Session report card: Legislature gets C

With the 2016 Oklahoma legislative session concluded, the final grades are now in.

As in years past, the OER asked state leaders and representatives of various interest groups to weigh-in with their thoughts.

With an estimated budget shortfall of $1.3 billion at the start of session, the primary focus was on how state leaders would handle the largest budget hole in state history.

The composite grade point average is 2.1, or a letter grade of C. Opinions were varied with letter grades ranging from B from House Speaker Jeffrey Hickman and Jonathan Small with the Oklahoma Council of Public Affairs to an F from Sterling Zearley at the Oklahoma Public Employees Association.

Governor Mary Fallin, who gives the session a C+, talks in detail about the session in a guest commentary on page 2.

State Treasurer Ken Miller
Grade: C
This session, the Legislature faced a most difficult budget challenge. However, they were also presented a unique opportunity to make structural reforms not as politically possible in better years. The Legislature ended the session with a balanced budget that avoided dreaded worst case scenarios, but leaves significant structural reform on the table.

Governor Fallin said, “I can’t help but feel we missed an opportunity to do more to reform our budget process and consolidate agencies.” I concur.

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Faced with a $1.3 billion budget gap this session, I am pleased that lawmakers were able to make targeted spending cuts and free up revenues through tax reform and structural budget changes to close the gap.

Those reforms included making some money in the Cash Flow Reserve Fund available for legislative appropriation, improving revenue stability of the General Revenue Fund by passing legislation creating the Revenue Stabilization Fund to deal with fluctuations in energy prices and apportionment reform.

We also ended the double deduction on income tax, capped a tax credit for at-risk wells and adjusted a coal credit.

We worked hard to protect key core services – common education, health and human services, corrections and the Oklahoma Health Care Authority – while keeping our eight-year transportation infrastructure plan intact.

Whether it’s improving public safety, fixing our roads and bridges, boosting education or raising our health outcomes and indicators, the successes of this session to protect core services in the midst of an energy crisis will help to make Oklahoma a better place to live, work and raise a family.

I’m pleased that legislators approved a $125 million bond issue to complete vital repairs at the state Capitol and also passed historic criminal justice reform bills that will help reduce Oklahoma’s prison population without jeopardizing public safety.

But I can’t help but feel we missed an opportunity to do more to reform our budget process and consolidate agencies. We still need to do more to address structural imbalances in the state’s budget, fix problematic tax policies and make available more recurring, stable revenue.

I was also disheartened lawmakers did not address an important health improvement measure by failing to approve a personal consumption tax on cigarettes. Smoking is Oklahoma’s leading cause of preventable death.

Lawmakers approving an additional $1.50 per pack would have been the most important thing we could have done to improve Oklahoma’s health ranking.

Oklahoma needs to address low-performing school districts and I hope lawmakers next year will consider consolidating the administrative costs of the state’s underperforming K-8 dependent school districts by putting them into existing preK-12 school districts.

It’s important to note this does not mean closing rural schools. This could have freed up some money for teacher pay raises.

It was indeed a challenging session, as we dealt with the largest budget hole in state history. I give it a C+.
The historic nature of the budget shortfall required lawmakers to make hard decisions. They made some but passed on others.

Faced with this monumental task, and elections just around the corner, they cobbled together a budget that took some positive steps on tax credits and deductions but also remained heavily dependent on nonrecurring revenue. This leaves the next Legislature with a $400 million hole that keeps state government operational but not structurally sound.

No doubt, during times of economic distress sub-optimal measures – like employing one-times—are sometimes necessary to adequately fund core government services. However, while lawmakers didn’t let this crisis go to waste, far fewer one-time funds would have been necessary if they had better leveraged the opportunity.

Critics abound and it is unfair to pile on top of those who worked hard to build the near impossible consensus needed to pass a budget in this climate. It is fair to be disappointed more will could not be garnered to make additional structural reforms.

Lawmakers passed on the chance to address the overly generous tax credits to the wind industry, which continues to receive excessive credits despite paying nothing to the state treasury. No action was taken to broaden the tax base to reflect our modern economy or find a recurring funding source for public health. Common sense efficiencies to consolidate the administration of failing dependent school districts could not even make it out of a committee hearing.

