



# Oklahoma Economic Report™

News and analysis of Oklahoma's economy

A publication of the Office of the State Treasurer • Treasurer Ken Miller, Ph.D.

## The big impact of small business

The entrepreneurial men and women of Oklahoma are pioneers and risk takers. These entrepreneurs innovate, create opportunities, and generate wealth in the state. Collectively, the businesses they operate are significant contributors to Oklahoma's economy. Just how important is Small Business in Oklahoma?

- Small businesses<sup>1</sup> account for 97.1% of the firms and employ more than 675,000 people (53.6%) in Oklahoma's private sector.
- Small businesses employ a larger proportion of the private sector in

Oklahoma's economy (53.6%) than in the national economy (48.5%).

- Non-employer firms, which are those businesses that do not have a paid employee and also have more than \$1,000 in business receipts, account for an additional 265,000 firms in the state bringing the total small business count to nearly 335,000 firms.
- Small businesses generate significant tax revenue with payrolls over \$23.1 billion and receipts over \$80 billion.
- Small businesses account for nearly 85% of the 3,200 exporting businesses within Oklahoma.

### Private Sector & Small Business Statistics

In Oklahoma, the private sector has added approximately 106,000 jobs from March 2011 to the present (July 2014; Seasonally-Adjusted CES from BLS). Given that total nonfarm employment grew by 96,000 jobs over the same time period, it has been the private sector rather than the public sector that has accounted for the employment growth since 2011.

Since small businesses account for the

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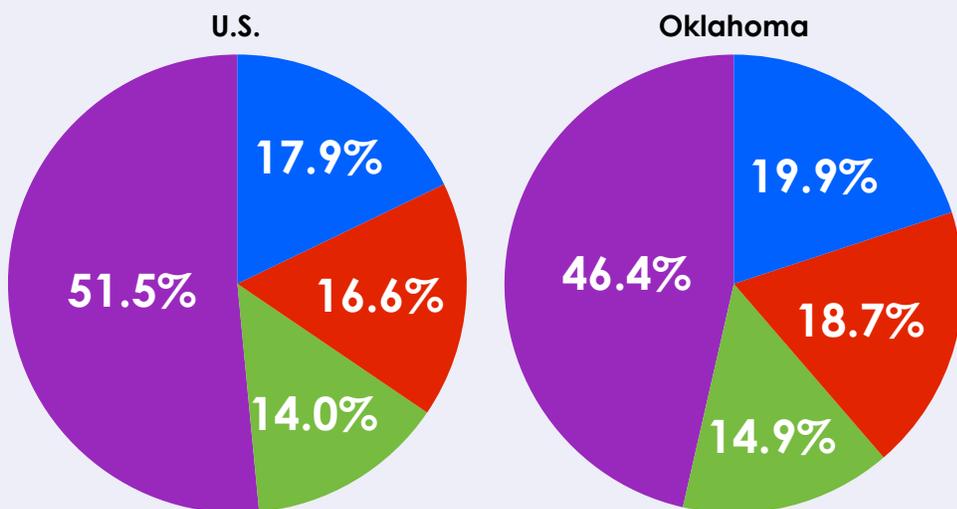
#### Contributor

Regina Birchum, Deputy Treasurer for Policy

#### Editor

Tim Allen, Deputy Treasurer for Communications

### Private Sector Workforce Distribution by Business Size



Number of employees: ● 1-19 ● 20-99 ● 100-499 ● 500+

Source: Oklahoma Department of Commerce



## Lt. Governor's Commentary

By Todd Lamb

### Advocating for small business

As Lieutenant Governor of this great state, I wear many hats in my service to the citizens. Some duties are constitutionally required while others, such as “Oklahoma Small Business Advocate,” afford me daily interaction with small business owners.

It is through these discussions I learn of positive and detrimental issues to businesses of all sizes, but particularly those related to small business. These issues often fly under the radar with policy makers at the State Capitol, but I work to make sure these economic issues aren't overlooked.

Small businesses are the economic lifeblood of Oklahoma, accounting for over half of the labor force and constituting over 97% of all employers. Oklahoma has more minority and veteran owned small businesses than the national average, and our unemployment rate of 5.4% is lower than the national average of 6.7%.

