State of Oklahoma
Incentive Evaluation Commission
Small Employer Quality Jobs Program Evaluation

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Oklahoma's Small Employer Quality Jobs program was created in 1997 under the Small Employer Quality Jobs Incentive Act. The program provides qualifying companies with 500 or fewer employees quarterly rebate payments of up to five percent of the newly created payroll, for up to seven years. To qualify for payments, participants must meet requirements related to job creation and wages.

Recommendation: Retain, with modifications

Key Findings

- **Program utilization has been uneven over the 13 years studied for evaluation** – starting at 13 firms, 541 jobs, and $938,000 in rebates in 2011; to lows of 4, 72, and $172,000 in 2014; and then back up to 8 firms, 266 jobs, and $686,000 in 2023.

- **Actual utilization data lags by as much as two years based on the 2025, 2021, and 2017 evaluations**. Firms can submit rebate filings outside of the period where the jobs were created, but still within the contract period with the Department of Commerce and still receive the benefit.

- **The median wage of reported jobs was about equal to or exceeded the statewide average wage each year from 2011 to 2023.** Participants are required to pay 110 percent of the average wage of county small employers.

- **Participating industries are more diverse compared to the 2021 evaluation.** Manufacturing firms accounted for 57 percent of total rebates (down from 89 percent), while professional services, aerospace and defense, and bioscience firms each accounted for at least 13 percent.

- **Use of the program is dispersed across multiple counties.** From 2011 to 2023, nine counties received at least five percent of the total amount of rebates generated.

- **From 2019 to 2024, the fiscal impact analysis identified a net fiscal benefit to the State.** If indirect and induced effects are included, the fiscal impact is a positive $6.4 million. Using direct impacts only results in a net fiscal loss of $275,000.

- **Total, direct output for the 2019 through 2024 period was approximately $627.2 million**. When including indirect and induced output, this total grows to $886.9 million.

- **The break-even point – the amount of business activity that depends on the incentive for the program to pay for itself – is about 34 percent.** The 'but for' test seeks to determine whether or not an incentive was necessary for the business decision to locate or expand payroll. As this is often difficult to determine, the break-even analysis provides a weighing mechanism: a lower break-even percentage suggests it is more likely to pass the 'but for' test, while a higher percentage suggests it is less likely.

- **Compared to other states with similar programs, Oklahoma allows firms with a larger number of employees to qualify as a small employer.** In three states with similar programs, maximum employees were set at either 99 or 49 compared to 500 in OK.

- **Similar to the 21st Century and Quality Jobs programs, the Small Employer version benefits from simple program guidelines and administration.** When weighing potential changes, it should be noted that by definition firms participating in this program are likely to have less capacity than the typically larger, more mature firms that utilize Quality Jobs.

Recommendations

- **Require participants to file rebate claims within one year of a qualifying quarter.** Currently, companies have two years to submit a claim after their most recent submittal before potential dismissal from the program. This lag time between when a rebate is generated and claimed makes forecasting the costs of the program difficult. Controlling the timing of incentive payments is a key aspect of incentive design to manage budget impacts.[1] Furthermore, if a company waits two years to claim a rebate, it calls into question how important the rebate is in supporting the incented activity, as the relative value of the rebate (based on the time value of money) declines the later it is received. The longer lag time also makes it more difficult to weigh participation and performance for purposes of evaluating the program. Shortening the lag time to a maximum one year would still provide participants time to handle the administrative burden of filing claims while protecting the State from paying up to eight quarters of claims at once if a participant waits two years to file a claim.

- **Regularly review eligible industries to ensure the list reflects the State's economic development goals.** The Small Employer Quality Jobs program uses the same eligible industries list as the Quality Jobs program, excluding oil and gas industries. The list has expanded several times. Over time, the State should consider whether these and other industries are still the correct targets for the program, based on economic development goals.

[1] Pew Charitable Trusts, "Reducing Budget Risks," December 2015. Accessed electronically at: https://www.pewtrusts.org/~/media/assets/2015/11/cost-predictability_artfinal.pdf

Introduction

Oklahoma Incentive Evaluation Commission Overview

The Oklahoma Incentive Evaluation Commission (Commission) was created by HB 2182 of 2015 to produce objective evaluations of the State of Oklahoma's wide array of economic incentives. The Commission is made up of five members appointed by the Governor, President Pro Tempore of the Senate and Speaker of the House of Representatives, along with representatives of the Department of Commerce, Office of Management and Enterprise Services and Tax Commission.

Under the enabling legislation, each of the State's economic incentives must be evaluated once every four years according to a formal set of general criteria, including (but not limited to) economic output, fiscal impact, return on incentive and effectiveness of administration, as well as criteria specific to each incentive.

Since the Commission's inception, it has contracted with PFM Group Consulting LLC (PFM) to serve as the independent evaluator of each incentive scheduled for review in a given year. PFM issues a final report on each incentive with recommendations as to how Oklahoma can most effectively achieve the incentive's goals, including recommendations on whether the incentive should be retained, reconfigured or repealed; as well as recommendations for any changes to State policy, rules or statutes that would allow the incentive to be more easily or conclusively evaluated in the future.

The Commission is charged with considering the independent evaluator's facts and findings – as well as all public comments – before voting to retain, repeal or modify each inventive under review. It then submits a final report to the Governor and Legislature.

Summary of 2021 Evaluation Findings and Recommendations

Based on the preceding framework, significant findings from the 2021 evaluation of the Small Employer Quality Jobs program are summarized in the following table.

Table 1: Summary of 2021 Evaluation Findings and Recommendations

Evaluation Category	Significant Finding(s)
Overall Findings	- The program was a net benefit to the State, and nearly all the rebates were generated by manufacturing firms.
Fiscal and Economic Impact	- The program was found to be a net benefit to the State, with a breakeven point of 50 percent
Future Fiscal Impact Protections	- The program features cost controls related to quarterly requirements that have helped the State control costs
Administrative Effectiveness	- Administration of the program was effective. The Department of Commerce thoroughly reviews applicant qualifications, and the Tax Commission verifies quarterly reports.
Achievement of Goals	- The program intends to support small employers creating quality jobs in industries with the "promise of significant development" of the State economy. While the program overall was found to be a net benefit, most payments reviewed for the period of 2012 to 2016 were made to establishments in industries growing slower than the State average.
Retain, Reconfigure or Repeal	- Based on its analysis of available data, the project team recommended in 2021 that the program be retained with modifications.
Other Recommendations	- Require companies to file information for payment each quarter - Establish regular review of eligible industries to better target the program - Centralize data collection across the Department of Commerce and the Tax Commission for more robust analysis.

Based on PFM’s analysis and consideration of other factors, the Commission voted 4-0 to approve PFM’s recommendation to retain the incentive with the same modifications as suggested for the Quality Jobs program.

2025 Criteria for Evaluation

The provisions of HB 2182 require that criteria specific to each incentive be used for the evaluation. A key factor in evaluating the effectiveness of incentive programs is to determine whether they are meeting the stated goals established in state statute or legislation.

To assist in a determination of program effectiveness, 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
- Change in capital investment associated with the cash rebates
- But-for-test – change in jobs/payroll/capital associated with the cash rebates versus state growth rates as a whole
- Change in jobs/payroll/capital in the qualifying industries versus state industries as a whole
- State return on investment

2025 Evaluation Approach

To conduct its 2021 review of the Small Employer Quality Jobs Program, the project team conducted the following activities:

- Submitted a data request to the Oklahoma Department of Commerce and Oklahoma Tax Commission (OTC);
- Reviewed and analyzed provided data;
- Completed subject matter expert/internal stakeholder interviews with representatives from the Department of Commerce and OTC;
- Conducted external stakeholder interviews with industry representatives;
- Benchmarked Oklahoma to other states.

Incentive Usage and Administration

Incentive Characteristics

Oklahoma's Small Employer Quality Jobs program was created in 1997 under the Small Employer Quality Jobs Incentive Act. The program provides qualifying companies with 500 or fewer employees quarterly rebate payments of up to five percent of the newly created payroll, for up to seven years. To qualify for payments, participants must meet requirements related to job creation and wages.

Historic Use of the Credit

Annual rebate payments declined steeply from their peak of nearly $1.0 million in 2011 to just $100,000 in 2014. After rebounding in 2015, payments remained generally flat until increasing significantly in 2019 and 2020. Jobs reported are approximately 50 percent of the first-year total, but rebates generated are about two-thirds, reflecting the increase in average wages in 2023.

