



Oklahoma Economic Report™

News and analysis of Oklahoma's economy

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

Pending policy

At the halfway point of the session, the estimated \$611 million budget hole hangs like a dark cloud over the Capitol, but in spite of that mammoth challenge, lawmakers have the opportunity to produce positive results on several important fronts.

The perennial challenges facing Oklahoma persist in good times and bad. To their credit, policymakers are pursuing solutions even in this budget environment. For example, in her State of the State address, Governor Mary Fallin identified three lofty and long-term goals: realizing gains in educational attainment, implementing

criminal justice reform and improving health outcomes. Other goals identified early on this session include expanding educational choice, addressing total teacher compensation and resolving the fate of the languishing American Indian Cultural Center and Museum. With the budget taking center stage, several ideas have also emerged on how to improve the state's budget process to ensure the state is getting the best value out of limited taxpayer funds.

With two months of session left, the *Oklahoma Economic Report* examines the status of key legislative proposals:

Better budgeting

Gaining traction this session is an idea to dedicate every year to budgeting while reserving non-budgetary measures to every other year. Originally proposed last year in the House, it has since been endorsed by Governor Fallin and Senate President Pro Tempore Brian Bingman.

Writing the state budget is the top constitutional duty of the Legislature, yet time constraints and competing issues often don't allow for the attention it deserves. In a recent op-ed calling for support of Senate Joint Resolution

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Policy Considerations

- ❑ **Better Budgeting** – A proposal to dedicate every year to budgeting while reserving non-budgetary measures to every other year is gaining support this session.
- ❑ **Education** – Teacher shortages, curriculum questions and a budget shortfall present tough challenges for education.
- ❑ **Construction Needs** – Capitol renovation is starting, but more remains to be done. Still pending is what to do about the Medical Examiners Office and the American Indian Cultural Center and Museum.
- ❑ **Bonds** – A recommendation to use bond financing for \$349 million in needed construction and renovation has yet to pick up any steam.



Treasurer's Commentary

By Ken Miller, Ph.D.



Contingency plans

A billion dollars in unclaimed life insurance proceeds nationwide, and tens of millions of dollars in Oklahoma, are due to people who don't know these benefits exist. And some bad actors in the life insurance industry are trying to keep it that way.

My strong opposition to SB 298 has been widely reported. The bill is part of a national strategy the life insurance industry is using to turn unclaimed life insurance benefits from liabilities into interest-earning assets. While the bill appears to help beneficiaries by mandating that insurers use the Social Security Death Master File to pay benefits due on *future* policies, its true intent is to ban use of the file on policies *currently in force* – a fact the industry will not admit, but one that became clear when they fought an amendment that would have ensured the bill could not be used in court for a prohibiting declaratory judgment.

Less reported on is HB 1741, a companion bill that would ban state agencies from contracting with companies on a contingency fee basis. I have called both bills shameful for their deceptive methods and shared goals of prohibiting examination of companies not complying with the state's unclaimed property laws. But really, HB 1741 is more dumb than shameful.

Oddly enough, the State Chamber and some from the far right have come together to support this bill with arguments that are in direct conflict with their public positions.

My friends at the State Chamber have taken the curious position of opposing public sector use of private businesses on a commission basis, alleging that such vendors are "for profit" companies "motivated by greed."

“No kidding, a chamber executive is actually arguing against the profit motive.”

No kidding, a chamber executive is actually arguing against the very foundation of free market capitalism: the profit motive. So much for Adam Smith's belief that individuals work for the common good while seeking their own gain. I can think of no better example of Smith's invisible hand doctrine in practice than private businesses, motivated through the market system, working on behalf of consumers. If anything is greedy, it is

an insurance company trying to keep money belonging to a dead person's loved ones.

The chamber further states that these performance-based vendors should not be given the power to "tax or seize" business assets. Remitting unclaimed property is not a tax or a seizure of business assets. These are funds that belong to individuals, not companies. Examinations are conducted of businesses not complying with unclaimed property laws. Besides, the vendors can only identify unremitted funds; enforcement power rests with the state.

