

STATE OF OKLAHOMA

1st Session of the 49th Legislature (2003)

CONFERENCE COMMITTEE SUBSTITUTE
FOR ENGROSSED
SENATE BILL 300

By: Gumm of the Senate

and

Carey of the House

CONFERENCE COMMITTEE SUBSTITUTE

An Act relating to revenue and taxation; amending 68 O.S. 2001, Section 2902, as last amended by Section 72 of Enrolled House Bill No. 1816 of the 1st Session of the 49th Oklahoma Legislature, which relates to ad valorem tax exemptions; providing for construction of certain provisions; modifying qualifications for certain establishments to receive ad valorem tax exemption; providing that exemption continue in effect once granted under certain circumstances; deleting certain exceptions; modifying circumstances under which manufacturing facility granted ad valorem tax exemption; amending 62 O.S. 2001, Section 193, which relates to the Ad Valorem Reimbursement Fund; modifying purposes for which certain funds may be expended; clarifying amount of revenue lost to certain entities; modifying amount of claims for certain reimbursement and requiring certain itemization; modifying procedures for payment of claims from fund; specifying procedures if monies apportioned to fund are insufficient to pay all claims; specifying claims to which certain provisions applicable; providing an effective date; and declaring an emergency.

BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

SECTION 1. AMENDATORY 68 O.S. 2001, Section 2902, as last amended by Section 72 of Enrolled House Bill No. 1816 of the 1st Session of the 49th Oklahoma Legislature, is amended to read as follows:

Section 2902. A. Except as otherwise provided by subsection H of Section ~~§~~ 3658 of this ~~act~~ title pursuant to which the exemption authorized by this section may not be claimed, a qualifying manufacturing concern, as defined by Section 6B of Article X of the

Oklahoma Constitution, and as further defined herein, shall be exempt from the levy of any ad valorem taxes upon new, expanded or acquired manufacturing facilities, including facilities engaged in research and development, for a period of five (5) years. The provisions of Section 6B of Article X of the Oklahoma Constitution requiring an existing facility to have been unoccupied for a period of twelve (12) months prior to acquisition shall be construed as a qualification for a facility to initially receive an exemption, and shall not be deemed to be a qualification for that facility to continue to receive an exemption in each of the four years following the initial year for which the exemption was granted. Such facilities are hereby classified for the purposes of taxation as provided in Section 22 of Article X of the Oklahoma Constitution.

B. For purposes of this section, the following definitions shall apply:

1. "Manufacturing facilities" shall mean facilities engaged in the mechanical or chemical transformation of materials or substances into new products and shall include:

- a. establishments which have received a manufacturer exemption permit pursuant to the provisions of Section 1359.2 of this title,
- b. facilities, including repair and replacement parts, primarily engaged in aircraft repair, building and rebuilding whether or not on a factory basis,
- c. establishments primarily engaged in computer services and data processing as defined under Industrial Group Numbers 7372 and 7373 of the SIC Manual, latest revision, and which derive at least fifty percent (50%) of their annual gross revenues from the sale of a product or service to an out-of-state buyer or consumer, and as defined under Industrial Group Number 7374 of the SIC Manual, latest revision, which derive

at least eighty percent (80%) of their annual gross revenues from the sale of a product or service to an out-of-state buyer or consumer. Eligibility as a manufacturing facility pursuant to this subparagraph shall be established, subject to review by the Oklahoma Tax Commission, by annually filing an affidavit with the Tax Commission stating that the facility so qualifies and such other information as required by the Tax Commission. For purposes of determining whether annual gross revenues are derived from sales to out-of-state buyers, all sales to the federal government shall be considered to be an out-of-state buyer, or

d. establishments primarily engaged in distribution as defined under Industrial Group Number 4221, 4222, 4225 or 4226 or Major Group Number 50 or 51 of the SIC Manual, latest revision, and which meet the following qualifications:

- (1) construction with an initial capital investment of at least Five Million Dollars (\$5,000,000.00),
- (2) employment of at least one hundred (100) full-time-equivalent employees, as certified by the Oklahoma Employment Security Commission,
- (3) payment of wages or salaries to each of its employees at a wage which equals or exceeds ~~one hundred fifty percent (150%)~~ one hundred seventy-five percent (175%) of the federally mandated minimum wage, as certified by the Oklahoma Employment Security Commission, and
- (4) commencement of construction prior to ~~December 31, 2002~~ December 31, 2006, with construction to

be completed within three (3) years from the date of the commencement of construction.

