With the 2015 Oklahoma legislative session now history, the analysis has begun.

As in years past, the OER asked representatives of various interest groups to weigh-in with their analyses. This year, the viewpoint of those on the right is represented by the Oklahoma Council of Public Affairs, and on the left by the Oklahoma Policy Institute. Education employees are represented by the OEA, state workers by OPEA, and the business community by the State Chamber.

**Michael Carnuccio, President, Oklahoma Council of Public Affairs**

There were several significant policy accomplishments in the 2015 legislative session. Among the most important:

*Paycheck Protection.* This Scott Walker-style reform prohibits Oklahoma’s state government and school districts from collecting membership dues for labor unions.

*State Employee Health Care Reform.* State-employee and education-employee health plans will now allow employees to access cost-saving alternatives. Once fully implemented, this reform could save the state more than $78 million annually.

*Stopping Local Regulatory Abuses.* With environmentalists trying to thwart oil-and-gas activity in Oklahoma, a new law protects property owners, businesses, and workers against violations of their rights.

*Protection of Doctor/Patient Relationship.* An important new law keeps the regulators at bay and protects the ability of patients to make private payment for affordable health care options, such as direct primary-care arrangements and surgeries.

*Medicaid Reform.* Much-needed reforms to Oklahoma’s broken Medicaid system will spur better-coordinated care and will help transition people from a dependence on government to self-sufficiency. Once reforms are fully implemented, total savings will exceed $25 million annually.

*Uniform Regulation for Ridesharing.* With local taxi and limousine monopolies often trying to snuff out innovative new competitors such as Uber, a new state law will protect businesses from red tape at the local level.

*Corrections Reforms.* New laws on licensing, judicial discretion, and more will help reduce the incarceration rate of nonviolent offenders and provide a pathway for them to become personally responsible.

Along with these positive policy developments, however, there were also several disappointments and missed opportunities.

A major disappointment is the unwillingness to give parents more control over their children’s education. Parents, not government officials, have the moral right to determine their child’s path. Legislation by Sen. Clark Jolley and Rep. Jason Nelson would have created education savings accounts, allowing parents to take a portion of their child’s per-pupil funding and use it for tutoring, private-school tuition.

**SEE SINE DIE PAGE 3**
A dose of budget reality

Having not yet found that elusive recipe to grow government money on trees, those of us tasked with working on the next state budget turned instead to our old, trusted friend: Reality.

Regular readers will recall Reality initially offered $611 million, or 8.5 percent, less to work with for the next budget than was used in the current budget. As government is prone to do, it called Reality back and asked for more.

And lo and behold, Reality found more, as Reality often does.

Upon further consideration, Reality produced an additional $590 million in revenue to help the Fiscal Year 2016 budget balance, including $125 million from agency revolving funds.

While these revolving fund revenues have been characterized broadly as “one-time funds,” a deeper dive shows that isn’t reality in many cases.

One-time funds are exactly what they say: Funds available only once. Using them for ongoing expenses is fundamentally unwise because it tends to artificially inflate the budget. Thankfully, the governor and legislative leadership agree the practice should be avoided when possible and extremely limited when used.

For that reason, in next year’s budget great care was taken wherever possible to access only those revolving funds receiving recurring revenues. Indeed, many accounts accessed for next year were also accessed this year and have since replenished – sometimes with even larger balances than when first accessed a year ago.

“ It’s true this was a difficult budget to build, but in reality it will not be unmanageable to execute.”

This is because, in reality, many of these accounts receive apportioned tax revenues “off the top” before those dollars reach the General Revenue Fund. While the state’s challenging statutory apportionment structure remains mostly intact for now, a significant amount of apportioned funds residing in agency accounts were used as revenue in the upcoming budget. It’s a promising start to the long journey the state needs to take to make realistic apportionment reforms.

On the budget’s spending side, legitimate questions have been asked about transportation. That discussion is healthy and welcome, but how anyone can deride this governor or Republican Legislature on transportation funding and keep a straight face is beyond me. It’s not reality.

Reality: Since Governor Fallin took office, transportation funding has increased 34 percent – more than any other area of government. Of equal note is the 265 percent increase in state transportation funding since fiscal year 2005, after Republicans took control of the state House following decades of flat transportation funding under the Democrat legislative majority. Republicans rightly ended that trend and remained firmly committed to transportation in next year’s budget by preserving road and bridge funding for the eight-year state plan and the five-year county plan.

