Red, blue and green

In January, a chart published by the Council of State Governments (CSG) was covered in the Oklahoma Economic Report (OER). It caught our attention since it listed Oklahoma as the top state in the nation for percentage of state expenditures from federal funds. After confirming Oklahoma was erroneously ranked, CSG provided accurate data from the National Association of State Budget Officers (NASBO), from which a corrected graph was created depicting federal spending in the states, as reported by state budget officers.

The corrected graph demonstrated an interesting juxtaposition in the percentage of federal funds received by states and their political party control. In general, states with Republican-controlled legislatures appeared more dependent on federal funds than those under Democratic control. Looking for explanation of this juxtaposition, the OER reviewed various reports on federal spending administered by the states and found a lack of data consistency.

NASBO’s annual State Expenditure Report is based on amounts reported by each state’s budget offices. However, the report shows spending totals for Oklahoma that are $4 billion higher than what was reported in Oklahoma’s Comprehensive Annual Financial Report (CAFR).

The U.S. Census Bureau publishes yet another report on state government expenditures, but its data matches neither the NASBO nor CAFR numbers. This month, the OER completed its analysis using the Census Bureau’s 2012 Annual Survey of State Government Finances, just released in late January. Census data has long been considered the gold standard for empirical analysis.

SEE SPENDING PAGE 3
The Oklahoma Capitol was built in 1917. Since then it has been the People’s House - a place where state business is conducted and laws are written and passed. It is also a living museum where school children and other visitors come to learn about the history of their state and the workings of their government. For many who pass through Oklahoma, it is the lasting impression they have of our home.

I am proud of this building. I am proud of the work that has gone into acquiring and preserving the priceless portraits, paintings and murals that showcase our history. When the dome was completed in 2002, I thought the people of Oklahoma finally had the kind of beautiful, functional Capitol building they deserved.

Unfortunately, the Capitol has been allowed to slowly decompose. Scheduled maintenance and repairs have been put off and unfunded for years.

The results have been predictable: the building that should be a source of pride for our state and its citizens has become an embarrassment and a safety hazard.

The exterior is falling apart, to the point where we must actually worry about employees and visitors being hit by falling pieces of the façade.

The yellow barriers outside are an eyesore and an embarrassment. The electrical system is dangerously outdated.

Raw sewage is literally leaking into our basement. As I told the Legislature in my State of the State address this year, on “good” days you can see the disrepair. On bad days, you can smell it.

Oklahoma’s Capitol architect believes repairs will cost $160 million. As a state, we have two ways of coming up with that money: we can pass a bond, and pay back the cost of the repairs over time; or we can appropriate cash from our existing revenue.

Some of our legislators have expressed an interest in paying in cash. They are worried about debt and the added cost of interest. They are fiscal conservatives, like I am, and I understand their motivations. In fact, because Oklahoma is such a conservative state, we have one of the lowest debt rates in the nation.

Having low debt is good, but the fact remains that paying in cash for a large, one-time expense like Capitol repairs can be unrealistic and undesirable. Think of a family buying a $160,000 house. For almost every family, paying in cash is impossible. A responsible loan is the most realistic way to cover that cost. Even

“Diverting $160 million to Capitol repairs means taking money away from very real needs. That’s not fiscally conservative; it’s just irresponsible.”

It is absolutely essential that this kind of deterioration stops, and we begin the process of restoring and repairing this beautiful building.

That means, first and foremost, finding a funding source.
Governor

FROM PAGE 2

for a wealthier family, paying in cash might be possible but undesirable. Sure, a well-off family might be able to free up $160,000 in cash, but they might also have to take their children out of college to do so.

That’s the position the state of Oklahoma is in today. We have a $160 million expense on our hands. Diverting $160 million to Capitol repairs means taking money away from education, public safety, and other very real needs. That’s not fiscally conservative; it’s just irresponsible.

The good news is that, like a mortgage, a bond is a common-sense, affordable alternative. Debt payment would amount to about $10.3 million a year. Furthermore, most of the state’s modest debt is soon coming off the books. In 2018, 41 percent of Oklahoma’s debt will be retired, and more than 86 percent will be eliminated in the next 13 years.

That means a bond for Capitol repairs can be added without significantly adding to state debt in the long term.

