State of Oklahoma
Incentive Evaluation Commission
Quality Jobs Program Evaluation

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Contents

Executive Summary

Overview

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

The goal of the program, according to State statute, is to focus incentives on establishments in basic industries with potential for "significant development of the economy of the State of Oklahoma." It offers qualifying companies quarterly cash rebates for up to 5 percent of newly created taxable payroll for up to 10 years. In order to qualify, a company must operate in an eligible industry and meet requirements related to the amount of payroll associated with new jobs created, health insurance coverage, and wages.

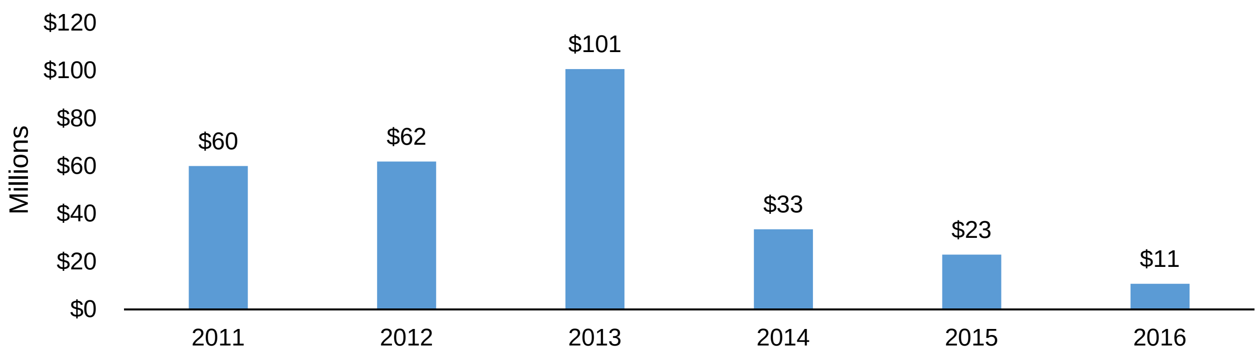
Primary Recommendation: Retain, with modifications

The Quality Jobs program has incented thousands of jobs in various industries since its first payment was issued in 1994. In recent history, the program has performed well in terms of economic impact and appears to be a net benefit to the State. However, there are aspects of the program that may be improved to enhance its performance and better meet the State's goals.

Key Findings

- **The program is a net benefit to the State in terms of economic impact.** If each company that entered the program in 2011 qualified for full payments that year, the economic activity generated by those companies would have an economic impact, net of incentive costs, of over $60 million.[2] In each year since 2011, the same calculation is consistently positive.

Figure 1: Estimated Net Fiscal Impact of Contracts Issued Each Year, 2011 to 2016[3]



- **Cost controls associated with the administrative process have been effective.** Over the life of the program, the administrative process and the statutory requirements involved in it have saved the State billions of dollars.

[1] National Conference of State Legislatures, "Job Creation Tax Credits – 50 State Table", 2013
[2] This analysis assumes jobs would not be created if not for the incentive
[3] This represents the annual tax revenue as a result of economic activity generated by the incentive, net of incentive costs. This analysis assumes each company offered a contract qualifies for payments in each quarter of the year

- **The cost per job over the life of the program is approximately $13,000.** According to Oklahoma Tax Commission (OTC) data, companies received incentive payments for 86,711 qualifying jobs from 1994 to June 2017.[4] Payments made over the same period total $1,140 million. However, it should be noted that this job count represents the total number of jobs reported by a company on its last payment claim. It is unclear for how long the jobs were maintained before or after the final incentive payment.

- **Industries incentivized by Quality Jobs have shown slower growth in employment and annual average pay over the last five years, compared to the State as a whole.** Employment in incentivized industries contracted by 2.9 percent, while the State as a whole expanded by 2.5 percent.

- **Most payments over the last five years have gone to industries lagging behind State growth in employment and annual average pay.** A total of 27 percent of payments were made to establishments in industries with growth in employment, total wages, and average annual wage exceed the growth of the State as a whole in those categories.

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

The program can be improved by:

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

- **Establishing a schedule for regular review of eligible industries.** Over the last five years, industries that have received Quality Jobs payments have been growing at a slower rate than the State as a whole in terms of employment and average annual pay. This may indicate a need to realign the list of qualifying industries with the State's intent of incentivizing establishments in industries with the potential to bring significant development to the economy. Establishing a regular review of eligible industries as well as clear criteria for an industry to qualify for the program may help in achieving the State's goal. Keeping in mind that the establishments that qualify today may receive payments for the next 10 years, it is important that the State focuses on the industries it sees as playing a part in future development.

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

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

[4] Job count represents the total of the jobs reported during the last quarter a company received a payment

Key Findings and Recommendations

Key Findings

The Quality Jobs program has incented thousands of jobs in various industries since its first payment was issued in 1994. In recent history, the program has performed well in terms of economic impact and appears to be a net benefit to the State. However, there are aspects of the program that may be improved to enhance its performance and better meet the State's goals.

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

- **The program is a net benefit to the State.** If each company that entered the program in 2011 qualified for full payments that year, the economic activity generated by those companies would have an economic impact, net of incentive costs, of over $60 million. [5] In each year since 2011, the same calculation is consistently positive.

- **The cost per job over the life of the program is approximately $13,000.** According to OTC data, 86,711 qualifying jobs have been created by companies that received a payment from 1994 to June 2017. [6] Payments made over the same period total $1,140 million. However, it should be noted that this job count represents the total number of jobs reported by a company on its last payment claim. It is unclear for how long the jobs were maintained before or after the final incentive payment.

- **Industries incentivized by Quality Jobs have shown slower growth over the last five years, compared to the State as a whole.** One of the established criteria for evaluating the Quality Jobs program is payroll and job growth associated with the incentive.

