Sweeping down the plain

Oklahoma has long been known as an energy producing state, with much of that reputation built upon our rich oil and natural gas assets. Thanks to Rodgers and Hammerstein, we are also known for our wind. Until recently, this unharnessed air was not considered much of an asset, but that perception is changing amid concerns about America’s national and economic security.

Over the past decade, states began adopting plans that included renewable energy standards to address long-term energy needs and lessen dependence on volatile foreign sources. As of 2012, renewable portfolio standards were in place in 29 states and seven more had adopted non-binding goals, according to the National Renewable Energy Laboratory.

With passage of the Oklahoma Energy Security Act in 2010, Oklahoma lawmakers established a five-year goal of deriving 15 percent of Oklahoma’s installed electricity generation from renewable energy sources, including wind, solar, photovoltaic, hydropower, hydrogen and geothermal.

The goal was exceeded three years early, with the Corporation Commission reporting more than 17 percent of electricity generated in 2012 was from renewable energy sources. Of the 35 electricity generation producers, 23 were wind facilities.

Wind continues to experience the strongest growth among Oklahoma’s renewable energy producers. According to the U.S. Energy Information Association (EIA), 5.3 percent of Oklahoma’s electricity was generated by wind in 2010. That number had risen to 15 percent three years later.

Wind surge

Oklahoma’s first wind farms, one in Woodward and another in Lawton,

SEE WIND PAGE 3
Oklahoma has a long and illustrious history of being a leading energy producer in the country. Whether its oil, natural gas, coal, or wind, Oklahoma has led the way in the development and implementation of technologies that are making America energy independent.

One of the clearest examples of our leadership has been in the development of hydraulic fracturing. Most people didn’t know what it was five years ago, but the technique to extract our natural resources is not new. It was first used in 1949 near Duncan, Okla., and has since been used to improve the production of over 1 million oil and gas wells.

The technology rose to fame when producers started combining it with horizontal drilling in the late 2000s, a combination responsible for unlocking the new American energy boom. This newfound fame, however, has brought with it a number of foes.

Most critics have expressed concern that the use of hydraulic fracturing could result in the contamination of groundwater. The President’s Environmental Protection Agency (EPA) has expressed similar concerns, but after accusing three oil and gas companies of contaminating groundwater, the EPA and critics were shown to be vindictive and wrong.

To date, there has not been a confirmed, documented case of groundwater contamination as a result of hydraulic fracturing. We know this because states have always been at the forefront of developing and enforcing regulations governing the process and have maintained robust track records.

The federal government’s involvement in the energy sector must be limited.

Each state has different geologies, different mineral deposits, and different conditions that make best practices vary by state and across industries. States have been in the driver’s seat regulating hydraulic fracturing and nearly all other aspects of the energy industry for a century, and as a result, our environment and economy are much better for it.

Unfortunately, the President does not respect the ability of Oklahoma or other states to effectively regulate energy development. In fact, since the beginning of his administration, he and his environmentalist allies have been engaging in an all-out War on Fossil Fuels. Their aim is to use the Administration’s regulatory powers to put the oil, natural gas, and coal industries out of business so that Americans are forced to rely exclusively on renewables, dimming our economy’s brightest spot.

The president’s agenda is going to make energy more expensive and less abundant for all Americans, and it will keep us from becoming energy independent. This is clear because since President Obama took office, oil and gas production has declined significantly on federally controlled lands – it has skyrocketed everywhere else. The more federal involvement there is in the national energy landscape, the more our
Inhofe
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private lands will perform like federal lands. Production will fall; we’ll all be worse off.

The federal government’s involvement in the energy sector must be limited. If it doesn’t, Oklahoma has much to lose. About a third of our economy is either directly or indirectly impacted by the oil and gas industry, and it supports the employment and economic wellbeing of nearly 350,000 people across the state. If the President and his bureaucrats are successful in their effort to overregulate the oil and gas out of business, then Oklahoma will be among the worst hit states. Oklahoma has been leading the way for the last century, and I am committed to helping keep our state a leader by working to put a halt on President Obama’s overregulation nightmare.

Wind
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began operating in 2003. Ten years later, Oklahoma had 26 wind facilities.

The wind industry’s surge, in Oklahoma and the region, is attributed in part to greater demand and technological advances that have resulted in more efficient and less expensive equipment. The EIA reports wind energy’s costs have declined 43 percent over the past four years, largely due to improved technology and U.S.-based manufacturing. Proponents say demand is being driven by cost-certainty the renewable offers to consumers, often locking in low energy rates for 20 to 25 years. Additionally, Oklahoma offers three tax incentives for wind farms, two of which the industry is currently using.

Economic costs

Under the zero emissions tax credit, the state pays 1/2 cent for every kilowatt hour of electricity produced by Oklahoma wind farms. Between 2008 and 2012, the Oklahoma Tax Commission (OTC) reports wind farms have claimed $55.8 million in available credits, but have redeemed only $28.3 million of those credits. The remaining $27.5 million is available to offset future tax liability.