The bill's author, an insurance agent who self-identifies as a staunch conservative and proponent of small, limited government, contends to have no problem with enforcing compliance through examinations. His stated reason for authoring the bill is to stop state agencies from using pay-for-performance contracts,

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Commentary

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which would increase state spending and run counter to his goal of keeping government small and limited. Not to mention, many conservatives I know support performance pay in other professions, most notably in education.

And it wasn't long ago conservatives supported the "Yellow Book" test, believing the private sector should provide any good or service it could do better or cheaper than the public sector. Oklahoma joining with multiple states to contract with one vendor on a contingency basis is the least burdensome and most cost-effective way to insure compliance and protect consumers.

The alternative is to pay a fixed fee

that would shift the risk away from a third party vendor to taxpayers or require states to maintain a specialized staff to travel the country conducting examinations at increased expense to taxpayers and businesses alike.

Use of private unclaimed property examination firms on a contingency or pay-for-performance basis is not new. An overwhelming majority of states have been contracting with them for more than 30 years because it is the most fiscally-sound approach to compliance, ensuring that public funds are expended only when results are produced.

A Uniform Law Commission special committee, composed of commissioners from 10 states, confirmed that states should be permitted to use contract examiners

on a pay-for-performance basis, a process by which the states have collected hundreds of millions of dollars in unreported property on behalf of their citizens. This position paper can be viewed at <http://goo.gl/9nCpJr>.

States return a significant percentage to rightful owners, the clear purpose of unclaimed property laws. Amounts not immediately returned eventually help all citizens. However, owners always retain the right to claim 100 percent of their property.

Both bills are expensive and harmful solutions proposed to fix fictitious problems concocted by special interests to boost profits at the expense of all Oklahomans. These bills should get the attention they deserve and die a quick death.

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30, the bill's author, Pro Tem Bingman, noted that allotting more time and attention to the state budget would result in better and more informed decisions.

Another budget reform proposal is to replace zero-based budgeting procedures with performance-informed budgeting, part of an executive branch initiative to align financial resources to state priorities with measurable outcomes. A recently-launched website, OKStateStat, will track the state's progress in meeting its goals.

This new data tool adds to the

substantial information state agencies already provide to budget writers; what is now needed is more time for review. If the change to annual budgets/biannual policy is adopted by voters, legislators will have more opportunity to examine the data and prioritize spending.

In keeping with the renewed emphasis on accountability of expenditures, the Legislature looks likely to adopt a formal process for determining whether tax incentives are providing intended economic benefits to the state.

Education

Seeking to both fill the void from last year's repeal of common education

standards and address the skills gap among Oklahoma's students, several educational reforms were introduced this year.

One proposal that is still a work-in-progress is Senate Bill 707, which would replace existing end-of-instruction (EOI) tests with a different barometer for measuring educational attainment. However, the bill has been criticized by those who believe the elimination of EOI tests will weaken educational standards and by those who object to the replacement of those tests with any standardized evaluation tool, such as the ACT.

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Thus far, little middle ground has been found between those opposed to nationally-recognized standards and those advocating for testing that aligns with college and career readiness. The current version of the bill tasks the State Board of Education with developing standards to measure mastery of subject matter and establish minimum requirements for graduation.

One of the most ambitious and controversial education policy proposals this session would create education savings accounts, funded with a portion of the state's per pupil allocation, to provide parents the option of applying the funds toward other educational options. The bill's author decided to hold it over until next session and address questions and concerns during the interim.

Education officials have declared a crisis in their workforce and are advocating for increased teacher pay to help retain and recruit teaching professionals. While raising teachers' salaries has near unanimous support, state budget realities make addressing it near impossible this year. However, some legislators are exploring ways to streamline Oklahoma's top-heavy education structure to allocate more funds to the classrooms and those who stand at the front of them.

Construction needs

Last session, three significant construction projects were at the fore: restoration of the deteriorating State Capitol, completion of the American Indian Cultural Center and Museum (AICCM), and a new State Medical Examiner's office.

One of those items was partially addressed; the Capitol, with a \$120 million bond issue that now looks more like a down payment on the total cost of repairing the people's building.

