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Oklahoma
Economic Report™

News and analysis of Oklahoma's economy

A publication of the Office of the State Treasurer • Treasurer Ken Miller, Ph.D.

Org. theory 101: form follows function

Each of the 50 states has a state treasury, but no two operations are identical. Each state has established its own way of handling the billions of state taxpayer dollars it collects and spends each year.

It's essential that each treasury operation have systems in place to keep the money safe, and such is the case. But some states have gone a step further, modernizing their organizational structures to ensure the highest levels of accountability and efficiency for state taxpayer dollars.

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Editor

Tim Allen, Deputy Treasurer for Communications and Program Administration

The volume of money that flows in and out of state treasuries is quite large. The 50 state treasuries handle some $2.4 trillion in expenditures through billions of transactions each year. Even in Oklahoma, where the state economy accounts for only about one percent of the nation's gross domestic product, approximately $22 billion passes through state treasury accounts each year through hundreds of millions of individual transactions.

> ***"What was often missing was the big picture perspective with too little attention paid to efficiency and accountability."***

In addition, treasurer's offices forecast cash needed to cover expected expenditures; manage daily cash flow to ensure liquid funds are available to cover each day's bills; invest states' collections to generate additional income until the money is needed to pay the bills; and, manage several thousand bank accounts where state funds are deposited.

Oklahoma's financial structure, like many other states, has evolved over the decades to accommodate specific needs or meet various political goals. What was often missing was the big picture perspective with too little attention paid to efficiency and accountability.

Looking to other states

When examining ways in which our state's financial systems and structures might be optimized, a look at operations in other states could provide examples of optimal design and best practices.

Two states that provide examples of centralized, efficient, and accountable treasury operations are Texas and Florida. Over the past 25 years, both states have modernized their financial operations to create better functioning systems.

The Florida system is headed by an elected chief financial officer (CFO), and the Texas system is headed by an elected state comptroller of public accounts. Both have broad responsibility over the financial management of their states, from revenue collection, to forecasting, to debt management, to accounts payable.

In 1995, Texas voters approved a constitutional amendment that combined the duties of two elected officials, the state treasurer and the comptroller.

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Treasurer's Commentary

By Ken Miller, Ph.D.

Organization matters, part 2

Last week, I had the pleasure of hosting the chief financial officer from the great state of Florida. I meet CFO Jeff Atwater through the National Association of State Treasurers (NAST). During our time together we were able to learn more about each other's duties, operations and plans.

His visit is just one example of the many NAST provided opportunities to strengthen relationships with counterparts from across the nation, share experiences, and learn best practices so that those of us tasked with public finance responsibilities can better serve our citizens.

During my time as treasurer, I have learned through the association a lot about how other states structure their financial operations. An easily recognizable conclusion is that once you have seen one treasurer's office, you've seen one treasurer's office, because the duties vary widely. But there are many commonalities in core functions.

Like Oklahoma, virtually all treasuries handle their state's banking and cash management operations, unclaimed property programs and 529 college savings plans.

Unlike Oklahoma, most play a primary role in debt management and pension fund investment. Others have the added tasked of finance-related responsibilities like revenue collection, accounts payable, risk management and financial reporting.

There are outliers whose offices handle seemingly unrelated duties like regulating insurance and funeral services, managing workers' compensation and health plans, and even serving as state fire marshal.

> ***"I will stand with our membership to argue that the treasurer's office is the most appropriate reservoir of financial functions."***

Like most secondary offices, citizens often can't name their treasurer but they do know that the office of state treasurer holds the fiduciary duty of safeguarding their hard-earned tax dollars. This trust between citizens and their treasurer is essential for accountability and transparency purposes.

While representing the members of NAST as their president in 2017, I will have the opportunity to advocate for other state treasurers and their offices starting with the premise that treasurers, or their equivalent, should be the clearly identifiable leaders of state financial affairs.

Where public treasuries have been weakened because of bad actors or politics, I will join with the NAST membership to lend support to help rebuild. One state legislature stripped its treasurer of duties because of an incompetent incumbent. Rather than watch the dismantling of the office, perhaps a more proactive approach could have lead to a recall of the official, leaving the responsibilities to be distributed by function, instead of individuals, personalities or politics.

Where a state's treasury is excluded from core financial matters, like pension investment, debt

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Commentary

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management or unclaimed property, I will ensure the organization is ready to assist those seeking help with model language and advocacy.

