemption is available to jobs in a wide range of wage levels. For example, although the average annual pay in manufacturing in Oklahoma was $59,928, average annual pay within manufacturing subsectors in the State ranged from $32,594 (Textile Product Mills) to $105,215 (Petroleum and Coal Products). Currently, the exemption is available to the full range of these facilities, regardless of average wage.

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[3] Eligible industries included in employment data are Manufacturing (NAICS Codes 31-33), Computer Data Processing (NAICS Codes 5112, 518210, 519130, and 5415), Distribution (NAICS Codes 42, 49311, 49312, 49313, 49319), and Wind (NAICS code 221115)
[4] U.S. Census Bureau Annual Survey of Manufacturers

- **Establish minimum wage requirements for qualifying facilities.** Currently, only distribution facilities are subject to a wage requirement as part of exemption qualification. These facilities must pay wages of at least 175 percent of the federal minimum wage. Another major incentive offered by Oklahoma, the Quality Jobs Program, requires wages equal to at least the minimum of the county average wage or a "State threshold wage".

- **Require qualified facilities to at least maintain employment levels in addition to payroll throughout the five-year exemption period.** The program currently has no requirement related to the number of jobs created and does not require the number of jobs to be maintained throughout the exemption period. Although maintenance of payroll likely means a maintenance of employment level, employment levels are an important concern for any incentive that primarily promotes capital investment, as the ad valorem exemption does. Investment in capital sometimes comes at the cost of labor. One of the State's other major incentives, the Investment/New Jobs Tax Credit, recognizes this potential tradeoff by requiring that the incented capital investment does not result in any decrease in employment. Incorporating a similar requirement for the ad valorem exemption could help protect against loss of employment.

- **Require advanced notification in order to qualify for an exemption.** A central goal of incentive programs in general is to induce activity that would otherwise not occur. However, under current program rules, a facility can apply for a tax exemption for construction or an expansion that has already occurred, meaning companies who did not consider the exemption in its project decision-making process can still benefit from the program. Based on conversations the project team has had with OTC staff, there have been instances of this occurring, although it is not common. By requiring a filing of advanced notification with the OTC, the State would require intentional use of the program to receive its benefit.

  The State of Louisiana added this requirement to its Industrial Tax Exemption Program in 2016.[5] Under the requirement, applicants must submit advanced notification before any construction or hiring has taken place in order to qualify. The advanced notification includes a description of the project as well as data on the number of existing and new jobs, existing and new payroll and capital investment.

- **Require local government financial participation.** As currently constructed, the lost property tax revenue from Five Year Ad Valorem Tax Exemption is replaced in its entirety by the State. In similar programs in some states, there percentage replacement is less than 100 percent. This requires financial participation at the local level that helps to reduce the possibility of the incentive being treated as a 'free good.' This will help ensure that local governments accurately assess and assist with administration of program requirements. The level of local participation could vary depending on key characteristics or it could be a specific percentage. In either case, it should help advance the goals of the incentive program.

- **Increase program transparency.** Program evaluators have struggled to determine its economic impact for many years. The program has been reviewed several times, including by economics professors from Oklahoma and Oklahoma State Universities in 2004, by the State's Incentive Review Committee in 2006, by the State Chamber of Commerce in 2014, and the Incentive Evaluation Commission in 2016. None of these evaluators had access to data provided by applicants as part of their review. Due to confidentiality concerns, only aggregated information was provided by the OTC.

[5] It should be noted, that despite this requirement, due to the locally implemented nature of Louisiana's incentive there are still instances of local governments in State approving incentives for projects that have completed construction. Local governments are able to develop their own policy on whether to accept applications from projects that have completed construction. Several local governments including New Orleans and Baton Rouge do not.

Oklahoma's program is less transparent than in other states. Applications for similar benefits in Louisiana and Texas provide information submitted by each applicant as public information. In fact, they are easily accessible on State-operated websites.[6] In Louisiana's case, information on pending applications and approved projects including NAICS code, capital investment, total number of jobs, and estimated payroll, is all provided in a searchable and downloadable database. Texas made all application documents public through legislative action in 2009.

Other Recommendations

- **Improve annual reporting by including metrics on program benefits.** The current annual reporting done by the OTC includes only exemption amounts by county. Additional metrics (jobs, payroll and average wage associated with the exemptions) would better illustrate the benefits to the State as a result of the exemption program.

- **Report exemption data based on North American Industry Classification System (NAICS) code rather than OTC categories.** The OTC groups all facilities into a handful of major categories: traditional manufacturing, large manufacturing, electric wind generating, and computer data processing. Meanwhile, statute refers to qualifying industries by NAICS code. In order for the results seen in annual reports to align with the language used in statute and used by legislators as the program is amended, all program reporting should be identified by NAICS code categories. This would make it easier to evaluate the program and align it with the standard approach to reporting industry data.

[6] Louisiana: https://fastlaneng.louisianaeconomicdevelopment.com/public/search/bi
Texas: https://comptroller.texas.gov/economy/local/ch313/agreement-docs.php

Introduction

Incentive Evaluation Commission Overview

In 2015, HB 2182 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. Between 2016 and 2019, the Commission conducted more than 40 evaluations.

The Five-Year Ad Valorem Tax Exemption, first evaluated in 2016, is among nine programs scheduled for an updated review by the Commission in 2020. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the Legislature related to these incentives.

2016 Evaluation: Key Findings and Recommendations

Fiscal and Economic Impact	Total state reimbursements more than doubled between FY 2012 and FY 2016, from $37.8 million to $80.2 million, for a total of $293.3 million. This growth was driven largely by wind facilities. Over the same period, estimated State tax revenue resulting from qualified facilities totaled $51.6 million.
Adequate Protections for Future Fiscal Impact?	Removing wind facilities from the program was a step in the right direction to control program costs. Beyond that, there are no program caps or other limitations such as per-facility caps.
Effective Administration?	Yes. However, issues were raised as to data availability and data restrictions due to confidentiality concerns.
Achieving Its Goals?	Oklahoma manufacturing is performing somewhat better than the nation as a whole. Broad use of the program among counties suggest it is meeting that legislative goal.
Changes to Improve Future Evaluation	Confidentiality requirements related to certain information should be waived by participating companies as it relates to the program evaluations conducted by the IEC. Recommend data to be made available for each facility include: ▪ NAICS codes ▪ Capital investment amounts ▪ Existing and new payroll ▪ Existing and net new jobs

2020 Criteria for Evaluation

The provisions of HB 2182 require that criteria specific to each incentive be used for the evaluation. 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 original state question that was approved by voters and placed into the Constitution provides that:

> “For the purpose of inducing any manufacturing concern to locate or expand manufacturing facilities within any county of this state, a qualifying manufacturing concern shall be exempt from the levy of any ad valorem taxes upon new, expanded or acquired manufacturing facilities for a period of five (5) years.”

Based on this, the goal of the program is to induce location or expansion of manufacturing facilities in the state. Given that manufacturing is typically associated with paying above average wages and that the requirements for the incentive generally require payroll growth, it seems logical to assume that criteria that measure jobs and payroll would align with the intent of the Constitutional amendment as well.

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

- Change in number of jobs associated with the exemption;
- Change in total payroll associated with the exemption;
- Change in capital investment associated with the exemption;
- But-for test – change in jobs/payroll/capital associated with the exemption versus state growth rates as a whole;
- Use with other related business incentives;
- Change in other government revenues and expenditures associated with facilities receiving an exemption;
- Return on investment - economic activity versus financial net cost.

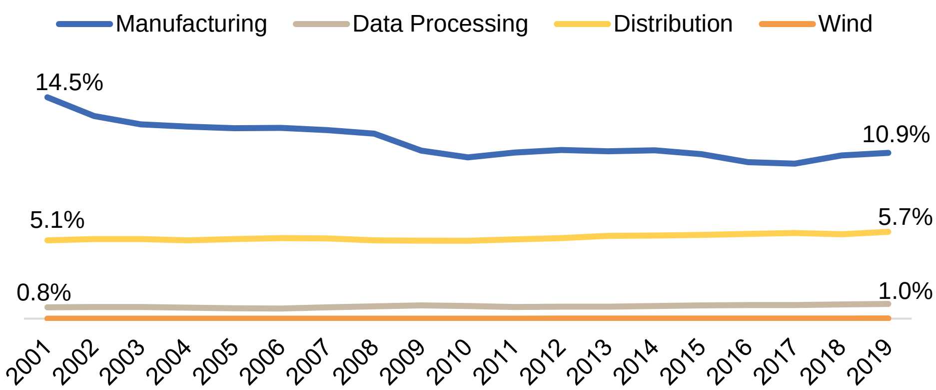
Industry Background

Industry Background

The Five-Year Ad Valorem Tax Exemption is targeted primarily toward manufacturers, but it has been expanded to include Computer Data Processing, wind and distribution facilities. When combined, these industries accounted for about 17.6 percent of employment in Oklahoma in 2019, according to U.S. Bureau of Labor Statistics (BLS) data.

While Data Processing and Distribution facility employment has shown modest growth since 2001, manufacturing has declined significantly as a percentage of the State's total employment. In absolute terms, manufacturing employment in the State has declined from over 170,000 in 2001 to about 141,000 in 2019.

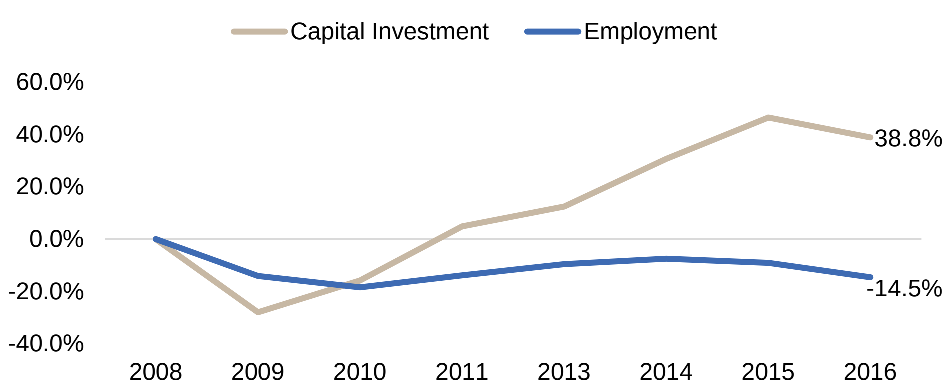
Figure 3: Percent of Total Oklahoma Employment



Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages

However, as employment declined in the State, total capital expenditures by the manufacturing sector in Oklahoma have increased in recent years. This reflects a national trend as manufacturing has become more capital-intensive, increasing productivity while using less labor.[7] According to data collected by the U.S. Census Bureau's Annual Survey of Manufacturers, total capital expenditures by the sector in Oklahoma were $1.2 billion in 2009 and increased to $2.3 by 2016 – a compound annual growth rate of 9.8 percent. While capital expenditures in the sector showed a strong recovery since the Great Recession, employment levels in the sector still have not recovered to pre-recession levels. In 2008, manufacturing employment in Oklahoma was about 151,000 and declined to 123,000 in 2010; after the Great Recession, it rebounded somewhat and reached 141,000 in 2019, its highest level since 2008.