SEE DOERFLINGER PAGE 3
Reality: The modest adjustment the budget agreement made to the County Improvement Roads and Bridges (CIRB) program won’t put a dent in that progress or the ability of counties to fulfill their five-year transportation plan.

Reality: The CIRB fund needs $120 million a year to keep the five-year county plan intact. The $120 million CIRB funding apportionment cap the Legislature passed with the governor’s full support ensures that need is met.

Reality also shows revenues to CIRB have exceeded projections by $56 million since 2011. The budget agreement essentially swept that overage to the tune of $50 million. Even after the sweep, the CIRB fund will have $216 million – more than enough to fulfill all current obligations and then some when receiving $120 million annually in the future.

County commissioners aren’t happy about losing a little of the state money they love, but the reality is the CIRB fund had been receiving more revenue than was intended. An adjustment was wisely made.

Questions are also being asked about funding for the State Regents for Higher Education, which received an appropriation reduction of $24 million, or 3.5 percent – the largest agency reduction by dollar amount in next year’s budget.

Reality: While the reduction isn’t ideal, few agencies are better positioned to absorb a reduction of that nature than higher education. It has several robust revenue streams and $364 million in revolving funds – none of which were accessed in a budget that accessed $125 million in revolving funds from other agencies. In 2012, the agency requested and received $142 million to secure valuable endowed professorships at institutions statewide. And since 2011, the agency has reported $452 million in operational savings to my office and the Legislature.

When crafting this budget, we felt confident in higher education’s ability to offset its $24 million reduction with at least some of its $452 million in reported savings plus the many other resources at its disposal. Furthermore, I’m fully convinced tuition hikes can be avoided when our talented higher education leaders are willing to continue considering prudent management practices to reduce fixed costs – particularly in potential bloat in administrative and nonacademic expenses.

It’s true this was a difficult budget to build, but in reality it will not be unmanageable to execute. State government has scores of skilled individuals within its agencies who have become highly adept at dealing with fiscal reality. We have made it work before. We will again.

For real.

Sine die
FROM PAGE 1

college savings, and more.

Also, disappointingly, Gov. Mary Fallin vetoed an important measure requiring state agencies to publicly report the amount and nature of the federal funding they receive as well as the strings attached to that money.

Another missed opportunity was the failure to create Rural Opportunity Zones, allowing out-of-state residents moving to Oklahoma counties with declining populations to be exempt from Oklahoma income taxes for five years. This measure would have helped bring higher-value crops and livestock production, not to mention doctors, to rural Oklahoma.

By far the biggest disappointment—and that’s an understatement—is the budget deal. Despite a much-ballyhooed “shortfall” of $611 million, policymakers actually appropriated $17.2 million more than in the previous year. This year’s budget agreement relies on an eye-popping $485 million in one-time revenues. Oklahoma businesses and families are making sacrifices right now, but state leaders instead chose to kick the can down the road.
Sine die
FROM PAGE 3

The many policy victories deserve an “A,” but the budget deal deserves an “F.” In the end, we’re left hanging with needs to empower people through educational choice, rural opportunity and a fiscally prudent government; so, I have to give this session an “Incomplete.”

David Blatt, Executive Director, Oklahoma Policy Institute

There’s no question that putting together next year’s state budget with $611 million less available funds compared to this year was a huge challenge for lawmakers. State leaders were quick to say that all options were on the table for meeting this challenge. But it turns out the table was missing some legs.

The budget agreement tapped about $535 million in additional revenue beyond what was certified in February. All but $60 million of that revenue was from one-time sources, such as the Rainy Day Fund, county roads and bridges funds, and agency revolving funds. Lawmakers made some worthwhile reforms to reduce off-the-top transfers and send more money to the General Revenue Fund going forward. But by failing to halt an ill-timed income tax cut or curb unnecessary tax breaks, the budget left out common-sense measures that could have preserved important services and improved Oklahoma’s long-term budget outlook.

