Session wish list 2018

At the beginning of the last five regular sessions of the Oklahoma Legislature, the Oklahoma Economic Report has issued a wish list for legislators to consider.

As Oklahoma’s top elected financial officer since 2011, State Treasurer Ken Miller has offered his opinions on ways to improve the operation of state government to better serve the people and put the state on a positive path for the future.

With this edition of the monthly newsletter, we offer one more wish list under Miller’s tenure for the Legislature to consider.

Where we’ve been

The lists from prior years have addressed the pressing issues of the time, ranging from budget concerns, to needed infrastructure maintenance and bond financing, to pension and revenue reform, among others.

Elections notwithstanding, state government finds itself with many challenges but some positive indicators.

Budget issues – primarily calls to end the Legislature’s over dependence on nonrecurring sources of revenue – have made the list in each of the past five years.

Pension and tax code reform, along with infrastructure repair and protecting the state’s unclaimed

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2018 Session Wish List

- Fix the structural imbalance in the budget – The habit of filling annual budget holes with one-time funds must be broken.
- Properly fund core services – Additional funds from recurring revenue sources should be appropriated to the Core Four – education, public safety, transportation, and health care.
- Continue tax incentive reform – Heed the recommendations of the Incentive Evaluation Commission and curtail inefficient tax incentives.
- Bring Oklahoma’s tax code into the 21st Century – The state’s tax code is built for an economy that ceased to exist more than a generation ago.
- Allow TSET to continue its success – The tobacco settlement endowment is not a quick fix for the state’s current revenue problem.
- Protect unclaimed property – The unclaimed property fund can not be the go-to source of extra money to fill budget holes.
Guest Commentary
By Charles McCall,
Oklahoma Speaker of the House

Government accountability and reform top priorities for House Republicans in 2018

The 2018 regular legislative session is fast approaching, and, after years of contracting revenue and annual budget holes, the state will certainly be in a much stronger financial position in the new year.

The state’s economy continues to improve and add jobs, and revenue growth has been much better than predicted by many during the last twelve months due to increased economic activity and tough votes taken by the Legislature during the 2017 legislative session.

The state will have approximately $360 million more to appropriate this year than last year. In fact, depending on how revenue collections come in through June, we may not have a budget hole at all next year. That would be welcome news after budget gaps totaling more than $2.5 billion during the last three years.

Despite the increased revenue, there will still be tough discussions in the upcoming year on the need for additional resources. Those discussions should be focused on specific and shared goals, such as raising teacher pay and shoring up healthcare services, and those revenue proposals must be attached to specific reforms and accountability requirements at the agencies.

"Oklahomans expect lawmakers to provide strict oversight to state spending, and House Republicans expect state agencies to be accountable and efficient with taxpayer dollars."

Recent revelations of the mismanagement of at least $31 million in taxpayer funds at the state Department of Health have outraged citizens and lawmakers. The House of Representatives has created a special investigation committee, which has already met numerous times to interview witnesses, in order to determine how that misconduct continued unnoticed for so long.

As we discuss ways to potentially raise additional revenue for specific purposes, the House will continue to investigate waste and mismanagement in the government, and we will pursue new allegations as they are brought to our attention.

We will promote an agenda during the upcoming session that enhances legislative oversight of the agencies that spend taxpayer dollars. Oklahomans expect lawmakers to provide strict oversight to state spending, and House Republicans expect state agencies to be accountable and efficient with taxpayer dollars.

A notable public figure once said, “Never take a dollar from a free citizen through the coercion of taxation without a very legitimate purpose. We have a solemn duty to spend that dollar as carefully as possible.”

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possible, because when we took it we diminished that person’s freedom.”

That is a charge that House Republicans take very seriously.

At the end of the day, every dollar we spend as a state comes out of the taxpayers’ pockets. Oklahomans want stability and certainty, and they expect us to deliver solutions to the real problems facing our state, yet in a way that protects and enhances their liberty.

There are still obvious challenges before us in 2018, but I am confident that our state is on a path toward prosperity and stability in the new year.