Figure 4: Oklahoma Manufacturing Capital Expenditures and Employment, Indexed to 2008 Levels[8]



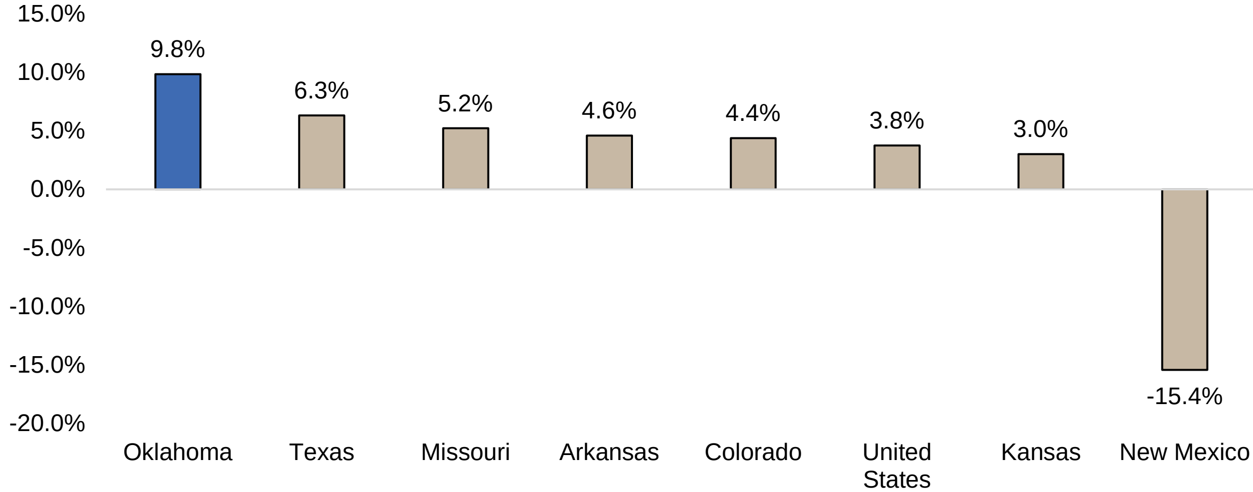
[7] US Bureau of Labor Statistics. "The Fall of Employment in the Manufacturing Sector" August 2018. Accessed electronically at: https://www.bls.gov/opub/mlr/2018/beyond-bls/the-fall-of-employment-in-the-manufacturing-sector.htm

[8] 2016 is the latest data available by state for the Annual Survey of Manufacturers. 2012 data not available from the Annual Survey of Manufacturers and is excluded from this chart.

Source: U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages; U.S. Census Bureau Annual Survey of Manufacturers

The growth of capital expenditures in Oklahoma's manufacturing sector is the highest among its bordering states and more than twice the U.S. average.

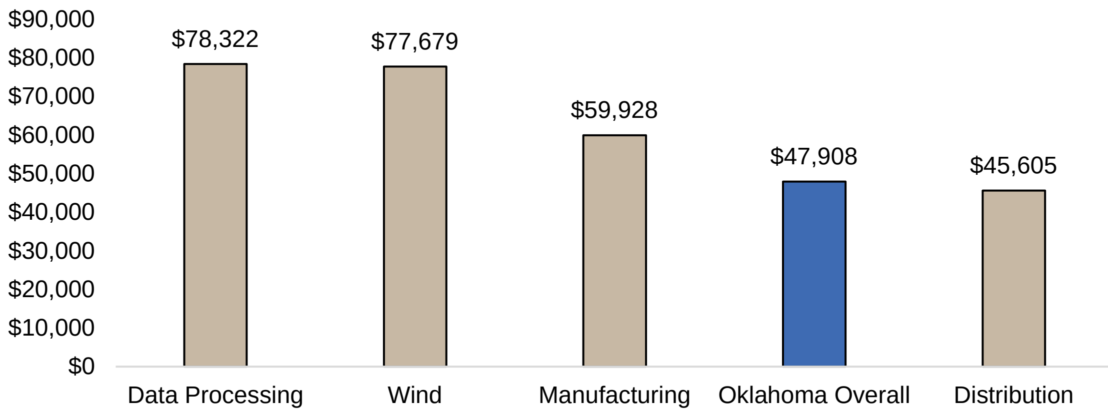
Figure 5: Total Manufacturing Capital Expenditures CAGR 2009-2016



Source: U.S. Census Bureau, Annual Survey of Manufacturers

Despite the decline in jobs, manufacturing jobs continue to pay above-average wages. Data processing and wind powered electricity generating facilities are the highest paying industries qualifying for the exemption. It should be noted that wind power facilities are not significant sources of direct job growth. Wind power has experienced rapid growth in the State over the last decade, but these facilities employed just 210 people in 2019, according to BLS data.

Figure 6: Average Annual Pay in Oklahoma, 2019



Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages

Incentive Usage and Administration

Incentive Characteristics

The exemption was approved by voters through state question 588 in April 1985. The property tax exemption applies to all real and personal property necessary for the manufacturing of a product and facilities engaged in qualifying industries, and the Legislature has implemented it via State statute.[9] The property tax exemption applies to new, acquired or expanded manufacturing facilities in qualified industries. Facilities may qualify for the property exemption for up to five consecutive years, if they continue to meet payroll and other requirements.

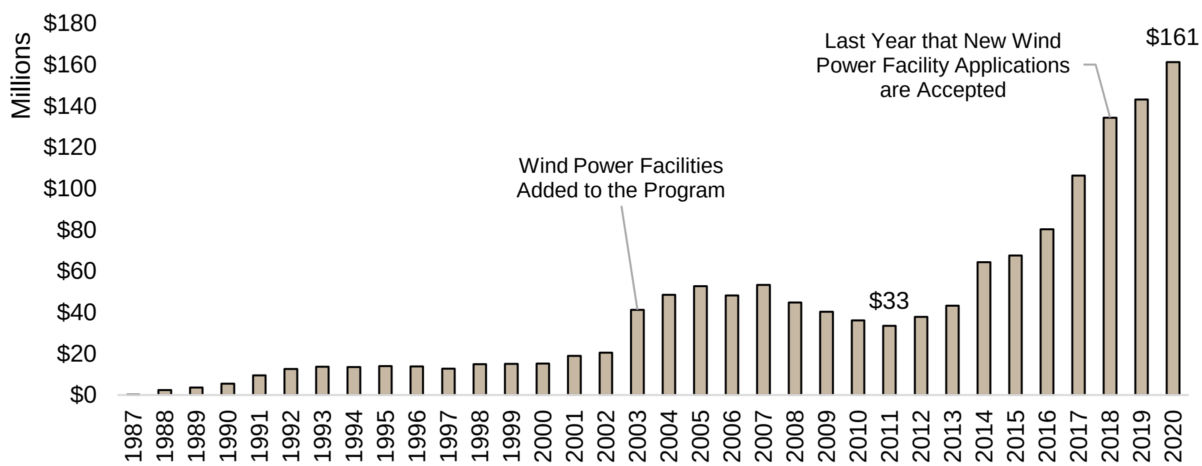
Facilities apply for the exemption through the county assessor in the county where the facility is located. The State then reimburses the county for qualifying facilities' abated property taxes.

In its inception, the program focused on what might be considered 'traditional' manufacturing of durable goods, but other industries qualify as well. These include aircraft repair and rebuilding, computer services and data processing, distribution and warehousing, research and development, and electric power generation.[10]

Historic Use of the Credit

The State made its first reimbursement payment to counties for tax year 1986. Reimbursements were relatively stable from 1991 through 2002. In 2003, reimbursements increased significantly after electric power facilities were made eligible. Reimbursements declined during the years of and immediately after the Great Recession but increased rapidly thereafter, from $33.5 million in FY 2011 to $161.2 million in FY 2020.

Figure 7: State Reimbursements Paid by Fiscal Year



Source: Oklahoma Tax Commission

Over the last five years, an average of 540 applications have been received per year, with an acceptance rate of 84.2 percent.[11] According to the OTC, the vast majority of denied applications are due to failure to maintain or increase payroll as required. The OTC groups each qualifying facility into one of five categories: Traditional Manufacturing, Large Manufacturing, Wind, Distribution, and Computer Data Processing.[12]

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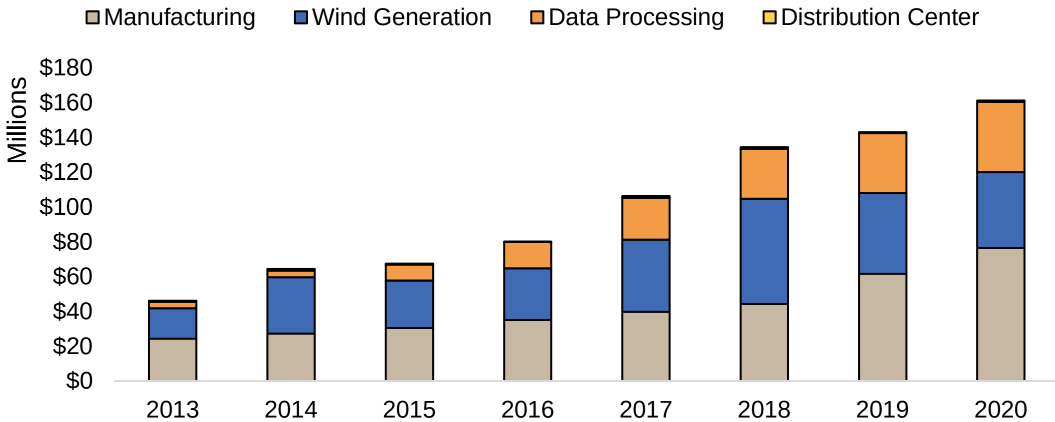
[9] The implementing language has been revised numerous times. It may be found in Oklahoma Revised Statutes, Chapter 68, Section 2902.

[10] No electric power generation facilities may qualify after December 31, 2017

[11] This includes facilities re-applying each year of the five-year eligibility period

[12] The OTC defines Large Manufacturing as facilities with exemptions near or exceeding $1 million

Figure 8: Reimbursements by Category, FY 2013 - FY 2020



Source: Oklahoma Tax Commission

Table 1: Reimbursements by Category (in Millions), FY 2013 - FY 2020

Category	2013	2014	2015	2016	2017	2018	2019	2020
Manufacturing	$24.4	$27.3	$30.5	$35.1	$39.7	$44.3	$61.6	$76.3
Wind Generation	$17.4	$32.3	$27.4	$29.6	$41.5	$60.5	$46.3	$43.8
Data Processing	$3.6	$3.8	$9.2	$15.1	$24.1	$28.7	$34.5	$40.5
Distribution Center	$0.9	$0.9	$0.7	$0.5	$0.9	$0.9	$0.7	$0.7
Total	**$46.3**	**$64.4**	**$67.6**	**$80.2**	**$106.3**	**$134.4**	**$143.1**	**$161.2**

Source: Oklahoma Tax Commission

In recent years, wind power facilities have been a major driver of program costs. From FY 2013 to FY 2018, total exemptions for wind power facilities increased at a compound annual growth rate (CAGR) of 28.4 percent, from $17.4 million to $60.5 million. Wind power facility exemptions have declined since FY 2018, as no new applications are being accepted from these facilities. The final wind facility exemption reimbursement will be made in FY 2022.

As wind facility exemptions have declined, manufacturing and data processing facility exemptions have increased. Total exemptions for manufacturing facilities have more than doubled, from $35.1 million in FY 2014 to $76.3 million in FY 2020. Most of this growth occurred between FY 2018 and FY 2020 due to an influx of first-year exemption applications from manufacturing facilities. They increased from 81 facilities in FY 2018, to 114 in FY 2019, and 118 in FY 2020. Data processing exemptions similarly increased rapidly, from $15.1 million in FY2016 to $40.5 million in FY 2020. However, data processing exemptions are driven almost entirely by one facility: Google's facility in Mayes County received $39.9 million in exemptions in FY 2020. From FY 2016 to FY 2020, Google has received a total of $139.6 million for its facility in Mayes County, accounting for 97.6 percent of total data processing exemptions during that period.

The exemption is offered over a five-year period, so currently qualified facilities will continue to generate costs over the next four years (assuming program requirements are met). Based on FY 2020 data and average annual exemption decreases over the last five years, current qualifying exemptions are projected to total $121.7 million in FY 2021 and decline to $20.3 million by FY 2025, before being exhausted. The following table shows these projected costs even if no new facilities are added to the program.