Proceeding with the tax cut was indefensible. The bill that passed last year had a trigger mechanism that lawmakers promised would prevent the tax cut moved ahead even after falling oil prices led to projections of steep revenue declines. Legislators still could have halted the tax cut, but they chose not to. This contributes $50 million to this year’s shortfall and $100 million more when its full cost goes into effect next year - all for a tax cut that gives just $31 to the average Oklahoma family.

Lawmakers also failed to rein in tax breaks that are clearly serving no valid purpose, such as the double deduction of state income taxes. They did put in place a comprehensive evaluation process for tax incentives. That’s encouraging for future years, but it still depends on lawmakers heeding the evaluations and acting to end tax breaks that aren’t paying off.

The budget writers deserve praise for doing their best with the revenues at their disposal, and for protecting health, public safety, and K-12 education from deeper cuts. Yet had they halted the tax cut, eliminated some tax breaks, and used a little more of the Rainy Day Fund, the outcome would have been substantially better. There could’ve been at least a modest pay raise for teachers to help address the teacher shortage crisis, and smaller cuts to higher education, transportation, state parks, the arts, and other areas that are key to making Oklahoma a thriving state.

The future doesn’t look much brighter. The budget’s heavy reliance on one-time funds means we will begin next year facing a hole of more than a half billion dollars. The longer we ignore the growing gap between the cost of services and the revenues we collect to pay for them, the greater the damage we will do to our health, safety, and economic prosperity.

Grade: D+

David DuVall, Executive Director, Oklahoma Education Association

With apologies to Toby Keith, what the legislature needed this year was a little less talk and a lot more action. For a second year, thousands of parents, students, and teachers rallied at the Capitol and for a second year, both groups were ignored. This year we rallied for help in two areas: fixing the causes of the teacher shortage and addressing our culture of high stakes testing run rampant. Now Sine Die has come and gone, as has another year’s hopes that the legislature will address either of these major problems affecting our students.

Considering a budget shortfall exceeding $600 million, common education was fortunate to receive a standstill budget. But forgive our reluctance to send thank-you cards to those whose fiscal policies are largely responsible for digging this hole in the first place.

Grade: D-

Sterling Zearley, Executive Director, Oklahoma Public Employees Association

With no money for pay raises this year, state employees’ compensation fell further behind the market. This was a tough budget year and we believe funding state employee pay should be a top priority next session. Changes to the state’s human resource system are

SEE SINE DIE PAGE 5
Some state employees continue to work in dilapidated facilities. Of great concern is an obsolete Oklahoma State Department lab housing dangerous pathogens.

Grade: C

Fred Morgan, President and CEO, Oklahoma State Chamber

While there wasn’t anything like the monumental Workers’ Comp or lawsuit reforms as in past sessions, legislators did improve the state’s business climate a bit. We hope that changes to the state’s budget process can be made so that at a time when revenues are hitting record levels, lawmakers aren’t facing the prospect of cuts to core services like education and transportation.

“Don’t you think there is a vast misconception of those in this building, and even more so out in the general public, about who this is for? It is not for the Indians, it is about the Indians. And it’s for Oklahomans.”

Sen. Rick Brinkley in debate on the AICCM funding bill in being considered in the Joint Committee on A&B.

“From my standpoint as a financial manager, you’ve got low debt, you’ve got low interest rates, you’ve got an infrastructure project that will create a multiplier of ten times what the actual cost to the taxpayers are, and that is what we call in my business a win-win.”

Sen. Roger Thompson, on the Senate floor in debate on funding for a proposed pop culture museum in Tulsa.

“I have to ask, if we’re going to be spending money on this, what would be next? Are we going to join a jelly of the month club? Because as Eddie so famously said, “Clark (Griswold), that’s the gift that keeps on giving the whole year long.”

Sen. Nathan Dahm on the Senate floor in debate on funding for a proposed pop culture museum in Tulsa.

“We have a tendency to forget our history…our arts are certainly a part of what Oklahoma is about…folks, once we give up on the arts, we give up on a major portion of Oklahoma.”

Sen. Kyle Loveless in debate on the AICCM funding bill in being considered in the Joint Committee on A&B.

“Members, we will take a back seat to no one on transportation: over two billion dollars that we have invested. I don’t know of another state agency that has received state appropriation increases of over two billion dollars that we’ve put into roads and bridges in this state since Republicans took the majority in the House in 2005.”