Table 2: Use of the Program, 2011 to 2023

Year	Companies Generating Rebates	Reported Jobs	Rebates Generated
2011	13	541	$938,288
2012	10	323	$544,757
2013	7	108	$248,764
2014	4	72	$178,074
2015	7	95	$224,197
2016	7	130	$255,210
2017	7	178	$349,426
2018	8	222	$445,949
2019	12	311	$705,129
2020	10	314	$684,915
2021	8	222	$480,155
2022	11	260	$557,108
2023	8	266	$686,240

Source: Oklahoma Department of Commerce

Between 2019 and 2024, 21 new contracts were signed under the Small Employer Quality Jobs program. One new contract was signed in 2024, which was the lowest number for the study period.

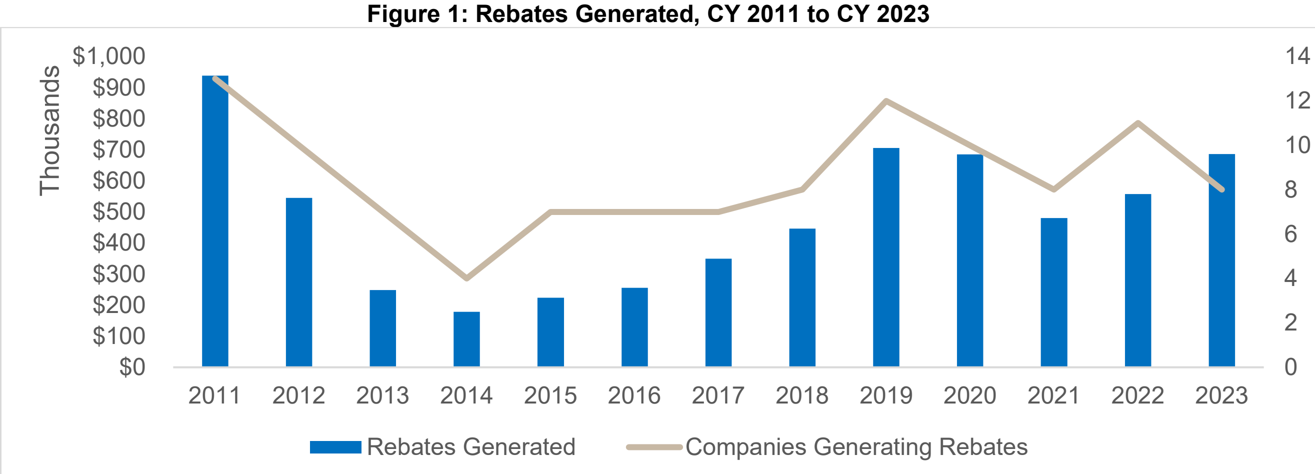
Table 3: Use of the Program, 2011 to 2023

	2019	2020	2021	2022	2023	2024	TOTAL by Type
QJ	14	12	15	20	21	13	**95**
SEQJ	5	2	5	5	3	1	**21**
21st Century	1	1	2	2	4	0	**10**
TOTAL by Year	**20**	**15**	**22**	**27**	**28**	**14**	**126**

The analysis of program usage in this section focuses on data provided by the Department of Commerce (Department) that includes information on participants' reported jobs, payroll, and wages in the quarters in which a rebate payment was generated. Due to the potential lag time in filing a claim for rebate payment, the analysis of the Department's data, which was provided for 2011 through 2024, was truncated to include data out to 2023, the last full year of claims in the dataset.

The amount of rebates generated decreased each year from 2011 to 2014, before increasing in each subsequent year. The decline in rebates generated coincided with a decline in the number of companies receiving a rebate. Of the 13 companies that generated rebates in 2011, 12 were set to meet the end of their benefit period by 2014 or earlier. Five companies were added to the program in 2013, but none began generating rebate payments until 2015. In 2021, rebates and jobs reduced by about one-third of the total values, due in part to the COVID-19 pandemic. The value of rebates generated increased each year from 2021 to 2023, reflecting a stable level of utilization from 2019 to 2023.

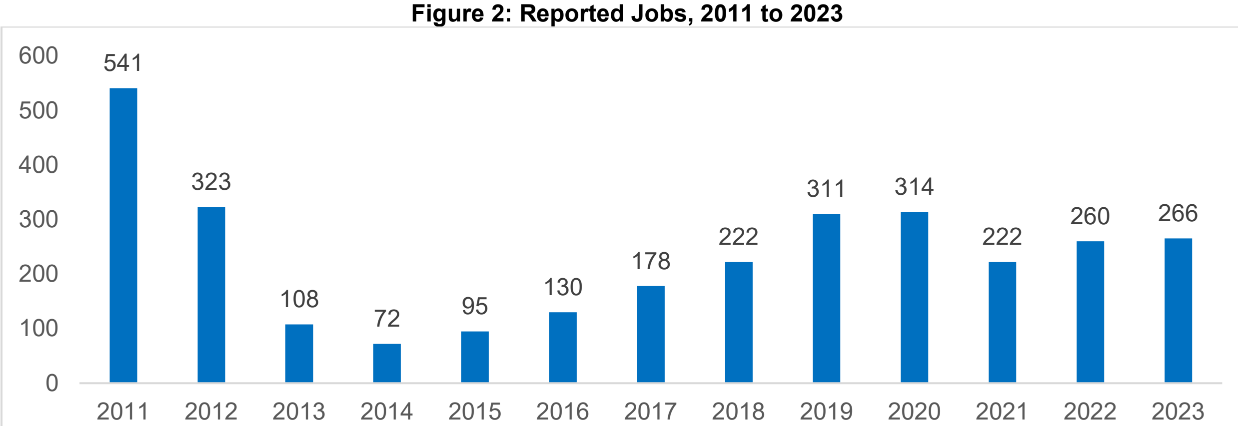
Figure 1: Rebates Generated, CY 2011 to CY 2023



Source: Oklahoma Department of Commerce

The number of jobs reported by participating companies has followed the same trajectory. Reported jobs were at their highest in 2011, before reaching a low in 2014 and increasing in each subsequent year. Despite the increases, total jobs still sit about 50 percent below the 2011 high. With just one new contract in 2024, it is likely the total number is not significantly higher.

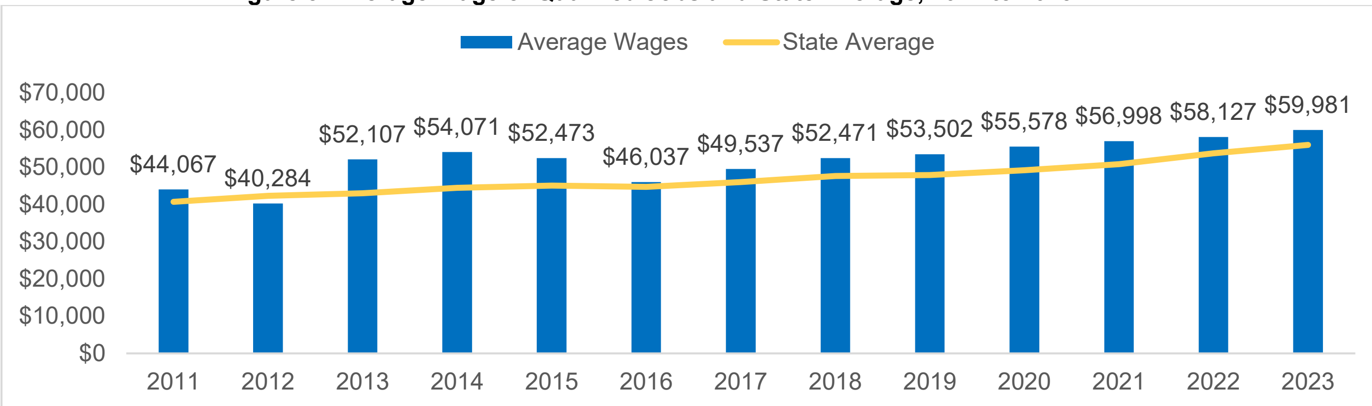
Figure 2: Reported Jobs, 2011 to 2023



Source: Oklahoma Department of Commerce

Although the number of jobs reported by participants decreased, the average wage of those jobs increased. The average wage of reported jobs has been about equal to or greater than the state average wage from 2011 to 2023.

Figure 3: Average Wage of Qualified Jobs and State Average, 2011 to 2023



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

Manufacturing firms generated most of the rebates over this period, accounting for 56.4 percent of the total. This represents a diversification from the prior study where nearly all rebates were from Manufacturing. Bioscience, Aerospace & Defense, and Professional Services all claim at least 13.0 percent of rebates as of 2023.

