



State of Oklahoma

Incentive Evaluation Commission

Small Business Incubators Evaluation

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



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Key Findings and Recommendations



Overview

In 1988, the Oklahoma Legislature passed the Oklahoma Small Business Incubators Incentives Act to “promote, encourage and advance economic prosperity and employment throughout the state” by offering income tax exemptions to both organizations qualifying as sponsors of small business incubators and the tenants of those incubators.¹ Sponsors are exempt from state income taxes on income earned from rental fees or other incubator-related income; tenants are exempt from state tax liability on income earned as a result of tenancy for up to 10 years, even after the tenant leaves the incubator.

Recommendation: The project team recommends retaining the Small Business Incubator Income Tax Exemption for Tenants and repealing the Small Business Incubator Income Tax Exemption for Sponsors.

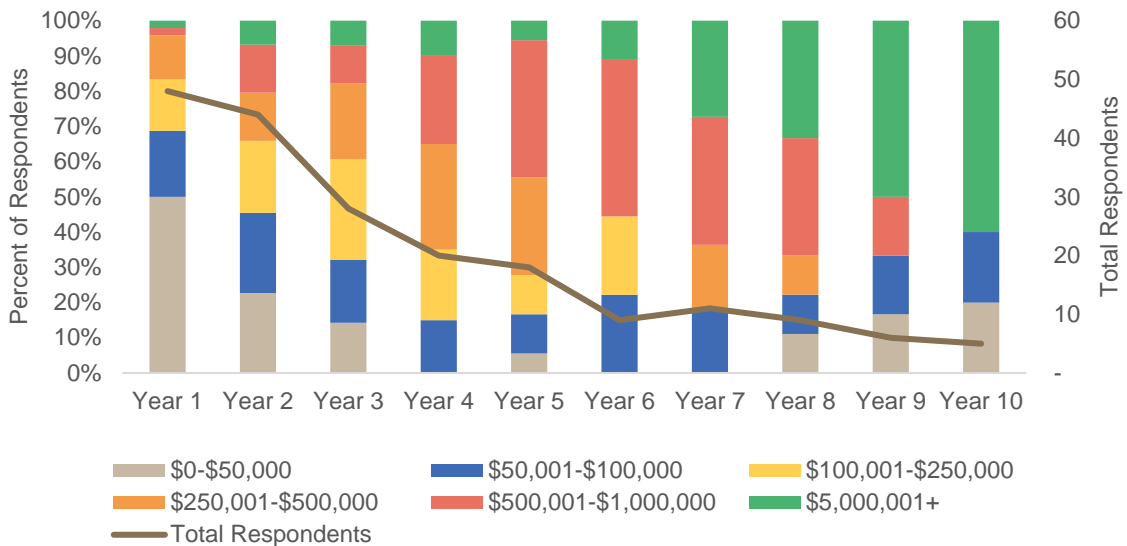
Key Findings

- **Since 2008, the number of certified incubators operating in the State has declined.** In recent years, the number of new incubators established has not kept pace with the number of incubator closures, resulting in a decline in the total number of incubators in the State. By the end of 2017, there were 17 fewer incubators in Oklahoma than in 2008.
- **While the number of incubators has declined over time, the total number of small businesses located in Oklahoma incubators each year has increased by 2.5 percent annually.** As a result, the average number of small businesses per incubator (5.3 in 2017) has nearly doubled since 2008. Since the program’s inception, a total of 943 small Oklahoma businesses have located in a small business incubator.
- **Current incubator tenants are primarily manufacturing firms but range from small service companies to high-tech research and development operations.** Of 31 current incubators, 13 (42 percent) target manufacturing and mixed use, while 5 (16 percent) are solely mixed use and 3 (10 percent) focus on manufacturing alone. An additional 2 focus on technology-based businesses, and the remainder cater to a specific industry (e.g. artists, student-led ventures, aerospace and defense, etc.) or a combination of industries.
- **The State’s small business incubators have aided in the creation of more than 3,000 Oklahoma jobs over the lifetime of the program.** A total of 2,147 jobs have been created by incubator graduates still located in the State. In 2017, 862 full-time jobs were provided by the 163 tenants of the State’s 31 certified incubators.
- **Payroll of incubator tenants appears to increase over time.** In response to a PFM-administered survey of current and former incubator tenants, half of all survey respondents indicated that, in year one of incubator tenancy, total payroll was less than \$50,000. Among those still qualifying in year 10, three of five survey respondents reported total payroll of \$5.0 million or greater annually, as shown in the following figure.

¹ Oklahoma Statutes §74-5072.



Figure 1: Total Payroll Range, Incubator Program Year 1-10



Source: PFM-administered incubator tenant survey

- **It is likely the return on investment to the State of Oklahoma for this program is breakeven or positive.** Based on the statewide average wage for the manufacturing sector (the primarily industry targeted by the current incubators), over \$142.5 million in wages is supported by current or former incubator tenants. At the same time, the State’s associated tax expenditures are minimal, totaling approximately \$300,000 annually in 2014 and 2015.
- **Given the data limitations associated with this program, however, it is difficult to document the annual economic and tax impact of the incubators.** In the short-term, startup companies that may be attracted to incubators may not generate sufficient revenue and profits to necessitate the payment of income tax in Oklahoma. In addition, these companies may not satisfy the requirement of at least 75 percent of gross sales to buyers located outside the state, the federal government, or buyers in the state if the product or service is resold to an out-of-state customer or buyer for ultimate use in order to qualify for the exemption in years 6 to 10. That does not necessarily mean the tenants do not have employees, pay wages and buy local goods and services, as it is not uncommon for small business owners to reinvest all profits in the business.

Other Findings

- **The income tax exemption appears to be a key factor for incubator tenants in their business location decisions.** Nearly three quarters of respondents to the PFM-administered incubator tenant survey indicated that the availability of the exemption was an “important” consideration in their decision to locate in the incubator, and more than half of all respondents indicated that it was “very important.”
- **Including Oklahoma, nine states were found to have incentive programs related to small business and/or small business incubators.** There are significant nuances that distinguish each program, and Oklahoma is unique in the structure of its incentive.



- **Some degree of taxpayer confusion exists regarding how to accurately claim the income tax exemption for incubator tenants.** To claim the exemption, taxpayers report associated income on the “Miscellaneous: Other Subtractions” line of Schedule 511-A, Oklahoma Subtractions. This line item is intended to be used for claiming various allowed subtractions that are not specifically enumerated on other lines of the Schedule. This line item is subject to error, as it is not unusual for the taxpayer to put an entry on that line that could (and perhaps should) have been claimed on one of the other lines on the Schedule.
- **It is difficult to estimate the tax expenditure amounts of the individual components of the “Miscellaneous: Other Subtractions” line item.** This is primarily because six subtractions are reported on the line, each with a code linked to that subtraction:
 1. Royalty income;
 2. Manufacturer’s exclusion;
 3. Small business incubator;
 4. Payments as a result of a military member combat zone death;
 5. Payments to a spouse of a military member killed in combat zone;
 6. Allowable deductions not included in items 1-5;

In reviewing claims for tax year 2015, for example, the Oklahoma Tax Commission (OTC) found that 7.0 percent of the returns claiming a subtraction on this line were lacking a code linked to a specific subtraction. Roughly 85.0 percent of the returns claiming this subtraction used the ‘99’ code, which is the catch-all for “other” miscellaneous subtractions. Aggregating the returns that used the ‘3’ code for business incubator exclusions may or may not accurately reflect the number of returns and the amount being claimed.

Changes to Improve Future Evaluations

- **Improve the exemptions claims process.** The aggregation of small business incubator-related claims with several other deductions and exemptions makes it difficult to determine which claims are related to which deduction or exemption. Additionally, it is common for taxpayers to fill out the form incorrectly, which raises data reliability concerns. In order to avoid confusion on the subtraction being claimed, each deduction and exemption should have its own line item on Schedule 511-A.
- **Eliminate the income tax exemption for sponsors.** While the Small Business Incubators program by statute offers tax benefits to both incubator tenants and the incubators themselves, the sole beneficiaries of the tax incentive are and have been incubator tenants. This is because nearly all of Oklahoma’s incubators operate as non-profits and are not required to pay income taxes. In fact, very few for-profit incubators have been operated in the State.
- **Eliminate the requirement that tenants make at least 75 percent of gross sales out of state in order to qualify for years 6 to 10 of the tax exemption.** According to the Department of Commerce (Department), most tenants do not fulfill this requirement, and do not remain in the program after the fifth year.



