Another legislative session is in the history books, and, my, what a session it was. Most of the session ran concurrent with a special session that culminated with the first tax increase enacted under the provisions of State Question 640, requiring three-quarters support in each chamber.

While a referendum petition is being circulated to give voters the option to, in essence, veto the tax hikes, the new, recurring revenue will, among other things, give Oklahoma teachers the largest pay increase in state history.

Following sine die adjournment on May 3 – the earliest end to a session in memory – the Oklahoma Economic Report asked the chair of the Senate Appropriations Committee – Senator Kim David, R-Porter – to give us her thoughts on what transpired.

OER: The Legislature had its earliest adjournment in recent history with passage of the budget before the first of May, but it must feel as if you’ve been constantly in session for more than a year due to two special sessions. What were your most difficult challenges and how were you able to work past them?

David: The greatest challenge and accomplishment from 2018 are one and the same. For the first time in nearly 30 years, the Legislature increased revenue to

This (tax repeal) petition is the single greatest threat to teacher pay raises and if it is successful those raises will be in jeopardy.” – Sen. David

The FY-19 General Appropriations (GA) bill appropriates an additional $742.6 million, or 10.9 percent, compared to the final FY-18 GA bill.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (in millions)</th>
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<tr>
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<tr>
<td>Gen. Gov &amp; Trans</td>
<td>$329.52</td>
</tr>
<tr>
<td>Health</td>
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<td>Human Srvs</td>
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<td>Nat Resources</td>
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<td>Public Safety</td>
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<tr>
<td>REAP</td>
<td>$10.13</td>
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<tr>
<td><strong>TOTAL</strong></td>
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</tr>
</tbody>
</table>
Our children are growing up in a very different world than the one many of us remember. With technology advancing at warp speed and education funding often uncertain, schools have been trying to keep up.

But with the futures of nearly 700,000 Oklahoma schoolchildren at stake, merely keeping up is not an option. We must be looking ahead, preparing children for careers that have not been created yet.

To that end, the Oklahoma State Department of Education (OSDE) has developed an eight-year strategic plan, Oklahoma Edge, to ensure all children are learning for the long run. They must start strong, achieve competitive outcomes by the time they walk across the stage at graduation and receive supports and encouragement at every step along the way.

With a goal to prepare every student for a successful future, we must ensure our kids complete high school prepared for college or career.

We are committed to ranking in the top 10 in the nation in graduation rate and cutting by half the need for math and English language arts remediation in college.

Currently, 40 percent of all first-year Oklahoma college students who graduated from an Oklahoma public high school require remedial courses before earning college credit, at a price tag to Oklahoma families of $22.2 million a year.

We have employed new strategies – including adopting comprehensive academic standards, shoring up national comparability and providing access to a nationally recognized college- and career-readiness assessment – to close lingering achievement gaps.

The ultimate goal is to ensure our kids have the tools necessary to reach their full potential. To that end, we are implementing a program to help every Oklahoma student customize his or her education.

Students in 40 pilot districts, with input from their families and school counselors, are now creating useful and meaningful Individual Career Academic Plans (ICAPs), beginning in sixth grade, to develop career-specific skills according to their interests.

Of utmost importance, every student must have access to effective teachers. Pay, according to a recent OSDE survey, would motivate a third of former Oklahoma teachers to return to teaching.

Now we must pivot to recruiting and retaining teachers by continuing to improve working conditions and provide adequate resources for the classroom.”

SEE HOFMEISTER PAGE 3
Hofmeister
FROM PAGE 2

classrooms across the state, a key first step in reversing our crippling teacher shortage.

In recent weeks, the Oklahoma State Legislature passed a desperately needed and long-overdue teacher pay raise. Now we must pivot to recruiting and retaining teachers by continuing to improve working conditions and provide adequate resources for the classroom.

The deeper the foundation, the taller we can build. Students must be rock-solid in knowledge that will serve them in any career field, including a broad range of reading and writing skills and an extensive base in mathematic reasoning.

We must assess strengths and weaknesses to determine where finite resources can have the biggest impact on kids. With these goals in mind and a budget that supports our initiatives, our kids can be ready for success in any career path they choose.

