Making the grade

State leaders grade the 2013 legislative session

The OER asked state leaders to give the accomplishments of the 2013 legislative session a letter grade and an explanation for that grade. While primarily positive, there were some dissenting voices.

**Governor Mary Fallin**

*Grade: A*

“The 2013 legislative session has been successful and historic. We worked with the Legislature to deliver a fiscally conservative, balanced budget that includes targeted increases for core services, while also cutting taxes for all working Oklahomans. Additionally, we worked with lawmakers to pass landmark reforms in the areas of workers’ compensation, government efficiency, mental health, child welfare, public safety, education and more. Finally, in the wake of the tragic May tornadoes, we worked with legislators to deliver a disaster relief bill that will help municipalities affected by natural disasters to recover and rebuild.”

**State Treasurer Ken Miller**

*Grade: A-*

“Last year, most pundits agreed that what didn’t happen overshadowed what did. Certainly, the opposite is true this year. Reforming the state’s worker’s compensation system, lowering the income tax and repairing the Capitol infrastructure are major achievements that will greatly enhance Oklahoma’s competitive economic environment, while preserving the historic Capitol building for generations to come. Those accomplishments – akin to hitting a homer and scoring three runs – would be cheered by any fan, but I was hoping for a grand slam. On deck for next session.

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<th>2013 Legislative Session Report Card</th>
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<td>Mary Fallin, Governor:</td>
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<td>Ken Miller, State Treasurer:</td>
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<td>T.W. Shannon, House Speaker:</td>
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<td>Brian Bingman, Senate President Pro Tem:</td>
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<td>Fred Morgan, State Chamber CEO:</td>
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<td>Sterling Zearley, OPEA Executive Director:</td>
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<td>Michael Carnuccio, OCPA President:</td>
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<td>David Blatt, OK Policy Director:</td>
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**Composite GPA:**

3.5  | B+
The state’s fiscal path, next year and beyond

Lost amid the usual talk of state budget winners and losers are two important fiscal policy choices that will help put the state on a steadier fiscal path next year and beyond.

The first is decreased reliance on one-time funds. Generally, these are nontraditional funds available beyond general revenue. They are often agency-specific funds that build up over time through collection of fees, carryover dollars or other means.

Tapping one-time funds to balance the state budget was a necessary crutch during the recession and recovery. Those days have passed, so it’s time to stop leaning so heavily on that crutch.

With revenues and legislative appropriations back to pre-recession levels, tapping vast amounts of one-time funds for general appropriations can inadvertently overgrow government by artificially inflating revenues over actual collections. It also leaves a smaller pot to draw from if revenues decrease. While it isn’t always problematic, it should be a rare exception, not the rule. It can be risky business.

Governor Mary Fallin and I deliberately kept her FY-14 executive budget proposal pure by proposing zero appropriations of one-time funds. Our intent was to show how government could be run on dollars it actually collects through traditional sources rather than relying on nontraditional sources, like one-time funds.

We’re pleased that legislative appropriations chairmen heeded the call and agreed to phase out most of those funds in two steps over two fiscal years. True to their word, one-time fund usage for FY-14 was cut in half compared to FY-13. That’s progress.

The second important fiscal policy choice in this budget is a preliminary shift toward performance-based budgeting, a fiscal model that allocates funds based on data-driven projections of measurable spending results. Businesses have used it for years, and in government it’s a great tool to get more bang for the taxpayers’ buck.

Unfortunately, state government rarely uses it. All too often, state budget builders act like farmhands sloppily filling a trough when they should be more like dieticians developing the best regimen for success. Important first steps were taken toward this goal by using performance-based budgeting in a few select components of the FY-14 budget.

One example is the $44 million in new FY-14 funding for the Department of Human Services to continue implementing initiatives like the Pinnacle Plan. For FY-13, DHS officials have hard data showing how every Pinnacle Plan dollar spent contributed to safer environments with more opportunities for children in the child welfare system. For FY-

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14, data projections show clearly how additional spending could be directly tied to expanding on that progress. Appropriating these funds was a solid, performance-based budgeting decision.

Beyond these two areas of progress, more must be done on one of the most critical fiscal issues the state faces: Pension system reform.

Oklahoma’s unfunded pension liabilities are its true debt problem. It isn’t bonds. The $11 billion in unfunded obligations owed to the state’s pension plan participants represent perhaps the single largest risk to state government’s fiscal stability. That’s not fearmongering. It’s fact.