Wishes

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property program have each been featured in the wish lists on three of the five years.

Addressing teacher pay and protecting the Tobacco Settlement Endowment Trust have each made the list.

Where we are

It’s an election year with 125 legislative seats, the governor, lieutenant governor, attorney general, state auditor and inspector, state treasurer, insurance commissioner, labor commissioner, state superintendent of public instruction, and one corporation commissioner on the ballot.

With the filing period occurring mid-way through the session and the primary election only a few weeks after adjournment, the distractions that typically accompany political campaigns are sure to play a role in the process.

Elections notwithstanding, state government finds itself with many challenges but some positive indicators.

As work continues to find solutions to the state’s revenue problem, the ongoing budget crisis is capturing most of the attention. With the state currently operating without a balanced budget and a shortfall for some agencies by April, many are hopeful a solution can be found and acted upon in special session before the regular session begins in only a few weeks. If not by then, then perhaps early in February.

The health department and resulting state and federal investigations are also of major concern. However, the hope is that policymakers will not use the mismanagement as a reason to put off action on the over arching budget and revenue problems.

On the bright side, indicators are pointing to a modestly improving state economy. Gross Receipts to the Treasury show growth in overall collections and allocations to the General Revenue Fund are also improving. A portion of the revenue growth is attributable to measures passed last regular session, but at least some of the rising collections appear to be due to economic recovery. Even so, the revenue improvement should not be an excuse to put off needed action.

The 2017 Wish List

Fix the structural imbalance in the budget

At the risk of sounding like a broken record, the habit of using one-time funds to fill budget holes simply must end.

Scraping together money intended for nonappropriated use from other sources can be justified during times of extreme fiscal distress, such as during the Great Recession or during the more recent energy price downturn. But not when conditions are not so bad, the practice cannot be justified.

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One downside of continuing the practice has been seen in credit downgrades – the first in 30 years – by Standard & Poor’s and Fitch and the threat of a downgrade from Moody’s if the practice continues. As with personal credit ratings, lower scores increase the cost of debt financing for needed infrastructure maintenance.

Also on the downside is that the intended purposes of the nonrecurring revenue, including technology upgrades and other capital expenditures, are being further delayed, harming productivity.

It’s one thing when nonrecurring revenue is directed to one-time expenses, but it is altogether different when the money is directed toward ongoing expenditures.

The state’s recurring expenditures and revenue must be brought into balance by finding new recurring revenue and/or cutting expenditures.

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The state’s recurring expenditures and revenue must be brought into balance by finding new recurring revenue and/or cutting expenditures.

Additional funding should be directed toward the Core Four – education, public safety, transportation, and health care.

With political constraints surrounding raising revenue, appropriately funding core services is difficult.

A comparison of funding levels for core services by the states, even adjusted for cost-of-living differences, shows Oklahoma near the bottom.

The issue of teacher pay continues to loom over the Legislature. Voter rejection of the state question to raise the state sales tax to fund raises last year would appear to indicate the people believe the Legislature should craft the solution.

Continue tax incentive reform

The independent Incentive Evaluation Commission has for a second year issued recommendations to modify and eliminate some inefficient and costly tax incentives.

The commission should give strong consideration to following its consultant’s recommendations, and the Legislature wise to follow the commission’s recommendations.

Bring Oklahoma’s tax code into the 21st Century

Oklahoma’s current tax code was built on an economic system that has long since ended.

Modernization of the state tax code to work within the current services-based economy is long overdue.

Allow TSET to continue its success

The tobacco settlement endowment trust fund is performing well and efforts to modify its expenditures should be done within the existing constitutional construction.

The goal of the fund is to improve the health of Oklahomans, which reports show continues to fall behind national standards. Efforts should be maintained to reduce tobacco use and fund cancer research.

After all, the fund is not a quick fix for the state’s current revenue problem.

Protect unclaimed property

The funded status of the state’s unclaimed property program must be protected.

While using a portion of the funds for public purposes is a secondary intent of the program, the Legislature’s dependence on unclaimed property money to fill budget holes has grown too large over the past several years.