Recent changes signed into law, such as reform of our antiquated and expensive worker's compensation system and reduction of the corporate franchise tax will go a long way into making Oklahoma small businesses more profitable while simultaneously affording them the

opportunity to grow. That reform has saved small businesses capital and therefore allowed them to hire more Oklahomans. However, there is additional policy in need of reform. I often hear from our small businesses about the abuse in Oklahoma's unemployment compensation system.

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In addition to sensible tax and regulatory policy, having an unemployment compensation system that provides employees a safety net while also allowing small businesses to grow and prosper is vital.

Many small business owners have spoken to me of a problematic culture brought on by those who abuse the



unemployment compensation system either by not pursuing employment or falsifying job search documentation. Such abuse is illegal under current Oklahoma law; however the law's statutes are not strong enough to deter such which often leads abusers to treat the system as an entitlement program, not a remedy. It is time for that to change.

Over the last 53 months I have focused on Oklahoma's economy by travelling each year to all 77 counties to visit with small businesses. I routinely ask business owners, “what are our greatest impediments to growth?” We have made significant strides, including but not limited to, reform of our worker's compensation system.

That is what government should do. Government should not salivate at the thought of increasing revenue collection. It should lower costs, eliminate red tape and remove

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## Lamb

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burdens for small and large business owners. Conservative policies work, and as a conservative I know government gets its power from the people. Tax dollars are taken from

hard work and the sweat of the brow. Government does not bestow upon citizens the right to the remainder of our dollars. Wealth is created by risk takers, workers and investors, not government.

Oklahoma is a relatively young state

and its economic future is limitless as long as pro-business policies continue to be enacted that allow freedom from over regulation, excessive taxes and the heavy hands of the government. This has been and will continue to be my mission.

## Small Business

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majority of private sector employment in Oklahoma, it is interesting to learn how private sector employment has performed in the recent past, but the question might be asked, “why compare to March 2011?”

March 2011 represents the date of the most recent Small Business Administration’s firm-level data<sup>2</sup>, and so understanding how private sector employment has

performed since that time provides a current perspective of the private-sector, which includes small businesses.

Of the total private sector employment in 2011, Small Businesses employing 1-19 people accounted for the majority of the total firms (86.1%), about one-fifth of the total employment (19.9%), and one-sixth of the total payroll (16.2%) in Oklahoma. Average wages in this size category were \$31,800 in 2011 and the average number of employees per firm was 4.1 employees.

Similarly, small businesses in the 20-99

employees category account for 8.7% of the total firms, 18.7% of the total employment and 16.4% of the total payroll in Oklahoma. Average wages in this category were \$34,100 in 2011 and the average number of employees per firm was 37.9 employees.

Small businesses in the 100-499 employees category comprise a smaller proportion of the total firms in Oklahoma at 2.2% of the total. However, they account for 14.9%

of total employment and 14.3% of total payroll. Average wages in this size category were \$37,500 in 2011 and the average number of employees per firm was 117.8 jobs.

### Small Business Concerns and Challenges

Small businesses are a dynamic force on the state’s economy and can be more nimble and responsive to a changing economy than their larger peers. But with fewer resources than larger peers, the risk faced by small businesses can be significant. The Great Recession

was a rough period for the economy in general, but firm-level birth/death statistics and expansion/contraction statistics are an indicator of this risk for small businesses.

- Approximately 88% of firm births (6,300 firms) and deaths (6,900 firms) occurred in small businesses. They accounted for 62%-67% of the total employment gains and losses associated with these births (36,700 jobs) and deaths (35,400 jobs).
- Approximately 80% of the employment expansions and contractions that occurred during 2009-2010 were attributable to small businesses. Small businesses accounted for 65% of the employment gains (55,900 jobs) from an expansion and 54% of the employment losses (71,800 jobs) from a contraction.

Churn, or the creation and destruction of jobs, is a normal part of the economy and it can be beneficial to free up resources for more productive uses. And so, while risk cannot be eliminated (nor should it be), creating an environment that enables small businesses, and for that matter all businesses, to thrive benefits the state’s economic growth.