Table 4: Total Rebates Generated by Industry, 2011 through 2023

Industry	Rebates Generated	Percent of Total
Manufacturing	$2,033,252	56.4%
Services	$543,902	15.1%
Aerospace & Defense	$485,815	13.5%
Bioscience	$477,365	13.2%
Automotive	$3,345	0.1%
Total	**$3,603,500**	

Source: Oklahoma Department of Commerce

Small Employer Quality Jobs program use is spread across many counties. This contrasts with the Quality Jobs and 21st Century Quality Jobs programs, where use is concentrated in Oklahoma and Tulsa counties. Delaware County, which received the highest dollar amount of rebates from 2011 to 2018, accounted for 13.6 percent of the total over that period, but now is down to 8.6 percent overall. Tulsa County is tops with 22.6 percent, and 9 counties received at least 5 percent of total rebates over the life of the program.

Table 5: Total Rebates Generated by County, 2011 through 2024

County	Rebates Generated	Percent of Total
Tulsa	$814,544	22.6%
Cleveland	$477,365	13.2%
Creek	$453,486	12.6%
Wagoner	$340,105	9.4%
Delaware	$309,158	8.6%
Canadian	$278,846	7.7%
Custer	$247,345	6.9%
Grady	$187,326	5.2%
Stephens	$180,506	5.0%

County	Rebates Generated	Percent of Total
Bryan	$134,788	3.7%
Lincoln	$91,030	2.5%
Oklahoma	$73,754	2.0%
Ellis	$11,901	0.3%
Kingfisher	$3,345	0.1%
Total	**$3,603,500**	

Source: Oklahoma Department of Commerce

Incentive Administration

The Department and the OTC jointly administer the Small Employer Quality Jobs program. Eligibility guidelines and administrative responsibilities are established in State statute and administrative rules.[2] The essential components of program administration are summarized below. The Department is most heavily involved in the process in the initial stages of a company exploring and applying for the incentive. The OTC's role begins once a company has been approved to receive the incentive and make claims for quarterly rebate payments.

Eligibility

Applications submitted to the Department must provide evidence of the establishment's ability to meet the following requirements:

- **Size.** Applicants must have no more than 500 employees in the State at the time of application, or more than an average of 500 employees in the State during the preceding four calendar quarters.
- **Industry.** Applicants must operate in an eligible industry, as defined in statute.[3] Qualifying industries include all those that are eligible for the regular Quality Jobs program, excluding oil and gas companies.
- **Job creation.** Applicants must add new jobs between five and ten percent of baseline employment at the time of application. These jobs must be created within two years.
- **Average Wage.** Applicants must pay new jobs wages of at least 110 percent of the average wage of small employers in the county where the establishment is located. Employees must be paid this annualized wage on a quarter-by-quarter basis for the establishment to be eligible for benefits. Applicants in counties deemed to be economically challenged may qualify for program benefits at an average wage equal to the small employer county average.
- **Health Insurance.** Applicants must offer basic health insurance coverage to new employees, where employees pay no more than 50 percent of the premium cost. If the establishment did not offer employees health benefits prior to applying, they would have 12 months to institute a qualified basic health insurance coverage policy and provide access to its employees.
- **Out of State Sales.** Applicants must have at least 35 percent of sales be out of state within the first two years of entering the program. Thereafter, establishments must maintain a 60 percent out-of-state sales margin for the contract period. Establishments may meet this requirement by selling to a

[2] 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

[3] See Appendix C for full list of eligible industries

buyer or buyers who. sell the items to out-of-state buyers for ultimate use. Research and development companies and testing labs are excused from this requirement.

Benefit Amounts

Once applications are submitted to the Department, program eligibility is verified, and a cost/benefit analysis is prepared. The cost/benefit analysis determines two critical components of the Small Employer Quality Jobs program benefits package: **the net benefit rate and the maximum benefit amount**. These figures define the establishment's quarterly benefit payments and the maximum benefit they may receive over the contract term.

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

In the Small Employer Quality Jobs program, establishments receive a net benefit rate of up to 5 percent of newly created taxable payroll. If establishments meet their qualification requirements within the first two years, they are eligible for an additional five-year benefit period.

To approve an application, the eligibility verification and the final cost/benefit analysis are presented to an internal review team that makes a recommendation for approval or denial. If the applicant passes the first internal review, then a representative from the establishment meets with the Incentive Approval Committee in an external hearing. The Incentive Approval Committee is made up of representatives from the OTC, the Office of Management and Enterprise Services, and the Department. This committee makes the final recommendation to the Executive Director of the Department on whether an application should be approved or denied.

Once an application is approved, a contract outlining the incentive offer is issued to the establishment to sign. The contract outlines the benefit rate and maximum benefit amount amongst various other information that the Department and the establishment agree upon.

Payments

After a signed contract is returned to the Department, it is forwarded to the OTC, which is responsible for issuing payments during the contract period. Establishments submit quarterly reports to the OTC that detail the number of new jobs created and the new payroll associated with those hires. Before issuing any benefit payments, the OTC verifies that establishments are meeting their contractual requirements and obligations. Establishments that do not meet the criteria to receive benefit payments will not receive benefit payments for that quarter. Establishments meeting program criteria will receive quarterly benefit payments for up to 7 years.

Eligibility for Other Incentives

By statute, companies participating in the Quality Jobs Program are prohibited from receiving certain credits or exemptions related to the same activity. Companies are ineligible to claim Quality Jobs rebates in conjunction with benefits from the following programs:

- Business Expansion Incentive Program
- Income Tax Credit for net increase in Computer and R&D Jobs
- Insurance Premium Tax Credits

- Investment in Clean Burning Fuel Motor Vehicle
- Investment in Qualified Venture Capital Companies
- Investment/New Jobs Tax Credit
- Purchase of Equipment for Computer/Data Processing
- Recycle, Reuse, Source Reduction Tax Credits
- Sales of Electronics to Qualified Aircraft Maintenance Facilities
- Sales to Radio and TV Entities
- Tax Credit for Employer Provided Health Plans
- Tax Credit for Recycling Facility

Changes Over Time

Eligibility for the program has expanded over time as the list of industries eligible for the Quality Jobs Program has been expanded by the Legislature. However, as described earlier, use of the program has still been concentrated in manufacturing, which was the original target of the program. A significant difference between the two programs is that while the Quality Jobs Program expanded to include oil and gas firms, those firms were excluded from the Small Employer Quality Jobs program.

One of the most significant changes to the program was made to the size requirement. In 2018, the size limit for establishments to be considered small employers increased from 90 to 500.

Program Design Compared to Best Practice

The PFM Project Team has established a list of best practices that can apply broadly to incentive program designs.[4] These are based on decades of experience evaluating programs professionally as well as reviewing the associated academic literature and evaluations of programs by State agencies or departments. A program can then be judged to either fully adopt, partly adopt, or not adopt a given practice.

In the case of the Oklahoma Small Employer Quality Jobs Program, best practices are generally adopted and maintained.

- The program is very targeted, focusing on high-wage jobs for small businesses.
- It is discretionary through an application and committee review process.
- It does leverage significant private investment; in this case the expansion of wages paid to workers in the state.
- The program helps overcome practical barriers to growth by enabling firms to pay competitive wages to more employees, a critical benefit for small and growing employers.
- It encourages accountability and transparency through the quarterly reporting process, the Commerce Department's Triennial Report (which plainly identifies the firms participating), as well as the IEC's regular evaluation process.
- Awards are capped on a percentage basis which makes expenditures more manageable.
- Feedback from participants is consistently positive in terms of the administration of this rebate, especially when compared to competing states.

Areas where the program falls short of the highest standard include the duration of the benefit. Seven years is a long duration for most incentive programs as private businesses generally plan on a shorter timeframe. The program considers local conditions in terms of wages, but based on prior evaluations and program performance, this does not appear to be a significant factor for participants. Lastly, the program does not have

[4] Details on the best practices and their establishment can be found in the Appendices.

a sunset date, which can serve as a trigger to reconsider the need for an incentive program. This is mitigated significantly by the consistent reporting and evaluation that would elevate concerns or provide the basis for redesigning or closing the program.