  Examining qualifying industry performance can be helpful for evaluating this. This is a relevant criteria not only because the incentive is focused on quality job creation, but also because it has a stated goal of incentivizing industries with the potential to bring significant growth to the State economy.

  Between 2012 and 2016, over $361 million was paid to participating companies across 33 different three-digit NAICS codes. The following table shows a comparison of the growth rates of the incentivized industry group and overall State and national employment, average annual pay, and total wages growth rates.

  Table 1: Growth of Industries Receiving Quality Jobs Payments 2012 to 2016

	Incentivized Industries	OK Total	US Total
Employment	-2.9%	2.5%	5.7%
Average Annual Pay	6.0%	7.2%	8.9%
Total Wages	7.1%	5.0%	15.7%

  Source: BLS Quarterly Census of Employment and Wages

  Although incentivized industries have grown at a faster rate than the State as a whole (in terms of total wages), they have grown at slower rates compared to the State in employment and average annual pay. In the case of employment, incentivized industries actually contracted by 2.9 percent, while the State as a whole expanded by 2.5 percent.

- **Most payments over the last five years have been to industries lagging overall State growth.** To determine how successful the program has been in incenting growth industries, it is important to evaluate how much is being paid to growing and declining industries. The following chart shows the

[5] This analysis assumes jobs would not be created if not for the incentive
[6] Job count represents the total of the jobs reported during the last quarter a company received a payment

breakdown of how payments are distributed among industries outperforming State trends and those that are lagging behind. An industry is deemed “outperforming” by experiencing growth in employment, total wages, and average annual wage, which exceed the growth of the State as a whole.

Table 2: Payments by Industry Performance Relative to the Overall State Growth, 2012 to 2016

	Total Payments	Percent of Total
Underperforming Industries	$262,918,019	73%
Outperforming Industries	$98,607,317	27%

Source: Oklahoma Tax Commission and BLS Quarterly Census of Employment and Wages

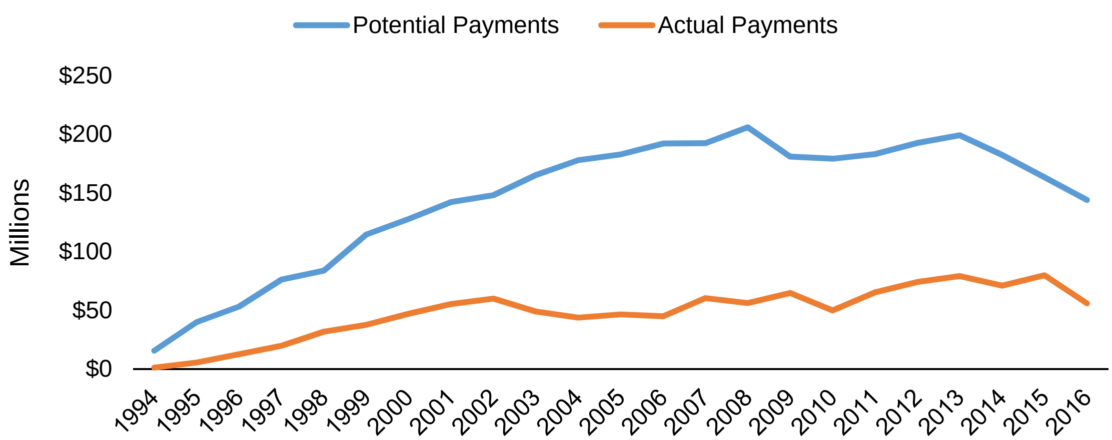
Although the intent of the program is to incentivize industries with the potential for growth in Oklahoma, 73 percent of payments over the last five years have gone to industries that are underperforming relative to State growth overall.

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

  After contract parameters are set by the Department, the OTC further controls costs to the State by verifying that each establishment filing for quarterly payments is meeting program criteria and that payments are only made to qualifying establishments. The State is also protected by controls written in statute, such as the requirement that $2.5 million payroll threshold is met for 4 consecutive quarters within the first 12 quarters of program participation. If this threshold is not met, the establishment is removed from the program.

  The impact of these cost controls is demonstrated in the following chart, which shows potential payments based on cumulative maximum contract amounts spread evenly over a 10-year period versus the actual payments made each year.

Figure 2: Total Quality Jobs Program Payments, 1994-2016



Source: Oklahoma Department of Commerce and Tax Commission Data

A comparison of Department records on contracts issued and OTC data recording all program payments revealed about 17 percent of companies that enter into a Quality Jobs program contract never receive a payment. There are several reasons for this, including companies not meeting payroll requirements, or failing to file claims for payment with the OTC. Even companies that stay in the program for a full 10-year term may contribute to the difference between potential and actual payments due to lower than expected job creation or payroll growth. The OTC has recorded reasons for companies ending program participation. The primary reasons are shown in the following table.

Table 3: Reasons for Ending Program Participation

Reason	Number of Contracts
Did Not Meet Statutory Requirement	208
Voluntarily Withdrew	181
Reached Statutory Limit	116
Other	32
Total	**537**

Source: Oklahoma Tax Commission

Overall, 60 percent of the recorded reasons for ending program participation are related to statutory limits or requirements. This number highlights the importance and effectiveness of administrative process in protecting the State from making excessive payments to companies who enter the program.

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

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

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

Overall Recommendation: Retain the Quality Jobs Program

The project team recommends retaining the Quality Jobs program, but suggests reviewing the following areas where the program can be improved.

Recommendation 1: Require filing for incentive payments each quarter. When the program was created, companies were not required to file quarterly claims. Over time, some requirements were put in place. For example, in 2001 changes were made requiring companies to make an initial claim for payment within the first three years of enrollment. An additional restriction was put in statute in 2012 that provided for a company to be dismissed from the program if it has made one claim for payment but has since failed to file a claim in the next two years. Even with these added restrictions, a company can file for multiple quarterly payments at once.