Budget
FROM PAGE 1

pay for a very worthy cause: teacher pay raises. It took much negotiation between Democrats and Republicans, the House and the Senate, and the Legislature and the Governor’s Office. But in the end, we crafted a balanced, stable budget that gives significant funding increases to critical areas like education, mental health, human services, and criminal justice reform.

OER: You have overseen a historic event with the passage of the first general tax increase since 1990, and the first such increase in Oklahoma history under Republican control and under the provisions of State Question 640. Is the revenue package adequate to address Oklahoma’s fiscal challenges or will more need to be done? What are some politically feasible options to further address these challenges?

David: The revenue package is more than adequate to sustain our budget and pay for things like a teacher pay raise and state employee pay raise. Even though the FY’19 budget restores some cuts made in past years (due largely in part to the national recession and a downturn in energy prices), there is much more ground to regain in terms of agency funding. Certainly, we can find efficiencies and duplication, but not in the amounts necessary to restore pre-recession funding levels for education, mental health and human services, public safety and other core functions. We need to modernize our tax code to reflect the service-based economy we live in. We need to make government more efficient and eliminate duplication and waste. And finally, we need to foster job creation and economic growth, which in turn will provide more resources to fund core government functions.

OER: The biggest winner in this year’s budget is obviously education with an almost 20 percent increase in funding, teachers and state employees are receiving pay increases, and no agencies are being cut. Are there any areas where you wish more could have been done?

David: I am very proud that we were able to give the largest teacher pay raise in state history and send millions of more dollars to education. We provided enough funds to the Department of Human Services to fully fund the Pinnacle Plan. We made investments in criminal justice reform efforts, but more must be done there to truly reap the benefits other states have seen. We also appropriated $2 million to the Developmental Disabilities waiting list, which will have a huge impact by doubling the amount given to the list in previous years. If growth continues, it’s my hope we can invest more in child welfare services and mental health

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Opinions and positions cited in the Oklahoma Economic Report, are not necessarily those of Oklahoma State Treasurer Ken Miller or his staff, with the exception of the Treasurer’s Commentary, which of course, is the viewpoint of the treasurer.
and substance abuse programs to help our people.

**OER:** Following numerous years of plugging budget holes with non-recurring revenue sources, this year’s budget reflects a large reduction in the use of one-time funds. Are there plans to further reduce such use going forward?

**David:** The goal of Senate Republicans always has been to reduce the reliance of so-called “one-time money” and find more stable, recurring sources of revenue. Policy changes in recent years have led to revenue growth. The FY’19 budget is far more stable than past budgets precisely because it relies far less on one-time money. As the economy continues to recover, it is our goal to continue this trend.

**OER:** Members of the general public will soon be paying more for gasoline and diesel fuel, as will those who use tobacco. What is your message to Oklahomans as to why paying more is necessary?

**David:** It’s estimated that out-of-state drivers will pay approximately 40 percent of gasoline taxes. Our gasoline taxes are among the lowest in the nation, and even after the increase, will remain so. Increasing fuel taxes is essential to maintaining and improving our transportation infrastructure.

Oklahoma’s health care costs are higher because of the high rates of smoking among our people. By increasing tobacco taxes, we will encourage people to smoke less thereby lowering health care costs in the long-term.

**OER:** An organization has formed to attempt a citizens’ petition for a vote to repeal the revenue increases enacted this year. A general theme of the group, echoed by several gubernatorial candidates, is that paying teachers more is good, but that eliminating waste, fraud, and abuse could fund it all. What are your thoughts on the repeal effort and on the waste-fraud-and-abuse mantra?

**David:** This petition is the single greatest threat to teacher pay raises and if it is successful those raises will be in jeopardy. The Legislature is taking big steps toward eliminating inefficiencies and duplication in the budget via agency performance audits and budget limit bills to ensure agencies adhere to spending priorities. However, there simply isn’t enough waste, fraud and abuse in the state budget on the level needed to fund teacher raises.

In late April, the state received a $71.7 million payment under the national Master Settlement Agreement. With this latest annual payment, Oklahoma has received $1.47 billion since 1999.

Seventy-five percent of the payment, or $53.7 million, went immediately into the Tobacco Settlement Endowment Trust Fund for investment, as mandated by the Oklahoma Constitution.