When a state is looking to gain efficiencies and eliminate redundancies by streamlining its public finance operations, I will stand with members to argue that the treasurer's office is the most appropriate reservoir of financial functions.

Learning best practices from across the county has me convinced that Oklahoma, too, must question whether its financial functions are well thought out or just, well, adequate. As it did in Florida and, yes, even Texas, an honest, well-intentioned analysis will likely uncover areas for improvement.

Surely, there are many efficiencies and synergies to be gained in Oklahoma and across the country by shaking up the status quo in state finance.

I look forward to advocating for public treasuries and assisting all stakeholders committed to improving state financial affairs, whether here or in one of our other fine states.

Function

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The Texas comptroller is elected to a four-year term and serves as the chief steward of the state's finances, acting as tax collector, chief accountant, chief revenue estimator and chief treasurer for all of state government.

In 1998, Florida voters passed a constitutional amendment combining the elected cabinet officers of state treasurer and state comptroller into the position of chief financial officer. The Florida CFO serves a four-year term as one of four cabinet members.

Efforts are underway in Illinois to combine the functions of the state treasurer and comptroller into a new elected position of comptroller of the state treasury. Illinois is known as having a fiercely partisan state government.

Earlier this year, partisan conflict caused a budget impasse that involving stop-gap spending and court-ordered funding. But in this case, the Republican-proposed reform effort has received support from the Democratic state treasurer.

Can lessons be learned?

Oklahoma has a track record of adopting common sense reforms to increase accountability and efficiency. In recent history, two examples are the consolidation of information systems and services, and the transfer of the unclaimed property program from the tax commission to the treasurer's office.

> ***"Ideally, the state's financial organization should be structured by function."***

By examining what other states have done to align functions and improve financial operations, Oklahoma could determine whether changes in its organizational structure are warranted.

Currently, Oklahoma's financial structure is decentralized into 10 separate agencies. One agency handles revenue, another performs comptroller and budget functions, and one manages banking operations. A separate agency administers the issuance of state debt, and six agencies are responsible for managing the state's seven pension systems.

Best intentions notwithstanding, this fragmented structure can sometimes create inefficiencies. For example, the treasurer must sign each warrant written, but has no control over when those payments are made. This has sometimes led to cash flow problems.

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Function

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Ideally, organizations should be structured by function. Unlike in most states, in Oklahoma the officer elected to manage state investments is excluded from participating in the state's largest investments – pensions. This undermines direct accountability to the people.

The status quo is always strong inside any state capitol building, but when it is overcome, state leaders work together, putting aside political agendas, personalities, and turf battles to examine whether changes can be made to maximize taxpayer dollars.

The potential improvements most certainly warrant a closer examination.

Learn more

Information about the National Association of State Treasurers and each state's state treasurer's office can be found at:

www.NAST.org

General Revenue Fund tops estimate during FY-17 first quarter

First quarter allocations to the Oklahoma General Revenue Fund (GRF) are 1.4 percent, or $16.8 million, more than the estimate. Collections for the quarter, however, are below the prior year by 9.5 percent, or $130.3 million.

Net income tax allocations, a combination of individual income and corporate tax collections, total $519.6 million and finished the quarter ahead of the estimate by $32.4 million, or 6.7 percent.

Individual income tax generated $479.4 million for the GRF, topping the estimate by $72 million, or 17.7 percent. Corporate collections total $40.2 million and are below the estimate by $39.6 million, or 49.6 percent.

