By the end of May, the Legislature is expected to fulfill its primary constitutional duty by sending a balanced budget to the governor. For a fourth consecutive year, the starting point is less than appropriations from the prior fiscal year.

For FY-18, the budget gap is $878 million. In her executive budget, Governor Mary Fallin called for broad-based revenue increases, including hikes in the taxes on fuel and cigarettes, and expansion of the sales tax to services.

The response from many legislators was less than enthusiastic. A number of Republican legislators vowed to support no new taxes, while Democrats laid out alternative plans to bring in additional money.

All the while, state agencies, of which many have experienced cuts of up to 40 percent in recent years, laid out details of draconian cuts in services that would be required should no new revenue materialize.

Plus, teachers continued to campaign for pay raises.

Almost lost in the noise is an historic event occurring this session – for the first time, the chairs of both the Senate Appropriations Committee and the House Appropriations and Budget Committee are women.

Leading budget work in the Senate is

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Revenue Certification Changes from Prior Year

Source: Oklahoma State Board of Equalization
Two common sense bills

Two common sense bills to provide taxpayers with direct representation over pension investment and debt management are currently making their way through the legislative process. Neither was introduced at my request, though I have long been on record supporting the reforms. Both bills got off to an easy start, passing unanimously out of their houses of origin.

House Bill 1583 seeks better efficiency and alignment of state financial functions by eliminating a stand-alone agency tasked with debt management and placing it under the authority of the treasurer’s office, while keeping intact a modified bond oversight council. HB 1583 passed off the Senate floor without opposition and has returned to the House.

Senate Bill 242 places the treasurer on the boards of the state’s two largest pension systems, teachers and public employees. Although the bill quickly passed the Senate with no Republican or Democratic opponents, it slowed in the House once labor unions, lobbyist and bureaucrats decided to once again back the status quo. After another fact-deprived yet eloquent political display we’ve come to expect from the House minority leader, the bill narrowly passed and returned to the Senate.

Arguments contrived by opponents, chiefly that having an elected official on a board “politicizes” the processes, can be easily dismissed. As I testified in committee, every legislator casting a vote on these two bills should be offended by this comment.

Arguments contrived by opponents, chiefly that having an elected official on a board “politicizes” the processes, can be easily dismissed. As I testified in committee, every legislator casting a vote on these two bills should be offended by this comment.

Another red herring alleged an SEC rule limiting campaign contributions would derail pension investments, when that problem simply does not exist as evidenced by the treasurer’s existing authority over the investment of operational and TSET funds. Besides, this is easily verifiable with a quick check of campaign contribution reports.

Opponents even claimed adding another member would be problematic because the boards would be even numbered. Yet, there has never been a motion passed by one vote in the funds’ histories, and, amusingly, one opposing group of retired educators sought an even numbered board just last year.

Now with the nonsense aside, the bills are back in their original chambers where amendments can be adopted and sent to the governor for her signature.

The vast majority of state treasurers have significant responsibility for debt management and pension investment.”

Those in elected office bring more accountability, transparency and scrutiny to a process, not less. Plus, there are already several statewide elected officers serving on pension boards. Further, suggestions of a legal conflict from the treasurer’s service on the pension oversight commission are disproven by the Secretary of Finance’s current service on the commission and individual pension boards.

SEE COMMENTARY PAGE 3
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.

Commentary
FROM PAGE 2

Proponents know the vast majority of state treasurers have significant responsibility for debt management and pension investment. The Oklahoma treasurer is independently elected, directly accountable to the people, and constitutionally charged with safeguarding public funds. Yet the position has no active role in debt management or pension investment.

The status quo is always strong inside any capitol building, but it appears it may get beat this time if a majority of legislators continue to put these two important issues ahead of political agendas, personalities and turf battles to protect the long-term fiscal health of the state.

Budget
FROM PAGE 1

Senator Kim David, R-Porter. A native of Tulsa, she holds a degree in geology from Oklahoma State University. She was first elected to the Senate in 2010.

Heading the House Appropriations and Budget committee, alongside Senator Kim David, my counterpart on the other side of the rotunda, and our first female governor, Mary Fallin.

Neither woman took time out of their schedules to share their perspectives on the budget with the Oklahoma Economic Report (OER).

OER: Congratulations on your committee chairmanships. We assume you both were excited to learn you’d been appointed to serve as chairs of the most powerful committees in your respective chambers, but with nearly $1 billion less to spend than last session, any regrets on taking the job?

Osborn: No regrets on taking the job. It is an honor to be the first Republican woman to chair the House Appropriations and Budget committee, alongside Senator Kim David, my counterpart on the other side of the rotunda, and our first female governor, Mary Fallin.

David: I was and am honored that the Pro Tem placed his faith in my abilities--we knew the challenges that faced us this year. It was simply a matter of degree. I have absolutely no regrets about accepting this responsibility on behalf of our citizens.

OER: There’s been much discussion surrounding the FY-18 budget shortfall in Oklahoma as to whether it is a spending or revenue problem. What are your thoughts?

