For a fifth consecutive year, the Oklahoma Economic Report presents its wish list for the upcoming legislative session. And for a fifth consecutive year, the Legislature is expected to have less money than the year before to fund the budget.

In two of those years, the shortfall was relatively small, but this is the third year in a row that a significant reduction in recurring revenue is anticipated. Figures presented to the state Board of Equalization in December show an almost $900 million gap between what was appropriated last year and what is expected to be available for next year’s budget. While not as large as last year’s $1.3 billion gap, this year’s hole presents a difficult situation.

Structurally balance the budget

Facing harsh reality is tough, but the fact is that Oklahoma has a revenue problem. Year after year, the Legislature has used significant amounts of one-time, or nonrecurring, revenue sources to close budget gaps. The amount of nonrecurring revenue in the current budget varies depending on who you ask, but the total is around $500 million.

The ongoing downturn in the energy industry, Oklahoma’s anchor industry, made last year’s use of nonrecurring revenue virtually unavoidable. But there are early signs that the downturn is moderating and the practice of using one-time money must now be reined in if for no other reason than the alternative.

Structurally balance the budget – Year after year of filling budget holes with nonrecurring revenue sources must stop.

Modernize the tax code – The state’s tax structure is built on an economy that no longer exists.

Reform tax incentives – Take the lead from the Incentive Evaluation Commission to rein in overly generous tax incentives.

Properly fund core services – The Core Four – education, public safety, transportation, and health care – should receive additional funding.

Don’t let TSET become a victim of its own success – The voter-approved tobacco settlement endowment trust is working well. Besides, it is not an “easy fix” for past budget mistakes.

No harm to unclaimed property – Oppose efforts to keep Oklahomans from receiving what is rightfully due to them.

Stay the course on pension reform – Continue the improvements started a few years ago.

SEE HARSH REALITIES PAGE 3
Guest Commentary
By Charles A. McCall, Oklahoma Speaker of the House

House Republicans already focused on crafting responsible state budget

The 2017 legislative session is shaping up to be another four months of challenges – but I am hopeful that there will also be opportunities to help the Legislature refocus spending priorities.

Like last session, lawmakers will again be facing a budget gap, though that amount will be significantly less than what we faced in 2016.

Our goal every year should be to craft a state budget that respects our citizens’ budgets. When state revenues are down, it is because the personal income of Oklahomans has decreased. Our revenues are a direct reflection of our citizens’ prosperity or lack thereof.

That should be our guiding principle as we look at appropriating taxpayer funds and oversight of agency spending.

Every dollar we take from a family to spend on an unnecessary agency program or a state-owned car that no one can find is a dollar that family could have used to buy milk or a birthday present for their child or that the state could have reprioritized for those good public programs that actually do benefit our most vulnerable and needy citizens. Those dollars add up quickly.

In fact, total state spending is at an all-time high. Despite an appropriated budget for Fiscal Year 2017 of approximately $6.9 billion, total state spending for FY 2017 will be more than $24 billion when factoring in interagency and federal funds.

This year, House Republicans are taking a major step forward in scrutinizing agency budgets. In early January, the House will begin holding public hearings to review the five largest appropriated state agencies’ budgets next week at the state Capitol. Those five agencies received $5.36 billion – or 77 percent – of the $6.91 billion FY – 2017 appropriated budget.

These hearings will give citizens and lawmakers – particularly the 32 new members of the House – valuable insight into how agencies develop programs and spend taxpayer dollars and will help lawmakers develop funding priorities earlier than usual.

The hearings will be a departure from previous agency budget hearings, in that all 101 members of the House are invited to attend and participate. The hearings will be held in the House Chamber, and the public is encouraged to attend and watch the proceedings from the Chamber gallery.

Finally, our state will for the first time have two women serving as the Legislature’s primary budget

SEE MCCALL PAGE 3
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.

McCall

FROM PAGE 2

negotiators during the next two years. I recently appointed state Rep. Leslie Osborn (R-Mustang) to chair the House Appropriations & Budget Committee, and state Sen. Kim David (R-Porter) was recently appointed to chair the Senate Appropriations Committee. Both chambers will be in good hands with these capable women.