This creates two disadvantages for the Quality Jobs Program. First, the lack of a quarterly filing requirement creates irregular payment schedules that create a challenge in predicting State liabilities associated with the program. The inability to forecast incentive payments due to irregular payment schedules is a significant budget risk for state incentive programs.[7] Second, allowing participants to defer payments earned in one quarter to a later date diminishes the impact of the payment. New and expanding businesses generally apply a significant discount rate to future cash flows.[8] Given that payments are significantly more valuable to them the faster they are received, it is unclear why companies would choose to defer these payments to a later date. Interviews with both the OTC and representatives of the State Chamber of Commerce suggest the process of filing for payment is not overly burdensome for participating companies. However, it is clear that the value of these payments for both participating companies and the State is highest when received as soon as possible. Adding a requirement that companies file quarterly claims for payment may improve both the predictability of costs to the state, and the efficacy of the program.

Recommendation 2: Regularly review eligible industries. Over the last five years, industries that have received Quality Jobs payments have been growing at a slower rate than the State as a whole in terms of employment and average annual pay. This may indicate a need to realign the list of qualifying industries with the State's intent of incentivizing establishments in industries with the potential to bring significant development to the economy. Establishing a regular review of eligible industries as well as clear criteria for an industry to qualify for the program may help in achieving the State's goal. Keeping in mind that the establishments that qualify today may receive payments for the next 10 years, it is important that the State focuses on the industries it sees as playing a part in future development.

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

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

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

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

Introduction

Overview

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

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

Introduction

State incentives focused on job creation are common across the United States. During and following the Great Recession, these programs increased in use as ways to help start and sustain economic recovery. A list compiled by the National Conference of State Legislatures in 2013 showed 40 states with some form of job creation incentive program.[9]

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

Labor costs in general can be a critical factor in location decisions. A 2016 survey of corporate executives conducted by Area Development found that labor cost is the third most important factor in location decisions, trailing only highway accessibility and availability of skilled labor.[10] This supports the approach of concentrating incentives on reducing the cost of employment to promote economic growth.

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

Incentive Characteristics

Oklahoma's Quality Jobs Program was created in 1993. It offers qualifying companies quarterly cash rebates for up to 5 percent of newly created taxable payroll for up to 10 years. In order to qualify for the rebates, a company must operate in an eligible industry and meet requirements related to the amount of payroll associated with new jobs created, health insurance coverage, and wages.

Evaluation Criteria

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

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

“provide appropriate incentives to support establishments of basic industries that hold the promise of significant development of the economy of the State of Oklahoma”

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

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

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

Administration and Use of the Incentive

Program Administration

The Quality Jobs Program is jointly administered by the Oklahoma Department of Commerce (Department) and the Oklahoma Tax Commission (OTC). Eligibility guidelines and administrative responsibilities are set forth in State statutes and administrative rules.[11] The essential components of program administration are summarized below.

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

    - Must operate in a basic industry as defined in statute;
    - Must provide a plan to reach $2.5 million in new payroll within the next three years;[12]
    - The average wage of newly created jobs must be greater than or equal to the average wage of the county where the establishment is located;[13]
    - Must provide health care benefits to new employees which requires employees to pay no more than 50 percent of premiums.[14]

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

    The **net benefit rate** is a percentage representing the amount of benefit the State expects to receive in excess of projected costs. It is calculated as the projected tax revenue to be received as a result of the new jobs less the projected costs to the State associated with those jobs, including the cost of education, public safety, and transportation. This rate is capped at 5 percent, with some exceptions:

    - Firms with certain Department of Defense contracts may receive up to 6 percent;
    - Firms with veterans accounting for at least 10 percent of gross payroll may receive between 5 and 6 percent;
    - Firms already receiving Quality Jobs payments for one year and expanding operations with new jobs paying at least 150 percent of the average wage of incentivized jobs at the firm the previous year;
    - A net benefit rate of 5 percent is guaranteed for firms locating in:
        - An opportunity zone within a high-employment county;
        - A county where the per capita personal income is 85 percent or less of the State average;
        - A county where the population has decreased over the previous 10 years;
        - A county where the unemployment rate exceeds the lesser of 5 percent or two percentage points above the State average.

[11] Administrative rules for the Department of Commerce are contained in Title 150, Chapter 65. Tax Commission administrative rules are contained in Title 710, Chapter 85
[12] This threshold is $1.5 million for certain food processing, research and development projects or firms that locate on certain former military bases. Payroll threshold is zero for businesses locating within 10 acres of a Superfund site or a location on the National Priorities List, or being remediated by the Oklahoma Department of Environmental Quality
[13] This requirement must be met in all quarters of participation, regardless of payroll
[14] Establishments must provide such coverage within 180 days of employment

Quarterly benefit payments are calculated as the net benefit rate multiplied by the quarterly payroll of newly created jobs. The maximum benefit amount is the net benefit to the State as a dollar amount rather than a percentage. The sum of quarterly payments made to the project may not exceed this dollar amount.

If the Department recommends a contract offer, the Office of the General Counsel prepares a contract to be reviewed by the Director of the Department and issued to the eligible establishment.[15] The contract details the net benefit rate, maximum benefit amount, project start date, initial employment, employment projections, and average annual wage levels needed to qualify for quarterly payments.

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

3. **Reporting.** The OTC maintains records of payments made by year to each participating company. The Department separately maintains records of each company that has entered the program. The Department also issues monthly press releases listing all new enrollees, including benefit rates and the maximum benefit amounts for each.

Changes Over Time

Since the program was created in 1993, several changes have been made regarding qualifying industries and the administration of the program. A timeline of industry additions and significant administrative changes is shown in the following table.