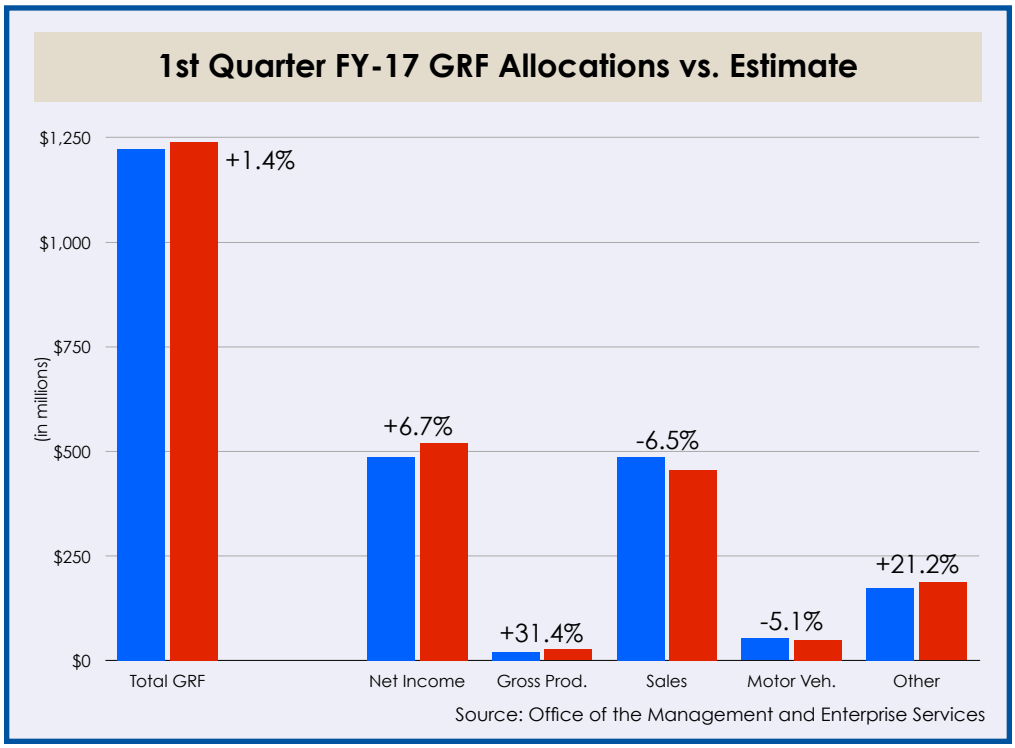
Sales tax allocations produced $455.4 million, below the estimate by $31.7 million, or 6.5 percent. Sales tax receipts have been below the estimate for 19 of the past 20 months.

Allocations from the gross production tax on oil and natural gas generated $26.9 million during the quarter. This is $6.4 million, or 31.4 percent, higher than the estimate.

Motor vehicle tax allocations total $50.3 million for the quarter, which is $2.7 million, or 5.1 percent, less than the estimate.

Other sources accounted for $186.7 million to the GRF. That is $12.4 million, or 7.1 percent, more than the estimate.

The GRF, as reported by the Office of Management and Enterprise Services, is the state's main operating account and the primary source of funding for annual appropriations for state government. It is composed of just less than 50 percent of Gross Receipts to the Treasury.



September Gross Receipts & General Revenue compared

September Gross Receipts to the Treasury totalled $939.6 million, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received $452.6 million, or 48.2%, of the total.

The GRF received between 29.7% and 52.8% of monthly gross receipts during the past 12 months.

From September gross receipts, the GRF received:

- Individual income tax: 65.2%
- Corporate income tax: 48.8%
- Sales tax: 42.5%
- Gross production-Gas: 64.9%
- Gross production-Oil: 8.1%
- Motor vehicle tax: 26.2%
- Other sources: 41.3%

September GRF allocations are below the estimate by $64.2 million, or 12.4%. Year-to-date GRF revenue tops the estimate by $16.8 million or 1.4%.

September insurance premium taxes totaled $47.5 million, a decrease of $6.8 million, or 12.5%, from the prior year.

Tribal gaming fees generated $11.1 million during the month, down by $142,696, or 1.3%, from last September.

State Gross Receipts to the Treasury fall in September

(Original release date: October 6, 2016.)

Gross Receipts to the Treasury in September fell by almost 10 percent compared to the same month of the prior year, continuing a 19-month contraction in the broad measure of state economic activity, State Treasurer Ken Miller announced.

September collections were $939.6 million. The last time September collections were lower was in 2010, when Oklahoma was only a few months past the revenue trough brought on by the Great Recession.

> ***"We are monitoring discussions within OPEC on reducing oil production volumes (that) could turn the current negative cycle."***

Collections during the past 12 months, at $10.9 billion, are the lowest since March 2012.

"As has been the story for almost two years, Oklahoma is feeling the effects of a supply-driven downturn in energy prices that has spilled over into the rest of the economy," Miller said.

