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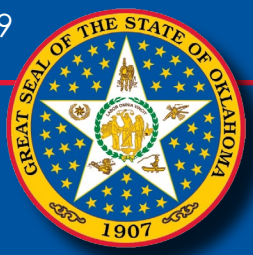

Oklahoma Economic Report™

State Treasurer Randy McDaniel

News and analysis of Oklahoma's economy • A publication of the State Treasurer's Office

Financial resolutions for 2019

Oklahoma has a new state treasurer. Randy McDaniel has assumed the duties of managing and safeguarding the Oklahoma Treasury.

In his first edition of the *Oklahoma Economic Report*, he continues the tradition of advocating for sound fiscal policy by offering financial resolutions for state policymakers to consider during the upcoming legislative session.

Ensure financial stability

As observers have long recognized, Oklahoma's economy – and by extension, state government funding – has typically followed the boom and bust cycles of the energy industry.

> ***"The tradition of advocating for sound fiscal policy continues."***

With a large portion of the state's economy driven by the oil and gas industry, coupled with the volatile nature of the state's revenue streams, drastic swings in tax collections that track the expansions and contractions of the

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Editor
Tim Allen, Deputy Treasurer for Communications and Program Administration

Financial Resolutions for the New Year

- **Ensure financial stability** – Manage state resources and budgets to increase long-term financial stability
- **Continue structurally balanced budgets** – Maintain the structural balance of the state budget
- **Education quality and availability** – Ensure Oklahoma's public education system is a top priority
- **Public pension stability** – Continue the committment to the long-term financial security of the pension system
- **Support transportation improvement** – Stay the course of improving state roads and bridges

Treasurer's Commentary

State Treasurer Randy McDaniel

Priorities for a strong financial future

It is an honor to serve as Oklahoma's 19th state treasurer. I want to thank my fellow Oklahomans for this opportunity, and recognize my predecessor, Ken Miller, for his years of outstanding service.

Before turning to my priorities for the office, let me introduce myself.

My wife, Julie, and I have two children, Grace and John. I am a fourth-generation Oklahoman, have lived in rural and urban communities, and was elected to six terms in the state House of Representatives, where I chaired the Banking, Financial Services and Pensions Committee.

After graduating from the University of Oklahoma and Cambridge University, I worked for 24 years in the private sector as a financial advisor and banker.

In addition, I served as a Captain in the Oklahoma Army National Guard.

Mission and duties

The state treasurer has many responsibilities related to investments, banking operations, unclaimed property, college savings, the retirement systems and state debt administration.

> ***"My number one priority as state treasurer is protecting and effectively managing the billions of taxpayer dollars deposited in the treasury each year."***

I am committed to safeguarding the financial resources of the state and promoting responsible fiscal policy.

My mission is to provide excellent financial management through the delivery of sound investments, efficient operations, and quality customer service.

Safeguarding state resources

My number one priority as state treasurer is protecting and effectively managing the billions of taxpayer dollars deposited in the treasury each year.

The modernization of computer systems for state banking operations started several years ago. This effort must continue as we reinforce our efforts to ensure all funds in the Oklahoma Treasury remain safe and secure.

Maximizing investment income

Earnings on investments are an important source of non-tax revenue for the state. State revenue collections are invested by our office until they are needed to pay for state services.

State law, as well as prudent short-term investment strategies, dictate the funds be invested in a secure manner. Notwithstanding, the rising rate environment and

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Commentary

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enhanced cash-flow management present opportunities to increase earnings without additional risk.

The treasurer's Investment Advisory Committee, a group of financial professionals first empaneled by my predecessor, will continue to meet as we work to maximize the income earned on the multi-billion dollar portfolio.

Enhancing education

As chair of the Oklahoma 529 College Savings Plan, my goal is to encourage more Oklahoma families to save for higher education.

In its 19-year history, the plan has been utilized to provide more than $500 million for 25,000 college students. Today, more than $850 million is invested for future college graduates. Importantly, the Oklahoma 529 is the only college savings plan with an Oklahoma income tax deduction.