Introduction



Incentive Evaluation Commission 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 were conducted in 2016, and an additional 12 were conducted in 2017.

The Small Business Incubator Income Tax Exemption is one of 11 incentives scheduled for review by the Commission in 2018. Based on this evaluation and their collective judgment, the Commission will make recommendations to the Governor and the State Legislature related to this incentive.

Industry and Incentive Background

Small businesses represent the majority of businesses in the U.S. and play a significant role in job creation. In 2015, the U.S. Small Business Administration (SBA) estimated that the country's 30.2 million small businesses (which include employers with fewer than 500 employees and nonemployer firms²) accounted for 99.9 percent of total U.S. businesses; the 58.9 million people employed by small businesses accounted for 47.5 percent of the country's private workforce. Given the important economic role played by small businesses, many states – including Oklahoma – have taken steps in recent decades to provide support to small businesses. One common method is the establishment of startup assistance organizations, such as business incubators. These entities provide a variety of services (including a physical location) for new small businesses.

In 1988, the Oklahoma Legislature passed the Oklahoma Small Business Incubators Incentives Act to “promote, encourage and advance economic prosperity and employment throughout the state” by offering income tax exemptions to both organizations qualifying as sponsors of small business incubators and the tenants of those incubators.³ According to Oklahoma Statutes (O.S. §74-5073), incubators are defined as “facilities in which small units of space may be leased by a tenant and in which management maintains or provides access to business development services for use by tenants” and the term tenant refers to a “sole proprietorship, business partnership or corporation operating a business for profit and leasing or otherwise occupying space in an incubator.”

Criteria for 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 the case of these programs, the goals are to promote, encourage and advance economic prosperity and employment throughout the state. To assist in a determination of program effectiveness, the Commission has adopted the following criteria, which focus on the tenants of the program:

- Employment and payroll associated with qualified small businesses;
- Change in small business employment before/after the incentive;
- Change in small business employment in cities/counties within close proximity;
- Change in small business employment for Oklahoma versus surrounding states; and
- State return on investment.

The criteria focus on what are generally considered key goals of incentive programs (such as increased employment and payroll). Ultimately, incentive programs have to weigh both the benefits (outcomes related to

² The SBA defines a nonemployer firm as one that has no paid employees, has annual business receipts of \$1,000 or more and is subject to federal income taxes. Nonemployers account for about three percent of business receipts but make up an estimated 75 percent of all businesses.

³ Oklahoma Statutes §74-5072.



achieving policy goals and objectives) and the costs, and that is also a criterion for evaluation (State return on investment). These will be discussed throughout the balance of the evaluation.



Small Business Background



Small Business Background

According to the U.S. Small Business Administration (SBA), a business is defined as “small” based primarily on either the number of employees over the past 12 months or the average annual receipts over the past three years. The two most widely-used standards to qualify a business as small are 500 employees for most manufacturing and mining industries or \$7.5 million in average annual receipts for many nonmanufacturing industries.⁴ In addition to size standards, a business must meet the following criteria to qualify as small:⁵

- Is organized for profit;
- Has a place of business in the U.S.;
- Operates primarily within the U.S. or makes a significant contribution to the U.S. economy through payment of taxes or use of American products, materials or labor;
- Is independently owned and operated;
- Is not dominant in its field on a national basis.

Small businesses represent the majority of all businesses in the U.S. and play a significant role in job creation. In 2015, the SBA estimated that the country’s 30.2 million small businesses (which include employers with fewer than 500 employees and nonemployer firms⁶) accounted for 99.9 percent of total U.S. businesses; the 58.9 million people employed by small businesses accounted for 47.5 percent of the country’s private workforce. Small businesses created 1.9 million net jobs in 2015; of that total, firms employing fewer than 20 employees experienced the largest gains, adding 1.1 million net jobs.⁷

The following table compares nationwide small business statistics from 2006 and 2015 to those of Oklahoma and its surrounding states. Small businesses consistently account for nearly 100 percent of the total number of businesses across the country. Small business employment as a share of total private workforce employment declined in each state – and the country as a whole – between 2006 and 2015.

Table 1: Small Business Profiles, Select States, 2006 and 2015

	Total Small Businesses, 2015	% of Total Businesses, 2015	% of Total Businesses, 2006	Small Business Employees, 2015	% of Private Workforce, 2015	% of Private Workforce, 2006
Oklahoma	347,165	99.4%	99.4%	712,797	52.0%	54.0%
Arkansas	247,018	99.3%	99.3%	479,727	47.8%	48.8%
Colorado	611,495	99.5%	99.5%	1,100,000	48.6%	51.7%
Kansas	251,985	99.1%	99.2%	606,966	51.0%	54.6%
Missouri	523,459	99.4%	99.5%	1,100,000	47.0%	49.7%
New Mexico	154,257	99.0%	99.1%	339,640	54.2%	57.0%
Texas	2,600,000	99.8%	99.8%	4,700,000	45.6%	46.8%
United States	30,200,000	99.9%	99.9%	58,900,000	47.5%	50.2%

Source: U.S. SBA 2009 and 2018 State Small Business Profiles

⁴ There are many exceptions to these standards because size standards vary by industry.

⁵ U.S. Small Business Administration – How and Why to Determine if Your Business is “Small.” Accessed electronically at <https://www.sba.gov/blogs/how-and-why-determine-if-your-business-small>

⁶ The SBA defines a nonemployer firm as one that has no paid employees, has annual business receipts of \$1,000 or more and is subject to federal income taxes. Nonemployers account for about three percent of business receipts but make up an estimated 75 percent of all businesses.

⁷ U.S. Small Business Administration Office of Advocacy – 2018 Small Business Profile. Accessed electronically at <https://www.sba.gov/sites/default/files/advocacy/2018-Small-Business-Profiles-US.pdf>



Small businesses are also a significant source of innovation and patent activity. According to a 2008 SBA study of high patenting firms (defined as 15 or more patents in a 4 year period), small businesses produced 16 times more patents per employee than large firms. The study also found that “small firms are much more likely to develop emerging technologies than are large firms. Specifically, although small firms account for only eight percent of patents granted, they account for 24 percent of the patents in the top 100 clusters.”⁸

Additionally, the growth in the number of small high-tech firms outpaced that of large high-tech firms in several key industries, including pharmaceutical and medicine manufacturing (North American Industry Classification System [NAICS] 3254), measurement instrument manufacturing (NAICS 3345) and data processing and hosting (NAICS 5182).

Table 2: Percent Change in Number of High-Tech Firms by Industry, 2007-2012

NAICS Code	Industry Name	Small Firms	Large Firms
3254	Pharmaceutical and medicine mfg.	12.4%	2.0%
3341	Computer and peripheral mfg.	-15.0%	-11.6%
3342	Communication equipment mfg.	-15.7%	-20.1%
3344	Semiconductor, etc. mfg.	-9.4%	-15.5%
3345	Measurement, etc. instrument mfg.	2.9%	-2.2%
3364	Aerospace parts and products mfg.	0.1%	3.8%
5112	Software publishers	-5.3%	4.4%
5182	Data processing and hosting	21.9%	20.6%
5413	Architecture and engineering	-9.1%	6.7%
5415	Computer systems design	7.9%	23.2%
5417	Scientific research development	0.0%	1.2%

Source: U.S. SBA, U.S. Census Bureau Statistics of U.S. Businesses

Business Incubators Background

Given the important economic role played by small businesses, many states – including Oklahoma – have taken steps to encourage their success in recent decades. One common method is to establish startup assistance organizations, such as business incubators, proof-of-concept centers and innovation accelerators. The State defines a business incubator as “a facility in which small units of space may be leased by a tenant and in which management maintains or provides access to business development services for use by tenants.”

Business incubation is a business-supported process that helps launch startup and fledgling companies by providing entrepreneurs with a range of resources and services, such as financial consulting and marketing as well as (but not always) a physical location. Business incubators are meant to nurture the development of these entrepreneurial companies, helping them survive and grow during the startup period.

