

# Quality Jobs Program

2017 Triennial Report

**OKLAHOMA**  
DEPARTMENT OF COMMERCE

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Deby Snodgrass, Secretary

Donald R. Hackler, Jr. General Counsel

Richard Schwalbach, Program Manager

Jon Chiappe, Deputy Division Director, Research & Economic Analysis

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## Introduction

During the legislative session of 1993, the Oklahoma Quality Jobs Program (the “Program”) was created and the first companies enrolled in the fall of 1993. Since that time, the Program has gained national attention as one of the best incentives for business attraction and expansion. Oklahoma has benefited from the Program in terms of jobs and investment in our economy; many other states have attempted to duplicate its success.

The Program requires that the Oklahoma Department of Commerce (“Commerce”) provide a report on the status of the Program every three years. The last report to the Governor, President Pro Tempore of the Senate, and the Speaker of the House of Representatives was submitted on March 1, 2014. This report fulfills the statutory requirement for 2017.

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## Oklahoma Quality Jobs Program Defined

The Program serves as an incentive to businesses to expand or locate within Oklahoma and create new taxable payroll within the state. Participants may qualify for a cash rebate of up to 5% over a ten-year period on new taxable payroll.

### Threshold Requirements

To qualify, there are four basic thresholds that must be met by the participant:

#### Basic Industry

An applicant must be in a “basic industry” denoted by its industry code, known as a NAICS code. The legislation specifically lists by code those industries that can participate. The economic concept is that if these industries locate in Oklahoma, it will induce other industries to also locate or expand, creating additional jobs. At its inception, the principal industry code intended for the Program was manufacturing. Other industries now include computer related services (software, hosting, data processing), research and development, headquarter operations, distribution centers, financial and administrative centers and web search portals. There are other industry codes eligible for the Program which must also demonstrate an out-of-state sales level of 75% or more to qualify.

#### New Payroll

The participant must add a minimum of \$2.5 million annual new taxable payroll for Oklahoma jobs. The jobs must be located within the state and the payroll must be subject to Oklahoma payroll withholding tax. A participant has up to three years to create this new payroll in order to continue in the Program for an additional seven years. A participant may receive benefits during the three-year “ramp up” period even if it has not created the required new payroll, provided it has met all other Program requirements.

#### Health Insurance Coverage

The participant must offer basic health insurance to all employees in “new jobs” that are eligible for Program benefits. This coverage must be offered within 180 days of employment and the employee must pay no more than 50% of the premium cost. Basic health insurance includes some coverage in the areas of doctor office visits, hospitalization, maternity, mental health, substance abuse and pharmacy benefits.

#### Minimum Wage Requirement

Effective June 2003, participants must pay the employees in “new jobs” that are eligible for Program benefits a wage that is at least equal to the average county wage where the project is located subject to a statewide cap. While those wages vary from county to county, the statewide cap is indexed annually subject to various economic factors. The initial wage was \$25,000 in 2003 and has risen to the current level of \$32,264. Participants often far exceed this wage requirement.

Upon application, Commerce staff conduct due diligence work on each applicant to ensure it is a legal entity in good standing with the state. Commerce staff also determine the maximum amount of benefits the participant may receive (based on the

economic impact of those jobs and wages) by doing a cost/benefit analysis. This ensures the state will pay out no more in benefits than the economic benefit that is created by the participant.

While qualifying for participation in the Program is based on a projection of wages and jobs, the participant receives payment of benefits based solely on actual performance. A participant must file quarterly claims with the Oklahoma Tax Commission (“Commission”), verifying its payroll and job data, to receive any payment. The Commission then verifies this claim through payroll tax withholdings before issuing a warrant. Should a participant have any encumbrance due to a delinquency in any tax owed to the state, payment of benefits is withheld, pending resolution of the issue.

Since the advent of the Program, there have been changes and additions to the thresholds. For example, an entity that has been participating in the Program for at least a year, and expands with a new project with wages of at least 150% more than its current average wage, the entity may qualify for a rebate of up to 6% of its new payroll (rather than 5%). Also, entities such as food processors and research and development companies may qualify with an average annual payroll threshold of \$1.5 million instead of \$2.5 million. Participants locating on former Military Installations may qualify with an average annual payroll threshold of \$1.5 million, while entities locating on former Brownfield Sites (remediated) qualify at a zero payroll threshold.

