The new year will quickly bring a new legislative session, and with it, fresh opportunities to move Oklahoma forward.

In good times and bad, the top constitutional duty of a legislative body each session is to pass a budget that funds public goods and services. The equalization board’s December certification lessens the available revenue, making that task more challenging, but also presents yet another opportunity to assess core functions and better prioritize state government spending.

Based on preliminary revenue projections, the budget for Fiscal Year 2015 will be 2.4 percent, or $170.8 million less than the prior year’s budget. Out of a nearly $7 billion budget, that reduction will be manageable.

Past years of forced belt-tightening was the silver lining that accompanied the dark recession clouds, providing several positive outcomes for the state, such as shared services, technological innovation and increased efficiency. However, potential efficiencies still remain, like streamlining all legal services into the Attorney General’s office and consolidating administration of the state’s pension systems.

Nonetheless, there remain some state agencies that are underfunded and some that are overfunded. Appropriately funded or not, most agencies have requested an increase in appropriations to the tune of more than a billion dollars collectively. It appears from published reports that the Office of the State Treasurer will again be the only agency to voluntarily submit a budget request for reduced appropriations.

All I wish for session 2014 is . . .

The new year will quickly bring a new legislative session, and with it, fresh opportunities to move Oklahoma forward.

Identify further efficiencies and savings – Anticipated reduction in revenue provides motivation to focus on ways to increase efficiency and tighten operations.

Design a better tax structure – Evaluate Oklahoma’s entire system of taxes and revenues and design a tax code that better encourages entrepreneurial activity, productivity and growth.

Maintain assets – Address urgent capital needs now and commit to addressing future needs in a pay-as-you-go manner.

Reduce pension debt – Develop a plan to reduce the largest and most expensive debt on Oklahoma’s balance sheet: $11.5 billion in pension liabilities.

Continue to improve budget processes – Protect ability for policymakers to examine funding performance or make year-to-year adjustments based on changing needs and priorities.
Oklahoma has an immense amount of economic momentum heading into the 2014 legislative and election season, and we must do everything we can to keep it going.

In recent years, the state Legislature has worked hard to keep the focus on jobs and the economy, and those efforts have paid off—Oklahoma has more potential than arguably ever before.

We will soon have a new workers’ compensation administrative system, which will work to lower rates in Oklahoma all while protecting the injured worker.

We have continued to reform our legal system to make it fair and reduce frivolous lawsuits in our state.

We have increased funding for our transportation system and have made great strides to improve our education system to help our students be both college and career ready. But, there is still more to do.

This year, the Senate will continue to be focused on growing our state’s economy and creating jobs and prosperity. To do that, we must have a world-class education system that will help our students compete for jobs in a 21st Century economy.

We need to continue to make strides in our infrastructure to capitalize on Oklahoma’s prime geographic location in the movement of commerce throughout our country.

We must have a safety net for those most vulnerable in our state, while at the same time work to increase our state’s per capita income, number of college graduates and access to affordable, private health insurance to help Oklahomans move out of poverty.

We must continue to grow, diversify and encourage innovation within our state’s strong energy sector, all while being good stewards of the taxpayers’ dollars.

It is critical that we consider judicial reforms that will help maintain a balance of power among the three branches of government, ensuring that all are accountable to the people of Oklahoma.

We must address our state’s unfunded pension liabilities in a way that keeps the promises made to current workers while setting up a system to attract the workforce of tomorrow. And that is just to name a few of the issues lawmakers will likely tackle starting in February.

These are not easy tasks, and will be especially challenging in what looks like an upcoming tight budget year and ahead of the 2014 election cycle.

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Bingman  
FROM PAGE 2
I believe our state is up to the challenge and we are committed to moving forward, while so many other states across the country slide backward. I look forward to working with my Senate and House colleagues and the governor this legislative session to make sure Oklahoma is second to none in the nation when it comes to economic growth.

Wishes  
FROM PAGE 1
Last year, the Treasurer’s wish list included several improvements to the budget process, adopting a modern and affordable pension plan for future workers, applying surplus funds to debt reduction – particularly pension debt – and developing a long-term plan to repair and maintain the state’s assets and infrastructure, including the State Capitol.

Some of these items were addressed, like creating a dedicated “Pension Stabilization” fund to receive funds in excess of deposits to the Rainy Day Fund, and adoption of a two-year plan to repair the crumbling Capitol.

However, the tax cut and funds for the repairs were nullified by a Supreme Court ruling citing violation of the single subject rule.

Also, last year’s budget demonstrated a commitment to stop the practice of relying on non-recurring funds to pay for recurring expenses, decreasing by half the use of one-time funds from the prior year. Other items were left unaddressed, crowded out by other policy priorities.

The Supreme Court’s tossing of the income tax cut ensures the tax discussion will begin anew this session. It could be an opportunity to evaluate Oklahoma’s entire system of taxes and revenues and design a tax code that better encourages entrepreneurial activity, productivity and growth. In an election year, this and world peace might be too much to ask for.