Table 4: Quality Jobs Program Changes Over Time

Year	Industries Added	Administrative Change
1996	Adjustment and Collection firms; Electrical generation.	None.
1997	Communication Services; Refuse Systems (generating methane gas).	None.
2001	None.	Participants required to file initial claim for payment within 3 years of project start date.
2003	Oil & Gas Extraction (field jobs excluded).	Average wage requirement introduced
2005	None.	Allows currently participating companies to qualify for a second contract with up to 6 percent net benefit rate if certain requirements are met and new jobs pay 150 percent of the average wage of incentivized jobs in the previous year.
2006	Web Portals; Professional, Scientific, Technical Services; Dairy Cattle & Milk Production Chicken Egg Production	Change in Control qualification introduced. Allows existing companies in the state that have fully changed ownership and are at risk of leaving the state to qualify for the program, counting existing employees as qualifying for benefits.

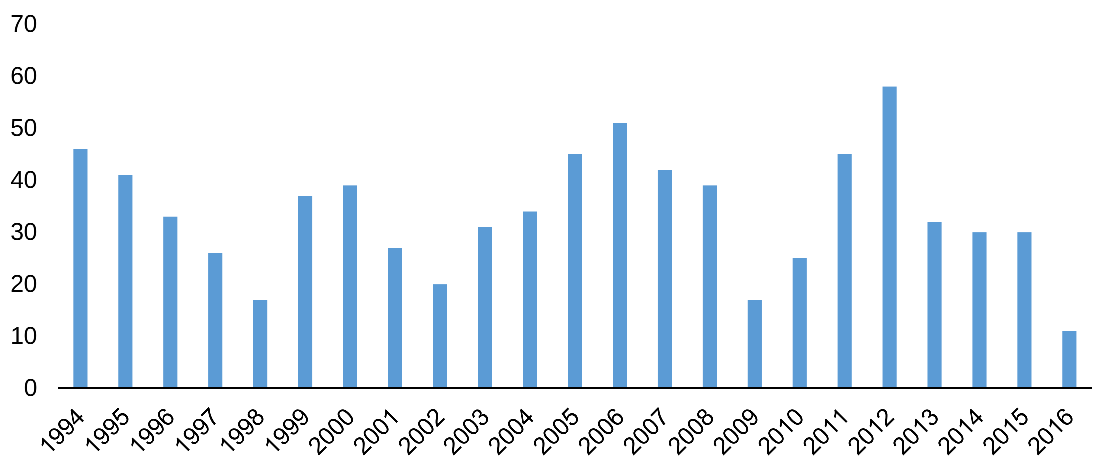
[15] Establishments may also be required to receive additional approval by the Incentive Approval Committee. This committee includes representatives from the Department of Commerce, the Tax Commission, and the Office of State Finance.

Year	Industries Added	Administrative Change
2008	Sports Teams & Clubs; Other Support Activities for Air Transport; Professional Organizations; Offices of Real Estate Agents/Brokers.	Duration of benefits extended to 15 years for Sports Teams & Clubs. Net benefit rate allowed to exceed 5 percent for Sports Teams & Clubs, but may not exceed the personal income tax rate.
2009	Wind Power Equipment Maintenance/Repair.	None.
2010	Construction of Renewable Energy Structures; Installation of Solar Reflective Coating; Solar Heating Equipment Installation; Support Activities for Rail Transport; Support Activities for Barge Transport.	None.
2012	Drilling Oil & Gas Wells.	Company dismissed if it files at least one claim but fails to file again within the next two years.
2013	Rail Transportation; Wired Telecommunications; Securities, Commodities, Investments; Support Activities for Oil & Gas; Pipeline Transportation;	Any participant that ends operations in the state within 3 years of first claim must repay all benefits received. Any establishment that does not ramp up to the required payroll threshold and is dismissed may not reapply to the program for a minimum of 12 months from the last day of the month in which they were dismissed.
2015	Chicken Egg Production.	None.

Use of the Incentive

The program's fiscal impact is driven by contracts issued to companies. As the following figure shows, participation in the program (in terms of new contracts awarded) has fluctuated over time. The highest number of contracts issued in any year was 58 in 2012, but the number of annual contracts in the following years have been lower. In 2016, 11 were issued.

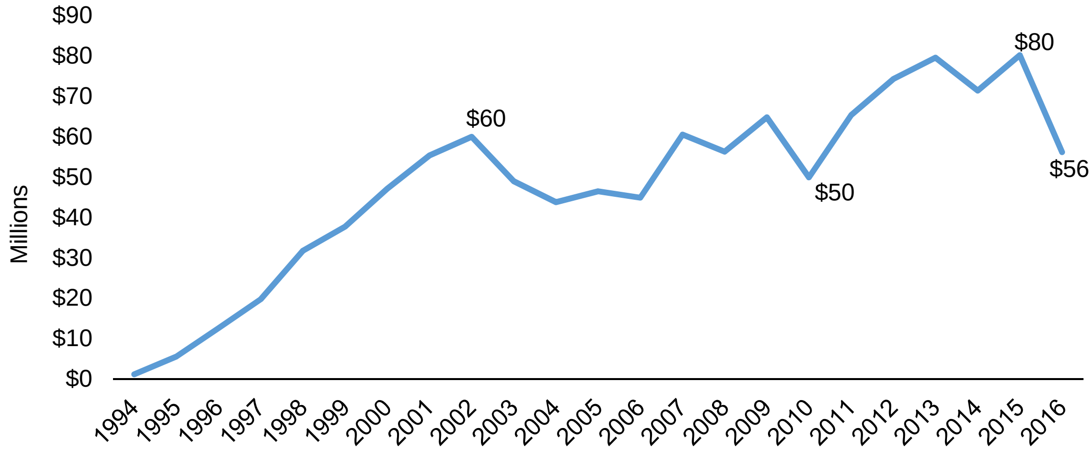
Figure 3: Quality Jobs Contracts, 1994 to 2016



Source: Oklahoma Department of Commerce

The following figure shows how State program payments have grown over time. Payments grew rapidly from a low point of $50 million in 2010 to its peak of $80 million in 2015. This was followed by the largest year-over-year decline in program payments in 2016, when payments fell by $56 million.