David: We are facing the results of what is at its core a structural deficit. We have inherent issues within the budgeting process that simply must be addressed. Those include assessing whether we have enough revenue, how we apportion those revenues, and how we appropriate them. Within those parameters, we have to acknowledge there is always the ability to increase efficiencies in how we operate and manage resources; we also have to look at our off-the-top spending. The Legislature must have greater flexibility to appropriate resources, especially in difficult economic times. We also must continue to look at our tax preferences—if we are spending more than the state is benefiting in terms of economic growth, something needs to change.

Osborn: I am a firm believer that we have a revenue problem. Over the last several years we had a false sense of complacency due to the infusion of federal stimulus dollars and very high oil prices, which led us to cut several of our tax rates. When oil prices plummeted and devastated our biggest industry, the full implications of lowering those tax rates and the much smaller collections that ensued became apparent.

OER: After years of using large

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Budget

FROM PAGE 3

amounts of nonrecurring revenue to fill budget holes, it now appears there will not be enough one-time money to patch the hole this year. What are your opinions on the use of nonrecurring revenue?

Osborn: Optimally we would stop the use of “one-time monies” such as utilizing the rainy day fund, surplus unclaimed property funds, and revolving funds. However, with a crisis of the magnitude we have this year it would be unrealistic to think we would not use those dollars again. However, with the economy in recovery it is my hope that we would move away from those practices in the next cycle with new recurring revenue and better long-term planning, such as implementing the energy stabilization fund.

David: The use of one-time money is yet another issue that is a part of Oklahoma’s structural deficit. We have used one-time funds to help cushion agency budget reductions when revenues have been low. Previous legislatures had hoped this cushion would allow time for revenues to increase without making draconian budget cuts-- but that well is running dry. We began addressing this last year with tax, apportionment and spending reforms that will help us create more long-term stability.

We have to keep building on those reforms.

OER: Standard & Poor’s has handed Oklahoma its first credit downgrade in 30 years and is warning that unless suboptimal budget practices are stopped, further downgrades will likely be made. How do you react to this warning, and do you believe your colleagues grasp its significance?

David: The action from Standard and Poors basically reaffirmed what we already knew and had begun addressing last year—we cannot continue to rely on one-time funds and short-term solutions that fail to take into account how they impact us in the long run.

Osborn: It is a wake-up call that we must change the way we do business, I think most citizens and legislative members that are not directly a part of the budget team do not fully realize the peril of not changing the way we do business in the state.

OER: The governor proposed a large number of revenue raising options in her executive budget, including an increased cigarette tax and fuel tax along with extending the sales tax to services. What, if any, of her proposals do you believe will have sufficient support to meet the constitutional requirements for passage? Are there other ideas to correct the structural deficit that do not require three-quarters support?

Osborn: The passage of SQ 640 has made it extremely difficult to even entertain a vote on revenue raising measures. I believe we will see a package of those measures rolled out, but it will take bipartisan support in the House to reach the 76 vote threshold, never an easy task politically. Other bills are being passed in the Joint Committee on Appropriations and Budget that will address modernization of many taxation and fee structures that will aid as well.

David: Raising taxes on our citizens, many of whom are still hurting because of the current economy, should never be the Legislature’s first solution to balancing the budget. We are in our third straight year of budget shortfalls—we’ve actually been in this situation for seven out of the last ten years. We have already picked the low-hanging fruit as far as revenue-raising measures, reforms and agency reductions. It’s going to take a combination of revenue raising measures and reforms to find a balance that addresses our most crucial needs.

OER: The governor has threatened to veto any budget sent to her that doesn’t significantly correct suboptimal budget practices of years past. Are you optimistic that can be avoided?

David: With such large numbers of new members, kicking the can down the road to future legislators simply isn’t an option. We are 100 percent
Budget

FROM PAGE 4

committed to fixing our structural deficit so we can move forward in creating a more prosperous state instead of simply coming back each session to deal with the same budget problems.

Osborn: I believe the Legislature will be able to send Governor Fallin a budget she can sign into law. It may not contain as much new recurring revenue as she asked for, but it will contain as much as was politically attainable in the Legislature.

OER: In the absence of any significant revenue measures passing, substantial cuts will be required to balance the budget. With dismal rankings on a relative basis in three of the four core services, and the fourth only better due to high incarceration rates, have you identified areas that can handle such further cuts? If so, what are they?

Osborn: We would certainly not look at across the board cuts; I think common education would be held stable at its base appropriation of last year. Many other areas of public safety and provider rate cuts would have to be protected as well.

David: There is always room for more efficiency and innovation; however, I hope to avoid balancing this budget by cutting core services our citizens rely on.

Year-to-date General Revenue short of estimate

Deposits into the state’s General Revenue Fund remain below estimated levels through third quarter of FY-17, according to reports from the Office of Management and Enterprise Services (OMES).

Year-to-date allocations were reported by OMES at 97.2 percent of the estimate – short by $99.8 million overall.