As finance secretary, I meet regularly with financial ratings officials who tell me time and again that Oklahoma’s fiscal health is mostly strong but for its pension problem. It’s a problem many states face, but one we can actually do something about.

Governor Fallin and Treasurer Miller are to be commended for leading the effort toward the type of true pension reform this state needs. Next session, our legislators must listen and act. I believe they will, and in doing so will continue putting our state on a stronger fiscal path.

Grades

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is major reform that will bring long-term stability to the state’s pension systems and strengthen both our balance sheet and credit ratings.”

House Speaker T.W. Shannon
Grade: A-

“Not only have we launched a new workers comp program and lowered personal income tax this session, we have also completely overhauled this state’s infrastructure maintenance policy. As lawmakers, we are committed to becoming better stewards of the people’s tax money and buildings. Through liquidating unused assets and prioritizing the state’s maintenance needs, the infrastructure plan we passed shows Oklahoma is willing and able to care for the projects we have asked our citizens to invest in. This session is historic because we achieved things Republicans and Democrats said were impossible for the past several decades. We funded education, cut taxes and made major reforms. I give this session an A-. We went above and beyond expectations, but creating a more prosperous Oklahoma is always a work in progress.”

Senate President Pro Tem Brian Bingman
Grade: A

“The 2013 legislative session was clearly successful, and deserves an ‘A’ grade. SB 1062, which replaces our state’s workers’ compensation court with an administrative model, should stand as a monumental and historic achievement. Republican state leaders have sought a major overhaul of our comp system for decades. This is a long-overdue and necessary shift in Oklahoma’s business culture; and, it will do more to improve our business climate than any other single piece of legislation. SB 1062, combined with a responsible income tax cut, sends a very clear signal to job creators around the country: Oklahoma is open for business.”

State Chamber of Oklahoma President & CEO Fred Morgan
Grade: A

“What an outstanding year for Oklahoma business. The Legislature just concluded one of the most pro-business legislative sessions in our state’s history. The quantity and quality of pro-business legislation passed and signed into law this session is unprecedented, including landmark workers’ compensation reform our state has been craving for decades. There is no doubt that this session was an ‘A.’ We are fortunate that our Legislature and state leaders understand the needs of business and what it takes to grow our economy. We are well on our way to making Oklahoma the premiere place to do business in the nation.”

Oklahoma Public Employees Association Executive Director
Sterling Zearley
Grade: I

“Many important discussions were had about important state employee issues this legislative session including state employee pay, the merit system and pension reform. However the product of the studies resulting from this session

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Opinions and positions cited in the Oklahoma Economic Report are not necessarily those of Oklahoma State Treasurer Ken Miller or his staff, with the exception of the Treasurer’s Commentary, which of course, is the viewpoint of the treasurer.
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will not be decided until next legislative session. OPEA finds it very promising that the funding was provided for a remuneration study but state employees are disappointed this session brought no short term relief to seven years without a pay raise. We believe these issues will continue until Oklahoma develops a compensation philosophy to adequately pay state employees. Therefore, OPEA gives this legislative session a grade of Incomplete.”

Oklahoma Council of Public Affairs
President Michael Carnuccio
Grade: B
“Oklahoma policymakers moved worker’s compensation claims from an adversarial court to an administrative system, which should ease a significant employer burden. We missed an opportunity to reduce our income tax, a distinction from many states with more attractive business environments. Nearby states are working to lower tax rates. They see the economic growth and relative stability following Oklahoma’s rate cuts from 2005 to 2012.

“Speaker Shannon rightly called it a ‘travesty’ if Oklahoma families and entrepreneurs saw no reduction this year. Lawmakers increased spending a quarter-billion dollars for the second straight year without proving the effectiveness of taxpayer dollars already being spent.”

Oklahoma Policy Institute Director
David Blatt
Grade: D
“This session was marked by multiple triumphs of ideology over common sense. The Legislature rejected several reasonable options to extend health insurance to 150,000 of the poorest, unhealthiest members of our community, and instead made it likely that Insure Oklahoma participants will lose coverage this year. It approved a tax cut that will primarily benefit those who need help the least while avoiding serious tax reform measures to address our growing fiscal gap. And it diverted money that could have gone to education to pay upfront for Capitol repairs, rather than issue bonds at historically low rates.”