Incubators vary in the way they deliver their services, their organizational structures and the types of clients they serve. The earliest incubator programs focused on technology companies or a combination of light industrial, technology and service firms – today, these are referred to as mixed-use incubators. Recently, new incubators have targeted industries such as food processing, medical technologies, space and ceramics technologies, arts and crafts and software development. Incubator sponsors have also targeted programs to support microenterprise creation, the needs of women and minorities, environmental activities and telecommunications.

⁸ U.S. Small Business Administration – An Analysis of Small Business Patents by Industry and Firm Size. Accessed electronically at https://rdw.rowan.edu/cgi/viewcontent.cgi?referer=&httpsredir=1&article=1011&context=csm_facpub



A business incubator's main goal is to produce successful firms that will leave the program financially viable and freestanding (typically in two to three years). These incubator graduates have the potential to create jobs, revitalize neighborhoods, commercialize new technologies and strengthen local and national economies.

Business Incubators in the U.S.⁹

According to the International Business Incubator Association (InBIA), as of 2012 (the most recent year for which data is available), there were approximately 1,400 business incubation programs in North America. More than half (54 percent) were mixed-use incubators that worked with clients from many industries. An additional 37 percent catered to technology-based tenants, and the remaining 9 percent focused on manufacturing, service and other industries. InBIA estimated that the 1,400 incubators assisted nearly 50,000 companies which provided nearly 200,000 full-time jobs and generated \$15 billion in revenue annually.

Among U.S. incubators, 32 percent are affiliated with academic institutions, 25 percent are sponsored by local or regional economic development organizations, 16 percent are sponsored by governments, 15 percent have no sponsoring entity, 4 percent are for-profit and the remaining 8 percent are hybrids.

Among incubator programs with a physical facility, nearly half (47 percent) were located in urban areas, 25 percent in the suburbs and 28 percent in rural communities. The average incubator facility occupancy rate was 74 percent. Most incubator managers target an 80 percent occupancy rate, which enables them to bring on board new companies as well as providing expansion room for current clients. The average number of tenants per incubator program was 35 in 2012. The typical incubator reported graduating an average of 6.5 client companies annually.

The average time incubator tenants spend before graduating varies widely depending on a number of factors, including the entrepreneurs' expertise and type of business. The typical time spent in all types of U.S. incubators prior to graduation was 28 months.

Of companies graduating from technology incubators, 70 to 80 percent are still operating three years post-graduation. An SBA study found a survival rate of less than 50 percent for non-incubated startups after three years.

Incubator Best Practices

A 2011 University of Michigan Institute for Research on Labor, Employment and the Economy identified best practices for business incubator success. Researchers surveyed business incubator managers throughout the U.S. and across industry sectors, correlating specific incubator best practices with the success and stability of businesses that have graduated from incubator programs. Findings most relevant to the evaluation of Oklahoma's program include:¹⁰

- Neither the size of an incubator facility nor the age of a program is a strong predictor of client firm success;
- High-achieving incubators collect client outcome data more often and for longer periods of time than their peers;
- Most high-achieving incubators are non-profit models;
- Public sector support also contributes to program success;

⁹ Information and statistics related to U.S. business incubators are taken from the International Business Incubator Association (InBIA)'s 2012 State of the Business Incubation Industry study.

¹⁰ University of Michigan Institute for Research on Labor, Employment and the Economy- Incubating Success (2011). Accessed electronically at <https://www.nist.gov/sites/default/files/documents/ineap/Incubating-Success-Report.pdf>

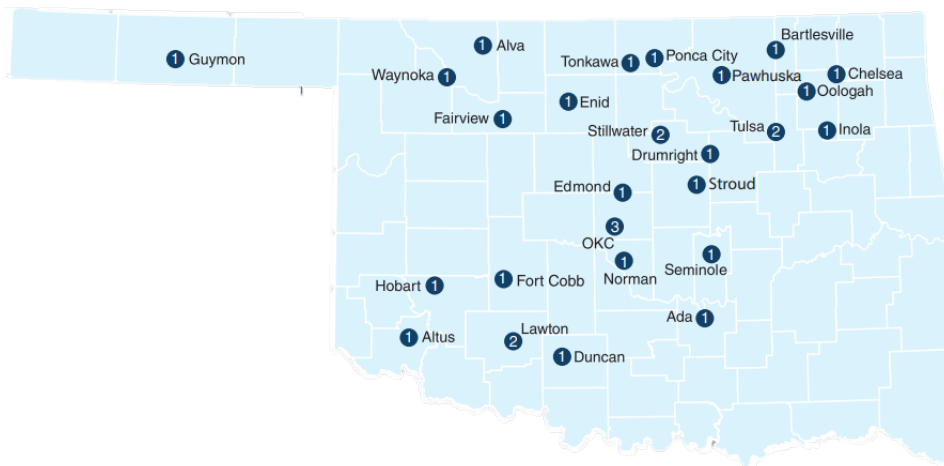


- All measures of the growth or size of a host region’s economy are poor predictors of incubation program outcomes; and
- Collectively, measures of a region’s capacity to support entrepreneurship have limited effect on incubator program outcomes.

Oklahoma Business Incubators

At the end of 2017, Oklahoma had 31 certified incubators, with tenants ranging from small service companies to high-tech research and development operations and manufacturing entities. Current incubator locations are detailed in the following figure; a full list of certified incubators as of the end of 2017, along with statistics regarding each incubator, is provided in **Appendix A**.

Figure 2: Location of Oklahoma Certified Incubators, 2017



Source: Oklahoma Dept. of Commerce Small Business Incubator Certification Program 2017 Annual Report

Since 2008, the number of Oklahoma certified incubators has declined. Throughout the course of a given year, new incubators may open and others may close. As a result, the number of incubators may vary from the beginning of the year to the end. In recent years, the number of new incubators established has not kept pace with the number of incubator closures, resulting in a decline in the total number of incubators in the State. As the following table shows, by the end of 2017, there were 31 incubators operating in Oklahoma – 17 fewer than in 2008.

Table 3: Certified Oklahoma Business Incubators, 2008-2017

Year	Total Incubators, Beginning of Year	Incubator Establishments	Incubator Closures	Total Incubators, End of Year
2008	47	5	4	48
2009	47	6	4	49
2010	49	3	4	48
2011	48	3	2	49
2012	49	2	7	44
2013	44	2	6	40
2014	40	3	7	36
2015	36	3	2	37
2016	37	0	1	36
2017	36	1	6	31

Source: Oklahoma Dept. of Commerce Small Business Incubator Certification Program Annual Reports



Of the current incubators, 13 (42 percent) target manufacturing/mixed use, while 5 (16 percent) focus on mixed use alone and 3 (10 percent) focus on manufacturing alone. An additional 2 target technology-based businesses, and the remainder cater to a specific industry (e.g. artists, student-led ventures, aerospace and defense) or a combination of industries. A summary of incubators by category is provided in **Appendix B**.

Oklahoma Business Incubator Impact

Each year, the Oklahoma Department of Commerce (Department) requests that incubator managers complete a questionnaire to document tenant activities. In addition to analyzing the information provided in these annual reports, the PFM project team administered a survey to current and former incubator tenants. The following discusses the findings of those survey efforts.

Incubator Tenancy and Occupancy Rate

While the number of incubators has declined over time at a compound annual growth rate (CAGR) of -4.7 percent, the total number of small businesses located in Oklahoma incubators each year has increased by 2.5 percent annually. As a result, the average number of small businesses per incubator (5.3 in 2017) has nearly doubled since 2008. Since the program’s inception, a total of 943 small businesses have located in a small business incubator.

Total incubator capacity has generally remained flat for the past decade, and the occupancy rate has hovered between 40 and 60 percent during that time. According to InBIA’s State of the Business Incubation Industry study, the average incubator facility occupancy rate was 74 percent in 2012.

