



# Oklahoma Economic Report™

News and analysis of Oklahoma's economy

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

## Gone with the wind

A coalition of business and community leaders are aggressively pushing for changes in what they say are much-too-generous tax incentives granted to the wind power industry in Oklahoma as policymakers search for ways to build a balanced budget in the face of revenue estimates almost 20 percent lower than the current fiscal year estimate.

Armed with facts, figures and arguments of unfair competitive advantages, the Windfall Coalition is conducting a campaign to end special tax treatment granted to the wind power industry.

Chaired by Pete Delaney, former Chairman and CEO of OGE Energy, coalition members also include Continental Resources Chairman and CEO Harold Hamm, Oklahoma City Mayor Mick Cornett, Oklahoma State School Board Association Executive Director Shawn Hime, and Oklahoma Independent Petroleum Association President Mike Terry, among others.

Meanwhile, the American Wind Energy Association reports Oklahoma ranks fourth among the states for installed wind capacity at 5,184

megawatts (MW), with 695 MW under construction. The state has 34 wind projects online with 2,790 turbines. The wind association says almost 17 percent of in-state power generation came from wind in 2014.

### Federal benefits

The wind industry benefits from a federal production tax subsidy of 2.3-cents per kilowatt hour (kWh) of generated power. In December of last year, the federal production tax credit

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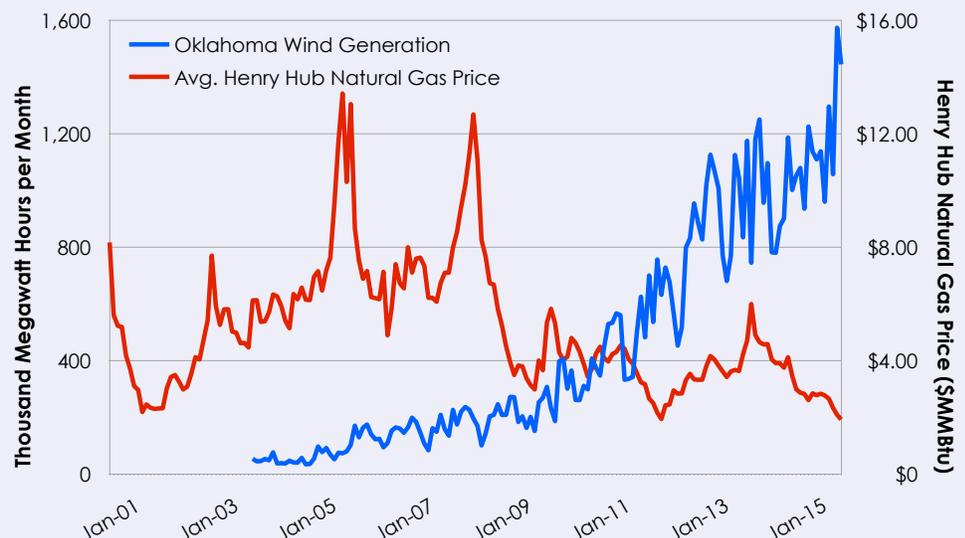
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#### Editor

Tim Allen, Deputy Treasurer for Communications and Program Administration

**Oklahoma Wind Generation vs. Natural Gas Price**  
2001 – 2015



Source: Energy Information Administration



## Guest Commentary

By Harold Hamm and Pete Delaney

### Wind Turbines: Symbiotic or Parasitic?

The industrial wind lobby will try to convince you wind and natural gas are symbiotic and complementary in supplying the power grid, but they are just talking their book.

In fact, the relationship is actually much more parasitic for Oklahoma taxpayers and the schools, infrastructure and social programs the state supports. The wind industry benefits while a host of traditional baseload energy suppliers and taxpayers lose. This less glowing description of the wind/natural gas relationship becomes clear when two important factors are included in the discussion: reliability and revenue.

Because wind power is inherently unreliable and cannot be stored commercially, electricity generators must rely on baseload supplies from other sources to ensure Oklahomans have the power they need, particularly on the hottest summer days.

In its latest monthly report (Dec. 2015), the U.S. Energy Information Administration confirmed natural gas,

of which Oklahoma is blessed to have ample supplies, was used to generate more than double the power of any of the state's other electricity sources. The same report showed Oklahoma electricity consumers enjoy the lowest price in the nation at 7.01¢/kilowatt hour.

To ensure electric power reliability, the state's utilities must build and maintain adequate generating baseload capacity, as well as on-demand peaker plant capacity, to meet 100% of demand when wind turbines are idle.

Consequently, wind farms provide only energy, not capacity, such that these subsidized wind farms are in a sense redundant to the power grid.