Table 6: Incentive Best Practices Adopted

Best Practice	SEQJ
Targeted to specific companies or industries	●
Discretionary	●
Leverage significant private capital	●
Limited duration / front-load benefits to 1-3 years	○
State / Local conditions considered	Light circle
Overcoming practical barriers to growth	●
Transparency	●
Accountability	●
Cap on value of awards	●
Simple and understandable	●
Sunset on program duration	○

Legend: Dark circle = full adoption, Light circle = partial adoption, Empty circle = limited adoption

Economic and Fiscal Impact

Economic Impact and Fiscal Impact

Between 2019 and 2024, the Small Employer Quality Jobs program supported hundreds of jobs in small businesses across the State. To estimate fiscal and economic impacts, the project team used a standard input-output software model, IMPLAN.[5]

Using reported wages from these jobs, the PFM project team created inputs for use in IMPLAN to estimate fiscal and economic impacts of the program. It is important to note that this analysis only reflects eligible positions – it is possible that some participants of this program create additional employment not eligible for the program. Also relevant is the noted delays in filing for rebates from the program. The dataset considered in this analysis includes 2023 and 2024 data but will not be judged to be "complete" due to these typical delays in filing.

Based on actual rebate data from OTC, the program made rebate payments of about $3.3 million over the study period. IMPLAN estimates about $3.1 million in direct state taxes generated, for a net fiscal cost of about $275,000. When including Indirect and Induced impacts, the total taxes generated are an estimated $8.0 million and the net return to the state is a positive $4.7 million. Direct Labor Income – that is paid to Oklahomans – totaled $74.9 million for the 2019 to 2024 period. Total output, which includes the Labor Income figure, was estimated at $728.8 million.

Table 7**– IMPLAN Output by Year**

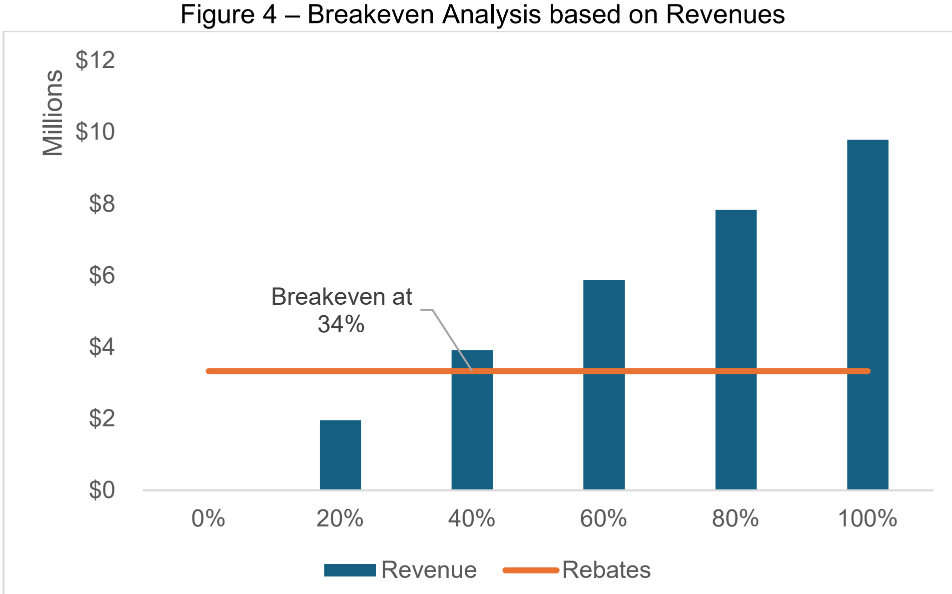
Year	Impact	Labor Income	Value Added	Output	State Tax	Program Payments	Net Impact
2019	Direct	$17,705,400	$17,244,202	$152,610,014	$688,247		
	Indirect	$10,182,943	$16,639,656	$36,518,358	$796,044		
	Induced	$3,119,202	$6,942,756	$11,716,311	$394,300		
	Total	$31,007,544	$40,826,615	$200,844,682	$1,878,591	$503,260	$1,375,331
2020	Direct	$17,349,845	$16,075,982	$94,998,715	$113,916		
	Indirect	$6,774,178	$10,325,903	$22,162,438	$391,149		
	Induced	$2,649,090	$5,644,023	$9,402,660	$343,722		
	Total	$26,773,113	$32,045,909	$126,563,814	$848,787	$798,425	$50,362
2021	Direct	$12,401,258	$13,170,441	$75,043,575	$262,675		
	Indirect	$5,560,954	$8,662,618	$19,163,387	$413,030		
	Induced	$1,931,687	$4,088,815	$7,052,512	$259,916		
	Total	$19,893,899	$25,921,874	$101,259,475	$935,622	$441,824	$493,798
2022	Direct	$12,804,048	$14,257,050	$92,604,290	$688,263		
	Indirect	$6,119,028	$10,108,400	$22,617,644	$537,965		
	Induced	$2,033,312	$4,334,159	$7,579,273	$278,491		
	Total	$20,956,388	$28,699,609	$122,801,208	$1,504,719	$618,715	$886,004
2023	Direct	$17,647,243	$17,398,913	$117,225,193	$775,300		
	Indirect	$13,639,682	$23,113,294	$47,139,197	$1,130,882		

[5] IMPLAN and the economic impact methodology is discussed in Appendix D.

Year	Impact	Labor Income	Value Added	Output	State Tax	Program Payments	Net Impact
	Induced	$6,588,969	$12,766,074	$22,193,961	$726,740		
	Total	$37,875,894	$53,278,281	$186,558,350	$2,632,922	$674,422	$1,958,500
2024	Direct	$12,344,091	$9,809,271	$94,809,169	$523,259		
	Indirect	$10,836,183	$18,446,769	$37,699,878	$922,192		
	Induced	$4,883,971	$9,462,785	$16,450,991	$538,694		
	Total	$28,064,245	$37,718,824	$148,960,038	$1,984,145	$290,818	$1,693,327

In examining whether the program revenues offset the costs, the project team looks at the degree to which incentives are responsible for job creation decisions. The question of whether jobs might have occurred without the incentive helps reveal the degree of incentive success and is known as the "but for" test. It seeks to determine if "but for" the incentive, job formation would still occur. It is impossible to entirely know the allocation of factors within a decision for an individual business, though they may be estimated through surveys, interviews, or third-party investigations. Even with this data, the determination of causality "but for" the incentive cannot necessarily be established. Instead, a range of alternatives can be considered to contemplate the degree of causality and help highlight and better understand the economic impacts of the program. In this case, because the program generates significant surpluses a break-even analysis might be used as an example of which highlights the benefit of the revenue surplus. Based on the revenues generated by the associated activity, the Small Employer program breaks even at 34 percent of revenue being attributable to the incentive.

Figure 4 – Breakeven Analysis based on Revenues



When measured by industry, the economic impacts are obviously concentrated in the manufacturing industry, which receives the vast majority of the investment through this incentive. Over the study period, $2.0 million worth of rebates were paid to the manufacturing industry, compared to $5.9 million of State taxes generated. Bioscience and the Professional Services industry both have positive ROI on a fiscal basis, while Aerospace is estimated to have a slightly negative fiscal impact (about $25,000).

Table 8 – IMPLAN Output by Industry

Industry	Impact	Labor Income	Value Added	Output	State Tax	Program Payments	Net Impact
Aerospace	Direct	$12,380,521	$10,121,923	$48,321,222	$253,439		
	Indirect	$1,411,243	$2,266,593	$5,045,358	$88,905		
	Induced	$1,837,751	$3,829,696	$6,524,077	$224,592		
	Total	$15,629,515	$16,218,211	$59,890,657	$566,935	$485,815	$81,120
Bioscience	Direct	$12,120,561	$15,562,526	$36,569,770	$480,977		
	Indirect	$3,846,697	$5,583,316	$11,364,038	$144,959		
	Induced	$1,763,388	$3,789,933	$6,435,350	$231,398		
	Total	$17,730,646	$24,935,775	$54,369,159	$857,334	$477,365	$379,968
Services	Direct	$14,928,109	$24,481,876	$44,773,115	$493,723		
	Indirect	$3,939,763	$6,235,140	$12,665,980	$235,396		
	Induced	$2,780,230	$5,643,091	$9,751,196	$336,324		
	Total	$21,648,103	$36,360,107	$67,190,291	$1,065,443	$543,902	$521,541
Manufacturing	Direct	$50,822,693	$37,789,535	$497,626,848	$1,823,521		
	Indirect	$43,915,265	$73,211,590	$156,225,527	$3,722,004		
	Induced	$14,824,863	$29,975,893	$51,685,085	$1,749,549		
	Total	$109,562,820	$140,977,018	$705,537,460	$7,295,074	$2,033,252	$5,261,822