Table 4: Oklahoma Incubator Statistics, 2008-2017

Year	Incubators	Tenants	Cumulative Tenants	Avg. Tenants per Incubator	Incubator Capacity	Occupancy Rate
2008	48	130	413	2.7	267	49%
2009	49	143	427	2.9	297	48%
2010	48	168	466	3.5	303	55%
2011	49	190	552	3.9	343	55%
2012	44	176	607	4.0	334	53%
2013	40	177	681	4.4	314	56%
2014	36	137	738	3.8	261	52%
2015	37	161	780	4.4	292	55%
2016	36	149	844	4.1	346	43%
2017	31	163	943	5.3	283	58%
AVG	41.8	159.4	N/A	3.9	304	53%
CAGR	-4.7%	2.5%	9.6%	7.6%	0.6%	1.9%

Source: Oklahoma Dept. of Commerce Small Business Incubator Certification Program Annual Reports

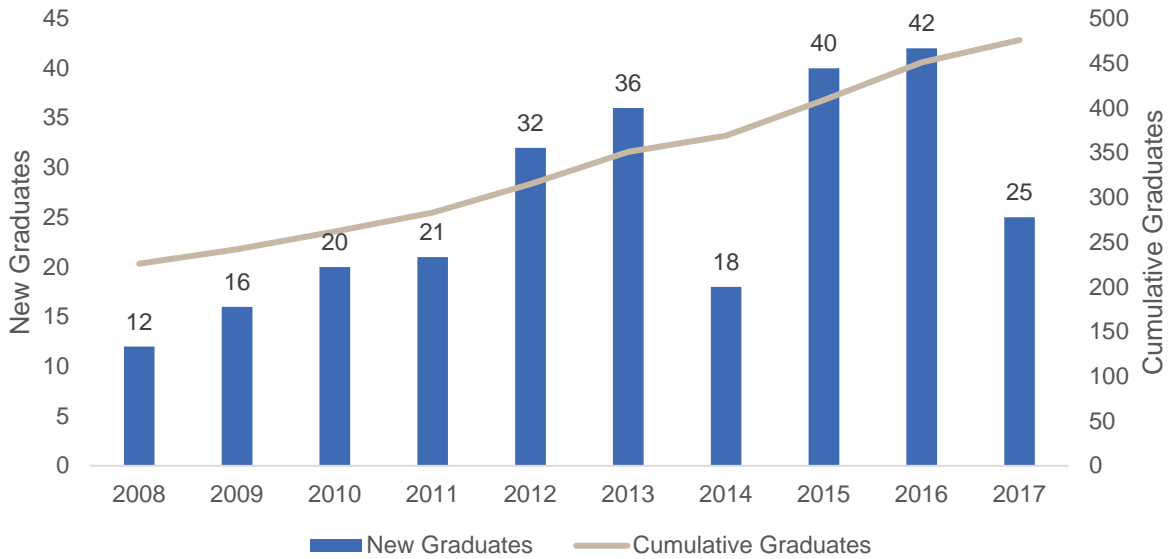
In 2017, the State’s largest incubator, Accelerate OSU in Stillwater (which is geared toward student-led ventures) had 52 tenants and was at full capacity; Meridian Technology Center for Business Development in Stillwater (which targets technology and innovative processes/services) had 15 tenants and was also at full capacity. Combined, the two incubators housed more than 40 percent of total small business tenants. The majority of incubators (23, or 74 percent of the total) had 5 or fewer tenants.



Incubator Graduates

According to the Department, an estimated 30 percent of incubator clients graduate each year. With the exception of 2014 and 2017, when the number of program graduates was unusually low, graduations from incubators have generally increased over time. As of the end of 2017, 476 small businesses had graduated from the program.

Figure 3: New and Cumulative Oklahoma Incubator Graduates, 2008-2017



Source: Oklahoma Dept. of Commerce Small Business Incubator Certification Program Annual Reports

Employment and Payroll Associated with Incubators

In 2017, 862 full-time jobs were provided by the 163 tenants of the State’s 31 incubators. At 0.1 percent annually, job growth has effectively been flat over the past 10 years. The average number of jobs per incubator has increased by a CAGR of over five percent during the same time frame, while the average number of jobs per small business has declined by a CAGR of -2.4 percent. When accounting for the 2,147 jobs created by graduates still located in the state and 862 jobs associated with current incubator tenants, Oklahoma’s small business incubators are responsible for the creation of more than 3,000 jobs over the lifetime of the program.

Table 5: Oklahoma Business Incubator Employment Statistics, 2008-2017

Year	Jobs Created by Current Tenants	Avg. Jobs per Incubator	Avg. Jobs per Current Tenant	Cumulative Jobs Created by Graduates Still in OK
2008	853	17.8	6.6	1,864
2009	618	12.6	4.3	1,331
2010	715	14.9	4.3	1,294
2011	883	18.0	4.6	1,551
2012	1,029	23.4	5.8	1,845
2013	946	23.7	5.3	1,553
2014	979	27.2	7.1	1,805

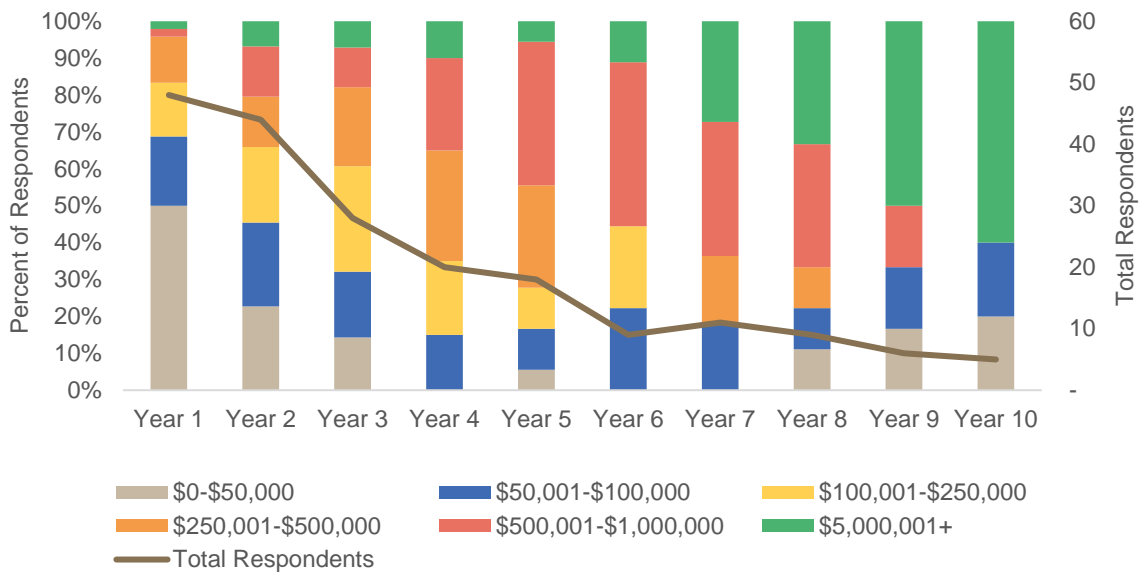


Year	Jobs Created by Current Tenants	Avg. Jobs per Incubator	Avg. Jobs per Current Tenant	Cumulative Jobs Created by Graduates Still in OK
2015	741	20.0	4.6	1,944
2016	726	20.2	4.9	1,931
2017	862	27.8	5.3	2,147
AVG	835	20.6	5.3	N/A
CAGR	0.1%	5.1%	-2.4%	1.6%

Source: Oklahoma Dept. of Commerce Small Business Incubator Certification Program Annual Reports

Responses to the PFM-administered survey indicate a growth in income over time. Half of all survey respondents indicated that, in year one of incubator tenancy, total payroll was less than \$50,000. Among those reaching year ten of the program, three of five survey respondents reported total payroll of \$5.0 million or greater annually.