Financial literacy is a high priority for me. People of all ages could benefit from learning more about how to handle their personal finances as they strive for a more secure and prosperous future. As a result, we will be engaged in a number of activities to improve financial literacy in the state, and have even made this topic a regular feature in this newsletter.

Customer Service

Assisting in the return of unclaimed property to its rightful owners, reporting on the financial health of the retirement systems, and administering state bonds are receiving my close attention as we strive to improve customer service and implement best practices.

I'm grateful to be serving as your state treasurer. Now and in the years to come, you will find me working hard to help build a strong financial future for Oklahoma.

Resolutions

FROM PAGE 1

industry have historically proven inevitable.

Creation of the Constitutional Reserve Fund, or rainy day fund, more than 30 years ago was the first big step to help preserve funding of core services during downturns. However, it has its limits and only receives additional funds when General Revenue Fund collections exceed the certified estimate.

The Revenue Stabilization Fund, approved a few years ago, is designed to also help cushion the impact of economic downturns, but the fund is at least several years from containing a significant balance.

In light of the reserve fund limitations, policymakers should proceed carefully when deciding whether to create new programs.

A more prudent course of action would be to ensure the primary functions of state government – education, transportation, public safety, and public health – are properly funded.

History has taught us that while revenue collections may currently be on the rise, we need to be prepared for inevitable downturns in the economy.

Continue structurally balanced budgets

The current, FY-19, state budget is the first in many years to be structurally balanced. In other words, it appropriates only recurring funds for recurring expenditures.

This budget reversed a multi-year trend of scraping together one-time sources of revenue – such as diverting money from revolving funds established for other purposes – to fill holes in the budget.

The practice of enacting structurally imbalanced budgets had become a growing threat to the long-term

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Resolutions

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stability of operations. It had also drawn the close attention of bond rating agencies and contributed to a credit downgrade.

In the coming legislative session, policymakers would be well served to stay the course on structural balance and avoid the temptation to use nonrecurring revenue as a quick fix to fill funding gaps.

Education quality and availability

Access to quality public education is the cornerstone of our society. State leaders took a large step forward last year by significantly increasing teacher pay.

More work remains to be done. Adequate funding for education is essential, but efficiencies should also be implemented to ensure every dollar is spent wisely.

The Oklahoma 529 College Savings Plan is fulfilling its mission of helping families save for the cost of college. Policymakers should work to keep the costs of higher education affordable.

Education is a high priority. We should all work together to support best practices and more opportunities for future graduates to succeed.

Public pension stability

Not long ago, the state pension system was in financial trouble. The unfunded liabilities were rising, on average, a billion dollars per year.

Left unchecked, the pension system was on an unsustainable path.

The goal has always been to ensure the promises made to those who have dedicated their lives to serving the public are fulfilled.

Major reforms were approved. Those reforms, coupled with adequate funding and superior investment results, have worked. Today, the financial condition of the pension systems has improved significantly.

Policymakers should remain committed to keeping the promises made and protecting the long-term financial security of the pension systems.

Support transportation improvement

The state has made great progress recently in the condition of our roads and bridges.

After decades of neglect, lawmakers and the governor came together to provide the resources needed to fix our crumbling roads and deficient bridges.

The revenue dedicated to pay for the repairs is proving successful, but there is more work to be done. Moreover, once repairs are complete, maintenance will still be required to ensure our transportation system doesn't once again fall into disrepair.

Policymakers should make certain adequate funding continues to be directed toward restoring and maintaining Oklahoma's transportation system.

In addition to the resolutions discussed above, we support the approval of additional criminal justice reforms and efforts to improve accountability.

Spotlight on Financial Literacy

Editor's note: *This new section will include tips and links to financial literacy resources.*

Forbes: We are not objective about our own money

Everyone knows someone who is amazing. Smart. Talented. Ambitious. And that person is dating someone who, to put it mildly, is terrible. All their friends know it. Maybe their family knows it. But that intelligent person, capable of all kinds of incredible personal and professional accomplishments, just can't see it.

