With one of the nation’s lowest unemployment rates, stable housing markets, and job and population growth in its major cities, Oklahoma has bounced back from the depths of the recession with relative strength. Tax revenues are on the rise, reflecting increased economic activity, and the state’s energy and agricultural sectors have been buoyed by recent strength in commodity markets. Still one of the nation’s leading energy producers, Oklahoma continues to search for ways to diversify its economy. It is looking to growth in industries including aerospace and manufacturing as a source of new jobs and economic momentum.

Immediately upon taking office in early 2011, Governor Mary Fallin established the Governor’s Task Force on Economic Development and Job Creation, a 45-member volunteer panel composed of industry CEOs, and private and public sector workers. In September, the task force produced thirteen “bold ideas” for economic growth in the state. Even if not all are enacted, its recommendations are a critical foundation for public discourse and policy development to improve the state’s innovation and entrepreneurial infrastructure, business access to capital, efficient and effective government practices, tax and business climate, infrastructure and workforce training.

Governor Fallin and the state Department of Commerce teamed up with Oklahoma Business Roundtable and more than 20 other partners to launch an online survey for business executives. The input gathered from Oklahoma businesses will help shape future economic development priorities and programs at the state and local level.

One notable policy priority set in 2011 by Governor Fallin and adopted by legislators was the creation of a new Quick Action Closing Fund. Inspired by funds in close to 30 other states—including Oklahoma’s neighbors Texas and Arkansas—the new mechanism is designed to give the governor access to flexible funding for economic and infrastructure development projects the state needs to attract and retain “high-impact” businesses. While some policy and legal issues remain to be worked out surrounding fund appropriation and legislative involvement in project identification, the fund is potentially a useful tool for future economic development activities.

Oklahoma placed seventh overall in the 2011 Enterprising States rankings of economic performance, fueled in part by its rapidly growing gross state product figures. Unemployment rates in the state have consistently remained below the national average, especially through the Great Recession of the past two years when Oklahoma beat the national unemployment rate by three points.

The Sooner State is the fourth fastest-growing state for jobs in 2011 (Figure 2), having added jobs at a rate three and a half times the national rate since January 2011. Continued job growth and relatively low unemployment are signs of economic strength, but also show the need for targeted skills training and worker recruitment to fill open and newly-created jobs.

Figure 1: Unemployment Rates, 2001-2011

Government and the military are significant drivers of economic activity in the state, accounting for 18 percent of Oklahoma’s gross state product and 23 percent of all jobs. According to a recent report released by the state Department of Commerce and Oklahoma 21st Century, the state’s research foundation, the state’s military installations employ more than 69,000 military and civilian personnel and contractors. According to the report, military activity generates 7 percent of the state’s gross state product.

State leaders are working diligently to build upon the state’s military and aerospace capabilities, focusing on developing growth industries that fit with these strengths. Manufacturing industries associated with the state’s energy industry are growing, and Oklahoma is using its military assets and industrial base to focus on the emerging unmanned aircraft systems industry.

While Oklahoma’s manufacturing sector has shed jobs in response to contractions in the national economy over the past decade, economic activity generated by manufacturing still supports 11 percent of jobs in all industries across the state. In the 12-month period ending in July 2011, Oklahoma’s manufacturing job growth was second only to Alaska’s manufacturing sector. Oklahoma’s 8.1 percent growth rate for manufacturing jobs over that period is more than five times the national rate. This growth was led by its traditional industrial strengths in agriculture and energy equipment, aerospace, and industrial products (Figure 3).

**Taxes and Regulation**

Oklahoma tied for 13th place in the 2011 *Enterprising States* taxes and regulation rankings, influenced by the fact that it has the third lowest cost of living in the nation. The state also has the 14th lowest overall state and local tax burden, and was a top 25 performer in terms of the size of the state’s budget gap (prior to this year’s budget cycle) and in the Small Business and Entrepreneurship Council’s survival index. Building on this positive business environment, the 2011 session of the Oklahoma legislature saw the passage of multiple pieces of legislation targeted at increasing job creation, competitiveness, and economic growth.

As state legislators sought ways to help businesses better navigate regulatory processes, they passed a bill that creates a new one-stop program for business licensing. The new program allows businesses to apply for needed permits and licenses in one location online, instead of having to navigate through a myriad of state agency sites and offices in search of the information and forms they need. The project will cut down on unnecessary red tape, allowing entrepreneurs to focus on building their businesses while avoiding regulatory hassles.

