BOLD IDEAS FOR

OKLAHOMA

Governor Fallin's Task Force on
Economic Development and Job Creation
September 19, 2011

MEMBERS

Governor's Task Force on Economic Development and Job Creation

Robert J. Sullivan, Jr., Task Force Chairman
David Rainbolt, BancFirst, Oklahoma City, Task Force Vice-Chairman
Gary Sherrer, Secretary of Environment, State of Oklahoma, Task Force Vice-Chairman

Michael Adcock, Don Bodard Trust, Shawnee; Mike Anderson, Presbyterian Health Foundation, Oklahoma City; Howard Barnett, Jr., OSU-Tulsa, Tulsa; Clay Bennett, Dorchester Capital, Oklahoma City; Michael Carnuccio, Oklahoma Council for Public Affairs, Oklahoma City; Michael Carolina, OCAST, Oklahoma City; Clay Christensen, Day, Edwards, Prospeter, Christiansen, P.C, Oklahoma City; Joe Craft, Alliance Partners, Tulsa.

Keaton Cudd, Cudd Holdings Company, Oklahoma City; Rick Dowell, Dowell Properties, Norman; Fred Hall, Hall Capital, Oklahoma City; Hans Helmerich, Helmerich & Payne, Tulsa; David Hill, Kimray Inc., Oklahoma City; Phil Kennedy, Comanche Home Center, Lawton; Web Keogh, PhD, University Multispectral Laboratories, Ponca City; Ken Lackey, Nordam, Tulsa; Todd Lamb, Lieutenant Governor, State of Oklahoma.

Michael Lapolla, The Oklahoma Academy, Tulsa; David Little, Kingery Drilling Co., Inc., Ardmore; David Littlefield, Littlefield Brand Development, Tulsa; Dave Lopez, State of Oklahoma, Oklahoma City; Neal McCaleb, Chickasaw Nation Industries, Oklahoma City; Chris Meyers, Oklahoma Association of Electric Cooperatives, Oklahoma City; Chuck Mills, Mills Machine Company, Shawnee.

Larry Mocha, APSCO, Inc., Tulsa; Michael Moradi, Century Venture Partners, Oklahoma City; Fred Morgan, State Chamber of Oklahoma, Oklahoma City; Mike Neal, Metro Tulsa Chamber, Tulsa; John Nichols, Frederick/Oklahoma City; Larry Nichols, Devon, Oklahoma City; Jody Parker, Anchor Stone, Tulsa; Roy Peters, Oklahoma Manufacturing Alliance, Tulsa.

Paul Risser, OU Research Cabinet, Norman; Gerry Shepherd, Oklahoma Roofing & Sheet Metal, Oklahoma City; Jerrod Shouse, NFIB, Oklahoma City; Mike Spradling, Oklahoma Farm Bureau, Tulsa; Renzi Stone, Saxum, Oklahoma City; , Sullivan and Company, LLC, Tulsa; Blake Wade, Oklahoma Business Roundtable, Oklahoma City; Tom Walker, i2E, Oklahoma City; Lew Ward, Ward Petroleum, Enid; Roy Williams, Greater Oklahoma City Chamber, Oklahoma City; and Daryl Woodard, SageNet, Tulsa.

LETTER OF TRANSMITTAL

Governor's Task Force on Economic Development and Job Creation

September 19, 2011

Dear Governor Fallin,

Last January you asked us to assemble a Task Force on Economic Development and Job Creation for Oklahoma. We have done that. In the intervening months, 45 dedicated Oklahomans have spent dozens of man-weeks generating suggested initiatives for Oklahoma to pursue that will boost our state's economy and provide much needed jobs.

The strength and depth of the initiatives recommended in this report lie in the collective profile of those who did the work and the manner in which the work was undertaken. More than half of the 45 Task Force members are CEO's of successful businesses. The balance of the team is comprised primarily of private sector professionals who are very experienced in economic development. Taken as a whole, it is difficult to envision a group more qualified to address your request.

It is important to appreciate what this Task Force was asked to do and alternatively, what it was not asked to do.

It was never the intent to produce a scholarly research document. We were tasked to provide an atmosphere and structure that encouraged these job creators to think and speak freely. Based on their collective knowledge and experience, the Task Force was to boldly consider economic development opportunities to be pursued and to identify obstacles to be overcome. One might think of their work as stuffing a giant "Suggestion Box" on economic development and job creation for the Governor.

Task Force members divided themselves into groups of 3 to 7 members around thirteen topics, with each group meeting separately. Three meetings of the Task Force as a whole were held in February, May and September to assure the collective input of all members. The resulting report of recommendations to you, with supporting information on the discussion and reasoning behind these recommendations, is now presented to you.

Task Force members are well aware that several of these recommendations involve large financial commitments. Our thought process as a group was that we would rather present the ideas and allow you to assess their merits and appeal than to discard them as financially unachievable. All of these "stand alone" recommendations were arrived at independently and for that reason a few of them may appear to be in conflict with each other. Additionally, not all members agreed with all recommendations - a clear indication of the lively discussions and healthy debates that marked our process.

We have been blessed in this process to have had access to vast amounts of Task Force member experience and a great deal of institutional information. For that, we are grateful and indebted to those who provided it. In addition, it is encouraging that The Oklahoma Academy, with whom we interacted regularly over the past several months, will be continuing its excellent work in October with a three day Town Hall on Economic Development. The work of this Task Force will be a centerpiece of that effort and will accordingly be further vetted and enhanced.

Finally, we thank you for the opportunity to assist in the ongoing mission of helping to make Oklahoma a better, more prosperous place to live and work. The enthusiasm and zeal of Task Force members as they did their good work were emblematic of the work ethic and determination that are and always have been hallmarks of Oklahomans.

Respectfully Submitted On Behalf of Task Force Members,

Robert J. Sullivan, Jr., Chairman

David E. Rainbolt, Vice-Chairman

Gary Sherrer, Vice-Chairman

PREAMBLE

Governor's Task Force on Economic Development and Job Creation

Many may glance through this document and ask "Where is oil and gas? Where is agriculture? What about health care?" The short answer is that by design they are not here. That said, there is universal acknowledgement that these industries are fundamentally important to Oklahoma and will be at the center of any economic progress we could imagine. That is understood.

It is important to recognize that "oil and gas remains Oklahoma's most defining industry" according to Chad Wilkerson of the Oklahoma City Branch of the Federal Reserve Bank of Kansas City. He says, "But just how big is it compared with past decades and, especially, with its previous peak importance in the early 1980s? Based on some measures, including the industry's share of GDP and personal income, it is about as big as it was in the early 1980s, accounting for 14-15 percent of GDP and 6-7 percent of personal income. It is not quite as large as then in terms of employment (now about 5 percent) and state tax revenue (now about 13-14 percent) but still sizable. Looking at broader indexes of industrial diversification, Oklahoma is now about as unlike the nation as it has ever been." He goes on to say that this is a positive for Oklahoma.

But the work of this Task Force is not about selecting industry sectors or clusters for attention. We were tasked to address "bold ideas". Our recommendation concerning taxation is a prime example. The 13 "bold ideas" we are presenting are looking to the future and suggesting actions that will cut across all economic sectors and boost the standard of living for all Oklahomans.

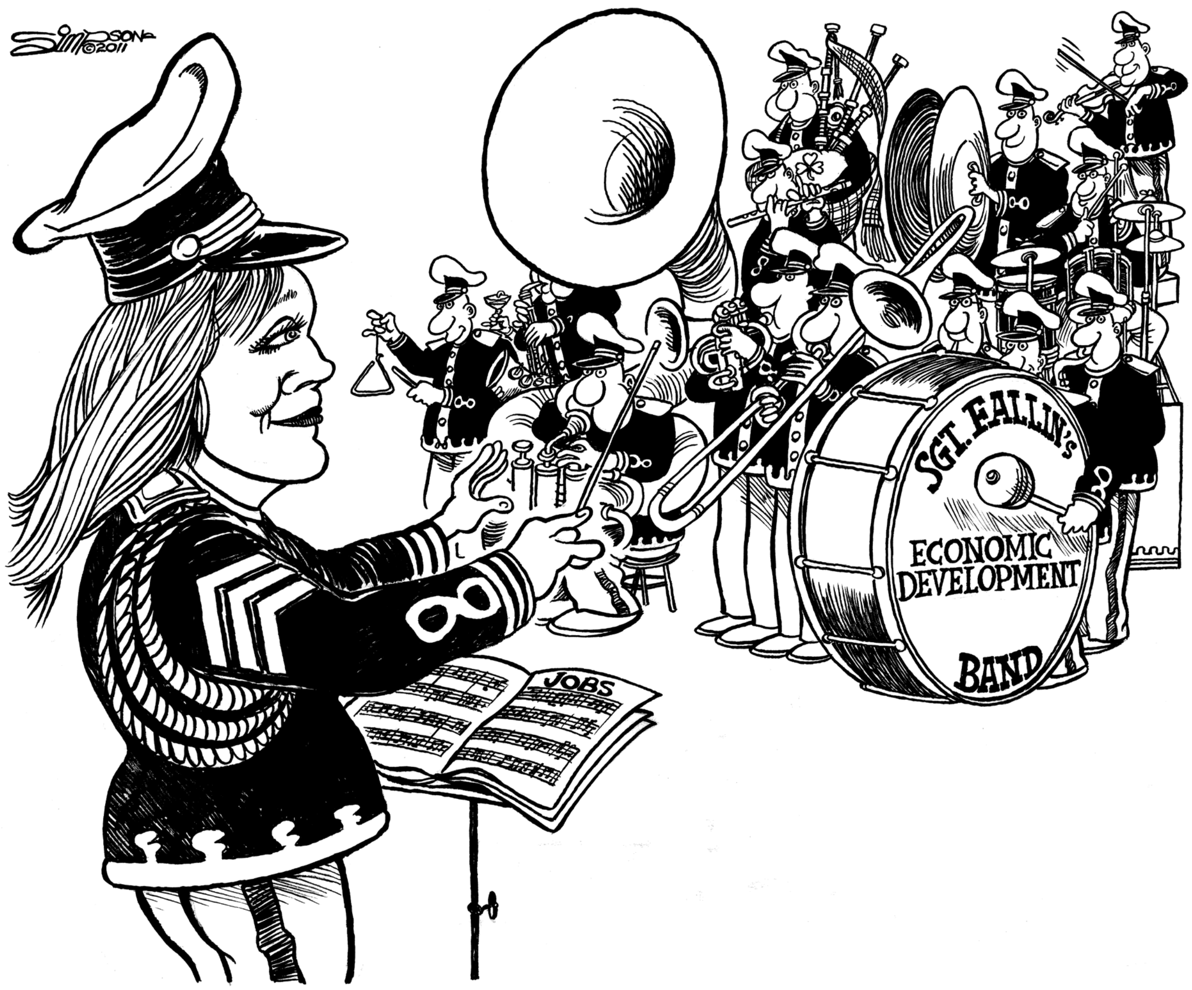
Today is our starting point. What do we know about jobs and growth in Oklahoma? What do we know about our growth this past decade? First we know that - relative to the nation - we have been doing better than most states. We know that (1) our Gross State Product Per Capita growth was the third highest in the nation at 14% (2) our Median Household Income Growth rate the third highest in the nation at 14% (3) our long term unemployment rate is the fourth lowest nationally (4) our unemployment rate is the fifth lowest of all the states. Not a bad starting point.

Since 2000, our oil & gas sector increased employment by almost 52%; agriculture increased employment by almost 42%; and health care, educational services also showed major increases. Of all sectors, health care added - by far - the most number of jobs, almost 32,000. While our growth rates have been good - our actual relative standings of income and productivity are below the national average and that leaves room for lots of improvement. Our business sector can tackle that difference. Generally, we can say that we seem to be doing (relatively) "OK" - but we want to be much better than that. We want to be a "great state" as the song lyrics of "Oklahoma" proudly trumpets.

A focused, thoughtful effort is accordingly needed to spur our next stage of economic development for Oklahoma. Governor Fallin's Task Force on Economic Development and Job Creation is tasked with providing a road map for Oklahoma's economic tomorrow.

OUR THEME

Governor's Task Force on Economic Development and Job Creation



"... my administration will focus on policies that create jobs, that build a better and more productive business climate and that get Oklahomans back to work ..."

Governor Mary Fallin, Inaugural Address, January 10, 2011

BOLD IDEAS

Governor's Task Force on Economic Development and Job Creation

STUDY GROUPS

Governor's Task Force on Economic Development and Job Creation

Capital Availability
Leaders: Howard Barnett and David Rainbolt
Members: Michael Adcock, Fred Hall, Tom Walker, Hans Helmerich and Michael Moradi

Closing Fund
Leaders: Larry Nichols and Blake Wade
Members: Joe Craft, Web Keogh, Mike Neal, and Roy Williams

Game Changer
Leader: Clay Bennett
Members: Mike Neal, Jody Parker, Paul Risser, Renzi Stone, Roy Williams, Michael Moradi, David Littlefield, and Blake Wade

Native American Opportunities
Leader: Neal McCaleb
Members: Dave Lopez, Michael Moradi, and Blake Wade

Oklahoma's Image
Leaders: David Littlefield and Renzi Stone
Member: Fred Morgan

Privatizations/Asset Sales
Leader: Ken Lackey
Members: Lt. Gov. Todd Lamb, Lew Ward, Daryl Woodard, and Web Keogh

Regulations
Leader: Jerrod Shouse
Members: Keaton Cudd, David Hill and Clay Christensen

Rural Economic Development
Leaders: Chris Meyers and Gary Sherrer
Members: John Nichols, Mike Spradling, David Little, and Neal McCaleb

Taxation
Leaders: Michael Carnuccio and Daryl Woodard
Members: Rick Dowell, Phil Kennedy, Howard Barnett, and Roy Williams

Technology/Innovation
Leader: Michael Carolina
Members: Michael Anderson, Web Keogh, Paul Risser, Michael Moradi and Tom Walker

Workforce
Leaders: Roy Peters and Larry Mocha
Members: Gerry Shepherd, and Chuck Mills

Best State Practices
Leader: Fred Hall
Members: Dave Lopez and Michael Carnuccio

A Constitution for the 21st Century
Leader: Robert J. Sullivan, Jr.
Members: David Rainbolt, Gary Sherrer and Michael Lapolla

I: CAPITAL AVAILABILITY

Leader: Howard G. Barnett, Jr.

STUDY GROUP MEMBERS

Mr. Howard Barnett, President of Oklahoma State University - Tulsa and Oklahoma State University Center for Health Sciences; Mr. David Rainbolt, CEO of BancFirst, Oklahoma's largest state-chartered bank; Mr. Michael Adcock, Trustee of the Don Bodard Trust, a private business trust with investments in oil and gas, real estate and other equity investments and is a director of Unit Corporation, Tulsa OK, a New York Stock Exchange company with operations in contract drilling, oil and gas exploration and mid-stream gas and liquids transportation and processing.