Incentive Benchmarking

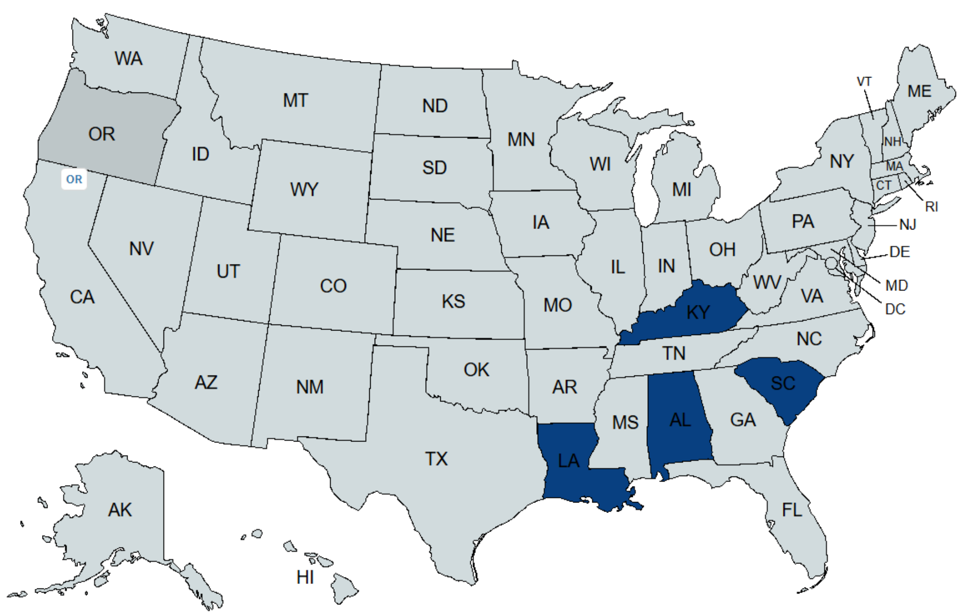
Benchmarking

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.[6] 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 most states offer job creation programs, no bordering states were found to have programs that focus on incentivizing small businesses.

For the purposes of this report, a comparison group of states was chosen that did not account for geographic proximity but rather had a similar focus to the Small Business Employer Quality Jobs program. Five states were chosen for the comparison group: Alabama, Illinois, Kentucky, Louisiana, and South Carolina. While these programs share a focus on incentivizing small businesses with Oklahoma, there are crucial differences in each that relate to business size requirements and benefit amounts.

Figure 5: States Chosen for Comparison



The comparison group can be analyzed along several dimensions, including size requirements, eligible positions and industries, and value of the incentive.

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

Small Employer Quality Jobs Benchmarking					
	Oklahoma	**Alabama**	**Kentucky**	**Louisiana**	**South Carolina**
Name	Small Employer Quality Jobs	Full Employment Act of 2011	Small Business Tax Credit	Quality Jobs	Annual Small Business Job Tax Credit
Size Requirement	500 or fewer full-time employees in Oklahoma	No more than 50 employees	No more than 50 employees	No more than 50 employees	99 or fewer employees worldwide
Job Creation Requirement	5 to 10 percent increase compared to baseline	Any net increase from previous tax year qualifies	At least one new job	5 new jobs	Monthly average of two new jobs per month of operation during the tax year
Wage Requirement	110 percent of the average county wage	More than $10 per hour	$10.88 per hour	$18 per hour for 4 percent rebate, $21.66 for 6 percent rebate	> / = 120 percent of per capita income for lesser of state and county, or 50 percent of credit for less
Benefit Type	Cash Rebate	Tax Credit	Tax Credit	Cash Rebate	Tax Credit
Benefit Amount	5 percent of new job payroll	$1,000 per employee	$3,500 to $25,000	4 or 6 percent of payroll	$1,500 to $8,000 per job
Benefit Period	7 Years	One year from hiring new employee	Can re-apply annually	5 Years	5 Years

Some notable differences include the definition of a “small employer” for which Oklahoma has a relatively high number of employees. Some states, like South Carolina, measure the employee count beyond just employees located in the State. This means that a large firm cannot simply locate a smaller entity or subsidiary in South Carolina to take advantage of the incentive. Related to the size is the requirement for number of new jobs, which Oklahoma also has the highest required figure at five to ten percent of baseline jobs. Alabama and Kentucky require just one net new job, South Carolina two jobs, and Louisiana five new jobs. Of course, Oklahoma’s requirement could be that low if the firm is small enough, but being a percentage means it scales up with the size of the participant firm. That can be argued to be a more equitable design as opposed to a standard increase in jobs regardless of size.

Oklahoma also has the longest benefit period, similar to what was found in the Quality Jobs and 21st Century Quality Jobs programs. However, Kentucky’s program allows reapplication each year and so can be used in perpetuity as long as participating firms meet the requirements.

Appendices

Appendix A: Incentive Statute

68 O.S. § 3902 – Intent of Legislature

It is the intent of the Legislature that:

1. The State of Oklahoma provide appropriate incentives to support the creation of quality jobs, particularly by small businesses, in basic industries in this state;

2. The incentives provided be directly related to quality jobs created as a result of a business locating or expanding in this state;

3. The Oklahoma Department of Commerce and the Oklahoma Tax Commission implement the provisions of this act and exercise all powers as authorized in this act. The exercise of powers conferred by this act shall be deemed and held to be the performance of essential public purposes; and

4. Nothing herein shall be construed to constitute a guarantee or assumption by the State of Oklahoma of any debt of any individual, company, corporation or association nor to authorize the credit of the State of Oklahoma to be given, pledged or loaned to any individual, company, corporation or association.

Laws 1997, SB 574, c. 419, § 2, eff. January 1, 1998.

68 O.S. § 3903 – Definitions

As used in the Small Employer Quality Jobs Incentive Act:

1. "Basic industry" means a basic industry as defined under the Oklahoma Quality Jobs Program Act in divisions (1) through (9) of subparagraph a of paragraph 1 of subsection A of Section 3603 of this title, excluding those activities described in division (10) of subparagraph a of paragraph 1 of subsection A of Section 3603 of this title. Provided, for the purposes of the Small Employer Quality Jobs Incentive Act, the determination required by subdivision (b) of division (7) or division (8) of subparagraph a of paragraph 1 of subsection A of Section 3603 of this title shall be made by the Oklahoma Department of Commerce and not the Incentive Approval Committee;

2. "Establishment" means any business, no matter what legal form, including, but not limited to, a sole proprietorship, partnership, corporation, or limited liability corporation;

3. "Estimated direct state benefits" means the tax revenues projected by the Oklahoma Department of Commerce to accrue to the state as a result of new direct jobs;

4. "Estimated direct state costs" means the costs projected by the Department to accrue to the state as a result of new direct jobs. Such costs shall include, but not be limited to:

    a. the costs of education of new state resident children,

    b. the costs of public health, public safety, and transportation services to be provided to new state residents,

    c. the costs of other state services to be provided to new state residents, and

    d. the costs of other state services;

5. "Estimated net direct state benefits" means the estimated direct state benefits less the estimated direct state costs;

6. "Full-time employment" means employment of persons residing in this state and working for thirty (30) hours per week or more in this state, which has a minimum six-month duration during any twelve-month period;

7. "Gross taxable payroll" means wages, as defined in Section 2385.1 of this title, for new direct jobs;

8. "Net benefit rate" means the estimated net direct state benefits computed as a percentage of gross payroll; provided:

a. the net benefit rate may be variable and shall not exceed five percent (5%), and

b. in no event shall incentive payments, cumulatively, exceed the estimated net direct state benefits; and

9. "New direct job" means full-time employment which did not exist in this state prior to the date of approval, by the Oklahoma Department of Commerce, of an application made pursuant to the Small Employer Quality Jobs Incentive Act. A job shall be deemed to exist in this state prior to approval of an application if the activities and functions for which the particular job exists have been ongoing at any time within six (6) months prior to such approval.

Laws 1997, SB 574, c. 419, § 3, eff. January 1, 1998; Amended by Laws 2002, SB 828, c. 308, § 2, emerg. eff. July 1, 2002; Amended by Laws 2003, HB 1605, c. 377, § 3, emerg. eff. June 4, 2003; Amended by Laws 2005, SB 407, c. 352, § 2, emerg. eff. July 1, 2005; Amended by Laws 2006, SB 1577, c. 281, § 34, emerg. eff. July 1, 2006; Amended by Laws 2013, HB 1455, c. 227, § 27, eff. November 1, 2013; Amended by Laws 2014, HB 2956, c. 128, § 1, emerg. eff. July 1, 2014.