As the amount of wind energy grows in the system, utilities must increasingly cycle baseload and peaking capacity when the wind stops blowing, causing these core units to operate less efficiently and place more strain on equipment, which drives up maintenance costs.

Besides potentially destabilizing the power grid, wind energy is a drain on

**“Besides potentially destabilizing the power grid, wind energy is a drain on state coffers.”**



Harold Hamm



Pete Delaney

state coffers. Even after achieving and surpassing its 2010 renewable energy goal of 15% by 2015, Oklahoma taxpayers continue to pay not only federal, but also state tax dollars to

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## Hamm & Delaney

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subsidize the industrial wind industry. Furthermore, despite a shortfall and budget emergency, Oklahomans continue to rack up unfunded wind industry liabilities in the form of state tax subsidies and lost tax revenues totaling in the hundreds of millions of dollars.

With planned wind capacity in Oklahoma set to double from 2015-2017, the damage wind industry subsidies will inflict on the funding of vital state services will be catastrophic if they are not stopped now.

Adding insult to injury, 93% of all commercial wind generation capacity in the state is owned by out-of-state or foreign companies, and 63% of Oklahoma’s existing wind capacity

is tied to long-term agreements with customers in other states. This means the tax subsidies and payments to Big Wind will flow to beneficiaries beyond our state’s borders.

A perfect example of this is unfolding in the Arbuckle Mountains, where vistas have been covered with wind turbines owned by Spanish and Italian companies that receive Oklahoma state subsidies yet sell their electricity to utilities in Nebraska and Arkansas. Quite simply, the state wind tax subsidies fail to provide any significant economic benefits to Oklahoma.

Oklahoma’s wind industry is a mature one, with the first commercial farm coming online in 2003. Thirteen years later, the taxpayers of the state need

to stop giving away the farm to out-of-state and foreign wind companies.

Europe, the birthplace of many of the foreign wind companies, scrapped its generous subsidies to these companies once it realized the industry’s role in failed budgets.

With a failed budget of its own, why shouldn’t Oklahoma now eliminate wind subsidies, tax wind production and make wind compete fairly with power generated from other sources?

*Harold Hamm is Chairman and CEO of Continental Resources and a member of the Windfall Coalition.*

*Pete Delaney is former Chairman and CEO of OGE Energy and a member of the Windfall Coalition.*

## Wind attack

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was extended for an additional five years – until the end of 2019. There is no cap on the rebate.

Because of the federal credit’s continuation, the Windfall Coalition maintains Oklahoma incentives are unnecessary and terms the extension an “unexpected windfall.”

There are four Oklahoma wind subsidies, which the coalition states are costing state government more than \$316 million this year.

### **Zero emissions credit, property tax exemption, investment credit, sales tax exemption**

The state 10-year zero emission tax credit is 0.5-cents per kWh generated and is refundable in cash for 85-percent of its face value. This credit is scheduled to sunset in 2020 and be paid out by 2030.

According to the Oklahoma Tax Commission, the zero-emissions tax credit totaled \$27 million in 2013 and

\$56 million in 2014. Projections show the cost is expected to grow to \$88 million this fiscal year and \$123 million the following year. Since the credit is refundable, wind companies receive payments from the state.

A 5-year ad valorem tax exemption for wind farm construction is currently scheduled to end next year with payout by 2022.

### **SEE WIND ATTACK PAGE 4**

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## Wind attack

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A 15-year investment tax credit also benefits the wind industry and is based on up to 2-percent of qualified depreciable property. This credit is set to end next year, too, with payout ongoing through 2032.

The wind industry also qualifies for the Manufacturers Sales Tax Exemption.

### Changes made last year

During the 2015 legislative session, a bill was passed and signed into law ending the ad valorem tax exemption in 2017. When signing the legislation, Governor Mary Fallin said, “Wind energy is here to stay. It no longer needs the same level of support and encouragement from the state.”

When the measure was passed, Senator Mike Mazzei, R-Tulsa, said it could save the state \$500 million over the next 10 years.

### More to do

Members of the Windfall Coalition aren’t satisfied with last year’s changes. Further, they say the wind industry is directly competing with natural gas used to generate electricity.

The coalition is pushing for the Legislature to eliminate the four current subsidies for the wind industry.

Unlike the oil and natural gas industry, there is no state production tax on wind. The coalition is calling on the

Legislature to level the playing field by assessing a gross production tax on wind power generation to make the situation more equitable.

### Add oversight

The coalition is further proposing the state institute regulation of the wind industry. The state currently has no way to verify the production numbers on which subsidies are currently paid.

The solution, they recommend, would be to install a wind turbine

metering system.