Eligibility as a manufacturing facility pursuant to this subparagraph shall be established, subject to review by the Tax Commission, by annually filing an affidavit with the Tax Commission stating that the facility so qualifies and containing such other information as required by the Tax Commission.

Provided, eating and drinking places, as well as other retail establishments, except as otherwise provided in subsection E of this section, shall not qualify as manufacturing facilities for purposes of this section, nor shall centrally assessed properties;

2. For tax years beginning after December 31, 1992, "manufacturing facilities" shall mean those facilities as defined in paragraph 1 of this subsection for which the investment cost of the construction, acquisition or expansion of the manufacturing facility is Two Hundred Fifty Thousand Dollars (\$250,000.00) or more;

3. "Facility" and "facilities" shall mean and include the land, buildings, structures, improvements, machinery, fixtures, equipment and other personal property used directly and exclusively in the manufacturing process; and

4. "Research and development" shall mean activities directly related to and conducted for the purpose of discovering, enhancing, increasing or improving future or existing products or processes or productivity.

C. For applications for a five-year exemption submitted after ~~December 31, 1993~~ the effective date of this act, the following provisions shall apply:

1. A manufacturing concern shall be entitled to the exemption herein provided for each new manufacturing facility constructed, each existing manufacturing facility acquired and the expansion of existing manufacturing facilities on the same site, as such terms

are defined by Section 6B of Article X of the Oklahoma Constitution and by this section; provided, if a facility has initially qualified for an exemption pursuant to the provisions of this section on or after January 1, 1999, and ownership of the facility changes during the five-year period of the exemption, the exemption shall continue in effect for the balance of the five-year period as long as all other qualifications provided in this section are met;

2. Except as otherwise provided in ~~paragraphs~~ paragraph 5 ~~and 6~~ of this subsection, no manufacturing concern shall receive more than one five-year exemption for any one manufacturing facility unless the expansion which qualifies the manufacturing facility for an additional five-year exemption meets the requirements of paragraph 4 of this subsection, ~~provided~~ and the employment level established for any previous exemption is maintained;

3. Any exemption as to the expansion of an existing manufacturing facility shall be limited to the increase in ad valorem taxes directly attributable to the expansion;

4. Except as provided in ~~paragraphs~~ paragraph 5 ~~and 6~~ of this subsection, all initial applications for any exemption for a new, acquired or expanded manufacturing facility shall be granted only if:

- a. there is a net increase in annualized payroll at the facility of at least Two Hundred Fifty Thousand Dollars (\$250,000.00) ~~or more in annualized payroll, or a net increase of Two Million Dollars (\$2,000,000.00) or more in capital improvements while maintaining or increasing payroll~~ if the facility is located in a county with a population of fewer than fifty thousand (50,000), according to the most recent federal decennial census, or at least One Million Dollars (\$1,000,000.00) if the facility is located in a county with a population of fifty thousand (50,000)

or more, according to the most recent federal decennial census. The Oklahoma Tax Commission shall verify all payroll information through the Oklahoma Employment Security Commission. Payroll shall be verified by the Oklahoma Tax Commission by using the average of the third and fourth quarter Oklahoma Employment Security Commission reports of the calendar year immediately preceding the year for which initial application is made for base-line payroll, and

- b. the facility offers, or will offer within one hundred eighty (180) days of the date of employment, a basic health benefits plan to the full-time-equivalent employees of the facility, which is determined by the Department of Commerce to consist of the elements specified in subparagraph b of paragraph 1 of subsection A of Section 3603 of this title or elements substantially equivalent thereto.