<u>68 O.S. § 3904 –Incentive Payments</u>

A. An establishment which meets the qualifications specified in the Small Employer Quality Jobs Incentive Act may receive quarterly incentive payments for a seven-year period from the Oklahoma Tax Commission pursuant to the provisions of the Small Employer Quality Jobs Incentive Act in an amount equal to the net benefit rate multiplied by the actual gross taxable payroll of new direct jobs as verified by the Tax Commission.

B. In order to receive incentive payments, an establishment shall apply to the Oklahoma Department of Commerce. The application shall be on a form prescribed by the Department and shall contain such information as may be required by the Department to determine if the applicant is qualified. The establishment may apply for an effective date for a project, which shall not be more than twelve (12) months from the date the application is submitted to the Department.

C. Before approving an application for incentive payments, the Department must first determine that the applicant meets the following requirements:

1. Be engaged in a basic industry;

2. Has no more than five hundred full-time employees in this state on the date of application nor an average of more than five hundred full-time employees in this state during the four calendar quarters immediately preceding the date of application;

3. Has a projected minimum employment, as determined by the Department, of new direct jobs within twelve (12) months of the date of application, or after July 1, 2011, within twenty-four (24) months of the date of application, as follows:

a. if the establishment is located in a municipality with a population less than three thousand five hundred (3,500) persons, as determined by the Department of Commerce based on the most recent U.S. Department of Commerce data, or if the establishment is located in an unincorporated area and the largest municipality within twenty (20) miles of the establishment is such a municipality, new direct jobs equal to the greater of five (5) jobs or five percent (5%) of the company's full-time employment at the date of application,

b. if the establishment is located in a municipality with a population of three thousand five hundred (3,500) persons or more but less than seven thousand (7,000) persons, as determined by the Department of Commerce based on the most recent U.S. Department of Commerce data, or if the establishment is located in an unincorporated area and the largest municipality within twenty (20) miles of the establishment is such a municipality, new direct jobs equal to the greater of ten (10) jobs or seven and one-half percent (7.5%) of the company's full-time employment at the date of the application, and

c. if the establishment is located in a municipality with a population of seven thousand (7,000) persons or more, as determined by the Department of Commerce based on the most recent U.S. Department of Commerce data, or if the establishment is located in an unincorporated area and the largest municipality within twenty (20) miles of the establishment is such a municipality, new direct jobs equal to the greater of fifteen (15) jobs or ten percent (10%) of the company's full-time employment at the date of application.

Provided, for an establishment engaged in software publishing as defined or classified in the NAICS Manual under Industry Group No. 5112, data processing, hosting and related services as defined or classified in the NAICS Manual under Industry Group No. 5182, computer systems design and related services as defined or classified in the NAICS Manual under Industry Group No. 5415, scientific research and development services as defined or classified in the NAICS Manual under Industry Group No. 5417, medical and diagnostic laboratories as defined or classified in the NAICS Manual under Industry Group No. 6215 or testing laboratories as defined or classified in the NAICS Manual under U.S. Industry No. 541380, the projected minimum employment requirements of this paragraph must be achieved within thirty-six (36) months of the date of application;

4. Has or will have within twelve (12) months of the date of application, or after July 1, 2011, within twenty-four (24) months of the date of application, as determined by the Department, sales of at least thirty-five percent (35%) for the first two (2) years and subsequently sixty percent (60%) of its total sales to out-of-state customers or buyers, to in-state customers or buyers if the product or service is resold by the purchaser to an out-of-state customer or buyer for ultimate use, or to the federal government, except that:

a. those establishments in the NAICS Manual under the U.S. Industry No. 541710 or 541380 are excused from the out-of-state sales requirement,

b. warehouses that serve as distribution centers for retail or wholesale businesses shall be required to distribute forty percent (40%) of inventory to out-of-state locations, and

c. adjustment and collection services activities defined or classified in the NAICS Manual under U.S. Industry No. 561440 shall be required to have seventy-five percent (75%) of loans to be serviced made by out-of-state debtors;

5. Will pay the individuals it employs in new direct jobs an average annualized wage which equals or exceeds:

a. one hundred twenty-five percent (125%) of the average county wage of small employers located in that county as that percentage is determined by the Department of Commerce based on the most recent wage and employment data from the Oklahoma Employment

Security Commission for the county in which the new direct jobs are located. For purposes of this subparagraph, health care premiums paid by the applicant for individuals in new direct jobs shall be included in the annualized wage, or

b. one hundred ten percent (110%) of the average county wage of small employers located in that county as that percentage is determined by the Department of Commerce based upon the most recent wage and employment data from the Oklahoma Employment Security Commission for the county in which the new direct jobs are located. For purposes of this subparagraph, health care premiums paid by the applicant for individuals in new direct jobs shall not be included in the annualized wage, or

c. one hundred percent (100%) of the average county wage, excluding health care premiums paid by the applicant for individuals in new direct jobs if the county in which the new jobs are located has:

(1) according to the most recent annual determination by the Oklahoma Employment Security Commission, a county unemployment rate more than ten percent (10%) higher than the state unemployment rate, and

(2) according to the most recent United States Census Bureau Data, a county personal poverty rate above fifteen percent (15%);

6. Has a basic health benefit plan which, as determined by the Department, meets the elements established under divisions (1) through (7) of subparagraph b of paragraph 1 of subsection A of Section 3603 of this title and which will be offered to individuals within twelve (12) months of employment in a new direct job;

7. Has not received incentive payments under the Oklahoma Quality Jobs Program Act, the Saving Quality Jobs Act, or the Former Military Facility Development Act; and

8. Is not qualified for approval of an application for incentive payments under the Oklahoma Quality Jobs Program Act, the Saving Quality Jobs Act, or the Former Military Facility Development Act.

D. The Oklahoma Department of Commerce shall determine if an applicant is qualified to receive the incentive payment. Upon qualifying the applicant, the Department shall notify the Tax Commission and shall provide it with a copy of the application, and approval which shall provide the number of persons employed by the applicant upon the date of approval and the maximum total incentives which may be paid to the applicant during the seven-year period. The Tax Commission may require the qualified establishment to submit additional information as may be necessary to administer the provisions of the Small Employer Quality Jobs Incentive Act. The approved establishment shall report to the Tax Commission quarterly to show its continued eligibility for incentive payments, as provided in Section 3905 of this title. Establishments may be audited by the Tax Commission to verify such eligibility. Once the establishment is approved, an agreement shall be deemed to exist between the establishment and the State of Oklahoma, requiring incentive payments to be made for a seven-year period as long as the establishment retains its eligibility and within the limitations of the Small Employer Quality Jobs Incentive Act which existed at the time of such approval. Any establishment which has been approved for incentive payments prior to July 1, 2002, shall continue to receive such payments pursuant to the laws as they existed prior to July 1, 2002, for any period of time of the original five-year period for such payments remaining after July 1, 2002.

E. For any contract executed by an establishment on or after August 2, 2018, five percent (5%) of the quarterly incentive payment amount shall be transferred by the Oklahoma Tax Commission to the Oklahoma Quick Action Closing Fund.

Laws 1997, SB 574, c. 419, § 4, eff. January 1, 1998; Amended by Laws 1998, SB 782, c. 379, § 4, emerg. eff. July 1, 1998; Amended by Laws 1999, SB 315, c. 67, § 1, emerg. eff. April 7, 1999; Amended by Laws 2002, SB 828, c. 308, § 3, emerg. eff. July 1, 2002; Amended by Laws 2003, HB 1605, c. 377, § 4, emerg. eff.

June 4, 2003; Amended by Laws 2004, SB 1527, c. 457, § 4, emerg. eff. July 1, 2004; Amended by Laws 2005, SB 407, c. 352, § 3, emerg. eff. July 1, 2005; Amended by Laws 2006, SB 1577, c. 281, § 35, emerg. eff. July 1, 2006 (repealed by Laws 2007, HB 2195, c. 1, § 68, emerg. eff. February 22, 2007); Amended by Laws 2006, HB 2628, c. 256, § 1, emerg. eff. July 1, 2006; Amended by Laws 2007, HB 2195, c. 1, § 67, emerg. eff. February 22, 2007; Amended by Laws 2007, SB 871, c. 357, § 3, emerg. eff. July 1, 2007; Amended by Laws 2010, SB 1966, c. 254, § 1, eff. January 1, 2011; Amended by Laws 2013, HB 1455, c. 227, § 28, eff. November 1, 2013; Amended by Laws 2018, HB 3324, c. 144, § 3; Amended by Laws 2018, SB 923, c. 191, § 1, eff. November 1, 2018; Amendment by Laws 2018, HB 3324, c. 144, § 3, repealed by Laws 2019, SB 1041, c. 25, § 43, emerg. eff. April 4, 2019; Amendment Laws 2018, SB 923, c. 191, § 1, eff. November 1, 2018, amended by Laws 2019, SB 1041, c. 25, § 42, emerg. eff. April 4, 2019; Amended by Laws 2019, HB 2536, c. 197, § 1, emerg. eff. July 1, 2019.

