



Small Employer Quality Jobs Program

2019 Triennial Report

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OKLAHOMA
DEPARTMENT of COMMERCE

Oklahoma Small Employer Quality Jobs Program

Triennial Report
(as required by Statute)

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**Small Employer Quality Jobs Program
Triennial Report to the Legislative Body
Prepared January, 2019**

Introduction

The Oklahoma Small Employer Quality Jobs Program was created in 1998 to assist the start-up and expansion of small companies. The qualifying criteria were modeled after the successful Oklahoma Quality Jobs Program, which was created by legislative action in 1993. These elements however were set to be more conducive for smaller companies to participate.

The program elements underwent a legislative overhaul in 2001, to become even more business friendly. While only 7 companies enrolled in the program from inception to 2001, a total of 117 companies have now participated in the program over the years.

The Small Employer Quality Jobs Program statutes require that the Oklahoma Department of Commerce provide a report on the status of the program on a triennial basis to the President Pro Tempore of the Senate, the Speaker of the House of Representatives and the Governor. The next report is due by March 1, 2019. This report fulfills that legislative requirement.

Small Employer Quality Jobs Program Defined

The legislative cite for this program may be found at O.S. 68 § 3901 et. seq. The intent of the program is to assist small start-up companies in Oklahoma and to help existing small companies grow. Statistics show that small business is the backbone of the economy in Oklahoma, with most companies employing 100 employees or less, and the great majority employing just 20 or less employees. Since the changes to the program in 2001, 110 companies have enrolled and are in position to take advantage of the benefits of the program.

To participate, a company must have 500 or fewer employees at the time of application (and an average of 500 or fewer during the last year leading up to application). Based on the actual employment at the time of application, the company must create a number of new jobs between 5% and 10% of that employment. The company must be working in a "basic" industry as defined by listed NAICS codes in the legislation. A participant may create more than the required threshold level of new jobs. The company has two years from its application date to reach these employment levels, and must pay these employees at a rate of 110% of the average wages of small employers in their county.

Certain companies in identified industries have up to three years to create these new jobs. Also, some companies may be able to qualify by paying equal to the average county wage, based on location in an economically distressed area. All companies must provide a basic health care plan to the new employees, and pay at least 50% of the premium for that insurance. All companies must also demonstrate a minimum of 75% of sales to out of state buyers, or the federal government.

Companies which qualify are eligible to collect up to 5% of the new payroll generated by these jobs, based on a contract with the state for up to 7 years. Although companies qualify based upon projections of jobs and wages, the program is **performance** based. Thus, a participating company must actually create the jobs quarter by quarter and pay wages as required to receive **any** benefits. Participants must perform by creating jobs and payroll for a quarter, and then file for benefits based on that performance. A warrant for benefits follows in the next month or two based on claim filing.

By statute, the Oklahoma Department of Commerce is responsible for with the initial application, due diligence, approval and contracting with qualified companies. The Oklahoma Tax Commission then facilitates the claims and payment process for the ensuing seven years. Both agencies have dedicated staff for this program and work very closely in each aspect of administration and compliance.

Applicant Vetting Process

All applicants are thoroughly vetted by Commerce in a number of areas prior to having their application considered before the approval committee. Areas considered are:

- Legal Entity Status at Secretary of State's Office – Good Standing
- Registration of legal entity at the Tax Commission and Employment Security Commission
- Confirmation, all taxes paid to the state-no encumbrances existing
- Verification of proper Industry Code (NAICS code)
- Analysis of current and historical average wages being paid to employees
- Capitalization and Leadership Team experience adequate to perform successfully
- Out of state sales amounts, current and potential to required levels
- Past three years financial statements to determine financial viability
- Health Insurance program for employees in place and to required criteria thresholds

Actual vetting process includes:

