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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

Shining a light on state debt management

Improving transparency and enhancing access to information is simply good government. As Oklahoma's new state treasurer, Randy McDaniel has made leveraging technology to improve service delivery to the public a high priority.

Until now, if you wanted to know about the state of Oklahoma's bond debt, its management, and the factors that determine how it is issued, rated and sold, you would have had to do an internet search and wade through numerous sites. Today, a single website is being built for what you need to know.

The new site is a substantial step forward in providing a central clearinghouse for financial information located in silos across state government. InvestInOklahomaBonds.com provides easy access to information about state debt that has never before been available.

> ***"This is just the latest window being opened into the workings of state government."***

In a project spearheaded by the Debt Management division of the state treasurer's office, the site will be the primary platform for the information with the ultimate

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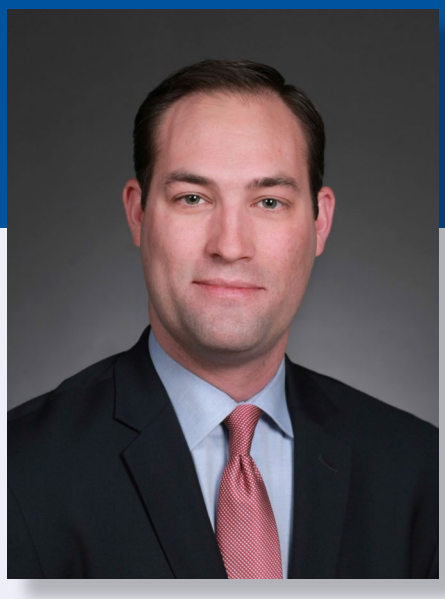
Tim Allen, Deputy Treasurer for Communications and Program Administration

Easy Access to State Finance and Debt Information

InvestInOklahomaBonds.com

Guest Commentary

By Andrew Messer, Deputy Treasurer for Policy and Debt Management



Good analysis helps make good decisions

Computer programmers often use the expression "garbage in, garbage out" to describe the relationship between data input and output. The gist of the expression is that incomplete or erroneous data entered into an analytical system will yield flawed conclusions.

The lack of quality data is not just a challenge for computer programmers. Policymakers at the state capitol have encountered the same issue over the years when evaluating debt-financed capital projects.

In times past, policymakers have been put into the position of considering and approving the issuance of debt to fund capital investments without the benefit of comprehensive data or analysis of the state's long-term obligations to assist their decision-making process.

While the state has historically maintained a low debt burden, there was not a tool to help them evaluate what impact additional borrowing would have on the state's future fiscal position.

> ***"Today, lawmakers have enhanced information on state debt, making them better equipped to make critical decisions about whether and when new debt is the right financing mechanism."***

In 2017, the Legislature took a significant step to address this issue by adopting Senate Bill 638, authored by Senator Greg Treat, requiring the State Bond Advisor to publish an annual Debt Affordability Study.

The purpose of this study is to provide the Legislature with a clear understanding of the state's outstanding long-term debt, as well as the necessary context for evaluating whether, when and how much the state should borrow in the future for capital projects.

Previously, information about state debt was primarily confined to the State Bond Advisor's Annual Report and the Comprehensive Annual Financial Report with limited prospective analysis.

The Debt Affordability Study contextualizes state debt through a comprehensive comparison across a series of benchmark metrics and a discussion of state pension liabilities, the state's largest long-term obligations.

However, the most significant contribution of the study is utilization of a debt capacity model to analyze outstanding debt and debt service, future debt issuance, revenue and economic forecasts, and interest rates to project debt levels in the future. This tool illustrates how the affordability of

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debt can be altered when future conditions differ from expectations.

The state has capped net tax-supported debt service at five percent of the five-year average of general revenue since 2014.

The addition of the debt capacity modeling will help policymakers understand how the statutory cap relates to new debt issuance for proposed projects.

The most recent study finds that Oklahoma's net tax-supported debt is amongst the lowest in the nation.

The state's debt service is well below the statutory five-percent limit and is projected to continue to decline and remain well below the cap through Fiscal Year 2023.

Additional debt capacity is projected, even when adjusting for increases in interest rates and volatility in revenue collections.

The state's net tax-supported benchmarks for debt per capita, debt as a percentage of personal income, debt as a percentage of GDP, and as a ratio of General Revenue are the lowest in the region and well below the national average.

The state's unfunded pension liabilities have improved significantly – decreasing from more than $16 billion to less than $8 billion over the last decade. While cutting the state's unfunded liabilities in half is a major step in the right direction for financial stability, they remain the largest share of long-term obligations of the state.