"We are monitoring discussions within OPEC on reducing oil production volumes. Should an

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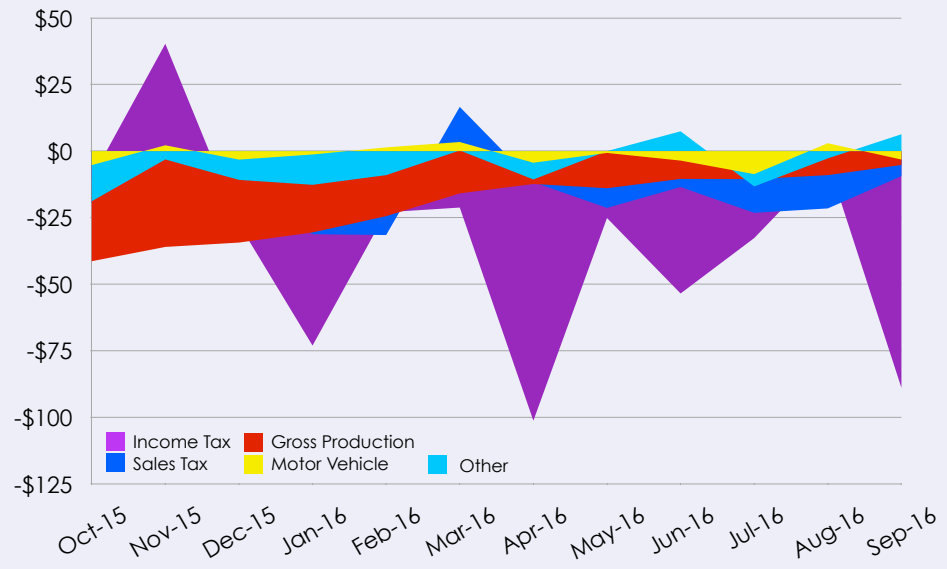
Monthly Gross Receipts vs. Prior Year



Dollar change (in millions) from prior year Source: Office of the State Treasurer

Revenue

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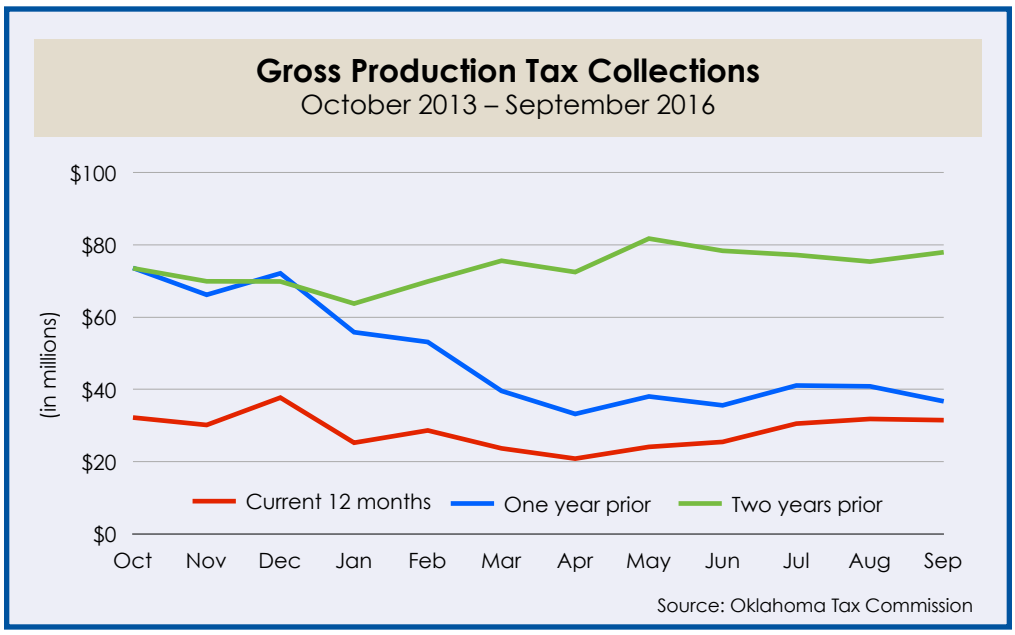
agreement to dial back production come to fruition, it could spur oil prices and turn the current negative cycle."

Gross production taxes on crude oil and natural gas activity generated $31.5 million during the month, down by 14 percent from last September, and continued a string of 21 consecutive months of year-over-year contraction.

After ticking up slightly in August, individual income tax collections dropped by more than 12 percent in September.

Tax officials attribute much of the reduction to last year's tax amnesty program that generated more than $30 million in addition revenue last September. However, monthly individual income tax collections were down by more than $40 million.

Sales tax collections were down by 2.6 percent compared to September of last year. It marks the 16th time in the past 19 months that sales tax collections have been below that of the prior year.



