Must be doin’ something right

With all the talk about how Oklahoma can be more like other states, it’s worth noting that Oklahoma must be doing something right. Report after report shows Oklahoma emerging from the recession stronger than most. Among those taking notice are national publications and business organizations.

Oklahoma was recently rated the seventh best-performing state by the U.S. Chamber of Commerce and the National Chamber Foundation; moving up from its 14th place ranking in 2010 and landing one spot in front of Texas. Their “Enterprising States” report factored in states’ 10-year and two-year job growth, growth in real Gross State Product and per capita personal income.

“Oklahoma’s relative economic strength is attracting a lot of positive attention.”

The annual study, which examines conditions that make states attractive places to locate, relocate and expand, found Oklahoma to be outperforming most states in several key areas: the third lowest cost of living in the nation, the fourth highest growth in gross state product, fourth best growth in productivity, sixth highest growth in per capita income and 18th best for entrepreneurial activity.

Oklahoma was also awarded 13th place on Forbes’ annual “Best States for Business and Careers,” which factored business costs, labor supply, regulatory environment, economic climate, growth prospects and quality of life into its assessment of the states.

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Business-Friendly State Performance

Top Ten States

Oklahoma
Arkansas
Colorado
Kansas
Missouri
New Mexico
Texas

Next 15 States

Iowa
Indiana
Michigan
Ohio
Illinois
Virginia
Georgia
North Carolina
South Carolina
Puerto Rico

Performance
Long-Term Job Growth
Short-Term Job Growth
Gross State Product Growth
Per Capita Income Growth
Productivity Growth
Adjusted Median Family Income
Business Tax Climate
Business Birth Rate
Entrepreneurial Activity
High-tech Share of All Businesses
Business Lending
Small Business Survival Index
Cost of Living
Higher-ed Degree Output
Higher-ed Efficiency
College Affordability
High School Advanced Placement Intensity
Job Placement Efficiency
High Speed Broadband Availability
Transport Infrastructure Performance

Source: Enterprising States Report, U.S. Chamber of Commerce and the National Chamber Foundation
Getting taxes right

For decades, Republicans wearing the minority party label at 23rd and Lincoln trumpeted lowering the state’s personal income tax. The boldest among them called for complete elimination. In an April 2001 letter to state economists, Governor Frank Keating requested a proposal to eliminate the personal income tax and maintain adequate funding.

Acknowledging further research was required, the respondents presented an 80-page prescription to accomplish the task. They concluded the policy change could potentially spur strong incentives to work effort and entrepreneurship, but even after considering the robust and dynamic effects of removing the productivity penalty, estimated an annual revenue loss between $2.65 billion and $3.6 billion.

The economists suggested revenue neutrality could be achieved by expanding the sales tax base to include services, imposing a production tax on goods and services, and increasing the property tax.

Noble efforts notwithstanding, the Keating Administration could muster only a quarter percentage point drop in the income tax rate, from seven to 6.75 percent.

As the march to Republican control advanced, taxes were incrementally cut to their current level of 5.25 percent.

Today, the trumpets grow louder with the dramatically altered political landscape. Having secured all statewide elected posts and large margins in the Legislature, the majority party now has the muscle to pass ideas that once seemed unattainable. Advocacy groups across the spectrum have recognized this as a pivotal moment for tax reform.

Nearly a decade after the Keating tax cut, a task force report to Governor Mary Fallin recommended eliminating the personal income tax.

The study group of six business leaders and policy advocates suggested replacement revenue could come from many sources, including eliminating credits and exemptions, taxing services, increasing property taxes, decreasing spending, as well as from growth revenues presumed from the dynamic effects of tax cuts.

The Florida-based econometric firm of Arduin, Laffer and Moore, hired by the Oklahoma Council of Public Affairs, quickly picked up where the task force left off in a 15-page data-driven study. Their analysis focused on a 10-year income tax phase-out dependent on growth revenue and elimination of all tax exemptions, deductions and credits.

While the study model used statistical regression analysis, their methodology and variable selection have leading state economists requesting peer review.

The discussion surrounding Oklahoma’s tax structure is critically important. If we were to design an equitable tax code to encourage entrepreneurial activity, productivity and growth, we would not end up with the tax structure we have today. But the serious dialogue on tax reform is just beginning.

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Commentary

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not concluding. The issue is too essential to our economy, state and people to rush to judgment.

To get it right, there must be a thorough exchange of ideas between citizens, business leaders, economists, and policymakers.

And get it right we must.

Oklahoma is climbing the list of economic indicators in a big way and can do even better with a well-structured tax code. But policy mistakes can reverse gains should state leadership govern with a short-term political agenda rather than a long-term economic one.

Doin’ right

FROM PAGE 1

The Wall Street Journal’s annual MarketWatch “Best Cities for Business” study ranked Oklahoma City the sixth most favorable business community in the nation, beating out Texas cities Austin (eighth among 102 metro areas) and San Antonio (10th).

The study noted that Oklahoma City actually had the third-best overall economy, but lost points for lack of concentration of companies.

Recent Bureau of Labor Statistics data shows Oklahoma with a year-over-year employment growth of three percent, surpassing all surrounding states. The closest competitor was Texas, with growth of 2.2 percent. Unemployment figures consistently have Oklahoma well under both national and regional averages. And of all states surrounding Texas, Oklahoma received the largest net gain of Lone Star transplants in both 2009 and 2010.

