Performance to squawk about

As Sirius Lee Scissortail, star of television ads for the treasurer's unclaimed property program, might say, results of the five-year-old performance pay program to boost returns of unclaimed property to its rightful owners is truly, “something to squawk about.”

="The incentive program, coupled with expanded advertising, has more than tripled annual returns compared to Miller’s first year as treasurer.”

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Unclaimed Property Incentive Program Results

<table>
<thead>
<tr>
<th>FY-11</th>
<th>FY-12</th>
<th>FY-13</th>
<th>FY-14</th>
<th>FY-15</th>
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Incentive program returns
Legacy program returns

Source: Oklahoma State Treasurer

Inside

• Treasurer’s commentary: Breaking with the status quo
• July Gross Receipts to the Treasury show continued growth in Oklahoma economy
• State jobless rate drops to 3.9 percent in June
• Economic Indicators

Editor
Tim Allen, Deputy Treasurer for Communications and Program Administration
Breaking with the status quo

Today, five years in, it makes perfect sense. That the State Treasury could employ a basic free market principle to increase output and efficiency sounds entirely logical. But old habits die hard, and in government where naysayers are in every nook and cranny, breaking with the status quo wasn’t without its perils.

Such was the case in July 2013 when we began a first-in-the-nation incentive pay program for unclaimed property staff; more money returned would mean more money earned. The objective to return more money to its rightful owners was clearly defined, as were goals and benchmarks.

The economic principle behind the program, that rational self-interest drives a functioning market economy, has stood the test of time in the private sector. But would it work in a government?

The effort was not without risks. Each of the two years prior to the incentive program’s start had set record highs for money returned. Perhaps efficiency and productivity could not be improved. Opponents might spin incentive payments as “wasteful” spending, even if the program succeeded.

Originally the program was established as a one-year pilot, but within only a few months our concerns were put to rest. The incentive pay program, coupled with enhanced marketing efforts, was on track to shatter records.

During FY-11, my first year as state treasurer, $13.7 million in unclaimed property was returned.

As an economist, I expected the incentive program to succeed, but even I am blown away by its spectacular results.”

The year prior to the incentive program launch, FY-13, the division returned $18.8 million in cash and stock. But in its first year, FY-14, the incentive program resulted in the return of $30.2 million – up by more than 60 percent from the prior year.

In subsequent years, the story has only gotten better. During FY-15, returns of cash and stock totaled $38.7 million. In FY-16, the total was slightly reduced as the division experienced staff turnover as some were unable to make the transition to a merit-based system, but still closed with Oklahomans being reunited with $31.1 million. Growth in the bottom line resumed in FY-17 with $34.6 million returned to its rightful owners.

The just-completed fiscal year, FY-18, brought even more impressive results. When the books were closed on June 30, cash and stock totaling $42.8 million had been returned to the Oklahomans who had lost track of the funds -- more than triple the amount reunited my first year.

The return on investment is similarly impressive. During the program’s five-year history, incentives paid to unclaimed property staff have averaged just over $75,000 per year and amount to less than 22-cents paid for every $100 in unclaimed property.

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Commentary
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returned. But for the division’s employees, the program provides the opportunity to earn payments of up to 25 percent of their base pay.

Another bright spot is that the operation is funded at no cost to taxpayers. The entire program, including incentive payments and marketing costs, is funded exclusively by the unclaimed assets remitted to the state but never collected.

As an economist, I expected the incentive program to succeed, but even I am blown away by its spectacular results. I am very proud of the program’s architects and the unclaimed property team of dedicated women and men who serve the people of Oklahoma.

While the discussion about unclaimed property at the Capitol often revolves around how much can be used to fund government, we at the state treasury are excited our innovative program has reunited more Oklahomans with their lost money, making a difference in their lives and our state’s economy.

Performance
FROM PAGE 1

Consider this: the incentive program, coupled with expanded advertising, has more than tripled annual returns compared to Treasurer Miller’s first year in office. And it has all been done without spending a dime of taxpayer money.

During Miller’s first year in office, FY-11, the unclaimed property division returned $13.7 million to its rightful owners.

During recently concluded FY-18, the division sent checks to unclaimed property owners totalling $42.8 million – an increase of 312 percent.

Consumer protection

Unclaimed property programs exist in every state and were among the first consumer protection programs in the nation.

The overriding concept is that businesses that lose track of people to whom they owe money should not be inappropriately enriched by simply keeping the money.

Instead, the law requires the funds, along with the names and last known addresses of the owners, be turned over to state authorities, where efforts are made to get the money sent where it belongs.