## Legislative Changes

Since the last Triennial Report in March 2014, there have been several legislative changes to the Program. Below is a summary, by year, of those changes:

### 2014:

- Removal of location requirements for the Small Employer QJ-population limitations and Opportunity Zones no longer in effect, (effective 7.1.2014). SB 1329 and HB2956
- Addition of Proxy Applicant; for use with a branch of the US Armed Forces only.

### 2015:

- Addition of NAICS code 112310, Chicken Egg Production (effective 11.1.2015)

### 2016:

- No legislative changes were made to the Quality Jobs Program.

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## 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; and
- Health Insurance program for employees in place and to required criteria thresholds

In addition, the following changes to the Vetting Process have been instituted since February 2015:

- Company representatives are now required to attend the external approval hearing. Agency employees are no longer permitted to represent private companies
- ALL applications are now reviewed by both an internal and external committee (comprised of the Secretary of Commerce, Secretary of Finance or his designate and a Tax Commissioner)
- Participating companies must now 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 Out of State Sales level, as mandated by statute
- Although not required by statute, all applicants are now required to submit their most recent financial statements to the committees so financial viability can be determined
- When warranted, the external committee may now amend a company's contract to include special conditions (i.e. no payment will be made by the state until the company actually achieves the payroll threshold)

The Oklahoma Tax Commission continues to verify, before each and every claim is processed, that the participant company has paid its 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.

## Historical Performance Data

The following information is reported on a fiscal year basis. Information reported represents both projected data and actual data as reported by the participant based on jobs and wages.

Enrollment and performance since the last Triennial Report:

### FY 2014

|                            |                                 |
|----------------------------|---------------------------------|
| Companies Enrolled         | 34                              |
| Jobs Projected             | 4,967                           |
| Wage Range Projected       | \$33,833-\$171,067              |
| Net Benefit Range          | 3.68%-6.0%                      |
| Status                     | 7 start up; 2 new; 25 expanding |
| Maximum Benefits Projected | \$126,692,206                   |

### FY 2015

|                            |                                 |
|----------------------------|---------------------------------|
| Companies Enrolled         | 30                              |
| Jobs Projected             | 4,768                           |
| Wage Range Projected       | \$33,119-\$135,659              |
| Net Benefit Range          | 3.63%-5.25%                     |
| Status                     | 3 start up; 4 new; 23 expanding |
| Maximum Benefits Projected | \$132,105,065                   |

### FY 2016

|                            |                                 |
|----------------------------|---------------------------------|
| Companies Enrolled         | 23                              |
| Jobs Projected             | 4,795                           |
| Wage Range Projected       | \$32,924-\$191,154              |
| Net Benefit Range          | 3.44%-5.37%                     |
| Status                     | 5 start up; 4 new; 14 expanding |
| Maximum Benefits Projected | \$109,590,490                   |

## Participating Industries

| Industry type                       | 2014      | 2015      | 2016      |
|-------------------------------------|-----------|-----------|-----------|
| Manufacturing                       | 10        | 11        | 8         |
| Financial Transactions, Collections |           |           |           |
| Computer Services, Consulting       | 2         | 2         | 4         |
| Distribution-Wholesale              | 2         |           | 1         |
| Transportation                      |           |           | 1         |
| Corporate-Administrative Office     | 5         | 3         | 3         |
| Customer Care (Call) Center         |           | 2         | 1         |
| Oil and Gas*                        | 7         | 10        | 4         |
| Research and Development            |           | 1         |           |
| Engineering Services                | 2         | 1         |           |
| Flight Training                     |           |           |           |
| Medical-Diagnostic-Testing          | 3         |           |           |
| Air Transport-Aerospace             | 1         |           |           |
| Scientific-Technical services       | 1         |           |           |
| Telecommunications Services         | 1         |           | 1         |
| <b>Total projects</b>               | <b>34</b> | <b>30</b> | <b>23</b> |

While the majority of the projects enrolled in the Program over the past three years are manufacturers, there are projects in a number of other areas as follows:

\*While the NAICS code of Oil and Gas Extraction (2111) is an allowable code for participation in the Program, the only jobs eligible for benefits are limited to those jobs directly comprising the corporate headquarters of or directly relating to manufacturing, maintenance, administrative, financial, engineering, surveying, geological or geophysical services performed by the establishment. Employment relating to drilling or field services is not considered a new direct job.

### Active, Filing Companies in the Quality Jobs Program: Employment

The previous sections are related to new enrollees in the Program from FY 2014 to FY 2016. Information in this section and beyond contains information about active participants in the Program and includes information about any active participants whether it has filed its first claim, or its fortieth claim.