State policymakers also have committed to a continued scrutiny of the state’s tax code by creating a special task force to review the state’s system of business tax credits and incentives. The goal of the task force is to identify those tax programs and credits that work and those that do not, in order to eliminate wasteful spending and to improve the effectiveness of future state investment. Reforms suggested by the task force on tax credits and incentives include new requirements for fiscal and job impact reports, caps, expiration dates, the elimination of transferrable credits and annual audit reports.

Another new bill is designed to increase...
Facing a challenging budget situation, the legislature in 2010 chose to place a two-year moratorium on some 30 targeted tax-credit programs offered by the state. With the moratorium coming to a close and some signs of recovery on the horizon, legislators did reinstate Oklahoma’s aerospace engineering tax credit in 2011. The credit is provided to eligible companies that hire engineers, thus promoting job creation and private investment in the state’s important aerospace industry. The program offers credits directly to engineers hired in the state as well as to the companies hiring the engineers, with increased benefit for companies hiring graduates of state universities. Additionally, the program offers up to a 50 percent income tax credit against the cost of tuition at Oklahoma public engineering schools.

**Legal Reform**

In 2010, the U.S. Chamber of Commerce Institute for Legal Reform ranked the perception of Oklahoma’s lawsuit climate as the 38th most friendly for business. Looking to improve upon that ranking, Governor Fallin and the Oklahoma legislature made tort and legal reform a priority in the 2011 legislative session.

Several bills codifying changes to liability apportionment, class action suits, rules related to discrimination claims, and awards for damages were passed and signed into law during the session. Supporters of the changes argued that by implementing reforms, Oklahoma would be able to fight frivolous litigation and protect businesses from overwhelming legal costs, thus protecting jobs and encouraging future economic growth.

Perhaps the most notable reforms passed were a cap on non-economic damages and legislation eliminating joint and several liability in civil cases. In an attempt to protect businesses from potentially crippling non-economic damage awards, Oklahoma lowered its cap on non-economic damages to $350,000. There are exceptions to the cap in cases involving malicious conduct or gross negligence.

The elimination of joint and several liability protects any business that is a minor defendant in a civil case from having to pay a disproportionate share of an award. Tying the amount of damages to the small business’s actual level of liability is a critical reform for improving Oklahoma's business climate.

The legislature also passed legislation that compels courts to instruct jurors in civil cases of the tax implications related to any potential damage award. Juries may then be able to put any potential award they make into better context, and avoid over inflating awards because they do not realize that such awards are not subject to income tax. Another new law allows for certain legal awards to be paid...
periodically, rather than in one large settlement, spreading out the burden of paying such awards.

Other recently-passed legal reforms relate to property rights, discrimination claims, and class-action suits. Of these, the Trespasser Responsibility Act passed by the session limits the potential liability facing property owners for failing to protect trespassers. It also limits their “duty of care” responsibility held by property owners to that already established under common law. Such limited liability for incidents involving trespassers protects businesses from potentially damaging lawsuits brought by those trespassing on the businesses property. Requirements for class action suits were raised: Petitioners are now required to meet a higher standard in making their claims, thus potentially preventing some cases from being certified as a class and making it harder for arguably frivolous suits to move forward.

**Oklahoma’s Innovation Economy**

Oklahoma lagged behind other states in measures of science and technology in this year’s Enterprising States rankings. The state is showing some signs of improvement. It ranks 16th in growth of science, technology, engineering, and mathematics (STEM) jobs in the latest Enterprising States report and 18th rankings in business birth rate and in entrepreneurial activity.

While the state has seen growth in STEM jobs over the past decade, like many sectors of Oklahoma’s economy, growth in these jobs was driven primarily by the oil and gas sector and by government operations. While investments and new jobs generated by these sectors are positive, both also are more susceptible to shifts caused by factors outside the state’s control.

Oklahoma’s toolbox for generating 21st century jobs through research, innovation, and investments in technology companies and human capital comprises several key initiatives.

The Oklahoma **Center for the Advancement of Science and Technology (OCAST)** fosters innovation in existing and developing businesses, helps Oklahomans develop the products, technology and treatments of tomorrow and moves those high-potential research projects into the marketplace.