- Companies are required to send a representative to appear before the approval committee to represent themselves.
- All applicants appear before two approval committees-one internal, consists of a CPA, Director of National Recruiting, Staff Economist, Agency Incentives Director, General Counsel, Director of the Oklahoma Development Finance Agency.
- The second approval committee, as required by statute (Executive Director of Commerce, a Tax Commissioner and the Director of State Finance) makes the final approval/denial decision.
- Every applicant signs a Tax Confidentiality Waiver, allowing the committee to review and openly discuss the tax status of the applicant for compliance.
- Participants sign an Affidavit annually, on the anniversary date of their contract, stating that they have and will continue to provide the required Health Insurance to employees as well as maintain the required Out of State Sales level

The Oklahoma Tax Commission continues to verify, before each and every claim is processed, that the participant company has paid their taxes and is currently eligible to receive program funds. Quality Jobs Program funds are withheld if any participant is in arrears with any amount owed to the state or has not complied with the elements of the program.

Legislative Changes since the Most Recent Triennial Report

In the three years since the last Triennial Report was submitted (2016), there have been some legislative changes to the program. These changes are summarized below:

2016:

- No legislative changes made to SEQJ

2017:

- SEQJ program undergoes a thorough review by outside entity Public Financial Management (PMF), as directed by legislation creating the Incentive Evaluation Commission. No statutory changes recommended; directed to explore providing a more detailed record keeping system on the program.

2018:

- Eligibility size of the applicant is increased from 90 or less at the time of application to 500 or less at the time of application (and an average of 500 or less during the preceding four calendar quarters).
- Applicants must create a minimum number of new jobs based on either the size of the community (population) where the company is located (as few as 5, or as many as 15 minimum) or the size of the company (number of jobs) a minimum of between 5% and 10%, whichever of these two factors is the **highest**.
- Applicants must attend the Incentive Approval Committee meeting *in person* rather than being represented by another party

- **Historical Performance Data**

These numbers are based on the state's fiscal year - July 1 to June 30.

Enrollment since last Triennial Report (2016):

FY 2016:

| | |
|-------------------------------|---------------------------------------|
| Companies enrolled | 5 |
| Jobs projected | 195 |
| Wage range | \$36,294-\$95,222 |
| Industry activity | manufacturing, wholesale, engineering |
| Net Benefit Rate % | 3.85%-5.0% |
| Maximum benefit dollars range | \$161,531-\$1,033,159 |

FY 2017:

| | |
|-------------------------------|---------------|
| Companies enrolled | 1 |
| Jobs Projected | 70 |
| Wage range | \$34,461 |
| Industry activity | manufacturing |
| Net Benefit Rate % | 2.03% |
| Maximum benefit dollars range | \$455,167 |

FY 2018:

| | |
|-------------------------------|-------------------------------------|
| Companies enrolled | 5 |
| Jobs projected | 180 |
| Wage range | \$42,769-\$71,684 |
| Industry activity | manufacturing, computer programming |
| Net Benefit Rate % | 3.86%-5% |
| Maximum benefit dollars range | \$335,442-\$543,902 |

Since inception, 14 companies have completed the full 7 year term of the Small Employer Quality Jobs Program, including:

- All State Tank Manufacturing, LLC
- Alltra Corp
- Kemper Valve & Fittings Corp
- Pelco Structural, LLC
- M&M engineered Products, LLC
- Allied Production Services, Inc. (twice)
- Arkansas Box, LLC
- Auto Turn Manufacturing, Inc.
- Caseco Manufacturing, Inc.
- Enviro Systems, Inc.
- Quarter Turn Resources, Inc.
- Site Specific Technology Development Group, Inc.
- Taylor Rig, LLC

Historical Performance Data, Continued

As the program is performance based, companies must file quarterly reports with the Oklahoma Tax Commission to receive benefits. These claims contain job, wage and payroll data, which is verified against payroll tax withholding submitted by the company. All data must match, and the company must be in “good standing” (no tax delinquencies, all registration and fees paid, etc.) in the State of Oklahoma before any payment is made to the participant.