We, too, are often blind to things we're too close to personally, as though our proximity has us unable to see around the self destructive path we've chosen.

Our financial habits and perspectives are as personal as our dating choices, and we're often similarly blind to our missteps.

Very few people will tell you they're "below average" at managing their finances, but the data of a savings crisis, as well as a debt crisis, is everywhere.

Here are some ways to make true progress: https://www.forbes.com/sites/ryanfrailich/2019/01/07/you-are-not-objective-about-your-own-money/#5965d2256423

November Gross Receipts to the Treasury & General Revenue compared

November Gross Receipts to the Treasury totalled $1 billion, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received $502.2 million, or 48.6%, of the total.

The GRF received between 33.5% and 57% of monthly gross receipts during the past 12 months.

From November gross receipts, the GRF received:

- Individual income tax: 46.6%
- Corporate income tax: None
- Sales tax: 46%
- Gross production-Gas: 76.1%
- Gross production-Oil: 60.8%
- Motor vehicle tax: 25.4%
- Other sources: 55.6%

November GRF allocations were above the estimate by 17.5%. Year-to-date allocations are above the estimate by 4%.

November insurance premium taxes totaled $3.7 million, a decrease of $965,796, or 20.6%, from the prior year.

Tribal gaming fees generated $11.7 million during the month, up by $684,204, or 6.2%, from November 2017.

Oklahoma Gross Receipts finish strong in 2018

Gross Receipts to the Treasury grew at a double-digit pace, increasing by more than $1.5 billion, during calendar year 2018, State Treasurer Randy McDaniel announced.

Gross receipts for 2018 were slightly less than $13 billion and grew by 13.2 percent compared to calendar year 2017 collections. During the month of December, total receipts topped $1.1 billion and were up by more than $135 million, or 13.4 percent, compared to December 2017.

> ***"Gross receipts have improved significantly, while unemployment remains low."***

"Oklahoma's economy has been performing admirably," Treasurer McDaniel said. "Gross receipts have improved significantly, while unemployment remains low. These and other economic indicators point to a favorable outlook for the state, but could be restrained by the downturn in energy prices, global trade uncertainty, and stock market volatility."

Every major revenue stream

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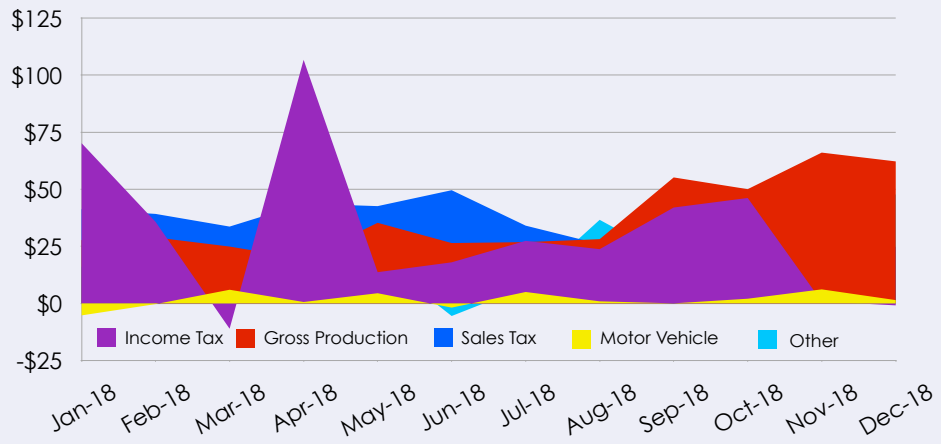
Monthly Gross Receipts vs. Prior Year



(In $ millions)	December-17	December-18	Variance From Prior Year	
Income Tax	351.2	350.4	(0.9)	-0.2%
Gross Production	56.2	118.4	62.2	110.7%
Sales Tax (1)	403.5	428.2	24.7	6.1%
Motor Vehicle	59.9	61.4	1.5	2.4%
Other Sources (2)	138.9	186.7	47.7	34.4%
TOTAL REVENUE	1,009.7	1,144.9	135.2	13.4%

Dollar change (in millions) from prior year

Source: Office of the State Treasurer

Revenue

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expanded during 2018 at rates ranging from 84 percent for gross production taxes on oil and natural gas production to 2.5 percent for motor vehicle taxes.