The issue of actual jobs created by the Program requires an understanding of how benefits are claimed. A job is considered to be “new” the first time it is reported in the Program and it remains “new” throughout the life of the project as long as it is in excess of the stated baseline, or starting employment point, when the entity first applied. Therefore, when reporting these jobs and wages on a quarterly basis, it is not possible to just add these totals to determine “new” jobs created by the Program. That would result in a gross overstatement of new jobs. Rather, it is necessary to look at these quarterly reports as “snapshots in time” of new jobs created by the Program. An average by quarter provides a better perspective as to the impact of the Program.

Also, it is important to note that not all companies report in a timely fashion. While most do, some fall behind and file their quarterly reports on a random basis. Therefore, there are fluctuations in the data as well. However, as reported below, there is consistency in the total number of jobs over the three-year period shown in this report.

Actual jobs claimed by quarter:

| Quarter             | FY 2014 | FY 2015 | FY 2016 |
|---------------------|---------|---------|---------|
| 1                   | 23,570  | 21,365  | 15,575  |
| 2                   | 23,325  | 22,877  | 13,158* |
| 3                   | 22,281  | 19,554  | 10,454* |
| 4                   | 21,332  | 17,997  | 9,826*  |
| Average             | 22,627  | 20,448  | 12,253* |
| Particip. Companies | 193     | 169     | 139     |

*\*To date, not all participants have reported this period. Job numbers will increase as additional claims for these periods are filed.*

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## Benefits Payments Made to Quality Jobs Participants

Benefit payment to Quality Job Program participants since 2005 is as follows:

|      |                |
|------|----------------|
| 2005 | \$44.4 million |
| 2006 | \$44.0 million |
| 2007 | \$53.4 million |
| 2008 | \$62.1 million |
| 2009 | \$59.1 million |
| 2010 | \$52.8 million |
| 2011 | \$60.9 million |
| 2012 | \$67.6 million |
| 2013 | \$76.6 million |
| 2014 | \$76.5 million |
| 2015 | \$79.8 million |
| 2016 | \$64.1 million |

The benefits paid out over time have generally increased, mainly because the average wage of eligible jobs (and therefore taxable payroll) has increased. As mentioned, the advent of the average wage requirement put in place in June of 2003 has driven this upward, resulting in better jobs and pay. Changes in the way the program has been marketed since 2004 have also driven this increase.

In 2016 an analysis of the program indicates that the overall success rate of companies participating shows:

- Only 41% of participants attained qualification in the first three years (ramp up period)
- Only 15% of participants attained participation for the full 10 years (or used the maximum funds set aside for them in the contract)

As a result of this information, changes have been made in the vetting and approval processes of applicants, including the modification of certain contracts, to include "special conditions" (no payment is made until the participant actually achieves the payroll threshold).

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## Companies Completing the Program

The following companies reached their full 10-year participation in the Quality Jobs Program during calendar years 2014-2016:

AXH Air Coolers, LLC  
Boeing Aerospace Operations, Inc.  
Chart Cooler Services, Co.  
Conoco Phillips Company  
Dayton Parts, LLC  
Dell USA, Inc. #1  
Dell USA, Inc. #2  
DirecTV Customer Services, Inc.  
DOT Foods, Inc.  
EAN Services, LLC  
GE Oil & Gas, ESP, Inc.  
Halliburton Energy Services  
International Business Machines  
Jasco Products Company  
United Healthcare Services, Inc.