The two proposals left unaddressed last session have received little attention so far this year. The State Medical Examiner's office lost its accreditation in 2009, in large part because of an inadequate facility. In 2013, a new facility was approved as part of a package of higher education construction projects, but since no funding has been provided for repayment of the estimated \$40 million construction cost, there are no plans for work to begin. The Chief Medical Examiner has said that upon completion of a new building, it would take between six months and a year to regain accreditation.

The state continues to pay nearly \$6 million per year in debt and maintenance expenses on the AICCM, a project that, until completed, is incapable of generating income. The options left on the table last session were to commit \$40 million in state funds to match the \$40 million in non-state pledges to complete the center, or to turn the state's investment over to Oklahoma City government to resolve with the state foregoing any return on investment.

The \$120 million bond issuance approved last year to begin the long-overdue repair and restoration of the State Capitol enabled the planning of the massive undertaking to begin, but was never anticipated to cover all the costs, as a full investigation of the scope of work had not been conducted. As State Capitol Project Manager Trait Thompson notes, there is no recent state capitol restoration project that has been completed for close to \$100 million.

Recent renovation work by other states has fallen between the mid \$200 million to \$300 million range.

Thompson said it is doubtful the \$120 million will cover all the renovation and restoration work, but the question is just how far it will go. Contracts for work on the exterior and interior have been signed and Thompson expects scaffolding up this summer. Of the current funds, a cap of \$25 million has been set for the exterior. But that is the area where costly problems are beginning to be revealed: more than 500 windows that may not be salvageable, poorly-anchored parapet walls on the top of the building, and light well walls that are unstable. Once the scope of repairs is fully known, Thompson expects to have an estimate for funds needed to complete all the necessary work. He stressed that approval of funds is needed early on so that the work can be properly phased for efficiency.

Bonds

In December, the Long Range Capital Planning Commission recommended the state consider a \$349 million bond issue to tackle the state's most critical construction and maintenance needs. Among the 53 projects recommended by the panel were completion of the AICCM, new military training centers across the state and improvements and expansion of several of the state's correctional centers. The last voter-approved bond issue was authorized in 1992 for \$350 million and was used to address multiple projects across various state entities.

Oklahoma, already well below the statutory debt limit of five percent of the General Revenue Fund, is on schedule to pay off more than 40 percent of its long-term obligations by 2019.



Nation's state treasurers take stand on pay-for-performance examinations

The National Association of Unclaimed Property Administrators (NAUPA), a subsidiary of the National Association of State Treasurers, is strongly opposing efforts in state legislatures across the country to make it harder to collect unclaimed property from businesses.

In a letter to states' legislators, NAUPA outlines its opposition to legislation proposed in a number of states, including Oklahoma, that would prohibit the use of examination firms on a pay-for-performance basis.

"Unclaimed property does not belong to the person or organization currently with its possession. It belongs to individual citizens and businesses in your state. Audits help ensure that those constituents' assets are rightly returned to them," the letter states.

For 30 years, states have employed such arrangements for unclaimed property audits and no evidence has been provided that would substantiate allegations that it has led to wrongful treatment of companies, the letter says.

Further knocking down claims from those supporting the legislation, the letter explains, "Contract auditors have no authority to 'seize' assets of companies under any circumstances. Contract auditors identify and document unclaimed property being held by a business entity. They have no authority to compel the reporting and remittance of any unclaimed property, and they cannot assess penalties."

Oklahoma House Bill 1741 would ban pay-for-performance examinations and is pending in Senate committee.

College saving tax deadline April 15

April 15 is not only the deadline to file income tax returns, it is also the deadline to claim an Oklahoma income tax deduction for contributions to the Oklahoma 529 College Savings Plan (OCSP) and OklahomaDream 529 Plan.

Money invested with the plans prior to the tax-filing deadline can be deducted from prior year taxes.

The deduction from Oklahoma taxable income is equal to the amount of contributions. For single taxpayers, the annual cap is \$10,000. For those filing jointly, the annual maximum is \$20,000.

The state income tax deduction is exclusive to contributions to the two state-sponsored 529 plans – the direct-sold OCSP, and the advisor-sold OklahomaDream 529 Plan.

The OCSP contains \$687 million in 56,700 accounts. OklahomaDream, launched in 2009, contains \$103 million in almost 10,000 accounts.