Unclaimed property is currently not in a financial position to be the go-to source for extra money for the Legislature.

The primary purpose of reuniting Oklahomans with their lost money must not be compromised.

Learn more

Read the legislative session wish lists from prior years:


2016 session: https://www.ok.gov/treasurer/documents/OER_12-31-15.pdf (See page 5.)

2017 session: https://www.ok.gov/treasurer/documents/OER_1-4-17.pdf
November Gross Receipts to the Treasury & General Revenue compared

November Gross Receipts to the Treasury totalled $893.4 million, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received $390.6 million, or 43.7%, of the total.

The GRF received between 32.7% and 54.1% of monthly gross receipts during the past 12 months.

From November gross receipts, the GRF received:

- Individual income tax: 46.8%
- Corporate income tax: None
- Sales tax: 46%
- Gross production-Gas: 75.1%
- Gross production-Oil: 13.1%
- Motor vehicle tax: 26.9%
- Other sources: 41.7%

November GRF allocations exceed the estimate by 14.1 percent. Fiscal-year-to-date collections are ahead of the estimate by 9.4 percent.

November insurance premium taxes totaled $4.7 million, an increase of $1.1 million, or 28.8%, from the prior year.

Tribal gaming fees generated $10.99 million during the month, down by $56.869, or 0.5%, from November 2016.

Gross Receipts to the Treasury show growth in December and calendar year

Gross Receipts to the Treasury surged by 12 percent in December and grew at a healthy rate of 6.2 percent during the 2017 calendar year, State Treasurer Ken Miller announced today.

At $1 billion, December collections are up by $107.9 million compared to receipts from December 2016. During the last year, gross receipts topped the $11 billion mark, finishing at $11.45 billion ahead of 2016 collections by $667.6 million.

“Last year, gross receipts were down by more than 7 percent. This year, we show across-the-board growth with an encouraging trend line.”

“What a difference a year can make,” Miller said. “At this time last year, calendar year gross receipts were down by more than 7 percent with every major revenue stream showing contraction. This year, we show across-the-board growth with an encouraging trend line.”

Monthly receipts during the calendar year were higher than the same month of the prior year in all but

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one month. The rate of increase has generally trended higher with each passing month.

In December, growth rates in the major revenue streams ranged from 42.7 percent in gross production taxes to 5.1 percent in motor vehicle tax collections. For the calendar year, growth ranged from 53.4 percent in gross production taxes to 2.6 percent in combined individual and corporate income tax receipts.

New revenue collections
The tax commission attributes $24.2 million in December to new revenue resulting from legislation enacted during the last regular session.

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

The new revenue accounts for 22.4 percent of the growth in December collections compared to the prior year. Since August, law changes from last session have yielded $114.8 million in new gross revenue.

Other indicators
At 4.2 percent, Oklahoma’s seasonally-adjusted unemployment rate in November was down by two-tenths of a percentage point from the prior month, according to figures released by the Oklahoma Employment Security Commission. State jobless numbers improved by seven-tenths of a percentage point over the year. The U.S. jobless rate was set at 4.1 percent in November, less than Oklahoma’s rate for a fifth consecutive month.

December collections
December gross collections total $1 billion, up $107.9 million, or 12 percent, from December 2016.

Gross income tax collections, a combination of personal and corporate income taxes, generated $351.2 million, an increase of $32.2 million, or 10.1 percent, from the previous December.

Individual income tax collections for the month are $296.5 million, up by $27.8 million, or 10.4 percent, from the prior year. Corporate collections are $54.7 million, an increase of $4.4 million, or 8.7 percent.

Sales tax collections, including remittances on behalf of cities and counties, total $403.5 million in December. That is $40.1 million, or 11 percent, more than December 2016.

Gross production taxes on oil and natural gas generated $56.2 million in December, an increase of $16.8 million, or 42.7 percent, from last December. Compared to November reports, gross production collections are up by $3.4 million, or 6.5 percent.