While other states have depleted reserve funds or, as is the case in Texas, are currently drawing down those balances, Oklahoma has already deposited $249 million into its Rainy Day Fund and is on track to replenish 80 percent of its pre-recession balance with an expected deposit of at least $223 million by year’s end.

Amid all the numbers and data, it is sometimes difficult to determine which indicators best reflect one state’s successes over another. Is gross state product or personal income a better indicator? How about state revenues, spending, tax rates, or job creation? The economic victors change depending on the criteria selected.

For example, the most recent edition of the American Legislative Exchange Council’s (ALEC) “Rich States, Poor States,” shows Maryland, a state among those with the highest marginal personal income tax rate (8.55%), nearly even in a 10-year growth of state gross product with Texas, with no personal or corporate income tax.

The state with the highest marginal personal income tax rate, New York (12.62%), outperformed two no-income tax states - Nevada and Tennessee - in the same 10-year growth comparison.

The paradoxes continue

Nevada, which has one of the lowest state and local tax burdens in the nation, also has the largest anticipated budget gap for fiscal year 2012, with a projected revenue shortfall equal to 45.2 percent of the state’s current cost of services.

Yet, the ALEC-Laffer State Economic Outlook Rankings placed Nevada 18th among states for forecasted growth. Utah, with a flat personal and corporate income tax rate of five percent, scored

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Red River Traffic

Oklahoma has received a greater net gain of Texas residents than any other state.

2010 Migration:

• 28,283 residents moved from Texas to Oklahoma
• 22,969 residents moved from Oklahoma to Texas
• 5,314 – Net gain to Oklahoma

2009 Migration:

• 32,437 residents moved from Texas to Oklahoma
• 25,784 residents moved from Oklahoma to Texas
• 6,653 – Net gain to Oklahoma

Source: U.S. Census Bureau
November numbers:
Comparing gross receipts & General Revenue Fund

A comparison of the Treasurer’s December 1 Gross Revenue Report and State Finance’s December 13 General Revenue Fund (GRF) report shows key differences.

November gross receipts totaled $803.02 million, while the GRF received $424 million or 52.8 percent of the total. Last month, the GRF received 48.7 percent of the gross.

From gross receipts in November, the GRF received:
• Personal income tax: 67.1%
• Corporate income tax: 0%
• Sales tax: 45.7%
• Gross production-Gas: 80.8%
• Gross production-Oil: 76.8%
• Motor vehicle tax: 33%
• Other sources: 37.1%

GRF collections for the month topped the official estimate by $64.6 million or 18 percent.

Tribal gaming fees generated $10.2 million during the month.

Insurance premium taxes totaled $1.6 million in November.

Amounts transferred for rebates and dedicated funding vary greatly each month, underscoring the necessity of using total collections rather than a subset to gauge state economic performance.

Oklahoma economy heads into healthy holiday season

Oklahoma’s economy continues its upward trend as the state enters the Christmas season, State Treasurer Ken Miller said as he released the state’s monthly gross receipts report.

“We are again seeing growth in all areas measured by revenue collections, which points to an economically healthy holiday season,” Miller said.

November collections were 13.2 percent higher than in November of last year, showing solid improvement in the state’s economy. It was the fourth time in the past seven months that collections grew by more than 10 percent over the prior year. Collections over the past 12 months are up more than nine percent from the previous 12 months.

Miller said gross revenue, a reflection of the state’s economic performance, has grown for 21 consecutive months.

“The last time 12-month receipts were higher than today was two-and-a-half years ago, in May 2009, when collections stood at $10.77 billion. Since we hit the depths of the recession in February 2010, almost two-thirds of the lost revenue has been recovered,” he said.

Positive signs

On the national level, initial reports on Black Friday spending and the latest consumer confidence measure point to an improving economic picture.

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Numerous sources are reporting healthy increases in consumer spending at the start of the Christmas shopping season and The Conference Board reports consumer confidence surged in November from the month before.

Miller said the information bodes well for Oklahoma.

“Oklahoma’s economy has consistently outperformed the national average, and there is no indication that will change going into the holiday season,” he said.

Oklahoma’s relative economic strength is attracting a lot of positive attention. However, there are still opportunities for the state to improve. Its success depends on correctly identifying the policies that are working and those that are not.

The states deemed best-positioned for long-term success haven’t arrived there overnight, nor is there any one policy that unites them. Each state’s economic story is different, with examples that are both enlightening and cautionary.
Economic Indicators

Job Growth
(Year-over-year percent change)

Unemployment Rate

Oklahoma Stock Index
(Top 25 capitalized companies)

Oklahoma Gross Sales Tax Collections
(in millions)

Oklahoma 12-Month Gross Receipts
December 2007 - November 2011
Dollars (in millions)

Oklahoma Active Rigs vs. Oil Prices

Source: Bureau of Labor Statistics

Source: Office of the State Treasurer

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

Shaded areas denote U.S. recessions

Oklahoma Gross Sales Tax Collections
(in millions)

Oklahoma 12-Month Gross Receipts
December 2007 - November 2011
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