Mr. Fred Hall, CEO of Hall Capital, LLC. Hall Capital is a private equity firm in Oklahoma City; Mr. Hans Helmerich is the CEO of Helmerich & Payne, Inc., an energy-oriented company engaged in contract drilling; Mr. Michael Moradi, Founder and Managing Director, Century Venture Partners in Oklahoma City; and Mr. Tom Walker, CEO of i2E, Inc. i2E is a nonprofit company focused on wealth creation by growing the technology-based entrepreneurial economy in Oklahoma.

"We recommend that Governor Fallin ... launch the Oklahoma 21st Century Leadership Initiative and fund its activities with the proceeds from a $1 Billion bond issue to be voted by the people."

We, the undersigned, submit these recommendations related to a major effort to improve capital availability and create new, innovative companies in Oklahoma which will spawn the jobs of the 21st Century. We recommend their pursuit and encourage their adoption.

Howard G. Barnett, Jr.

David Rainbolt

Michael Adcock

Fred Hall

Hans Helmerich

Mike Moradi

Tom D. Walker

Tom Walker

(This recommendation is complementary to the discussion and recommendation of the Technology and Innovation Study Group). Both should be considered concurrently before deciding upon action).

DISCUSSION

We strongly believe that, in most cases government should limit its role in capital formation to being a catalyst rather than an investor. Having said that, Oklahoma is failing to develop the economy for the 21st Century and we continue to fall farther behind other states. Why is that the case? We believe that it is because Oklahoma is not competitive in the key areas of research and development capacity, accessing federal grants and growth of risk capital needed to create entrepreneurial jobs based on innovation and technology – the jobs of the 21st Century.

What we believe is needed is a bold commitment to research, innovation and the creation of jobs for the new economy.

We have been impressed with the efforts in Ohio through what they call the Third Frontier program. Over the last 9 years the voters in Ohio have approved over $2.3 Billion in bonds, the proceeds of which have gone into various programs designed to dramatically change their economy. The results: through December 2008, $681 million in Ohio state bond funding has generated $6.6 billion of economic activity, 41,300 total jobs and $2.4 billion in employee wages and benefits. This represents a nearly $10 return on every $1 of investment from 2003-2008. Additionally, the initiative has created, attracted or capitalized 637 companies.

What makes the Ohio Model attractive is that it not only addresses the capital availability issue but it attacks the underlying problem of insufficient funding for research and innovation which will make the investment of capital worthwhile. Unless all of the issues are addressed simultaneously, we believe that simply solving the capital availability issue will be a wasted effort.

KEY FACTS

1. In January, the Milken Institute released its latest State Technology and Science Index. Oklahoma fell to 39th from 38th in the prior year. One major contributor in this drop is Oklahoma's performance in Research and Development Inputs: This is the measure of a state's ability to attract various types of federal, industry, and academic funding. Oklahoma is now ranked 50th, dropping from 46th in 2008. All states now lead Oklahoma in accessing federal, industry and academic funding.

2. Oklahoma is one of only four states that have consecutively declined in various innovation and technology rankings for the past 20 years.

3. Oklahoma has made some attempts to play this game with such initiatives as OCAST, EDGE and OCIB. However, lack of funding and a cohesive strategy has resulted in little progress being made, as the statistics above clearly demonstrate.

THE CHALLENGE

Simply stated, Oklahoma has never mustered the will to address the funding issue for research and innovation to prosper. In the report of what became EDGE, the blue ribbon panel assembled by the Governor to make recommendations for how to truly accelerate Oklahoma's economic growth found – as we have – that funding research and new product development is the only answer. Interestingly, while the focus of EDGE was on making Oklahoma the "Research Capital of the Plains" and our proposal is broader in its reach, both recommend $1 Billion be devoted to the effort.

We also recommend that the bond issue be placed before the people for a vote. In

Ohio, the first vote was lost, but since then the people have been convinced of the importance of the effort. In fact, just last year, in the middle of the continuing sluggish economy, they overwhelmingly approved a $700 Million extension for this effort.

THE OPPORTUNITY

As noted above, Oklahoma continues to fall further and further behind in the measures of those things which generate 21st Century jobs – research, innovation, new technology company creation and the like. While this proposal goes beyond the simple task of providing additional risk capital, we believe that only a "Manhattan Project" approach which addresses the support of innovation and research and the development of the infrastructure necessary for the launch of successful new ventures can justify the making of new capital available from public sources. In other words, if we don't address all of the issues at the same time, the capital we might make available will not solve the problem.

Now is the time to strike. We believe that Oklahomans are hungry for a bold initiative which promises good jobs and opportunities for their children and grandchildren. And with interest rates at historic lows, there will likely not be a better time to effect such a significant bonding program.

RECOMMENDED ACTION STEPS

1. **Create the Oklahoma 21st Century Leadership Initiative (OCLI).** To assure coordination of our efforts in research and capital allocation, OCAST, OCIB and EDGE should be merged into the OCLI. This also serves to give OCLI a funding start (the $150 million in EDGE), staff and a state appropriation (the approximately $20 million annually which goes to OCAST). It may be appropriate to fold other programs into the OCLI, such as ODFA, the non-recruitment functions of the Department of Commerce (ODOC) and some of the funding programs going to private businesses from other state agencies. It should be emphasized that the merger of these agencies into OCLI is not to eliminate their functions or necessarily to even change their programs (though that would be up to the Board of OCLI) but to provide a coordination of actions which include those functions and many more, as described below.

2. **The EDGE and OCAST boards would be abolished in favor of the Board for OCLI.** Such Board may choose to continue using the EDGE and OCAST funding models as currently conducted. For coordination purposes, ODOC should also report to the Board of OCLI. The Board of OCLI would be appointed by the Governor, with Senate approval. Importantly, the Governor should have the authority to remove any Board member without cause. This will ensure that the Governor has a strong voice in the direction of OCLI.

3. **It is critical that the Board of OCLI be composed of strong private sector business leaders**, successful entrepreneurs and Oklahomans who understand the connection between research and innovation to economic development success.

4. **i2E estimates that Oklahoma needs to spend $150 million a year for the next 10 years** to grow the research and innovation base and contribute significantly to our state's growth. To fund this, the Governor and legislature should send a <u>$1 billion bond</u> request to a vote of the

people. Such bonds would be issuable in increments as determined by the Board of OCLI. The Board would have full authority to invest the proceeds as it sees fit pending use, subject to the prudent man rule.

5. While the ultimate focus of the use of proceeds should be to promote the development of innovative start-up companies and jobs in 21st Century industries, **the Board of OCLI would determine what programs would be funded.**

   Examples would include grants for research at our universities; promotion of seed and venture funds for not only established companies but also for early and mid-stage development companies (including a fund-of-funds like Utah successfully established and the continuation of the funding for i2E and its Oklahoma Seed Fund); development of university based centers of excellence around specific promising research programs; matching funding for outside grants received by businesses and universities, such as SBIR and NIH funding; low interest financing for new and emerging businesses, and direct research grants in the mold of OCAST. The Board of OCLI should be given as much latitude as possible to act strategically and take advantage of opportunities.

6. **It is recommended, that, like Ohio, the bonds be for at least 20 years** to allow for the success of the investment to generate the tax money to repay them.

7. **To assist the Board in its work, the management of OCLI should be outsourced** (including the management of ODOC's economic development agenda), though the Board may need minimal staff for organizational and oversight purposes. This will allow one or more private concerns (profit or nonprofit) to be able to compete for talent and bring that talent to bear on the programs of OCLI that would not be possible with state employees.

   In addition, this gives the Board of OCLI flexibility to more easily make changes in management as it determines to be appropriate.

OTHER IDEAS CONSIDERED

LLLP: Oklahoma should add a new form of business organization known as a Limited Liability Limited Partnership to its currently allowable forms. Many states have done so and it is a preferred form for many venture and private equity funds. In and of itself, this will not change anything, but if OCLI is successful in attracting new investment funds, Oklahoma needs to have this modern form of organization available to them.

Pension Plans: The boards that manage Oklahoma's pension plans should be encouraged to invest in alternative investments, including venture capital and private equity funds. Currently only the Police plan does so and its superior performance during the recession and recent market meltdown is arguably a result of this type of diversification. While we do not recommend that a law be passed requiring this, we do think that the Governor should convene a summit for all the boards to discuss the issue and promote this kind of investment strategy. Oklahoma specific funds are not necessarily the target beneficiaries, though we would hope that as we are successful in spawning more and successful funds, ultimately such investing might be attractive for the plans.

II: CLOSING FUND

Leaders: J. Larry Nichols and Blake Wade

STUDY GROUP MEMBERS

Mr. J. Larry Nichols, Chairman and Chief Executive Officer (CEO) of Oklahoma City-based Devon Energy Corporation; Blake Wade, President of the Oklahoma Business Roundtable, Inc., Oklahoma City; Mr. Joe Craft, Chairman of the Board, President and Chief Executive Officer Alliance Holdings GP, L.P., Tulsa.

Web Keough, PhD, CEO of Triton Scientific University Multispectral Laboratories, in Ponca City; Mr. Mike Neal is President and CEO of the Tulsa Metro Chamber; and Mr. Roy Williams, President and Chief Executive Officer of the Greater Oklahoma City Chamber.

"We recommend that Governor Fallin ... task the Secretary of Commerce to secure public and private funding for Oklahoma's Closing Fund that will enable the Governor to enhance the state's chances of attracting new employers to domicile in Oklahoma."

We, the undersigned, submit this recommendation as one way Oklahoma can boldly position itself as a refreshed and modernized state. We recommend pursuit and encourage adoption.

J. Larry Nichols
J. Larry Nichols

Blake Wade
Blake Wade

Joe Craft
Joe Craft

Web Keogh
Web Keogh, PhD

Michael S. Neal
Michael S. Neal

Roy Williams
Roy Williams

DETAILED RECOMMENDATION

We recommend that the Governor task the Secretary of Commerce to secure funding for Oklahoma's Closing Fund to enable the Governor to enhance the state's chances of attracting new employers to domicile in Oklahoma. Consideration should also be given to making awards to employers already domiciled in Oklahoma who are considering major expansions.

With a closing fund vehicle already established by the Legislature in early 2011, the challenge now is to provide a combination of state and local public funding to actuate this new tool for the Governor.

To be effective, we believe the Governor should have the ability to access at least $50 million in order to be competitive with other states. It is suggested that the state appropriate and pay $10 million per year up to a maximum of $50 million into the fund. Additionally, we recommend that options to include local government funding be explored.

We further suggest that a small board of three elected legislators and three individuals from the private sector be placed in positions of authority over the Fund and be responsible for its management. In managing the fund, along with the Governor, this group would vet opportunities and make monetary awards. To be eligible for support a candidate company must demonstrate a significant return on the state's investment and strong local support.

The review process should consider a variety of factors, including job creation and wages, capital investment, financial strength of the applicant, and the company's business history indicating its likelihood of sustainability and growth.

THE FUND

HB 1953 creates the Oklahoma Quick Action Closing Fund in the State Treasury for use by the Oklahoma Department of Commerce (ODOC). The measure outlines various sources of revenue and stipulates that monies in the Closing Fund are to be used for economic development, specifically in situations in which spending these funds would likely be a determining factor in locating or retaining a high-impact business project or facility in Oklahoma.

The Director of ODOC may recommend expenditures from the Closing Fund after analysis specific economic benefit factors outlined in the measure. After approval by the Governor, in consultation with the President Pro Tempore of the State Senate and Speaker of the House of Representatives, ODOC may enter into agreement establishing conditions for payment from the Closing Fund.

DISCUSSION

Many states have closing funds, and often the ready availability of such funds can make a difference "at the finish line" of a state's solicitation of a new employer, especially at the emotional eleventh hour when there are only two or three finalist states in the running. Oklahoma has never had such a fund, and has lost several potential company relocations because of it.

In keeping the state appropriation piece of this initiative relatively small ($10 million per year for five years) our group is signaling that the closing fund should not be a significant burden on taxpayers. With the multiplied benefits that flow from new employers coming into our state, it is difficult to argue that funding this initiative with this amount of state money is an inappropriate use of funds.

Importantly, our recommendation includes potential participation by local government. Any potential private donors (individuals, companies, and foundations) should readily be able to see the benefits to the general public and to the state of “new blood” being introduced into our state. Schools, businesses, charities and governmental jurisdictions all benefit from such newcomers.

KEY FACTS

1. Several years ago Texas established the Texas Enterprise Fund, which has awarded tens of millions of dollars to newly established businesses just in the last five years. At $295 million, the Texas Enterprise Fund is the largest deal-closing fund in the nation. Created by the legislature in 2003, the fund is financed by general and special tax revenue in the state’s Rainy Day Fund.

2. The Texas Enterprise Fund was created in 2003 and re-appropriated it in 2005 and 2007 to help bring new jobs to Texas. To date, the TEF has closed the deal on new businesses that Governor Perry claims have created 45,000 new jobs and resulted in $15 billion in capital investment.

3. Twenty-five states appropriate state revenue for one or more types of business incentive grant. Eight of those states use a deal-closing funds.

4. Generally, small states have small annual appropriations for business incentive grants. An exception is Iowa, which has a $26 million annual fund for transportation infrastructure financed by a set-aside of the state gasoline tax.

CHALLENGE

The principal challenge here is to convince legislators and the general public that the establishment and funding of a viable Closing Fund is an important element in enhancing our state’s economic health. It is and will be particularly challenging in times of pressure on our state budget.

Meeting this challenge will require considerable public education, supported with facts, and clear and effective communication.

Private businesses and foundations as potential financial supporters will also require targeted and effective education and communication.

RECOMMENDED ACTION STEPS

The study group on Closing Fund recommends that the Governor:

1. Tasks the Secretary of Commerce with **developing the details of a plan to fund the recently established Closing Fund** with state and local sector commitments.

2. **Appoints a 4 to 6 person board** to oversee the management and award process of the Closing Fund

3. **Assures the education of various key economic development players** in the state, including the chambers of commerce in several communities and the state chamber, about the existence and appropriate use of the Closing Fund.

“When she signed House Bill 1953 last week, Oklahoma Governor Mary Fallin put into state law the “Quick Action Closing Fund,” a priority economic development (ED) mechanism she had sought since her State of the State speech in January. It is also a program the State Chamber had wanted to add as another tool for attracting new or relocated jobs to the Sooner State. Fallin had persistently pressed legislators to create the fund so she can leverage deals to attract new or expanded business investment. The fund has no new cash in it. The governor welcomed passage of the measure, nonetheless.”