Figure 4: Total Payroll Range, Program Participation Years 1-10



Source: PFM-administered incubator tenant survey



Incentive Usage and Administration



Incentive Characteristics

In 1988, the Oklahoma Legislature passed the Oklahoma Small Business Incubators Incentives Act (the Act) to promote, encourage and advance economic prosperity and employment throughout the state by creating a more favorable tax climate for both organizations which qualify as sponsors of small business incubators and a the tenants of those incubators.¹¹

According to Oklahoma Statutes, *incubators* are defined as “facilities in which small units of space may be leased by a tenant and in which management maintains or provides access to business development services for use by tenants” and the term *tenant* refers to a “sole proprietorship, business partnership or corporation operating a business for profit and leasing or otherwise occupying space in an incubator.” The State defines a *sponsor* as an organization “which enters into a written agreement with the Department to establish, operate and administer a small business incubator facility or to provide funding to an organization which operates such a facility, including municipalities, universities, industrial and commercial development authorities, redevelopment authorities or any private nonprofit or for-profit organization approved by the Department.”¹²

The Act provides tax benefits for both the sponsors of business incubators and the small business tenants of those incubators as follows:

- **Sponsors** of an incubator may be exempt from Oklahoma income taxes on income earned from rental fees, other income derived from services provided to tenants, or for providing funding for an incubator site. This exemption is for 10 years from the date of the tenant’s occupancy within an incubator. A sponsor must be a certified incubator with the Department.
- **Tenants** of certified incubators, or their owners, are exempt from state tax liability on income earned as a result of activities conducted as an occupant in an incubator for up to 10 years from the occupancy date in an incubator site in accordance with rules of the OTC. The exemption remains in effect after the date the tenant is no longer an occupant in an incubator, but not to exceed a total of 10 years. In order to qualify for the income tax exemption for years 6 through 10, the tenant must make at least 75 percent of its gross sales 1) to buyers located outside the state, 2) to the federal government or 3) to buyers in the state if the product or service is resold to an out-of-state customer or buyer for ultimate use. In years six through ten, failure of a tenant to achieve the qualifying percentage does not result in disqualification for subsequent years.¹³ According to the Department, most tenants do not fulfill this requirement and do not remain in the program after the fifth year.

Impact of Tax Exemption in Business Location Decisions

As discussed previously, the project team surveyed current and former tenants on the importance of the tax exemption in the decision to locate in a certified incubator. Of 64 respondents, 48 percent indicated they were unaware of the income tax exemption. One respondent remarked that they were unaware, but it would have been extremely important had they known; another remarked that it would have been a huge draw to office there. Among the 52 percent of respondents aware of the incentive, one remarked that while they were not aware of the exemption when they began an inquiry about locating in the incubator, they were informed of the incentive while applying. Another tenant remarked that they talked with other tenants to learn about the exemption. An additional respondent said that they were aware of the program but unsure why they did not qualify.

¹¹ O.S. §74-5072.

¹² O.S. §74-5073.

¹³ If a tenant does not achieve the qualifying percentage for any one of the tax years, the tenant is not disqualified for subsequent tax years in which the qualifying percentage is achieved.



However, nearly three quarters of respondents indicated that the existence of the tax exemption was an important factor in their decision to locate in the incubator, and more than half of all respondents said that it was very important, as illustrated in the following table.

Table 6: Importance of Tax Exemption in Business Location Decisions

	Not at All Important	Somewhat Unimportant	Neither Important Nor Unimportant	Somewhat Important	Very Important	Total
Responses	6	3	9	13	34	65
% of Responses	9%	5%	14%	20%	52%	100%

Source: PFM-administered incubator tenant survey

Historic Use of the Tax Exemption

While the Small Business Incubators program provides income tax benefits to both tenants and sponsors, the primary beneficiaries of the tax incentive are incubator tenants. This is because the vast majority of Oklahoma's incubators operate as non-profits and are generally not required to pay income taxes. In fact, there are very few for-profit incubators in operation in the State. This aligns with the conclusions of the 2012 InBIA survey, which found that just four percent of U.S. small business incubators are for-profit.

It is notable that the process for claiming the income tax exemption makes it very difficult to determine its actual financial impact. According to the OTC's Tax Expenditure reports, an "estimate [is] not available. This exemption is commingled with several others on the Oklahoma income tax form 511, and therefore, the amount of income exempted under this expenditure item cannot be estimated."

To claim the exemption, taxpayers report associated income on the "Miscellaneous: Other Subtractions" line of Schedule 511-A, Oklahoma Subtractions. This line item is intended to be used for claiming various allowed subtractions that are not specifically enumerated on other lines of the Schedule, as follows:

1. Royalty income;
2. Manufacturer's exclusion;
3. Small business incubator;
4. Payments as a result of a military member combat zone death;
5. Payments to a spouse of a military member killed in combat zone; and
6. Allowable deductions not included in items 1-5.

There are several complications associated with the current filing and reporting processes. For instance, because each of the subtractions is reported in a single line, the OTC cannot readily isolate the financial impact of any of the specific subtractions. The following table displays the aggregate claims and tax expenditures resulting from the addition of all income deductions described above. The "Total Amount Claimed" is the amount of the exemptions as claimed on the form and subtracted from income, while the "Estimated Tax Expenditure Amount" is equal to the amount of additional tax that would have been due had the exemptions not been claimed (and therefore is equal to the revenue forfeited by the State).



Table 7: Schedule 511-A Miscellaneous Other Subtractions Line Item Claims, 2011-2016

Tax Year	Number of Returns	Total Amount Claimed	Estimated Tax Expenditure Amount
2011	5,595	\$80,872,033	\$3,160,183
2012	6,069	\$99,933,191	\$4,183,724
2013	5,491	\$110,159,383	\$4,536,837
2014	7,119	\$181,189,532	\$6,096,624
2015	7,159	\$195,737,664	\$5,049,971
2016*	6,792	\$202,861,223	\$4,879,188

Source: Oklahoma Tax Commission

* Preliminary

In addition, there appear to be reporting problems associated with the indication of which type of “miscellaneous other subtraction” a taxpayer is claiming. It is not unusual for a taxpayer to put an entry on the line item that could (and perhaps should) have been claimed on one of the other lines on the Schedule.

In reviewing claims for tax year 2015, for example, the OTC found that 7.0 percent of the returns claiming a subtraction on this line were lacking a code linked to a specific subtraction. Roughly 85.0 percent of the returns claiming this subtraction used the ‘99’ code, which is the catch-all for “other” on miscellaneous other subtractions. Aggregating the returns that used the ‘3’ code for business incubator exclusions may or may not accurately reflect the number of returns and the amount being claimed.

With those complications in mind, the OTC, via manual review, estimates that the tax expenditure amounts associated directly with the small business incubator income tax exemption in 2014 and 2015 are approximately \$0.3 million per year, as shown in the following table.

Table 8: Small Business Incubator Income Tax Exemptions, 2014-2015

Tax Year	# Returns	Total Amount Claimed	Estimated Tax Expenditure Amount*	Average Claim per Return	Average Tax Expenditure per Return
2014	41	\$6,298,943	\$314,947	\$153,633	\$7,682
2015	42	\$5,560,146	\$278,007	\$132,384	\$6,619

Source: Oklahoma Tax Commission

* Assumes income tax rate of 5.0 percent

Incentive Administration

The Department is responsible for administering the Small Business Incubator Program, which primarily consists of two tasks: certification and program reporting.

- **Certification process.** To become certified, a small business incubator must file an application with the Department and be able to demonstrate:
 1. That a facility exists that can be transformed into an incubator at a specified cost;
 2. The ability to directly provide, or arrange for the provision of, business development services for tenants of the incubator, including (but not limited to) financial consulting assistance, management and marketing assistance and physical services;



3. A potential for sustained use of the incubator facility by eligible tenants, through a market study and other means; and
4. The ability to manage and operate the incubator facility in accordance with State law.

In its evaluation of applicants, the Department considers the ability of the sponsor to carry out these provisions. In addition, the Department evaluates the potential economic impact of the incubator in the community; the incubator's conformance with state, area-wide and local economic development plans (if such exist); and the location of the incubator in order to encourage geographic distribution of incubators across the state. The Department also conducts a site visit of the proposed incubator.

Once an incubator is certified, the Department may perform periodic reviews to ensure the facility maintains compliance. Failure to maintain compliance may result in revocation of certification. Incubator certification is valid for 10 years unless 1) there is a change in incubator ownership, 2) tenants occupying the space exceed "small business" size standards for their industry as defined by the SBA or 3) the OTC deems the sponsor ineligible for tax incentives under the program, resulting in a request for incubator de-certification.

- **Program reporting.** Incubators must file annual reports with the Department each calendar year that provide information regarding incubator tenants. Each report must contain the following:
 1. Number of new incubator tenants by industry for current reporting period;
 2. Cumulative total of incubator tenants by industry;
 3. Total new jobs created by tenants for the reporting year;
 4. Cumulative total of jobs created by tenants;
 5. Total financial value of initial investment by tenants for the reporting year;
 6. Total financial value of cumulative investment by tenants; and
 7. Number of firms still operating in Oklahoma after ending their tenancy in the incubator, and the number of jobs provided by these firms for the reporting year.