For purposes of this section, calculation of the amount of increased payroll shall be measured from the start of initial construction or expansion to the completion of such construction or expansion or for three (3) years from the start of initial construction or expansion, whichever occurs first. For the facilities of any qualified manufacturing concern the construction or expansion of which began on or after January 1, 1996, and for which an application for the exemption authorized by this section was filed prior to ~~the effective date of this act~~ June 6, 2002, the amount of increased payroll shall include payroll for full-time-equivalent employees in this state who are employed by an entity other than the facility which has previously or is currently qualified to receive an exemption pursuant to the provisions of this section and who are leased or otherwise provided to the facility, if such employment did not exist in this state prior to the start of

initial construction or expansion of the facility. The manufacturing concern shall submit an affidavit to the Tax Commission, signed by an officer, stating that the construction, acquisition or expansion of the facility will result in a net increase in the annualized payroll as required by this paragraph and that full-time-equivalent employees of the facility are or will be offered a basic health benefits plan as required by this paragraph. If, after the completion of such construction or expansion or after three (3) years from the start of initial construction or expansion, whichever occurs first, the construction, acquisition or expansion has not resulted in a net increase in the amount of annualized payroll, if required, or any other qualification specified in this paragraph has not been met, the manufacturing concern shall pay an amount equal to the amount of any exemption granted, including penalties and interest thereon, to the Tax Commission for deposit to the Ad Valorem Reimbursement Fund; ~~provided, for facilities having previously qualified for an exemption under this section, if the total amount of capital improvements made to the facility during any five-year period is at least Ten Million Dollars (\$10,000,000.00), the requirements for a net increase in the amount of annualized payroll or for maintaining payroll and the requirements for increasing or maintaining payroll for previous years shall be deemed to have been met for purposes of this section for the entire five-year period of the exemption and payment to the Tax Commission shall not be required. In such event, the facility shall continue to receive the exemption for the entire original five-year period; and~~

5. Any new, acquired or expanded automotive final assembly manufacturing facility which does not meet the requirements of paragraph 4 of this subsection shall be granted an exemption only if all other requirements of this section are met and only if the investment cost of the construction, acquisition or expansion of the manufacturing facility is Three Hundred Million Dollars

(\$300,000,000.00) or more and the manufacturing facility retains an average employment of one thousand seven hundred fifty (1,750) or more full-time-equivalent employees in the year in which the exemption is initially granted and in each of the four (4) subsequent years only if an average employment of one thousand seven hundred fifty (1,750) or more full-time-equivalent employees is maintained in the subsequent year. Calculation of the number of employees shall be made in the same manner as required under Section 2357.4 of this title for an investment tax credit. As used in this paragraph, "expand" and "expansion" shall mean and include any increase to the size or scope of a facility as well as any renovation, restoration, replacement or remodeling of a facility which permits the manufacturing of a new or redesigned product; and

~~6. Any new, acquired or expanded manufacturing facility which does not meet the requirements of subparagraph a of paragraph 4 of this subsection shall be granted an exemption only if all other requirements of this section are met and only if:~~

- ~~a. the investment cost of the construction, acquisition or expansion of the manufacturing facility is Two Hundred Million Dollars (\$200,000,000.00) or more and such investment is made on or after July 1, 1997, and~~
- ~~b. the manufacturing facility retains employment of five hundred (500) or more full-time-equivalent employees in the year in which the exemption provided by this paragraph is granted and in each of the four (4) subsequent years only if employment of five hundred (500) or more full-time-equivalent employees is maintained in the subsequent year. Calculation of the number of employees shall be made in the same manner as required under Section 2357.4 of this title for an investment tax credit.~~

~~As used in this paragraph, "expand" and "expansion" shall mean and include any increase to the size or scope of a facility as well as any renovation, restoration, replacement or remodeling of a facility which permits the manufacturing of a new or redesigned product or a technological enhancement of the manufacturing process.~~

D. The five-year period of exemption from ad valorem taxes for any qualifying manufacturing facility property shall begin on January 1 following the initial qualifying use of the property in the manufacturing process.