CapitolBeatOK, Patrick B. McGuigan, Published: 31-May-2011

III: GAME CHANGER

Leader: Clay Bennett

STUDY GROUP MEMBERS

Mr. Clay Bennett, Chairman of Oklahoma City-based Dorchester Capital Corporation, Chairman Emeritus of the Board of Directors of the Oklahoma Heritage Association, and Chairman of the Professional Basketball Club LLC, the ownership group of the Oklahoma City Thunder; Mr. Robert J. Sullivan, Jr. is Chairman of this Governor's Task Force on Economic Development and Job Creation. He is a Principal with Sullivan and Company LLC, a family-owned independent oil and gas exploration and production company based in Tulsa. Mr. Mike Neal, President and CEO of the Tulsa Metro Chamber; Mr. Jody Parker, Chairman of the Board for Anchor Stone Co. in Tulsa, and a member of the Oklahoma State Regents for Higher Education. Paul Risser, PhD, COO of the University of Oklahoma Research Cabinet and Executive Director of the EDGE (Economic Development Generating Excellence) Fund Policy Board; Mr. Renzi Stone, President and CEO of Saxum PR in Oklahoma City; Mr. Roy Williams, President and Chief Executive Officer of the Greater Oklahoma City Chamber; Mr. Michael Moradi, Founder and Managing Director, Century Venture Partners in Oklahoma City; Mr. David Littlefield, President & CEO, Littlefield Brand Development in Tulsa; and Mr. Blake Wade, President of the Oklahoma Business Roundtable, Inc., Oklahoma City.

"We recommend that Governor Fallin ... initiate a private sector/state government effort to cause Oklahoma to be the nation's innovative leader in the conversion and use of CNG vehicles."

We, the undersigned, submit this recommendation as a "Game Changer". It is intended to propel Oklahoma as a boldly repositioned state, ready for growth that the nation wants and needs. We recommend pursuit and encourage adoption.

Clay Bennett	Robert J. Sullivan, Jr.
Mike Neal	Roy Williams
Joseph L. Parker, Jr.	David Littlefield
Paul Risser	Blake Wade
Renzi Stone	Michael Moradi

DISCUSSION

Several Oklahoma companies have done extensive study on this subject, and our group has accessed some of this work, with a great deal more information yet to be accessed. There are compelling economics for consumers to consider CNG in their cars, and perhaps even more economics for truck fleet owners to make the switch. The state's role would be to provide a coordinating function for all of the "players" to come together and "make it happen" perhaps through a bold commitment to fund our way through the few bottlenecks that are preventing widespread use of CNG in transportation.

Oklahoma and the nation have a "chicken and egg" dilemma inhibiting widespread use of CNG in cars and trucks. Drivers are reluctant to convert their cars/trucks to CNG or buy new ones because of the relatively few number of fueling stations in place. The fueling station folks are reluctant to make the investment to provide CNG because there aren't enough cars/trucks needing the fuel. In addition to incentivizing supply points at traditional "filling stations," incentivizing two other kinds of supply alternatives should be pursued:

- Any operation involving fleet driving activity that begins a route and ends it at the point of beginning could be equipped with refueling equipment that keeps fleet's CNG tanks full on a daily basis, and importantly,

- Residences can be equipped to have safe fueling devices in garage settings that will refuel a car at home overnight as supplied by the natural gas lines coming into the house, thereby overcoming the public's apprehension about the scarcity of traditional "filling stations."

KEY FACTS

- Oklahoma has an abundant supply of natural gas reserves; there are approximately 27 CNG stations in Oklahoma; and there are already several "fleets" of vehicles operating on CNG in the state, including several school bus fleets, some garbage trucks, and some corporate car fleets.

- The federal government will cover a significant portion of conversion costs of vehicles to CNG through a rebate program.

- Oklahoma Congressmen Boren and Sullivan have introduced a revised version of legislation to boost natural gas use.

THE CHALLENGE

A major federal barrier is the EPA regulation of CNG conversion processes. The EPA requires separate licensing for the conversions of each make, model and year of automobile. These multiple licensing requirements preclude any practical conversion facility for such a wide variety of vehicle makes and models. This policy alone may preclude economical wholesale conversions.

The overall macro-challenge is to break this "chicken and egg" cycle by forcing fueling station availability to an elevated and convenient level for motorists. This would be accomplished by essentially funding 100% of the cost of CNG fueling installations at chain gasoline vendors. CNG pricing expressed in a dollars per gallon equivalent basis would be posted at gas stations along with the current gasoline and diesel prices. The extremely attractive savings (more than 50% at current prices of gasoline and natural gas) would be evident and would drive car owners to either convert their existing cars to CNG or buy original manufacturers' CNG vehicles.

The logic of committing state funds to this effort is that it would save consumers money at the pump; it keeps inside our state Oklahoma's natural gas resources that would otherwise be pipelined out of state for consumption elsewhere; it is environmentally attractive as a clean burning fuel; it demonstrates once again that Oklahoma can be a true leader in the nation when it comes to energy related matters.

The public/private effort can be forged with private sector players because several parties stand to benefit financially from this initiative, including natural gas producers, natural gas transporters, utilities, and equipment suppliers. The existence, if not the leadership, of private money in this initiative would greatly enhance the prospects of legislative approval for the public money share.

THE OPPORTUNITY

In short, the Governor and the State of Oklahoma has a golden opportunity to seize the leadership of this issue nationally by in effect "forcing" CNG into prominence in our state and demonstrating to the nation that for a relatively small amount of money (compared to the benefits) we can become a cleaner driving nation and significantly reduce our dependence on foreign oil.

Many companies (ONEOK, OG&E, Chesapeake, Apache and others), have done a great deal of research and development in this area. So has Boone Pickens who is loudly promoting CNG. What is missing is the focus and determination to make it happen. Enter Oklahoma … enter Governor Fallin … enter can-do Okies from the private sector.

With additional research, economic analysis, and a a marketing plan, this could indeed be a **GAME CHANGER for Oklahoma.**

RECOMMENDED ACTION STEPS

1. **Task the Oklahoma Secretary of Energy and Secretary of Transportation** to staff, organize, plan and execute this effort.

2. **Convene a private meeting of a small number of Oklahoma's experts** and become convinced that such an initiative is technically and economically feasible. Suggested attendees are Larry Nichols, Aubrey McClendon, Boone Pickens, Bob Sullivan, Neal McCaleb and others.

3. Governor Fallin and Secretary of the Environment Sherrer **meet with Senator Inhofe** to determine strategy to obtain support of federal EPA.

4. **Plan a media cultivation effort** that will inform media on background of the CNG efforts. Suggested national invitees are Wall Street Journal, Bloomberg, Fortune etc. Local media will be The Oklahoman, Tulsa World, TV outlets etc. Convene a public news conference, accompanied by Oklahoma energy leaders, and announce the plan and goal to lead the nation in this initiative.

5. **Organize a high profile visit to Washington and New York** to announce the idea to a variety of political, media and industry groups. Coordinate the event with the Oklahoma congressional delegation.

6. **Visit the Governors of the five other leading natural gas producing states** to begin discussing multi-state strategies. They are Republican Governors of Texas (Perry), Wyoming (Mead), New Mexico (Martinez), Louisiana (Jindal); and Democrat Governor of Colorado (Hickenlooper).

OTHER IDEAS CONSIDERED

High Speed Rail
The economic ripples from a high-speed rail installation between Oklahoma City and Tulsa would be significant. Both passenger service and commercial shipping would be planned. Turnpike Authority right-of-way might be used where appropriate and bond funding using that entity might also be accessed.

Over time, spur service to other Oklahoma communities would be added. Federal funding for part of the capital cost is likely to be available.

Water Planning for Oklahoma
Oklahoma's future is perhaps as dependent on abundant and clean water supplies as on any other single element. Our group considered an initiative on this subject, and believes the Governor should elevate the water issue to a high level. Excellent studies on the subject have already been conducted. The development of clear a direction from the Governor's office and coordination of next steps and are required for tangible progress to be made. This initiative would be particularly important to rural Oklahoma and smaller communities, but our metropolitan areas are always in need of good planning and management of this critical resource.

"(Governor) Fallin says the state took several steps this year to improve its business environment, including passing comprehensive tort reform and worker's compensation reform. Another step is the creation of what she calls her "game-changer committee," a 44-member group of business leaders tasked with finding ways to improve the state's business climate."

Governor Fallin at the annual BIO International Convention, July 28, 2011
promoting Oklahoma as a prime spot for biotech investment (www.ok.gov)
SiteSelection.com: "Oklahoma Wide Open for Opportunity"

IV: NATIVE AMERICAN OPPORTUNITY

Leader: Neal McCaleb

STUDY GROUP

Mr. Neal McCaleb, Chairman of the Board of Chickasaw Nation Industries, and former Assistant Secretary of the Interior for Indian Affairs under President of the United States George W. Bush; Mr. Dave Lopez, Oklahoma Secretary of Commerce who previously served as president of SBC Communications (now AT&T) in Oklahoma and Texas.

Mr. Michael Moradi, Founder and Managing Director, Century Venture Partners in Oklahoma City; and Mr. Blake Wade, President of the Oklahoma Business Roundtable, Inc., Oklahoma City and former Executive Director of the Oklahoma Centennial Commission.

The Study Group was materially assisted by Mr. Kirke Kickingbird, legal counsel; Mr. David Stewart, Cherokee Nation; and Mr. Brian McClain, Choctaw Nation.

"We recommend that Governor Fallin ... fully leverage the advantages of Tribal governments by creating nationally innovative SNAP Zones (State-Native American Partnerships) to propel economic opportunity in Oklahoma."

We, the undersigned, submit this recommendation as one way Oklahoma can boldly position itself as a refreshed and modernized state, that capitalizes on the advantages of local tribal governments and will "make certain Oklahoma's business climate can attract new capital, new investments." We recommend pursuit and encourage adoption.

Neal McCaleb	Dave Lopez
Michael Moradi	Blake Wade

DISCUSSION

This Study Group has been focused on the unique opportunities for Oklahoma's economic development deriving from status of the States 39 Federally recognized Indian Tribal Nations as Sovereign Dependent Nations which enjoy several economic advantages. Many of these Tribes are already economic engines creating Capital, jobs and infrastructure development. The Tribes have commissioned a study to the Meinders School of Business at Oklahoma City University to determine the aggregate impact of Tribal enterprise and governmental functions on the Oklahoma economy.

This bold initiative for Oklahoma would be to leverage expansion of infrastructure and Tribal investment to attract capital investment and job creation on Tribal Trust lands within the State. Tribal governments and their Title 17 business enterprise federal corporations are tax free giving them a considerable competitive advantage that can be used to attract capital investment.

Capital improvements made on Tribal trust land are exempt from ad valorem and certain operations from all state taxes. This sovereign tax status is similar to tax exemption incentives offered in other states to attract industry and capital.

The Study Group has concluded that the best opportunity for economic development in Oklahoma involving Tribal Governments and the State would be centered on the unique status of tribal governments on Trust Land and the joint promotion by both parties in the promotion of industrial locations and foreign trade zones. We recommend that the zones be called "SNAP" zones standing for "State-Native American Partnerships"

These SNAP zones would use the resources of the State and Tribal governments to jointly make necessary infrastructure improvements such as transportation access, utilities and water supplies to render the sites attractive to private capital investment. These SNAP zones would be similar to the very successful "Special Economic Zones" (SEZ) now established in China and other nations.
The Oklahoma participation would be to bring essential infrastructure to the Trust Land boundaries and the Tribal government would be responsible for improvements within tribal boundaries.

The state benefits from the income and sales taxes generated by employment within these zones. The Tribal lands are enhanced in value by provision of infrastructure and private capital investment on their lands.

KEY FACTS:

1. There are thirty nine federally recognized Tribes residing in Oklahoma who enjoy sovereign status.

2. Many of the Tribal Nations have the financial capacity and experience in economic development to be effective partners with Oklahoma in attracting industry and capital investment.

3. There already exists a template for State/Tribal cooperation in infrastructure development on projects jointly financed with the ODOT on state highways that have created major capital investment and job creation.

4. The Tribal Nations have federal assistance funds available for economic development and infrastructure enhancement that are exclusive to Tribes.

CHALLENGES

There are some obstacles to private investment due to the Trust status of these lands and the sovereign immunity of Tribal governments and the enforcement of contracts. However there many examples of methods of overcoming these obstacles already in existence.

The success of these SNAPs is dependent on the joint promotion of these opportunities to private capital by both the state and Tribal governments.

Oklahoma Tribes are already making considerable capital investment of their own funds and third party private funds in the development of entertainment and hospitality businesses with the assistance of ODOT and local governments in improving access to their facilities. The extent of these investments and their corollary impact on the state's economy are not now accurately known.

To remedy this and quantify the economic impact, funds have been secured for an economic impact study to be conducted by the Meinders School of Business at Oklahoma City University. The cost of this comprehensive study is $90,000 and the Cherokee, Choctaw and Chickasaw Tribes have already subscribed $75,000 of this amount in cooperation with the Oklahoma Department of Commerce who will serve as a non-participating sponsor.

There needs to be a statutory mechanism and funding to establish this relationship and fund worthy projects.

OPPORTUNITY

Oklahoma has enjoyed unique success collaborating with Indian Tribes, and leveraging their unique tax status for commercial benefit.

By aggressively adopting the "SNAP strategy", we believe a concerted and cooperative effort by the State of Oklahoma and Tribes can yield long term economic development and enhancement for Oklahoma and all its citizens.

RECOMMENDED ACTION STEPS

1. **Engage appropriate Tribal leaders** to gain their advice and support for the SNAP strategy.

2. **Enact the SNAP concept into statute** giving the Governor and the Department of Commerce the authority to negotiate and enter into State and Tribal contracts for such projects.

3. **Provide appropriations for the discretionary use of the Governor** similar to the Industrial Access funds authorized for the ODOT.

“ We must make certain Oklahoma’s business climate can attract new capital, new investments, which produce new jobs and retain existing jobs.”

Governor Mary Fallin, Inaugural Address, January 10, 2011

V: OKLAHOMA'S IMAGE

Leaders: David Littlefield and Renzi Stone

STUDY GROUP MEMBERS

Mr. David Littlefield, President and CEO of Littlefield Brand Development, a strategic brand consulting and creative firm based in Tulsa. Founded in 1980, Littlefield represents regional and national brands with a staff of over 30 professionals grounded in the disciplines of research, brand strategy, creative storytelling, public relations and social media;

Mr. C. Renzi Stone, President and CEO of Saxum PR, an integrated communications firm offering expertise in public relations, marketing, creative and social media; and

Mr. Fred Morgan, President and CEO of The State Chamber of Oklahoma and a member of the Oklahoma House of Representatives from 1994 to 2006.

"We recommend that Governor Fallin ... consolidate state-wide marketing responsibilities under the Secretary of Commerce and then create a key new position: Director of Marketing for the State of Oklahoma."

We, the undersigned, submit these recommendations related to creating a more consistent and positive brand position for the State of Oklahoma. We recommend their pursuit and encourage their adoption.

David Littlefield

Renzi Stone

Fred Morgan

Expanded Recommendation

To help create a more focused, consistently positive brand image and position for Oklahoma we recommend a consolidation of overall state-wide marketing responsibilities under the Secretary of Commerce and the creation of a key new position: Director of Marketing for the State of Oklahoma.

This person's role would be to periodically conduct a brand study for our state, then implement and oversee a consistent Oklahoma brand message across all marketing communications from state organizations, including the Departments of Tourism and Commerce and encourage economic development organizations as well as Chambers of Commerce throughout the state to follow our lead.