Since inception in 2000, more than \$230 million has been withdrawn from the OCSP to pay for qualified educational expenses.

Visit oklahoma529.com to open or contribute to an OCSP account. For OklahomaDream 529, contact your financial advisor.

NAUPA Endorses Long-standing Examination Process





Gross Receipts & General Revenue compared

The Treasurer's March 6 Gross Receipts to the Treasury report and the Office of Management and Enterprise Services' March 10 General Revenue Fund (GRF) report contain several differences.

February gross receipts totaled \$845.1 million, while the GRF received \$301.5 million or 35.7% of the total.

The GRF received between 35.7% and 54.5% of monthly gross receipts during the past 12 months.

From February gross receipts, the GRF received:

- Personal income tax: 22.6%
- Corporate income tax: 5.3%
- Sales tax: 42.3%
- Gross production-Gas: 42.3%
- Gross production-Oil: 65.6%
- Motor vehicle tax: 25.2%
- Other sources: 35.5%

February GRF allocations were above the estimate by \$30.8 million or 11.4%. Year-to-date revenue exceeds the estimate by \$205.2 million or 5.9%.

For February, insurance premium taxes totaled \$7.6 million.

Tribal gaming fees generated \$9.1 million during the month.

Gross Receipts to the Treasury climb in February as gross production collection drop steeply

Oklahoma's economy, as reflected in February Gross Receipts to the Treasury, is showing both positive and negative effects of low oil prices with sales tax collections up and gross production collections down, State Treasurer Ken Miller said today.

“Low oil prices were a double-edged sword for the Oklahoma economy during this past month, with gross production receipts falling by 24 percent and

sales tax collections rising by more than five percent,” he said. “It appears Oklahomans used the money saved at the gas pump to buy other items, which led to the higher sales tax figures.”

February total gross receipts topped \$845 million, up by more than \$27 million or 3.3 percent from the same month of last year. Sales tax collections grew by almost \$18 million compared to the prior year, while gross production

taxes dropped by almost \$17 million from last February.

Income tax collections rose during the month, topping receipts from the prior year by more than \$23 million or 9.3 percent. Both personal and corporate

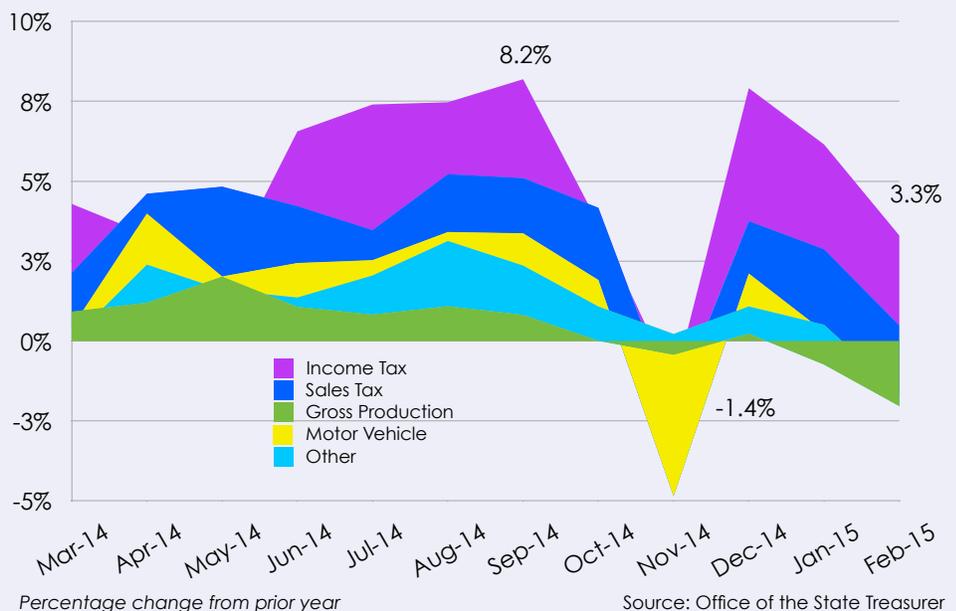
income tax receipts were higher than in February of last year.