Pursuing a bond may also help our credit rating. Last year, state Treasurer Ken Miller and I went to New York City to visit with credit rating agencies like Moody’s. One of the first things they told us was that our state would have trouble getting a better credit rating until we invested more in our infrastructure, including the state capitol.

All of this means that a bond issue is the best, most realistic way of funding Capitol repairs. I am asking our legislators, as well as all the people in Oklahoma, to lend their voices to the chorus of support for responsible repairs and restoration to one of the great jewels of our state: the People’s House at 23rd and Lincoln.

Spending

FROM PAGE 1

The Census Bureau report, which compiles information about the sources of state government revenue, shows that on average 31.6 percent of state revenues are in the form of federal funds. However, the figures only include federal funds administered by the states. Excluded is all other federal domestic spending, including salaries and wages, procurement contracts, and retirement and disability payments.

The largest category of federal grants received by the states is for public welfare and includes funds for the Temporary Assistance to Needy Families program and Medicaid. Nearly $300 billion in grants were disbursed to states for these assistance programs.

SEE SPENDING PAGE 4
The next largest grant disbursement was for education, with more than $90 billion in funds being sent to the states.

The federal government issued highway grants totaling $43.2 billion, and disbursed $26.2 billion in grants to state governments for health and hospital related functional activities.

Even though NASBO and the Census Bureau show different figures, both demonstrate a distinct dominance of “red” states among top recipients of federal funds and of “blue” states among the bottom recipients. Interestingly, however, the Census data show the lowest recipient state is one with a Republican-led legislature.

In Mississippi, the highest recipient for FY-12, federal funds accounted for more than 45 cents of every dollar expended by the state. In Alaska, the lowest recipient for FY-12, 20 cents of every dollar spent was derived from federal grants. Oklahoma, with 35.5 percent of all expenditures coming from federal funds, ranked 15th among all states for federal funds as a percentage of state expenditures. This is markedly different from the NASBO data, which showed Oklahoma with a rank of 7th highest in federal spending, which goes to show that using different data sets can produce vastly different outcomes.

Of the top ten states with the highest percentage of federal funds relative to state spending, just two were states with Democrat-controlled legislatures. Among those states using the lowest percentage of federal funds, two were Republican-controlled and one had split party control.

While significant, the amount of funds distributed in the form of federal grants is eclipsed by the amount of funds the federal government disburses directly to individuals.

SEE SPENDING PAGE 5
Spending
FROM PAGE 4

Unfortunately, there is no complete source of data that shows all federal funds distributed to the states. Until 2011, the U.S. Census Bureau released the annual Consolidated Federal Funds Report (CFFR), a comprehensive publication containing information on federal spending, summarizing all expenditures – including federal grants, awards, contracts, salaries and direct payments to individuals by program, agency, state, county and congressional district.

The CFFR was eliminated in the FY-12 federal budget. The last complete report published is for FY-10. That report showed that direct payments to individuals for retirement and disability payments, Medicare and other benefits totaled more than $1.7 trillion, compared to federal grants totaling $675 billion. In 2010, Oklahoma received $21.6 billion in federal funds in the form of direct payments to individuals.

The federal website USAspending.gov provides some, but not all data previously provided by the CFFR. The site has received criticism from the Sunlight Foundation, a nonprofit, nonpartisan organization whose mission is to make government transparent and accountable, for having inconsistent and incomplete spending data. The federal Office of Management and Budget acknowledged the website’s shortcomings in June 2013 when it issued a memo to all chief financial officers at federal agencies requesting better reporting of data to improve the reliability and quality of the report.

Using the 2014 USAspending.gov data, Oklahoma ranked 23rd among states in direct payments from the federal government, with a total of $4.5 billion, but those funds are described as only including funds paid to individuals for services such as Social Security, Unemployment Insurance, Housing Choice Vouchers and Federal Pell Grants.

Another data set previously provided by the CFFR is federal salaries and wages, including those employed by the Department of Defense and the U.S. Postal Service, both of which have strong presences in Oklahoma.

The information provided in the 2010 CFFR depicts a much more balanced distribution of federal funds across the country. Of the 27 states that received federal funds below the national average, Oklahoma being one of them, there were more red states than blue. Fifteen states had Republican-led legislatures, 10 had Democrat-controlled legislatures, and two had split party control.

Those states receiving federal funds above the national average included 11 red states, 10 blue, and two with split party control.