Figure 4: Quality Jobs Program Payments, 1994 to 2016



Source: Oklahoma Tax Commission

The greatest concentration of program payments are to companies located in the State's two largest population centers. More than half of the contracts have been awarded to establishments in the cities of Oklahoma City and Tulsa. The following table lists the most common locations of Quality Jobs establishments through the history of the program. For comparison purposes, Broken Arrow is part of the Tulsa Metropolitan Statistical Area (MSA) and Norman is part of the Oklahoma City MSA.

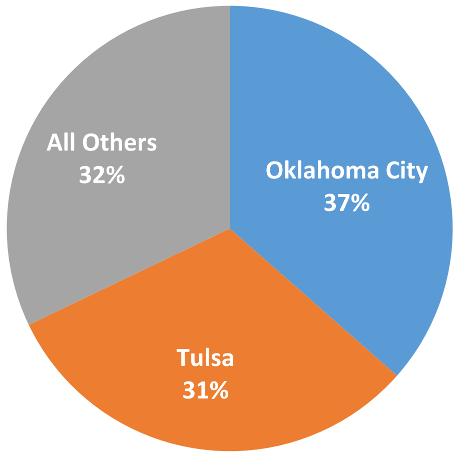
Table 5: Location of Quality Jobs Contracts, 1994 to 2017

City	Contracts	Percent of Total
Tulsa	257	32.8%
Oklahoma City	195	24.9%
Broken Arrow	22	2.8%
Norman	21	2.7%
Ponca City	16	2.0%

Source: Oklahoma Department of Commerce

The following pie chart shows that Oklahoma City and Tulsa companies make up more than two-thirds of the combined program payments.

Figure 5: Total Quality Jobs Program Payments by City



Source: Oklahoma Tax Commission

Manufacturing industries are the most common Quality Jobs contract recipients, with a total of 428 since 1994. This is also where the most jobs associated with program payments have been created.[16]

Table 6: Industries Receiving Quality Jobs Contracts, 1994 to 2017

2-Digit NAICS	Description	Contracts	Total Contract Amounts	Jobs Created	Percent of Total Jobs
31-33	**Manufacturing**	428	$1,568,238,438	40,510	46.7%
56	**Administrative and Support and Waste Management and Remediation Services**	103	$832,066,421	21,200	24.4%
21	**Mining, Quarrying, and Oil and Gas Extraction**	51	$357,703,751	5,327	6.1%
51	**Information**	33	$259,996,948	4,995	5.8%
55	**Management of Companies and Enterprises**	21	$211,258,507	2,699	3.1%
42	**Wholesale Trade**	25	$95,920,342	2,696	3.1%
48 to 49	**Transportation and Warehousing**	25	$89,407,439	2,171	2.5%
53	**Real Estate and Rental and Leasing**	4	$6,668,770	1,651	1.9%
52	**Finance and Insurance**	11	$39,198,176	882	1.0%
71	**Arts, Entertainment, and Recreation**	2	$98,655,921	248	0.3%
62	**Health Care and Social Assistance**	2	$3,826,574	91	0.1%
61	**Educational Services**	2	$10,037,089	40	0.0%
81	**Other Services (except Public Administration)**	1	$4,043,412	0	0.0%
	Total	**790**	**$3,901,644,100**	**86,711**	

Source: Oklahoma Department of Commerce

[16] Job count represents the total of the jobs reported during the last quarter a company received a payment

Fiscal and Economic Impact

Economic Impact Methodology

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

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

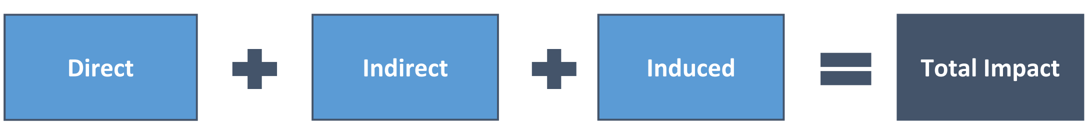
Direct effects are production changes associated with the immediate effects or final demand changes. The payment made by an out-of-town visitor to a hotel operator or the taxi fare paid for transportation while in town are examples of direct effects.

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

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

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

Figure 6: The Flow of Economic Impacts



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

State of Oklahoma Tax Revenue Estimate Methodology

To provide an "order of magnitude" estimate for state tax revenue attributable to the incentive being evaluated, the project team focused on the ratio of state government tax collections to Oklahoma Gross Domestic Product (GDP).[17] Two datasets were used to derive the ratio: 1) US Department of Commerce Bureau of Economic

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

Analysis GDP estimates by state;[18] and 2) the OTC's Annual Report of the Oklahoma Tax Commission.[19] Over the past 10 years, the state tax revenue as a percent of state GDP was 5.4 percent.

Table 7: State of Oklahoma Tax Revenue as a Percent of State GDP

Year	Oklahoma Tax Revenue[20]	Oklahoma GDP	Ratio
2006-07	$8,685,842,682	$144,171,000,000	6.0%
2007-08	$9,008,981,280	$155,015,000,000	5.8%
2008-09	$8,783,165,581	$143,380,000,000	6.1%
2009-10	$7,774,910,000	$151,318,000,000	5.1%
2010-11	$8,367,871,162	$165,278,000,000	5.1%
2011-12	$8,998,362,975	$173,911,000,000	5.2%
2012-13	$9,175,334,979	$182,447,000,000	5.0%
2013-14	$9,550,183,790	$190,171,000,000	5.0%
2014-15	$9,778,654,182	$180,425,000,000	5.4%
2015-16	$8,963,894,053	$182,937,000,000	4.9%
Average	**$8,908,720,068**	**$166,905,300,000**	**5.4%**

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

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

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

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

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

Economic Impact

The Quality Jobs program provides qualifying companies quarterly cash rebates of up to 5 percent for newly created taxable payroll for up to 10 years. Each company goes through a formal application with the Department in which payroll and employment thresholds are established. In addition, the Department uses an in-house methodology and model to deduct some of the expenses incurred by the State for employees who will likely move to Oklahoma to work at these companies. The net effect of this calculation is to reduce the incentive amount offered. This approach is a best practice used in many states to help ensure a positive return on investment, while creating an incentive program that achieves its goals of jobs creation and higher wages. For this program, there is a clear and transparent linkage between new payroll and jobs creation and the incentive amount offered.