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**“Small businesses are a dynamic force on the state’s economy.”**

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## Small Business

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The risks that small business owners face are numerous. Some risks are similar to those faced by larger businesses such as supply chain disruptions and finding skilled employees, and then some risks are more prevalent in the small business community. These can include having adequate access to capital and being subjected to slow payment conditions from larger customers.

What are some of the challenges faced by the small business community? Two surveys that were conducted in 2011 and 2012 (the most recent available) can provide insight about small business concerns in the nation and in Oklahoma. The National Federation of Independent Businesses (NFIB) reported that the top 5 clusters for problems/priorities<sup>3</sup> that small businesses had were:

1. **Taxes:** federal taxes on business income, tax complexity & frequency of changes, property taxes, state taxes on business income, etc.
2. **Regulations:** uncertainty of government actions, unreasonable

regulations, federal/state/local paperwork, learning about regulatory changes, etc.

3. **Costs:** cost of health insurance, energy costs, unemployment compensation, workers compensation, etc.
4. **Finance:** frequent changes to tax law, cash flow, real estate values, access to capital, etc.
5. **Employees:** cost of health insurance, workers/unemployment compensation, finding skilled workers, keeping skilled employees, etc.

The NFIB reported concerns from businesses nationwide, and many of these same issues are highlighted in the Fallin For Business Survey that was conducted in 2011<sup>4</sup>. For example:

- 59% of the respondents disagreed or had no opinion whether the tax structure in Oklahoma was business friendly,
- 56% of the respondents disagreed or had no opinion whether the legal climate in Oklahoma was business friendly, and
- 53% of the respondents disagreed or had no opinion whether the regulatory

environment in Oklahoma was business friendly.

Given that these surveys were conducted when there was higher unemployment, the responses would likely differ in the current business environment where unemployment is low and the ability to attract, retain and train skilled workers is more difficult.

Addressing the stated challenges of small business owners is a means to improve our business environment and attain a competitive advantage that leads to a sustained healthy economy. Policies would differ, but the importance of the small business community cannot be underestimated. If one-tenth of the employment from contracting/dying small business firms were saved in 2010, there would have been 10,700 more jobs and the unemployment rate would have been 0.6 percentage points lower (6.5% instead of 7.1%) during the height of the state's downturn.

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### Jon Chiappe

Director of Research & Economic Analysis Services, Oklahoma Department of Commerce

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## Endnotes

1. Small Businesses, as defined by the Small Business Administration's (SBA) Office of Advocacy are independent businesses that have fewer than 500 employees. A separate unit of the SBA, the Office of Size Standards, has a definition that varies depending on the industry in which it competes. Thus according to the Office of Size Standards, a manufacturing business may be classified as a small business with 499 employees, but several service-related firms would not at that same employment level. The Office of Size Standards uses its definitions of small

business when businesses are qualifying for government programs and/or government contracting. For the purposes of this article, the definition from the SBA's Office of Advocacy is used.

2. Regarding the small business data, there is a difference between "establishments" and "firms." Establishments represent a physical location performing an economic activity. A firm can be comprised of one establishment or multiple establishments. Both data sets can be used. For accurate counts, firm data is preferable to establishment data, but for currency, establishment data from BLS

would suffice. For example, if a Fortune 500 company had a subsidiary establishment in Oklahoma that employed 25 people, it would be classified as a small business with establishment data but not with firm data.

3. The NFIB survey had 3,856 responses from NFIB members in 1Q 2012. Seventy-five problems/priorities were clustered into 9 topics. The next survey is expected to be conducted in the Spring 2016.

4. The Fallin For Business survey was conducted in 2011 and 5415 respondents from executives in both large and small businesses.



## Miller elected as officer of national treasurers' association

State Treasurer Ken Miller was selected by his peers as secretary-treasurer of the National Association of State Treasurers (NAST) at the group's annual meeting this month.

As secretary-treasurer, Miller is one of three officers chosen by the nation's state treasurers to lead its association. He was the only candidate nominated

for the position and was elected by acclamation.