Using this information, the Department compiles and publishes its Small Business Incubator Certification Program Annual Report. In addition, by the end of each year, the Department provides a report to the Speaker of the House of Representatives and the President Pro Tempore of the Senate containing the following information:

1. The number of applications for incubators submitted;
2. The number of applications approved;
3. The number of incubators created;
4. The number of tenants occupying each incubator;
5. The number of jobs provided by each incubator and tenants of each incubator; and
6. The number of firms still operating in the State after ending their tenancy in incubators, and the number of jobs they have provided.

The formalized collection of this information is beneficial to the program, as it provides concrete impacts associated with the existence of small business incubators and the associated income tax exemption. According to InBIA, one in three incubation programs do not collect outcome data from graduates.

- **Other Department duties.** In addition to certification and reporting, the Department is responsible for compiling and maintaining a master list of all entities certified as sponsors. The Department also 1) solicits support and participation of organizations for the purpose of establishing and operating incubators, 2) assembles, publishes and disseminates information to potential incubator sponsors, and 3) organizes, hosts and participates in seminars and other forums to disseminate information regarding incubators to small businesses.



Other Department tasks include establishing a volunteer, local advisory committee (consisting of representatives from business and administrators at educational institutions and other groups) to assist in the performance of these functions. Finally, the Department is responsible for reviewing and approving applications from potential sponsors seeking to qualify for exemption from State income tax – but as previously noted, such sponsors do not currently exist.



Economic and Fiscal Impact



Economic and Fiscal Impact

In 1988, the Oklahoma Legislature passed the Oklahoma Small Business Incubators Incentives Act to promote, encourage and advance economic prosperity and employment throughout the state by creating a more favorable tax climate for both organizations which qualify as sponsors of small business incubators and the tenants of those incubators. This goal is accomplished through the provision of favorable tax treatment to incubator operators and those businesses residing in the incubators. Tenants of certified incubators, or their owners, are exempt from State tax liability on income earned as a result of activities conducted as an occupant in an incubator for up to 10 years from the occupancy date in an incubator site in accordance with rules of the OTC.

Given the data limitations associated with this program, it is difficult to document the annual economic and tax impact of the incubators. Startup companies that may be attracted to incubators, for example, may not generate sufficient revenue and profits to necessitate the payment of income tax in Oklahoma in the short-term. In addition, these companies may not satisfy the requirement of at least 75 percent of gross sales to 1) buyers located outside the state, 2) the federal government or 3) buyers in the state if the product or service is resold to an out-of-state customer or buyer for ultimate use in order to qualify for the exemption in years six to ten. That does not mean the tenants do not have employees, pay wages and buy local goods and services. It is not uncommon for small business owners to reinvest all profits in the business to ensure survival.

Annual employment data for both existing incubator tenants and graduates provides the best measure of State return on investment. As discussed previously, the majority of the State's current incubators focus on attracting manufacturing companies. Based on the statewide average wage for the manufacturing sector, nearly \$142.5 million in wages is supported by existing or graduate incubator companies, as shown in the following table.

Table 9: Small Business Incubator Program Impact

Year	Jobs Created by Current Tenants	Jobs Provided by Graduates Still Operating in the State	Total Jobs	Avg. Oklahoma Manufacturing Wage	Total Wages
2012	1,029	1,845	2,874	\$50,453	\$145,001,922
2013	946	1,553	2,499	\$51,724	\$129,258,276
2014	979	1,805	2,784	\$53,621	\$149,280,864
2015	741	1,944	2,685	\$53,792	\$144,431,520
2016	726	1,931	2,657	\$53,615	\$142,455,055

In summary, it is likely the return on investment to the State of Oklahoma for this program is breakeven or positive. The cost to the State (via foregone revenue) is minimal, totaling approximately \$300,000 annually in 2014 and 2015. More than 2,600 jobs and \$140 million in annual payroll is linked to current and former incubator tenants. If this annual economic activity was run through an economic impact model, the State of Oklahoma would generate approximately \$7.0 to \$10.0 million in annual tax revenue.

It is notable that the Small Business Incubators incentive program is linked to income earned, not payroll or employment – and as a result, the program is only a cost to the State when tenants have net income. Of 137 incubator tenants in 2014 and 161 in 2015, approximately 40 tenants claimed the income tax exemption in each year. It is reasonable to assume, based on the data available, that many current and former incubator tenants are successfully operating in Oklahoma (e.g. recruiting/retaining employees, paying wages) but are not taking advantage of the Small Business Incubators income tax exemption.



Incentive Benchmarking



Introduction

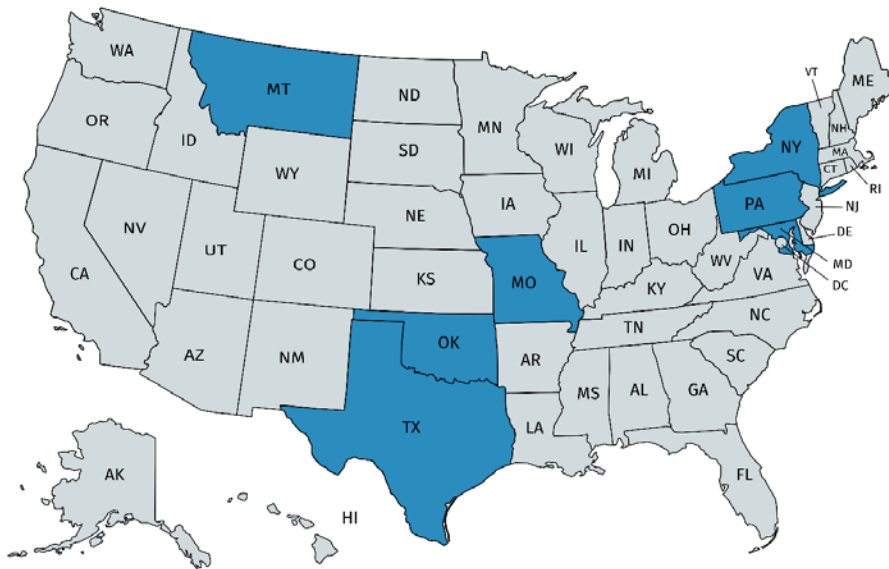
A detailed description of comparable state programs can be found in **Appendix C**.

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.¹⁴ These benchmarking realities must be taken into consideration when making comparisons – and, for the sake of brevity, the report will not continually re-make this point throughout the discussion.

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.

While nearly all states are home to business incubators, far fewer provide tax incentives. Including Oklahoma, seven states were found to have incentive programs related to small business and/or small business incubators. The following discusses some of the key characteristics of these programs.

Figure 5: States with Incentive Programs Related to Small Businesses and Incubators



Among states providing tax incentives related to small business and/or small business incubators, a great deal of variation exists regarding the manner in which the programs are provided or structured. For instance, while **Pennsylvania** does not offer a tax incentive specifically for incubator tenants, some incubators within the state have been granted Keystone Innovation Zone (KIZ) tax credit status, whereby tenants may be eligible for tax credits that can be used to offset certain state tax liabilities. Eligible companies may claim a tax credit equal to 50 percent of the increase in the company’s revenues in the immediately preceding taxable year attributable to activities in the KIZ, over the company’s gross revenues in the second preceding taxable year attributable to its activities in the KIZ. The credit is limited to \$100,000 annually per company.¹⁵

¹⁴ The primary instances of exactly alike state incentive programs occur when states choose to ‘piggyback’ onto federal programs.