To cover for cash-flow shortages, the state’s finance secretary has ordered across-the-board cuts to monthly agency allocations of 2.1 percent and temporary borrowed $327 million from other state funds.

The largest gap is in sales tax allocations, which are below the estimate by $90.8 million, or 6.2 percent.

Motor vehicle collections are off by $3.8 million, or 2.5 percent, while other sources are below the estimate by $33.3 million, or 6.1 percent.

Net income tax collections, a combination of individual and corporate income taxes, and gross production taxes top the estimate.

Income tax is ahead of the estimate by $6.9 million, or 0.5 percent. Gross production collections exceed estimated allocations by $21.2 million, or 22.7 percent.

Source: Office of Management and Enterprise Services
After two months of growth, Gross Receipts notch downward in March

(Original release date: April 4, 2017.)

Gross Receipts to the Treasury in March fell below collections from March of last year following two months in which receipts showed marginal growth, said State Treasurer Ken Miller.

March collections of $915 million were down by $25.5 million, or 2.7 percent, compared to March 2016 receipts.

In January and February, collections grew by a combined total of $6.1 million, or 0.4 percent. Prior to January, monthly receipts had been less than the same month of the prior year for 20 consecutive months.

Miller said collections from crude oil and natural gas gross production taxes provided a bright spot in the monthly report as March receipts were more than double collections from the prior year and were the highest March total in two years.

March gross production receipts were

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### March Gross Receipts & General Revenue compared

March Gross Receipts to the Treasury totalled $915 million, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received $352.1 million, or 38.5%, of the total.

The GRF received between 32.7% and 52.8% of monthly gross receipts during the past 12 months.

From March gross receipts, the GRF received:
- Individual income tax: 41%
- Corporate income tax: None
- Sales tax: 43.6%
- Gross production-Gas: 81.4%
- Gross production-Oil: 8.9%
- Motor vehicle tax: 26.8%
- Other sources: 32.4%

March GRF allocations are below the estimate by $34.9 million, or 9%. Year-to-date GRF revenue trails the estimate by $99.8 million, or 2.8%.

March insurance premium taxes totaled $7.9 million, a decrease of $11.2 million, or 58.7%, from the prior year.

Tribal gaming fees generated $10.8 million during the month, down by $216,453, or 2%, from March 2016.

### Leading indicators continue to show Oklahoma is on the mend.”

### Monthly Gross Receipts vs. Prior Year

![Graph showing monthly gross receipts vs. prior year](image)

<table>
<thead>
<tr>
<th>Source: Office of the State Treasurer</th>
<th>Dollar change (in millions) from prior year</th>
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### PRELIMINARY

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<th>Variance From Prior Year</th>
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<td>TOTAL REVENUE</td>
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</table>
Revenue
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$47.9 million, up by $24.2 million, or 102.2 percent.

“March gross receipts notwithstanding, leading indicators continue to show Oklahoma’s economy is slowly on the mend,” Miller said. “The average decline in gross receipts has slowed and the unemployment rate is shrinking as rig counts rise along with business conditions and consumer confidence.”

During March, collections from corporate income and sales taxes were less than the prior year. In addition to gross production taxes, individual income and motor vehicle taxes also showed growth.

Gross receipts during the past 12 months, at $10.8 billion, are $632.8 million, or 5.6 percent, less than collections during the prior 12-month period. All major revenue streams show contraction compared to the prior period.

About Gross Receipts

The treasurer’s office issues the monthly Gross Receipts to the Treasury report, providing a broad view of the state’s macro economy.

It is released in conjunction with the General Revenue Fund report from the Office of Management and Enterprise Services, which provides information to state agencies for budgetary planning purposes.

The General Revenue Fund receives slightly 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 off-the-top earmarks to other state funds.

State unemployment drops to 4.3 percent in March

Oklahoma’s seasonally-adjusted unemployment rate shrank by two-tenths of a percentage point in March and was set at 4.3 percent, two-tenths of a percentage point below the U.S. jobless rate, figures released by the Oklahoma Employment Security Commission show.

It is the third consecutive month the state jobless rate has been below that of the nation and followed eight straight months in which the Oklahoma rate was higher.
### Economic Indicators

**Unemployment Rate**  
**January 1980 – March 2017**  
Shaded areas denote U.S. recessions. Source: Bureau of Labor Statistics

**Gross Receipts vs. Oil & Gas Employment**  
**January 2008 – March 2017**  
Shaded area denotes U.S. recession. Sources: Bureau of Labor Statistics & State Treasurer

**Leading Economic Index**  
**January 2001 – March 2017**  
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 – April 2017**  
Shaded area denotes U.S. recession. Source: Office of the State Treasurer

**Oklahoma Natural Gas Prices & Active Rigs**  
**January 2011 – April 2017**  
Sources: Baker Hughes & U.S. Energy Information Administration

**Oklahoma Oil Prices & Active Rigs**  
**January 2011 – April 2017**  
Sources: Baker Hughes & U.S. Energy Information Administration