For the month of December, every major revenue source except individual income tax receipts showed growth. The tax commission reports a 1 percent reduction in individual income tax collections was likely due to one less remittance deadline for withholding taxes this December compared to last.

Officials continue to closely watch gross production tax collections due to the recent downturn in crude oil prices.

December gross production collections of $118.4 million are up by $62.2 million, or 110.7 percent, compared to December 2017.

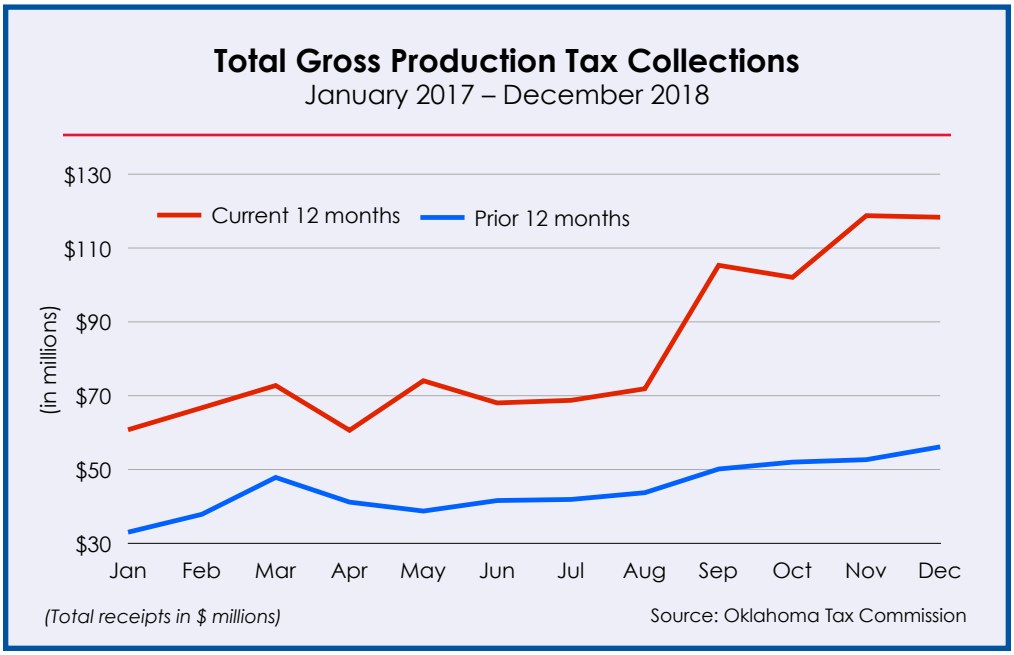
However, December collections reflect oilfield activity from October when West Texas Intermediate crude oil at Cushing averaged $70.75 per barrel. Collections in January will reflect November production, when oil prices averaged $56.96 per barrel.

New Tax Revenue

Revenue generated by increased tax rates approved in House Bill 1010 during special session last year added $62.6 million to monthly collections, 5.5 percent of December gross receipts.

The largest share, $38.5 million, came from the increase from 2 percent to 5 percent in the incentive tax rate on oil and natural gas gross production.

Higher tax rates on gasoline and diesel fuel generated $9.5 million, and the $1 per pack hike in cigarette taxes added $14.6 million to December's total.



Business conditions

The Oklahoma Business Conditions Index has topped growth neutral for 17 consecutive months. The December index rose to 56.4 from 55.9 in November. Numbers above 50 indicate anticipated economic growth during the next three to six months.

December collections

December gross collections total $1.1 billion, up $135.2 million, or 13.4 percent, from December 2017.