Today, lawmakers have enhanced information on state debt, making them better equipped to make critical decision about whether and when new debt is the right financing mechanism.

Shining a light

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goal of having links to dedicated pages for all issuers of debt in the state. The linked pages would provide specific information about projects, legal authorizations and the like.

The first issuer to join with the treasurer's office on the site is the Oklahoma Capitol Improvement Authority (OCIA). The OCIA, chaired by Governor Kevin Stitt, is the state's primary issuer of tax-supported debt.

Bond issues for the Office of Juvenile Affairs and the Conservation Commission are scheduled to be sold in April and will be the first issued since the launch of the new site.

Improved transparency

The implementation of the debt management website is an important step in improving transparency and accountability following the recent transfer of the duties and responsibilities of the State Bond Advisor from a stand-alone agency into the treasurer's office.

The State Bond Advisor provides advice and assistance to policymakers on matters relating to capital planning, debt issuance, and debt management.

At it's core, the new site is designed to be a one-stop shop for potential investors in Oklahoma bonds.

Financial documents available on the site include state Board of Equalization packets, the state's capital improvement plan, Comprehensive Annual Financial Reports, Gross Receipts to the Treasury and General Revenue monthly allocation reports.

Also provided are selected bond rating reports, annual debt affordabilty reports, State Bond Advisor annual reports, and recent editions of the Oklahoma Economic Report.

Investor resources available include various charts, graphs, news clippings, and frequently asked questions.

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Opinions and positions cited in the *Oklahoma Economic Report*™ are not necessarily those of Oklahoma State Treasurer Randy McDaniel or his staff, with the exception of the *Treasurer's Commentary*, which of course, is the viewpoint of the treasurer.

Shining a light

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The site includes an event calender providing notification of upcoming bond issuances and an email sign up.

A history of openness

The new website is just the latest window being opened into the fiscal operations of state government by the treasurer's office.

The agency was among the first to launch a web site in the mid-1990s to provide public access to information on programs administered by the treasurer. In 2013, the office launched the Oklahoma Treasury Online Checkbook in cooperation with the Office of Management and Enterprise Services so that citizens could look up state payments and deposits.

Today, the agency's main web site, treasurer.ok.gov, contains details on monthly investment performance dating back more than a dozen years, along with details on all agency operations.

The site's home page contains links to the Oklahoma 529 College Savings Plan, OK4Saving.org, where families can open and contribute to tax-advantaged college savings accounts.

The treasurer's unclaimed property program is easily accessible from the site. At OKTreasure.com, the public can search for their names on the unclaimed property list, and even start a claim online. Businesses that report abandoned property to the program also can link through the site.

In addition, the Oklahoma STABLE Program, OKSTABLE.org, links from the home page. It allows Oklahomans with disabilities tax-free savings plans for disability-related expenses without losing federal needs-based benefits.

Oklahoma Treasury Important Links

InvestInOklahomaBonds.com – Information on state bond debt management, bond ratings, and state financial information to assist investors

OK4Saving.org – Linking Oklahoma families to the Oklahoma 529 College Savings Plan to open and contribute to tax-advantaged savings plans

OKTreasure.com – A site to search for, start, and monitor the status of claims for unclaimed property

OKSTABLE.org – Links to a program allowing Oklahomans with disabilities to save for disability-related expenses without risking the loss of federal benefit programs

Spotlight on Financial Literacy

How to teach your kids financial literacy

Most American investors are familiar with the basic questions they need to ask themselves to prepare for a comfortable retirement:

"Have I mapped out the lifestyle I want to achieve after my career ends?" "Have I contributed enough to my 401(k) or other qualified plans?" "Are my expenses in line with my expectations?"

There's another question many of them should add to this list that may be less familiar, though: "Have I taught my kids about money and about their role in my retirement plans?"

In my experience, when clients' children are brought into their parents' plans early on and armed with a strong financial education, they can form a key part of their parents' long-term retirement success.

As many investors learn too late, though, far too many young people don't understand money.

Most primary and secondary schools don't have quality financial literacy programs. That means it falls to parents to teach children how to handle finances.

Learn more from Forbes.

February Gross Receipts to the Treasury & General Revenue compared

February Gross Receipts to the Treasury totalled $971.5 million, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received $385.2 million, or 39.7%, of the total.

The GRF received between 39.7% and 57.6% of monthly gross receipts during the past 12 months.