Until lawmakers come to terms with the reality that their desire to spend outstrips their desire to generate revenue, Oklahoma will continue to have structurally unbalanced budgets.

**Senate President Pro Tempore Brian Bingman**

**Grade: B**

Much focus was rightfully placed on the state budget this year, as the state grappled with a historic shortfall of $1.3 billion. At the start of the session, the Senate said it wanted to protect our core services like education and health care from devastating budget cuts.

Like most budgets I’ve voted on in my time in the Senate, this budget isn’t perfect and there are things the Senate wanted to do that we couldn’t because of the financial crisis.

Despite the historic budget shortfall brought on in part by the economic slump gripping the energy industry, we passed a budget that closes the shortfall while avoiding extreme cuts and worst-case scenarios in our schools, our hospitals and nursing homes.

This year, we also made some tough, but necessary choices to reform special tax breaks and budgetary reforms that will end the reliance on one-time sources of money to pay for recurring expenses in the state budget. This puts the state budget on much more solid financial footing and signals that Oklahoma’s a stable place to invest.

I want to thank my fellow members for all their hard work during an extremely challenging legislative session. Good things were accomplished despite the difficulties that were faced.

**Speaker of the House Jeffrey Hickman**

**Grade: B**

This session was the most challenging one I have been part of as we faced an historic budget shortfall brought on by the oil bust. I am proud of the way members of the Oklahoma House worked diligently since last June to prepare for these challenges.

With $1.3 billion less to build a budget this year, it was impossible to shield every agency from cuts; however, lawmakers responsibly avoided worst-case scenarios, crafting a conservative state budget which protects core services such as education, corrections, transportation, and health care. We identified new revenue streams and created a budget stabilization fund to assist legislators during future downturns.

We enacted critical reforms to our criminal justice system, eliminated burdensome testing requirements for common education, protected preK-12 schools again from budget cuts and finalized a plan to complete the repair needs of our Capitol.

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Legislators focused more time than ever on the state budget, beginning the process last year by meeting with agencies to determine needs, working with the Senate and governor, and creating working groups that involved far more lawmakers – work that historically doesn’t happen until after session begins.

There were difficult challenges, but House Republicans met them head on, and I believe Oklahoma will be better for the decisions made here this year.

State Chamber of Oklahoma President & CEO Fred Morgan

Grade: B-

The legislature targeted many valuable economic development incentives to raise revenue to fill the $1.3 billion budget gap. As a result, the construction, oil and gas, manufacturing, mining and railroad industries will see their tax liabilities increase under several bills adopted this session.

In spite of these increases, the business community will benefit from legislation on franchisees, seasonal employees, education standards and tests, sales tax fairness and more. Some important issues fell through the cracks like adjustments to the state’s workers’ compensation system and judicial reforms. We will be spending the interim listening to our business members and developing a strategy for next year.

Oklahoma Council of Public Affairs President Jonathan Small

Grade: B

Policymakers are to be credited for protecting Oklahoma from the Obamacare Medicaid Expansion ‘rebalance’ scheme, as well as rejecting a 145% tax increase on Oklahomans and other damaging tax increase proposals.

An opportunity was missed to eliminate President Barack Obama’s alternative energy scheme and state taxpayer bailouts for wind production.

Opportunities were also missed to further right-size state government out of respect for the significant shortfalls experienced by Oklahoma families’ budgets.

But policymakers are to be credited for recognizing, with the state budget, that significant tax increases would repeat the compounding mistakes of the late 1980s and early 1990s and damage the economy, and that, finally, the largesse in higher education deserves attention and needs to be reduced. Given the historic challenges facing the private sector, policymakers deserve a B grade.

Oklahoma Public Policy Institute Executive Director David Blatt

Grade: D

Over the past four months, we saw growing awareness of the state’s structural budget deficit and our excessive reliance on one-time revenue funds to sustain government operations.

We heard repeated commitments to use this year’s massive budget shortfall as an opportunity to make structural reforms that would put our budget on more sound long-term footing.

Lawmakers had many chances to do so by rolling back ill-timed tax cuts, reducing wasteful tax breaks, and selectively raising taxes or broadening the tax base.