Final FY-14 budget finds common ground
The Governor’s Executive Budget identified priorities for allocating the additional funds available for Fiscal Year 2014. Presented in February, the $6.9 billion budget was built on December’s preliminary certification and without use of any non-recurring funds or the creation of new revenue, fees, or taxes.

The actual FY-14 budget was constructed with February’s final certification of $7.04 billion and appropriated a total of $7.1 billion, including the use of non-recurring funds. However, the use of such non-certified funds was half of what was used in the prior year’s budget.

Many of the policy goals and funding priorities expressed in the document were embraced by the Legislature, and a few still remain to be addressed.

The following is a review of how some of the executive requests were addressed in the final state budget for Fiscal Year 2014.

State Capitol Building Needs
Repairing the long-neglected Capitol building has been a priority of the governor for the past year, but the task was challenged by the House’s stipulation that the work be financed with cash rather than through low-cost bonds. This year’s executive budget included a $10 million appropriation to begin work to restore the Capitol, beginning with the crumbling exterior. ✓ Met. The FY 2014 budget provides $60 million in funding for the first half of a two-year, $120 million plan to restore and repair the Capitol, including the exterior facade and major mechanical, plumbing and electrical needs.

Health Care
While Oklahoma has rejected two key components of the federal Affordable Care Act, the optional Medicaid expansion and creation of a state health care exchange, the governor’s budget requested an additional $40 million to help the Oklahoma Health Care Authority deliver required services as well as the maintenance costs of Medicaid.
✓ Met. The Health Care Authority received $39.7 million in new funding to improve operations and provide Medicaid coverage.

Mental Health & Prescription Drug Abuse Prevention
The executive budget highlighted $6.3 million in new funding needs under the area of mental health, including an additional $1 million to annualize
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$701,000 to expand implementation of a prevention program to address the high rate of infant death in Oklahoma. The executive budget also called for $5.9 million for community service providers to those with developmental disabilities and $40 million in additional funding to support the effort of the Department of Human Services (DHS) in implementing the second year of a plan to improve the way the state delivers foster care services.

✓ Came close. An additional $700,000 in new funding was allotted for improving infant health outcomes and $44 million in new funding was provided to DHS to continue implementation of the improvement plan and to reduce the waiting list for receiving services for developmental disabilities.

Education Reform
The executive budget requested a $13.5 million funding increase to the Department of Education to help fund and implement education reforms put in place during the two previous legislative sessions.

✓ Exceeded. Of education’s $91 million budget increase, approximately $42 million is dedicated toward implementation of reforms and increased resources for classrooms.

Flexible Benefit Allowance for Teachers
$8.5 million was requested by the governor for the State Department of Education to pay for education employee Flexible Benefit Allowance costs that had exceeded the current fiscal year’s budgeted amount.

✓ Met. The budget includes an $8.5 million supplemental appropriation to education to fund employees’ benefit allowance for the current fiscal year.

Juvenile Affairs
The governor’s budget included $1.5 million for the Office of Juvenile Affairs to address maintenance of facilities and increase intensive treatment beds.

✗ Unmet. Although the Office of Juvenile Affairs received a budget increase of $2 million, the additional funds are to support other agency efforts, specifically for youth services and a Level E group home.

Quick Action Closing Fund
Last year the governor’s business-recruiting tool received its first funding, and this April, $3 million of it was used to cement a deal with General Electric Co. to bring a $110 million global research center to the state. The executive budget called for an additional investment of $5 million to continue the state’s efforts to attract and retain businesses.

✓ Came close. The final budget essentially replaced what was used in closing the GE deal, appropriating $3 million to the fund.
Monthly gross revenue sets record high in April

Driven by a spike in income tax collections, Oklahoma monthly gross revenue reached an all-time high in April, State Treasurer Ken Miller announced as he released the April gross receipts to the treasury report.

Total collections of $1.273 billion exceed the previous record of $1.16 billion set five years ago in April 2008 by almost 10 percent.

April’s strong performance brings 12-month collections of $11.222 billion to within one percent of the peak of $11.283 billion set in December 2008.

“These numbers indicate Oklahoma’s economic expansion continues,” Miller said. “April collections are obviously good, but just as we wouldn’t make too much of one decidedly negative month, we should not read too much into this one.”