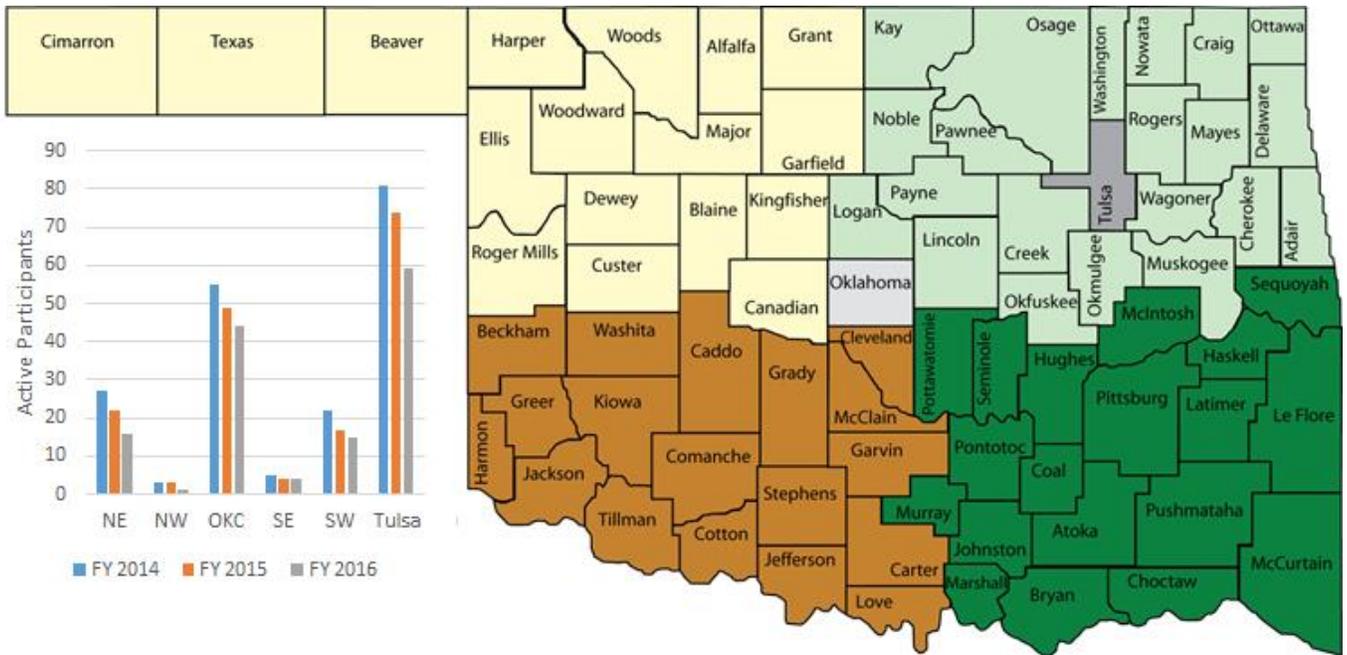
The following companies attained the maximum contract benefit amount in the Quality Jobs Program during calendar years 2014-2016:

Chesapeake Operating, Inc.  
Cytovance Biologics, Inc.  
Marathon Oil Company  
Phillips 66 Company  
Power Costs, Inc.  
Ruhrpumpen, Inc.  
Spirit Aerosystems, Inc.  
Wal-Mart Stores East, L.P.  
Zeeco, Inc.

### Active, Filing Companies in the QJ Program: Active Companies by Geography

In FY 2014, there were 193 active participants in the Program, which decreased to 169 active participants in FY 2015 and decreased again to 139 active participants in FY 2016. The graph and map below displays active participants by geography.

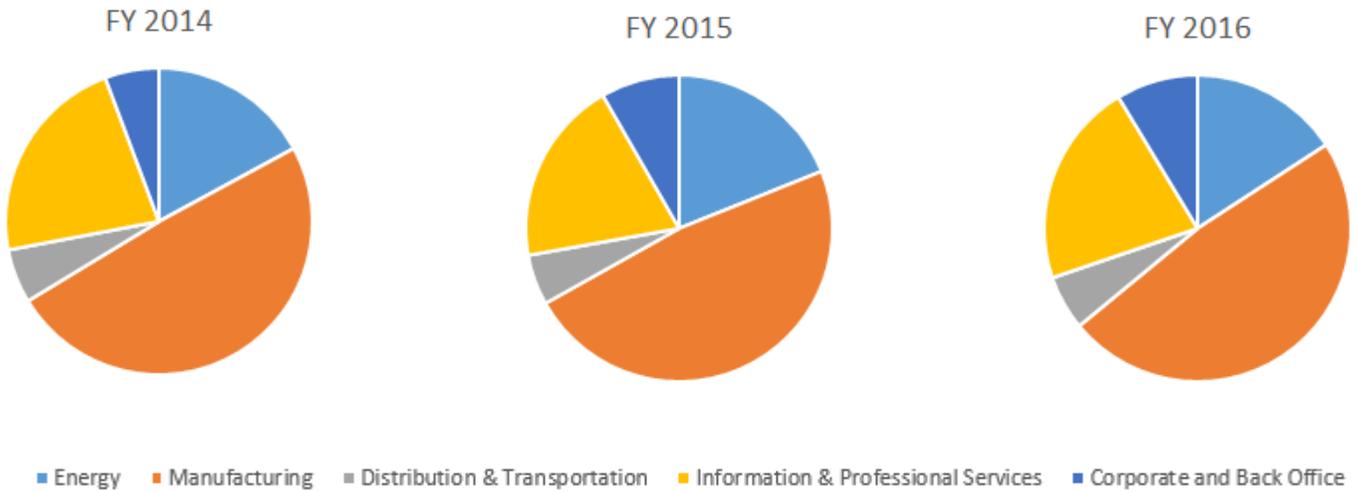
Regarding active participants for FY 2016, there is a time lag for filings in the Program, and it is possible that additional entities will be counted as active for FY 2016 in future time periods. While the most recent information indicates that 139 companies were active in FY 2016, that number could increase as companies can file multiple quarters at one time. Over the course of the three fiscal years, there were a total of 221 unique companies that participated in the Quality Jobs Program. Not all of the companies have participated in each of the 12 quarters included in the FY 2014 to FY 2016 timeframe as some contracts start and others end during the time frame.