OCAST operates and coordinates several technology-based initiatives, including:

**Figure 4: Oklahoma STEM Job Growth by Industry, 2001-2011**

- Crude Petroleum and Natural Gas Extraction: 4,076 jobs
- Support Activities for Oil and Gas Operations: 714 jobs
- Federal government, civilian, except postal service: 617 jobs
- State government: 569 jobs
- Engineering Services: 561 jobs
- Local government: 550 jobs
- Custom Computer Programming Services: 403 jobs
- Offices of All Other Miscellaneous Health Practitioners: 325 jobs
- Aircraft Manufacturing: 286 jobs
- Administrative Management and General Management Consulting Services: 269 jobs
- Computer Systems Design Services: 194 jobs
- Offices of Physical, Occupational and Speech Therapists, and Audiologists: 180 jobs
- General Medical and Surgical Hospitals: 172 jobs
- Corporate, Subsidiary, and Regional Managing Offices: 166 jobs
- All Other Professional, Scientific, and Technical Services: 146 jobs
- Oil and Gas Field Machinery and Equipment Manufacturing: 137 jobs
- Telemarketing Bureaus and Other Contact Centers: 135 jobs

Source: EMSI Complete Employment, 2011.4
Building on Strengths: The Unmanned Aircraft Systems Industry

Unmanned aircraft systems (UAS) is a booming industry sector. Oklahoma stands ready to capitalize on opportunities associated with aerospace technology. Remotely piloted vehicles hold considerable potential for use in defense, scientific and civilian/commercial applications with market projections for the next decade approaching nearly $100 billion.

The aerospace sector in Oklahoma is already a robust economic engine for the state with 500 related companies generating $12 billion of industrial output annually and their 150,000 workers drawing a $5 billion payroll.

Oklahoma is taking steps to seize upon these exciting and growing opportunities. The state has established UAS flight test and demonstration center in Lawton that allows remotely piloted aircraft to fly within the restricted airspace of Fort Sill. State officials are pushing the Federal Aviation Administration to approve a flight corridor that would stretch for approximately 80 miles between Fort Sill and the city of Clinton.

The Oklahoma Army National Guard’s Company B, 45th Brigade Special Troops Battalion operates the RQ-7B Shadow, a type of unmanned aircraft. The unit is deployed to Afghanistan with the 45th Infantry Brigade Combat Team.

Along with the flight center near Lawton, Oklahoma’s statewide UAS presence includes research centers in Stillwater and University Multispectral Laboratories in Ponca City. Oklahoma State University has conducted federal and state-funded UAS research for several years, with four faculty members dedicated to designing and manufacturing air frames.

UAS company Design Intelligence Incorporated is developing the Perching Micro Air Vehicle, known as the Flying Bird, for the Defense Department. The company has offices in Norman and Stillwater.

The governor has established a UAS advisory council to help identify the most promising opportunities aligned with Oklahoma’s industrial base and science and technology assets. State UAS industry leaders formed a new state chapter of the Association for Unmanned Vehicle Systems International.

Governor Fallin is marshaling the state’s resources and implementing a unified leadership team comprising business, university and economic development organizations from across the state and officials with the Oklahoma Department of Commerce in pursuit of jobs and economic growth in the UAS industry.

economic development programs for higher education, non-profit research centers, and business including:

- Competitively-awarded funding for applied research with high potential for commercialization.
- Seed and matching funds for research in plant science, nanotechnology and health sciences.
- Matching funds for research and development interns in the private sector.
- Seed funding and mentoring for federal Small Business Innovation Research grant applications.
- The Oklahoma Nanotechnology Initiative, a coordinating agency for nanotechnology activities in the state.
- The Oklahoma Manufacturers Alliance, an effort to help small manufacturers improve productivity and compete globally.
- The Inventors Assistance Service, a program providing assistance and training to inventors.

i2E, Inc. is a private non-profit corporation providing venture advisory services and access to capital to emerging Oklahoma high growth companies. i2E operates under contract with OCAST to administer the Oklahoma Seed Capital Fund, Oklahoma Technology Commercialization Center and the Technology Business Finance Program (TBFP). The TBFP provides proof-of-concept funding to tech start-up companies to stimulate investments from private sources.

The Economic Development Generating Excellence (EDGE) initiative consists of a $150 million endowment dedicated to supporting applied research and technology commercialization that will lead to more technology-based, high-paying jobs in Oklahoma. Earnings from the $150 million EDGE Fund endowment, approved by the state legislature in 2006, are used to fund the projects. Areas of investment include: aerospace, agriculture, biotechnology, energy and weather science. The recent 2011 awards represent the fourth round of funding disbursements from the EDGE fund. The projects funded in the initiative’s first two full years have created and retained 266 jobs in Oklahoma and have attracted federal grants and commercial contracts totaling more than $23.4 million.

Workforce and Training

Oklahoma’s workforce training activities focus on building partnerships between businesses, educators, non-profit organizations, and government agencies to tailor solutions suited to industry and worker needs. Convened in 2004, the Governor’s Council for Workforce and Economic
Development brings together leaders from all of these sectors to identify and address ongoing workforce training needs in the state, laying the foundation for future workforce development activities. In doing so, the council has adopted a sector based approach to recruiting and training needed workers, created new channels to provide information on training to individuals seeking new opportunities, and stressed the need for continual improvement in Oklahoma’s educational attainment levels.