To evaluate the economic impact of the incentive program, firms were grouped based on when they entered the program. For example, all firms that entered in 2013 were grouped together. From a state perspective, the economic impact of the program is the aggregate impact of these cohort firms over 10 years. However, data limitations and firms dropping out of the program at various stages hamper this type of analysis. To provide an order of magnitude impact, the project team estimated the annual economic impact of firms based on the project year cohort. The calculations were made using information related to the 3-year employment target, total project new jobs, benefit rate, incentive contract amount, and NAICS code. The IMPLAN model was used to calculate each firm's program impact.

The following tables provide the average annual economic and tax impact of each cohort. For example, the 2013 table data illustrates the estimated annual economic and tax impact of all firms that entered the program in 2013. This annual impact would occur for ten years assuming no firms drop out of the program.

This approach is also appropriate when evaluating the average annual cost of the incentive program. From the State's perspective, the goal is for all applicant companies to remain eligible and create new jobs and payroll. If this occurs, the aggregate incentive contract amount for each cohort is the maximum "cost" to the State. If this occurs, one should compare the aggregate or average annual cash rebate amount against the new tax revenue generated by the firms over 10 years or the average annual new tax revenue.

Table 8: Economic Impact

Year		Output	Value Added	Labor Income	Employment	Estimated Oklahoma Tax Revenue
2011	Direct Effect	$2,276,453,110	$773,851,125	$531,674,184	7,183	
	Indirect Effect	$767,502,515	$401,066,362	$253,397,743	4,890	
	Induced Effect	$604,219,288	$331,004,630	$187,194,568	4,805	
	Total Effect	$3,648,174,913	$1,505,922,117	$972,266,495	16,878	$78,307,950
2012	Direct Effect	$2,523,907,355	$701,660,670	$470,795,652	5,885	
	Indirect Effect	$893,970,852	$506,092,689	$337,677,929	4,944	
	Induced Effect	$616,353,103	$337,899,625	$191,036,414	4,817	
	Total Effect	$4,034,231,310	$1,545,652,984	$999,509,995	15,646	$77,282,649
2013	Direct Effect	$2,792,945,809	$1,459,005,167	$1,111,995,154	7,099	
	Indirect Effect	$752,167,296	$426,719,141	$297,107,248	4,506	
	Induced Effect	$1,069,600,444	$585,035,064	$330,530,773	8,208	
	Total Effect	$4,614,713,549	$2,470,759,372	$1,739,633,175	19,813	$124,255,509

Year		Output	Value Added	Labor Income	Employment	Estimated Oklahoma Tax Revenue
2014	Direct Effect	$1,010,202,769	$467,438,325	$349,365,986	4,088	
	Indirect Effect	$336,059,662	$173,883,367	$114,021,412	2,170	
	Induced Effect	$355,695,364	$194,064,172	$109,736,909	2,674	
	Total Effect	$1,701,957,795	$835,385,864	$573,124,307	8,932	$45,110,837
2015	Direct Effect	$1,127,654,903	$324,712,287	$252,335,171	4,121	
	Indirect Effect	$372,948,661	$190,999,601	$118,245,201	2,105	
	Induced Effect	$292,178,528	$160,111,658	$90,609,813	2,183	
	Total Effect	$1,792,782,092	$675,823,546	$461,190,185	8,410	$33,115,354
2016	Direct Effect	$356,771,987	$167,638,124	$76,760,973	1,327	
	Indirect Effect	$120,422,498	$63,648,661	$38,738,336	746	
	Induced Effect	$88,828,974	$48,699,032	$27,556,758	660	
	Total Effect	$566,023,459	$279,985,817	$143,056,067	2,732	$13,719,305

As the preceding table shows, the Quality Jobs Program results in increased economic activity in multiple industry sectors. The level of economic activity varies each year and is directly linked to the industry sector of the applicant firm as well as net new employment and wages. Multiplying the total value added figure produced by the IMPLAN model by the corresponding annual tax ratio provides an estimate for total annual State tax revenue. Over the past 5 years, the Quality Jobs Program (direct + indirect + induced economic effects) has committed about $822.0 million in total state incentives. Over this same period, the state should collect $3.7 billion in state tax revenue assuming all companies reach their employment and payroll targets.

Table 9: Estimated Annual Net Impact of Each Cohort

Year	Average Annual Incentive	Estimated State of OK Tax Revenue	Net Impact	Return (%)
2011	$18,291,399	$78,307,950	$60,016,551	76.6%
2012	$15,402,084	$77,282,649	$61,880,565	80.1%
2013	$23,648,067	$124,255,509	$100,607,443	81.0%
2014	$11,620,205	$45,110,837	$33,490,632	74.2%
2015	$10,218,226	$33,115,354	$22,897,128	69.1%
2016	$3,028,889	$13,719,305	$10,690,416	77.9%

Based on the economic and fiscal impact analysis, it appears the tax revenue generated exceeds the annual incentives offered under this program. As a result, it is the project team’s conclusion that the ROI for the Quality Jobs program is positive.