"This course of action is commonplace within the private sector; yet it is unprecedented within state government."

Discussion

Research shows Oklahoma has a weak image outside our state, in part because we lack a focused, purposeful, differentiated brand position. Oklahoma does not have a "poor" image; Oklahoma is mostly unknown to the nation and world.

Brand impressions are formed in many ways. Historically, the state of Oklahoma has not purposefully established a differentiating and relevant position we can own, that is true to us and us alone.

If you don't tell people what you want them to know about your brand, you are asking them to rely upon any means available to them to form an opinion about the brand. Psychological research shows that once a false impression is formed, it takes a personal experience with the brand to change that misperception.

Since we have not consistently funded, nor put forth any positive, credible brand messages about the many benefits of visiting, doing business and living in Oklahoma, there is nothing out there to counter any negative press that may be seen about our state through the national news.

Many Americans will never visit Oklahoma to form a personal opinion and point of view about our state. They will form brand impressions about Oklahoma from external media and online sources.

Therefore, the false impressions made, often are not overcome through personal experience, and good first impressions are not being made because we are not pro-actively investing resources to control what messages are being delivered.

Rural economic development professionals in Oklahoma report they often get push-back from business prospects they are pursuing, saying they don't want to move to Oklahoma because of our reputation for property-damaging, life-threatening tornados.

This is an example of an uniformed brand impression being made based upon newspaper or television accounts of the devastating effects of the tornado activity in Oklahoma. For life-long Oklahomans, who know the miniscule odds and low statistical probability of being caught in the path of a tornado, this may sound hollow, but if that is the only impression our business prospects have of our state, it is a deal killer.

Other negative brand impressions about Oklahoma, that periodically get play in the national news, are our reputation for consistently ranking at the very low end of states with poor health, obesity, smoking and teenage pregnancies. If this is all you know about Oklahoma, why would you want to visit here, much less move here?

The good news is that our two major metropolitan areas, Tulsa and Oklahoma City, are consistently being mentioned very high in "business friendly" and "quality of life" rankings. The addition of the NBA's Oklahoma City Thunder has as much positive potential as any marketing message of the past twenty-five years.

We say it is time for us to move beyond the popular Oklahoma saying - about our state friends to the East who typically rank lower on health and education than we do - "Thank God for Mississippi!" Oklahoma needs to centralize and simplify our brand positioning and messaging. We must decide for what our state stands, that is relevant to businesses and people who desire the low cost, quality of life available in Oklahoma, and stake our claim in the ground. It is time to creatively, pro-actively and consistently fund an ongoing brand communications program to tell our state's story in a compelling and engaging fashion.

Inconsistent Brand Standards

Internally, the Oklahoma brand is inconsistently represented across all channels of communication, including business cards, letterhead, websites, marketing, advertising, public relations, and point-of-sale materials.

This situation does not serve us well and inadvertently sends out mixed messages to our key audiences who work with different areas of our state government.

Need for Brand Advocates

The best customer is a current customer. Oklahoma is full of brand advocates who do not know how to promote our brand.

When a corporate entity decides to engage in a brand building exercise, promotional materials are developed to reinforce messages through the use of pens, notebooks, signage, gear (t-shirts, golf shirts, cuff links, etc.) to build pride in the brand. A licensing program that adheres to focused guidelines will begin to allow private sector entrepreneurs to create more branded items with the new Oklahoma brand.

Results could have a huge impact on our internal audiences (e.g. Oklahoma citizens) who now have more opportunities to become brand advocates. Additionally, any revenues generated through licensing agreements could be used to fund additional marketing and branding initiatives.

Conflicting Message Strategies

From an external message standpoint, our two largest marketing entities—the Departments of Commerce and Tourism—have been sending out conflicting messages.

For the past 20 years, Tourism has invested $4 to $5 million dollars a year promoting the "Native America" theme to attract tourists to the most beautiful parts of our state, while Commerce—with an embarrassingly small advertising budget of several hundred thousand dollars —has attempted to position our state to attract businesses by touting us as having a highly competent workforce and being technologically savvy.

There is an inherent disconnect between those two efforts that must be changed. While Commerce is targeting site consultants and CEOs with a professional business message strategy, those same business target audiences are also consumers, and are more exposed to the Native American message due to the overwhelming budgetary advantages in Tourism.

Furthermore, there is a huge brand disconnect when people come to Oklahoma looking for Native American things to see and do and find themselves in a cosmopolitan city where a genuine Native American experience is hard to discover.

Benefits of a Brand Study

Truth is, people cannot remember multiple things about a brand and the State of Oklahoma simply must find the ONE THING we can tout that is differentiating against other states, is relevant to our varied stakeholders and target audiences, and that is an experience we can consistently deliver across our many brand touch points.

A brand study will produce the evidence of what our most relevant, unique message strategy should be. Deliverables should include:

- Key findings and insights
- Brand profile
- Target audience profile
- Competitive analysis
- Brand promise
- Message strategy
- Creative direction
- Brand touch point analysis
- Media audit (paid media, earned media, owned media, internal communications)
- Recommended marketing initiatives

Key Facts

1. Research consistently shows Oklahoma has a weak image outside our state and commonly held belief says we have poor self-esteem within our state
2. Oklahoma owns no focused, differentiated brand position.
3. Oklahoma has no brand and/or marketing manager, responsible for determining, then managing the communication of our state's brand attributes.
4. Oklahoma lacks extensive public/private partnerships with economic development professionals and chambers of commerce to leverage limited marketing and brand development resources.
5. Oklahoma has no established brand standards – guidelines to represent our brand consistently across all communication platforms.
6. Oklahoma has never engaged in a comprehensive brand audit exercise.
7. Oklahoma would benefit from brand standardization.
8. Historically, the message strategies respectively developed for Tourism and Commerce are at cross-purposes and work against each other.
9. It is possible to create one, umbrella brand position for Oklahoma that would serve all interested parties across our state, whether rural, urban, tourism or economic development and commerce, and still give each respective entity the ability to deliver specific message strategies relevant to their audiences, while still supporting the overall brand position.

The Challenge

Oklahoma faces many challenges before embarking upon a committed brand positioning effort. These challenges are not insurmountable, but include:

Every four to eight years, our state leadership changes, with each governor bringing a different set of ideologies and priorities.

Our state government today is not structured to create and manage the stewardship of a consistent brand position and message strategy. But to strengthen Oklahoma's economic development effort, it is essential to develop a singularly focused, consistent brand image that is relevant to diverse audiences and can be delivered consistently across multiple brand touch points.

Funding this effort is obviously critical, and should involve measurable objectives and ensuing results. To gain respect for these branding efforts and to secure consistent and adequate funding, we must not only create an effective brand promise, but also clearly define our expectations for success and be able to provide a measurable return on investment.

T**he Opportunity**

With Governor Fallin and a legislature that is pro-business, we have an opportunity to create an improved business model and culture that will support a consistent brand promise and experience year after year.

And with new leadership in the Departments of Commerce and Tourism, we can take a fresh look at how others see us, and look for synergistic ways to present a consistent brand message and promise that will be relevant to our diverse audiences who contribute to the economic development of Oklahoma.

Consistently portraying a positive brand image for Oklahoma and delivering a relevant, engaging brand experience will increase our opportunities to not only attract new companies to Oklahoma, but also keep and grow companies that are already here.

Likewise, a strong, deliverable brand message will attract new people who are looking for a better quality of life, enable Oklahoma to keep its best and brightest people, and will encourage people to visit our state, stay longer, and come back more often.

Having fresh leadership and thinking now creates a golden opportunity for bold, new ideas that can contribute to and grow Oklahoma's brand experience.

Recommended Action Steps

1. **Make the Governor's cabinet-level position, Secretary of Commerce, responsible** and accountable for the overall, ongoing positioning of the State of Oklahoma.

2. **Create an Oklahoma Director of Marketing position** with broad authority to be the state's brand steward. This person would report to the Secretary of Commerce and be responsible and accountable for the consistent execution of the brand position driven by research and agreed upon by the Governor and Secretary of Commerce.

3. **Ensure consistency of messaging and overall brand positioning** buy placing all state government agencies, associated with or contributing to economic development, under the Department of Commerce's organizational structure.

4. **Define what success looks like and create the metrics** of success to be measured for return on investment.

5. **Engage an outside, professional firm to conduct a qualitative and quantitative brand assessment study** for the state to determine a unifying brand message that is:

   - *Differentiating against other states*
   - *Relevant to our target audiences*
   - *Consistently experienced across all brand touch points*

6. **Engage an outside, professional firm to develop a comprehensive marketing communications plan** that consistently communicates the message strategy determined in the brand study. Execute the strategies and tactics necessary to achieve meaningful, measurable results through creative media strategies and tactics and compelling, engaging storytelling.

7. **Create a brand-standards manual** for marketing communications and statewide brand positioning for all government entities to follow, with approval of the Director of Marketing.

8. **Work with the private sector, including chambers of commerce as well as Native American tribes and the state legislature** to consistently and properly fund both the Commerce and Tourism departments so they may have a fighting chance to make a discernable difference.

"That is why in my administration, mediocrity will never be acceptable. The measuring bar is moving … and it is moving up."

Governor Mary Fallin, Inaugural Address, January 10, 2011

VI: PRIVATIZATION AND SURPLUS ASSET SALES

Leader: Ken Lackey

STUDY GROUP MEMBERS

Mr. Ken Lackey, Executive Chairman of NORDAM, a privately-owned aerospace manufacturer and repair entity in Tulsa; Mr. Todd Lamb, Lieutenant Governor of Oklahoma, a former State Senator and a former member of the U.S. Secret Service.

Mr. Daryl Woodard, President of SageNet, a leading provider of broadband data networking solutions in Tulsa; Mr. Lew Ward, Chairman of Ward Petroleum Corporation in Enid; and Web Keogh, PhD, CEO of Triton Scientific University Multispectral Laboratories, in Ponca City.

"We recommend that Governor Fallin ... establish an operational entity which would be responsible for gathering, analyzing and implementing the best practices for privatization and surplus asset sales."

The undersigned submit these recommendations as a step toward a more cost effective state government and as an opportunity to create funding for the Governor's economic development initiatives and other "new methods" strategies improving the State of Oklahoma.

Ken Lackey

Todd Lamb, Lieutenant Governor

Daryl Woodard

Lew Ward

Web Keogh, PhD

DETAILED RECOMMENDATION

We recommend the Governor and/or the Legislature of Oklahoma establish an entity which would be the repository of the best privatization and surplus asset sales practices, as well as having expertise to select projects or services for privatization and designate assets as surplus, be capable of rapid evaluation and response to unsolicited privatization proposals and have the ability to oversee the contracting for privatization opportunities.

We believe that the entity should have a governing body, a board (for want of another term) composed of business people with experience in supply chain management, contract management, finance, or other skills which will support a Center of Excellence by introducing the best practices of private business into state government.

Finally the Study Group recommends that proceeds from significant privatizations or asset sales be used for 'Game Changing' initiatives as opposed to simply funding annual operations of state government."

DISCUSSION

There are many opportunities to privatize Oklahoma government services as well as many state assets which should be considered surplus and effectively and efficiently disposed of. The legislature has conducted numerous studies to identify surplus assets and privatization opportunities. Many of these opportunities have been widely discussed and include:

- Certain land controlled by the Commissioners of the Land Office – 700,000 acres brings in only $11 million in revenue and 1.1 million net mineral acres generates only $39 million in revenue.
- State Parks, Lodges, Golf courses, Cabins
- Generating Assets of Grand River Dam Authority
- Management of the State Lottery
- Compsource
- Management of the Turnpikes
- Privatizing Sales Tax Collections
- Identifying and Eliminating Surplus Assets Stored in Warehouses
- Vehicle Fleet Maintenance/Management
- State Parking and Printing Services
- Higher Education Facility Maintenance
- Institutional and Correctional Food and Medical Service
- Operation and Maintenance of State Buildings
- Bridge Inspections and Weigh Stations

There are many other privatization opportunities in higher education, welfare and institutional services, and information technology too numerous to mention.

Opportunities clearly exist to use privatization as an alternate delivery system for state services. Privatization is an opportunity not only to benchmark the cost of state services, but to establish performance outcomes as the basis for payment.

Certainly opportunities exist in Oklahoma to more quickly and efficiently identify and dispose of excess assets. A cumbersome disposal process keeps surplus assets in rental warehouse space incurring an opportunity cost and a rental expense. The problem is not the opportunity to privatize or dispose of surplus assets, but rather to have a dedicated, responsible entity with the necessary expertise and to establish an efficient process for identifying, evaluating, and implementing asset disposal or privatization.

KEY FACTS

The legislature and the Governor's Office have a very strong interest in privatization. There have been many ideas and interim studies to support privatizing state services.

Unfortunately, the Governor's Office and the legislature have no single entity to which they might turn for expertise and assistance.

Accordingly, opportunities are handled on an "ad hoc" basis by the State agency involved or by legislative or executive branch staff.

There is no repository of expertise nor does a person or an entity exist to independently evaluate and implement a privatization opportunity.

CHALLENGE

If a state agency is interested in privatizing a function or service to whom does it turn for expertise? The Attorney General's Office? Central Services? The Office of State Finance?

There is no repository of privatization expertise and/or best practices for privatization or surplus asset disposal in state government. This problem is not unique to Oklahoma.

When Governor Christie in New Jersey embraced privatization to streamline and improve state government, he issued an Executive Order creating the New Jersey Privatization Task Force. This body conducted a state-wide review to identify realistic, pragmatic and actionable privatization opportunities. Christie's Task Force went beyond simply identifying opportunities and outlined a series of strategies designed to make smart, efficient privatization a routine part of state government.

One of the key recommendations was the establishment of a centralized privatization entity for the state.

New Jersey's Task Force also recommended applying a set of best practices in project selection and contracting and creating a process for handling unsolicited proposals; Florida, which has been a leader in privatization, has the Council on Efficient Government which is a Privatization Center of Excellence; Governor Bobby Jindal of Louisiana established the Commission on Streamlining State Government to recommend and oversee reforms.

Oklahoma can identify surplus assets and privatization opportunities but an efficient, effective, timely implementation process is the key to successful realization of the savings involved.

RECOMMENDED ACTION STEPS

The Study Group believes the State needs an entity which would be the repository of best privatization practices as well as having the expertise to select projects or services for privatization, allow rapid response to unsolicited privatization proposals and oversee the contracting process.

1. **We believe this entity could be chaired by the Lt. Governor, the State Treasurer or the Secretary of Commerce or a combination.** The body will require a small but experienced staff, and will need the support of the Office of State Finance, the Attorney General's Office and Central Services.

2. **The Governor will have to determine whether an Executive Order or a statute is necessary** to establish a Center of Excellence for Privatization and Surplus Asset Disposition.

3. **The Study Group believes that the commission, or whatever form it takes, should have a governing body,** a board (for want of another term) composed of business people with experience in supply chain management, contract management,

finance and other skills which will support a Center of Excellence by introducing the best practices of private business into state government.