### Outsiders

One of the avenues of attack by the Windfall Coalition is pointing out that 93 percent of wind companies doing business and receiving wind subsidies in Oklahoma are out of state and foreign owned.

More than half, 56 percent, of the companies are domestic but not based in Oklahoma, while 37 percent are from foreign nations.

Further, almost two-thirds – 63 percent – of wind power generated in Oklahoma is tied to out-of-state contracts.

As pressure grows on the Legislature to find ways to generate additional revenue for the state, members of the Windfall Coalition are hoping changes with the way the wind power industry is taxed and regulated will be seen as a way to crank out more dollars, or at least help stop the drain on the treasury.

“**The coalition says state subsidies for wind are costing state government more than \$316 million this year.**”

## Members of the Windfall Coalition

### Pete Delaney

Chairman of the Windfall Coalition

### Mick Cornett

Mayor of Oklahoma City

### Harold Hamm

CEO, Continental Resources

### Shawn Hime

OSSBA  
(Oklahoma State School Boards Assoc)

### Ethan House

EnergyNet

### Jeff McDougall

JMA Energy

### Frank Robson

Claremore Public Schools Foundation/Robson Properties

### Bobby Stem

Oklahoma Roads & Bridges

### Bill Schonacher

IBC Banks

### Jonathan Small

OCPA  
(Oklahoma Council of Public Affairs)

### Mike Terry

OIPA  
(Oklahoma Independent Petroleum Assoc)



## Monthly allocations from General Revenue cut 18 percent

In March, with state government already under a constitutional revenue failure, state finance officials ordered further reduction in monthly apportionment to appropriated state agencies as February General Revenue Fund (GRF) allocations were reported as falling 18 percent below the monthly estimate.

Through February, fiscal year-to-date (YTD) GRF allocations stand at 8.9 percent, or \$327 million, below the estimate.

Beginning in January, officials ordered across-the-board cuts of 6 percent to monthly allocations to appropriated

agencies. The monthly cuts were increased three-fold upon receipt of February revenue reports.

Revenue failure is declared when GRF allocations fall more than 5 percent below the estimate. The state budget is built on estimated collections less a 5-percent cushion.

In a news release issued by the Office of Management and Enterprise Services, Preston Doerflinger, Cabinet Secretary for Finance, made a call for the Legislature to increase state revenue.

“March’s deepened midyear revenue failure reduction was necessary because the rest of the year is projected to look a

lot like February,” Doerflinger said. “It bears repeating that the most responsible way out of this is by adding stable, recurring revenues into the next budget as the governor proposed and is actively discussing with Legislature.”

Net income tax, a combination of individual income and corporate income collections, is the only revenue stream that exceeds the YTD estimate for FY-16. Allocations of \$1.42 billion are \$49.5 million, or 3.6 percent, higher than the YTD estimate.

FY-16 allocations to the GRF from gross production taxes on oil and natural gas extraction stand at \$69.3 million. This is \$141.1 million, or 67.1 percent, below the YTD estimate.

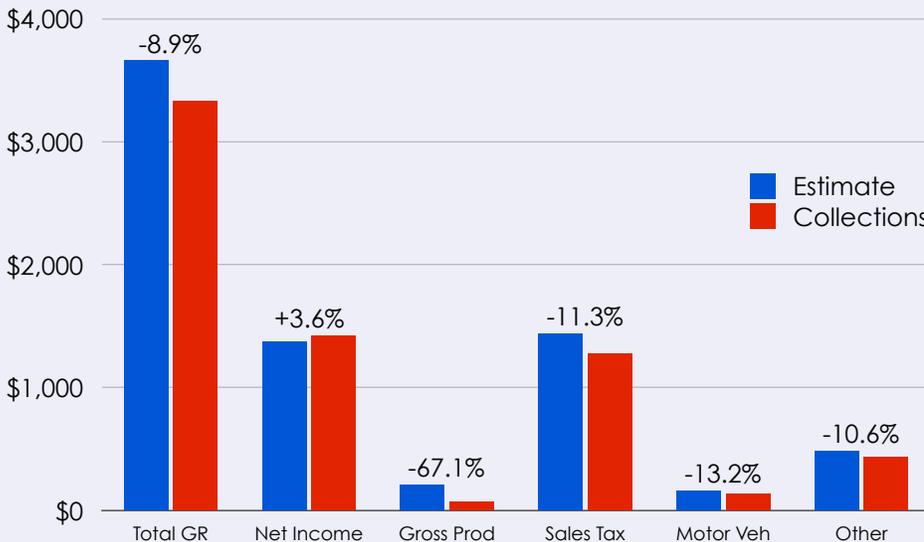
Sales tax GRF allocations stand at \$1.27 billion, lower than the YTD estimate by \$163.1 million, or 11.3 percent.