From February gross receipts, the GRF received:

- Individual income tax: 17.7%
- Corporate income tax: 15.2%
- Sales tax: 45.8%
- Gross production-Gas: 79%
- Gross production-Oil: 76.2%
- Motor vehicle tax: 26.6%
- Other sources: 45.4%

February GRF allocations were above the estimate by 19.9%, while year-to-date allocations exceeded the estimate by 6.8%.

February insurance premium taxes totaled $15.6 million, an increase of $1.8 million, or 12.9%, from the prior year.

Tribal gaming fees generated $10.2 million during the month, up by $964,612, or 10.5%, from February 2018.

Gross receipts show growth for 23rd consecutive month

In spite of lower oil and gas prices, Gross Receipts to the Treasury have reflected growth in the Oklahoma economy for 23 consecutive months, State Treasurer Randy McDaniel announced.

February receipts of $971.5 million are 10.7 percent higher than collections from the same month of last year.

> ***"Oklahoma's economic expansion continues, and so far is not showing a major impact from the volatility in energy prices."***

"Oklahoma's economic expansion continues, and so far is not showing a major impact from the volatility in energy prices," Treasurer McDaniel said. "My hope is that during these times of revenue growth, state policymakers will find ways to save for the future needs of our state."

Receipts from the production of crude oil and natural gas generated

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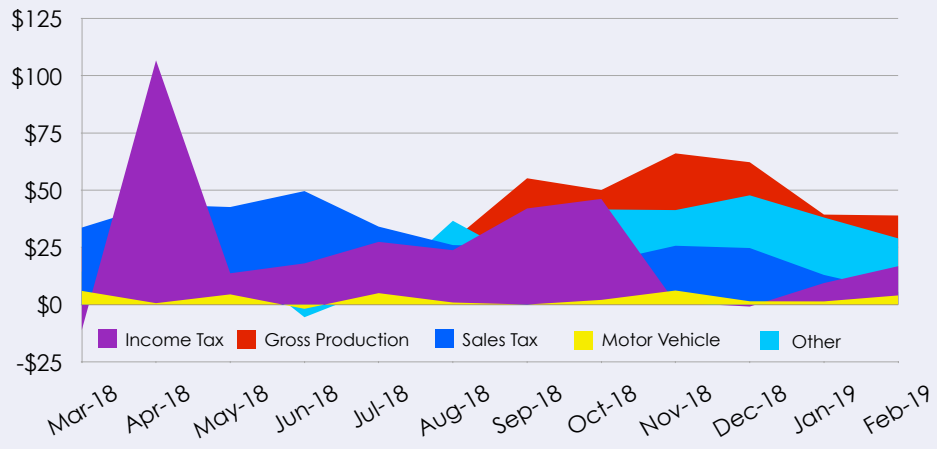
Monthly Gross Receipts vs. Prior Year



(In $ millions)	February-18	February-19	Variance From Prior Year	
Income Tax	273.7	290.5	16.8	6.1%
Gross Production	66.8	105.7	38.9	58.3%
Sales Tax (1)	363.1	368.7	5.6	1.5%
Motor Vehicle	53.2	57.2	4.0	7.5%
Other Sources (2)	120.5	149.4	28.9	24.0%
TOTAL REVENUE	877.3	971.5	94.2	10.7%

Dollar change (in millions) from prior year

Source: Office of the State Treasurer

Revenue

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$105.7 million in February, up by more than 58 percent from a year ago, before the incentive tax rate was raised. However, February oil and gas collections are also $5.6 million, or 5.6 percent, higher than January receipts, which include the increased incentive tax rate.

February gross production tax payments reflect oil field activity in December, when West Texas Intermediate crude oil at Cushing averaged $49.52 per barrel. Oil prices are down by more than $21 per barrel, or 30 percent, from the most recent peak last July.