Table 2: Projected Remaining Cost of FY 2020 Exempted Facilities (in millions)

Exemption Year	FY 2020 Actual	FY 2021 Projected	FY 2022 Projected	FY 2023 Projected	FY 2024 Projected	FY 2021 - FY 2024 Total
1	$34.0	$0.0	$0.0	$0.0	$0.0	
2	$28.1	$29.8	$0.0	$0.0	$0.0	
3	$40.4	$24.9	$25.7	$0.0	$0.0	
4	$39.5	$36.9	$22.1	$22.4	$0.0	
5	$19.2	$30.1	$28.5	$20.6	$20.3	
Total	**$161.2**	**$121.7**	**$76.3**	**$43.0**	**$20.3**	**$422.5**

Reimbursements have been paid to 60 counties across the State from FY 2016 through FY 2020. Total exemption amounts among counties receiving reimbursements over this period range from $20,322 (in Major County) to $142.7 million (in Mayes County), with a median of $3.9 million. Mayes County has the highest exemption amount of all counties over the last five years, driven by Google's facility, which accounts for 98.6 percent of all Mayes County exemptions during that period. Exemptions are concentrated among the top 10 counties, accounting for 69.0 percent of total exemptions over the period.

Table 3: Top 10 Counties by Total Exemption Amount, FY 2016 - FY 2020 (in millions)

	FY2016	FY2017	FY2018	FY2019	FY2020	Total
Mayes	$14.1	$24.5	$29.2	$34.4	$40.4	**$142.7**
Tulsa	$7.5	$9.3	$11.0	$11.4	$13.8	**$53.0**
Garfield	$3.6	$5.5	$9.7	$17.1	$16.9	**$52.8**
Grady	$3.3	$5.2	$8.5	$8.6	$11.8	**$37.4**
Kay	$2.5	$5.3	$9.6	$9.0	$10.9	**$37.3**
Canadian	$7.4	$6.4	$7.9	$2.9	$2.6	**$27.1**
Dewey	$6.1	$5.8	$5.1	$4.7	$5.2	**$26.9**
Oklahoma	$3.8	$3.1	$4.7	$4.9	$5.4	**$21.9**
Beaver	$0.0	$1.9	$5.5	$5.1	$5.4	**$17.9**
Texas	$1.6	$3.8	$3.8	$3.3	$3.1	**$15.6**

Source: Oklahoma Tax Commission

Potential for Layering

The Five-Year Ad Valorem Tax Exemption is one of several Oklahoma incentive programs targeted toward manufacturers. Other major State programs include the Quality Jobs Program and the Investment-New Jobs Tax Credit. The most likely program to be combined with this exemption is the Investment-New Jobs Tax Credit. This program offers a credit equal to 1.0 percent of capital investment costs each year for five years if total investment costs are at least $50,000. The project team's review of the Investment-New Jobs Tax Credit found combining it with the ad valorem exemption can yield tax benefits exceeding 10.0 percent of the original value of a capital investment.

It is less likely that the exemption is combined with the Quality Jobs Program. The Quality Jobs Program requires a payroll increase of $2.5 million, which is more than twice the payroll increase required by the Ad Valorem Exemption. It is also important to note that the Quality Jobs Program is targeted specifically toward job creation at relatively high wages. The Ad Valorem Exemption is fundamentally different in that it has very low new payroll requirements and has no requirements related to average wages paid to new employees.

All three of these programs can be claimed at once for manufacturers who meet Quality Jobs Program requirements and make a capital investment greater than $40 million. Under these conditions, the benefit of the Investment-New Jobs Tax Credit doubles to 2.0 percent of qualified capital investment per year for five years.

Incentive Administration

Eligibility Requirements

Companies apply for the exemption through the county assessor in the county where the facility is located. If approved, the State then reimburses the county for abated property tax. Per statute, qualifying facilities include those which have received an Oklahoma manufacturer exemption permit, facilities engaged in manufacturing or repair of aircraft, and computer data processing facilities. As of January 1, 2018, no new applications for wind facilities will be accepted.

In order to qualify for the exemption, facilities must generally make a capital investment of at least $250,000. The facility must also increase payroll by $250,000 (if the facility is in a county with population less than 75,000) or at least $1 million in counties with population greater or equal to 75,000. Facilities must also provide healthcare to employees within 180 days of hire, where the employee pays no more than 50 percent of premiums. Applications must be submitted in each year of the five-year period and must provide proof that the facility has maintained the required initial payroll increase.

Some additional requirements apply to certain industries. For example, there are significant out-of-state sales requirements for some industries. Computer data processing facilities operating in NAICS codes 5112, 5415, 334611, and 519130 must derive at least 50 percent of sales from out-of-state customers. Computer data processing facilities operating in NAICS code 5142 must derive at least 80 percent of sales from out-of-state customers.

There are also heightened requirements for distribution facilities. These facilities must make a capital investment of at least $5 million, have at least 100 employees and pay wages to those employees greater than or equal to 175 percent of the federally mandated minimum wage.[13]

Qualified facilities located within a tax incentive district in a county with population of at least 500,000 may delay the five-year eligibility period to start the year following the expiration of the exemption, abatement, or other incentive offered by the tax incentive district. Effective November 1, 2017, any facility operating in a tax incentive district, regardless of county population, may similarly delay its five-year exemption period if it creates at least 100 new jobs at the state index wage and invests at least $2.5 million in new depreciable property.

The application forms issued by the OTC (Form 900XM) collect thorough information on each applicant, including the following:

- NAICS code;
- Indication of whether the company was engaged in business in Oklahoma in the last 12 months;
- Indication of whether the facility is one of multiple facilities a company operates in the State;
- Whether the facility is an expansion of an existing facility;
- Whether the business acquired an unoccupied facility;
- The type of property which may be exempted (land, building, machinery & equipment, leasehold improvement);
- Facility payroll information, including initial payroll and any net increase in payroll.

[13] Manufacturing facilities defined as establishments primarily engaged in North American Industry Classification System (NAICS) industry numbers 49311, 49312, 49313, 49319, and sector 42.

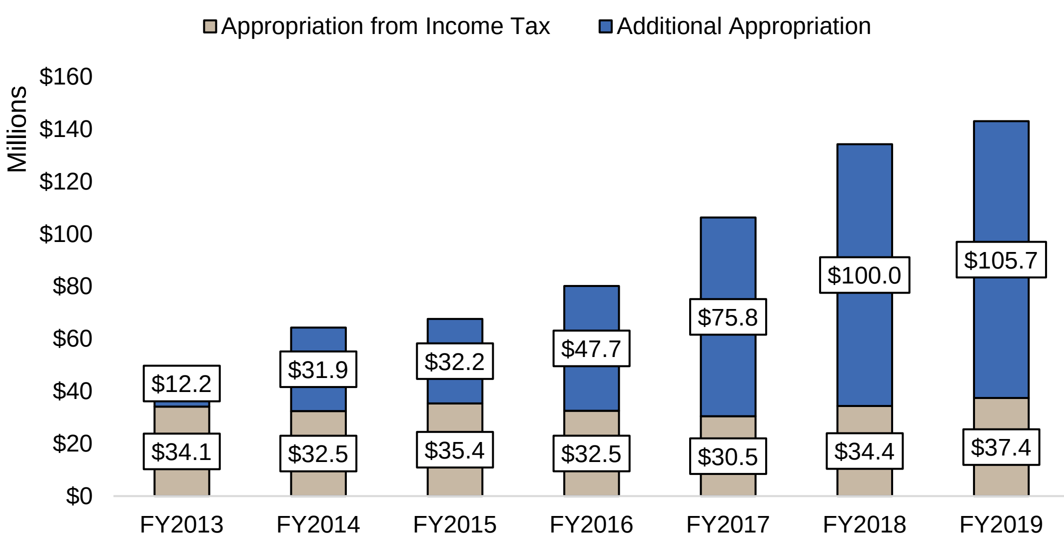
The application also requires an affidavit stating that, from the start of construction to the end of construction or three years from the start of construction (whichever occurs first), the project will result in the required payroll increase. The OTC works with the Oklahoma Employment Security Commission to verify payroll amounts reported on applications. If the payroll requirement is not met within that timeframe, or any other requirement is not met, all granted exemptions must be repaid to the OTC.

If a facility is applying for an exemption related to an expansion, it is required to meet the all payroll increase requirements while maintaining increases associated with its previously approved exemptions.

Qualifying facilities are exempt from local property taxes, and the State reimburses local authorities for exemptions granted. Reimbursement payments to local authorities are paid through the Ad Valorem Reimbursement Fund. The State has dedicated one percent of each year's net personal and corporate income tax revenue to the Ad Valorem Reimbursement Fund.

This dedicated revenue stream was sufficient to cover annual reimbursement payments until FY 2003, when the Legislature made its first appropriation of additional funds to the Ad Valorem Reimbursement Fund to cover costs exceeding the dedicated one percent of income tax revenue. Since then, additional appropriations have had to be made each year to cover reimbursement payments. From FY 2016 through FY 2019, the dedicated one percent of income tax revenue has fallen especially short of total costs, averaging just 30 percent of total reimbursement payments, with additional appropriations growing from $47.7 million in FY 2016 to $105.7 million in FY 2019. The total FY 2019 reimbursement payment equates to 3.8 percent of income tax revenue.

Figure 9: Appropriations to the Ad Valorem Reimbursement Fund



Source: Oklahoma Tax Commission

Data Collection Issues

The OTC collects a significant amount of data during the application process and subsequent on-site reviews of qualifying facilities. The data collected is deemed necessary for the OTC to perform its statutory responsibility to ensure the qualifications of facilities applying for the exemption. However, the OTC data collection and storage method is not conducive to program evaluation. Despite collecting extensive information about each applicant, the OTC had considerable difficulty sharing requested information with the project team. In some cases, the difficulty was due to confidentiality constraints on applicant information. In others, the data was not stored in an easily accessible and transmissible format.

Critically, the OTC has not been able to provide payroll increase information by facility to the project team. Instead, this information has been aggregated at the industry category level. While this information is helpful for evaluation, it lacks the level of detail that would enable the evaluation to report which types of manufacturers are generating payroll increases. That detail is key to economic impact evaluation, because average annual pay among subsectors of manufacturing in Oklahoma ranges from $32,594 (Textile Product Mills) to $105,215 (Petroleum and Coal Products Manufacturing).[14] This information would help more accurately describe and calculate the impact of the program on the State economy.

[14] U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages, 2019 data. Average annual pay range is based on 21 subsectors of manufacturing, represented by the first 3 digits of the NAICS code.

Economic and Fiscal Impact

Economic and Fiscal Impact

The ad valorem tax exemption is granted to manufacturing and other selected facilities as a result of a capital facilities expansion and maintaining associated payroll increases, over a five-year period. Each year the total of facilities with qualified rebates comprises new facilities and new payroll, as well as the payroll carry forward from prior years. In this way, the ad valorem rebate amounts grow, as does the aggregate amount of payroll of companies benefitting from the ad valorem rebates. The economic impacts of the annually recurring payroll maintained, and newly qualified payroll, is quite substantial. Impacts have only been calculated for manufacturing facilities (excluding wind facilities, data processing and distribution), due to limitations of program data reporting. More complete impact estimates can be accomplished with increased facility level reporting in the future which would include data on jobs, payroll and NAICS code of qualifying facilities. Impact reporting in 2020 is improved over 2016 where only capital construction value was used to estimate impacts. In 2020 both construction and permanent qualifying payroll is reported, resulting in more detailed economic impact analysis.

The program tracking does not allow for confirmation of how much payroll is increased rather than maintained from year to year at qualifying facilities. As a result, tracking the economic impacts of total payroll increases, and comparing this with total exemptions, over the five-year qualifying period, may reflect some activity not due to the exemption program and thereby overstate total economic impacts. Because of this limitation in the program data the range of economic impacts have been bracketed with an upper and lower bound analysis. The economic impacts of total payroll increase including five years of qualified exemptions represents the upper bound analysis. The economic impacts of first-year ad valorem exemptions only have been calculated for each of the five years examined from 2015-2019 and this represents the lower bound analysis.

