As goes the oil patch . . .

Oklahoma and the energy industry are inextricably linked. When oil and gas prices rise, so do employment levels and state revenue. When prices drop, as they did most recently starting in 2014, the whole state feels the pain with rising joblessness and plummeting tax collections.

What some may not realize is the extent to which the industry, the state economy, and state government are bound together.

A September 2016 report, commissioned by the State Chamber of Oklahoma’s Research Foundation and conducted by RegionTrack, Inc. of Oklahoma City, found the industry accounts for 17 percent of state gross domestic product, 13 percent of state household earnings, and 6.5 percent of total employment, while paying 22 percent of total state taxes.

**Direct state revenue effect**

The industry directly pays gross production, corporate income, sales and motor vehicle taxes to the state. However, specific measurement of the industry’s direct contributions to state coffers can most easily be seen in gross production collections since payments come exclusively from oil and gas companies. State law prohibits publicly releasing what individual companies pay, so segregating energy company payments

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On December 3, 1934, Oklahoma Governor-elect E.W. Marland met with the governors of Texas and Kansas. On the agenda: A bold new plan being pushed by Oklahoma to bring states together in a cooperative arrangement to foster the sound development of oil and natural gas resources. From these talks came the Interstate Oil and Gas Compact Commission.

Back then, the issue was what was called “waste.” In part, this was the result of a gold-rush mentality and uncontrolled development, which was itself brought about by advances in drilling technology. “Waste” included large amounts of oil spilled on the ground, rather than making it to market.

Nowadays we would categorize such a problem as both environmental and financial. Oklahoma was among the first of the large producing states to adopt “anti-waste” law, laying the groundwork for modern environmental regulation that seeks to ensure that Oklahoma’s oil and gas resources are developed in a safe, economically beneficial manner.

The idea of bringing states together to work on the problem to their mutual benefit was very much “outside the box” thinking, and represented a fresh, creative approach to a new problem.

Fast-forward more than 80 years and one finds that “the more things change, the more they stay the same.” The sweep of technological change in the oil and gas industry, particularly over the past decade, cannot be overstated.

Horizontal drilling using the technologies undreamed of only a relatively short time ago has unlocked oil and natural gas resources to an extent that America has gone from an oil and gas “has-been” to being a real threat to OPEC’S and Russia’s market dominance – so much so that a price war was launched that in part targeted U.S. producers.

But with all that change has come new problems. Just as our counterparts of 1934, we face a changed world and the need for fresh new approaches to solving the challenges presented by that change.

Horizontal drilling has not only unlocked huge amounts of oil and natural gas; it also unlocked vast amounts of water from the formations that must be disposed of without raising the risk for induced earthquakes while still protecting our precious fresh water.

The rules and laws that served to protect the rights of mineral owners and producers were written when prominent development was through vertical wells. Applying a vertical regulatory scheme to one now dominated by horizontal wells is the proverbial square peg in a round hole.

The difficulties and complexities created by this “horizontal world” are unique.

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Energy
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A cursory analysis of gross production collections has yet to show the effect of changes approved in tax rates in 2015.

All new production is now taxed at a rate of 2 percent for the first 36 months and then at a 7 percent rate. Previously, certain types of well, such as those horizontally drilled, were initially taxed at a 1 percent rate.

Demonstrating the linkage

The claim that oil and gas activity and prices have a profound effect on the state economy is perhaps best demonstrated by the graph at the bottom of this page.

It compares Gross Receipts to the Treasury to employment levels in the Mining and Logging supersector, which in Oklahoma equates to oil and gas jobs.

As the number of those employed in the oil fields rises and falls, so, too, do gross state tax receipts within a two to four month lag. For example, during the Great Recession employment levels turned downward in November 2008 and state gross receipts followed suit in January 2009, two months later. The recovery in gross receipts began four months after employment levels began to rebound.

The latest downturn in revenue began three months after oil and gas employment levels began to fall.

Total economic effect

The indirect impact of an industry as large as oil and gas reaches deep into nearly every sector of the state’s economy.

The State Chamber report states that in addition to $37.1 billion in average annual output of goods and services, the energy industry supports an estimated $28.6 billion in spillover. The industry, according to the report, is responsible for $65.7 million in total state output.

When spillover is included, the report says 27 percent, or $32.6 billion, of total state household income is supported by the energy sector.

In the labor market, almost 1 in 5 wage and salary workers and the self-employed are employed either directly or indirectly by the energy industry in Oklahoma, according to the report.

Even though employment levels have decreased during the recent state recession, the economic study shows that on a five-year average the industry has employed 133,800 self-employed proprietors and wage and salary workers. That has generated total annual income of $15.35 billion, according to the study.

The report estimates average annual purchases of $11.3 billion from state-based suppliers by the industry. Plus, an estimated $1.7 billion in oil and gas royalties were paid to Oklahomans in 2015.

As measured by the energy sector’s share of state household income, the Chamber report says Oklahoma remains as sensitive to the energy sector as in 1982.

Learn more

Read the State Chamber’s Research Foundation report: Economic Impact of the Oil & Gas Industry on Oklahoma.

Read the State Treasurer’s Gross Receipts to the Treasury reports.
Incentive Evaluation Commission issues recommendations

The Incentive Evaluation Commission (IEC), established by the Legislature in 2015 to make recommendations on changes to Oklahoma’s tax incentives, has issued its first annual report.

The first incentive on the chopping block is the zero-emission tax credit for the wind power industry. Current law allows companies that come online before the beginning of 2021 to claim the credit, which IEC consultants say could cost the state $100 million each year through 2030.

The IEC agreed with the consultant’s recommendation that the Legislature reconfigure the credit to either establish a program cap or accelerate closing the window for eligibility. The project team also recommended that facilities claiming a credit be required to provide monthly data relating to use of the credit.