Ultimately, lawmakers failed to make those hard choices and instead slapped a bunch of Band-Aids onto gaping wounds. The budget that got rolled out in the final days of session relies on over $600 million of one-time revenues raised primarily through bond issues and transfers from various funds.

To make matters worse, one of the few sources of recurring revenue comes from cutting the Earned Income Tax Credit, a vital income support for low-income working families. The one-time revenue source we should have used, the Rainy Day Fund, was left largely untapped at the expense of grave cuts to mental health and human services.

At a time when courageous leadership was desperately needed, we got business as usual.

Oklahoma Education Association President Alicia Priest

Grade: C

If education policy alone were the basis for our grade, the legislature would receive high marks this year. After a decade of ineffectively experimenting with high stakes testing as a means of improving student performance, legislators listened to parents and teachers and changed course.

They repealed the requirement that high school students pass seven End of Instruction exams to graduate, replacing it with a system to be created by Oklahoma’s education community. Local districts will also now have more control in determining how to evaluate student performance.
Session
FROM PAGE 4

their teachers, removing the complex and controversial test score-based system.

Leadership refused to hear voucher bills in either house, and ultimately decided not to meddle with the new academic standards for English and math.

From a policy perspective, it was a good year. But the state’s fiscal calamity is doing real harm, right now, to our students and our schools. Over 10 percent of Oklahoma schools won’t be able to educate our students five days a week next year.

Our teacher shortage crisis goes unaddressed, and our classrooms are bare. Our legislature claims to want our schools to prepare students to be “college and career ready,” but the FY’17 budget leaves us doubting their sincerity.

Oklahoma Public Employees Association Executive Director Sterling Zearley

Grade: F

The Oklahoma Public Employees Association deems this legislative session to be a failure of epic proportions.

Due to the clear lack of leadership at the State Capitol to push for the actions that were so desperately needed to begin fixing Oklahoma’s structural budget deficit, the State is left with a budget that cuts deeper into areas already suffering and does almost nothing to make sure the we’re not in this exact same position next year.

Many rank-and-file members of the legislature never seemed to truly grasp the severity of the budget crisis.

On one hand, legislators said they were working tirelessly on the budget, while on the other they said state agencies still had plenty of fat to cut. We think neither was true.

Without any real leadership out in front of the issue urging lawmakers to fix the budget and move the State forward, combined with the budget’s last-minute unveiling, legislators were enabled to stand in the way of any real progress.

Oklahoma state agencies are left with budgets that ensure they remain barely functional and there is no light at the end of the tunnel for the citizens who depend on them.

Rating agencies’ views of Oklahoma outlined

The three primary credit rating agencies are keeping a close watch on Oklahoma’s finances. Moody’s Investors Service has the state on negative watch, while Standard & Poors Rating Services and Fitch Ratings list the state as stable.

Moody’s currently rates Oklahoma debt at Aa2, one notch below the AA ratings from the Standard & Poors and Fitch.

Strengths

Gleaned from recent agency reports affirming the state’s credit ratings, Moody’s lists strengths as the state’s conservative fiscal practices, including below-average debt levels and strong reserves, along with healthy liquidity.

Standard & Poors also points to liquidity and low debt as positives, along with the state’s constitutional reserve fund, or rainy day fund, to help cushion the impact of revenue downturns.

Fitch cites conservative financial mechanisms such as separate maintenance of the rainy day and cash flow reserve funds. Low debt levels and statutory authorization requirements for debt issuances are also mentioned by Fitch as positives.

Challenges

All three agencies cite the energy industry’s role in the economy as a current challenge to the state. Moody’s points to the state’s revenue sensitivity to commodity prices and production, Standard & Poors terms it as exposure to oil and gas price fluctuation, and Fitch says it is the state’s concentrated economic base in oil and natural gas production.

The state’s constitutional restriction on raising revenue is viewed as a negative by Moody’s. Both Moody’s and Standard & Poors say the state’s growing dependence on the use of one-time funds in the budget is a problem.

Fitch and Standard & Poors both cite the state’s history of underfunded public pension systems as challenges, but acknowledge recent efforts to improve funding levels.
April Gross Receipts to the Treasury totalled $1.18 billion, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received $611 million, or 51.7%, of the total.