The remaining 25 percent was divided between the Legislature for health care-related appropriations and the attorney general, who provides ongoing enforcement of the Master Settlement Agreement. This year, the Legislature received $13.4 million and the attorney general received $4.5 million.

Voters approved creation of the Tobacco Settlement Endowment Trust Fund through a constitutional amendment in 2000, which specifies that investment earnings from the trust fund be spent on programs to improve the health of Oklahomans, particularly children and senior adults.

This year’s payment brings the trust fund balance to $1.2 billion. At the end of last fiscal year, $39.7 million in investment earnings and $13.1 million from reserve funds were certified for use by the trust fund’s appointed board of directors.

Oklahoma is the only state with a constitutionally-protected fund for investment of settlement payments.

The national Master Settlement Agreement, announced in November 1998, imposed sweeping changes in tobacco advertising, banned tobacco companies from targeting children, allocated funding for tobacco education efforts and provided annual payments based on the number of cigarettes sold in the country.
April Gross Receipts to the Treasury grow by double digits

April Gross Receipts to the Treasury are up by more than 15 percent compared to the same month of the prior year as monthly gross collections have consistently shown growth for 13 months, State Treasurer Ken Miller announced.

Receipts in all revenue major streams show increases ranging from more than 47 percent in gross production taxes to 1 percent in motor vehicle tax collections.

“This month’s gross receipts report again reflects a well performing economy,” said Miller. “Employment and consumption are continuing to rise as the energy sector is hitting stride.”

The April report, at $1.4 billion, is one of the largest of the year due to the income tax filing deadline.

Individual and corporate income tax collections account for more than

SEE REVENUE PAGE 6

March Gross Receipts to the Treasury & General Revenue compared

March Gross Receipts to the Treasury totalled $982.9 million, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received $405.5 million, or 41.3%, of the total.

The GRF received between 33.5% and 54.1% of monthly gross receipts during the past 12 months.

From March gross receipts, the GRF received:

- Individual income tax: 41.8%
- Corporate income tax: None
- Sales tax: 45.5%
- Gross production-Gas: 76.8%
- Gross production-Oil: 14.5%
- Motor vehicle tax: 25.8%
- Other sources: 43.3%

March GRF allocations were above the estimate by 5.6 percent. Fiscal-year-to-date collections are ahead of the estimate by 3.7 percent.

March insurance premium taxes totaled $24.9 million, an increase of $17.1 million, or 217.2%, from the prior year.

Tribal gaming fees generated $10.7 million during the month, down by $146,891, or 1.4%, from March 2017.
Revenue

FROM PAGE 5

50 percent of total receipts for the month.

Collections from the past 12 months compared to the previous period also show growth in all major revenue streams. Total 12-month collections, at $11.97 billion, are up by $1.18 billion, or 10.9 percent.

New revenue collections

The tax commission attributes $34.6 million in April to new revenue resulting from legislation enacted during 2017.

The additional revenue comes primarily from changes in sales tax exemptions and gross production tax incentives.

The new revenue accounts for 2.5 percent of April gross receipts.

Out of $9.2 billion in gross collections since last August, $240.8 million, or 2.6 percent, has resulted from last year’s law changes.

Tax increases enacted in late March of this year have not yet taken effect and therefore have no impact on current collections.

Other indicators

The Oklahoma Business Conditions Index has topped growth neutral for nine consecutive months.

The April index was set at 62.7, up from 62.4 in March. Numbers above 50 indicate anticipated economic growth during the next three to six months.

April collections

April gross collections total $1.4 billion, up $187 million, or 15.4 percent, from April 2017.

Gross income tax collections, a combination of individual and corporate income taxes, generated $709.1 million, an increase of $106.7 million, or 17.7 percent, from the previous April.

Individual income tax collections for the month are $586.6 million, up by $57.6 million, or 10.9 percent, from the prior year.

Corporate collections are $122.6 million, an increase of $49.15 million, or 66.8 percent.

Sales tax collections, including remittances on behalf of cities and counties, total $410.6 million in April. That is $43.7 million, or 11.9 percent, more than April 2017.

Gross production taxes on oil and natural gas generated $60.7 million in April, an increase of $19.5 million, or 47.4 percent, from last April.