Motor vehicle taxes produced $59.9 million, up by $2.9 million, or 5.1 percent, from the same month of 2016.

The Oklahoma Business Conditions Index has topped growth neutral for five consecutive months. The December index was set at 59.3, down from 60.8 in November. Numbers above 50 indicate anticipated economic growth during the next three to six months.

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Other collections, consisting of about 60 different sources including use taxes, along with taxes on fuel, tobacco, and alcoholic beverages, produced $138.9 million during the month. That is $15.9 million, or 12.9 percent, more than last December.

2017 collections
Gross revenue totals $11.45 billion from the past 12 months. That is $667.6 million, or 6.2 percent, more than collections from the previous 12 months.

Gross income taxes generated $4 billion for the 2017 calendar year, reflecting an increase of $100.5 million, or 2.6 percent, from the 2016 calendar year.

Individual income tax collections total $3.6 billion, up by $141.6 million, or 4.1 percent, from the prior 12 months. Corporate collections are $405.3 million for the period, a decrease of $41.1 million, or 9.2 percent, over the previous period.

Sales taxes for the year generated $4.4 billion, an increase of $236.9 million, or 5.6 percent, from the prior year.

Oil and gas gross production tax collections brought in $537.2 million during the year, up by $187 million, or 53.4 percent, from the previous year.

Motor vehicle collections total $764.9 million for the period. This is an increase of $23 million, or 3.1 percent, from the trailing period.

Other sources generated $1.7 billion, up by $120.2 million, or 7.7 percent, from the previous year.

About Gross Receipts to the Treasury
Since March 2011, the Office of the State Treasurer has issued the monthly Gross Receipts to the Treasury report, which provides a timely and broad view of the state’s macro economy.

It is provided 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.

Learn more
Read the full Gross Receipts monthly report and view additional charts and graphs at https://go.usa.gov/xnV5A.

Oklahoma employment picture improves in November

At 4.2 percent, Oklahoma’s seasonally-adjusted unemployment rate in November was down by two-tenths of a percentage point from the prior month, according to figures released by the Oklahoma Employment Security Commission.

State jobless numbers improved by seven-tenths of a percentage point over the year.

The U.S. jobless rate was set at 4.1 percent in November, less than Oklahoma’s rate for a fifth consecutive month.

<table>
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<tr>
<th>November 2017</th>
<th>Unemp. rate*</th>
<th>Labor force*</th>
<th>Employment*</th>
<th>Unemployment*</th>
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<tbody>
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<td>Oklahoma</td>
<td>4.2%</td>
<td>1,841,642</td>
<td>1,764,465</td>
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<td>United States</td>
<td>4.1%</td>
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<td>153,918,000</td>
<td>6,610,000</td>
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<td>OKLAHOMA</td>
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<td>Oct ‘17</td>
<td>4.4%</td>
<td>1,835,578</td>
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<td>Sept ‘17</td>
<td>4.5%</td>
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<td>1,745,642</td>
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<td>Aug ‘17</td>
<td>4.5%</td>
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<td>July ‘17</td>
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<td>1,817,149</td>
<td>1,737,947</td>
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<td>June ‘17</td>
<td>4.3%</td>
<td>1,822,548</td>
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<td>Nov ‘16</td>
<td>4.9%</td>
<td>1,823,846</td>
<td>1,734,685</td>
<td>89,161</td>
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Source: OESC
Economic Indicators

Unemployment Rate
January 1980 – November 2017

Shaded areas denote U.S. recessions.

Gross Receipts vs. Oil & Gas Employment
January 2008 – December 2017

Shaded area denotes U.S. recession.
Sources: Bureau of Labor Statistics & State Treasurer.

Leading Economic Index
January 2001 – November 2017

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: Federal Reserve.

Oklahoma Stock Index
Top capitalized state companies
January 2009 – December 2017

Avg. = $42.59
Source: Office of the State Treasurer.

Oklahoma Natural Gas Prices & Active Rigs
January 2011 – December 2017

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

Oklahoma Oil Prices & Active Rigs
January 2011 – December 2017

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