Finally, as noted earlier, the qualified payroll is associated with capital facilities expansion. Each year, as part of the ad valorem rebate program, companies spend millions of dollars on physical expansion of facilities, as well as property and equipment. In addition to the jobs and permanent payroll created, the economic impacts of plant expansion and construction are also calculated as part of this review. The economic impacts of facilities expansion do not include land purchases* or equipment and machinery. Capital expenditure impacts reflect only building construction activity for new industrial facilities in Oklahoma, which occur in the first exemption period (XM1) of the qualifying program across each year. These impacts are in addition to the permanent payroll impacts.

The upper bound qualified ongoing payroll amounts range from $1.2 billion to $2.6 billion per year, each year from 2015-2019. The payroll amounts correspond to direct economic activity which ranges from $5.5 billion to $11.4 billion annually, in activity associated only with qualified facilities. The multiplier effect of this activity results in $7.8 billion to $16.1 billion in total economic impact annually, from 2015-2019 as shown in Table 3. Direct manufacturing employment hovers from 15,000 to 31,000 manufacturing employees, averaging 23,000 manufacturing jobs supported by the rebate program; some 16% of all current manufacturing employment in Oklahoma. Total employment, including the multiplier effects, has averaged 45,200 jobs over this period. This represents the upper bounds of the rebate program impacts.

Under the lower bounds estimate using data from first year exemptions only (XM1), we find direct annual payroll impacts average $238 million, supporting 2,700 manufacturing jobs. Total impacts including the multiplier effects generates $363 million in annual wages, supporting 5,300 jobs. Total lower bound economic impacts average $1.5 billion annually.

In addition to manufacturing employment, there is construction employment related to capital expenditures for facilities expansion. Annual construction employment, which is also associated with the rebate program, averages 670 construction workers and $35.4 million in payroll per year; expanding to 1,086 jobs annually including multiplier effects, with payroll averaging $56.9 million annually. Total economic impacts of building construction averaged $158.4 million per year, for the 2015-2019 period.

For analysis purposes, the tables compare total impacts with total estimated tax revenue and total claimed credit. These comparisons are provided only at the total impact level and not for the component elements, because there are no corresponding credits at the component levels. Tax revenue generated to the State of Oklahoma was estimated by applying the long-term ratio of Oklahoma's gross state tax collections to Gross State Product (GSP); additional detail is provided in Appendix D. A discussion of the IMPLAN methodology and definition of terms is found in Appendix C.

* note: building construction represents 80% of building and real property as reported; 20% is removed reflecting no impact from real estate sales.

Table 4: Total Manufacturing Payroll – Upper Bound Impact

Year	Effect	Output	Value Added	Labor Income	Employment	Estimated OK Tax Revenue	Total Exemption	Ratio: Output/ Rebate	Ratio: Revenue/ Rebate
2015	Direct Effect	$11,434,444,750	$3,379,752,430	$2,598,468,774	31,318				
	Indirect Effect	$2,276,987,864	$1,089,758,802	$692,925,255	12,704				
	Induced Effect	$2,393,191,221	$1,280,299,574	$709,751,481	17,593				
	Total Effect	**$16,104,623,835**	**$5,749,810,806**	**$4,001,145,509**	**61,615**	**$303,245,022**	**$35,092,985**	**$459**	**$8.64**
2016	Direct Effect	$9,262,675,795	$2,760,427,878	$2,122,310,966	25,317				
	Indirect Effect	$1,857,636,938	$890,065,365	$565,949,794	10,270				
	Induced Effect	$1,952,150,858	$1,045,690,390	$579,692,689	14,222				
	Total Effect	**$13,072,463,591**	**$4,696,183,633**	**$3,267,953,449**	**49,808**	**$247,676,725**	**$39,827,020**	**$328**	**$6.22**
2017	Direct Effect	$5,480,555,421	$1,649,161,530	$1,267,931,551	14,846				
	Indirect Effect	$1,112,506,509	$531,751,461	$338,115,201	6,022				
	Induced Effect	$1,173,309,194	$624,726,470	$346,325,615	8,339				
	Total Effect	**$7,766,371,124**	**$2,805,639,461**	**$1,952,372,367**	**29,207**	**$147,969,425**	**$44,787,590**	**$173**	**$3.30**
2018	Direct Effect	$7,270,982,105	$2,196,732,392	$1,688,922,678	19,304				
	Indirect Effect	$1,467,220,302	$708,308,821	$450,379,542	7,831				
	Induced Effect	$1,546,966,592	$832,154,308	$461,316,058	10,844				
	Total Effect	**$10,285,168,999**	**$3,737,195,520**	**$2,600,618,277**	**37,979**	**$197,099,692**	**$61,750,123**	**$167**	**$3.19**
2019	Direct Effect	$9,293,654,638	$2,787,020,794	$2,142,756,505	24,185				
	Indirect Effect	$1,864,380,195	$898,639,917	$571,401,940	9,810				
	Induced Effect	$1,965,172,165	$1,055,764,175	$585,277,228	13,586				
	Total Effect	**$13,123,206,999**	**$4,741,424,885**	**$3,299,435,674**	**47,581**	**$250,062,748**	**$76,280,083**	**$172**	**$3.28**

Source: IMPLAN copyright 2020; PFM Group Consulting LLC

Table 5: Total Manufacturing Payroll – Lower Bound Impact

Year		Output	Value Added	Labor Income	Employment	Estimated OK Tax Revenue	Total Exemption	Ratio: Output/ Exemption	Ratio: Revenue/ Exemption
2015	Direct Effect	$893,942,023	$264,228,197	$203,147,637	2,448				
	Indirect Effect	$178,014,340	$85,197,070	$54,172,723	993				
	Induced Effect	$187,099,089	$100,093,499	$55,488,193	1,375				
	Total Effect	**$1,259,055,452**	**$449,518,767**	**$312,808,552**	**4,817**	**$23,707,620**	**$9,956,403**	**$126**	**$2.38**
2016	Direct Effect	$715,944,340	$213,363,045	$164,040,776	1,957				
	Indirect Effect	$143,583,202	$68,796,239	$43,744,223	794				
	Induced Effect	$150,888,510	$80,825,037	$44,806,458	1,099				
	Total Effect	**$1,010,416,053**	**$362,984,321**	**$252,591,456**	**3,850**	**$19,143,793**	**$13,689,624**	**$74**	**$1.40**
2017	Direct Effect	$443,514,870	$133,458,674	$102,607,574	1,201				
	Indirect Effect	$90,029,776	$43,032,077	$27,362,030	487				
	Induced Effect	$94,950,244	$50,556,095	$28,026,459	675				
	Total Effect	**$628,494,890**	**$227,046,846**	**$157,996,062**	**2,364**	**$11,974,451**	**$14,868,124**	**$42**	**$0.81**
2018	Direct Effect	$1,203,391,550	$363,572,508	$279,526,926	3,195				
	Indirect Effect	$242,833,841	$117,229,397	$74,540,540	1,296				
	Induced Effect	$256,032,335	$137,726,575	$76,350,600	1,795				
	Total Effect	**$1,702,257,726**	**$618,528,480**	**$430,418,067**	**6,286**	**$32,621,192**	**$23,770,184**	**$72**	**$1.37**
2019	Direct Effect	$1,944,791,636	$591,850,578	$440,722,833	4,888				
	Indirect Effect	$336,000,613	$159,788,155	$102,107,937	1,721				
	Induced Effect	$393,009,838	$211,139,531	$117,050,201	2,717				
	Total Effect	**$2,673,802,087**	**$962,778,265**	**$659,880,971**	**9,326**	**$50,776,926**	**$20,987,010**	**$127**	**$2.42**

Source: IMPLAN copyright 2020; PFM Group Consulting LLC

Table 6: Capital Expenditures for Manufacturing Facilities XM1

Year	Effect	Output	Value Added	Labor Income	Employment	Estimated OK Tax Revenue	Total Exemption	Ratio: Output/ Exemption	Ratio: Revenue/ Exemption
2015	Direct Effect	$42,041,050	$19,733,719	$16,739,065	332				
	Indirect Effect	$16,810,601	$7,720,498	$5,424,788	85				
	Induced Effect	$16,103,083	$8,615,132	$4,779,031	119				
	Total Effect	**$74,954,735**	**$36,069,350**	**$26,942,884**	**536**	**$1,902,298**	**$9,956,403**	**$7.53**	**$0.19**
2016	Direct Effect	$9,893,770	$4,662,697	$3,955,118	78				
	Indirect Effect	$3,932,570	$1,824,205	$1,281,773	20				
	Induced Effect	$3,800,272	$2,035,590	$1,129,193	28				
	Total Effect	**$17,626,612**	**$8,522,492**	**$6,366,084**	**125**	**$449,476**	**$13,689,624**	**$1.29**	**$0.03**
2017	Direct Effect	$139,158,527	$65,202,080	$55,307,459	1,066				
	Indirect Effect	$55,847,912	$25,509,259	$17,924,015	274				
	Induced Effect	$53,462,672	$28,465,215	$15,790,372	380				
	Total Effect	**$248,469,111**	**$119,176,553**	**$89,021,846**	**1,721**	**$6,285,371**	**$14,868,124**	**$16.71**	**$0.42**
2018	Direct Effect	$154,998,125	$72,956,078	$61,884,764	1,165				
	Indirect Effect	$61,990,727	$28,542,886	$20,055,585	299				
	Induced Effect	$59,210,985	$31,850,371	$17,668,204	416				
	Total Effect	**$276,199,836**	**$133,349,335**	**$99,608,553**	**1,880**	**$7,032,844**	**$23,770,184**	**$11.62**	**$0.30**
2019	Direct Effect	$98,184,511	$45,897,218	$38,932,171	723				
	Indirect Effect	$39,137,672	$17,956,544	$12,617,119	186				
	Induced Effect	$37,297,590	$20,037,308	$11,115,200	258				
	Total Effect	**$174,619,773**	**$83,891,071**	**$62,664,490**	**1,168**	**$4,424,415**	**$20,987,010**	**$8.32**	**$0.21**

Source: IMPLAN copyright 2020; PFM Group Consulting LLC

Incentive Benchmarking

Benchmarking

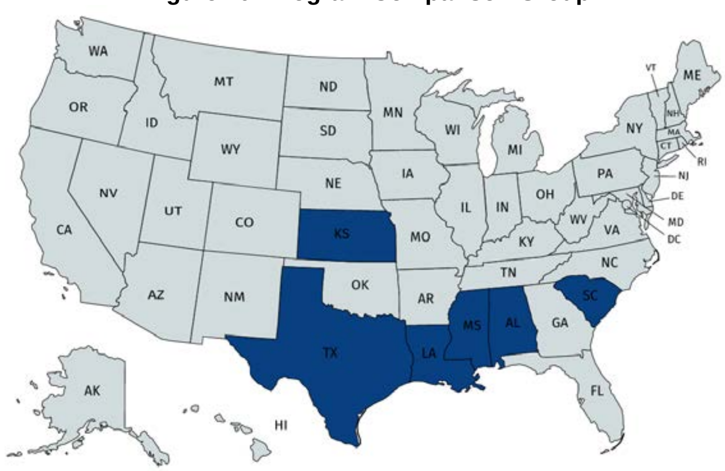
A detailed description of comparable state programs can be found in **Appendix B.**

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 exceedingly rare that any two state incentive programs will be exactly the same.[15] 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.

The process of creating a comparison group for incentives typically begins with bordering states. This is generally the starting point, because proximity often leads states to compete for the same regional businesses or business/industry investments. Second, neighboring states often (but not always) have similar economic, demographic or political structures that lend themselves to comparison.