E. Any person, firm or corporation claiming the exemption herein provided for shall file each year for which exemption is claimed, an application therefor with the county assessor of the county in which the new, expanded or acquired facility is located. The application shall be on a form or forms prescribed by the Tax Commission, and shall be filed before March 15, except as provided in Section 2902.1 of this title, of each year in which the facility desires to take the exemption or within thirty (30) days from and after receipt by such person, firm or corporation of notice of valuation increase, whichever is later. In a case where completion of the facility or facilities will occur after January 1 of a given year, a facility may apply to claim the ad valorem tax exemption for that year. If such facility is found to be qualified for exemption, the ad valorem tax exemption provided for herein shall be granted for that entire year and shall apply to the ad valorem valuation as of January 1 of that given year. For applicants which qualify under the provisions of subparagraph b of paragraph 1 of subsection B of this section, the application shall include a copy of the affidavit and any other information required to be filed with the Tax Commission.

F. The application shall be examined by the county assessor and approved or rejected in the same manner as provided by law for approval or rejection of claims for homestead exemptions. The

taxpayer shall have the same right of review by and appeal from the county board of equalization, in the same manner and subject to the same requirements as provided by law for review and appeals concerning homestead exemption claims. Approved applications shall be filed by the county assessor with the Tax Commission no later than June 15, except as provided in Section 2902.1 of this title, of the year in which the facility desires to take the exemption. Incomplete applications and applications filed after June 15 will be declared null and void by the Tax Commission. In the event that a taxpayer qualified to receive an exemption pursuant to the provisions of this section shall make payment of ad valorem taxes in excess of the amount due, the county treasurer shall have the authority to credit the taxpayer's real or personal property tax overpayment against current taxes due. The county treasurer may establish a schedule of up to five (5) years of credit to resolve the overpayment.

G. Nothing herein shall in any manner affect, alter or impair any law relating to the assessment of property, and all property, real or personal, which may be entitled to exemption hereunder shall be valued and assessed as is other like property and as provided by law. The valuation and assessment of property for which an exemption is granted hereunder shall be performed by the Tax Commission.

H. The Tax Commission shall have the authority and duty to prescribe forms and to promulgate rules as may be necessary to carry out and administer the terms and provisions of this section.

SECTION 2. AMENDATORY 62 O.S. 2001, Section 193, is amended to read as follows:

Section 193. A. There is hereby created in the State Treasury a revolving fund for the Oklahoma Tax Commission to be designated the "Ad Valorem Reimbursement Fund". The fund shall be a continuing

fund, not subject to fiscal year limitations. Monies apportioned to this fund shall be expended:

1. To reimburse ~~counties~~ common schools, county governments, cities and towns, emergency medical services districts, vocational-technical schools, junior colleges, county health departments and libraries of this state for loss of revenue due to exemptions of ad valorem taxes for new or expanded manufacturing or research and development facilities as required by Section 6B of Article X of the Oklahoma Constitution. The revenues lost to such entities shall be deemed to be an amount equal to the average of the ad valorem tax assessed on the value of the property for the three tax years immediately preceding the first tax year of the five-year exemption granted for the construction, acquisition or expansion of a facility and reimbursement shall be made to such entities accordingly as provided in this section;

2. To reimburse counties of this state for loss of revenue for school district and county purposes due to exemptions granted pursuant to the provisions of Section 2890 of Title 68 of the Oklahoma Statutes; and

3. To reimburse counties of this state for loss of revenue due to decreased valuation and assessment for buffer strips pursuant to Section ~~2~~ 2817.2 of ~~this act~~ Title 68 of the Oklahoma Statutes.

Provided ~~that~~, it shall be the duty of the Tax Commission to assess the valuation of all property for new or expanded manufacturing or research and development facilities which are exempt from ad valorem taxes.

Monies apportioned to this fund also may be transferred to other state funds or otherwise expended as directed by the Legislature by law.