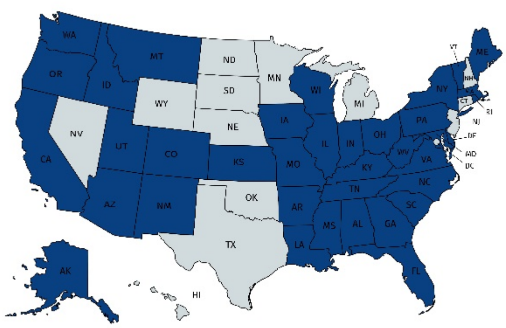
Incentive Benchmarking

Benchmarking

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

For evaluation purposes, benchmarking provides information related to how peer states use and evaluate similar incentives. At the outset, it should be understood that no states are ‘perfect peers’ – there will be multiple differences in economic, demographic and political factors that will have to be considered in any analysis; likewise, it is rare for any two state incentive programs to be exactly the same.[21] 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.

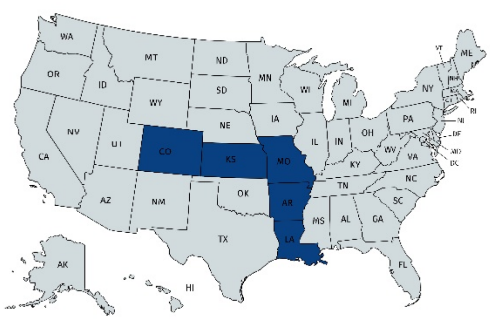
Figure 7: Other States Offering Job Creation Incentives



For many states, job creation programs are seen as a key tool for economic development. A review of other state incentive offerings showed 38 states have incentives related to job creation. The prevalence of similar kinds of incentives suggests a high level of competition among state programs.

Approaches to incenting job creation vary among the states. The most common approach is to offer tax credits in return for jobs created, but many states use Oklahoma’s method of offering cash rebates instead of tax credits. Within these common incentive types, variation is found in the duration of the incentive benefit, and in points of emphasis like capital investment and employee benefits.

Figure 8: States Chosen for Comparison



Although job creation incentives are found in most states across the country, the comparison group for Oklahoma’s Quality Jobs Program starts with neighboring states. This is a typical starting point, as states often compete with nearby states for the same opportunities. Neighboring states also typically share similar economic and demographic characteristics that lend themselves to comparison. Four bordering states have a similar job creation incentive program. In addition to bordering states, Louisiana was included based on its proximity to Oklahoma. Louisiana is also of interest because its program, titled “Quality Jobs,” shares similar features with Oklahoma’s.

In general, the distinguishing characteristics of these programs fall into three categories: qualification requirements, benefit types, and benefit terms.

Qualification Requirements: Four of the total of five comparison states feature a job creation requirement. For example, Colorado generally requires 20 new jobs to be created in order to receive program benefits. By contrast, although Oklahoma’s Quality Jobs program does require that new jobs are created, there is no specific number of jobs that needs to be reached in order to qualify for payments. Instead, a payroll threshold is used to measure job creation.

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

Of the four comparison states requiring a certain number of jobs be created, only Louisiana couples that requirement with a payroll threshold. Colorado, Kansas, and Missouri each determine benefits based on the number of jobs, not total new payroll.

Benefit Types: Only one program in the comparison group, Louisiana's Quality Jobs, also offers a cash rebate as its benefit. Tax credits are more commonly used.

Benefit Terms: Most benchmark states offer benefits for approximately five years. Oklahoma's incentive is the most generous, providing program benefits for up to 10 years.

Benchmarking Program Evaluations

Several benchmark states have conducted useful program evaluations. The evaluations help to determine the economic efficacy of job creation incentives in general, and they offer examples of how administrative efficiency and control over similar programs has been addressed in other states.

In general, evaluations have found job creation programs similar to Oklahoma's Quality Jobs to be a net benefit for states. In 2008, Arkansas evaluated its Create Rebate program and found that it returned $1.82 for every $1.00 spent by the State.[22] Louisiana evaluated its Quality Jobs program in 2009 and also found it to be an overall benefit to the State; the evaluation found that the program returned $2.32 for each $1.00 the State spent.[23] However, Louisiana's analysis makes a significant assumption that all incentive beneficiaries would not have located in the state but for the incentive. Under the same assumption, Oklahoma's Quality Jobs program was found to return $6.60 for each $1.00 spent by the State, according to a report published in 2004.[24]

In 2016, Mississippi evaluated its program and used a more conservative approach to this calculation. The report offers figures for return on investment at different levels of influence over business decisions. For example, assuming none of the participating companies would have located in Mississippi if not for the incentive (this was assumed in Louisiana's evaluation), the return to the State was estimated to be $1.9 million.[25] However, if 50 percent of the companies would have located in the state even without the incentive, the net return to the State would have decreased by nearly 74 percent, to $496,000. Mississippi determined that the return to the State becomes negative once 68 percent or more of the companies receiving program benefits would have located in the State without the incentive.

Beyond the calculation of return on investment, other evaluations offer information on program administration issues and potential improvements to program performance. Missouri's State Auditor issued a report on the state's Quality Jobs Tax Incentive Program in 2012.[26] The report explained that the number of new jobs expected to be created, which is collected during the application process as a requirement to qualify for program benefits, was vastly over stated. The program as a whole was expected to create over 45,000 jobs based on approved participants from 2005 through 2011, but this figure was reduced to 26,000 due to companies not meeting their stated goals. Level of investment by participating companies was also found to be greatly overstated.

Louisiana's 2009 evaluation suggests keeping program requirements as clear as possible. This helps both the applicant and the administrative body. The evaluation also recommended taking a closer look at

[22] Arkansas Economic Development Commission, "Performance Audit: Selected Programs of the Consolidated Incentive Act of 2003" October 8, 2009
[23] Louisiana Economic Development, "Quality Jobs Program 2009 Report" December 2010
[24] Oklahoma 21st Century, Inc., "State Policy & Economic Development in Oklahoma: 2004" 2004
[25] State of Mississippi, "Annual Tax Expenditure Report", January 2016
[26] Missouri State Auditor, "Economic Development: Missouri Quality Jobs Tax Incentive Program July 2012

whether a project would take place without the incentive during the application review process to help control costs and improve return on investment.

