State of Oklahoma

Incentive Evaluation Commission

High Impact Quality Jobs Program Evaluation

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Contents

Executive Summary

Overview

State incentives focused on job creation are common across the United States. During and following the Great Recession, these programs increased in use as ways to help start and sustain economic recovery. A list compiled by the National Conference of State Legislatures in 2013 showed 40 states with some form of job creation incentive program.[1]

Oklahoma's High Impact Quality Jobs program was created in 1994, one year after the original Quality Jobs program was created, as part of the Saving Quality Jobs Act. It functions similarly to the Quality Jobs program in that it provides cash rebates based on new payroll for qualifying firms. The rebate amount is 2.5 percent of gross payroll of newly created jobs. Companies must have an annual payroll for new jobs of at least $1.0 million, but less than $2.5 million.

Primary Recommendation: Reconfigure. While it is clear that the program is not succeeding in its goal of attracting high impact investment to rural parts of the State, the program is not having a negative impact on the State. Since the program is not helping or hurting the State, there would not be any significant benefit to repealing it. Instead, the State may be able to reconfigure the program in order to better help meet its goals.

Key Findings

The program has never been used. High Impact Quality Jobs has existed for over 20 years and has never been used. The Department of Commerce (Department) no longer promotes the program on its website due to lack of interest.

The benefit rate is lower than all other Quality Jobs variations. At just 2.5 percent of payroll, the benefit is half of the maximum available for standard Quality Jobs projects. This low benefit, combined with its high job creation requirement, is likely what has led to the lack of interest in the program.

The program has had no fiscal or economic impact. No payments have been issued through the program, so the State has not incurred any cost. There have also been no jobs created as a result of participation in the program, so no additional economic activity can be attributed to the program.

Recommended Changes

Recommendation 1: Decrease the job creation requirement. Based on discussions with the Department, the job creation requirement of one percent of the county workforce is a deterrent for most companies who may have an interest in the program. If the State's goal is to create more employment in these areas, it may be best to reduce the job requirement. Many States offer rural job creation tax credits with low job creation requirements. Some examples include Oregon, Utah, and Florida. While this may not lead to the "high impact" investment Oklahoma's program currently targets, this strategy is more likely to attract participants.

Recommendation 2: Increase the benefit. While the program requires a significant investment in terms of job creation, **it offers a smaller reward than all other variations of Quality Jobs.** It is likely that any company considering use of the program would prefer to participate in the Small Employer or standard Quality Jobs program instead. The restrictions the program imposes on job creation (one percent of county labor force) and payroll (between $1.5 million and $2.5 million) narrow the scope of the program to counties like Marshall or Choctaw County, where one percent of county labor force would equal 68 and 60 employees, respectively. This number of jobs is well below the maximum limit of 90 employees required to participate in the Small Employer Quality Jobs program. In order to attract the significant investment the High Impact Quality Jobs program targets, the benefit offered by the program needs to increase.

[1] National Conference of State Legislatures, "Job Creation Tax Credits – 50 State Table", 2013

Key Findings and Recommendations

Key Findings

Although the High Impact Quality Jobs program has existed since 1994, it has never been used. The program is intended to attract employment and investment to parts of the State where the addition of one facility could make a significant (i.e., high) impact. Unfortunately, the program has not met this goal and no State economic or fiscal impact can be attributed to the program.

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Introduction

Overview

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

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

Introduction

State incentives focused on job creation are common across the United States. During and following the Great Recession, these programs increased in use as ways to help start and sustain economic recovery. A list compiled by the National Conference of State Legislatures in 2013 showed 40 states with some form of job creation incentive program.[2]

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

Labor costs in general can be a critical factor in location decisions. A 2016 survey of corporate executives conducted by Area Development found that labor cost is the third most important factor in location decisions, behind only highway accessibility and availability of skilled labor.[3] This tends to support the concept of concentrating incentives on reducing the cost of employment to promote economic growth.