B. The county commissioners of each county in which is located an entity seeking reimbursement for lost revenue from the Ad Valorem Reimbursement Fund shall aggregate all such claims and make claims

for reimbursement on forms prescribed by the Tax Commission prior to April 30 of each year. ~~Claims; provided,~~ for reimbursement for loss of revenue due to exemptions of ad valorem taxes for new or expanded manufacturing or research and development facilities shall be made separately from claims for reimbursement for loss of revenue for school district and county purposes due to exemptions granted pursuant to the provisions of Section 2890 of Title 68 of the Oklahoma Statutes and separately from claims for reimbursement for loss of revenue for decreased valuation and assessment of buffer strips. A claim for reimbursement for loss of revenue due to an exemption of ad valorem taxes for a new or expanded manufacturing or research and development facility shall be for an amount equal to the average of the ad valorem tax assessed on the value of the property for the three tax years immediately preceding the first tax year of the five-year exemption. In addition to its claim for reimbursement, each county shall include an itemization of the total amount of the tax exemption for each new or expanded manufacturing or research and development facility. Provided, the assessed valuation of a school district as stated in the claim for reimbursement shall be the same as reported to the State Department of Education on the Estimate of Need and shall include the total valuation of property exempt from taxation pursuant to Section 2902 of Title 68 of the Oklahoma Statutes.

C. The claims shall be either approved or disapproved in whole or in part by the Tax Commission by June 15 of each year. A claim for reimbursement for loss of revenue due to an exemption of ad valorem taxes for a new or expanded manufacturing or research and development facility shall be disapproved if a county or school district has received any payment in lieu of ad valorem taxes from such facility, to the extent of the amount of such reimbursement. If the Tax Commission determines that an exemption has been erroneously or unlawfully granted, it shall notify the appropriate

county assessor who shall immediately value and assess the property and place it on the rolls for ad valorem taxation. Disbursements from the fund shall be made on warrants issued by the State Treasurer against claims filed by the Tax Commission with the Office of State Finance for payment. Such disbursements shall be exempt from all agency expenditure ceilings. The county treasurer shall apportion or disburse such funds for expenditures in the same manner as other ad valorem tax collections.

~~C. In the event monies apportioned to the Ad Valorem Reimbursement Fund are insufficient to pay all claims for reimbursement made pursuant to subsection B of this section, claims~~

D. Payments shall be made from the Ad Valorem Reimbursement Fund as follows:

1. Claims for reimbursement for loss of revenue due to exemptions of ad valorem taxes for new or expanded manufacturing or research and development facilities shall be paid first, and any remaining funds shall be distributed proportionally among the counties making claims;

2. A payment in the amount of the total amount of the tax exemption for each new or expanded manufacturing or research and development facility, less any amount paid pursuant to the provisions of paragraph 1 of this subsection, shall be paid after payment of all claims in paragraph 1 of this subsection;

3. Claims for reimbursement for loss of revenue for school district and county purposes due to exemptions granted pursuant to the provisions of Section 2890 of Title 68 of the Oklahoma Statutes, according to the amount of the claim made by each county. If any funds remain after paying all claims for reimbursement for loss of revenue due to exemptions of ad valorem taxation for new or expanded manufacturing or research and development facilities and for reimbursement for loss of revenue for school district and county purposes due to exemptions granted pursuant to the provisions of

~~Section 2890 of Title 68 of the Oklahoma Statutes, the remaining funds shall be distributed proportionally among the counties making claims shall be paid after payment of all claims in paragraphs 1 and 2 of this subsection; and~~

4. Claims for reimbursement for loss of revenue for decreased valuation and assessment for buffer strips pursuant to Section 2817.2 of ~~this act~~ Title 68 of the Oklahoma Statutes shall be paid after payment of all claims in paragraphs 1, 2 and 3 of this subsection.

If monies apportioned to the Ad Valorem Reimbursement Fund are insufficient to make the payments required in paragraphs 2, 3 and 4 of this subsection, such payments shall be made proportionally. No payment shall be made under paragraph 2, 3 or 4 of this subsection unless all payments provided for in the preceding paragraph have been fully paid.

E. The provisions of this section, as amended herein, shall be effective for claims for reimbursement filed for calendar year 2003 and each year thereafter.

SECTION 3. Section 2 of this act shall become effective January 1, 2004.

SECTION 4. It being immediately necessary for the preservation of the public peace, health and safety, an emergency is hereby declared to exist, by reason whereof this act shall take effect and be in full force from and after its passage and approval.