For the Five-Year Ad Valorem Exemption, benchmarking focused on a mix of states neighboring Oklahoma as well as southeastern states the Oklahoma often competes with for economic development opportunities. The comparison group includes Alabama, Kansas, Louisiana, Mississippi, South Carolina, and Texas.

Figure 10: Program Comparison Group



Comparison of these programs was done across major characteristics of the incentive including qualifying capital investment and payroll increases, the benefit amount provided by the program, and the duration of the benefit.

Benefit Duration

Oklahoma has a relatively short exemption period among the comparison group. Four of the six comparable programs offer benefits for up to 10 years, while Alabama offers its exemption for up to 20 years for most industries and 30 years for data centers. Only South Carolina matched Oklahoma’s 5-year exemption period.

Local governments are often granted authority to determine important aspects of the exemption including the amount of exemption or duration of benefits. For example, in Alabama and Mississippi the exemption duration is capped at 20 or 30 and 10 years, respectively, but local governments can offer less than these limits to

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

qualified applicants. In contrast, qualified facilities in Oklahoma are entitled to the full five-year exemption if all requirements are met; there is no flexibility to reduce this benefit period at the local level.

Benefit Amount

Alabama, Kansas, Mississippi, and South Carolina's programs offer a full exemption from property tax, which is similar to Oklahoma's. Texas provides a variable limitation on taxable value specifically for its School District Maintenance and Operations tax. Starting in FY 2019, Louisiana modified its program to reduce its benefit from a full exemption to an 80 percent exemption from property tax.

Requirements

Comparing qualification requirements is difficult because most comparable programs have an approval and evaluation process conducted at the local level, where local governments have discretion over whether a facility qualifies for an exemption. Oklahoma offers its exemption "as of right" rather than through a discretionary review process. If a facility meets all statutory requirements, it is entitled to the exemption. South Carolina is the only other state in this group that offers an abatement that qualified facilities are entitled to.

Few states have similar requirements to Oklahoma for payroll increases and capital investment amounts. Instead, in most comparison programs these metrics are part of the application and approval process, but no clear threshold for qualification is established in statute at the state level. In South Carolina, which also has an "as of right" exemption, facilities are required to make a capital investment of at least $50,000 and create at least 75 new jobs. While Texas' program uses a discretionary process, it has established certain minimum capital investment and wage thresholds, which vary significantly depending on the facility's school district.

Exemption Costs

A key distinction between Oklahoma and the rest of the comparison group is that in each comparable program, local jurisdictions bear at least part of the cost of the exemption. In Oklahoma, the State bears the full cost of each exemption through its reimbursement payments to local governments.

Transparency

Starting in 2010, Texas moved to make public all applications for its program. Publicly available applications to Texas' Chapter 313B abatement program provide several pieces of detailed information about the projects receiving exemptions. This includes the total capital investment, number of jobs created, the average wage of jobs created, and a listing of other incentives granted to the facility and the estimated benefit received from each.

Other evaluations

An evaluation of Maine's Business Equipment Tax Exemption and Reimbursement programs found the programs to generate a net loss for the State. The total cost to the state of for both programs was $711.7 million from FY 2009 to FY 2018, while the programs increased tax revenue by only $51.5 million over the same period.

Recent Louisiana Reforms

A review of Louisiana's comparable program, known as the Industrial Tax Exemption Program (ITEP) found that exemptions granted under the program between 2008 and 2015 generated $10 billion in foregone revenue for local government in the state.[16] In 2016, the program was overhauled, reducing its exemption amount from 100 percent to 80 percent, eliminating maintenance capital from eligibility, granting local government final approval and power to reject applications, and introducing job creation and retention agreements.[17]

During discussion of reforming the program, Louisiana Economic Development raised an issue with the inflexible nature of the State's exemption. It suggested the full exemption (prior to the change to 80 percent) for all projects meant the program often overpaid for investment when companies are comparing to other states where local governments have more flexibility in amount of exemption offered. For example, the next best offer a firm received in a competing state may be just a 40% exemption, but Louisiana's offer is 100 percent exemption regardless of this information.

Texas Evaluations

Texas Chapter 313 abatements allow local governments to provide 10-year property value limitations to firms for economic development purposes. The program provided abatements totaling $436.5 million in tax year 2018.

A review of the program was conducted by the Texas Legislative Budget Board in 2011.[18] It suggested many of the manufacturers qualifying and participating in the program were oil refineries who had "ample reasons for locating in Texas" outside of the incentive program due to the existing oil industry and natural resources in the State. It also recommended strengthening job creation requirements so that localities cannot elect to waive job creation requirements and independent audit of job creation claims instead of the self-reporting currently in place.

Another study of the program conducted in 2017 sought to determine the extent to which the incentive influenced location decisions.[19] As part of Texas' program, firms are able to negotiate supplemental payments with school districts that partially offset the reduced revenue from abated property tax. It examined 80 project applications and, based on the outcomes of supplemental payment negotiations, determined only 15 percent of firms participating in the program located in Texas because of the incentive. The majority of firms, many of them oil and chemical manufacturing investments along the Gulf of Mexico, would have invested in the State without the incentive. The review also found several instances of the incentive being granted to projects that had already been constructed.

[16] Louisiana Economic Development "Overview of the Industrial Tax Exemption Program. July 2016. Accessed electronically at: http://revenue.louisiana.gov/Miscellaneous/LED%20Industrial%20Tax%20Exemption%20Program%20%28ITEP%29%20Overview.pdf

[17] "For Louisiana's largest tax break, John Bel Edwards is pushing for these tweaks" The Advocate. January 2020. Accessed electronically at: https://www.theadvocate.com/baton_rouge/news/politics/legislature/article_163224f4-3ed3-11ea-8780-036e6bb90615.html

[18] Texas Legislative Budget Board "Texas State Government Effectiveness and Efficiency" January 2011. Accessed electronically at: http://www.lbb.state.tx.us/documents/publications/geer/geer01012011.pdf

[19] Washington Center for Equitable Growth. "Exit options in firm-government negotiations: An evaluation of the Texas chapter 313 program". October 2017. Accessed electronically at http://cdn.equitablegrowth.org/wp-content/uploads/2017/10/19153356/10242017-WP-exit-options-negotiations.pdf

Appendices

Appendix A: Incentive Statute

§68-2902. Manufacturing facilities – Exemption from ad valorem tax.

A. Except as otherwise provided by subsection H of Section 3658 of this title pursuant to which the exemption authorized by this section may not be claimed, a qualifying manufacturing concern, as defined by Section 6B of Article X of the Oklahoma Constitution, and as further defined herein, shall be exempt from the levy of any ad valorem taxes upon new, expanded or acquired manufacturing facilities, including facilities engaged in research and development, for a period of five (5) years. The provisions of Section 6B of Article X of the Oklahoma Constitution requiring an existing facility to have been unoccupied for a period of twelve (12) months prior to acquisition shall be construed as a qualification for a facility to initially receive an exemption, and shall not be deemed to be a qualification for that facility to continue to receive an exemption in each of the four (4) years following the initial year for which the exemption was granted. Such facilities are hereby classified for the purposes of taxation as provided in Section 22 of Article X of the Oklahoma Constitution.

B. For purposes of this section, the following definitions shall apply:

1. "Manufacturing facilities" means facilities engaged in the mechanical or chemical transformation of materials or substances into new products and except as provided by paragraph 8 of subsection C of this section shall include:

a. establishments which have received a manufacturer exemption permit pursuant to the provisions of Section 1359.2 of this title,

b. facilities, including repair and replacement parts, primarily engaged in aircraft repair, building and rebuilding whether or not on a factory basis,

c. establishments primarily engaged in computer services and data processing as defined under Industrial Group Numbers 5112 and 5415, and U.S. Industry Number 334611 and 519130 of the NAICS Manual, latest revision, and which derive at least fifty percent (50%) of their annual gross revenues from the sale of a product or service to an out-of-state buyer or consumer, and as defined under Industrial Group Number 5142 of the NAICS Manual, latest revision, which derive at least eighty percent (80%) of their annual gross revenues from the sale of a product or service to an out-of-state buyer or consumer. Eligibility as a manufacturing facility pursuant to this subparagraph shall be established, subject to review by the Oklahoma Tax Commission, by annually filing an affidavit with the Tax Commission stating that the facility so qualifies and such other information as required by the Tax Commission. For purposes of determining whether annual gross revenues are derived from sales to out-of-state buyers, all sales to the federal government shall be considered to be an out-of-state buyer,

d. for which the investment cost of the construction, acquisition or expansion of the manufacturing facility is Two Hundred Fifty Thousand Dollars ($250,000.00) or more. Provided, "investment cost" shall not include the cost of direct replacement, refurbishment, repair or maintenance of existing machinery or equipment, except that "investment cost" shall include capital expenditures for direct replacement, refurbishment, repair or maintenance of existing machinery or equipment that qualifies for depreciation and/or amortization pursuant to the Internal Revenue Code of 1986, as amended, and such expenditures shall be eligible as a part of an "expansion" that otherwise qualifies under this section, and

e. establishments primarily engaged in distribution as defined under Industry Numbers 49311, 49312, 49313 and 49319 and Industry Sector Number 42 of the NAICS Manual, latest revision, and which meet the following qualifications:

(1) construction with an initial capital investment of at least Five Million Dollars ($5,000,000.00),

(2) employment of at least one hundred (100) full-time-equivalent employees, as certified by the Oklahoma Employment Security Commission,

(3) payment of wages or salaries to its employees at a wage which equals or exceeds one hundred seventy-five percent (175%) of the federally mandated minimum wage, as certified by the Oklahoma Employment Security Commission, and

(4) commencement of construction on or after November 1, 2007, with construction to be completed within three (3) years from the date of the commencement of construction.

Eligibility as a manufacturing facility pursuant to this subparagraph shall be established, subject to review by the Tax Commission, by annually filing an affidavit with the Tax Commission stating that the facility so qualifies and containing such other information as required by the Tax Commission.

Provided, eating and drinking places, as well as other retail establishments, shall not qualify as manufacturing facilities for purposes of this section, nor shall centrally assessed properties.

Eligibility as a manufacturing facility pursuant to this subparagraph shall be established, subject to review by the Tax Commission, by annually filing an application with the Tax Commission stating that the facility so qualifies and containing such other information as required by the Tax Commission;

2. "Facility" and "facilities" means and includes the land, buildings, structures, improvements, machinery, fixtures, equipment and other personal property used directly and exclusively in the manufacturing process; and

3. "Research and development" means activities directly related to and conducted for the purpose of discovering, enhancing, increasing or improving future or existing products or processes or productivity.