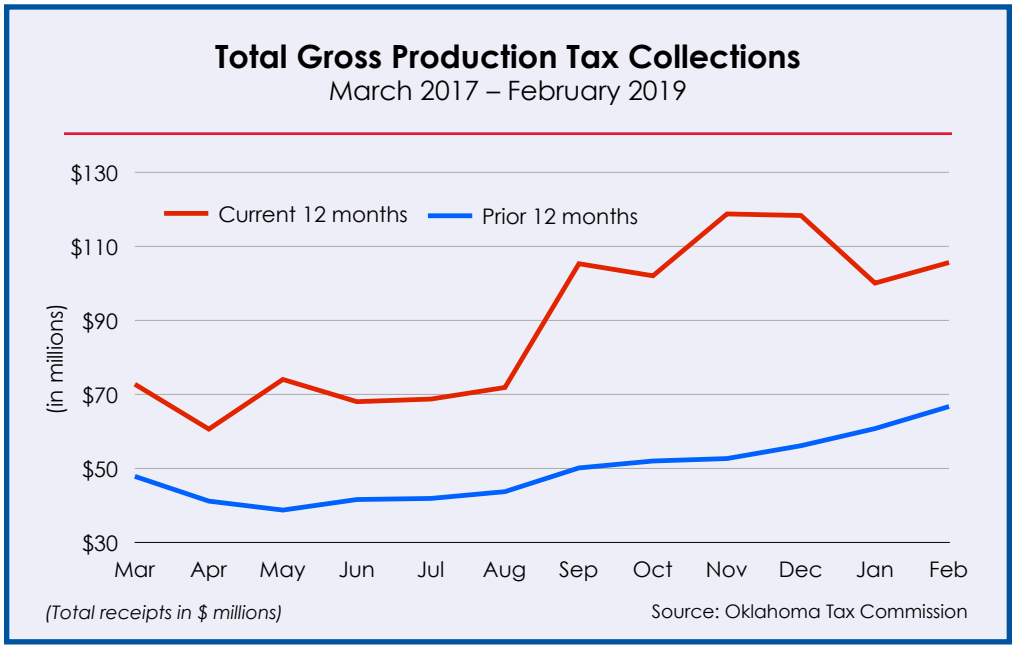
In spite of energy price fluctuations, all major revenue streams in February show higher collections than those of a year ago, continuing a growth trend that began in April 2017.

Total collections from the past 12 months are up by more than 12 percent over the prior 12 months and have reached a new record high of almost $13.2 billion. During the past 12 months, all major revenue sources show growth ranging from 4 percent in motor vehicles tax collections to almost 80 percent in gross production receipts.

New tax revenue

Revenue generated by increased tax rates approved in House Bill 1010 during special session last year added $50.7 million to monthly collections, 5.2 percent of all February gross receipts.

The largest amount, $33.1 million, came from the increase in the incentive tax rate on oil and natural gas gross production. Higher tax rates on gasoline and diesel fuel generated $7.1 million, and the $1 per pack hike in cigarette taxes added $10.5 million to February's total.



Business conditions

The Oklahoma Business Conditions Index has topped growth neutral for 19 consecutive months. The February index was set at 58.1, up from 57.1 in January. Numbers above 50 indicate anticipated economic growth during the next three to six months.

February collections

February gross collections total $971.5 million, up $94.2 million, or 10.7 percent, from February 2018.

Gross income tax collections, a combination of individual and corporate income taxes, generated $290.5 million, an increase of $16.8 million, or 6.1 percent, from the previous February.

Individual income tax collections for the month are $279.3 million, up by $10.9 million, or 4 percent, from the prior year. Corporate collections are $11.2 million, an increase of $5.9 million, or 112.7 percent.

Sales tax collections, including remittances on behalf of cities and counties, total $368.7 million in February. That is $5.6 million, or 1.5 percent, more than February 2018.

Gross production taxes on oil and natural gas generated $105.7 million in February, an increase of $38.9 million, or 58.3 percent, from last February. Compared to January reports, gross production collections are up by $5.6 million, or 5.6 percent.

Motor vehicle taxes produced $57.2 million, up by $4 million, or 7.5 percent, from last February.

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Revenue

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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 $149.4 million during the month. That is $28.9 million, or 24 percent, more than last February.

Twelve-month collections

Gross revenue totals $13.2 billion from the past 12 months. That is $1.4 billion, or 12.3 percent, more than collections from the previous 12 months.

Gross income taxes generated $4.4 billion for the period, reflecting an increase of $292.8 million, or 7.1 percent, from the prior 12 months.

Individual income tax collections total $3.9 billion, up by $202.2 million, or 5.4 percent, from the prior 12 months. Corporate collections are $510.4 million for the period, an increase of $90.6 million, or 21.6 percent, over the previous period.

Sales taxes for the 12 months generated $4.9 billion, an increase of $342.3 million, or 7.6 percent, from the prior period.

Oil and gas gross production tax collections brought in $1.1 billion during the 12 months, up by $472.9 million, or 79.6 percent, from the previous period.

Motor vehicle collections total $789.7 million for the period. This is an increase of $30.3 million, or 4 percent, from the trailing period.

Other sources generated $2 billion, up by $305.8 million, or 17.8 percent, from the previous year.