Developing a budget is our biggest challenge in the Legislature every year, but I believe we have real opportunities to prioritize spending and make our state government more efficient.

Voters put their trust in Republicans to offer conservative and responsible solutions to these problems, and that work has already begun.

Harsh realities

FROM PAGE 1

sources will eventually run dry. For example, for the past four years the amount of unclaimed property paid to rightful owners coupled with funds used by the Legislature to fill budget holes has exceeded the amount remitted by businesses to the program by more than $31 million.

Some are reluctant to admit the state has a revenue problem, but the ongoing use of such large amounts of one-time money in the budget each year is de facto admittance of the problem. While it may be easy to recite rhetoric that the state has a spending problem, actions speak louder than words.

Conservative Republican Governor Mary Fallin is expected to propose a number of ways to raise additional revenue, likely including an increase in the tobacco tax and elimination of some sales tax exemptions. Her proposals should be given serious consideration.

The Legislature should also consider making changes to the individual income tax cut trigger that would reduce the state’s top income tax rate from the current 5 percent to 4.85 percent. The use of triggers is not good fiscal policy. Instead, the Legislature should reserve its ability to decrease taxes only if and when conditions warrant.

More efficiencies can certainly be found, but the easy reforms have already been enacted. What remains, such as school administration consolidation, is politically difficult and has thus far proven too tough to get done.

Modernization of the state tax code is long overdue. The current code is built on an economic system that no longer matches the state’s services-based economy.

Finally, the independent Incentive Evaluation Commission has issued recommendations to modify and eliminate some tax incentives that have proven to be inefficient and too costly. The Legislature should strongly consider following the recommendations.

Properly fund core services

The Core Four – education, public safety, transportation, and health care – should receive additional funding.

Maintaining funding for the core services provided by state government is difficult and, in fact, would appear to be worsening.

The burden is squarely on the Legislature’s shoulders to do something about teacher pay. Voter rejection of the state question to raise the state sales tax would appear to indicate the people believe the Legislature should step up with a solution. The task will be extremely difficult in a down budget year. As with the overuse of one-time funds, this should have been addressed during better economic times.

Don’t let TSET become a victim of its own success

The voter-approved $1 billion Tobacco Settlement Endowment Trust Fund

SEE HARSH REALITIES PAGE 4
State facing almost $900 million revenue reduction

The FY-18 certified preliminary estimate shows Oklahoma government with $868.8 million less than was certified for the current fiscal year. The downturn marks the fifth consecutive year no growth revenue has been anticipated.

The State Board of Equalization’s December 21 estimate will be used by Governor Fallin in proposing a state budget at the beginning of the legislative session on February 6.

Later that month, the board will meet again to certify a final estimate to be used in building the FY-18 budget.

Officials have said slightly improving economic conditions might shrink the shortfall by the time of the final estimate.

The preliminary certification shows total funds available for appropriation shrinking by 12.6 percent.

While last year’s downturn of $1.3 billion was blamed primarily on the impact of a prolonged downturn in the energy industry, which fuels a large segment portion of the state’s economy, this year’s shortfall appears to be primarily caused by the use of nonrecurring revenue in the current year budget.

Money in the Special Cash Fund, where nonrecurring revenues are often funneled, is estimated to be down by $614.1 million, or 99.8 percent.

<table>
<thead>
<tr>
<th>Revenue Problem</th>
<th>Authorized Expenditure Changes from Prior Year FY-09 – FY-18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY-09 FY-10 FY-11 FY-12 FY-13 FY-14 FY-15 FY-16 FY-17 FY-18(P)</td>
</tr>
<tr>
<td>$375</td>
<td></td>
</tr>
<tr>
<td>$0</td>
<td></td>
</tr>
<tr>
<td>$-375</td>
<td></td>
</tr>
<tr>
<td>$-750</td>
<td></td>
</tr>
<tr>
<td>$-1,125</td>
<td></td>
</tr>
<tr>
<td>$-1,500</td>
<td></td>
</tr>
</tbody>
</table>

Source: Office of Management and Enterprise Services
Oil and gas gross revenue continues climb as sales and income taxes decline

*(Original release date: December 7, 2016.)*

For a second month, November tax collections from the production of oil and natural gas exceeded collections from the same month of the prior year, State Treasurer Ken Miller announced as he released the monthly Gross Receipts to the Treasury Report.