A 2016 evaluation of Tennessee's Job Tax Credit emphasized the timing of credit redemption. Under Tennessee's program, a company creating 25 new jobs and making a capital investment of at least $500,000 may be awarded a tax credit of $4,500 per new job created. The credit is earned in the year the job creation takes place and can be carried forward for up to 15 years. The evaluation found many companies were delaying the redemption of the credit for years. The evaluation noted that this delayed redemption devalues the payments for businesses and, in turn, diminishes the impact the credit can have on business expansion. Instead of a carry forward credit, the evaluation recommended making the credit refundable to ensure companies benefit from the credit in the period when it is earned.[27]

[27] Anderson Economic Group, "The Economic Impact of Business Tax Credits in Tennessee" December 26, 2016

Appendices

Appendix A: Quality Jobs Benchmarking

Quality Jobs Benchmarking						
	Oklahoma	**Arkansas**	**Colorado**	**Kansas**	**Louisiana**	**Missouri**
Program Name	Quality Jobs	Advantage Arkansas	Job Growth Incentive Tax Credit	PEAK	Quality Jobs	Missouri Works
Job Creation Requirement	None	None	20 new jobs 5 new jobs if business is located in an Enhanced Rural Enterprise Zone	10 or more new jobs in metropolitan areas 5 new jobs in other areas	5 New Jobs	10 or more new jobs 2 or more if located in rural area or other designated zone
New Payroll Requirement	$2.5 Million	$50,000 to $125,000, depending on county	None	None	$500,000 for businesses with 50 or more employees $250,000 for businesses with under 50 employees	None
Wage Requirement	Wages paid to new jobs must be greater than or equal to the average County wage where the business is located	Average hourly wage of the company must be greater than or equal to the lowest county average hourly wage	Average wage greater than or equal to the county average wage	Wages must be greater than or equal to the county median wage where the company is located	$14.50 per hour for 5 percent rebate $19.10 per hour for 6 percent rebate	90% of County Avg Wage*
Health Insurance Requirement	Employees must pay no more than 50% of the premium cost	None	None	Full-time employees must be offered health insurance and the company must pay at least 50 percent of premium	$1.25 per hour in health care benefits for full-time employees Must offer coverage for dependents of full-time employees At least 50 percent of employees in new jobs must accept coverage	Full-time employees must be offered health insurance and the company must pay at least 50 percent of premium
Capital Investment Requirement	None	None	None	None	None	Capital investment of $100,000 required if company is located in rural area or other designated zone where the job creation requirement is 2
Benefit Type	Cash Rebate	Income Tax Credit	Income Tax Credit	Retention of State payroll withholding tax	Cash Rebate	Retention of State payroll withholding tax and tax credits
Benefit Amount	5 or 6 percent of Qualified Payroll	1 to 4 percent of new payroll, depending on county	50 percent of FICA paid on new jobs	Retention of 95 percent of State payroll withholding tax	5 or 6 percent of payroll	Retention of 100 percent of State payroll withholding tax and tax credit of 5 to 6 percent of new payroll
Benefit Period	Up to 10 Years	5 Years	8 Years	5 to 7 Years	5 Years	5 or 6 Years
Aggregate Program Cap	None	None	None	None	None	$116 million

Appendix B: Quality Jobs Basic Industries

Quality Jobs Basic Industries	
Industry	**NAICS Codes**
Adjustment and Collection Services (75% out-of-state debtors)	561440
Agricultural Production	112120
Alternative Energy Equipment Installation	238160
	238220
Alternative Energy Structure Construction	237130
Arrangement of Passenger Transportation	561510
	561599
Central Administrative Offices, Corporate Offices and Technical Services	5611
	5612
	51821
	519130
	52232
	56142
	524291
	551114
Certain Communications Services	517110
	51741
	51791
Certain Jobs Related to the Mining of Oil and Gas	2111
	213111
	213112
	486
Certain Refuse Systems that distribute methane gas	5622
Certain Warehouse/Distribution Operations Where 40% of inventory is shipped out-of-state	No Codes Listed
Computer Programming, Data Processing and other Computer Related Services	5112
	5182
	5191
	519130
	5415

Quality Jobs Basic Industries (continued)	
Electric Service Companies (90% of energy input sourced in-state, 90% of sales out-of-state)	221111-221122
Engineering, Management and Related Services	5412
	5414-5417
	54131
	54133
	54136
	54137
	541990
Federal Civilian Workforce of the FAA Where jobs are migrating to Oklahoma from other Federal sites, or expansion here	No Codes Listed
Flight Training Services	611512
Grocery Wholesale Distributing	4244
	4245
Insurance Carriers	5241
Insurance Claims Processors Only	524210
	524292
Manufacturing	31
	32
	33
	5111
	11331
Miscellaneous Business Services	561410
	56142
	51911
Miscellaneous Equipment Rental	5324
Motor Freight Transportation and Warehousing	493
	484
	4884-4889
Offices of Real Estate Agents & Brokers (75% of transaction out-of-state)	53120
	6215
Other support activities for air transportation	488190
Professional Organizations	813920
Rail Transportation	482

Appendix B: Quality Jobs Basic Industries

Quality Jobs Basic Industries (continued)	
Research, development and testing Labs	541711
	541712
	541380
Securities, Commodities, Investments	523
Sports Teams & Clubs	711211
Support Activities for Rail and Water Transport	4882
	4883
Transportation by Air, If corporate HQ and some reservation activities are within the state or 75% of air transport sales are to out-of-state consumers	4811
Transportation of Freight or Cargo	541614
Wind Power Electric Generation Equipment Repair & Maintenance	811310