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Oklahoma Small Employer Quality Jobs Program

Triennial Report
(as required by legislation)

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Submitted by:
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Oklahoma Small Employer Quality Jobs Program

2010 Triennial Report

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**Small Employer Quality Jobs Program
Triennial Report to the Legislative Body
Prepared January, 2010**

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 was 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 78 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, 2010. 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 startup 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. Many of these companies have been in the fields of Manufacturing and Research & Development. Since the changes to the program in 2001, 71 companies have enrolled and are in position to take advantage of the benefits of the program.

To participate, a company must have 90 or fewer employees at the time of application (and an average of 90 or fewer during the last year leading up to application). The company must be working in a "basic" industry as defined by listed NAICS codes in the legislation. Based on the population in the city where the company is located, it must create as few as 5 new jobs (less than 3,500 population), 10 new jobs (population between 3,500 and 7,000) and as many as 15 new jobs (population greater than 7,000). A participant may create more than the required threshold level of new jobs. The company has one year from its application date to reach these employment levels, and must pay these employees at a rate of 110% of the average county wage.

Certain companies in identified industries have up to 3 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. 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.

Legislative Changes since the most recent Triennial Report

In the three years since the last Triennial Report was submitted (2007), there have been two legislative changes. Those changes are summarized below:

- Legislative action in 2007 removed the “residency requirement”; instead jobs to be counted towards Small Employer Quality Jobs benefits were required to perform the “activities and functions” of the job within the state of Oklahoma. This change recognized that some border communities labor markets stretch beyond state borders. It removed an unnecessary hardship on companies participating in the program.
- Legislative action which broadened qualifying NAICS codes in the Quality Jobs Program also affected the Small Employer Quality Jobs Program. (A NAICS code identifies a company as performing work in a particular industry. Only certain NAICS Codes are eligible to participate in the Small Employer Quality Jobs Program). The following NAICS codes were added: 711211, Professional Sports Teams; 488190, Support Activities for Air Transport; 813920, Professional Organizations; and 53120, Real Estate Agents.

Historical Performance Data

The following chart lists the number of companies that have enrolled in the program since inception. Not all companies remain active.

2002	7
2003	11
2004	6
2005	11
2006	13
2007	14
2008	8
2009	1

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

Enrollment since last Triennial Report:

FY 2009:

Companies enrolled	1
Jobs projected	20
Wage range	\$36,541
Industry activity	1, manufacturing
Net Benefit Rate %	4.31%
Status	Withdrew due to economic factors
Maximum benefit dollars range	\$170,039

FY 2008:

Companies enrolled	8
Jobs Projected	380
Wage range	\$33,500-\$47,382
Industry activity	All manufacturing
Net Benefit Rate %	4.48%-5.0%
Status	6 active, 2 withdrawn
Maximum benefit dollars range	\$107,669-\$788,622

FY 2007:

Companies enrolled	14
Jobs projected	677
Wage range	\$26,818-\$52,000
Industry activity	13 manufacturing, 1 R&D
Net Benefit Rate %	4.31%-5.0%
Status	9 active, 2 withdrawn
Maximum benefit dollars range	\$210,317-\$851,864

Historical Performance Data, continued

As the program is performance based, companies must file quarterly reports with the Oklahoma Tax Commission to receive benefits.

Legislative requirements call for participating companies to be located in counties with a population of less than 200,000. Cleveland, Oklahoma and Tulsa counties are the three counties that have populations exceeding legislative limits. Legislation does permit a company to be located in an "Opportunity Zone", or economically challenged area, in one of these larger counties and still participate. This program has had a very positive affect on rural counties in the state.

Companies involved in the industries of Research & Development and Testing Laboratories may locate anywhere in the state, regardless of population, and participate in the program.

The most recent month of claims filing (January, 2010) shows that the program has distributed \$4,526,695 in benefits since inception, which averages 4.45% of the new payroll created by these companies. An average of 361 new jobs was eligible for incentive benefits.

To date, over \$100 million in new payroll to the state has been generated by the Small Employer Quality Jobs Program, with an average wage of \$40,027 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.

Summary

The Small Employer Quality Jobs Program is a good alternative for those companies in Oklahoma that find themselves growing, but not at a rate to qualify for the regular Quality Jobs Program. The financial assistance generated from the program helps these smaller companies compete in the marketplace. The payroll impact that the new jobs create in the local economy is invaluable. It represents tax income to the state, as well as related investment and property tax revenue.

The program requires that a cost-benefit analysis to be performed by the Department of Commerce prior to enrolling the 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 Executive Director of the Department of Commerce is aware of the declining participation rate in this program. According to the economists some of this is due to the general condition of the economy and the regular Quality Jobs Program has also encountered a declining participation rate over the past 3 years. The agency is conducting a statewide analysis of the required and actual wage rates by county to determine if participation rates are being adversely affected by unrealistic requirements in any area. As in past years, recommendations for improving the program will be shared with legislators.

Workforce issues also play a significant role in a company's ability to "ramp up" to program qualifying thresholds. Many participants report an inability to find qualified workers, particularly in the fields of engineering and welding. This lack of qualified applicants causes some participants to grow at less than projected rates, and jeopardizes meeting qualification thresholds. Oklahoma's Workforce Development programs, as well as the state's Technology Centers, are addressing those issues. Many of the participants in the Small Employer Quality Jobs Program also qualify for assistance in the Training for Industry Program, offered by the Oklahoma Career Technology Center.

In Closing

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.

The partnership with the Oklahoma Alliance for Manufacturing Excellence which began in 2003 continues to grow. The field staff of that organization has increased the opportunity to reach those entities that could benefit from participation in the Small Employer Quality Jobs Program.

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 2010 and beyond with the Small Employer Quality Jobs Program.

Comments, questions or general feed back should be directed to:

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