Motor vehicle allocations for FY-16 are \$136.1 million, less than the YTD estimate by \$20.7 million, or 13.2 percent.

Other sources of GRF revenue totaled \$433.5 million, which is \$51.5 million or 10.6 percent less than the YTD estimate.

**“... the most responsible way out of this is by adding stable, recurring revenues into the next budget...”**  
**– Doerflinger**

**FY-16 Year-to-date Collections vs. Estimate**  
(in millions)



Source: Office of Management and Enterprise Services

### About General Revenue

As state government’s main operating fund, the GRF is the key indicator of state government’s fiscal status and the predominant funding source for the annual appropriated state budget.

GRF collections are revenues that remain for the appropriated state budget after rebates, refunds and mandatory apportionments.



## Gross Receipts & General Revenue compared

February Gross Receipts to the Treasury totalled \$758.48 million, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received \$225.6 million, or 29.7% of the total.

The GRF received between 29.7% and 53.6% of monthly gross receipts during the past 12 months.

From February gross receipts, the GRF received:

- Personal income tax: 11.2%
- Corporate income tax: 34.8%
- Sales tax: 43.8%
- Gross production-Gas: 34.6%
- Gross production-Oil: 3%
- Motor vehicle tax: 27.6%
- Other sources: 33.3%

February GRF allocations are below the estimate by \$49.4 million or 18%. Fiscal year-to-date collections are less than the estimate by \$327 million or 8.9%.

February insurance premium taxes totaled \$12.22 million, an increase of \$4.57 million, or 59.8%, from the prior year.

Tribal gaming fees generated \$9.49 million during the month, up by \$398,838, or 4.4%, from last February.

## February Gross Receipts to the Treasury show continued contraction

Monthly Gross Receipts to the Treasury in February continued the trend of falling revenue collections for a 10th consecutive month, State Treasurer Ken Miller announced.

February receipts of \$758.5 million are down by almost \$90 million, or more than 10 percent, compared to February of last year. It is the lowest February total since 2011 as the Oklahoma economy was recovering from the Great Recession.

some 70 percent and our state's anchor industry in the midst of correction, we have apparently not yet found the bottom and continue to see the spillover effect in all major revenue streams," Miller said.

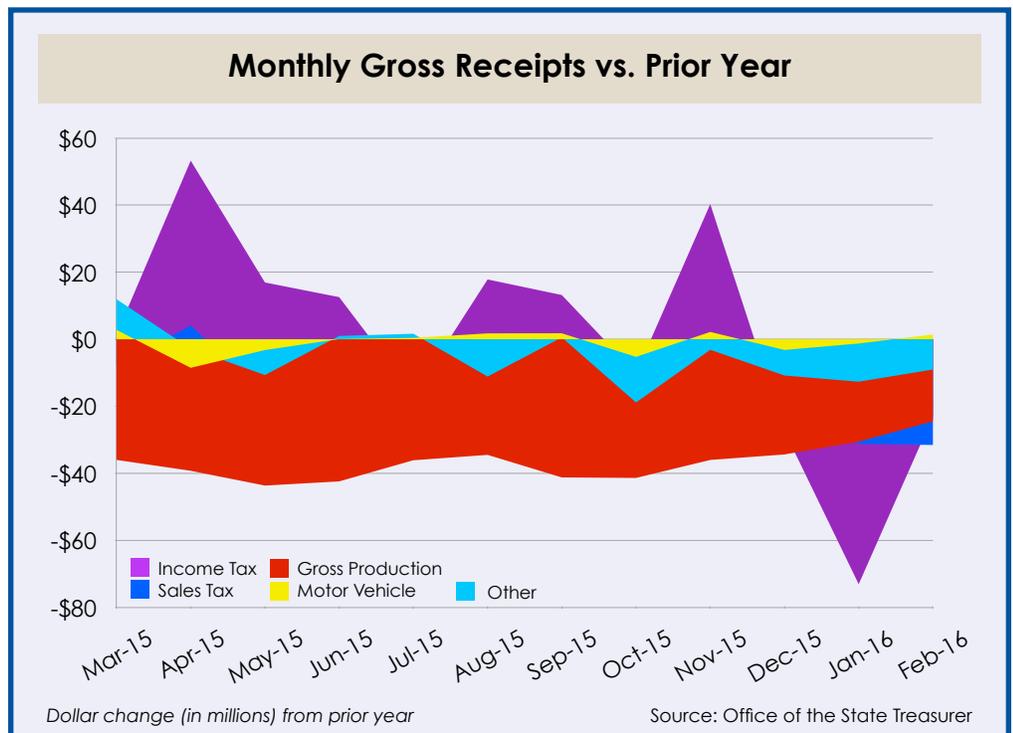
**“With oil prices off their 2014 peak by some 70 percent and our state's anchor industry in the midst of correction, we have apparently not yet found the bottom.”**

Twelve-month Gross Receipts to the Treasury shrank by more than 5 percent compared to the previous 12-month period, and – at \$11.4 billion – is the lowest 12-month total since October 2013.