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

Incentive Characteristics

Oklahoma's High Impact Quality Jobs program was created in 1994, one year after the original Quality Jobs program was created, as part of the Saving Quality Jobs Act. It functions similarly to the Quality Jobs program in that it provides cash rebates based on new payroll for qualifying firms. The rebate amount is 2.5 percent of gross payroll of newly created jobs. Companies must have an annual payroll for new jobs of at least $1.0 million, but less than $2.5 million.

The primary difference between the High Impact Quality Jobs and the original Quality Jobs program is the type of projects it targets. In order to be considered "high impact" a project must create a number of new jobs equal to at least one percent of the total labor force of the county where it locates. In this way, the program narrows its focus to attracting investment to parts of the State where the addition of one facility could make a significant (i.e., high) impact.

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

Evaluation Criteria

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

- Support companies that hold promise of retaining and gaining jobs when the State of Oklahoma is in competitive situations with other states or nations;
- Provide appropriate incentives to support establishments that hold the promise of growth in strategic industries that yield higher long-term benefits for job retention and increasing the wealth of the state and which create competitive advantages for the State of Oklahoma in attracting and retaining industries and thus jobs;
- Provide appropriate incentives to establishments that locate in areas of the state that would be highly impacted statistically in their labor forces when establishments locate in such an area;
- Provide appropriate incentives to establishments that reduce continuing unemployment for citizens by employing the chronically unemployed.

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

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

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

Administration and Use of the Incentive

Program Administration

The Quality Jobs Program is jointly administered by the Oklahoma Department of Commerce (Department) and the Oklahoma Tax Commission (OTC). Eligibility guidelines and administrative responsibilities are established in State statute and administrative rules.[4] The essential components of program administration are summarized below.

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

   - Operate in a basic industry as defined in statute;
   - Create an annual gross payroll for newly created jobs greater than or equal to $1.0 million but less than $2.5 million;
   - Create a number of new jobs equal to one percent of the total county labor force;
   - The average wage of newly created jobs must be greater than or equal to the average wage of the county where the establishment is located;
   - Provide health care benefits to new employees which requires employees to pay no more than 50 percent of premiums.[5]

   The job creation requirement based on county labor force, combined with a payroll range of $1.0 to $2.5 million, makes it practically impossible for the program to be used for major investments in the most populous counties. To illustrate this, the table below shows how a company employing one percent of the workforce in Oklahoma or Tulsa County would not qualify for the program, but one in Marshall or Choctaw County would.

Table 1: Example Payrolls of Firms in Tulsa and Choctaw Counties

County	1% of Labor Force	100% of Average County Wage	Total Payroll
Oklahoma	3,783	$50,107	**$189,554,781**
Tulsa	3,180	$48,794	**$155,164,920**
Marshall	68	$33,000	**$2,244,000**
Choctaw	60	$30,620	**$1,837,200**

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

2. **Determining Payments.** Once the initial application is approved, the Department prepares a project profile. This profile summarizes information about the establishment and its plans including the project start date, projected employment over the next five years, projected average salary of new employees hired in new direct jobs in the first and third year of program participation, and the health benefits plan to be offered to new employees. This information is analyzed by the Department and used to decide whether the project qualifies as a high impact project. If approved, the project may receive quarterly payments of 2.5 percent of newly created payroll.

   The OTC is responsible for issuing payments once a project is approved. Establishments submit quarterly reports to the OTC that include the number of new employees hired and the new payroll associated with these jobs. Payments are only issued if an establishment is meeting program requirements. The minimum payroll threshold of $1.0 million must be met within three years of the establishment enrolling in the program. If the establishment fails to meet this threshold, it is removed

[4] 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
[5] Establishments must provide such coverage within 180 days of employment

from the program. Establishments meeting all requirements are able to receive quarterly payments for up to six years.

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

Incentive Use

Although the High Impact Quality Jobs program has existed since 1994, the program has never been used, and no payments have been issued.