Gross income tax collections, a combination of individual and corporate income taxes, generated $350.4 million, a decrease of $855,385, or 0.2 percent, from the previous December.

Individual income tax collections for the month are $293.6 million, down by $2.9 million, or 1 percent, from the prior year. Corporate collections are $56.8 million, an increase of $2.1 million, or 3.8 percent.

Sales tax collections, including remittances on behalf of cities and counties, total $428.2 million in December. That is $24.7 million, or 6.1 percent, more than December 2017.

Gross production taxes on oil and natural gas generated $118.4 million in December, an increase of $62.2 million, or 110.7 percent, from last December. Compared to November reports, gross production remittances are down by $407,753, or 0.3 percent.

Motor vehicle taxes produced $61.4 million, up by $1.5 million, or 2.4

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Revenue

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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 $186.7 million during the month. That is $47.7 million, or 34.4 percent, more than last December.

2018 collections

Gross revenue totals $13 billion from 2018. That is $1.5 billion, or 13.2 percent, more than collections from 2017.

Gross income taxes generated $4.4 billion for the period, reflecting an increase of $372.5 million, or 9.2 percent, from the prior calendar year.

Individual income tax collections total $3.9 billion, up by $278 million, or 7.7 percent, from the prior year.

Corporate collections are $499.7 million for the period, an increase of $94.4 million, or 23.3 percent, over the previous period.

Sales taxes for the 12 months generated $4.8 billion, an increase of $404.2 million, or 9.1 percent, from the prior year.

Oil and gas gross production tax collections brought in $988.4 million during the year, up by $451.2 million, or 84 percent, from the previous year.

Motor vehicle collections total $784.3 million for the period. This is an increase of $19.4 million, or 2.5 percent, from the trailing year.

Other sources generated $2 billion, up by $269.2 million, or 16 percent, from the previous 12 months.

About Gross Receipts to the Treasury

The Office of the State Treasurer developed the monthly Gross Receipts to the Treasury report in order 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 apportioned to other state funds.

Learn more

Read the complete gross receipts report and view additional charts and graphs at go.usa.gov/xETyj

State unemployment drops to 3.3 percent in November

Oklahoma's seasonally adjusted unemployment rate of 3.3 percent in November is down by one-tenth of a percentage point from October. The U.S. jobless rate of 3.7 percent is unchanged from the prior month, according to figures released by the Oklahoma Employment Security Commission.

Since November 2017, the number of working Oklahomans has risen by 30,517, while the number of those listed as unemployed has dropped by 15,792.

Oklahoma Unemployment Report
November 2018

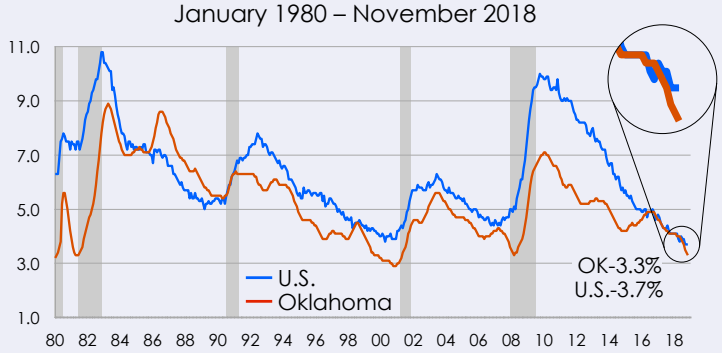
November 2018	Unemp. rate*	Labor force*	Employment*	Unemployment*
Oklahoma	**3.3%**	**1,856,913**	**1,796,553**	**60,360**
United States	3.7%	162,770,000	156,795,000	5,975,000
OKLAHOMA Oct '18	3.4%	1,861,846	1,799,177	62,669
Sept '18	3.5%	1,863,224	1,797,930	65,294
Aug '18	3.7%	1,864,493	1,796,169	68,324
July '18	3.8%	1,862,880	1,792,477	70,403
June '18	3.9%	1,859,187	1,787,007	72,180
Nov '17	4.1%	1,842,189	1,766,036	76,153