Compared to March reports, gross production collections are down by $12.1 million, or 16.7 percent.

Motor vehicle taxes produced $62.8 million, up by $627,510, or 1 percent, from the same month of 2017.

Other collections, consisting of about 60 different sources including use taxes, along with taxes on fuel, tobacco, and alcoholic beverages, produced $160.4 million during the

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### Revenue

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month. That is $16.5 million, or 11.5 percent, more than last April.

**Twelve month collections**

Gross revenue totals $11.97 billion from the past 12 months. That is $1.18 billion, or 10.9 percent, more than collections from the previous 12 months.

Gross income taxes generated $4.2 billion for the period, reflecting an increase of $342.6 million, or 8.8 percent, from the prior 12 months.

Individual income tax collections total $3.8 billion, up by $257 million, or 7.3 percent, from the prior 12 months.

Corporate collections are $464.4 million for the period, an increase of $85.5 million, or 22.6 percent, over the previous period.

Sales taxes for the 12 months generated $4.6 billion, an increase of $409.6 million, or 9.8 percent, from the prior period.

Oil and gas gross production tax collections brought in $638.2 million during the 12 months, up by $226.3 million, or 55 percent, from the previous period.

Motor vehicle collections total $766 million for the period. This is an increase of $22.4 million, or 3 percent, from the trailing period.

Other sources generated $1.7 billion, up by $174.6 million, or 11.1 percent, from the previous year.

**About Gross Receipts to the Treasury**

The Office of the State Treasurer has issued the monthly Gross Receipts to the Treasury report since March 2011 to provide a timely and broad view of the state’s macro economy.

It is released in conjunction with the General Revenue Fund allocation report from the Office of Management and Enterprise Services, which provides important information to state agencies for budgetary planning purposes.

The General Revenue Fund receives less than half of the state’s gross receipts with the remainder paid in rebates and refunds, remitted to cities and counties, and placed into off-the-top earmarks to other state funds.

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### Oklahoma labor force expands as unemployment shrinks

At 4 percent, Oklahoma’s seasonally-adjusted unemployment rate in March notched down by one-tenth of a percentage point from February and was one-half of a percentage point less than in March 2017, according to figures released by the Oklahoma Employment Security Commission. It marks the first time since September that Oklahoma’s jobless rate has been less than the U.S. rate, which remained at 4.1 percent in March. The rates for both had been the same for five consecutive months.

**Oklahoma Unemployment Report**

<table>
<thead>
<tr>
<th>March 2018</th>
<th>Unemp. rate*</th>
<th>Labor force*</th>
<th>Employment*</th>
<th>Unemployment*</th>
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</thead>
<tbody>
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<td>Oklahoma</td>
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<td>1,773,873</td>
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<td>United States</td>
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<td>OKLAHOMA</td>
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<tr>
<td>Feb ‘18</td>
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<td>Jan ‘18</td>
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<td>Dec ‘17</td>
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<td>Nov ‘17</td>
<td>4.1%</td>
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<td>Oct ‘17</td>
<td>4.1%</td>
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<td>1,766,262</td>
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<td>Mar ‘17</td>
<td>4.5%</td>
<td>1,826,610</td>
<td>1,744,968</td>
<td>81,642</td>
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* Data adjusted for seasonal factors

Source: OESC
Economic Indicators

Unemployment Rate
January 1980 – March 2018

Gross Receipts vs. Oil & Gas Employment
January 2008 – April 2018

Leading Economic Index
January 2001 – March 2018

Oklahoma Stock Index
Top capitalized state companies
January 2009 – April 2018

Oklahoma Natural Gas Prices & Active Rigs
January 2011 – April 2018

Oklahoma Oil Prices & Active Rigs
January 2011 – April 2018

Sources: Bureau of Labor Statistics

Shaded areas denote U.S. recessions

Source: Office of the State Treasurer

Shaded area denotes U.S. recession

Source: Federal Reserve of Philadelphia

This graph predicts six-month economic movement by tracking leading indicators, including initial unemployment claims, interest rate spreads, manufacturing and earnings. Numbers above 0 indicate anticipated growth. Shaded areas denote U.S. recessions.

Source: Bureau of Labor Statistics & State Treasurer


Sources: Baker Hughes & U.S. Energy Information Administration