Prior to October, gross production tax collections had been lower than the prior year each month since December 2014.

In November, gross production taxes generated $34.1 million, up by $3.9 million, or 12.9 percent, from November 2015.

While the improvement is welcome news, collections from the state’s two largest revenue sources – income tax and sale tax – fell below prior year collections. Total gross receipts for November are 4.3 percent below last year’s collections and extend the state’s revenue contraction to 21 months.

“It would appear our anchor industry is making slow but steady improvement.”

From November gross receipts, the GRF received:

- Individual income tax: 48%
- Corporate income tax: None
- Sales tax: 44%
- Gross production-Gas: 69.3%
- Gross production-Oil: 8.8%
- Motor vehicle tax: 26.7%
- Other sources: 42.7%

November GRF allocations are above the estimate by $23.3 million, or 7.3%. Year-to-date GRF revenue trails the estimate by $7.2 million, or 0.4%.

November insurance premium taxes totaled $3.64 million, a decrease of $174,490, or 4.6%, from the prior year.

Tribal gaming fees generated $11 million during the month, up by $553,050, or 5.3%, from last November.
energy price downturn on income and consumer spending is ongoing,” Miller said. “My hope is that we will begin to see overall improvement with renewed oil field activity following OPEC’s plans to cut production levels and bring supply more in line with demand.”

November gross production collections are based on production activity from September when benchmark West Texas Intermediate crude oil sold for $45.18 per barrel.

Motor vehicle collections in November also exceeded those of the prior year, up by $1.1 million, or 2.1 percent. Gross income tax collections, a combination of individual income and corporate income tax collections, fell $27.5 million, or 10.3 percent, from last November. Sales taxes were $19 million, or 5.3 percent, below collections from the prior year.

November gross receipts totaled $794.8 million and are the lowest November total since 2010. Collections during the past 12 months, at $10.8 billion, are the lowest since January 2012.

About Gross Receipts to the Treasury

The Treasurer’s Office issues the monthly Gross Receipts to the Treasury report to provide a timely and broad view of the state’s macro economy.

It is produced in conjunction with the General Revenue Fund (GRF) report from the Office of Management and Enterprise Services, which provides information to state agencies for budgetary purposes.

November jobless rate decreases, but still tops U.S. rate

Oklahoma’s seasonally-adjusted unemployment rate fell by one-tenth of one percentage point in November, but still remains above the U.S. jobless rate, figures released by the Oklahoma Employment Security Commission show.

November marks the fifth consecutive month the Oklahoma jobless rate has been higher than the national rate, which was set at 4.6 percent. The state unemployment rate is 1.1 percentage points higher than one year ago.
Economic Indicators

Unemployment Rate
January 1980 – November 2016

[Graph showing unemployment rates for the U.S. and Oklahoma from 1980 to 2016. Shaded areas denote U.S. recessions.]

Gross Receipts vs. Oil & Gas Employment
January 2008 – November 2016

[Graph comparing 12-month gross receipts to oil & gas employment. Shaded area denotes U.S. recession.]

Leading Economic Index
January 2001 – November 2016

[Graph predicting six-month economic movement by tracking leading indicators. Shaded areas denote U.S. recessions.]

Oklahoma Stock Index
Top capitalized companies
January 2009 – December 2016

[Graph showing stock index for Oklahoma with an average of $42.74 and a peak of $47.54. Shaded area denotes U.S. recession.]

Oklahoma Natural Gas Prices & Active Rigs
January 2011 – December 2016

[Graph showing natural gas prices and active rigs in Oklahoma from 2011 to 2016.]

Oklahoma Oil Prices & Active Rigs
January 2011 – December 2016

[Graph showing oil prices and active rigs in Oklahoma from 2011 to 2016.]

Source: Bureau of Labor Statistics

Source: Office of the State Treasurer

Source: Federal Reserve

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