* Data adjusted for seasonal factors

Source: OESC

Economic Indicators

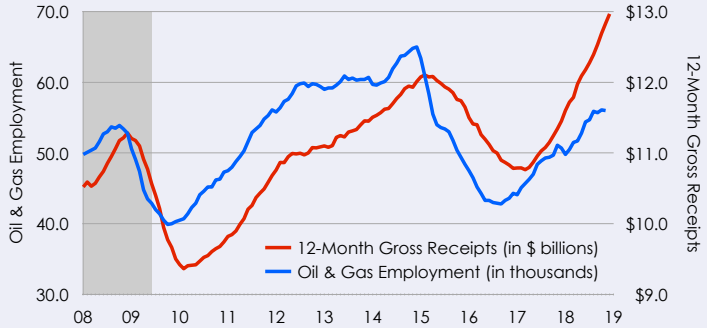
Unemployment Rate
January 1980 – November 2018



Shaded areas denote U.S. recessions

Source: Bureau of Labor Statistics

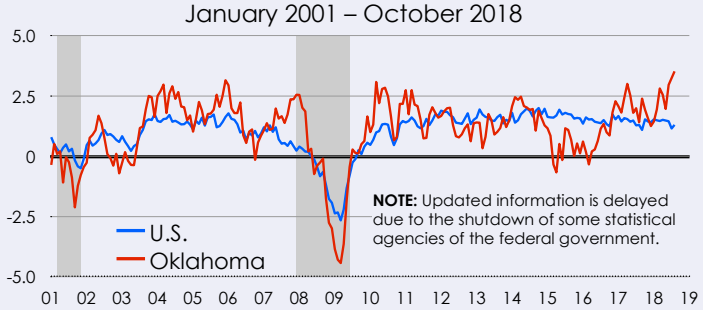
Gross Receipts vs. Oil & Gas Employment
January 2008 – December 2018



Shaded area denotes U.S. recession

Sources: Bureau of Labor Statistics & State Treasurer

Leading Economic Index
January 2001 – October 2018



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

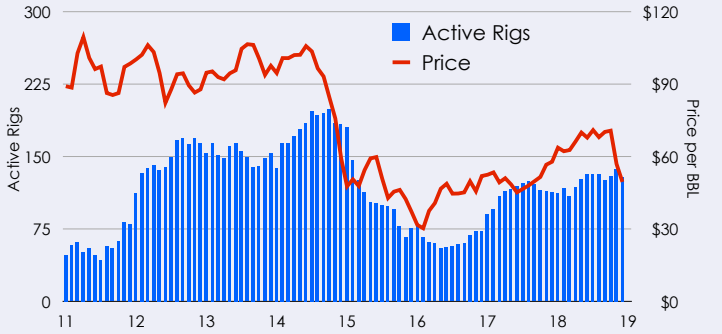
Source: Federal Reserve of Philadelphia

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

Shaded area denotes U.S. recession

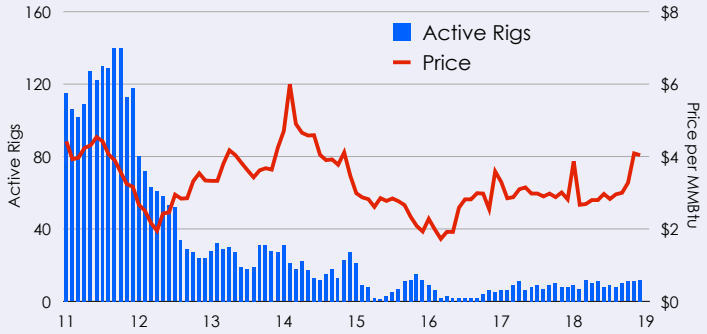
Source: Office of the State Treasurer

Oklahoma Oil Prices & Active Rigs
January 2011 – December 2018



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

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



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