Miller previously served two years as the Southern Region Representative on the NAST executive committee.

He will continue to serve as chairman of the NAST Foundation, where he is spearheading an effort to reconstitute the

National Institute of Public Finance to provide cutting edge training for public treasury officials and staff.

NAST seeks to provide advocacy and support that enables member states to pursue and administer sound financial policies and programs benefiting the citizens of the nation.

## State gambling revenue shrinks

Oklahoma government collections from gambling dropped during the last fiscal year, with revenue from the education lottery and tribal gaming fees both down by more than four percent.

Collections during FY-14 totaled \$189.6 million with tribal gaming contributing \$122.6 million and the lottery raising

\$66.9 million. This is down by \$8.7 million or 4.4 percent from FY-13.

In the past five years, the lottery has generated \$346.4 million and tribal fees have totaled \$615 million.

While collections from the state lottery have remained fairly steady since its

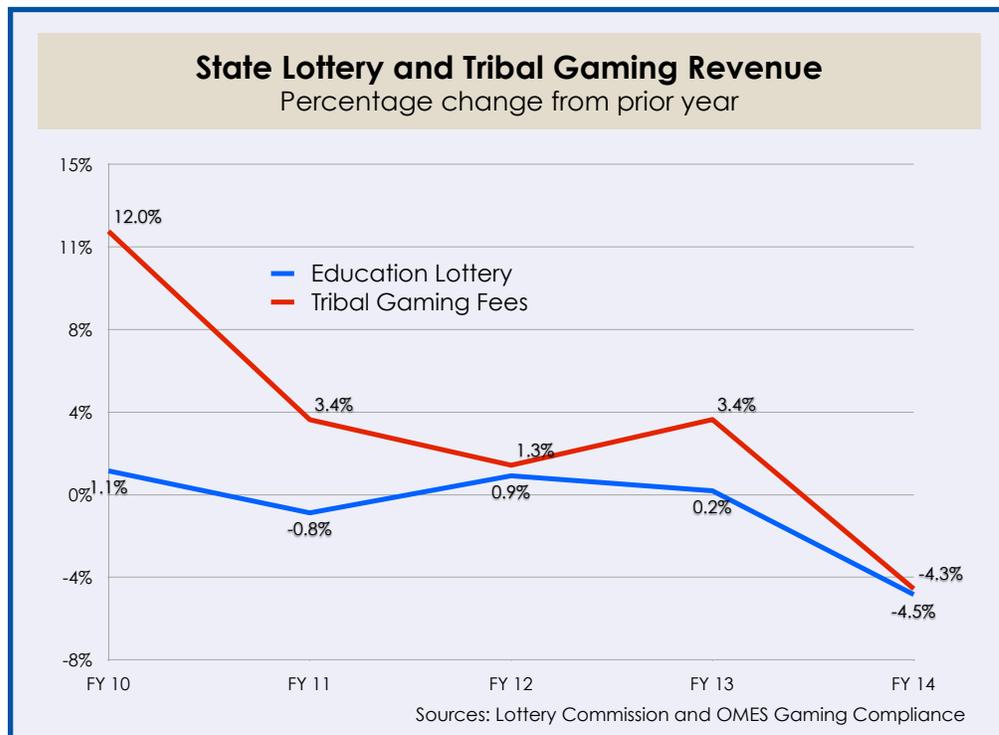
inception, FY-14 marked the first time tribal gaming collections were lower than the prior year. It also saw the largest decrease in lottery revenue.

While an explanation for the drop in lottery revenue can only be attributable to a reduction in lottery participation and spending in the state, the reduction in tribal gaming fee collections is not as simple.

Independent studies have consistently shown tribal gaming on the rise in Oklahoma.

Native American tribes enter into compacts with the state to offer Class III gaming machines and card games in exchange for fee payments to the state. Class III machines are typically described as Las Vegas-style, while Class II machines, which don't require a fee payment to the state, are said to be more closely related to bingo games.

Gaming fee collections can, therefore, rise and fall based on the number of Class III machines in use at the tribal casinos, regardless of the amount of revenue generated from total tribal gaming.