Monthly collections from oil and natural gas production taxes have been

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“With oil prices off their 2014 peak by





## Revenue

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lower than the same month of the prior year for one year and two months. February gross production collections are more than 45 percent lower than last February. Monthly receipts are based on production activity from December when the average price of benchmark West Texas Intermediate crude oil was

\$37.19 per barrel. Average oil prices were below that level in both January and February.

### Other indicators

The Oklahoma's Business Conditions Index remained below growth neutral for a 10th consecutive month. The

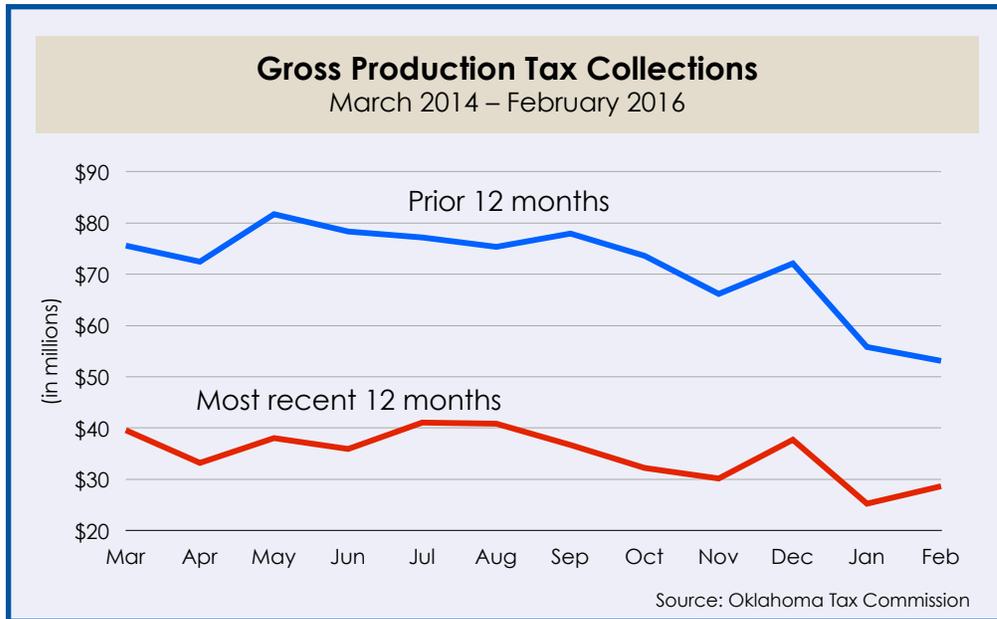
index from a monthly survey of supply managers fell to 39.4 in February from 48.3 in January. Numbers below 50 indicate economic contraction is expected during the next three to six month.

### 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 (GRF) allocation report from the Office of Management and Enterprise Services, which provides important information to state agencies for budgetary planning purposes.

The GRF receives just less than half of the state's gross receipts with the remainder paid in rebates and refunds, remitted to cities and counties, and placed into other state funds.



## Oklahoma unemployment rate ticks up slightly in February

Oklahoma's seasonally-adjusted unemployment rate was set at 4.2 percent in February, up by one-tenth of one percentage point from January, according to the Oklahoma Employment Security Commission (OESC).

The number of those listed as unemployed has increased by 1,966 since February 2015, while the labor force as increased by 31,517.

The national unemployment rate was set at 4.9 percent in February.

OKLAHOMA	Unemp. rate*	Labor force*	Employment*	Unemployment*
Feb '16	4.2%	1,861,902	1,784,183	77,719
Jan '16	4.1%	1,853,975	1,778,448	75,527
Dec '15	4.1%	1,847,602	1,771,229	76,373
Nov '15	4.1%	1,846,833	1,770,218	76,615
Oct '15	4.2%	1,845,974	1,768,887	77,087
Sept '15	4.2%	1,845,077	1,767,297	77,780
Feb '15	4.1%	1,830,385	1,754,632	75,753

\* Data adjusted for seasonal factors

Source: OESC



## Economic Indicators