This focus on educational improvement should grow in importance in the coming years. Jobs that require additional training after high school have grown rapidly in Oklahoma over the past decade, as shown in Figure 5. According to research by the Georgetown Center on Education, 57 percent of the jobs created in Oklahoma between 2008 and 2018 will require some level of postsecondary education. Continued targeted investment in educational infrastructure at all levels, including the state’s network of community and career technical colleges, will provide the state’s citizens with the tools needed to meet the needs of employers in years to come.

While the state lags the nation in associate’s degree and bachelor’s degree educational attainment, its higher education system may be in good position to improve on those numbers. Oklahoma ranks eighth in productivity and in college affordability in the 2011 Enterprising States rankings.

The Governor’s Task Force on Economic Development and Job Creation has identified business involvement as key to building a successful workforce development system in the state, and sees the state’s community colleges as a logical point for employer engagement and involvement. A continued commitment to building partnerships between educational and business leaders will allow Oklahoma to build a more flexible, market-responsive workforce training system, which makes effective use of its available resources to provide workers with the tools they need to build successful careers.

This commitment is already seen in programs such as Oklahoma’s CareerTech. Run by the Department of Career and Technology Education, CareerTech builds connections between the state’s school districts, colleges, technology centers, and workforce training professionals to provide access to workforce education and career training to citizens of all ages across the state. The program’s technology centers work directly with industry partners to build training programs that will serve the needs of industry and assure that trainees are prepared for the needs of the workplace. By focusing on employer needs and soliciting business input, workforce training programs such as CareerTech can ensure that they provide training that is relevant and worthwhile for those seeking a career path.

Oklahoma’s 12 community colleges have also taken steps to provide curriculum designed to enhance the state’s workforce development efforts. One initiative focused on such ends is Redland Community College’s Cooperative & Off-Campus Programs. Working with the state’s network

Figure 5: Oklahoma Job Growth by Education Level

Source: EMSI Complete Employment, 2011.4
of technology centers, Redlands offers affordable college credits to job trainees, while working with industry and business leaders to identify areas in need of specific job training need. The state’s four year universities are also involved in efforts to create tailored workforce solutions. Oklahoma State University’s Oklahoma City Campus is home to a workforce development program offering a suite of workforce training solutions and classes. Program offerings are tailored to support the needs of business and industry, with the goal of helping Oklahoma businesses meet their specific workforce needs.

Oklahoma’s workforce shows high competence in manufacturing and science knowledge and in technical, resource management, and systems skills (Figure 6). This positions the state well for continued growth in productive economy and science sectors.

![Figure 6: Oklahoma Workforce Knowledge and Skills Distribution](image)

Source: EMSI Complete Employment, 2011

Along with the training of its incumbent workforce, Oklahoma’s job growth and low cost-of-living puts it in a good position to recruit new residents to the state. According to U.S. Census Bureau numbers, Oklahoma’s net gain due to Americans choosing to move into the state was the eighth highest in the nation in 2009. Since 2005, the state has attracted new residents from neighboring states, but most particularly from California, according to Internal Revenue Service tax return data. Many Sooners may lament outmigration to Texas, but the net loss to Texas in recent years is dwarfed by net gains from other states. While there were strong net losses of Oklahomans to Texas in the late 1990s and early 2000s, the flow slowed recently and reversed in 2009.

The strong migration flows from other states serve as an endorsement of Oklahoma’s business climate, quality-of-life and economy and could be a foundation for future workforce recruiting efforts.

![Figure 7: Top Net Migration Flows Into and Out of Oklahoma, 2005-2009](image)

Source: U.S. Internal Revenue Service Tax Return Data

**Building Upon Success, Looking to the Future**

Governor Mary Fallin and state leaders in Oklahoma are working hard to create an environment where businesses thrive and state residents prosper. New initiatives such as the Task Force on Economic Development and Job Creation and the online survey of businesses encourage wide participation in shaping the state’s economic future. Efforts to improve tax policy, reform the legal environment and streamline business interactions with state government are improving upon an already positive business climate.

Oklahoma has outperformed most states in recent years, and the state is a leader in manufacturing job growth in 2011. Continued job growth coupled with below average unemployment and educational attainment support the need for efficient and effective workforce training as employers may struggle to find the workers they need. The positive growth the energy, military and aerospace sectors provides economic momentum for Oklahoma policy leaders to help create the new industries, entrepreneurial businesses, educated workforce and infrastructure needed to sustain the state’s future.
### Oklahoma’s Place in the 2011 Enterprising States Rankings

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