In the case of Oklahoma, and in most other states, the state treasurer administers the program. It was transferred to the treasurer’s office from the Oklahoma Tax Commission in 2000.

The first year the program was managed by the office, returned assets totaled $3.7 million.

Increased marketing outreach and posting unclaimed property lists on the Internet helped annual returns triple over the next decade and a half. However, by early 2013 the program’s growth rate had slowed to less than 10 percent per year.

The incentive

Treasurer Miller and his staff brainstormed additional ways to get more unclaimed property back in the hands of its rightful owners.

It was decided to launch a merit pay system based upon the economic tenet that people respond to incentives. Often practiced in the private sector, merit pay is an unconventional way to incentivize public-sector employees to increase efficiency and output.

The incentive program would create a win-win for state employees and the citizens of Oklahoma: employees in the unclaimed property division could qualify for quarterly and annual bonuses depending upon the amount of property returned to citizens.

SEE PERFORMANCE PAGE 4

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.
The incentive program was launched at the start of FY-14, July 2013. During FY-13, returns of cash and stock as part of the unclaimed property program had totaled $18.8 million.

The goal of the pilot program was to increase such payouts by 30 percent year-over-year. The program included minimum performance standards upon which regular pay was based.

**Increased marketing**

The program had for many years used newspaper advertising to drive claims. At the start of the incentive program, television and Internet advertising were added for the first time.

The unconventional use of a stylized scissortail flycatcher puppet brought additional focus to the program and helped increase claims.

**Outstanding results**

Originally started as a pilot program, outstanding results in both total dollars returned and ROI easily justified making the program permanent.

The amount of unclaimed property returned to Oklahomans each year doubled by incorporating market-based principles in a government setting. Initially unpopular with staff, the program is now strongly supported because of its financial rewards.

By the end of the one-year pilot, more than $30.2 million in unclaimed property had been disbursed, an increase of $11.4 million, or 61 percent, crushing both the prior year and the pilot program’s goal.

After five years, the division has reunited more than 70,000 Oklahomans with $177.4 million, with a record high of almost $43 million reached during FY-18.

**Return on investment**

The program also boasts a strong ROI – five-year incentive costs of less than $380,000 equating to less than 22-cents for every $100 in unclaimed property returned.

However, for the employees, the incentive program allows them to increase their annual pay by up to 25 percent if all goals are reached.

It has all been accomplished at no cost to taxpayers, since the entire program, including incentive payments and marketing costs, is funded entirely by the unclaimed assets remitted to the state.

The innovative incentive program involves an application to the public sector of a classic economic theory that has worked for years in the private sector. It has resulted in more Oklahomans getting back their lost property due to a small investment with large returns and has been accomplished without growing government.

**Incentives Bring Strong Return on Investment**

[Graph showing unclaimed property returns and incentive payments from FY-14 to FY-18]

Source: Oklahoma State Treasurer

Learn more

Search for unclaimed property and start a claim at OKTreasure.com
July Gross Receipts to the Treasury show continued growth in Oklahoma economy

All signs point to ongoing expansion of the Oklahoma economy as July Gross Receipts to the Treasury of $1 billion and 12-month collections of $12.3 billion, both reached unprecedented high levels, State Treasurer Ken Miller announced.

Miller said the July and 12-month numbers, which provide a general reflection of state economic activity, show growth of more than 10 percent each.

“Economic expansion is clearly driving the growth we see in Gross Receipts to the Treasury,” Miller said. “Continued improvement in state employment, notably in the oil fields, and positive numbers in other

Fiscal Year 2018 Gross Receipts to the Treasury totalled $12.2 billion, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received $5.9 billion, or 48.1%, of the total.

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

From FY-18 gross receipts, the GRF received:

- Individual income tax: 57%
- Corporate income tax: 41%
- Sales tax: 45.6%
- Gross production-Gas: 65.4%
- Gross production-Oil: 33.5%
- Motor vehicle tax: 28.1%
- Other sources: 45.3%

FY-18 GRF allocations were above the estimate by 7 percent, resulting in a Constitutional Reserve Fund deposit of $381.6 million.

FY-18 insurance premium taxes totaled $280.2 million, an increase of $30.2 million, or 12.1%, from FY-17.

Tribal gaming fees generated $138.6 million during FY-18, up by $4.7 million, or 3.5%, from FY-17.


Revenue
FROM PAGE 5

economic indicators are continued signs of ongoing growth.”