Income tax collections were the primary driver of the increased monthly collections, Miller said. Those receipts were more than $100 million higher than April 2012.

The Treasurer’s May 3 gross receipts to the treasury report and the Office of Management and Enterprise Services’ May 14 General Revenue Fund (GRF) report differ significantly.

April gross receipts totaled $1.273 billion, while the GRF received $700.9 million or 55 percent of the total.

The GRF received between 32.2 percent and 57.3 percent of gross collections during the past 12 months.

From April gross receipts, the GRF received:

- Personal income tax: 61.7%
- Corporate income tax: 76%
- Sales tax: 42.9%
- Gross production-Gas: 43.5%
- Gross production-Oil: 68.7%
- Motor vehicle tax: 31%
- Other sources: 50.5%

April GRF allocations were above the estimate by $34.7 million or 5.2 percent. In March, collections were below the estimate by $61.6 million or 13 percent.

For the month, insurance premium taxes totaled $45.6 million.

Tribal gaming fees generated $11.9 million during April.

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**Monthly Gross Receipts vs. Prior Year**

**May 2012 - April 2013**

- **Income Tax**: 9.0%
- **Gross Production**: 10.1%
- **Sales Tax**: 8.8%
- **Motor Vehicle**: 4.2%
- **Other**: 1.0%

*Source: Office of the State Treasurer*
April state unemployment shrinks to less than five percent

Oklahoma’s unemployment rate was listed at 4.9 percent in April by the Employment Security Commission, down one-tenth of one percentage point from the March rate.

Reports show state employment grew by 220 jobs during the month, while the jobless number dropped by 2,150. Since April 2012, the state has added 18,790 jobs and the number of unemployed has fallen by 2,060.

The U.S. jobless rate was set at 7.5 percent in April.

### State Unemployment

<table>
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<tr>
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<th>Unemp. rate*</th>
<th>Labor force*</th>
<th>Employment*</th>
<th>Unemployment*</th>
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</thead>
<tbody>
<tr>
<td>Apr ‘13</td>
<td>4.9%</td>
<td>1,812,810</td>
<td>1,724,160</td>
<td>88,640</td>
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<tr>
<td>Mar ‘13</td>
<td>5.0%</td>
<td>1,814,740</td>
<td>1,723,940</td>
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<td>Feb ‘13</td>
<td>5.0%</td>
<td>1,817,380</td>
<td>1,726,140</td>
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<td>Jan ‘13</td>
<td>5.1%</td>
<td>1,818,740</td>
<td>1,726,380</td>
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<td>Dec ‘12</td>
<td>5.1%</td>
<td>1,816,630</td>
<td>1,723,540</td>
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<td>Oct ‘12</td>
<td>5.2%</td>
<td>1,810,920</td>
<td>1,716,320</td>
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<tr>
<td>Mar ‘12</td>
<td>5.0%</td>
<td>1,796,060</td>
<td>1,705,370</td>
<td>90,700</td>
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* Data adjusted for seasonal factors

Source: OESC

### Revenue

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than in April of last year and accounted for 53 percent of total collections from all sources, he said.

The tax commission reports the jump came from estimated tax payments for personal and corporate income taxes. Personal estimated payments were up by 28 percent, including several payments that were submitted along with tax year 2012 filing extensions. Corporate estimated payments rose by 44 percent over the prior year, including three large payments totaling $30.5 million.

Sales tax collections rose modestly during the month, up by about 3 percent from last April. Gross production and motor vehicle collections were below prior year collections by 7.8 percent and 4.1 percent respectively.

### Other indicators

Oklahoma’s unemployment rate continues to reflect the strength of the economy, Miller said. The state’s 5 percent March unemployment rate compares to a national rate of 7.6 percent.

March unemployment in the Oklahoma City metro was set at 4.6 percent, down from 4.9 percent in February. It is the lowest jobless rate out of the nation’s 49 largest metropolitan areas.

The Business Conditions Index for Oklahoma remained above growth neutral for April, dipping slightly to 59.8 from March’s 60.0. The survey indicates growth for the next three to six months will be positive.
Economic Indicators

Unemployment Rate
January 2001 – April 2013

Source: Bureau of Labor Statistics

Oklahoma 12-Month Gross Receipts
April 2008 - April 2013
(in millions)

Source: 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.

Source: Federal Reserve

Oklahoma Stock Index
(Top 25 capitalized companies)

Source: 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