The fact that states’ dependence on federal funds changes so much when all federal funds are evaluated, including those that are received directly by individuals and local governments, indicates that funding may have less to do with a state’s discretionary policymaking and more to do with socioeconomic factors. A state that receives less federal grants than others may receive above-average federal funds depending on what is received by local governments and individuals.

Factors contributing to the variations in federal funds across the states include population, poverty rates, educational spending.

SEE SPENDING PAGE 7
January a healthy month for state economy

Oklahoma’s economy, as reflected in monthly gross receipts to the treasury, set new highs in January, said State Treasurer Ken Miller.

Miller said three components of gross receipts entered new territory during the first month of 2014: Record highs were set for sales tax collections and personal income tax withholding payments; and for gross receipts in a January, a new high was set.

“Oklomans earned and spent at record levels during the past month,” he said.

“Also, total receipts last month brought in more than in any other January, indicating healthy performance of the state economy.”

January sales tax collections, from purchases made between mid-December and mid-January, generated $378.33 million – up by $13.04 million or 3.6 percent from last January. The previous high was set last July with $369.22 million.

Personal income tax withholding payments of $280.29 million topped the

SEE REVENUE PAGE 7

Gross receipts & General Revenue compared

The Treasurer’s February 5 gross receipts to the treasury report and the Office of Management and Enterprise Services’ February 11 General Revenue Fund (GRF) report contain several differences.

January gross receipts totaled $1.07 billion, while the GRF received $610.5 million or 57.1% of the total.

The GRF received between 32.2% and 57.1% of gross receipts during the past 12 months.

From January gross receipts, the GRF received:

• Personal income tax: 72.2%
• Corporate income tax: 70.1%
• Sales tax: 44.8%
• Gross production-Gas: 1.7%
• Gross production-Oil: 64.9%
• Motor vehicle tax: 31.8%
• Other sources: 64.9%

January GRF allocations topped the estimate by $37.2 million or 6.5%. Fiscal year-to-date allocations remain below the estimate by $150.3 million or 4.5%.

For January, insurance premium taxes totaled $93,000.

Tribal gaming fees generated $10.1 million during the month.

Monthly Gross Receipts vs. Prior Year

February 2013 – January 2014

Source: Office of the State Treasurer
Revenue
FROM PAGE 6
previous record set a year ago in January by $12.28 million or 4.6 percent. Withholding payments are remitted by employers from funds withheld from workers’ paychecks and are a key component of total personal income tax payments.

Total gross collections in January were $1.07 billion, topping the previous January high set last year by $59.32 million or 5.9 percent.

“The Oklahoma economy continues its expansion at the beginning of the year,” Miller said. “Relatively steady growth in gross collections has become the norm over the past few years, such that it has become somewhat expected. But as we have seen, that doesn’t necessarily translate to the General Revenue Fund.”

Miller noted that the record collections are an indicator of the strength of Oklahoma’s economic output and are not the result of revenue raising measures. In fact, taxes have been cut over the past several years.

Spending
FROM PAGE 7
attainment, and the composition of the workforce, especially military and federal workers.

Examining the purposes of the funds provided by the federal government is just as important as examining the amount of funds. Oklahoma may receive total federal funds below the national average, according to the CFFR, but as the Census data show, it is above average in its use of grants, the bulk of which go toward social assistance. 2012 Census data also shows Oklahoma, with 17.2 percent of its population falling below the federal poverty line, as having a poverty rate higher than the 15.9 percent national average.

The amount of federal funds used by states only tells part of the story, but it does provide insight as to what functions of state government are most dependent on federal assistance – a useful tool for policymakers as they seek to become less dependent on shrinking federal funds.

This also underscores the importance of not committing a fallacy of composition, in which a conclusion is drawn about the whole based on an observation of a subset.