Year-to-date General Revenue trails estimate by 1.8 percent

After one-third of FY-17, allocations to the General Revenue Fund (GRF) trail the estimate by $30.5 million, or 1.8 percent, according to the Office of Management and Enterprise Services (OMES).

At the end of October, two of the GRF’s four major revenue streams exceed the estimate.

Net income tax and gross production tax top the estimate by a combined $19.8 million. Sales tax and motor vehicle tax allocations are less than the estimate by a combined total of $46.6 million.

In the first four months of the current fiscal year, GRF collections have been less than the estimate three times.

In the 52 months since July 2012, the beginning of FY-13, GRF allocations have been less than the estimate 35 times, or in just more than two-thirds of the months.

In each of the past four fiscal years, total GRF collections have been below the official estimate. Except for FY-16 when revenue failure was declared and across-the-board cuts were ordered for appropriated state agencies, total fiscal year allocations have been within the 5 percent cushion established in the state constitution.

<table>
<thead>
<tr>
<th>Monthly General Revenue Fund Allocations vs. Estimate</th>
<th>Percentage Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY-13</td>
<td>-0.5%</td>
</tr>
<tr>
<td>FY-14</td>
<td>-4.8%</td>
</tr>
<tr>
<td>FY-15</td>
<td>-2.2%</td>
</tr>
<tr>
<td>FY-16</td>
<td>-9.4%</td>
</tr>
<tr>
<td>FY-17 YTD</td>
<td>-1.8%</td>
</tr>
</tbody>
</table>

Source: Office of Management and Enterprise Services
Oil and gas tax collections rise in October Gross Receipts to the Treasury

(Original release date: November 8, 2016.)

For the first time in almost two years, October tax collections from the production of oil and natural gas topped collections from the same month of the prior year, State Treasurer Ken Miller announced today as he released the monthly Gross Receipts to the Treasury report.

While still significantly lower than collections prior to the ongoing oil price slump, October gross production collections of $35.1 million were above October 2015 collections by $2.9 million, or 8.9 percent. The last time monthly gross production collections topped those of the prior year was in December 2014, when receipts totaled $72.1 million.

“It’s not yet time to sing ‘Happy Days Are Here Again,’ but this month’s gross production number is welcome news,” Miller said. “Since April, we’ve seen monthly gross production collections generally rise along with crude oil prices. Passing the prior year threshold this month is encouraging.”

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Revenue
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October gross production collections are based on production activity from August when benchmark West Texas Intermediate crude oil sold for $44.72 per barrel.

An apparent trough was reached last April when gross production collections, based on February prices of $30.32 per barrel, dropped to a 17-year low of $20.8 million.

Oil and gas tax collections notwithstanding, all other major revenue streams – income, sales, and motor vehicle taxes – were lower in October and total monthly Gross Receipts to the Treasury continued a 20-month contraction. October collections, at $886.2 million, were down by 3.5 percent from October of last year. The last time October collections were lower was in 2011. Collections during the past 12 months, at $10.9 billion, are the lowest since March 2012.

About Gross Receipts to the Treasury

Since March 2011, the Treasurer’s Office 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 (GRF) report from the Office of Management and Enterprise Services, which provides information to state agencies for budgetary purposes. The GRF receives about half of the state’s gross receipts with the remainder paid in rebates and refunds, remitted to cities and counties, and placed into earmarks to other funds.

State unemployment notches down slightly in October

Oklahoma’s seasonally-adjusted unemployment rate fell by one-tenth of one percentage point in October, ending eight months of increases, figures released by the Oklahoma Employment Security Commission show.

In addition, September’s state jobless rate was revised to 5.3 percent from a preliminary 5.2 percent. October marks the fourth consecutive month the Oklahoma unemployment rate has been higher than the national rate, which was set at 4.9 percent.

The following tables show the detailed breakdown of October 2016 unemployment data:

### Oklahoma Unemployment Report
#### October 2016

<table>
<thead>
<tr>
<th>OKLAHOMA</th>
<th>Unemp. rate*</th>
<th>Labor force*</th>
<th>Employment*</th>
<th>Unemployment*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct ‘16</td>
<td>5.2%</td>
<td>1,815,604</td>
<td>1,720,628</td>
<td>94,976</td>
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<tr>
<td>Sept ’16</td>
<td>5.3%</td>
<td>1,815,694</td>
<td>1,720,369</td>
<td>95,325</td>
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<tr>
<td>Aug ’16</td>
<td>5.1%</td>
<td>1,821,459</td>
<td>1,729,204</td>
<td>92,255</td>
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<tr>
<td>July ’16</td>
<td>5.0%</td>
<td>1,834,543</td>
<td>1,743,047</td>
<td>91,496</td>
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<td>June ’16</td>
<td>4.8%</td>
<td>1,850,770</td>
<td>1,761,046</td>
<td>89,724</td>
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<tr>
<td>May ’16</td>
<td>4.7%</td>
<td>1,864,194</td>
<td>1,776,399</td>
<td>87,795</td>
</tr>
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<td>Oct ’15</td>
<td>4.2%</td>
<td>1,845,974</td>
<td>1,768,887</td>
<td>77,087</td>
</tr>
</tbody>
</table>

* Data adjusted for seasonal factors

Source: OESC
Economic Indicators

Unemployment Rate
January 1980 – October 2016

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

Unemployment Rate
January 1980 – October 2016

Leading Economic Index
January 2001 – October 2016

Oklahoma Stock Index
Top capitalized companies
January 2009 – November 2016

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

Oklahoma Oil Prices & Active Rigs
January 2011 – November 2016