4. **Finally, and importantly, the Study Group is also concerned about use of proceeds.** Simply using the proceeds from surplus assets sales or savings from privatizations to fund annual operations of state government is not appropriate.

5. **Our Study Group believes appropriate uses of such proceeds or savings would be to address major problems** facing the State such as underfunded pension liability, funding the transition from a defined benefit plan to a defined contribution plan, or to fund "Game Changing" strategies to create significant growth or innovation for the State.

" We will undertake new methods and we will constantly strive to improve what we do and how we do it. "

Governor Mary Fallin, Inaugural Address, January 10, 2011

VII: REGULATIONS

Leader: Jerrod Shouse

STUDY GROUP MEMBERS

Mr. Jerrod Shouse, Oklahoma State Director of the National Federation of Independent Business in Oklahoma City. He served in the Keating Administration during 1997-2003 as press secretary for University of Oklahoma President David Boren; Mr. Keaton Cudd, Cudd Holdings Company in Oklahoma City.

Mr. Clay Christensen is an attorney with Day, Edwards, Prospeter, Christiansen, P.C. in Oklahoma City; and Mr. David Hill is the Chief Executive Officer of Kimray, Inc. a manufacturer of oil and gas equipment and controls in Oklahoma City.

"We recommend to Governor Fallin ... initiate a change in the culture and law to convert the focus of regulatory state agencies to customer-service and business compliance rather than enforcement."

We, the undersigned, submit this recommendation as one way Oklahoma can boldly position itself as a refreshed and modernized state, one that will "make improvements in our regulatory environment ... so that employers can create more jobs." We recommend pursuit and encourage adoption.

Jerrod Shouse

Keaton Cudd

Clay Christensen

David Hill

DISCUSSION

The entire country has been through a tough economic period for the last three-plus years, and Oklahoma is no exception. Although we weathered the recession better than most states, we have experienced our fair share of lost jobs and lost prosperity.

As a result, the state budget has suffered. The past three fiscal years have seen a steep decline in dollars appropriated to state agencies. Difficult budget decisions had to be made, and virtually no state agency was immune from significant cuts.

Some state agencies, boards, and commissions don't rely solely on state-appropriated dollars and they are able to raise their own funds from licensing, fees, and penalties. During these lean economic times, regulatory agencies were able to recoup lost dollars by increasing the number of assessed fees and fines on private-sector businesses found to be out of compliance in some way.

Overzealous regulation is particularly burdensome in times such as these when the nation's economy remains sluggish. Unfortunately, the regulatory burden on businesses has only grown. We are concerned that many agencies are shifting from an emphasis on business compliance to one of regulation enforcement.

This is particularly alarming because small businesses, lacking the resources to employ specialized staff devoted to regulatory compliance, rely on state agencies for compliance assistance.

The Governor can help by changing the culture to make it a priority for agencies to be customer-service oriented and devote adequate resources in helping businesses comply with the regulatory burdens they face. This would guard against agencies from being overzealous in their fines and ensure that a punishment is not seen as merely financially aiding the agency.

Also, businesses sometime end up paying fines and penalties the first time they commit a non-harmful error on regulatory paperwork. Because of the lack of specialized staff, mistakes in paperwork inevitably will happen.

If no harm is committed as a result of the error, the agencies should waive penalties for first-time offenses and instead help business owners understand the mistake they made.

KEY FACTS

1. The private sector is driving the growth of our economy and will create the jobs necessary to get us beyond the economic recovery. Businesses should be held accountable for willful violations of the law, but should never be seen as a "revenue source."

2. State agencies, boards, and commissions should be in a role of helping the private sector succeed, and should be discouraged from using the private sector to assist in bolstering agency funds.

3. If state government helps businesses succeed, then the state will succeed. Our prosperity depends on the private sector's ability to create jobs and grow the economy.

4. Every dollar that a business must pay to the state in an unnecessary fine or fee is a dollar that won't be spent creating a new job or toward growing the economy.

CHALLENGE
The challenge will be from agencies that have come to rely on these fines for revenue. Some of these entities are non-appropriated, and will make the argument that the money is needed for their annual budget. The agencies will also contend they need these funds or they will be forced to make further cuts.

There is also a lack of a customer-service culture in regulatory state agencies. The culture that exists is one of making sure the rules are upheld, and that violators should be held accountable.

A change in culture must occur. Regulatory agencies should understand that a strong private sector would benefit the State of Oklahoma. And sparring with the private sector will only impede economic growth.

THE OPPORTUNITY
The Governor and the State of Oklahoma can send a message that we are friendly to businesses -- not only when we recruit businesses, but also after a company opens its doors here.

State agencies should be working with the private sector to ensure compliance and encouraging this success, and not looking for opportunities to drain money from the private sector.

If Oklahoma has a customer-service approach to regulating businesses, the private sector will thrive and create jobs. Our reputation around the country will be known as a great place to do business.

More businesses will stay here, more will come here and everyone would contribute to the economic revitalization of Oklahoma.

RECOMMENDED ACTION STEPS

1. **The Governor should task her Cabinet Secretaries to begin implementing rules and policies** in state agencies that would create a culture of customer service and compliance; and encourage county and municipal officials to do the same.

2. Similarly, the Governor should issue an Executive Order directing state agencies, boards, and commissions to **shift their emphasis in dealing with regulated businesses** from that of enforcement to one of customer service and compliance.

3. **The Governor should seek legislation to statutorily change how agencies, boards, and commissions assess fines** to ensure that fines are used only for willful violations of the law; and funds collected from fines are not kept by the agency, but are instead remitted to the general revenue fund of the state.

4. The Governor should establish, either through executive order or legislation, **greater executive branch oversight through the Governor's Cabinet of agencies** to ensure review of fee collections and how much fee authority agencies have.

5. **Legislation should be passed to waive fines and penalties** for businesses the first time they commit a non-harmful error on regulatory paperwork.

OTHER IDEAS CONSIDERED
Impacts of federal regulation: Governor Fallin should work with our federal congressional delegation to modify adverse impacts of federal regulations **"One-Stop Shop" for business licensing**: This was one of the first ideas considered by the Study Group before a new 2010 law that creates a "one-stop shop" .

“ ... we must make improvements in our regulatory environment, tort reform and our workers compensation system, so that employers can create more jobs rather than dealing with red tape and government bureaucracy. “

Governor Mary Fallin, Inaugural Address, January 10, 2011

VIII: RURAL ECONOMIC DEVELOPMENT

Leaders: Chris Meyers and Gary Sherrer

STUDY GROUP MEMBERS

Mr. Chris Meyers, Executive Vice President and CEO of Oklahoma Association of Electric Cooperatives; Mr. Gary Sherrer, Secretary of the Environment for the State of Oklahoma.

Mr. Mike Spradling; President of the Oklahoma Farm Bureau & Affiliated Companies; Mr. Neal McCaleb, Chairman of the Board of Chickasaw Nation Industries.

Mr. David Little, President and CEO of Kingery Drilling Company; and Mr. John Nichols an attorney and businessman engaged in farming, ranching and oil & gas production.

"We recommend that Governor Fallin ... lead the effort to rehabilitate freight rail infrastructure in Oklahoma with emphasis on East-West freight lines."

We, the undersigned, submit this recommendation as one way Oklahoma can boldly position itself as a refreshed and modernized state, one that creates excellence throughout ALL of Oklahoma."

Chris Meyers	Gary Sherrer
Mike Spradling	Neal McCaleb
David Little	John Nichols

DISCUSSION

The economic success of Oklahoma continues to be largely based on the twin growth engines of energy and agriculture. The actual production of crude oil, natural gas and petroleum based liquids in the energy sector, and the production of grains, cotton, soybeans and other commodities in the agricultural sector mainly occurs in rural Oklahoma.

A significant cost in getting the commodities to market is transportation.

While some petroleum-based products are marketed through existing privately owned pipelines, agricultural-based products are marketed through the use of the surface transportation complex of state highways and privately owned rail lines. Because of the great weights involved, rail is the primary mode of transportation to market for most agricultural commodities.

In addition, rail transportation has become an important key to moving crude oil and other petroleum products in the state either for temporary storage in Cushing or to refineries located within or outside the state.

Finally, rail provides the only economic alternative for the transportation of coal, rock, gravel, sand, aggregate and other heavy products that can be moved on a less than time-sensitive basis. Thus, rapid modern rail service is essential not only to the rural economic development of the state but the state as a whole. The Study Group believes that the importance of first class rail service has been overlooked and underappreciated as a driver of state economic health and growth.

Oklahoma has a rail system characterized by relatively good service for goods moving in a north and south direction. The Class I Operators of these lines are the BNSF Railway, the Union Pacific Railroad and the Kansas City Southern Railway. These three railroads operate over 2,500 miles of track in the state.

Many of our cities and towns, and the industrial tracts developed and owned by local governments are located adjacent to or in close proximity to the main line tracks. However, these governmental entities, and prospective private industries do not have access to the rail shipping routes because of the lack of funding to construct modern rail sidings for the loading and unloading of commodities, goods or inter-model truck trailers.

Due to the demise of the Rock Island railroad in years past, Oklahoma lacks a viable east-west rail route through the state. The line formerly owned by the Rock Island from Erick in western Oklahoma to Howe in eastern Oklahoma has reverted in various segments to a number of owners, including “Short Line” operators and the Union Pacific Railroad. This line is important because it could provide rail service through the heart of the state through the cities of Elk City, Clinton, El Reno, Oklahoma City, Shawnee, and McAlester providing a connection at Howe, Oklahoma, to the Kansas City Southern route system, which in turn serves markets in South Texas and Mexico.

The nearest east-west rail service is found north of us in Kansas and south in Texas. The Study Group has been advised that rail traffic moving from the west coast of the Country first moves to Amarillo, then northwest to Kansas or southeast to Texas, bypassing the state entirely.

As mentioned above, virtually all of the rail lines in Oklahoma are privately owned. The

State of Oklahoma owns less than 900 miles of railroad track and right of way, most of which is non-operational.

Major grain producers in Oklahoma are receiving less per bushel than neighbors to the north because of higher transportation costs. Oklahoma producers often utilize the highway system to ship grain east and west which adds to the wear and tear of our highways and bridges.

Many of the Short Line rail lines are limited to 10 to 15 mph due to the condition of the rail. Newer modern rail cars have a loading capacity of 286,000 pounds per car and much of Oklahoma's rail track and bridges are not rated for that capacity. Many of the rail bridges are in a state of disrepair and are in critical need of being repaired, replaced and upgraded to handle modern transportation equipment and the demands of the industry and to better enable us to compete with Kansas, Texas and other surrounding states.

RECOMMENDED ACTION STEPS

To remedy many of the identified issues, the Study Group recommends the following actions be taken by the state.

1. **Governor Fallin should convene a meeting of the various owners of rail lines** in the state with a view to improving service through repairs and maintenance of bridges and improved track or to opening up cost-sharing opportunities through joint ventures or public-private partnerships. Particular attention in this effort should be paid to the Union Pacific railroad which owns the east-west rail line from Shawnee to McAlester. There has been no service on this line for many years because of the collapse of a bridge across the North Canadian River. The U.P. "gap" must be closed in order to re-establish the potential for viable east-west rail service in the state.

2. Although ODOT provides some assistance to short-line operators for track maintenance, **state tax credits for the replacement and improvement of rail lines in the state should be restored by the Legislature as early as possible** to incent short line operators to make the capital improvements necessary for the rail to carry modern railcar loads using equipment traveling at higher speeds.

3. **A "Rail Access" Fund should be established by the state structured in a manner consistent with and similar to the Oklahoma Highway Industrial Access Fund** that now exists. Such a fund would provide rural Oklahoma cities, towns and other entities with financial assistance to defray the substantial costs of construction of rail sidings, spurs and loading facilities. It should be mentioned that modern Class I Railroads now prefer to move "Unit Trains" consisting of 100 cars of a single type.

4. **Local governments in the state should be encouraged to use existing funding sources available through ODOT to modernize the rail crossings** within their jurisdictions, namely with better signaling, signage and safety equipment. In some cases, underutilized or unsafe rail crossings should be permanently closed.

5. **The "Oklahoma Freight and Passenger Rail Plan" now being drafted by ODOT should reflect the special needs and development opportunities in rural Oklahoma, including the above recommendations**.

OTHER IDEAS DISCUSSED

Rural Health Care

We recommend that Governor Fallin advance policies that encourage doctors and health care providers to support and profitably serve rural populations.

The challenge is to improve Oklahoma's health care position from near the bottom in many categories to a position we can be proud of and which provides Oklahoma citizens the best health care available.

Oklahoma is a leader in medical research and education with nationally recognized doctors and state of the art facilities. Oklahoma needs to create the right incentives for doctors and service providers making Oklahoma a preferred location to serve both rural and urban areas. Oklahoma has the opportunity to compete with surrounding states in the recruitment and retention of physicians. It's a quality of life issue that is critical to the growth and development of rural Oklahoma.

Famers Markets

Oklahoma is a rich land in which to grow food. We recommend that Governor Fallin consider the regulations and fees required of farmers' market managers and vendors for the purpose of clarifying, simplifying and enabling Oklahoma producers and small agribusinesses to create jobs and provide healthy food.

According to a recent Oklahoma State Department of Health report, Oklahoma ranks dead last - 50th - when it comes to fruits and vegetable consumption. Reducing the obstacles that local producers and markets face, Oklahomans could have greater variety and easier access to fresh fruits and vegetables.

Recent sales data show an increased interest in buying Oklahoma grown produce and products. It is not uncommon to hear of food scares in the news. Oklahomans are capable of producing high quality, healthy food and consumer trends show that there is a demand for food shipped fewer miles, treated with less chemicals and where purchasing directly from a producers helps the local economy.

A Rural Development Advocate

We recommend that Governor Fallin appoint a Rural Development Advocate and empower this individual to assemble and provide guidance to the various groups, including State Agencies, who work with rural economic development issues to increase and retain jobs and improve local and regional economies in rural Oklahoma.

Oklahoma is a rural state with unique challenges for job creation and retention to cause local economies to survive and then thrive. Twenty three rural counties have lost population in the past 10 years with Cimarron County losing more than 20%. Without good jobs in these areas of the state, the migration away from rural Oklahoma will continue indefinitely. Through various organizations and agencies, resources have been developed and implemented in the State of Oklahoma to assist communities and companies in rural areas.

It is our belief that a Rural Development Advocate could become the glue that brings all organizations together and holds them together to develop and implement strategies for economic success. Working with local or regional Economic Development specialists, hopefully, this team of organizations can have success attracting new business, creating new businesses and helping existing companies grow.

IX: TAXATION

Leaders: Michael Carnuccio and Daryl Woodard

STUDY GROUP MEMBERS

Mr. Michael Carnuccio, President of the Oklahoma Council of Public Affairs, a public policy research organization in Oklahoma City; Mr. Darryl Woodard, CEO of SageNet, a leading provider of broadband networking solutions in Tulsa.