---

**Federal Funds Received by Oklahoma State Government – FY-13**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Match Required</th>
<th>Federal Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care Authority</td>
<td>10 to 50%</td>
<td>$2,973,824,275</td>
</tr>
<tr>
<td>Department of Human Services</td>
<td>6.78 to 100%</td>
<td>$2,058,771,308</td>
</tr>
<tr>
<td>State Department of Education</td>
<td>None</td>
<td>$653,999,509</td>
</tr>
<tr>
<td>Department of Transportation</td>
<td>Varies, 20 to 100%</td>
<td>$506,712,142</td>
</tr>
<tr>
<td>State Regents for Higher Education</td>
<td>Varies</td>
<td>$270,910,481</td>
</tr>
<tr>
<td>Department of Health</td>
<td>Varies, $11,775 to $2,825,000</td>
<td>$181,752,277</td>
</tr>
<tr>
<td>Department of Veterans Affairs</td>
<td>Variance, 35%</td>
<td>$111,567,699</td>
</tr>
<tr>
<td>Department of Commerce</td>
<td>Varies, 20 to 100%</td>
<td>$72,092,703</td>
</tr>
<tr>
<td>Department of Rehabilitative Services</td>
<td>Varies, 10 to 21.8%</td>
<td>$67,794,444</td>
</tr>
<tr>
<td>Department of Public Safety</td>
<td>None</td>
<td>$31,508,555</td>
</tr>
<tr>
<td>Oklahoma Water Resources Board</td>
<td>Varies, 5 to 40%</td>
<td>$29,750,507</td>
</tr>
<tr>
<td>Oklahoma Department of Emergency Management</td>
<td>10 to 50%</td>
<td>$28,088,423</td>
</tr>
<tr>
<td>Department of Environmental Quality</td>
<td>Varies, 40%</td>
<td>$16,034,559</td>
</tr>
<tr>
<td>ID McCarty Center</td>
<td>36%</td>
<td>$15,936,279</td>
</tr>
<tr>
<td>Department of Wildlife Conservation</td>
<td>25%</td>
<td>$15,010,042</td>
</tr>
<tr>
<td>CareerTech</td>
<td>varies, 80 to 20%</td>
<td>$12,400,936</td>
</tr>
<tr>
<td>Office of Juvenile Affairs</td>
<td>Varies, 10 to 50%</td>
<td>$6,430,156</td>
</tr>
<tr>
<td>Department of Corrections</td>
<td>Varies, 25 to 50%</td>
<td>$3,867,293</td>
</tr>
<tr>
<td>Oklahoma State Bureau of Investigation</td>
<td>Varies, 10%</td>
<td>$3,776,316</td>
</tr>
<tr>
<td>Oklahoma Corporation Commission</td>
<td>Varies, 10 to 80%</td>
<td>$3,767,125</td>
</tr>
<tr>
<td>Department of Libraries</td>
<td>Varies, 34%</td>
<td>$3,644,120</td>
</tr>
<tr>
<td>Office of the Attorney General</td>
<td>None</td>
<td>$2,918,744</td>
</tr>
<tr>
<td>Department of Tourism and Recreation</td>
<td>None</td>
<td>$2,157,692</td>
</tr>
<tr>
<td>Department of Labor</td>
<td>10 to 50%</td>
<td>$1,407,037</td>
</tr>
<tr>
<td>Department of Mines</td>
<td>20 to 50%</td>
<td>$1,196,176</td>
</tr>
<tr>
<td>Oklahoma Commission on Children and Youth</td>
<td>None</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Oklahoma Conservation Commission</td>
<td>None</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Arts Council</td>
<td>1:1</td>
<td>$720,800</td>
</tr>
<tr>
<td>Commissioners of the Land Office</td>
<td>None</td>
<td>$269,035</td>
</tr>
<tr>
<td>Bureau of Narcotics and Dangerous Drugs</td>
<td>None</td>
<td>$249,981</td>
</tr>
<tr>
<td>Office of Disability Concerns</td>
<td>None</td>
<td>$133,329</td>
</tr>
<tr>
<td>Board of Medicolegal Investigations</td>
<td>None</td>
<td>$29,296</td>
</tr>
</tbody>
</table>

**Total** $7,078,738,439

Sources: OMES, SDE, OSRHE
Oklahoma Economic Report™

February 28, 2014

Economic Indicators

Unemployment Rate

Sources: Bureau of Labor Statistics

Oklahoma 12-Month Gross Receipts
July 2008 - January 2014
(in billions)

Sources: Office of the State Treasurer

Leading Index for Oklahoma

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

Sources: Federal Reserve

Oklahoma Stock Index
Top 25 capitalized companies

Shaded area denotes U.S. recession

Sources: Office of the State Treasurer

Oklahoma Natural Gas Prices & Active Rigs

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

Oklahoma Oil Prices & Active Rigs

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