Speaker Jeff Hickman on the House floor, during debate on the general appropriations bill.

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“I would ask this body here to seriously consider making the baseline not to let us fall below Mississippi. You know, that ain’t asking much.”

Sen. Earl Garrison on the Senate floor, during questions about education funding levels in the general appropriations bill.

“We had to figure out how to stop the bleeding going forward on us being able to appropriate less and less money, us being able to not say education, health care, roads are a priority by having funds diverted before we ever had a chance to weigh in….we got some apportionment reform in this bill.”

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April Gross Receipts show impact of low oil and gas prices

Oklahoma’s April Gross Receipts to the Treasury report shows marginal overall growth from the prior year due to the effect of low oil and natural gas prices, State Treasurer Ken Miller announced on May 5.

Monthly collections of $1.32 billion exceed last April’s receipts by 0.5 percent. April’s growth brings 12-month collections to $12.1 billion, 4 percent higher than receipts from the trailing 12 months.

“These numbers indicate Oklahoma’s economy is still thriving, but growth is more subdued than during the past few years,” Miller said. “Due to April’s tax filing deadline, income tax collections provided a boost to the bottom line to counter the impact of falling gross production tax receipts.”

Income tax collections in April provided more than 50 percent of total revenue, and were up by more than $53 million, or 8.2 percent, from last April.

Collections from gross production taxes on oil and natural gas dropped by more than 54 percent, to $33.2 million in April, levels not seen in more than a dozen years. April collections

SEE REVENUE PAGE 7

Gross Receipts & General Revenue compared

April Gross Receipts to the Treasury totalled $1.32 billion, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received $673.3 million, or 50.9% of the total.

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

From April gross receipts, the GRF received:

- Personal income tax: 61.1%
- Corporate income tax: 35.6%
- Sales tax: 44.6%
- Gross production-Gas: 1.8%
- Gross production-Oil: 41.2%
- Motor vehicle tax: 25.8%
- Other sources: 47%

April GRF allocations were below the estimate by $87 million or 11.4%. Year-to-date revenue is short of the estimate by $4.5 million or 0.1%.

April insurance premium taxes totaled $51.16 million, up by $6.2 million, or 13.7%, from last April.

Tribal gaming fees generated $10.43 million during the month, down by $1.819, or 0.02%, from the prior year.

OECD Economic Outlook

OECD’s Economic Outlook report projects global GDP growth of 3.1% in 2015, up from 2.1% in 2014.

OECD predicts that U.S. GDP growth will slow to 2.3% in 2015 from 2.9% in 2014.

OECD expects that U.S. GDP growth will be stronger in 2016, with a projection of 2.7%.

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State jobless rate increases to 4.1 percent in April

Oklahoma’s seasonally-adjusted unemployment rate increased to 4.1 percent during April, according to the Oklahoma Employment Security Commission.

The number of those listed as unemployed increased by 4,360 from March, but decreased by 9,040 from April of last year.

Mining and logging, including the oil and gas industry, was the only supersector to lose jobs over the year.

The national unemployment rate was set at 5.4 percent in April.

Revenue

FROM PAGE 6
come from February oil field production, when crude oil sold for $50.58 per barrel and natural gas was set at $2.96 per thousand cubic feet.

Gross production collections are impacted by both price and production volume, and indications are that production is being scaled back.

Motor vehicle tax collections were also down in April, by more than 11 percent, while sales tax collections increased by just more than one percent.

Collections during the past 12 months show two major revenue sources with lower collections than during the previous 12 months – gross production and motor vehicles tax receipts. This marks the first time since September 2013 that two major revenue sources have had lower collections than during the trailing 12-month period.

About Gross Receipts to the Treasury

The Treasurer’s Office issues the monthly Gross Receipts to the Treasury report in conjunction with the General Revenue Fund allocation report from the Office of Management and Enterprise Services.
Economic Indicators

Unemployment Rate
January 2001 – April 2015

Leading Economic Index
This graph predicts six-month growth by tracking leading indicators of the economy including initial unemployment claims, interest rate spreads, manufacturing and earnings. Shaded area denotes U.S. recessions Source: Federal Reserve

Oklahoma 12-Month Gross Receipts
April 2008 - April 2015 (in billions)

Oklahoma Stock Index
Top 25 capitalized companies

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