Mr. Rick Dowell, President of Dowell Properties in Norman; Mr. Phil Kennedy, President of Comanche Home Center in Lawton; Mr. Howard Barnett, Jr., President of OSU-Tulsa; and Mr. Roy Williams, President and Chief Executive Officer of the Greater Oklahoma City Chamber.

"We recommend that Governor Fallin ... initiate a 10 year program to significantly reduce then ultimately eliminate the Oklahoma personal income tax."

We, the undersigned, submit this recommendation as one way Oklahoma can boldly position itself as a refreshed and modernized state, one that will "be courageous and willing to move forward each time we find a better way, a better solution for the benefit of the people of Oklahoma." We recommend their pursuit and encourage their adoption.

Michael Carnuccio

Daryl Woodard

Rick Dowell

Phil Kennedy

Howard G. Barnett, Jr.

Roy Williams

DISCUSSION

This study is undertaken to determine the most feasible mechanisms to significantly reduce the Oklahoma income tax with an interest in simplifying the tax code. The purpose of this report is to make several recommendations that can accomplish this goal.

At this time, nine states – Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming – have no individual income tax. Some believe that a key to their relative prosperity is the lack of an individual income tax and that Oklahoma would enjoy faster growth if it reduced this source of revenue. Indeed, many of these states are enjoying a higher rate of economic development than Oklahoma in recent years.

In addressing the feasibility of significantly reducing the Oklahoma income tax, several questions need to be addressed. The income tax is the largest single source of revenue for the state of Oklahoma representing 36% of all revenues accrued. One of the first questions to be asked is "What is the level of revenue lost if the income tax is eliminated?" Without future projections, the income tax represents about $2.4 billion at this time.

A second question to be asked is "What measures can be taken to offset the loss of revenue through the elimination of the income tax?" Several mechanisms exist to fill the gap of these losses in revenue. As noted in a previous study to eliminate the income tax conducted in 2001, expanding the state sales tax base, increasing rates on a variety of other services, or creating new state revenue sources including state property tax are all possible. In addition, a combination of mechanisms could be pursued.

KEY FACTS

1. Revenue Neutrality: Central to the ability of the state to fund existing programs and services, should that be desired, is revenue-neutrality. This requires the replacement of revenues lost through the elimination of the income tax. The mechanisms to adopt in eliminating the income tax are to remain revenue-neutral in the first year of implementation and well into the future.

2. Revenue Stability: A key for other states that have eliminated income tax to sustain programs and services is to maintain stable revenue during both upturns and downturns in the economy throughout business cycles. Maintaining stability through the elimination of the income tax will ensure programs and services are protected.

3. Economic Development: Significantly reducing the state income tax will aid in attracting new business to the state as well as encouraging existing firms to expand within our borders.

THE CHALLENGE

The challenge in implementing a revenue-neutral shift in tax policy is to offset the loss of a substantial source of revenue while maintaining economic efficiency.

THE OPPORTUNITY

In short, the Governor and the State of Oklahoma has an opportunity to produce substantial economic growth through a historical move to significantly reduce the income tax. The prospect of phasing out the income tax will provide a substantially greater economic climate for both individuals and businesses.

Recent economic growth in states that have eliminated their income tax provide examples that support the causality between no income taxes and economic development. Texas eliminating the corporate income tax in 2007; and it has never had a personal income tax. It is not coincidental that Texas has seen unprecedented economic development. Communities in Texas have attracted significant capital investment and created more and better-paying jobs for their residents.

Economic development increases income and enhances the state's quality of life. Following other states in significantly reducing the income tax can provide these opportunities for investors and citizens. With some concentrated research and additional economic analysis, this could indeed be a GAME CHANGER for Oklahoma.

CONCLUSION

The Tax Study Group of the Task Force on Economic Development and Job Creation concludes that it is possible to significantly reduce the income tax through a revenue-neutral, ten year-phase out period. A phased reduction would give time for businesses and investors to adjust a new tax code contributing to economic efficiency and development.

Reducing the income tax would be best accomplished by first eliminating credits and exemptions. The removal of these credits and exemptions will simplify the tax code and reduce the threshold for replacement mechanisms.

Additionally, strong recommendation is given to the state then appropriating 90% of certified revenues, so as to consistently devote resources toward a phased reduction in the individual income tax.

This would also protect the state from increasing state expenditures at a rate that out paces inflation and thus, would require additional revenues – that would require increased tax rates previously beyond what was stated in this report – which would have an adverse effect on economic development.

RECOMMENDED ACTION STEPS

To implement this goal, our Study Group recommends the following:

1. **Significantly reduce, then eliminate, the state personal income tax over a 7- 10 year period.** The ten year phase-out period must be stable to attract businesses to the state of Oklahoma and stimulate further economic development. This will require a safe, secure, and consistent tax code that encourages investment. We are to identify a plan to eliminate uncertainty to maximize economic development

2. **A fundamental part of executing the goal is to eliminate credits and exemptions**. As it stands, the income tax rate is roughly 5.25%. Removing credits and exemptions reduces the income tax rate by 2.25 percentage points resulting in a tax rate of 3%. The following credits and exemptions are to be eliminated:

    - OK child care/child tax credit
    - Credit for taxes paid to other states
    - Credit for biomedical research contribution
    - Other credits (from 511 CR form) [We did not allow any of the typical economic development credits to be claimed, even if they came from a pass through entity]
    - Low income property tax credit
    - Sales tax relief credit
    - Tornado tax credit
    - OK earned income credit

    Removing these will reduce a sizable barrier to completely eliminating income tax. Upon removal, the source of necessary revenue for income tax to produce will stand at $2,433,720,377. Paired with a ten year phase-out period, this will result in revenue of $243,372,037 per annum that must be accrued.

3. **Identify certain replacement revenue.** Upon removal of credits and exemptions, eliminating the remaining 3% income tax will require supplementing the approximately $244 million remaining dollars per annum. The following represent four mechanisms to offset the remaining 3% income tax.

<u>A: Sales Tax on Services</u>

Originally proposed by Governor Frank Keating's Tax Task Force in 2002, a viable mechanism is to implement a 4% uniform tax rate on various services in the state of Oklahoma. This plan identifies 31 services in Oklahoma that are currently under no sales tax yet provide over $93.7 million in potential sales tax receipts and total tax base in 2011 (inflation-adjusted).

Approximately $810 million in revenue would be accrued upon implementation of a 4% sales tax on selected services, rendering a 33% reduction in the existing $2.4 billion in current state income tax. Thus, the hypothetical income tax required after shifting to the hypothetical sales tax would measure $1.6 billion.

<u>B. Implementing the Texas Model</u>

Having never had an individual income tax and having eliminated the corporate income tax in 2007, Texas has provided more than 36.8% of all new net jobs in the United States in the previous two years. With over 265,000 jobs created since the summer of 2009, Texas continues to provide businesses incentives to produce substantial economic development.

A significant contributor to Texas' recent success has been its lack of an income tax supplemented with substantially higher property taxes. Extending Oklahoma's current 1% property tax represents a mechanism to provide extensive economic development within the state.

Allowing for Veterans and Freeport Exemptions in the valuation of Oklahoma real and personal property, the net value of Oklahoma property currently stands at $209,789,818,070. A property tax revision that would stand at 2.16% - an increase of 116% from the current rate – would accrue enough revenue to eliminate Oklahoma income tax.

This new tax rate would provide approximately $2,433,561,889, enough funds to eliminate the state income tax (minus $158,488) while remaining under Texas' current rate. However, at 2.16%, the hypothetical property tax rate in Oklahoma, would stand 28% below Texas's 3.0% property tax rate.

<u>C. Phase-Out with No Additional Revenue</u>
Without an increase in either sales or property taxes, an additional means of achieving the elimination of the income tax is to identify and remove $243,372,037 per annum within the current infrastructure. This mechanism provides for greater longevity in meeting the yearly financial threshold required to eliminate the income tax.

One plausible mechanism for meeting the income tax value without creating additional revenue would be for the state to hold spending growth to the growth of population plus inflation. With the resulting savings, the state could devote the additional monies to reducing income tax rates.

Presumably, enough savings would be generated along with new revenues from the resulting economic growth to phase out the state income tax within or under the 10 year phase-out. This would call for the legislature appropriating 90% of certified revenues, devoting 5% to the Rainy Day Fund and the remaining 5% to the income tax reduction fund.

<u>D. Combination of Previous Mechanisms</u>
Allowing for more flexibility, combining any of the previous mechanisms to achieve the yearly benchmark provides a legitimate means of eliminating the state income tax. Combining several mechanisms permits a reduction in the previously recommended rates. For example, extending the current property tax to 1.08% provides for $226,573,003,525 in revenue, reducing the remaining total value to $167,990,044, or $1,679,004 per annum. This value would allow for a lesser sales tax on existing services, or none at all if other measures were adopted.

“... Oklahoma’s governor says her legacy may be elimination of the state’s income tax. It’s a long-term goal that she outlined at a Town Hall meeting in Lawton this week ...”

Opinion Section, The Norman Transcript, June 18, 2011

X: TECHNOLOGY AND INNOVATION

Leader: Michael Carolina

STUDY GROUP MEMBERS

Mr. Michael Carolina, Executive Director of the Oklahoma Center for the Advancement of Science and Technology (OCAST); Dr. Michael Anderson, retired President and CEO of the Presbyterian Health Foundation; Web Keogh, PhD, President of OSU's University Multispectral Laboratories in Ponca City.

Dr. Paul Risser, COO of the University of Oklahoma Research Cabinet and Executive Director of the EDGE (Economic Development Generating Excellence) Fund Policy Board; Mr. Michael Moradi, Founder and Managing Director, Century Venture Partners in Oklahoma City; and Mr. Tom Walker, President and CEO of i2E in Oklahoma City and Tulsa.

"We recommend that Governor Fallin ... create an Enterprise Center for focused basic and applied research areas that lead to the acceleration of innovation and commercialization."

We, the undersigned, submit this recommendation as one way Oklahoma can boldly position itself as a refreshed and modernized state, ready for growth that is based on a solid and forward looking state Constitution. We recommend pursuit and encourage adoption.

Michael Carolina	Michael D Anderson
Michael Carolina	Michael Anderson, PhD
Web Keogh, PhD	Michael Moradi
Paul G Risser	Tom D. Walker
Paul Risser, PhD	Tom Walker

(This recommendation is complementary to the discussion and recommendation of the Capital Formation Study Group). Both should be considered concurrently before deciding upon action).

DETAILED RECOMMENDATION

We recommend that Governor Fallin support a bold science initiative to establish and fund strategic technology/innovation clusters for focused basic and applied research areas that lead to the acceleration of innovation and commercialization. These clusters should support Oklahoma's existing and emerging industrial base and should align with federal R&D funding priorities such as those identified by the National Academies (Science, Engineering, and Medicine).

One cluster could be an enterprise center or "virtual hub" for systems integration of technologies that include sensors and electronics, energy, weather science, radar systems, unmanned aerial systems, and information security.

The enterprise center would also be a resource to coordinate and improve federal grant applications resulting in dramatic increases in federal grants and awards to our state.

DISCUSSION

To compete successfully in the knowledge economy and increase the flow of federal and private dollars to Oklahoma, the state needs to make a bold investment in research and development that leads to the commercialization of new or enhanced products, processes or services. This investment will allow our state to:

- Leverage R&D assets (research institutions, foundations, regional colleges/universities and industry)
- Attract more federal and private investment
- Enhance public/private collaborations
- Increase our relevance in the knowledge economy
- Support small business growth and innovation
- Create/support/attract companies headquartered in Oklahoma
- Compete successfully in the global economy
- Create new and high-paying jobs
- Connect planning and implementation efforts with the Governor's Secretary of Science and Technology (Dr. Stephen McKeever) and the State's Science and Technology Council

KEY FACTS

1. Oklahoma lags most states in many R&D indices, for example, we are 50th in attracting R&D dollars from federal, private and academic sources. Without significant—and strategic—investment, we will not improve dramatically in these indices which, in turn, means we will not be able to attract and leverage the kind of funding that creates new high-paying jobs, improves our per capita income, or provides the foundation for sustainable growth through science and technology.

2. Oklahoma has significant research capabilities or core competencies in a number of areas (for example, weather science and radar technology, renewable energy, sensors, precision agriculture, information security, and life sciences and biotechnology) at our comprehensive research institutions and foundations.

This capacity can be a launch point to improve Oklahoma's relative standing in national rankings, create and retain good jobs for our citizens, improve our quality of life and standard of living, and position our state for sustainable growth. Oklahoma ranks high in entrepreneurship, IPO's and growth in per capita income. It is encouraging that in the last five years, our state comprehensive research institutions (OU and OSU) have realized increases in technology commercialization, royalties and spinouts. Our colleges and universities consistently rank at the top of national rankings for "good value"—an important fact in terms of accessibility and affordability of quality higher education leading to associate degrees, baccalaureate and advanced degrees. Our CareerTech system is consistently rated among the best in the nation in skills training and development.

THE CHALLENGE

Challenges include:

1. Adequate funding at the state level for science and technology initiatives that are the foundation for growing our economy.

2. Increasing STEM (science, technology, engineering and technology) education.

3. Adopting progressive public policies and incentives that drive an innovation economy and grow entrepreneurship; promoting and institutionalizing a culture of creativity, invention and innovation.

4. Identifying the right mix of basic and applied research.

5. Identifying appropriate metrics to drive informed investment decisions and allow for continuous improvements or adjustments.

6. Expanding public/private collaborations; and

7. Promoting the education, awareness and importance of science and technology to society in general and specifically to our citizens who are key stakeholders and beneficiaries of a bold investment initiative.

THE OPPORTUNITY

Build or reinvent Oklahoma's research agenda and infrastructure to increase R&D capacity that supports our industrial base (aerospace, energy, and manufacturing) and optimizes our natural resources (fossil and renewable energy, agriculture and water). This requires a bold initiative—a commitment to fund R&D, to investment in STEM education, and to promote public/private collaboration to realize desired outcomes and ultimately allow Oklahoma to compete successfully at the national and global levels.

RECOMMENDED ACTION STEPS

1. **Develop an initiative that scales and makes targeted investments of $200 million a year for 10 years**—this is roughly what it took Ohio to move from 36th in R&D input in 2008 to 29th in 2010 and on pace to 25th by 2012. According to the Milken Institute, Oklahoma now ranks last (50th) in the country in R&D input—a measure of a state's ability to attract various types of federal, industry and academic funding. Oklahoma is one of four states that have declined each year for the past 20 years. Without significant, targeted investments with specific emphasis on increasing access to

federal, industry and academic research funding, Oklahoma will not be able to make measurable improvements. The gap is roughly $1.5 - $2 billion over a ten-year period.

2. **Analyze Oklahoma's key business sectors through industry-funded analysis of each of Oklahoma's top eight business sectors** (similar to the Battelle study of biotechnology) that includes identification of science and technology needs and anticipated benefits as well as related workforce proficiency demands and projections.