With Christmas’ goodwill still lingering and the optimism of the New Year ahead, may the 2014 session bring the following:

Maintenance of assets

Last year, historically low interest rates led many to call for a responsible bond package for the deteriorating Capitol and an unaccredited Medical Examiner’s office. The new Medical Examiner’s office is finally on track, courtesy of a bond issued through higher education, but the needs of the Capitol complex remain.

The only difference between this year and last is that interest rates have risen. However, interest rates are still

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Oklahoma Economic Report

Wishes
FROM PAGE 3

advantageous, well below historical averages.

In 2012, Speaker T.W. Shannon authored a bill that created a dedicated fund for maintaining and repairing state-owned facilities. Any proceeds from the sale of unnecessary or underutilized state properties would be credited to the fund. As part of last year’s budget agreement, the state deposited $30 million to the fund.

Had this type of long-range planning and a dedicated fund been in place for the past several decades, Oklahoma might have had the cash up front to pay for needed repairs to the State Capitol when they first arose, instead of letting them escalate to the crisis level they are today.

“Pay as you go” asset management can work with proper planning and normal revenue growth, but with looming mandated spending increases and less available revenue, legislators may have little choice but to join Governor Fallin in addressing the urgent capital needs with a responsible bond package, and commit to addressing future needs in a pay-as-you-go manner.

Oklahoma has been prudent in its use of debt as a financial tool. According to Moody’s Investors Service 2013 State Debt Medians Report, the national average for net tax-supported debt per capita is $1,416. Oklahoma’s is less than half that at $604. Net tax-supported debt as a percentage of gross state domestic product averages 2.92; Oklahoma’s is just 1.49%. Further, Oklahoma is on schedule to pay off 85 percent of that debt within the next 15 years and to have just six-tenths of one percent of that debt remaining in 25 years.

Reduce pension debt

While Oklahoma’s tax-supported bond indebtedness is lower than average, its pension debt is not. In its 2013 report, Adjusted Pension Liability Medians for U.S. States, Moody’s ranked Oklahoma as the 17th worst state for pension liability as a percentage of state revenues.

“Despite political theatrics against debt and spending, there has been little publicly demonstrated willingness outside of the executive branch to fix Oklahoma’s biggest debt problem.”

Pension debt cannot be overstated in the conversation about creating a new pension plan for future public employees. In addition to the current model being outdated and not reflective of the average career lengths of those working on behalf of our citizens, it is also a model that our $11.5 billion in pension debt proves the state hasn’t been willing to afford.

To date, much of the discussion about changing the benefit structure has been focused on just one of the state’s seven pension plans, but not the one with a massive debt problem. The Teachers Retirement System is the largest and worst-funded of the state’s pension systems with more than $8 billion in liabilities, comprising approximately 70 percent of the state’s total pension debt. Despite political theatrics against debt and spending by most politicians, there has been little publicly demonstrated willingness outside of the executive branch to fix Oklahoma’s biggest debt problem.

Comparatively, the Public Employees Retirement System, the second-largest of the state’s plans and the one most legislators are intent on changing, has liabilities totaling approximately $1.5 billion, representing just 13 percent of the state’s pension debt.

Unlike low-rate bonds, pension debt is accruing interest of around 8 percent annually, making it not only the largest item of debt on Oklahoma’s balance sheet, but the most expensive. Pension funds use their expected rate of return as the discount rate with which the present value of liabilities is determined. With the two largest pension plans using expected rates of return of 8 and 7.5 percent, that, in essence, becomes their annual interest costs.

Continued budget process improvement

The reduced certification policymakers have to work with this year is not due to decreased economic activity in the state. Oklahoma’s gross receipts for the first four months of the fiscal year reflect a nearly 5 percent increase over the prior year. Instead, the reduction represents a smaller share of collections being deposited to the state’s General Revenue Fund, the account from which most of state government is funded.

So far this year, the General Revenue Fund has received just 45.3 percent of

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Revenue shrinks by $170.8 million in initial estimate

The State Board of Equalization has certified $6.96 billion in estimated state revenue during FY-15. The certification made at the board’s December 19 meeting is $170.8 million less than the $7.1 billion legislatively-appropriated FY-14 budget currently in use and $88.8 million less than the last proposed budget from Governor Mary Fallin.

The board, composed of the governor, lieutenant governor, treasurer, attorney general, state superintendent, auditor and agriculture secretary, will meet again in February to make a final estimate of funds available for the next fiscal year.

Officials have said they anticipate the total amount will rise slightly from the preliminary estimate made this month.

However, Secretary of Finance, Administration and Information Technology Preston Doerflinger issued a warning to state agencies in a news release issued by his office.

“Barring a big revenue increase, it looks like the next state budget will be slightly smaller than this year’s or flat. Agencies should be realistic and prepare now for the potential of reduced or flat budgets,” Doerflinger said.

Governor Fallin will use the numbers certified in December to write her proposed budget for presentation to the Legislature on February 3. The certification made later in February by the board will be used by the Legislature in writing the FY-15 budget.