The most recent month of claims filing (December 2018) shows that the program has distributed \$9,320,816 in benefits since inception, which averages 4.47% of the new payroll created by these companies. An average of 308 new jobs were eligible for incentive benefits.

To date, over \$208 million in new payroll to the state has been generated by the Small Employer Quality Jobs Program, with an average wage of \$40,997 per new job created.

Under Oklahoma’s Taxpayer Transparency Act, payments to companies participating in the Oklahoma Small Employer Quality Jobs Program are found on the Oklahoma Tax Commission’s website, under the “Reports” link on the homepage.

Small Employer Jobs Filed by Quarter, past Three Years

| Quarter | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|---------|-------------|-------------|---------------|
| 1 | 122 | 155 | 168 |
| 2 | 111 | 173 | 153 |
| 3 | 139 | 181 | 174 |
| 4 | 148 | 204 | Not Filed Yet |

Small Employer Quality Jobs Payments, past Three Years

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|-------|------------------|------------------|------------------|
| Jan | \$0 | \$29,235 | \$0 |
| Feb | \$60,885 | \$36,318 | \$135,206 |
| Mar | \$0 | \$7,282 | \$28,609 |
| Apr | \$0 | \$40,687 | \$0 |
| May | \$56,626 | \$47,937 | \$19,181 |
| Jun | \$47,944 | \$4,236 | \$28,527 |
| Jul | \$0 | \$3,579 | \$10,981 |
| Aug | \$37,322 | \$58,570 | \$17,530 |
| Sep | \$37,643 | \$0 | \$39,050 |
| Oct | \$0 | \$0 | \$11,009 |
| Nov | \$56,655 | \$36,982 | \$53,607 |
| Dec | \$51,694 | \$58,050 | \$0 |
| Total | <u>\$348,770</u> | <u>\$322,875</u> | <u>\$343,700</u> |

Summary

The Small Employer Quality Jobs Program has gone through many adjustments during its existence in an effort to make it more appealing and beneficial to expanding companies. Historically the Small Employer Program has had a significant effect on rural areas, with the majority of program participants being located in rural areas (when using 50,000 population and below as a “rural” definition); however, with the change in legislation allowing participants to locate anywhere in the state the distribution has become evenly split across all locations. Last year’s legislative change, increasing the size of companies that may apply from just 90 to 500 will undoubtedly change the array of entities that participate in the future.

Regarding wage impact, the average wage of jobs projected by program participants has increased from \$34,689 in FY 2005 to \$40,997 in FY 2018.

The program requires that a cost-benefit analysis be performed by the Department of Commerce prior to enrolling a company in the program. This analysis determines the maximum amount of dollars a company may be entitled to receive throughout the life of the contract, and is done to insure that **no more money is spent on benefits than tax revenue is generated for the state by the project.**

The Department of Commerce continues to work very closely with the Oklahoma Tax Commission to manage this program. Tracking of program data, both projected and actual, is kept. This information is used in the evaluation of the program on several levels, including effectiveness, financial impact, and for recommended changes as needed. The data is also used to urge claim filing on the part of participants, and to dismiss those companies that encounter a non-qualifying status. The Tax Commission, in conjunction with the Department of Commerce has developed a Quality Jobs Program training video to assist all participants with claim filing and compliance issues.

In Closing

The financial assistance generated by the program helps these smaller companies compete in the marketplace. The payroll impact that the new direct jobs create, as well as the indirect and induced jobs created in the local economy is invaluable. It represents tax income to the state, as well as related investment and property tax revenue.

The program assists in the attraction and expansion of businesses, and is identified by both Site Selection staff and Existing Business staff as a key component in closing deals for Oklahoma. Indeed, several other states have modeled similar programs. We look forward to another successful year in 2019 and beyond with the Small Employer Quality Jobs Program.

Comments, questions or general feedback should be directed to:

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