<u>68 O.S. § 3905 – Filing Quarterly Reports with Oklahoma Tax Commission</u>

A. 1. Beginning with the first complete calendar quarter after the application of the establishment is approved by the Oklahoma Department of Commerce, the establishment shall begin filing quarterly reports with the Oklahoma Tax Commission that specify the actual number and individual gross taxable payroll of new direct jobs for the establishment and such other information as required by the Tax Commission. In no event shall the first claim for incentive payments be filed later than three (3) years from the start date designated by the Department. The Tax Commission shall verify the actual individual gross taxable payroll for new direct jobs. If the Tax Commission is not able to provide such verification utilizing all available resources, the Tax Commission may request additional information from the establishment as may be necessary or may request the establishment to revise its reports.

The establishment shall continue filing such reports during the seven-year incentive period or until it is no longer qualified to receive incentive payments. Such reports shall constitute a claim for quarterly incentive payments by the establishment.

2. Upon receipt of a report for the initial calendar quarter of the incentive period and for each subsequent calendar quarter thereafter, the Tax Commission shall determine if the establishment has met the following requirements:

a. created and or maintained the minimum number of new direct jobs as specified in paragraph 3 of subsection C of Section 3904 of this title, and

b. paid the individuals it employed in new direct jobs an annualized wage which equaled or exceeded the applicable percentage of the average county wage as that percentage was determined by the Oklahoma Department of Commerce upon approval of the application.

3. Upon determining that an establishment has met the requirements of paragraph 2 of this subsection for the initial calendar quarter of the incentive period, the Tax Commission shall issue a warrant to the establishment in an amount which shall be equal to the net benefit rate multiplied by the amount of gross taxable payroll of new direct jobs actually paid by the establishment.

B. Except as provided in subsection C of this section, the quarterly incentive payment provided for in subsection A of this section shall be allowed in each of the twenty-seven subsequent calendar quarters.

C. 1. An establishment which does not meet the requirements of paragraph 2 of subsection A of this section within twelve (12) months of the date of its application, or after July 1, 2011, within twenty-four (24) months of the date of its application, shall be ineligible to receive any incentive payments pursuant to its application and approval.

2. An establishment which at any time during the twenty-seven subsequent calendar quarters does not meet the requirements of paragraph 2 of subsection A of this section shall be ineligible to receive an incentive payment during the calendar quarter in which such requirements are not met.

Laws 1997, SB 574, c. 419, § 5, eff. January 1, 1998; Amended by Laws 1999, SB 315, c. 67, § 2, emerg. eff. April 7, 1999; Amended by Laws 2002, SB 828, c. 308, § 4, emerg. eff. July 1, 2002; Amended by Laws 2006, SB 1577, c. 281, § 36, emerg. eff. July 1, 2006; Amended by Laws 2010, SB 1966, c. 254, § 2, eff. January 1, 2011.

68 O.S. § 3906 – Creation of Small Employer Quality Jobs Incentive Payment Fund

There is hereby created within the State Treasury a special fund for the Oklahoma Tax Commission to be designated the "Small Employer Quality Jobs Incentive Payment Fund". The Tax Commission is hereby authorized and directed to withhold a portion of the taxes levied and collected pursuant to Section 2355 of Title 68 of the Oklahoma Statutes for deposit into the fund. The amount deposited shall equal the sum estimated by the Tax Commission to be sufficient to pay incentive payments claimed pursuant to the provisions of Section 5 of this act. All of the amounts deposited in such fund shall be used and expended by the Tax Commission solely for the purposes and in the amounts authorized by the Small Employer Quality Jobs Incentive Act. The liability of the State of Oklahoma to make incentive payments under this act shall be limited to the balance contained in the fund created by this section.

Laws 1997, SB 574, c. 419, § 6, eff. January 1, 1998.

68 O.S. § 3907 – Promulgation of Rules

The Oklahoma Department of Commerce and the Oklahoma Tax Commission shall promulgate rules necessary to implement their respective duties and responsibilities under the provisions of this act.

Laws 1997, SB 574, c. 419, §7, eff. January 1, 1998.

68 O.S. § 3908 – Penalties for Violations

Any person making an application, claim for payment or any report, return, statement, invoice, or other instrument or providing any other information pursuant to the provisions of this act who willfully makes a false or fraudulent application, claim, report, return, statement, invoice, or other instrument or who willfully provides any false or fraudulent information, or any person who willfully aids or abets another in making such false or fraudulent application, claim, report, return, statement, invoice, or other instrument or who willfully aids or abets another in providing any false or fraudulent information, upon conviction, shall be guilty of a felony. The fine for a violation of this provision shall not be less than One Thousand Dollars ($1,000.00) nor more than Fifty Thousand Dollars ($50,000.00). Any person convicted of a violation of this section shall be liable for the repayment of all incentive payments which were paid to the establishment. Interest shall be due on such payments at the rate of ten percent (10%) per annum.

Laws 1997, SB 574, c. 419, §8, eff. January 1, 1998.

68 O.S. § 3909 – Eligibility to Receive Credits or Exemptions

Notwithstanding any other provision of law, if a qualified establishment receives an incentive payment pursuant to the provisions of this act, neither the qualified establishment nor its contractors or subcontractors shall be eligible to receive the credits or exemptions provided for in the following provisions of law in connection with the activity for which the incentive payment was received:

1. Paragraphs 16 and 17 of Section 1357 of this title;

2. Paragraph 8 of Section 1359 of this title;

3. Section 2357.4 of this title;

4. Section 2357.7 of this title;

5. Section 2-11-303 of Title 27A of the Oklahoma Statutes;

6. Section 2357.22 of this title;

7. Section 2357.31 of this title;

8. Section 54003 of this title;

9. Section 54006 of this title;

10. Section 625.1 of Title 36 of the Oklahoma Statutes; or

11. Subsections C and D of Section 2357.59 of this title.

68 O.S. § 3909 – Triennial Report

The Oklahoma Department of Commerce shall prepare triennially a report which shall include, but not be limited to, documentation of the new direct jobs created under the Small Employer Quality Jobs Incentive Act and a fiscal analysis of the costs and benefits of the act to the state. The report shall be submitted to the President Pro Tempore of the Senate, the Speaker of the House of Representatives, and the Governor no later than March 1, 2001, and every three (3) years thereafter. The report may be used for the purpose of determining whether to continue or sunset the Small Employer Quality Jobs Incentive Act.

Laws 1997, SB 574, c. 419, §10, eff. January 1, 1998.

Appendix B: Comparable State Programs

Small Employer Quality Jobs Benchmarking					
	Oklahoma	**Alabama**	**Kentucky**	**Louisiana**	**South Carolina**
Name	Small Employer Quality Jobs	Full Employment Act of 2011	Small Business Tax Credit	Quality Jobs	Annual Small Business Job Tax Credit
Size Requirement	500 or fewer full-time employees in Oklahoma	No more than 50 employees	No more than 50 employees	No more than 50 employees	99 or fewer employees worldwide
Job Creation Requirement	5 to 10 percent increase compared to baseline	Any net increase from previous tax year qualifies	At least one new job	5 new jobs	Monthly average of two new jobs per month of operation during the tax year
Payroll Requirement	N/A	None	None	Greater than or equal to $225,000	None
Wage Requirement	100, 110, or 125 percent of the average county wage of small employers, depending on the location of the company	More than $10 per hour	150% of the federal minimum wage	$18 per hour for 4 percent rebate $21.66 per hour for 6 percent rebate	Greater than or equal to 120 percent of per capita income for lesser of state and county If job pays less than 120 percent but still greater than the applicable per capita income, company qualifies for 50 percent of credit amount for that job

Small Employer Quality Jobs Benchmarking (continued)					
	Oklahoma	**Alabama**	**Kentucky**	**Louisiana**	**South Carolina**
Health Insurance Requirement	Employees must pay no more than 50% of the premium cost	None	None	$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	None
Capital Investment Requirement	None	None	$5,000	None	None
Benefit Type	Cash Rebate	Tax Credit	Tax Credit	Cash Rebate	Tax Credit
Benefit Amount	5 percent of new job payroll	$1,000 per employee	$3,500 to $25,000	4 or 6 percent of payroll	$1,500 to $8,000 per job
Benefit Period	7 Years	None	Can re-apply annually	5 Years	5 Years

Appendix C: Small Employer Quality Jobs Eligible Industries

Basic Industries:

Manufacturing
Industries classified under NAICS Manual Nos. 31, 32, 33, 5111 or 11331.