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

From April gross receipts, the GRF received:
- Personal income tax: 60.5%
- Corporate income tax: 66.5%
- Sales tax: 44.5%
- Gross production-Gas: 61.9%
- Gross production-Oil: 2.1%
- Motor vehicle tax: 26.8%
- Other sources: 42.3%

April GRF allocations are below the estimate by $89.4 million, or 12.8%. Fiscal year-to-date collections are less than the estimate by $413.2 million, or 8.7%.

April insurance premium taxes totaled $53.7 million, an increase of $2.6 million, or 5%, from the prior year.

April oil and natural gas receipts are based on production activity from February when the average price of benchmark West Texas Intermediate crude oil was $30.32 per barrel, its lowest level in more than a dozen years. Average oil prices have recovered slightly during the past two months.

At $20.8 million, monthly collections from oil and natural gas production are the lowest since May 1999. Gross production collections continue a 16-month trend of being less than the same month of the prior year.

At $11.26 billion, 12-month Gross Receipts to the Treasury are the lowest since June 2013 and show all growth experienced following recovery from the last

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**Gross oil and gas tax collections reach 17-year low**

April Gross Receipts to the Treasury marked one year of contraction as taxes on the production of oil and natural gas reached a low not seen in 17 years, State Treasurer Ken Miller announced.

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**The gains received during the expansion following the Great Recession have been returned.**

Total monthly gross receipts of $1.18 billion are the smallest April total in four years and are less than the same month of last year by $140.4 million, or 10.6 percent.

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**Gross Receipts & General Revenue compared**

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recession has been erased, with the loss of $847 million.

“As measured by Gross Receipts to the Treasury, the gains received during the expansion following the Great Recession have been returned,” Miller said. “The state’s anchor industry continues to work through a supply-driven contraction and the effect is being seen in each of Oklahoma’s revenue streams.”

Both the April and 12-month Gross Receipts to the Treasury reports show shrinkage in every major revenue source compared to the prior periods.

Gross Receipts to the Treasury provide a broad look at the Oklahoma economy and include total collections before payment of income tax refunds, sales tax remittance to cities and counties, and allocation of motor vehicle collections to school districts, among others.

After monthly apportionment is complete, the Office of Management and Enterprise Services will report the funded status of the state’s main operating account, the General Revenue Fund, which receives approximately 50 percent of gross collections.

**Other indicators**

The Oklahoma’s Business Conditions Index has remained below growth neutral each month for a full year. The index from a monthly survey slipped slightly to 49.3 in April from 49.7 in March. Numbers below 50 indicate economic contraction is expected during the next three to six months.

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**Oklahoma unemployment rate increases to 4.5 percent in April**

Oklahoma’s seasonally-adjusted unemployment rate was set at 4.5 percent in April, up by one-tenth of a percentage point from March, according to the Oklahoma Employment Security Commission (OESC).

In April, statewide employment shrank by 2,064 and unemployment increased by 3,309. Over the year, seasonally-adjusted unemployment grew by 5,320.

The national unemployment rate was unchanged at 5 percent in April.
Economic Indicators

**Unemployment Rate**
January 2001 – April 2016

- U.S.
- Oklahoma

Shaded areas denote U.S. recessions
Source: Bureau of Labor Statistics

**Gross Receipts vs. Oil & Gas Employment**
January 2008 – April 2016

- 12-Month Gross Receipts (in $ billions)
- Oil & Gas Employment (in thousands)

Shaded area denotes U.S. recession
Sources: Federal Reserve & State Treasurer

**Leading Economic Index**
January 2001 – March 2016

This graph predicts six-month economic movement by tracking leading indicators, including initial unemployment claims, interest rate spreads, manufacturing and earnings. Numbers above 0 indicate anticipated growth.
Shaded areas denote U.S. recessions
Source: Federal Reserve

**Oklahoma Stock Index**
Top capitalized companies
January 2009 – May 2016

Avg = $43.23
$38.69
Shaded area denotes U.S. recession
Source: Office of the State Treasurer

**Oklahoma Natural Gas Prices & Active Rigs**
January 2011 – May 2016

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

**Oklahoma Oil Prices & Active Rigs**
January 2011 – May 2016

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