Between 2008 and 2011, claims averaged $3.2 million annually. In 2012, the amount jumped to $42.9 million as more wind turbines came online. For tax years 2013 to 2018, OTC projects the incentive will cost an additional $91.7 million.

As with other qualifying manufacturing projects, wind farms also receive a five-year exemption from paying property taxes, with the foregone revenue to counties and schools reimbursed with state funds.

Between 2005 and 2014, OTC reports the wind property tax exemption amounted to $89.8 million. In 2014, the annual exemption jumped by almost 100 percent, to $32.3 million from $17.4 million the prior year. OTC projects the impact will total $181.4 million between 2015 and 2018.

Wind farm owners are also eligible to receive a 1 percent tax credit on depreciable property – land improvements which the industry values at $6.1 billion. However, OTC reports this credit has yet to be tapped by the wind power industry, presumably because depreciation has not yet occurred.

The tax commission estimates the current and projected costs of all wind incentives will amount to more than $418 million by 2018.

The array of wind tax credits has its critics, including Frank Robson, founder of the Oklahoma Property Rights Association, a coalition of citizens originally formed to oppose a wind farm development in Craig County.

“We’re facing an unfunded liability that intensifies with each blank check we write to support the development of wind farms,” Robson said. “The taxpayers are subsidizing the cost of power for people in other states, as evidenced by recently announced agreements to sell wind power from Oklahoma to Tennessee and Georgia.”

Robson also contends the 10-year window wind farm owners have to claim tax credits could throw an already stretched state budget into a shortfall should multiple years’ worth of credits
Wind
FROM PAGE 3

be claimed in a single year. Because the total credits available to the industry are not capped, the state cannot effectively plan for nor limit its potential liability.

Economic benefits

The wind industry counters that the incentives are short-term, benefitting a facility for the first five to 10 years, far less than the 25-30 year lifespan of the typical wind energy development. According to an economic impact report commissioned by the Oklahoma Wind Coalition, the industry invested more than $6 billion between 2003 and 2012 to develop and construct wind farms in the state, nearly $450 million of which has been spent within Oklahoma. The report also cites more than $1 billion in Oklahoma produced goods and services, $22 million in annual royalty payments to Oklahoma landowners and $15 million in direct wages paid to local workers.

The majority of direct jobs created are during the short-lived construction phase, but once a wind farm is operational, the Bureau of Labor Statistics estimates it requires one technician for every 10 wind turbines.

The report also claims that once the five-year property tax exemptions are completed, wind farms will generate about $43 million annually for local schools and public services.

The growing wind industry has attracted ancillary business to the state as well. In 2012, Siemens Energy opened a wind service distribution center in Woodward to supply service and maintenance needs to wind power customers throughout the region.

Wind industry advocates contend the greatest economic benefit to the state is the low, fixed energy costs that wind provides to Oklahoma households and businesses. They say electric rates will become cheaper and more stable as power generated by wind increases.

For utility-intensive businesses, predictable, low-cost energy is a consideration in relocating or expanding a facility. For an example, the economic impact report notes that Google signed power contracts with Oklahoma wind producers when it located its first data center in Oklahoma, consistent with its corporate philosophy to locate data centers where they can be most energy efficient.

Recent criticisms about state incentives to the wind industry stem from a broader discussion about the affordability of tax and other economic incentives, particularly in light of the structural problems that have surfaced in Oklahoma’s state budget.

Concerns about the incentives’ impact on the stability of state finances are clashing with the concerns of those deriving an economic benefit from them. Advocates for the incentives say without them, the region’s bountiful wind can just as easily be harnessed in neighboring Kansas or Texas.

“It’s important to remember these incentives are creating development in rural Oklahoma that would not happen but for these incentives. Nobody has to come to rural Oklahoma and build wind farms, but they are because we’ve made it economically feasible,” said Monte Tucker, a rancher from Sweetwater, Oklahoma. “At a time of historic drought, farmers and ranchers need opportunities like wind leases to earn additional revenue on our land. If you gut these incentives, all you’re really harming are landowners and robbing rural areas of much needed economic stimulus.”

Moving forward

With this windstorm sweeping down the plain in time for the next legislative session, there is yet another opportunity to examine costs and benefits. As the industry matures and structural budget problems persist, it is reasonable to expect that incentive laws evolve to ensure balance is maintained without harming one of Oklahoma’s newly recognized energy assets.

Wind Power Tax Incentives

Zero Emissions Tax Credits – 1/2 cent for every kilowatt hour of electricity produced by Oklahoma wind farms.

- Current cost: $55.8 million (2008-2012)
- Projected future cost: $91.7 million (2013-2018)

Ad Valorem Tax Exemptions – Five-year exemption from property taxes.

- Current cost: $89.8 million (2005-2014)
- Projected future cost: $181.4 million (2015-2018)

Investment Tax Credits – 1 percent tax credit on depreciable property.