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 with additional charts and graphs at go.usa.gov/xEGsa

State unemployment rises to 3.3 percent in February

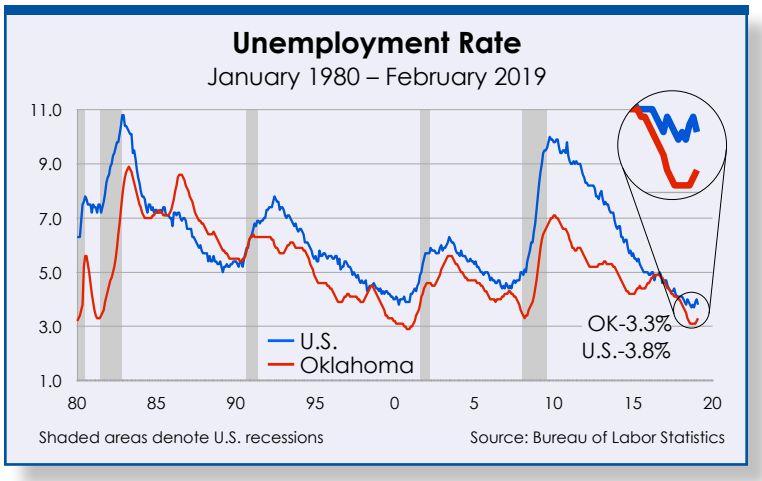
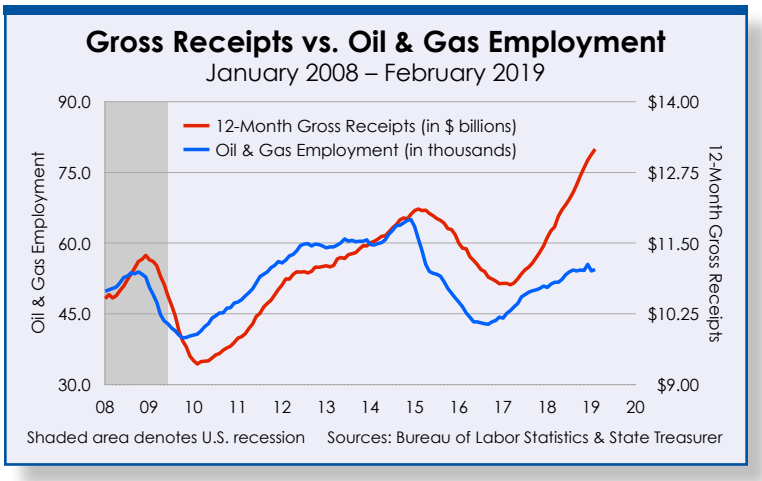
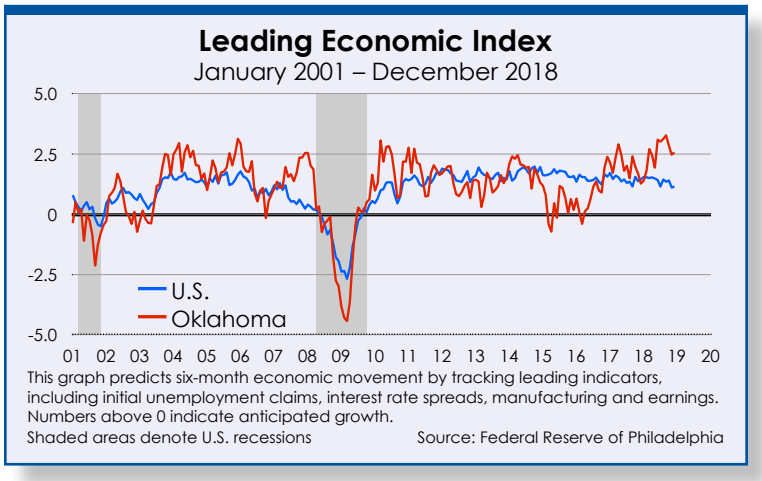
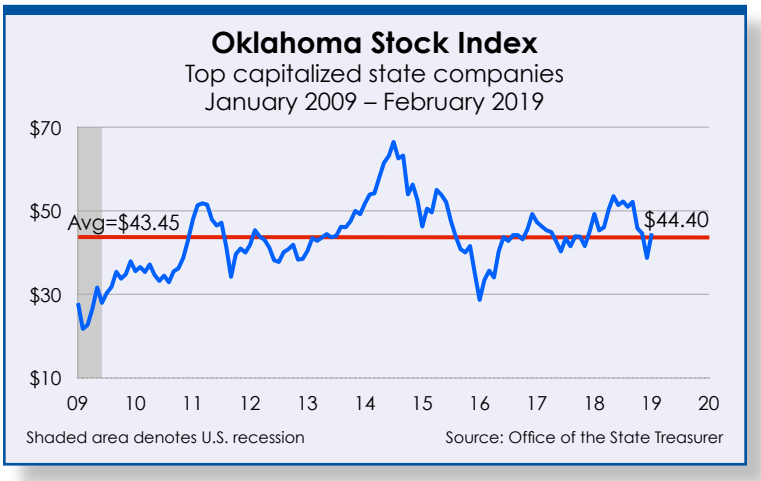
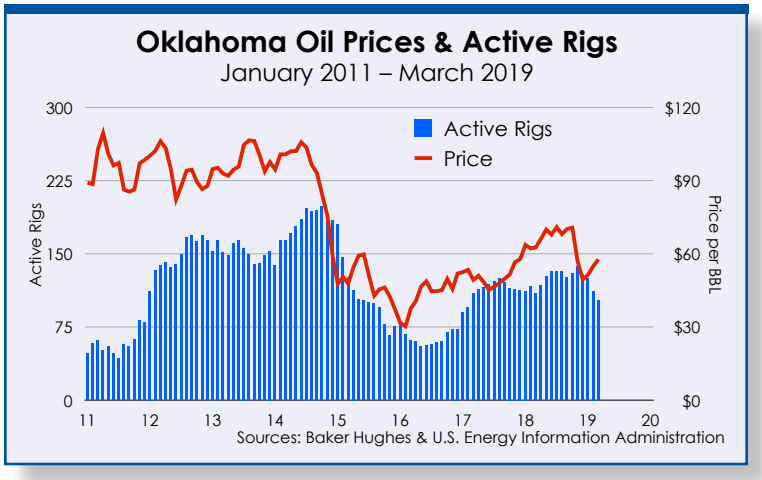
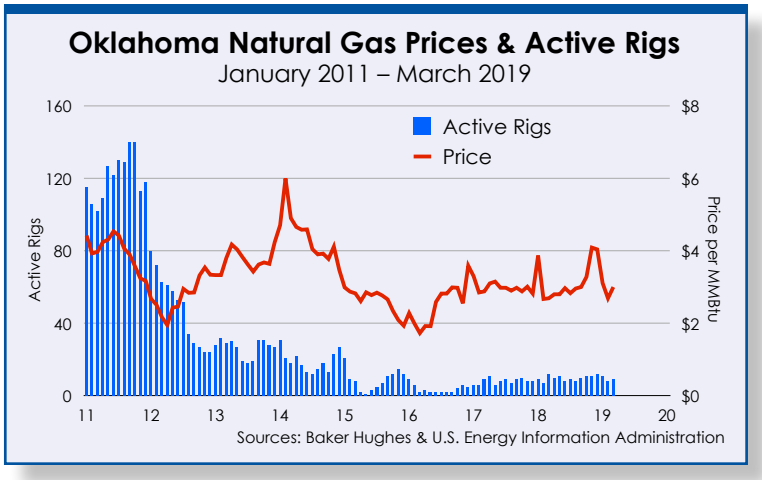
Oklahoma's seasonally adjusted unemployment rate of 3.3 percent was up by one-tenth of a percentage point in February, while the U.S. jobless rate of 3.8 percent marked a two-tenths of a percentage point decrease from the prior month, according to figures released by the Oklahoma Employment Security Commission.

Since February 2018, the number of working Oklahomans has fallen by 2,059, and the number of those listed as unemployed has decreased by 11,259.

Oklahoma Unemployment Report
February 2019

February 2019		Unemp. rate*	Labor force*	Employment*	Unemployment*
	Oklahoma	**3.3%**	**1,833,109**	**1,773,519**	**59,590**
	United States	3.8%	163,184,000	156,949,000	6,235,000
OKLAHOMA	Jan '19	3.2%	1,834,891	1,775,975	58,916
	Dec '18	3.1%	1,837,373	1,779,871	57,502
	Nov '18	3.1%	1,836,984	1,779,700	57,284
	Oct '18	3.1%	1,836,660	1,779,759	56,901
	Sept '18	3.1%	1,837,174	1,780,187	56,987
	Feb '18	3.8%	1,846,427	1,775,578	70,849

* Data adjusted for seasonal factors

Source: OESC

Economic Indicators