## Gross Receipts & General Revenue compared

The Treasurer's September 3 Gross Receipts to the Treasury report and the Office of Management and Enterprise Services' September 9 General Revenue Fund (GRF) report contain several differences.

August gross receipts totaled \$898.44 million, while the GRF received \$355.9 million or 39.6% of the total.

The GRF received between 33.1% and 57.1% of monthly gross receipts during the past 12 months.

From August gross receipts, the GRF received:

- Personal income tax: 40.9%
- Corporate income tax: None
- Sales tax: 42.6%
- Gross production-Gas: 45.5%
- Gross production-Oil: None
- Motor vehicle tax: 23.7%
- Other sources: 45.4%

August GRF allocations are below the estimate by \$12.1 million or 3.3%. Year-to-date collections are higher than the estimate by \$51 million or 6.6%.

For August, insurance premium taxes totaled \$4.48 million.

Tribal gaming fees generated \$10.81 million during the month.

## August Gross Receipts to the Treasury show growth

Gross Receipts to the Treasury in August grew by the highest percentage in more than a year, providing yet another sign of Oklahoma's expanding economy, State Treasurer Ken Miller announced.

August collections rose by 7.5 percent compared to the same month of the prior year, the largest percentage increase in monthly collections since July 2013.

August receipts pushed 12-month collections further into record territory, as has been the case in all but one of the past 14 months.

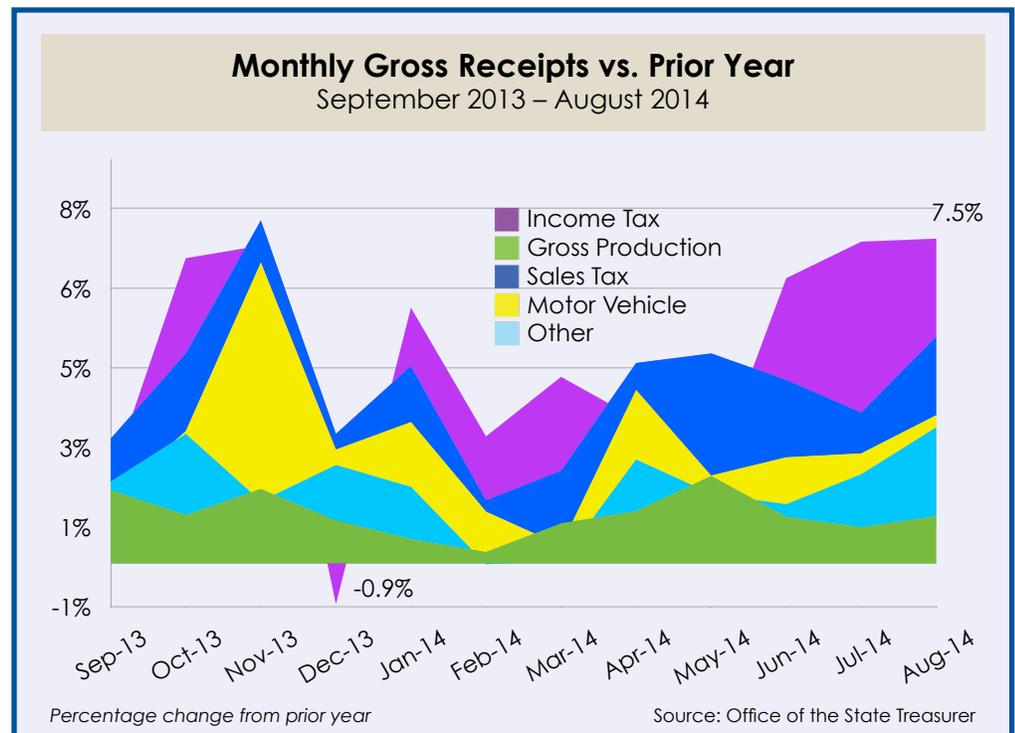
August collections were just less than \$900 million, while 12-month collections now exceed \$11.8 billion.