Fiscal and Economic Impact

Fiscal and Economic Impact

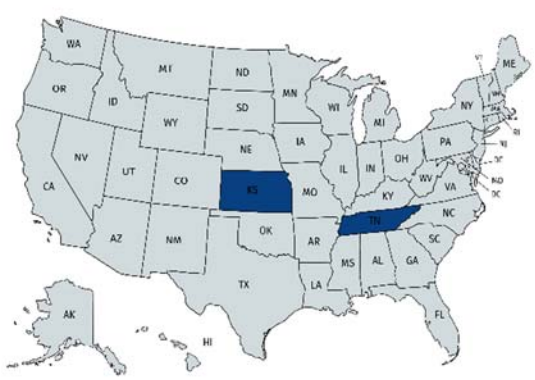
The High Impact Quality Jobs program has resulted in no fiscal or economic impact. No payments have been issued through the program, so the State has not incurred any cost. There have also been no jobs created as a result of participation in the program, so no additional economic activity can be attributed to the program.

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 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.

Figure 1: States offering similar incentives



The search for comparable programs started with Oklahoma’s neighboring states. This is a typical starting point, as states often compete with nearby states for the same opportunities. Neighboring states also typically have similar economic and demographic characteristics that lend themselves to comparison.

While many states have some form of job creation tax incentive in place, programs as specifically targeted as Oklahoma’s High Impact Quality Jobs are rare. Only one bordering state, Kansas, was found to have a comparable program. Expanding the search geographically revealed Tennessee to also have a similar program. Beyond relative proximity, these programs were also chosen due to similar intent to High Impact Quality Jobs. Each one is intended to attract major investment similar to High Impact Quality Jobs. However, there are important differences among the programs.

The primary difference between Oklahoma’s High Impact Quality Jobs program and the comparison group is the job creation requirement. Oklahoma’s requirement is very high, and a look at the comparison group emphasizes that point. A project locating in the average county in Oklahoma would have to create 239 jobs in order to qualify, while it would only need 100 in Kansas and Tennessee. In other words, the job creation requirement in Oklahoma is more than twice the next highest requirement in the comparison group.

The comparison states also offer differing benefits. For example, Kansas offers retention of up to 95 percent of State withholding tax, while Tennessee offers a per job excise and franchise tax credit. Both are different from Oklahoma’s rebate that is a percent of new payroll. The length of benefit periods is also an important distinguishing characteristic. Kansas offers its benefit for up to 10 years compared to Oklahoma’s 6 years. Tennessee’s credit is only available in the year the job is created.

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

Appendices

Appendix A: High Impact Quality Jobs Benchmarking

High Impact Quality Jobs Benchmarking			
	Oklahoma	**Kansas**	**Tennessee**
Program Name	High Impact Quality Jobs	PEAK - "High Impact" Benefits	Super Jobs Tax Credit
Job Creation Requirement	Equal or greater to 1% of the total labor force in the establishment's county	100, within 2 years	Minimum of 100 new jobs. Varies based on capital investment and facility type
Payroll Requirement	$1 million to $2.5 million	None	None
Wage Requirement	110% of average county wage, including healthcare	100 percent of county median wage for 7 year benefit 110 percent of county median wage for 8 year benefit 120 percent of county median wage for 9 year benefit 140 percent of county median wage for 10 year benefit	None
Health Insurance Requirement	Companies must provide healthcare and pay no less than 50% of premiums	Companies must offer health insurance to full-time employees and pay at least 50 percent of the employee's premium	None
Capital Investment Requirement	None	None	$1,000,000
Benefit Type	Cash Rebate	Retention of State Witholding Tax	Excise and Franchise Tax Credit
Benefit Amount	2.5 percent of payroll of new jobs	Up to 95 percent of State Witholding Tax	$5,000 per job
Benefit Period	Up to 6 Years	Up to 10 Years	Maximum of 20 Years, varies based on capital investment and facility type