### Active, Filing Companies in the QJ Program: Active Companies by Industry

The accompanying table and pie charts categorize the active participants in the Program by qualifying industry. As may be seen, manufacturing accounts for the largest number of active participants. Information & Professional Services, Energy, and Manufacturing companies account for much of the change in total participation between FY 2014 and FY 2016.

| Sector/Industry                     | FY 2014    | FY 2015    | FY 2016    |
|-------------------------------------|------------|------------|------------|
| Energy                              | 33         | 32         | 22         |
| Manufacturing                       | 95         | 81         | 67         |
| Distribution & Transportation       | 11         | 9          | 8          |
| Information & Professional Services | 43         | 33         | 30         |
| Corporate and Back Office           | 11         | 14         | 12         |
| <b>Total</b>                        | <b>193</b> | <b>169</b> | <b>139</b> |



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## Fiscal Analysis: Cost & Benefit

For fiscal years 2014 to 2016, the Program paid \$220.4 million to active participants for the jobs that these entities created. The total benefit to the state over this time period was \$221.6 million. This means that while the Program is intended to be revenue neutral, the state of Oklahoma has retained a benefit of \$1.2 million over and above the costs of the Program. This is largely a result of the fact that companies are paying higher wages than they originally projected and the state retaining the tax benefits from those higher wages.

Furthermore, this calculation only includes those entities that were actively filing during the FY 2014 to FY 2016 time period. The state achieves additional benefits from successful participants in the Program. These successful participants have either participated in the Program for the maximum forty quarters or have fully claimed the maximum contracted incentive available to them. These entities continue to employ Oklahomans and create revenue beyond the terms of the Program's contract.

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## Summary

Since the Oklahoma Quality Jobs Program (the “Program”) first began, 780 companies have enrolled. These companies have created a payroll of over \$22.3 billion in Oklahoma. More recently, the projected average wage of active participants in the Program is greater than \$67,000.

This Program has served as a major incentive for business attraction and expansion. Through Fiscal Year 2015, thirty percent of the entities participating in the Program either were new to the state or were a start-up business. Seventy percent were entities already located in the state which expanded. Thirty-one percent of the new jobs created were located in rural areas (with a population of less than 50,000 people) and sixty-nine percent were in urban areas.

Many of the executives of companies participating in the Program have stated that it was a major reason the company decided to expand or locate in Oklahoma. Several have stated that the relative ease of application and claims filing is much more efficient than in other states where they have locations or considered before coming to Oklahoma.

With every participant in the Program, there is significant investment in capital expenditures that boosts the state’s economy as well. Most projects have invested well over \$1 million in capital investment related to expansion or location to Oklahoma. While some of this investment initially qualifies for the state’s Ad Valorem tax exemption, it eventually reaches the property tax rolls generating income for the county where the project is located.

A participant does not receive any payment of benefits until it actually creates the new jobs and payroll, pays its withholding tax to the state and then files a claim. Legislatively, other tax credits and exemption opportunities normally available to the participant are eliminated for those using the Program.

The Oklahoma Department of Commerce is responsible for the initial application, collection of required supporting documents, due diligence for qualification and contracting with the participant. The Oklahoma Tax Commission then becomes responsible for processing the quarterly benefit claims. The partnership between the two agencies has functioned extremely well, and the participating divisions within the agencies work together on a daily basis to administer the Program, review claims, and recommend legislative changes to the Program. The Oklahoma Tax Commission, with the assistance of Program Management at the Oklahoma Department of Commerce, conducts quarterly claims training sessions for all entities recently enrolled in the Program. This initial training has increased the efficient flow of claims processing and payments as well as reducing waste and inefficiency overall.

Questions, concerns or comments regarding the program may be directed to:

|                        |                 |              |
|------------------------|-----------------|--------------|
| Richard Schwalbach     | Program Manager | 405.815.5269 |
| Donald R. Hackler, Jr. | General Counsel | 405.815.5359 |