Motor vehicle tax collections slipped

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“Low oil prices were a double-edged sword for the Oklahoma economy during the past month.”

Monthly Gross Receipts vs. Prior Year





State unemployment holds at 3.9 percent in February

Oklahoma's seasonally-adjusted unemployment rate was listed at 3.9 percent in February by the Oklahoma Employment Security Commission, unchanged from January and down one full percentage point from a year ago.

Compared to February 2014, statewide employment increased by 40,540 jobs, while the number of those listed as jobless dropped by 17,600 people according to the preliminary figures. The labor force grew by 22,950 over the 12-month period.

The national unemployment rate was set at 5.5 percent in February.

State Unemployment Report				
OKLAHOMA	Unemp. rate*	Labor force*	Employment*	Unemployment*
Feb '15	3.9%	1,812,340	1,742,330	70,010
Jan '15	3.9%	1,794,860	1,725,430	69,430
Dec '14	3.9%	1,782,240	1,712,320	69,920
Nov '14	4.0%	1,781,520	1,710,380	71,140
Oct '14	4.1%	1,780,680	1,707,960	72,710
Sep '14	4.2%	1,779,660	1,705,170	74,490
Feb '14	4.9%	1,789,390	1,701,790	87,610

* Data adjusted for seasonal factors Source: OESC

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slightly during the month, down by one-half of one percent.

Gross production collections in February were the lowest in almost two-and-a-half years, at just over \$53 million. The last time monthly gross production receipts were lower was in September

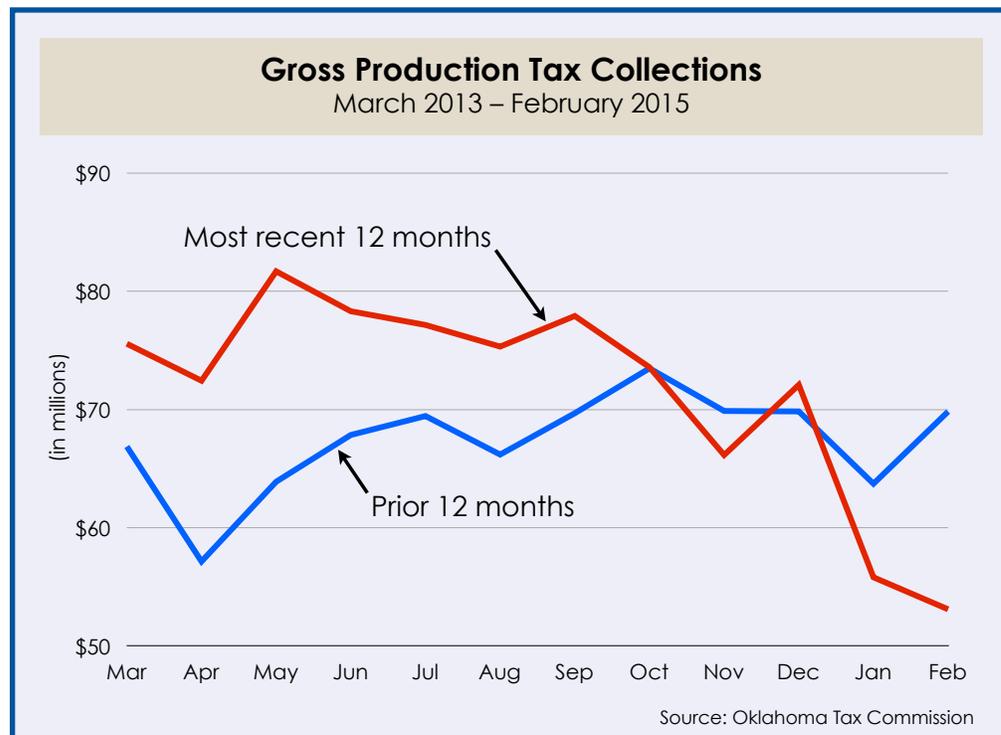
2012. February collections reflect oil field production from December, when West Texas Intermediate crude oil prices averaged \$59.29 per barrel.

Other indicators

The February Business Conditions Index for Oklahoma points to continued growth in the state economy during the next three to six months. The February survey shows Oklahoma with a rating of 53.7, compared to January's rate of 52. Numbers above 50 indicate anticipated economic expansion.