C. The following provisions shall apply:

1. A manufacturing concern shall be entitled to the exemption herein provided for each new manufacturing facility constructed, each existing manufacturing facility acquired and the expansion of existing manufacturing facilities on the same site, as such terms are defined by Section 6B of Article X of the Oklahoma Constitution and by this section;

2. Except as otherwise provided in paragraph 5 of this subsection, no manufacturing concern shall receive more than one five-year exemption for any one manufacturing facility unless the expansion which qualifies the manufacturing facility for an additional five-year exemption meets the requirements of paragraph 4 of this subsection and the employment level established for any previous exemption is maintained;

3. Any exemption as to the expansion of an existing manufacturing facility shall be limited to the increase in ad valorem taxes directly attributable to the expansion;

4. Except as provided in paragraphs 5 and 6 of this subsection, all initial applications for any exemption for a new, acquired or expanded manufacturing facility shall be granted only if:

a. there is a net increase in annualized base payroll over the initial payroll of at least Two Hundred Fifty Thousand Dollars ($250,000.00) if the facility is located in a county with a population of fewer than seventy-five thousand (75,000), according to the most recent Federal Decennial Census, while maintaining or increasing base payroll in subsequent years, or at least One Million Dollars ($1,000,000.00) if the facility is located in a county with a population of seventy-five thousand (75,000) or more, according to the most recent Federal Decennial Census, while maintaining or increasing base payroll in subsequent years; provided the payroll requirement of this subparagraph shall be waived for claims for exemptions, including claims previously denied or on appeal on March 3, 2010, for all initial applications for exemption filed on or after January 1, 2004, and on or before March 31, 2009, and all subsequent annual exemption applications filed related to the initial application for exemption, for an applicant, if the facility has been located in Oklahoma for at least fifteen (15) years engaged in marine engine manufacturing as defined under U.S. Industry Number 333618 of the NAICS Manual, latest revision, and has maintained an average employment of five hundred (500) or more full-time-equivalent employees over a ten-year period. Any applicant that qualifies for the payroll requirement waiver as outlined in the previous sentence and subsequently closes its Oklahoma manufacturing plant prior to January 1, 2012, may be disqualified for exemption and subject to recapture. For an applicant engaged in paperboard manufacturing as defined under U.S. Industry Number 322130 of the NAICS Manual, latest revision, union master payouts paid by the buyer of the facility to specified individuals employed by the facility at the time of purchase, as specified under the purchase agreement, shall be excluded from payroll for purposes of this section.

In order to provide certainty with respect to investments in manufacturing facilities pertaining to all initial applications for exemption filed on or after January 1, 2016, the following definitions shall apply:

(1) "base payroll" shall mean total payroll adjusted for any nonrecurring bonuses, exercise of stock option or stock rights and other nonrecurring, extraordinary items included in total payroll, and

(2) "initial payroll" shall mean base payroll for the year immediately preceding the initial construction, acquisition or expansion.

The Tax Commission shall verify payroll information through the Oklahoma Employment Security Commission by using reports from the Oklahoma Employment Security Commission for the calendar year immediately preceding the year for which initial application is made for base-line payroll, which must be maintained or increased for each subsequent year; provided, a manufacturing facility shall have the option of excluding from its payroll, for purposes of this section:

i. payments to sole proprietors, members of a partnership, members of a limited liability company who own at least ten percent (10%) of the capital of the limited liability company or stockholder-employees of a corporation who own at least ten percent (10%) of the stock in the corporation, and

ii. any nonrecurring bonuses, exercise of stock option or stock rights or other nonrecurring, extraordinary items included in total payroll numbers as reported by the Oklahoma Employment Security Commission. A manufacturing facility electing either option shall indicate such election upon its application for an exemption under this section. Any manufacturing facility electing either option shall submit such information as the Tax Commission may require in order to verify payroll information. Payroll information submitted pursuant to the provisions of this paragraph shall be submitted to the Tax Commission and shall be subject to the provisions of Section 205 of this title, and

b. the facility offers, or will offer within one hundred eighty (180) days of the date of employment, a basic health benefits plan to the full-time-equivalent employees of the facility, which is determined by the Department of Commerce to consist of the elements specified in subparagraph b of paragraph 1 of subsection A of Section 3603 of this title or elements substantially equivalent thereto.

For purposes of this section, calculation of the amount of increased base payroll shall be measured from the start of initial construction or expansion to the completion of such construction or expansion or for three (3) years from the start of initial construction or expansion, whichever occurs first. The amount of increased base payroll shall include payroll for full-time-equivalent employees in this state who are employed by an entity other than the facility which has previously or is currently qualified to receive an exemption pursuant to the provisions of this section and who are leased or otherwise provided to the facility, if such employment did not exist in this state prior to the start of initial construction or expansion of the facility. The manufacturing concern shall submit an affidavit to the Tax Commission, signed by an officer, stating that the construction, acquisition or expansion of the facility will result in a net increase in the annualized base payroll as required by this paragraph and that full-time-equivalent employees of the facility are or will be offered a basic health benefits plan as required by this paragraph. If, after the completion of such construction or expansion or after three (3) years from the start of initial construction or expansion, whichever occurs first, the construction, acquisition or expansion has not resulted in a net increase in the amount of annualized base payroll, if required, or any other qualification specified in this paragraph has not been met, the manufacturing concern shall pay an amount equal to the amount of any exemption granted, including penalties and interest thereon, to the Tax Commission for deposit to the Ad Valorem Reimbursement Fund;

5. If a facility fails to meet the base payroll requirement of subparagraph a of paragraph 4 of this subsection, the payroll requirement shall be waived for claims for exemptions, including claims previously denied or on appeal on June 1, 2009, for all initial applications for exemption filed on or after January 1, 2004, and on or before March 31, 2009, and all subsequent annual exemption applications filed related to such initial application for exemption, for an applicant, if the facility:

a. has been located for at least five (5) years as of March 31, 2009, in a county in Oklahoma with a population of six hundred thousand (600,000) or more,

b. is owned by an applicant that has been engaged in manufacturing as defined under U.S. Industry Numbers 323110, 323111, 323121 and 323122 of the NAICS Manual, latest revision,

c. is owned by an applicant that maintains a workforce of at least three hundred (300) employees on June 1, 2009,

d. is owned by an applicant that has filed multiple applications for exemption pursuant to this section, and

e. is owned by an applicant that operates at least one facility in this state of at least seven hundred thirty thousand (730,000) square feet on June 1, 2009.

In the event that any applicant obtaining a waiver of the payroll requirement pursuant to this paragraph ceases to operate all of its facilities in this state on or before a date that is four (4) years after any initial application for an exemption is filed by such applicant, all sums of property taxes exempted under this paragraph through a waiver of the payroll requirement that relate to such application shall become due and payable as if such sums were assessed in the year in which the applicant ceases to operate all of its facilities in the state;

6. Any new, acquired or expanded automotive final assembly manufacturing facility which does not meet the requirements of paragraph 4 of this subsection shall be granted an exemption only if all other requirements of this section are met and only if the investment cost of the construction, acquisition or expansion of the manufacturing facility is Three Hundred Million Dollars ($300,000,000.00) or more and the manufacturing facility retains an average employment of one thousand seven hundred fifty (1,750) or more full-time-equivalent employees in the year in which the exemption is initially granted and in each of the four (4) subsequent years only if an average employment of one thousand seven hundred fifty (1,750) or more full-time-equivalent employees is maintained in the subsequent year. Any property installed to replace property damaged by the tornado or natural disaster that occurred May 8, 2003, may continue to receive the exemption provided in this paragraph for the full five-year period based on the value of the previously qualifying assets as of January 1, 2003. The exemption shall continue in effect as long as all other qualifications in this paragraph are met. If the average employment of one thousand seven hundred fifty (1,750) or more full-time-equivalent employees is reduced as a result of temporary layoffs because of a tornado or natural disaster on May 8, 2003, then the average employment requirement shall be waived for year 2003 of the exemption period. Calculation of the number of employees shall be made in the same manner as required under Section 2357.4 of this title for an investment tax credit. As used in this paragraph, "expand" and "expansion" shall mean and include any increase to the size or scope of a facility as well as any renovation, restoration, replacement or remodeling of a facility which permits the manufacturing of a new or redesigned product;

7. Any new, acquired, or expanded computer data processing, data preparation, or information processing services provider classified in Industrial Group Number 7374 of the SIC Manual, latest revision, and U.S. Industry Number 514210 of the North American Industrial Classification System (NAICS) Manual, latest revision, may apply for exemptions under this section for each year in which new, acquired, or expanded capital improvements to the facility are made if:

a. there is a net increase in annualized payroll of the applicant at any facility or facilities of the applicant in this state of at least Two Hundred Fifty Thousand Dollars ($250,000.00), which is attributable to the capital improvements, or a net increase of Seven Million Dollars ($7,000,000.00) or more in capital improvements, while maintaining or increasing payroll at the facility or facilities in this state which are included in the application, and

b. the facility offers, or will offer within one hundred eighty (180) days of the date of employment of new employees attributable to the capital improvements, a basic health benefits plan to the full-time-equivalent employees of the facility, which is determined by the Department of Commerce to consist of the elements specified in subparagraph b of paragraph 1 of subsection A of Section 3603 of this title or elements substantially equivalent thereto;

8. Effective January 1, 2017, an entity engaged in electric power generation by means of wind, as described by the North American Industry Classification System, No. 221119, shall not be defined as a qualifying manufacturing concern for purposes of the exemption otherwise authorized pursuant to Section 6B of Article X of the Oklahoma Constitution or qualify as a "manufacturing facility" as defined in this section. No

initial application for exemption shall be filed by or accepted from an entity engaged in electric power generation by means of wind on or after January 1, 2018; and

9. An entity or applicant engaged in an industry as defined under U.S. Industry Number 324110 of the NAICS Manual, latest revision, which has applied for or been granted an exemption for a time period which began on or after calendar year 2012 and before calendar year 2016 but which did not meet the payroll requirements of subparagraph a of paragraph 4 of this subsection because of nonrecurring bonuses, exercise of stock option or stock rights or other nonrecurring, extraordinary items included in total payroll in the previous year, shall be allowed an exemption, beginning with calendar year 2016, for the number of years, including the calendar year for which the exemption was denied, remaining in the entity's five-year exemption period, provided such entity attains or increases payroll at or above the initial or base payroll established for the exemption.

D. 1. Except as provided in paragraph 2 of this subsection, the five-year period of exemption from ad valorem taxes for any qualifying manufacturing facility property shall begin on January 1 following the initial qualifying use of the property in the manufacturing process.

2. The five-year period of exemption from ad valorem taxes for any qualifying manufacturing facility, as specified in subparagraphs a and b of this paragraph, which is located within a tax incentive district created pursuant to the Local Development Act by a county having a population of at least five hundred thousand (500,000), according to the most recent Federal Decennial Census, shall begin on January 1 following the expiration or termination of the ad valorem exemption, abatement, or other incentive provided through the tax incentive district. Facilities qualifying pursuant to this subsection shall include:

a. a manufacturing facility as defined in subparagraph c of paragraph 1 of subsection B of this section, and

b. an establishment primarily engaged in distribution as defined under Industry Number 49311 of the North American Industry Classification System for which the initial capital investment was at least One Hundred Eighty Million Dollars ($180,000,000.00); provided, that the qualifying job creation and depreciable property investment occurred prior to calendar year 2017 but not earlier than calendar year 2013.

E. Any person, firm or corporation claiming the exemption herein provided for shall file each year for which exemption is claimed, an application therefor with the county assessor of the county in which the new, expanded or acquired facility is located. The application shall be on a form or forms prescribed by the Tax Commission, and shall be filed on or before March 15, except as provided in Section 2902.1 of this title, of each year in which the facility desires to take the exemption or within thirty (30) days from and after receipt by such person, firm or corporation of notice of valuation increase, whichever is later. In a case where completion of the facility or facilities will occur after January 1 of a given year, a facility may apply to claim the ad valorem tax exemption for that year. If such facility is found to be qualified for exemption, the ad valorem tax exemption provided for herein shall be granted for that entire year and shall apply to the ad valorem valuation as of January 1 of that given year. For applicants which qualify under the provisions of subparagraph b of paragraph 1 of subsection B of this section, the application shall include a copy of the affidavit and any other information required to be filed with the Tax Commission.

F. The application shall be examined by the county assessor and approved or rejected in the same manner as provided by law for approval or rejection of claims for homestead exemptions. The taxpayer shall have the same right of review by and appeal from the county board of equalization, in the same manner and subject to the same requirements as provided by law for review and appeals concerning homestead exemption claims. Approved applications shall be filed by the county assessor with the Tax Commission no later than June 15, except as provided in Section 2902.1 of this title, of the year in which the facility desires to take the exemption. Incomplete applications and applications filed after June 15 will be declared null and void by the Tax Commission. In the event that a taxpayer qualified to receive an exemption pursuant to the provisions of this section shall make payment of ad valorem taxes in excess of the amount due, the county treasurer shall have the authority to credit the taxpayer's real or personal property tax overpayment against current taxes due. The county treasurer may establish a schedule of up to five (5) years of credit to resolve the overpayment.