**“Oklahoma's economy continues to climb up the expansion side of the business cycle.”**

“Oklahoma's economy continues to climb up the expansion side of the business cycle,” Miller said. “Our people are earning and spending more, as reflected by steady growth in income tax and sales tax receipts.”

Personal income tax collections are up by almost 7 percent from last August, while sales tax receipts grew by 4.2 percent from the prior year.

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## Oklahoma unemployment ticks upward in August

Oklahoma's seasonally-adjusted unemployment rate was listed at 4.7 percent in July by the Oklahoma Employment Security Commission, up by one-tenth of one percentage point from the prior month.

Compared to August 2013, statewide employment decreased by 22,780 jobs, while the number of those listed as jobless dropped by 18,650 people according to the preliminary, seasonally-adjusted figures. The labor force shrank by 41,430 over the 12-month period.

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

State Unemployment Report				
OKLAHOMA	Unemp. rate*	Labor force*	Employment*	Unemployment*
<b>Aug '14</b>	<b>4.7%</b>	<b>1,777,400</b>	<b>1,694,320</b>	<b>83,080</b>
Jul '14	4.6%	1,783,350	1,701,070	82,280
Jun '14	4.5%	1,793,690	1,712,330	81,360
May '14	4.6%	1,807,070	1,724,170	82,910
Apr '14	4.6%	1,816,770	1,732,410	84,370
Mar '14	4.9%	1,823,900	1,734,290	89,610
Aug '13	5.6%	1,818,830	1,717,100	101,730

\* Data adjusted for seasonal factors Source: OESC

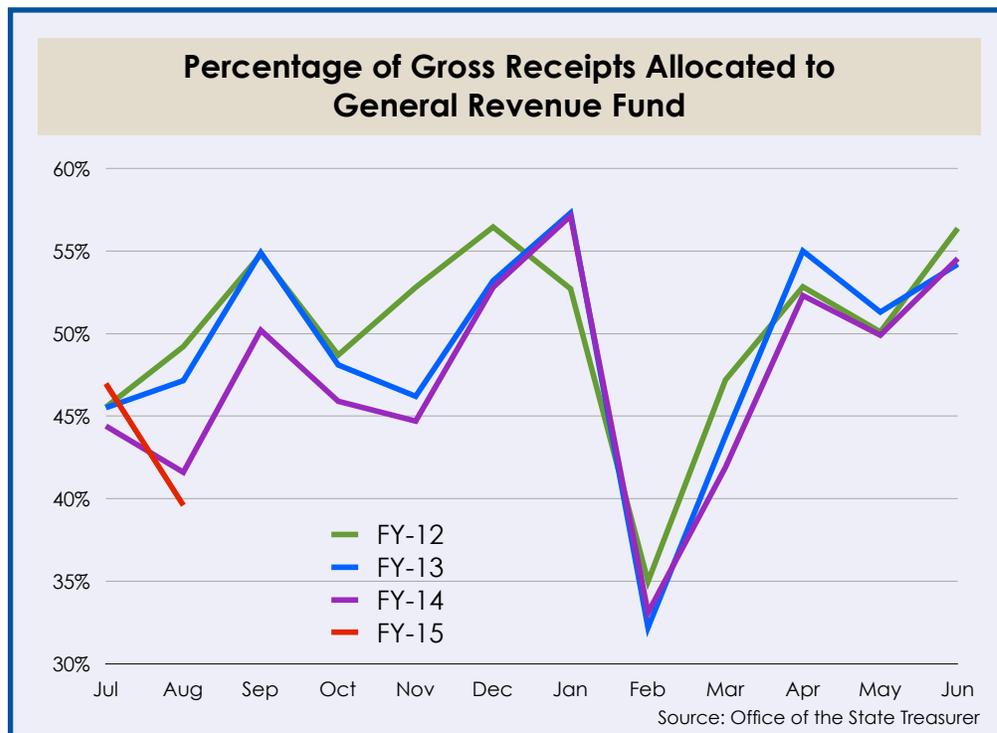
## Revenue

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Since bottoming out in February 2010, 12-month gross receipts have climbed

by \$2.5 billion, or 26 percent. In the 53 months since the trough, monthly collections have topped the same month of the prior year 47 times.