About Gross Receipts to the Treasury

The Treasurer's Office issues the monthly Gross Receipts to the Treasury report, which provides a broad view of the state's economy. It is released in conjunction with the General Revenue Fund allocation report from the Office of Management and Enterprise Services, which provides important budget information for state agencies.

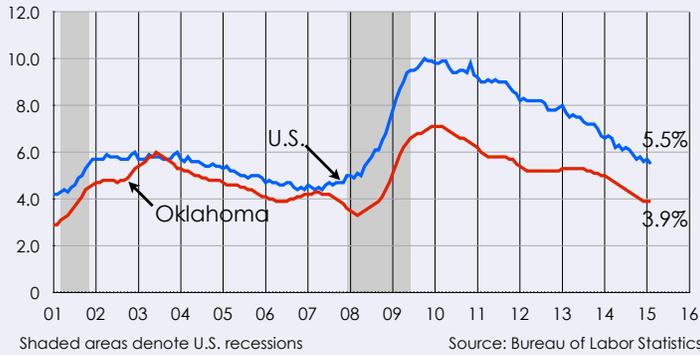




Economic Indicators

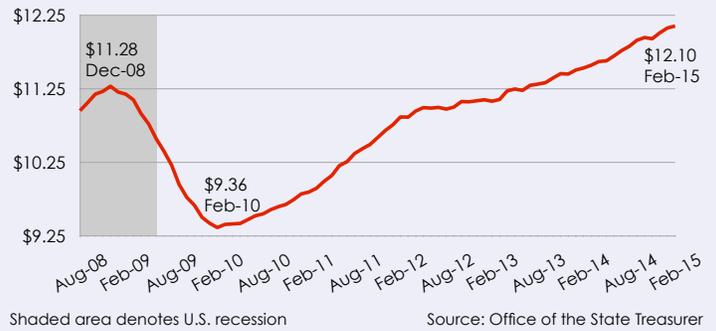
Unemployment Rate

January 2001 – February 2015

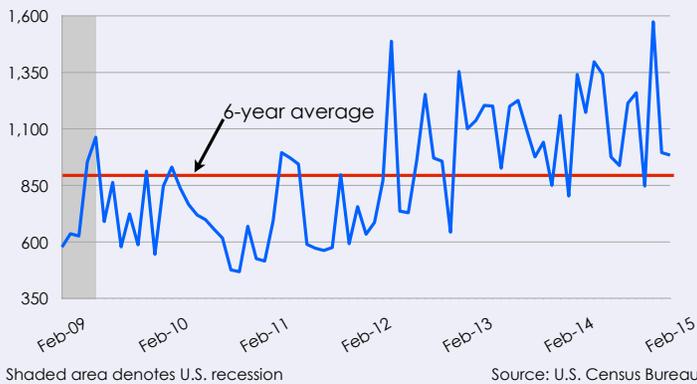


Oklahoma 12-Month Gross Receipts

August 2008 - February 2015
(in billions)



Oklahoma Monthly Building Permits

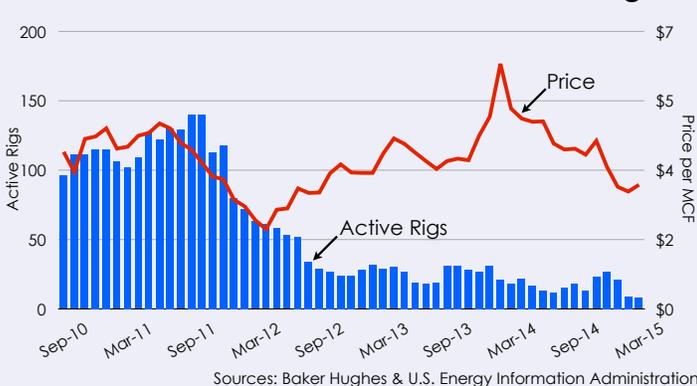


Oklahoma Stock Index

Top 25 capitalized companies



Oklahoma Natural Gas Prices & Active Rigs



Oklahoma Oil Prices & Active Rigs