G. Nothing herein shall in any manner affect, alter or impair any law relating to the assessment of property, and all property, real or personal, which may be entitled to exemption hereunder shall be valued and assessed as is other like property and as provided by law. The valuation and assessment of property for which an exemption is granted hereunder shall be performed by the Tax Commission.

H. The Tax Commission shall have the authority and duty to prescribe forms and to promulgate rules as may be necessary to carry out and administer the terms and provisions of this section.

Added by Laws 1988, c. 162, § 102, eff. Jan. 1, 1992. Amended by Laws 1989, c. 221, § 2, eff. Jan. 1, 1992; Laws 1992, c. 396, § 2, emerg. eff. June 11, 1992; Laws 1993, c. 68, § 1, emerg. eff. April 14, 1993; Laws 1993, c. 273, § 2, emerg. eff. May 27, 1993; Laws 1994, c. 278, § 32, eff. Sept. 1, 1994; Laws 1995, c. 337, § 10, emerg. eff. June 9, 1995; Laws 1997, c. 190, § 5, eff. July 1, 1997; Laws 1998, c. 301, § 15, eff. Nov. 1, 1998; Laws 1999, c. 134, § 1, emerg. eff. April 28, 1999; Laws 1999, c. 181, § 1, emerg. eff. May 21, 1999; Laws 1999, c. 363, § 1, eff. Jan. 1, 2000; Laws 2000, c. 3, § 3, emerg. eff. March 2, 2000; Laws 2000, c. 339, § 20, emerg. eff. June 6, 2000; Laws 2001, c. 5, § 45, emerg. eff. March 21, 2001; Laws 2001, c. 118, § 1, emerg. eff. April 23, 2001; Laws 2001, c. 358, § 22, eff. July 1, 2001; Laws 2002, c. 232, § 1, eff. Nov. 1, 2002; Laws 2002, c. 476, § 6, emerg. eff. June 6, 2002; Laws 2003, c. 3, § 72, emerg. eff. March 19, 2003; Laws 2003, c. 458, § 1, emerg. eff. June 6, 2003; Laws 2004, c. 10, § 1, emerg. eff. March 15, 2004; Laws 2004, c. 447, § 11, emerg. eff. June 4, 2004; Laws 2005, c. 1, § 116, emerg. eff. March 15, 2005; Laws 2005, c. 479, § 22, eff. July 1, 2005; Laws 2006, c. 16, § 72, emerg. eff. March 29, 2006; Laws 2006, c. 281, § 30, emerg. eff. June 7, 2006; Laws 2007, c. 352, § 1, eff. Nov. 1, 2007; Laws 2008, c. 440, § 12; Laws 2009, c. 2, § 28, emerg. eff. March 12, 2009; Laws 2009, c. 426, § 13, emerg. eff. June 1, 2009; Laws 2010, c. 2, § 68, emerg. eff. March 3, 2010; Laws 2011, c. 383, § 1, eff. Jan. 1, 2012; Laws 2012, c. 306, § 1, emerg. eff. May 29, 2012; Laws 2015, c. 153, § 1, eff. Jan. 1, 2016; Laws 2016, c. 210, § 39, emerg. eff. April 26, 2016; Laws 2016, c. 317, § 3, eff. Jan. 1, 2016; Laws 2019, c. 258, § 1, eff. Nov. 1, 2019.

NOTE: Laws 2000, c. 219, § 1 repealed by Laws 2001, c. 5, § 46, emerg. eff. March 21, 2001. Laws 2002, c. 188, § 1 repealed by Laws 2002, c. 299, § 17, emerg. eff. May 23, 2002 and by Laws 2002, c. 476, § 8, emerg. eff. June 6, 2002. Laws 2002, c. 299, § 15 repealed by Laws 2003, c. 3, § 73, emerg. eff. March 19, 2003. Laws 2003, c. 374, § 8 repealed by Laws 2004, c. 5, § 80, emerg. eff. March 1, 2004. Laws 2004, c. 5, § 79 repealed by Laws 2004, c. 317, § 3, emerg. eff. May 19, 2004 and by Laws 2004, c. 447, § 22, emerg. eff. June 4, 2004. Laws 2004, c. 317, § 2 repealed by Laws 2005, c. 1, § 117, emerg. eff. March 15, 2005. Laws 2005, c. 286, § 1 repealed by Laws 2006, c. 16, § 73, emerg. eff. March 29, 2006. Laws 2008, c. 406, § 2 repealed by Laws 2009, c. 2, § 29, emerg. eff. March 12, 2009. Laws 2009, c. 387, § 2 repealed by Laws 2010, c. 2, § 69, emerg. eff. March 3, 2010. Laws 2015, c. 335, § 2 repealed by Laws 2016, c. 210, § 40, emerg. eff. April 26, 2016.

§68-2902.1. Dates and activities to follow in administering Section 2902.

In order to administer subsection C of Section 2902 of this title, the following dates and activities shall apply:

1. Any person, firm or corporation claiming the exemption herein provided pursuant to subsection C of Section 2902 of this title shall file, each year for which the exemption is claimed, an application therefor with the county assessor of the county in which the new, expanded or acquired facility is located. Such application shall be on a form or forms prescribed by the Oklahoma Tax Commission and shall be filed before July 1, 1993; and, thereafter subsequent years of application for the exemption shall be filed on or before March 15 of the calendar year in which the facility desires to take the exemption.

Provided, for those person, firms or corporations qualifying pursuant to subsection C of Section 2902 of this title, the exemption from ad valorem taxes shall continue in effect for the four (4) following years upon application as long as all requirements in subsection C of Section 2902 of this title are met; and

2. Such application shall be examined by the county assessor and approved or rejected by the county assessor in the same manner as provided by law for approval or rejection of claims for homestead exemptions. Any applicants rejected by the county assessor whose applications were received before July 1, 1993, may protest any rejection to the county equalization board which shall conduct hearings to protest in the manner prescribed pursuant to Title 68 of the Oklahoma Statutes. In the event the county equalization board has adjourned and so is unable to conduct a review of the county assessor’s rejection in tax year 1993, the board shall hear the protest in 1994. Provided, applicants must appeal within thirty (30) days of rejection. The applicant shall not be required to pay the tax until appeal is heard by the county equalization board. In the event payment is determined to be due by the county equalization board, the company shall pay said tax, but no interest or penalty shall be assessed or due. Approved applications shall be filed by the county assessor with the Tax Commission no later than August 1, 1993. Incomplete applications and applications filed after such date will be declared null and void by the Tax Commission.

Added by Laws 1993, c. 273, § 3, emerg. eff. May 27, 1993. Amended by Laws 2004, c. 447, § 12, emerg. eff. June 4, 2004.

§68-2902.2. Intangible personal property tax exemption - Application - Affidavit.

Any person, firm, or corporation claiming the exemption provided in Section 6A of Article X of the Oklahoma Constitution, relating to property moving through the state in interstate commerce, shall file an application with the county assessor for each year for which the exemption is claimed. The application shall be on a form prescribed by the Oklahoma Tax Commission and shall be filed during the year in which the tax is due, on or before March 15 or within thirty (30) days from and after receipt by the taxpayer of a notice of valuation increase, whichever is later. Claims filed for previous years shall be declared null and void. Eligibility for the exemption shall be established by annually filing an affidavit with the county assessor stating that the property qualifies for exemption pursuant to the provisions of Section 6A of Article X of the Oklahoma Constitution, relating to property moving through the state in interstate commerce, and such other information as may be required by the county assessor.

Each application for such an exemption shall be examined by the county assessor in the same manner as applications for homestead exemptions are examined pursuant to Section 2893 of this title. Further, the applications shall be reviewed by the county board of equalization in the same manner as homestead exemption applications are reviewed pursuant to Section 2894 of this title and applicants shall have the same rights to review and appeal as provided in Section 2895 of this title.

Added by Laws 2000, c. 10, § 1, emerg. eff. March 29, 2000. Amended by Laws 2000, c. 314, § 24, eff. July 1, 2000; Laws 2002, c. 503, § 5, emerg. eff. June 7, 2002; Laws 2007, c. 346, § 5, eff. Jan. 1, 2008.

§68-2902.3. Qualified aircraft manufacturers – Reimbursement of certain ad valorem taxes paid – Application – Agreement – Aircraft Manufacturer Payment Fund – False or fraudulent application, claim, etc. - Penalties.

A. As used in this section:

1. “Qualified aircraft manufacturer” means a corporation:
   - a. primarily engaged in the manufacture or repair of aircraft components and replacement parts,
   - b. which is headquartered in this state and the primary facilities of which are located in this state,
   - c. which, as of July 1, 2005, has wages in this state totaling at least Eighty Million Dollars ($80,000,000.00) for the preceding twelve-month period, and
   - d. which experienced a decline in annualized wages as a result of the terrorist attacks on the United States on September 11, 2001, and as a result of such decline, had an application for a tax exemption pursuant to the provisions of Section 2902 of Title 68 of the Oklahoma Statutes denied or rejected by the Oklahoma Tax Commission or a county assessor for one (1) or more years beginning after such terrorist attacks and prior to July 1, 2005; and
2. “Tax Commission” or “Commission” means the Oklahoma Tax Commission.

B. A qualified aircraft manufacturer shall be eligible to enter into an agreement with the Tax Commission for a period not to exceed five (5) years. The agreement shall provide for the following:

1. For each year of the term of the agreement, the qualified aircraft manufacturer shall agree to:
   - a. maintain Oklahoma wages during the period of the agreement in an amount not less than one hundred percent (100%) of the manufacturer’s wages for the twelve (12) months preceding July 1, 2005,
   - b. maintain or increase its investment, based on original cost, in real and personal property in this state in an amount not less than one hundred percent (100%) of the manufacturer’s level of investment, based on original cost, as of July 1, 2005, and
   - c. meet all other qualifications specified in this section and provide documentation of such to the Tax Commission; and

2. The Tax Commission shall agree to make payments to the qualified aircraft manufacturer in the amount of ad valorem taxes actually paid by the manufacturer in any year following the terrorist attacks of September 11, 2001, but which would have been exempt from ad valorem taxes pursuant to the provisions of Section 2902 of Title 68 of the Oklahoma Statutes if the manufacturer had not experienced a decline in annualized wages as a result of such terrorist attacks. Payments to a manufacturer shall not exceed the amount of such taxes actually paid by the manufacturer prior to the date of the payment, nor shall payments to a single manufacturer exceed a total of Two Million Five Hundred Thousand Dollars ($2,500,000.00) over

the five-year period of the agreement or a total of Five Hundred Thousand Dollars ($500,000.00) in any single fiscal year. If such amount is insufficient to reimburse the manufacturer for ad valorem taxes actually paid by the manufacturer in any year following the terrorist attacks of September 11, 2001, but which would have been exempt from ad valorem taxes pursuant to the provisions of Section 2902 of Title 68 of the Oklahoma Statutes if the manufacturer had not experienced a decline in annualized wages as a result of such terrorist attacks, any amount not reimbursed shall carry forward and may be paid in a subsequent fiscal year subject to the limitations of this section; provided, in no event shall payments be made after the expiration of the agreement.

C. A qualified aircraft manufacturer shall make an initial application to the Tax Commission to enter into an agreement pursuant to the provisions of this section not later than September 1, 2005, and upon approval, shall submit a claim for payment annually thereafter for the remainder of the five-year period of the agreement on a date specified by the Tax Commission. Such application and claim shall be on a form prescribed by the Tax Commission and shall contain such information as may be necessary for the Tax Commission to determine if the qualifications and other requirements of this section have been met. The determination shall be made upon application of the manufacturer and annually thereafter as a condition of receiving a payment pursuant to the provisions of this section. Prior to approving a claim for payment, the Tax Commission shall verify the information contained in the claim and shall verify that all requirements of this section have been met as a condition of making the payment.