¹⁵ Pennsylvania Department of Community and Economic Development – Keystone Innovation Zone (KIZ) Tax Credit Program. Accessed electronically at <https://dced.pa.gov/programs/keystone-innovation-zone-tax-credit-program/>



Maryland’s Technology Development Corporation (TEDCO) Incubator Assistance Program is intended to assist the State’s incubators in providing additional added value to their client companies – including assistive services such as mentoring, coaching, advising and other incubator services which help client companies successfully scale their businesses. Grant proposals are accepted for amounts between \$3,000 and \$12,000.¹⁶

Missouri’s Small Business Incubator Tax Credit Program aims to help small business incubators leverage funds to use for working capital and other non-operating expenditures that support new business creation in communities. Certified incubators receive contributions from taxpayers; the taxpayers in turn receive tax credits in the amount of 50 percent of the contributions. The program is focused on the incubators themselves, as opposed to tenants of incubators – and the tax benefit is ultimately awarded to taxpayers, as opposed to the incubators or tenants (though the incubators undoubtedly benefit from those contributions).¹⁷

Through a competitive process, **New York’s** Empire State Development (ESD) Division of Science, Technology and Innovation (NYSTAR) has designated 10 “Innovation Hot Spots” – one for each of the State’s economic development regions – and 20 Certified Business Incubators, which receive funding to reach a greater number of early-stage companies. The Incubator program provides strategic funding to business incubators to improve the quantity and quality of services provided to emerging companies, thereby enabling businesses to successfully transition from the startup phase to larger scale commercialization of products and services. In addition, the Incubator program provides ESD with valuable information on the companies which are at the early stage of entry into the State’s “innovation pipeline.” The following provides a comparison of the tax benefits of the two New York programs.

Table 10: Summary of Tax Benefits of New York Incubator Programs

	START-UP NY	NYS Innovation Hot Spot
Sales Tax Credit/Refund	x	x
Corporate Franchise Tax ¹⁸	x	x
Personal Income Tax ¹⁹	x	x
Telecommunication Services Excise Tax	x	
Real Estate or Real Property Transfer Tax	x	
MCTMT for Employers	x	
MCTMT for Self-Employed	x	
Personal Income Tax - Wage Exclusion	x	

Source: Empire State Development Corporation

Texas maintains a Product Development and Small Business Incubator Fund that offers long-term, asset-backed loans (not to exceed \$5.0 million) to near-bankable businesses commercializing new or improved products and small businesses or entities which foster growth of small businesses. To be eligible, small businesses must be domiciled in Texas or have at least 51.0 percent of their employees located in the state, employ fewer than 100 full-time employees and, if for-profit, be independently owned and operated.²⁰

¹⁶ Maryland Technology Development Corporation (TEDCO) Annual Report and Financial Report, 2017. Accessed electronically at [http://dlslibrary.state.md.us/publications/TEDCO/EC10-415\(a\)_2017.pdf](http://dlslibrary.state.md.us/publications/TEDCO/EC10-415(a)_2017.pdf)

¹⁷ In December 2017, a bill was introduced into the Missouri legislature that would place 47 tax credits, including the Small Business Incubator Tax Credit, on rolling sunsets, requiring legislators to actively vote to extend them rather than allowing them to remain in code indefinitely with little or no contemplation of their efficacy. In February 2018, the bill was referred to the Ways and Means Committee.

¹⁸ Corporate franchise taxes: START-UP NY offers a tax elimination credit, while NYS Innovation Hot Spots provide a tax elimination or deduction

¹⁹ Personal income tax: START-UP NY offers a tax elimination credit, while NYS Innovation Hot Spots provide a tax deduction.

²⁰ Texas Economic Development – Product Development and Small Business Incubator Fund. Accessed electronically at <https://gov.texas.gov/business/page/product-development-and-small-business-incubator-fund>



Benchmarking Program Evaluations

Missouri Small Business Incubator Tax Credit

In 2006, the Missouri Committee on Legislative Research's Oversight Division completed a program evaluation of the State's Small Business Incubator Program.²¹ Between the program's inception in 1986 and 2006, the Department of Economic Development (DED) issued more than \$2.4 million in tax credits, attracting \$4.7 million in contributions to the state's small business incubators. The contributions received can be used for various incubation related expenses, including capital improvements, the purchase of equipment and furnishings or for business development services. Recommendations resulting from the evaluation included:

- Review the limited number of incubators that receive the annual allocation of incubator tax credits to ensure they are in good standing with the Department of Revenue and Office of the Secretary of State;
- Submit required annual reports;
- Require incubators to report how the donations that generated the tax credits were utilized (eligible project costs for which the contributions can be utilized range from the acquisition of land and buildings, construction of new facilities to business development services such as consulting or education); and
- Be more proficient at collecting information from the incubators in order to determine the fiscal benefits the State is receiving from the program.

New York Incubator Program Evaluations

According to the 2016 NYSTAR Annual Report, in the first full year of reporting, the first cohort of designated Innovation Hot Spots and NYS Certified Business Incubators aided in the creation or retention of 769 jobs and the generation of approximately \$177.3 million in economic impact, as shown in the following table.²²

Table 11: NYS Innovation Hotspots/Incubators - Economic Impacts by Program/ Region, 2014-15

Region	# of Incubators/ Hot Spots	Total Non-Job Impacts	New Jobs	Jobs Retained	Total Jobs
Capital	2	\$701,120	5	1	6
Central	1	\$4,903,294	11	59	70
Finger Lakes	1	\$0	0	0	0
Long Island	1	\$31,759,569	124	243	367
Mid-Hudson	2	\$2,315,228	20	28	48
Mohawk Valley	1	\$1,335,000	14	6	20
New York City	2	\$124,643,355	78	80	158
North Country	1	\$2,989,125	27	12	39
Southern Tier	2	\$7,277,600	6	0	6
Western	1	\$1,390,180	0	55	55
Total Regions	14	\$177,314,471	285	484	769

Source: Empire State Development 2017 Annual Report

²¹ Missouri Committee on Legislative Research, Oversight Division – Program Evaluation: Small Business Incubator Program (January 2007). Accessed electronically at <http://www.moga.mo.gov/oversight/over06/audit/Small%20Business%20Incubator%20Program.pdf>

²² Empire State Development Division of Science, Technology and Innovation – 2016 Annual Report. Accessed electronically at <https://cdn.esd.ny.gov/nystar/Data/NYSTARAnnualReport2016.pdf>



Appendices



Appendix A: Certified Oklahoma Small Business Incubators, 2017

Incubator Name	Location	Type of Businesses Targeted	Tenant Capacity	Current Tenants	Support Services Offered					
					Comp. Ntwk.	Phone Svc.	Bus. Plng.	Mktg. Asst.	Conf. Room	Other *
Pontotoc Technology Business Development Center	Ada	Mfg./Mixed Use	1	1	x		x	x	x	
Southwest Technology Center Business Incubator	Altus	Aviation, Mfg. and General Use	1	0	x	x	x	x	x	
Northwest Technology Center Small Business Incubator	Alva	Mfg./Mixed Use	2	0	x	x	x	x	x	
Tri-County Technology Center Business Assistance Center	Bartlesville	Mfg./Mixed Use	16	3	x		x	x	x	x
RCIDA (Rogers Co. Industrial Development Authority) NE Tech Business Incubator	Chelsea	Mfg./Mixed Use	1	1			x	x	x	x
Central Oklahoma Business & Job Development Corporation	Drumright	Mfg./Mixed Use	2	1			x	x	x	
Duncan Center for Business Development	Duncan	Advanced Mfg.	22	6	x	x	x	x	x	
Francis Tuttle The Launch Pad	Edmond	Mixed Use	12	9	x		x	x	x	
Strate Center for Business Development	Enid	Mixed Use	12	6			x	x	x	x
Major County Economic Development Business Incubator	Fairview	Mfg./Mixed Use	6	4	x	x	x	x	x	x
Caddo Kiowa Business Development Center	Fort Cobb	Mfg./Mixed Use	4	2	x	x	x	x	x	x
Artist Incubation, Inc.	Guymon	Artists	2	1	x	x	x	x	x	x
Hobart Economic Development Authority Business Incubator	Hobart	Mfg./Mixed Use	5	1	x	x	x	x	x	x
RCIDA / NE Tech Business Incubator	Inola	Mfg./Mixed Use	6	2			x	x	x	x
Center for Emerging Technology and Entrepreneurial Studies - Cameron University	Lawton	Technology-based	8	5	x	x	x	x	x	x
Great Plains Technology Center	Lawton	Mixed Use	27	13			x	x	x	x