- Current cost: So far, the credit has not been used.
- Potential cost: $61 million.

Source: Oklahoma Tax Commission
FY-14 General Revenue misses estimate by 4.8 percent

Preliminary figures show allocations to the Oklahoma General Revenue Fund (GRF) fell short of the official estimate by $283.8 million or 4.8 percent during FY-14, the Office of Management and Enterprise Services announced this month.

Due to safeguards in the Oklahoma Constitution limiting appropriations to 95 percent of the estimate, GRF allocations were sufficient to fund the FY-14 budget; however, no deposit will be made to the rainy day fund. Its balance stands at $535.2 million.

Of the six major revenue streams contributing the $5.6 billion allocated to the GRF, four were below estimated levels.

Corporate income taxes were off of the estimate by the largest percentage and dollar amount. FY-14 allocations totaled $306.5 million, below the estimate by $175.3 million, or 36.4 percent.

Sales taxes brought more than $1.9 billion to the GRF, short of the estimate by $71.4 million, or 3.5 percent.

Personal income tax allocations generated $2.1 billion for the GRF, shy of the estimate by $18.5 million, or 0.9 percent.

Other sources, a combination of numerous smaller revenue streams, contributed $693.4 million to the GRF, missing the estimate by $93.4 million, or 11.9 percent.

The two remaining revenue streams for the GRF, while composing only one-tenth of the total fund, exceeded the official estimate.

Gross production taxes on oil and gas produced $333.2 million for the fund, exceeding the estimate by $61.7 million, or 22.7 percent.

Motor vehicle taxes contributed $228 million, topping the estimate by $13.1 million, or 6.1 percent.

The General Revenue Fund received 47.9 percent of Gross Receipts to the Treasury during the fiscal year, compared to 49.7 percent last year.
Five years after Great Recession, Oklahoma continues steady economic expansion

The National Bureau of Economic Research declared an official end to the 18-month Great Recession in June 2009. Miller said the state’s economy has recovered quite well since then. “Gross receipts to the treasury, a good snapshot of our state’s productivity, incomes and consumption, are higher than ever before,” Miller said. “In fact, collections have been higher than the same month of the prior year in 45 of the past 51 months.

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The Treasurer’s July 2 Gross Receipts to the Treasury report and the Office of Management and Enterprise Services’ July 15 General Revenue Fund (GRF) report contain several differences.

Fiscal Year 2014 gross receipts totaled $11.7 billion, while the GRF received $5.6 billion or 47.9% of the total.

In the month of June, the GRF received 54.5% of the gross. The monthly percentage varied from 33.1% to 57.1% during the fiscal year.

From FY-14 gross receipts, the GRF received:
- Personal income tax: 57.9%
- Corporate income tax: 57.5%
- Sales tax: 45.1%
- Gross production-Gas: 32.8%
- Gross production-Oil: 41.9%
- Motor vehicle tax: 29%
- Other sources: 44.2%

FY-14 GRF allocations are below the estimate by $283.8 million or 4.8%. June allocations missed the estimate by $32 million or 5.3%.

Annual insurance premium taxes totaled $224.6 million.

Tribal gaming fees generated $122.62 million during the year.
Oklahoma unemployment notches lower in June

Oklahoma’s seasonally-adjusted unemployment rate was listed at 4.5 percent in June by the Oklahoma Employment Security Commission, down one percentage point from June of last year.

Compared to June 2013, statewide employment decreased by 4,920 jobs, while the number of those listed as jobless dropped by 18,610 people according to the preliminary, seasonally-adjusted figures. The labor force shrank by 23,530 over the 12-month period.

The national unemployment rate was set at 6.1 percent in June.

### State Unemployment Report

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<th>Labor force*</th>
<th>Employment*</th>
<th>Unemployment*</th>
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<td>4.5%</td>
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<td>May ‘14</td>
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<td>1,817,100</td>
<td>1,717,320</td>
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* Data adjusted for seasonal factors

Source: OESC

### Revenue

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which indicates a steady economic expansion.”

All major tax categories – total income tax, sales tax, motor vehicle tax, and gross production tax – are in positive territory for both the month and the year.

### Other indicators

The most recent unemployment numbers, from June, reflect Oklahoma’s relative economic strength compared to the nation as a whole. June state unemployment was set at 4.5 percent, compared to a national rate of 6.1 percent.

The Business Conditions Index for Oklahoma in June anticipates continued economic growth with the index climbing to 66.6 from May’s 58.3.

### 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 released in conjunction with the General Revenue Fund allocation report from the Office of Management and Enterprise Services.
Economic Indicators

Unemployment Rate
January 2001 – June 2014

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

Oklahoma 12-Month Gross Receipts
June 2008 - June 2014
(in billions)

Shaded area denotes U.S. recession
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.

Shaded area denotes U.S. recession
Source: Federal Reserve

Oklahoma Stock Index
Top 25 capitalized companies

Shaded area denotes U.S. recession
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