Increases are seen in each major revenue stream for both July and the past 12 months; employment is up by more than 32,000, including 5,200 news jobs in the oil patch, during the past year; and leading indicator indices show anticipated business expansion.

In July, income tax collections are up by 10 percent compared to July of last year, sales tax is up by almost 9 percent, and gross production is up by 64 percent.

For the 12-month period, income tax is up by 8.8 percent, sales tax by 11 percent, and gross production by 60 percent.

New revenue collections
Revenue from tax increases that took effect on July 1, including hikes in cigarette, fuel and gross production taxes, will not begin flowing to the tax commission until next month and, therefore, have no impact on July’s report.

Other new revenue that resulted from legislative changes made in 2017, including sales tax on vehicles and gross production incentive rate changes, has generated approximately $340 million during the past 12 months, according to the tax commission.

Total growth in gross receipts is more than $1.2 billion during the same time period, which means the new revenue accounts for slightly more than one-fourth of the increase.

Other indicators
The Oklahoma Business Conditions Index has topped growth neutral for 12 consecutive months.

The July index decreased slightly to 60.6, from 61.1 in June. Numbers above 50 indicate anticipated economic growth during the next three to six months.

July collections
July gross collections total $1 billion, up $100.6 million, or 10.8 percent, from July 2017.

Gross income tax collections, a combination of individual and corporate income taxes, generated $300.7 million, an increase of $27.4 million, or 10 percent, from the previous July.

Individual income tax collections for the month are $283.8 million, up by $25.2 million, or 9.7 percent, from the prior year.

Corporate collections are $16.9 million, an increase of $2.2 million, or 15 percent.

Sales tax collections, including remittances on behalf of cities and counties, total $420.5 million in July. That is $34.1 million, or 8.8 percent, more than July 2017.

Gross production taxes on oil and natural gas generated $68.8 million in July, an increase of $26.9 million, or 64 percent, from last July. Compared to June reports, gross production collections are up by $704,356, or 1 percent.

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Revenue

FROM PAGE 6

Motor vehicle taxes produced $73 million, up by $5 million, or 7.4 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 $164.5 million during the month.

That is $7.2 million, or 4.6 percent, more than last July.

Twelve month collections

Gross revenue totals $12.3 billion from the past 12 months. That is $1.2 billion, or 11.3 percent, more than collections from the previous 12 months.

Gross income taxes generated $4.3 billion for the period, reflecting an increase of $346.6 million, or 8.8 percent, from the prior 12 months.

Individual income tax collections total $3.8 billion, up by $277.3 million, or 7.8 percent, from the prior 12 months.

Corporate collections are $473 million for the period, an increase of $69.3 million, or 17.2 percent, over the previous period.

Sales taxes for the 12 months generated $4.7 billion, an increase of $469.4 million, or 11 percent, from the prior period.

Oil and gas gross production tax collections brought in $726.8 million during the 12 months, up by $272.7 million, or 60 percent, from the previous period.

Motor vehicle collections total $773.7 million for the period. This is an increase of $12.5 million, or 1.6 percent, from the trailing period.

Other sources generated $1.8 billion, up by $145.3 million, or 8.9 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.

State unemployment rate drops to 3.9 percent in June

Oklahoma’s seasonally adjusted unemployment rate of 3.9 percent in June is down by one-tenth of a percentage point from May, while the U.S. jobless rate of 4 percent reflects an increase of two-tenths of a percentage point from the prior month, according to figures released by the Oklahoma Employment Security Commission.

Since June 2017, the number of working Oklahomans is up by 32,282 and the state jobless rate is down by four-tenths of a percentage point.

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<th>Oklahoma Unemployment Report</th>
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<tr>
<td>June ’17</td>
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* Data adjusted for seasonal factors

Source: OESC
Economic Indicators

Unemployment Rate
January 1980 – June 2018
Shaded areas denote U.S. recessions
Source: Bureau of Labor Statistics

Gross Receipts vs. Oil & Gas Employment
January 2008 – July 2018
Shaded area denotes U.S. recession
Sources: Bureau of Labor Statistics & State Treasurer

Leading Economic Index
January 2001 – June 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 – July 2018
Shaded area denotes U.S. recession
Source: Office of the State Treasurer

Oklahoma Oil Prices & Active Rigs
January 2011 – July 2018
Sources: Baker Hughes & U.S. Energy Information Administration

Oklahoma Natural Gas Prices & Active Rigs
January 2011 – July 2018
Sources: Baker Hughes & U.S. Energy Information Administration