3. **Use survey information to optimize a public Science and Technology (S&T) campaign.** Oklahoma needs to invest in S&T as all the nationwide comparative studies unequivocally depict; however, the basis of such a campaign requires a carefully designed survey to promote citizen education, awareness and willingness to support increased investment.

4. **Promote STEM (science, technology, engineering and mathematics) education.** This could include a novel approach such as conducting a statewide virtual interactive conference with thought leaders such as Bill Gates (Microsoft), Francis Collins (Human Genome Research Institute), Ray Kurzweil (author, inventor and futurist), Brian Greene (theoretical physicist at Columbia University), Jack Dorsey (Twitter) and Mark Zuckerberg (Facebook)—all brought virtually together from whatever studio/office they choose. Topic: "Future of Science and Technology for Americans in a Global Community." Every student in Oklahoma and students in other states could connect. Oklahoma could 'host' the seminar, and an entire website could be built with seminal ideas that lead to applications and the formation of companies. This could be thought of as a virtual university for all ages, and the entire infrastructure of the university and its labs are parked in the internet cloud.

5. **Identify a bold funding mechanism to increase the state's investment in R&D and innovation capita**l to a level ($1.5 billion - $2 billion over ten years) that will dramatically improve Oklahoma's position in national science and technology rankings. This will allow our state to compete more favorably in the knowledge economy while presenting an opportunity for enhanced leverage and efficiency of state dollars.

OTHER IDEAS CONSIDERED

Reorganize Science & Technology Council
As the Science and Technology Council evolves under the Secretary of Science and Technology, establish subcommittees for (a) emerging technologies and (b) technology/public policy to accelerate technology development toward commercialization.

Entrepreneur Accelerator Program
Establish an Entrepreneur Accelerator Program where several seasoned technology entrepreneurs can teach, train and mentor large groups of aspiring technology entrepreneurs. The program would complement i2E's Entrepreneur/Executive-in-Residence program and the entrepreneurship programs in place at our research institutions.

S&T Dashboard
Develop a set of S&T dashboard metrics to be in the Governor's briefing binder (frequency could be determined for most benefit).

XI: WORKFORCE

Leaders: Roy Peters and Larry Mocha

STUDY GROUP MEMBERS

Mr. Roy Peters, past president of the Oklahoma Alliance for Manufacturing and former CEO of Oklahoma CareerTech; Mr. Larry Mocha, President and CEO of APSCO, Inc. in Tulsa, a manufacturer of pneumatic cylinders and valves for the truck equipment industry.

Mr. Chuck Mills, President and Owner of Mills Machine Company in Shawnee, a manufacturer quality earth drilling products worldwide for any type of drilling; and Gerry Shepherd, President and CEO of Oklahoma Roofing and Sheet Metal in Oklahoma City, a contractor for residential, industrial, governmental, commercial, and communal projects.

"We recommend that Governor Fallin ... lead the development of a Business Plan for Workforce/Talent Development that will focus on keeping students and adults engaged in developing the skills and credentials employers need."

We, the undersigned, submit this recommendation as one way Oklahoma can boldly position itself as a refreshed and modernized state, that forthrightly addresses the issue of "too many children are dropping out of school and too many students are ill-prepared for college." We recommend pursuit and encourage adoption.

Roy Peters

Larry Mocha

Chuck Mills

Gerry Shepherd

DETAILED RECOMMENDATION

We recommend that Oklahoma develop a Business Plan for Workforce/Talent Development that will focus on keeping students and adults engaged in developing the skills and credentials employers need.

This plan will be a key first step toward a comprehensive state solution that will link, leverage and consolidate resources to ensure Oklahoma's talent pipeline. Oklahoma employers will have the workers they need and will have a person to advocate for them until their needs are met.

DISCUSSION

Oklahoma has many excellent programs. Both the career tech and community colleges offer students of all ages opportunities to complete certificates, credentials and degrees and to continue in lifelong learning efforts.

Yet even with all of these pockets of excellence, Oklahoma still lacks a comprehensive solution to workforce issues.

Too many students and adults alike are not completing programs they start and there is an increasing lack of appropriately skilled and credentialed Oklahomans available to meet Oklahoma employer needs.

KEY FACTS

Key employer focus group, surveys and related data reveal that:

1. Much of the hiring planned for next year will be in specialized areas requiring certifications. Beyond basic work ethic, the biggest barrier for job seekers is lack of certifiable technical skills.

2. We must enhance the ability to measure skills required by a job and then match those skills with the skills of the available workforce.

3. Two-thirds of the 2020 workforce has already left high school. One in four Oklahoma adult workers lack sufficient skills to succeed in training. We cannot rely on the emerging workforce (High School and College age) to meet future talent needs. We must have a plan for training and re-training of adults, including incumbent workers.

4. The workforce system is fragmented and is a maze for both employers and job seekers.

5. Almost 69% of job applicants are deficient in employability skills – NAM (OK Employer Survey).

6. As the economy recovers nationally, Oklahoma will have difficulty retaining its skilled workers – (Brain Drain).

7. A large percentage of Oklahomans have no marketable skills making even entry level employment difficult. In addition, 44% of Oklahoma workers make 30% below Oklahoma's average wage.

8. Parents, teachers and students have an apparent lack of awareness of the jobs in their region that have good wages and only require mid-level skills.

CHALLENGE
At least nine state agencies provide and oversee workforce development and education services available to Oklahoma's employers, students and job seekers.

While collaboration, memorandums of understanding, and cooperative agreements are the norm, the workforce needs of these groups can still fall through the cracks entirely, or they can be overwhelmed by good intentioned, yet competing or overlapping efforts. Oklahoma has pockets of excellence, but no systemic effort that connects career exploration, career guidance and counseling, mentoring career pathways and related programs to the skills and credentials that are needed by business.

The current system of employment, training and education programs is a maze that is difficult to navigate for employers, students and job seekers.

THE OPPORTUNITY
Solutions require that private business be central and involved.

The purpose of education and training programs should be a prepared workforce. We have to understand the skill needs of business and reflect those needs in policy and programs. Business needs and academic offerings must be combined. A workforce business plan can provide the common focus needed to make this happen.

Having a business plan will create a roadmap that will align the efforts of multiple programs and provide an accountability tool to be used to measure outcomes. It will also provide the opportunity to discover how resources can be leveraged, programs consolidated and efficiencies can be built into the system.

RECOMMENDED ACTION STEPS

1. **Explore best practices for business plan** development such as the Oregon Business Plan model.

2. **Create a charter for the public/private partnership that will develop the business plan.**

3. **Build on the work of the Governor's Council for Workforce and Economic Development.** There has been a lot of foundational work done by this council and we don't need to start from scratch.

ADDITIONAL DISCUSSION
A successful business plan will address the following key facts as identified in the "Building Blocks for an Employer-Responsive Workforce System". These building blocks are:

- Skills certifications are the key to employability.

- Employers need a clear message and a single menu of options available to them.

- Engaging employers by industry sector is a key to meeting employer demands.

- Use of technology and social media is critical in engaging employers.

- Two year educational institutions (career tech and community colleges) are logical focal points for employer engagement.

- Rapid re-deployment of unemployment recipients is necessary for a healthy economy.

Business Plan Outcomes would include:

- Ways to engage students and adults to set and complete educational goals.
- Require options other than to drop out before high school completion.
- Connecting career exploration, career guidance and counseling, career pathways, and assessments and credentials with real world employment opportunities.
- Creating a work-ready pool of job ready applicants based on employer needs.
- Use of technology to integrate and streamline services.
- Using common tools (such as America College Testing (ACT products) across all programs.
- A specific plan for the 40% of Oklahomans that will not go to college.
- Focus on career guidance and a career pathways approach. Including those occupations that are high paying and in demand that do not require a full 4 year degree (Gold Collar Jobs).
- Business influence on the P-20 Council.
- Development of a report card to measure results.
- Education and outreach related to the plan and the services available.
- A single point of contact for employers to call with advocate responsibilities.
- Get employers involved in the education process.
- Branding of the system to show a comprehensive state approach to workforce development and to workforce services.

“Too many children are dropping out of school. Too many students are ill-prepared for college.”

Governor Mary Fallin, Inaugural Address, January 10, 2011

XII: BEST STATE PRACTICES

Leader: Fred Hall

STUDY GROUP MEMBERS

Mr. Fred Hall, Chairman of the Board of Managers for Hall Capital Partners, the Managing Partner for the Catalyst/Hall Fund, and the Chairman, President, and CEO of The Fred Jones Companies, Inc., all of which are in Oklahoma City.

Mr. Michael Carnuccio, President of OCPA who joined the staff in January of 2010. Previously, Michael served as senior advisor for Oklahomans for Responsible Government, Director of Public Affairs for the Oklahoma House of Representatives, and Director of Public Affairs for Saxum Saxum PR in Oklahoma City.

Mr. Dave Lopez is the current Oklahoma Secretary of Commerce who previously served as President of SBC Communications (now AT&T) in Oklahoma and Texas.

"We recommend that Governor Fallin ... task the Department of Commerce to, within a year, create an Oklahoma Plan combining best job retention/job creation practices of other states" (see supplement on page 62 for a listing of best state practices).

We, the undersigned, submit this recommendation as one way Oklahoma can boldly position itself as a refreshed and modernized state, one that asks "why can't we consider a different approach , a new approach, a modern approach?" We recommend pursuit and encourage adoption.

Fred Hall

Michael Carnuccio

Dave Lopez

DISCUSSION

Various states have taken different approaches on how to best structure statewide economic development organizations, particularly in recent decades.

Most states continue to have organizations (similar to the Oklahoma Department of Commerce (ODOC)) comprised as a state government agency with the most common structure providing for a gubernatorial appointment of the agency head.

Fewer in number are states that utilize public-private partnerships (PPPs), primarily to provide more "business-like" operations and more flexibility in compensation for key employees. This information is presented to help determine what structure would best suit Oklahoma's increased focus on economic development.

The primary sources of information used for this overview include:

The National Governors Association; site consultant interviews; interviews with economic development organizations in other states; the 2011 Oklahoma State Chamber of Commerce & Industry Overview of Public Private Partnerships (PPPs), and the 2011 Good Jobs First Report (entitled "Public-Private Power Grab: The Risks of Privatizing State Economic Development Agencies.").

KEY FACTS

- ODOC is organized in the manner most common among states: a government agency with the Secretary of Commerce and Tourism and the Executive Director appointed by the Governor. ODOC is comprised of divisions focused on recruitment/retention/expansion, community development, workforce development and marketing and administrative support (such as research, budgeting, IT, human resources and general operations).
- The Department employs 122 people, 85 of which support traditional economic development, with the balance devoted to fiscal agent and monitoring for federal and state programs. ODOC has an annual operating budget of $9.8 million (FY 2012) for job retention/expansion/recruitment yet that amount is only 3.5% of all funds (state and federal) dispersed by the agency.
- The effectiveness of PPPs for state economic development activities has had mixed results. There is no correlation demonstrated between PPPs and any sustained improvement in retaining, growing or recruiting jobs.
- An array of "best practices" to consider does emerge from a review of PPPs for economic development and from interviews of economic development constituencies (site consultants, major employers, economic development professionals, other state economic development agencies, etc.).
- The primary drivers of proven success Oklahoma leadership should implement include: (1) ensuring the personal engagement of the Governor; (2) developing ways to have more community-level funding for economic development.This commitment is important to providing resources, creating more competitiveness and a greater local commitment to job retention/job creation (3) creating more continued focus and long-term stability of Commerce. The focus and stability of the department has been compromised by gubernatorial neglect and by frequent changes of Com-

merce Secretaries (and Executive Directors of the Department); and, (4) enhancing the policies and operations of Commerce with more private sector participation and support.

THE CHALLENGE

Strong CEO-level leadership and continuity of policy are central to any organization's success. Oklahoma, with Governor Fallin providing that top-level direction, has an opportunity to greatly enhance the focus and effectiveness of Oklahoma's Department of Commerce.

However, even if ODOC performs superbly, that is only one facet of what is needed.

Equally important is the capability of local economic development organizations. But Oklahoma - unlike a pacesetting state such as Texas - has only a few communities who significantly invest public dollars for economic development. The result is a less competitive linkage of state and local resources. That also drives a competitiveness gap between communities.

Those with expert leadership and more public resources - because they have "skin in the game" - tend to be more aggressive, more effective, and more in control of their own destinies. By contrast, those communities without much public funding tend to have an unrealistic expectation they are entitled to opportunities provided by the state.

A final challenge is to better utilize Oklahoma's business leadership in statewide economic development. The growing and committed membership of the Oklahoma Business Roundtable provides a rich opportunity to tap a devoted base of leading employers for more personal engagement in improving economic development at the state level.

The public/private joint effort can be forged with private sector players involved because several parties stand to benefit financially from this initiative, including natural gas producers, natural gas transporters, utilities, and equipment suppliers. The existence, if not the leadership, of private money in this initiative would greatly enhance the prospects of legislative approval for the public money share.

THE OPPORTUNITY

The Governor and the State of Oklahoma have a golden opportunity to propel forward the quality and productivity of the state's work in job retention and creation. Oklahoma's economy is already performing much better than nearly all other states, providing the state a head start in front of the competition.

Despite not yet implementing the best practices recommended here, the state is performing well. Imagine what can be accomplished when the "motor" of Oklahoma's economic development is hitting on all cylinders.

RECOMMENDED ACTION STEPS

We recommend that the Governor:

1. **Formally task the Secretary of Commerce** to create a uniquely Oklahoma Plan combining best job retention/job creation practices of other states.

2. **Work with the legislature to provide criteria and incentives for Oklahoma communities to evaluate and implement local funding for economic development.** A citizen vote should precede any use of designated sales, property or other taxes that are to be directed to economic development.

3. **Further engage the resources and expertise of the private sector by initiating a more formal structure between ODOC and the Oklahoma Business Roundtable.** One key goal of this involvement is to utilize the experience of the Roundtable members in advising the policy direction and operations of ODOC.

4. **Another goal is for the Roundtable to providecriteria and private funding for performance-based bonuses of select Commerce managers**, thereby enhancing the recruitment, retention and productivity of department leaders.

OTHER IDEAS CONSIDERED

Changing the Department of Commerce to a Public Private Partnership

This idea, while embraced by several states in recent years, does not yet have objective data to indicate there are benefits of a private contractor-type of structure that outweigh the risks of such a shift. In addition to the inherent political risk, there likely is an "opportunity cost" for such a dramatic change. The current environment provides rich promise for Oklahoma to advance; that potential could be reduced by such a major structural change at such a key juncture.

"It is time to ask the probing questions, the 'why' questions – why have we done it like this for years and why can't we consider a different approach , a new approach, a modern approach."

Governor Mary Fallin, Inaugural Address, January 10, 2011

SUPPLEMENT
Overview of State Public Private Partnerships

ARIZONA: Established the Arizona Commerce Authority in 2010 with $10 million of federal stimulus funds. The Authority houses state economic research, a recruitment/retention/workforce group and an energy office (which focuses on conservation and renewables). It is also home to the $4.8 million Military Installation Fund and the Arizona Military Regional Compatibility Project.