Research and Development and Testing Laboratories
See NAICS Manual Nos. 541711, 541712 and 541380.

Central Administrative Offices, Corporate Offices and Technical Services
See NAICS Manual Nos. 5611, 5612, 51821, 519130, 52232, 56142, 524291, 551114.

Certain Warehouse/Distribution Operations
See NAICS manual No. 42-Where 40% of inventory is shipped out of state.

Transportation by Air
See NAICS Manual No. 4811 if corporate headquarters and some reservation activities are within the state or 75% of air transport sales are to out-of-state consumers.

Flight Training Services
See NAICS No. 611512.

Other Support Activities for Air Transportation
See NAICS Manual No. 488190.

Wind Power Electric Generation Equipment Repair & Maintenance
See NAICS Manual No. 811310.

Service Industries requiring 35% out of state sales for the first two years and 60% thereafter:

Rail Transportation
See NAICS Nos. 482

Motor Freight Transportation and Warehousing
See NAICS Nos. 493, 484, 4884-4889

Arrangement of Passenger Transportation
See NAICS Nos. 561510, 561599

Transportation of Freight or Cargo
See NAICS No. 541614

Certain Communications Services
See NAICS Nos. 517110, 51741 and 51791

Certain Refuse Systems that distribute methane gas
See NAICS No. 5622

Grocery Wholesale Distributing
See NAICS Nos. 4244 and 4245

Securities, Commodities, Investments
See NAICS No. 523

Insurance Carriers
See NAICS No. 5241

Insurance Claims Processors Only
Included in NAICS Nos. 524210 and 524292

Adjustment and Collection Services
See NAICS No. 561440 (75% of loans to out-of-state debtors)

Miscellaneous Equipment Rental
See NAICS Nos. 5324

Computer Programming, Data Processing and Other:

Computer Related Services
See NAICS Nos. 5112, 5182, 5191, 519130, and 5415

Miscellaneous Business Services
See NAICS Nos. 561410, 56142, and 51911

Offices of Real Estate Agents & Brokers
See NAICS No. 53120 (and 75% of transactions are out of state)

Medical and Diagnostic Laboratories
See NAICS No. 6215

Engineering, Management and Related Services
See NAICS Nos. 5412, 5414-5417, 54131, 54133,
54136, 54137, and 541990

Agricultural Production
See NAICS Nos. 112120

Professional Organizations
See NAICS No. 813920

Alternative Energy Structure Construction
See NAICS No. 237130

Alternative Energy Equipment Installation
See NAICS Nos. 238160, 238220

Electric Service Companies
The program also applies to electric services companies within NAICS Nos. 221111-221122 - Exempt Electric Wholesale Generators, if 90% of energy input is consumed from in-state sources and 90% of sales are out-of-state.

Appendix D: IMPLAN Economic Impact Methodology

The economic impact methodology utilized to determine the multiplier effects is IMPLAN, a proprietary model; PFM has obtained a license for use of the IMPLAN model for these evaluations.

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

Multipliers

SAMs can be constructed to show the effects of a given change on the economy of interest. These are called Multiplier Models. Multiplier Models study the impacts of a user-specified change in the chosen economy for 440 different industries. Because the Multiplier Models are built directly from the region- specific SAMs, they will reflect the region's unique structure and trade situation.

Multiplier Models are the framework for building impact analysis questions. Derived mathematically, these models estimate the magnitude and distribution of economic impacts, and measure three types of effects which are displayed in the final report. These are the direct, indirect, and induced changes within the economy.

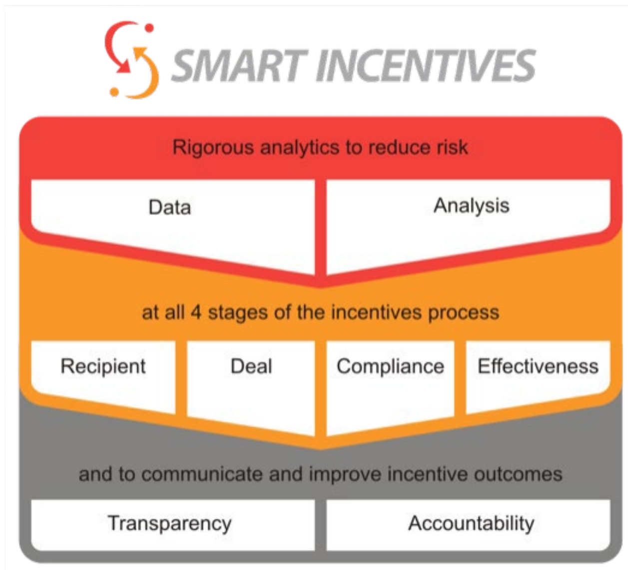
- **Direct** effects are determined by the Event as defined by the user (i.e., a $10 million order is a $10 million direct effect).
- The **indirect** effects are determined by the amount of the direct effect spent within the study region on supplies, services, labor, and taxes.
- Finally, the **induced** effect measures the money that is re-spent in the study area as a result of spending from the indirect effect.

Each of these steps recognizes an important leakage from the economic study region spent on purchases outside of the defined area. Eventually, these leakages will stop the cycle.

Appendix E: Business Incentives Best Practices

There has been extensive writing about what constitutes business incentives best practices. From the project team's review of many sources,[7] it has identified 10 important best practices and sought to incorporate them into the analysis and discussion of this incentive.

As a starting point, business incentives should be viewed as a process, not an event. The award of an incentive and the incentive features are part of that process, and many of the identified best practices reflect that. The process itself should take into consideration each of these factors, which PFM's subcontractor, Smart Incentives, demonstrates in the following illustration:



While the project team believes this is a strong set of best practices, there may well be others that are as (or more applicable) in specific situations. It is also likely that some of the best practices will come into conflict in some situations. For example, application and reporting requirements may reduce the simplicity of business compliance. As a result, these will always be subject to analysis on a case-by-case basis.

The 10 best practices are:

1. **For maximum impact, incentives should be targeted.** Examples of useful targeting include companies or industries that export their goods or services out-of-state; high economic impact companies or industries – such as those with higher wages and benefits, significant job creation, or significant capital

[7] Three resources in particular were relied upon putting together the list of best practices. They are "What Factors Influence the Effectiveness of Business Incentives?" The Pew Charitable Trusts, April 4, 2019, accessed electronically at https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2019/04/what-factors-influence-the-effectiveness-of-business-incentives; "Improving Economic Development Incentives," Timothy J. Bartik, W.E. Upjohn Institute for Employment Research, 2018, accessed electronically at https://research.upjohn.org/cgi/viewcontent.cgi?article=1000&context=up_policybriefs; "Best Practices for the Design and Evaluation of State Tax Incentives Programs for Economic Development," Matthew N. Murray and Donald J. Bruce, January 2017, included within another evaluation at https://media.al.com/news_mobile_impact/other/AL%20ENTERTAIN%20NEWMKTS%203%209%2017.pdf

investment.

2. **Incentives should be discretionary.** In most instances, an application process enables the state government to require company disclosure of information related to eligibility criteria and enables the state to reject applications that do not meet its standards.

3. **Incentives should leverage significant private capital.** Ideally, the incentive should leverage private investment that is at least several multiples of the state investment.

4. **Incentives should provide most of the benefit within 1-3 years and have a limited duration.** Company discount rates are much higher than for the state, and businesses will significantly devalue incentive payments in later years.

5. **Incentives should take into consideration state and/or local as well as industry economic conditions.** Incentives that are provided in high performing areas or for stable and profitable businesses or industries will likely fail the 'but for test' – meaning the activity would likely occur without the state incentive.

6. **'Smart' incentives help businesses overcome practical barriers to growth.** In particular, customized assistance for locally owned, small and medium-sized businesses can have significant impact.

7. **Incentives should be transparent.** The incentive purpose should be clearly articulated, as are eligibility requirements, and regular, detailed reporting should be required from all program recipients.

8. **Incentives should require accountability.** When upfront financial incentives are offered in return for job creation, retention, or capital investment, there should be contract language in place that allows the state to 'claw back' state resources should the company not meet performance requirements.

9. **Incentives should have caps.** To ensure the state's financial health, program dollar caps or limits should be in place. Incentive programs should also have a limited duration, with sunsets in place to require regular review of incentive performance.

10. **Incentives should be simple and understandable.** The state should be able to easily and effectively administer the incentive, and users should be able to readily comply with its requirements.