The board also voted to increase certified revenues by $102.7 million due to the state supreme court’s December 17 ruling holding House Bill 2032 as unconstitutional. The measure passed last session instituted an income tax reduction beginning in 2015 and set aside funds to repair the State Capitol Building. The court found the measure violated the constitutional single-subject requirement.

The December certification is 2.4 percent less than the current budget with the reduction blamed primarily on noneconomic factors.

Since the end of the Great Recession, annual gross receipts have consistently grown. However, earmarking of various revenue streams have siphoned more and more money out of the General Revenue Fund (GRF) for specific uses such as transportation, education and government worker pensions.

Approximately 80 percent of the revenue certified by the board flows to the GRF, but the state’s main operating fund currently receives less than half of gross receipts.

During FY-07, 55.2 percent of gross receipts made it to the GRF. So far this fiscal year, only 45.3 percent has been allocated to the GRF.
November treasury receipts show economic growth

For yet another month, gross collections point toward steady growth in Oklahoma’s economy, State Treasurer Ken Miller announced today as he released the gross receipts to the treasury report for November.

Miller said gross receipts for the month are up by more than $58 million or 7.3 percent compared to last November.

“The Oklahoma economy continues to expand heading into the Christmas shopping season,” Miller said.

“Relatively steady growth in gross collections has become the norm over the past few years,” Miller said.

Miller said sales tax collections in November show ongoing consumer confidence with receipts up 2.6 percent from last November. Black Friday receipts are not yet reflected in collections as they will not be remitted until mid-December.

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Gross receipts & General Revenue compared

The Treasurer’s December 4 gross receipts to the treasury report and the Office of Management and Enterprise Services’ December 11 General Revenue Fund (GRF) report contain several differences.

November gross receipts totaled $857.8 million, while the GRF received $383.2 million or 44.7% of the total.

The GRF received between 32.2% and 57.3% of gross receipts during the past 12 months.

From November gross receipts, the GRF received:
• Personal income tax: 59.3%
• Corporate income tax: 12%
• Sales tax: 45.6%
• Gross production-Gas: 44.1%
• Gross production-Oil: 22.8%
• Motor vehicle tax: 32.2%
• Other sources: 37.1%

November GRF allocations missed the estimate by $32.7 million or 7.9%. Fiscal year-to-date allocations are below the estimate by $146.8 million or 6.5%.

For the month, insurance premium taxes totaled $2.4 million.

Tribal gaming fees generated $10.1 million during November.

Monthly Gross Receipts vs. Prior Year
December 2012 - November 2013

Percentage change

Source: Office of the State Treasurer
State unemployment ticks downward in November

Oklahoma’s seasonally-adjusted unemployment rate was listed at 5.4 percent in November by the Oklahoma Employment Security Commission. In October the rate was set at 5.5 percent.

Statewide employment increased by 5,510 jobs during the month, while unemployment dropped by 2,090 people according to the seasonally-adjusted figures.

Over the year, unemployment rose by 5,310 people, an increase of 5.7 percent.

The national unemployment rate was set at 7.0 percent in November.

### Revenue

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Monthly collections from oil and gas production have exceeded the prior year for seven consecutive months.

However, the monthly report is somewhat skewed due to two issues. Because the Thanksgiving holidays fell on the last two weekdays of the month, $6 million of personal income tax withholding payments remitted on Friday, November 29, were not deposited until Monday, December 2, and are, therefore, not counted in November collections.

Monthly income tax collections are down slightly as a result.

Also, the tax commission made a November deposit of $39.8 million in motor vehicle revenue that was collected by the corporation commission over the past year but not accounted for due to a switch from paper check payment to electronic transfer.

With that deposit, motor vehicle collections for the month are up by more than 85 percent from the prior year.

If not for the additional motor vehicle revenue and the delayed income tax payment, total monthly collections would have exceeded the prior year by $24.68 million or 3.1 percent.
Economic Indicators

Unemployment Rate
January 2001 – November 2013

Oklahoma 12-Month Gross Receipts
May 2008 - October 2013
(in billions)

Leading Index for Oklahoma

Oklahoma Stock Index
Top 25 capitalized companies

Oklahoma Natural Gas Prices & Active Rigs

Oklahoma Oil Prices & Active Rigs

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

Sources: Bureau of Labor Statistics

Source: Office of the State Treasurer

Shaded areas denote U.S. recessions

Shaded area denotes U.S. recession

Shaded area denotes U.S. recession

Shaded area denotes U.S. recession

Shaded area denotes U.S. recession

This graph predicts six-month growth by tracking leading indicators of the state economy including initial unemployment claims, interest rate spreads, manufacturing and earnings. Shaded area denotes U.S. recession.

Source: Federal Reserve

Source: Office of the State Treasurer

May-08 Nov-08 May-09 Nov-09 May-10 Nov-10 May-11 Nov-11 May-12 Nov-12 May-13 Nov-13

5-year average

01 02 03 04 05 06 07 08 09 10 11 12 13

Source: Bureau of Labor Statistics