Incubator Name	Location	Type of Businesses Targeted	Tenant Capacity	Current Tenants	Support Services Offered					
					Comp. Ntwk.	Phone Svc.	Bus. Plng.	Mktg. Asst.	Conf. Room	Other *
Startup 405 (formerly eTec)	Norman	Technology-based	6	3	x		x	x	x	
Acorn Growth Companies	Oklahoma City	Aerospace & Defense	10	3	x	x	x	x	x	x
Moore Norman Technology Center Business Development Center	Oklahoma City	Mfg./Mixed Use	19	9		x	x	x	x	x
The Catbird Seat UCO	Oklahoma City	Mfg./Mixed Use	6	4		x	x	x	x	x
RCIDA / NE Tech Business Incubator	Oologah	Mfg./Mixed Use	2	2						
Tri-County Technology Center Pawhuska Incubator	Pawhuska	Mixed Use	14	6	x		x		x	x
Pioneer Technology Center	Ponca City	Service and Light Mfg.	7	2			x	x	x	x
Seminole Business Development Center	Seminole	Mixed Use	2	2		x	x	x	x	
Meridian Technology Center for Business Development	Stillwater	Technology or Innovative Process/Service	15	15	x	x	x	x	x	x
Accelerate OSU	Stillwater	OSU Student-led Ventures	52	52	x	x	x	x	x	x
Central Oklahoma Business & Job Development Corporation	Stroud	Mfg.	1	1			x	x		
Tonkawa Business Incubator LLC	Tonkawa	Mfg./Mixed Use	4	1	x	x	x		x	
Hemphill Create	Tulsa	Mfg.	10	3			x	x	x	x
The Forge	Tulsa	High Growth Mfg./Energy Tech	6	4			x	x	x	x
Northwest Tech Small Business Incubator	Waynoka	Mfg.	2	1			x	x	x	
Total			283	163	17	15	30	28	29	19

Source: Oklahoma Department of Commerce – Small Business Incubator Certification Program 2017 Annual Report

* For detail regarding "Other" support services provided, please see full report.



Appendix B: Certified Small Business Incubators by Business Target, 2017

Business Target	Incubator Count	Tenant Capacity	Current Tenants	Occupancy Rate
Mfg./Mixed Use	13	74	31	42%
Mixed Use	5	67	36	54%
Mfg.	3	13	5	38%
Technology-based	2	14	8	57%
Aviation Mfg. and General Use	1	1	0	0%
Advanced Mfg.	1	22	6	27%
Artists	1	2	1	50%
Aerospace and Defense	1	10	3	30%
Service and Light Mfg.	1	7	2	29%
Technology or Innovative Process/Service	1	15	15	100%
Student-led Ventures	1	52	52	100%
High Growth Mfg./Energy/Tech	1	6	4	67%
Total	31	283	163	58%



Appendix C: Comparable State Programs

Small Business Incubators						
State	Program Name	Program Type	Program Start Date	Program Incentive	Eligibility	Program Cost
Oklahoma	Small Business Incubators Tax Exemptions	Tax Exemption	1988	<p>Sponsors: Income earned by a sponsor from rental fees, service fees or any other form of payment for services provided to a tenant as an operator of an incubator, or for providing funding for such a facility, shall be exempt from state income tax for a period not to exceed 10 years from the date of the tenant's occupancy in an incubator.</p> <p>'Tenants: The tenant of a certified incubator, or its owner, is exempt from state tax liability on income earned as a result of activities conducted as an occupant in an incubator for up to 10 years from the occupancy date in an incubator site.</p>	<p>For tenants to qualify for the exemption in the 6th through 10th year, 75% of sales must be to:</p> <ul style="list-style-type: none"> - out-of-state buyers - buyers whose principal business activity is conducted outside the state - federal government - buyers located in the state if the product or service is resold to an out-of-state customer or buyer for ultimate use 	\$4.8 million (tenants)
Maryland	Incubator Assistance Program	Grant	2001	<ul style="list-style-type: none"> - Initiatives fall into two categories: 1) assistive services provided to an individual portfolio company and 2) assistive services provided to a group of incubator portfolio companies. - Grant awards range from \$3,000 to \$12,000. - Individual incubator grant amounts are pursuant to a formula developed in conjunction with the Maryland Business Incubator Association. 	<p>Grant applications are accepted from incubators and the highest scoring applications receive the highest consideration. Program funds are directed at those IT and other non-life sciences companies that have been incubator clients for 3 years or less, and those life sciences companies that have been incubator clients for 5 years or less.</p>	\$8.3 million appropriated in total since 2001 via Incubator Development Fund



Small Business Incubators

State	Program Name	Program Type	Program Start Date	Program Incentive	Eligibility	Program Cost
Missouri	Small Business Incubator Tax Credit Program	Tax Credit	1986	Individuals or businesses can receive tax credits if they provide donations to approved incubator sponsors. A 50% tax credit can be applied to income tax, corporate franchise tax, bank tax, insurance premium tax and other financial institution tax. The overall maximum amount of tax credits that can be authorized under this program per year is \$500,000. The credit can be carried forward up to 5 years and is sellable or transferable (75 cents minimum).	<ul style="list-style-type: none"> - Contributors will be awarded tax credits on a first-come basis and based on the annual amount of tax credits allocated to an approved incubator. - For sponsors, DED reviews and approves applications based on the following criteria: <ul style="list-style-type: none"> - Ability of the sponsor to carry out the provisions - Economic impact of the incubator on the community - Conformance with area-wide and local economic development plans - Location of the incubator (encouraging geographic distribution of incubators throughout the state). 	\$0.5 million
New York	New York State Certified Business Incubators and Innovation Hot Spots	Grant	2015	ESD's Division of Science, Technology and Innovation (NYSTAR) has designated 10 Innovation Hot Spots, one for each of New York's economic development regions, and 20 Certified Business Incubators, which receive funding to reach a greater number of early-stage companies. The five winning Hot Spots will receive up to \$250,000 annually in financial support from the state to expand their direct assistance to young firms, including legal, technical and business support services.	<p>Each winning Hot Spot plan must have:</p> <ul style="list-style-type: none"> - Demonstrated a connection with a higher education institution and the ability to transition technology from lab to marketplace; - Demonstrated a link to regional sources of innovation and expertise; - Provided industry accepted best practice services; and - Agreed to maintain and operate the program for three years and generate a 2:1 match to the state grant for support services. 	\$1.25 million



Small Business Incubators

State	Program Name	Program Type	Program Start Date	Program Incentive	Eligibility	Program Cost
	START-UP NY	Tax Exemption	2013	<ul style="list-style-type: none"> - Program creates tax-free zones to connect start-up companies in targeted industries with university research and development resources. - Companies that are located in the zones are exempt from paying any taxes — including sales taxes, business or corporate state and local income taxes, and property taxes. - Also, employees of companies enrolled in the program pay no personal income tax for the first 5 years, and a reduced income tax rate for the second 5 years. 	After its first year of operation, the business must maintain net new jobs. The average number of employees in the state during the year must equal or exceed the one from the preceding year of its application to locate in a tax-free New York-area. The average number of employees of the business and its related persons in the state is determined by adding the total number of employees of the business and its related persons in the state on March 31st, June 30th, September 30th, December 31st, and dividing the total by the number of such dates occurring within the year.	\$5.0 million
Pennsylvania	Keystone Innovation Zone (KIZ)	Tax Credit	1971	Select incubators are granted Keystone Innovation Zone (KIZ) tax credit status, whereby tenants may be eligible for tax credits that can be used to offset certain state tax liabilities. Eligible companies may claim a tax credit equal to 50 percent of the increase in the company's revenues in the immediately preceding taxable year attributable to activities in the KIZ, over the company's gross revenues in the second preceding taxable year attributable to its activities in the KIZ. The credit is limited to \$100,000 annually per company	For-profit companies less than eight years old operating within specific targeted industries within the boundaries of a KIZ. Companies must meet any other requirements as specified by the Department of Community and Economic Development.	\$15.0 million



Small Business Incubators

State	Program Name	Program Type	Program Start Date	Program Incentive	Eligibility	Program Cost
Texas	Product Development and Small Business Incubator Fund	Loan	2005	Fund offers long-term, asset-backed loans (not to exceed \$5.0 million) to near-bankable businesses commercializing new or improved products and small businesses or entities which foster growth of small businesses. Program targets businesses which may be unable to obtain full financing on workable terms in traditional capital markets.	<p>Small businesses must be domiciled in Texas or have at least 51.0 percent of their employees located in the state, employ fewer than 100 full-time employees and, if for-profit, be independently owned and operated.</p> <p>Any business in the State of Texas is eligible if the business is substantially likely to develop and expand the opportunities for small businesses in the state (i.e. incubators).</p>	Structured as revolving fund