FLORIDA: Recently changed by Governor Rick Scott, Enterprise Florida has formerly been headquartered in Orlando with offices in Tallahassee and Miami. In addition to traditional state commerce functions, Enterprise Florida also provided tax-exempt and taxable bonds for businesses and for non-profit organizations. A Board of Directors chaired by Florida's Governor directs Enterprise Florida. The board itself consists of top business, economic development and government leaders from throughout Florida. The organization is funded, in part, by the State of Florida as well as by cash and in-kind donations from private business.

IOWA: Earlier this year, the Iowa legislature shifted its business recruitment effort to a PPP called The Iowa Partnership of Economic Progress to "Provide more flexibility in management staffing issues and allow the state to better use tools like incentives and industrial revenue bonds to build a package tailored to the needs of business prospects." The legislature allows businesses to earn tax deductions for donations made to the Iowa PPP. The board of the PPP is comprised of the Governor as chairperson and includes seven Governor-appointed members. The 2011 legislation also allows the Director/CEO of the PPP to "designate certain employees as key personnel" for the purpose of setting compensation outside of the traditional state employee requirements.

MICHIGAN: Governor Rick Snyder is revamping the Michigan Economic Growth Authority, which traditionally provided state tax credits and film industry incentives in addition to leading the state's job recruitment/retention. A June 2011 press release states: "The new $3 billion public-private initiative…strengthens the administration's economic gardening philosophy through an alliance of the Michigan Economic Development Corporation (MEDC), State of Michigan agencies and major Michigan companies and organizations. The MEDC offers $100 million in economic development incentives and $25 million for entrepreneurship and innovation programs. Through its Michigan Collateral Support and Loan Participation Programs, it offers $80 million to generate an additional $800 million in Michigan bank loans for Michigan businesses.

OHIO: This year, Governor John Kasich signed a bill into law that allows him to replace the Department of Development with JobsOhio, headed by a board of business leaders appointed by the Governor. JobsOhio will be exempt from open meetings and public records laws, but it is required to release information in an annual report. The staff is expected to be "unhindered by state civil service policies.

TEXAS: Texas has an economic development arm within the Office of the Governor, primarily to supplement and coordinate work done by local cities (who fund their own economic development through designated local taxes) and other state agencies. In addition to traditional programs, a primary tool of the organization—which was reorganized in 2003—is the Governor's closing fund (Texas Enterprise Fund). Additional information about the highly successful Texas program is available at: www.statutes.legis.state.tx.us/Docs/TX/htm/TX.313.htm and www.texasahead.org/reports/incentives/tef.php.

The state also established Texas One to "create a public/private partnership through contributions by businesses, organizations and individuals interested in the promotion of the business climate, economic development and job creation." Texas One is non-partisan and non-profit so donations are deductible as a charitable contribution. Texas One is managed by a seven-member board of directors comprised of business leaders with two ex-officio members from state government (Governor Rick Perry's Chief of Staff and the Executive Director of the Office of the Governor's Economic Development and Tourism office). The Texas One organization does not conduct economic development directly, but instead provides funds for use in pro-business initiatives and for support of the Governor's office of economic development.

VIRGINIA: In 1995, the Virginia General Assembly created the Virginia Economic Development Partnership to better serve those seeking a prime business location and increased trade opportunities and, therefore, to foster increased expansion of the Commonwealth's economy. As a state authority, the Partnership is governed by a 21 member Board of Directors comprised of businesspersons from around Virginia, each of whom is appointed by the Governor and the Assembly.

WISCONSIN: Governor Scott Walker has received legislative approval of a plan to partially privatize the state Department of Commerce. The department would discontinue its regulatory duties and focus on job recruitment and retention. The Economic Development Corporation (EDC) will not have its employees as part of the state's worker system. Instead, the agency's board will set EDC compensation. A Board of Directors that consists of 13 voting members, including the Governor who serves as chairman, will run the EDC.

WYOMING: The state of Wyoming created the Wyoming Business Council to focus public and private efforts on the key sectors of alternative energy, agriculture, manufacturing, high tech, transportation and logistics. The Business Council has a CEO and a 15-member board of directors.

“It is time to ask the probing questions, the ‘why’ questions – why have we done it like this for years and why can’t we consider a different approach , a new approach, a modern approach.”

Governor Mary Fallin, Inaugural Address, January 10, 2011

XIII: A CONSTITUTION FOR THE 21ST CENTURY

Leader: Robert Sullivan

STUDY GROUP MEMBERS

These recommendations have been developed and submitted by:

Mr. Robert J. Sullivan, Jr. is Chairman of this Governor's Task Force on Economic Development and Job Creation. He is a Principal with Sullivan and Company LLC, a family-owned independent oil and gas exploration and production company based in Tulsa. He is the former Oklahoma Secretary of Energy and the current President of the Oklahoma Independent Petroleum Association. Mr. David E. Rainbolt, President and Chief Executive Officer of BancFirst Corp. Mr. Rainbolt is also the past Chairman of the Board of The State Chamber of Oklahoma, and serves as the Vice Chairman of this Task Force.

Mr. Gary Sherrer served as Oklahoma Secretary of Agriculture for Oklahoma Governor David Walters and as Oklahoma Secretary of the Environment under both Governor Frank Keating and currently for Governor Mary Fallin. Mr. Sherrer also serves as the Vice Chairman of this Task Force; and Mr. Michael Lapolla, Executive Committee Board member of the Oklahoma Academy, Co-Chair of the Academy's Research Design and Production Committee and affiliated with the George Kaiser Family Foundation in Tulsa.

To Governor Fallin: "We recommend the immediate identification of any elements of the Oklahoma State Constitution that are impediments to economic growth. Once identified, develop a straightforward implementation plan and remove these barriers to economic development. Fixes for this situation may include legislative petitions, initiative petitions, and/or calling a limited Constitutional Convention."

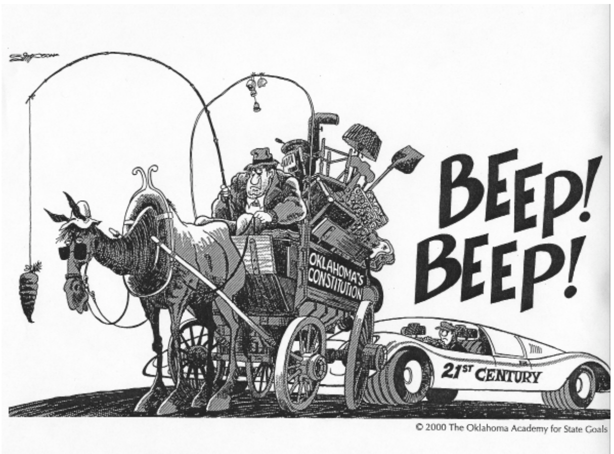
We, the undersigned, submit this recommendation as a "Wild Card" suggestion as one way Oklahoma can boldly position itself as a refreshed and modernized state, ready for growth that is based on a solid and forward looking state Constitution.

R. Sullivan Jr. — Robert J. Sullivan, Jr.

David Rainbolt — David Rainbolt

Gary L. Sherrer — Gary Sherrer

Michael Lapolla — Michael Lapolla



Governor Fallin: In short, we suggest that you take the lead on modernizing and streamlining our state's Constitution (presently 165 pages) to bolster the legal and practical foundation on which Oklahomans base our way of life, our business and our laws.

THE CHALLENGE

The challenge here is to overcome more than 100 years of avoidance by Oklahomans to change our state Constitution for reasons that are difficult to identify and understand. Despite the fact that our Constitution requires that a Constitutional Convention be called every 20 years (theoretically the lifespan of each generation at the time of its writing in 1906), not one Constitutional Convention has been held to meet this requirement.

Changes to the Constitution are usually met with great trepidation because there are always segments or elements of the populace that feels that they will be shortchanged in some way. Politicians avoid the subject because it easily exceeds their zones of comfort.

Large blocks of citizens are fearful of confrontation with competitive blocks (rural versus cities, tribal versus non-tribal, Oklahoma City versus Tulsa, wealthy versus poor), so changes to our Constitution are routinely avoided and entertained only as a last resort.

In the meantime, societal changes and advancements over the 104 years since Oklahoma's statehood have rendered parts of our Constitution outdated and, worse, some provisions are restricting economic growth.

The challenge is first identifying with some specificity the constitutional provisions that are holding back growth, and then garnering enough support from government and private sector leaders to address these problems directly and find workable solutions in the form of changes to our Constitution.

THE OPPORTUNITY

Based on solid information and a well thought out plan, Governor Fallin can provide the leadership necessary to correct this long-standing problem. The opportunity is before us to change for the better and modernize our state Constitution, thereby unleashing potent economic and governance forces in our state that will serve our citizens and provide a bold and attractive new image to those considering expanding existing businesses and moving new businesses into the state.

A Governor Fallin led series of amendments to our Constitution or a Constitutional Convention would send a bold and refreshing message to the rest of the nation that Oklahoma is no longer mired in the past but, as the 46th state admitted to the Union, is worthy of its youthful position in the Union.

DISCUSSION

Oklahoma is blessed with a number of constitutional scholars in our universities and elsewhere, as well as several excellent economists and analysts who can readily examine and quantify the importance of removal of constitution-based growth impediments. To avoid "studying the subject to death", one year should be sufficient time to develop a very thorough and well grounded report to inform the Governor and others on the specific opportunities available to Oklahomans through constitutional reform.

To avoid the burden on the taxpayer, such a study could be funded by a very broad spectrum of contributors from the private sector to insure against any concentration of influence or control. Depending on the outcome of the study, a list of very specific eliminations, additions, simplifications, and improvements to the Constitution can be identified and put before Oklahoma citizens in the form of either amendments to the Constitution or the elements of a new Constitution as developed by a Constitutional Convention.

KEY FACTS

1. The Constitutional Convention was drawn in 1906 and adopted at statehood in 1907 when the population of Oklahoma was less than 1.5 million. At its ratification, the Oklahoma Constitution was the longest governing document of any government in the world, owing to a significant distrust of corporations and the legislative process.

2. Upon adoption (and before any amendments) the Oklahoma Constitution was ten times larger than the U.S. Constitution.

3. No Constitutional Convention has been called during the ensuing 104 years, despite the requirement to do so every 20 years in the original Constitution.

4. Since 1787, there have been 150 state constitutions adopted in our country, and they have been amended roughly 12,000 times. State constitutions, by their very nature, are in frequent need of updating or replacement.

RECOMMENDED ACTION STEPS

1. **The Governor should announce her intention to undertake a thorough review of our state's Constitution** with an eye towards streamlining it, making it more "user friendly" for the legal community and business community, and more practical and understandable to all Oklahoma citizens.

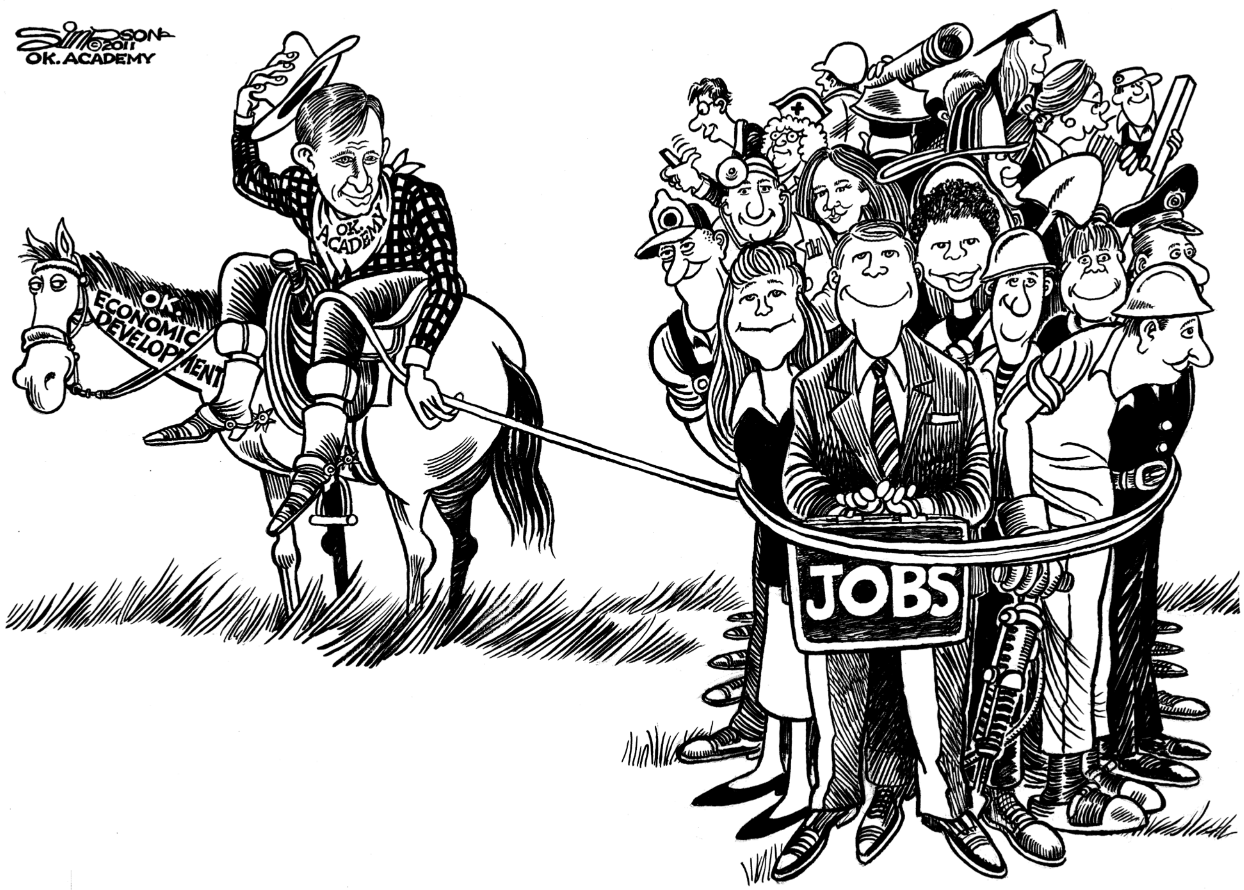
2. **The Governor should form a task force to identify the benefits** that could come from amendments to our Constitution or replacement of it with a new constitution.

3. **The task force should be given no more than one year to research and report their findings.**

4. If the study reports that significant benefits for Oklahoma and its economy and government can be effected by amendments to the Constitution or replacement, **the Governor should then decide the most effective and practical way to bring about the recommended changes.**

5. **Throughout the process, all segments of the populace should have the opportunity for input into the development of the task force's work** including representatives from rural Oklahoma and from larger communities and cities, representatives of tribal Oklahoma, municipal, county and state government constituencies, the business community, agriculture representatives, etc.

DID YOU KNOW?
Clement Vann Rogers, Will's father, was a Cherokee senator and a judge who helped write the Oklahoma Constitution.



The Oklahoma 2011 Academy Town Hall

"Developing the Oklahoma Economy"

October 26-29 at Quartz Mountain