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 allocation report from the Office of Management and Enterprise Services, which provides important budgetary information to state agencies.

September state unemployment rate climbs to 5.2 percent

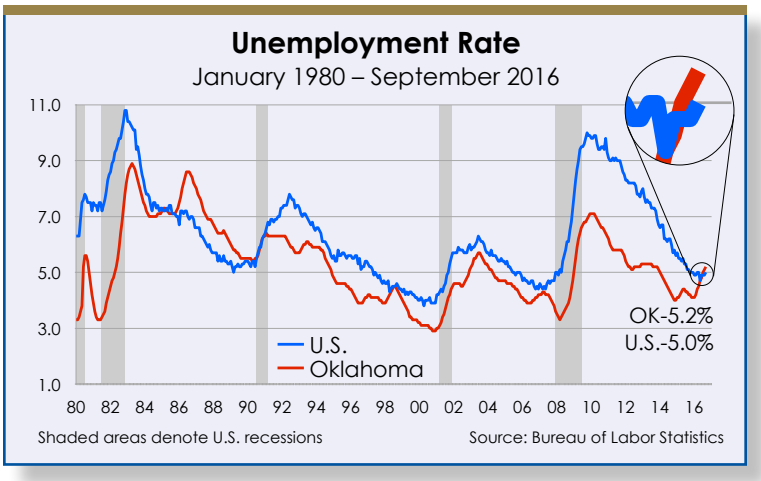
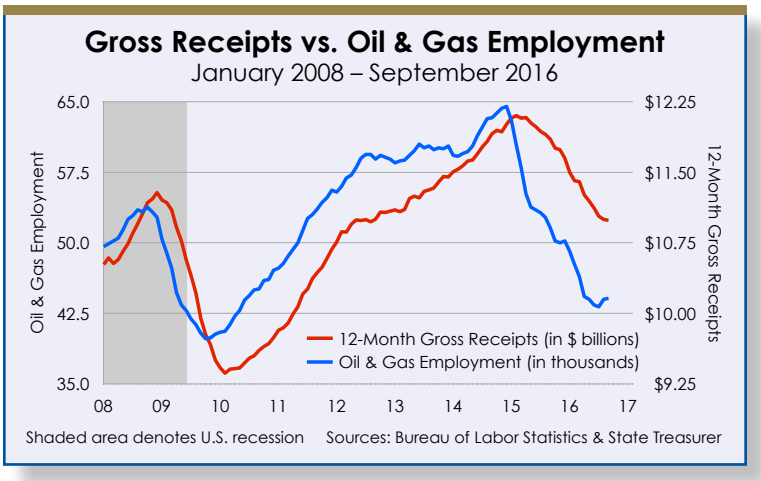
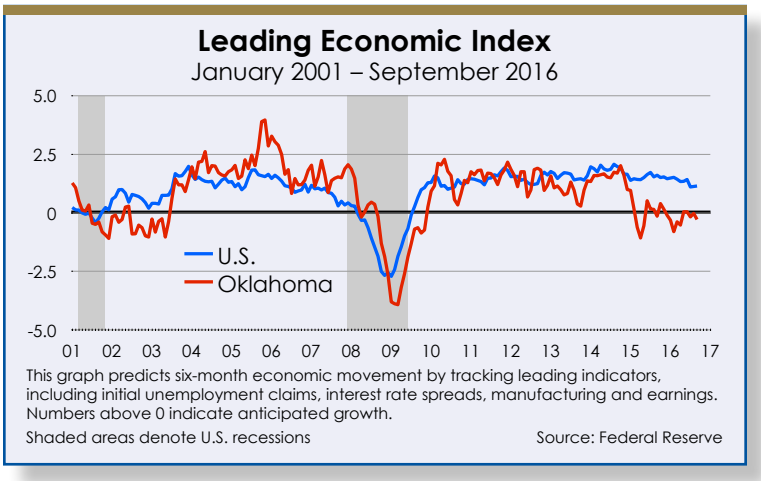
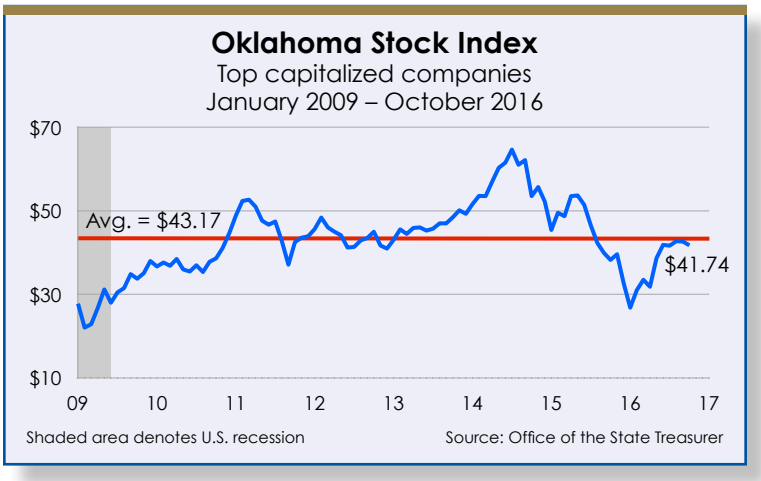
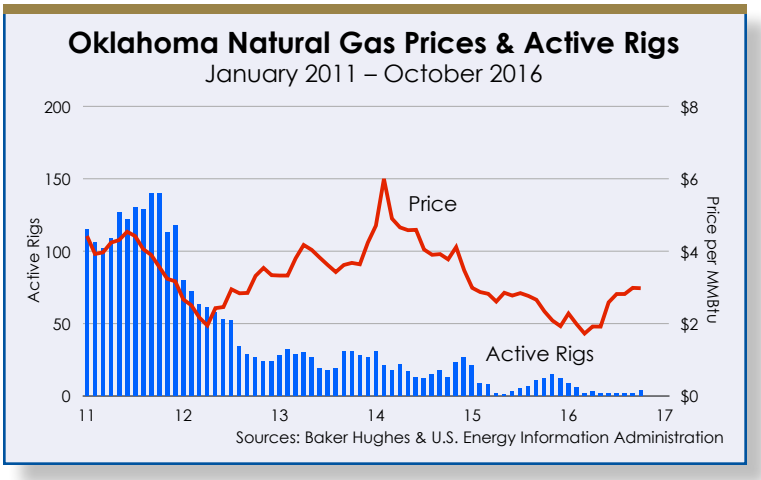
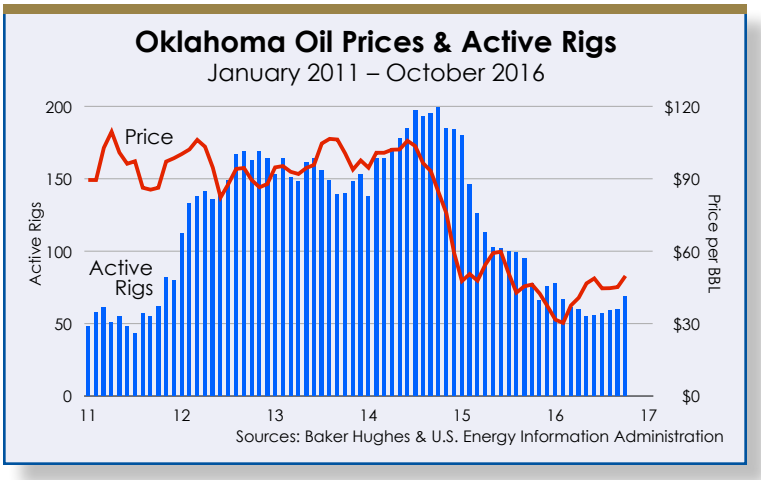
Oklahoma's seasonally-adjusted unemployment rate rose for an eighth consecutive month in September and was set at 5.2 percent, up by one-tenth of a percentage point from August, according to the Oklahoma Employment Security Commission.

September is the third month in a row that the Oklahoma jobless rate has been higher than the national rate, which was set at 5.0 percent for the month. The number of Oklahomans employed shrank by 47,157 over the year.

Oklahoma Unemployment Report
September 2016

OKLAHOMA	Unemp. rate*	Labor force*	Employment*	Unemployment*
Sept '16	**5.2%**	**1,815,411**	**1,720,140**	**95,271**
Aug '16	5.1%	1,821,459	1,729,204	92,255
July '16	5.0%	1,834,543	1,743,047	91,496
June '16	4.8%	1,850,770	1,761,046	89,724
May '16	4.7%	1,864,194	1,776,399	87,795
April '16	4.5%	1,871,604	1,786,474	85,130
Sept '15	4.2%	1,845,077	1,767,297	77,780

* Data adjusted for seasonal factors

Source: OESC

Economic Indicators