D. If the qualified aircraft manufacturer does not meet the terms of the agreement and all provisions of this section, payments shall cease and shall not be resumed, and the agreement shall expire and be void.

E. A qualified aircraft manufacturer that has qualified pursuant to this section may receive payments only in accordance with the provisions under which it initially applied and was approved.

F. As soon as practicable after verification of the eligibility of the qualified aircraft manufacturer as required by this section, the Tax Commission shall issue a warrant to the manufacturer.

G. There is hereby created within the State Treasury a special fund for the Tax Commission to be designated the “Aircraft Manufacturer Payment Fund”. The Tax Commission is hereby authorized and directed to withhold a portion of the taxes levied and collected pursuant to Sections 1354 and 2355 of Title 68 of the Oklahoma Statutes which would otherwise be apportioned to the General Revenue Fund for deposit into the fund. The amount deposited shall equal the sum of an amount required for making payments, as determined pursuant to the provisions of this section. All of the amounts deposited in such fund shall be used and expended by the Tax Commission solely for the purposes and in the amounts authorized by this section. The liability of the State of Oklahoma to make the investment payments under this section shall be limited to the balance contained in the fund created by this subsection.

H. The Tax Commission may promulgate rules necessary to implement its duties and responsibilities under the provisions of this section.

I. Any person making an application, claim for payment or any report, return, statement or other instrument or providing any other information pursuant to the provisions of this section who willfully makes a false or fraudulent application, claim, report, return, statement, invoice or other instrument or who willfully provides any false or fraudulent information, or any person who willfully aids or abets another in making such false or fraudulent application, claim, report, return, statement, invoice or other instrument or who willfully aids or abets another in providing any false or fraudulent information, upon conviction, shall be guilty of a felony punishable by the imposition of a fine not less than One Thousand Dollars ($1,000.00) and not more than Fifty Thousand Dollars ($50,000.00) or imprisonment in the State Penitentiary for not less than two (2) years and not more than five (5) years, or by both such fine and imprisonment. Any person convicted of a violation of this section shall be liable for the repayment of all investment payments which were paid to the manufacturer. Interest shall be due on such payments at the rate of ten percent (10%) per annum.
Added by Laws 2005, c. 461, § 1, eff. July 1, 2005.

§68-2902.5. Manufacturing facilities - Delay of exemption from ad valorem tax.

A. Notwithstanding any other provision of law, manufacturing facilities applying for the exemption under Section 2902 of Title 68 of the Oklahoma Statutes on or after November 1, 2017, shall be eligible to delay the five-year period of exemption from ad valorem taxes following the expiration or termination of the ad valorem exemption, abatement or other incentive provided through the tax incentive district established pursuant to the Local Development Act. For the purposes of this section, "exemption" shall mean the exemption authorized by Section 6B of Article X of the Oklahoma Constitution and Section 2902 of Title 68 of the Oklahoma Statutes.

B. In order to delay the exemption as provided in this section, a manufacturing facility shall:

1. Create at least one hundred new jobs at the state index wage provided for in paragraph 2 of subsection F of Section 3604 of Title 68 of the Oklahoma Statutes; and

2. Invest at least ten (10) times the investment cost in new depreciable property required in paragraph 1 of subsection B of Section 2902 of Title 68 of the Oklahoma Statutes.

C. The delay of the exemption shall not be available for any job creation or investment of new depreciable property that occurred prior to November 1, 2017, or the date of the creation of the tax incentive district, whichever is later.

D. In order to delay the exemption, a tax incentive district must be created pursuant to the Local Development Act and the governing body established by the Local Development Act must notify the Oklahoma Tax Commission and the Oklahoma Department of Commerce at the time of applying for the exemption.

E. Prior to the investment and job creation activities required pursuant to subsection B of this section commencing by the company or companies in the tax incentive district, the governing body of the tax incentive district shall notify the Oklahoma Department of Commerce in writing of the creation of the tax incentive district. The governing body of the tax incentive district shall provide to the Oklahoma Department of Commerce the following information:

1. Company (or companies) name and contact information;

2. Complete description of the economic development activity including projected new job creation, projected wages of the new jobs, and planned investment in new depreciable property; and

3. Any other information requested by the Oklahoma Department of Commerce.

The Oklahoma Department of Commerce, in conjunction with the Oklahoma Tax Commission, shall conduct a fiscal and economic impact of the proposed project. If the project has no adverse fiscal impact and a positive economic impact, the project will be referred to the Incentive Approval Committee created in subsection B of Section 3603 of Title 68 of the Oklahoma Statutes for review of the project. If the Incentive Approval Committee approves the project for delay of the exemption, the Oklahoma Department of Commerce shall prepare a contract between the Oklahoma Department of Commerce, on behalf of the State of Oklahoma, and the company or companies that will be awarded a delay of the exemption. Once the contract is executed by the parties, the contract will be forwarded to the Oklahoma Tax Commission. The Oklahoma Tax Commission shall be responsible for monitoring the terms and conditions of the contract between the Oklahoma Department of Commerce and the company or companies that have been awarded a delay of the exemption.

F. If the application for an exemption is approved, the five-year period of exemption from ad valorem taxes for any qualifying manufacturing facility shall begin on January 1 following the expiration or termination of the ad valorem exemption, abatement or other incentive provided through the tax incentive district.

G. This section shall not apply to electric power generation facilities. Electric power generation facilities shall not qualify to delay the exemption from ad valorem taxes following the expiration or termination of the ad valorem exemption, abatement or other incentive provided through the tax incentive district pursuant to the Local Development Act.

Added by Laws 2017, c. 334, § 1, eff. Nov. 1, 2017.

Appendix B: Comparable State Programs

	Oklahoma	Alabama	Kansas	Louisiana	Mississippi	South Carolina	Texas
Incentive Type	Exemption	Exemption	Exemption	80% Exemption	Exemption	Exemption of 20% to 50%	Limitation on Taxable Value
Applies to	Property Tax	Property Tax (non-educational)	Property Tax	Property Tax	Property Tax (excluding school district taxes)	Property Tax, excluding school taxes	Property Tax (School District M&O)
Cap	None	None	None	None	None	None	None
Capital Investment	$250,000 minimum; $5 million minimum for distribution facilities; $7 million minimum for certain data processing facilities	At least $100 million for alternative energy projects ($5 million for hydropower); Expansions must cost at least 30% of the original facility or $2 million	No state standard	None	None	$50,000 minimum	$1 million to $100 million depending on school district
Duration	5 years	Up to 20 years, or up to 30 years for data processing centers. For data centers:10 years for facilities with capital investment up to $200 million within 10 years; 20 years for facilities with capital investment between $200 million and $400 million within 10 years; 30 years for facilities that invest $200 million within 10 years and more than $400 million within 20 years	10 years	Initial 5-year period may be extended to 10 years	10 years	5 years	10 years
Payroll Requirement	Net payroll increase of $250,000 in counties with population under 75,000; Increase of $1,000,000 required in counties with population over 75,000	None	No state standard	None	None	None	Varies based on school district
Job Creation Requirement	Distribution facilities must employ at least 100 FTEs	At least 20 new jobs for Data Processing facilities; 50 new jobs for headquarters facilities	No state standard	None	None	At least 75 new jobs	Varies based on school district
Wage Requirement	Distribution facilities must pay wages at least 175% of federal minimum wage	At least $40,000 per year for data processing facilities	No state standard	None	None	None	Varies based on school district

Appendix C: IMPLAN Economic Impact Methodology

The economic impact methodology utilized to determine the multiplier effects is IMPLAN (IMpact Analysis for PLANning).

IMPLAN's Social Accounting Matrices (SAMs) capture the actual dollar amounts of all business transactions taking place in a regional economy as reported each year by businesses and governmental agencies. SAM accounts are a better measure of economic flow than traditional input-output accounts because they include "non-market" transactions. Examples of these transactions would be taxes and unemployment benefits.

Economic Indicators

Employment

Employment data in IMPLAN follows the same definition as Bureau of Economic Analysis Regional Economic Accounts (BEA REA) and Bureau of Labor Statistics Census of Employment and Wages (BLS CEW) data, which is full-time/part-time annual average. Thus, 1 job lasting 12 months = 2 jobs lasting 6 months each = 3 jobs lasting 4 months each. A job can be either full-time or part-time. Similarly, a job that lasts one quarter of the year would be 0.25 jobs. Note that a person can hold more than one job, so the job count is not necessarily the same as the count of employed persons.

Labor Income

Labor Income represents the total value of all forms of employment income paid throughout a defined economy during a specified period of time. It reflects the combined cost of total payroll paid to employees (e.g. wages and salaries, benefits, payroll taxes) and payments received by self-employed individuals and/or unincorporated business owners (e.g. capital consumption allowance) across the defined economy. Labor Income (LI) encompasses two additional representative metrics called Proprietor Income (PI) and Employee Compensation (EC).

Value Added

Value Added represents the difference between *Output* and the cost of *Intermediate Inputs* throughout a defined economy during a specified period of time. It equals gross Output minus Intermediate Inputs (consumption of goods and services purchased from other industries or imported). Value Added is a measure of the contribution to GDP made by an individual producer, Industry, or Sector.

Output

All analysis in IMPLAN is based on Output, which is the value of production by industry in a calendar year. IMPLAN Output data largely come from the same sources as those used by the BEA in developing their Benchmark Input-Output tables. Since output is the total production value of a Sector, it includes all components of production value or output for a given Sector: Output = Employee Compensation + Proprietor Income + Intermediate Expenditures + Tax on Production and Imports + Other Property Income.

Economic Effects

Input-Output (I-O) Analysis and IMPLAN (SAM) is designed to predict the ripple effect of an economic activity by using data about previous spending. Production in a given Sector in an economy supports demand for production in Sectors throughout the economy, both due to supply chain spending and spending by workers.

Direct Effect
A Direct effect is the initial exogenous change in final demand in terms of Industry Output, Employment, and Labor Income Dollars. When consumers purchase goods and services, they create final demand to the Industries producing the goods and services they consume. When you analyze final demand in IMPLAN, we call this a Direct Effect.

Indirect Effect
Indirect effects are the business to business purchases in the supply chain taking place in the region that stem from the initial industry input purchases. As the Industry specified in an Event spends their money in the region with their suppliers, this spending is shown through the Indirect Effect.

Induced Effect
The Induced Effects stem from income being spent throughout the Selected Region. Typically, the income being analyzed are the wages of employees working in the Direct/Indirect Industries.

Appendix D: State of Oklahoma Tax Collection / Gross State Product

Year	Oklahoma GSP	Oklahoma Tax Revenue	Ratio
2005-06	$136,363,200,000	$8,435,214,025	6.2%
2006-07	$143,042,900,000	$8,685,842,682	6.1%
2007-08	$163,616,400,000	$9,008,981,280	5.5%
2008-09	$144,015,000,000	$8,783,165,581	6.1%
2009-10	$152,043,000,000	$7,774,910,000	5.1%
2010-11	$164,150,600,000	$8,367,871,162	5.1%
2011-12	$172,865,600,000	$8,998,362,975	5.2%
2012-13	$180,665,000,000	$9,175,334,979	5.1%
2013-14	$195,249,800,000	$9,550,183,790	4.9%
2014-15	$185,986,800,000	$9,778,654,182	5.3%
2015-16	$179,023,400,000	$8,963,894,053	5.0%
2016-17	$187,677,500,000	$8,789,362,844	4.7%
2017-18	$201,870,700,000	$9,837,247,035	4.9%
2018-19	$206,139,300,000	$11,091,161,884	5.4%
Average	**$172,336,371,429**	**$9,088,584,748**	**5.3%**

Sources: U.S. Bureau of Economic Analysis Regional Economic Accounts; OTC Annual Reports