All major revenue categories grew in August, with the tax on oil and natural gas production up by the largest percentage at 13.8 percent.



The Business Conditions Index for Oklahoma in August points toward continued economic growth with the index set at 54.0 from July's 54.9. The survey on which the index is based indicates positive economic growth through the remainder of the year. Numbers above 50 are indicative of economic expansion.

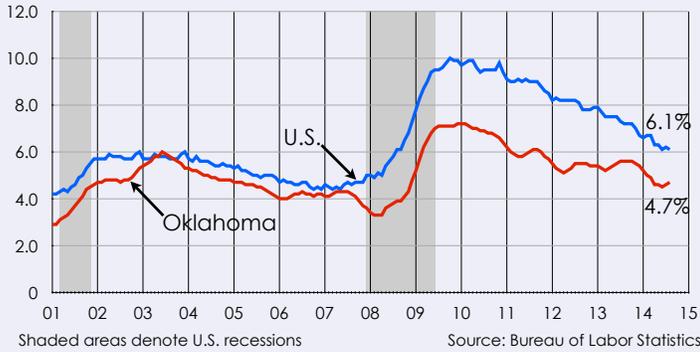
### About Gross Receipts to the Treasury

The Treasurer's Office issues the monthly Gross Receipts to the Treasury report to provide a timely and broad view of the state's 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 purposes.

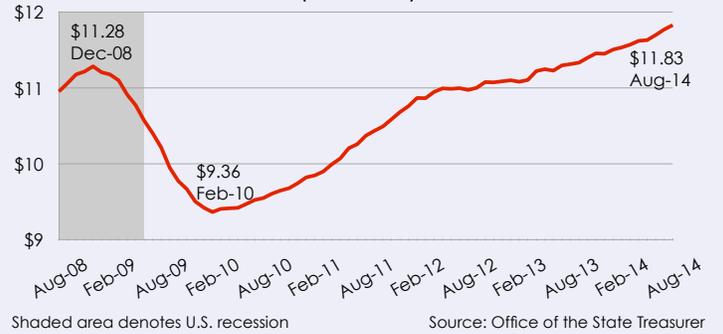


## Economic Indicators

### Unemployment Rate January 2001 – August 2014



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



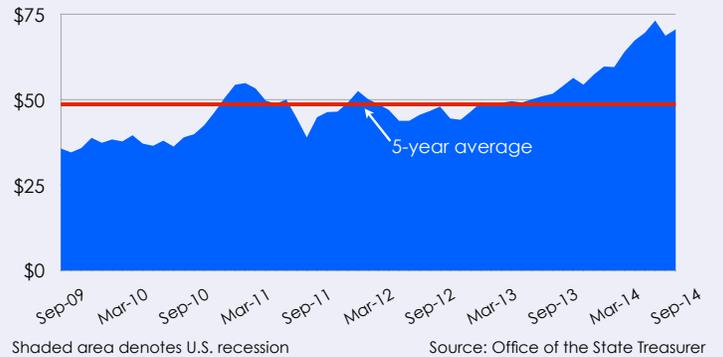
### Leading Index for Oklahoma



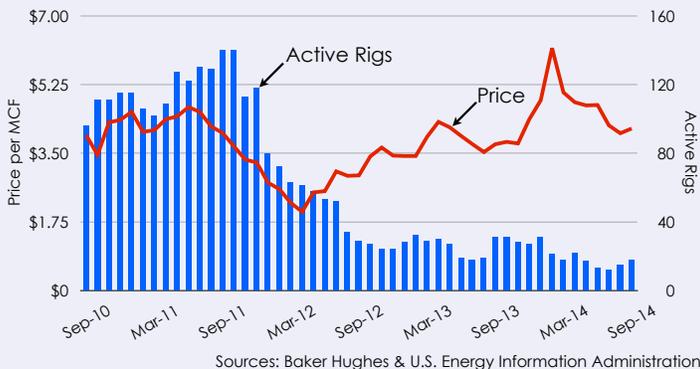
This graph predicts six-month growth by tracking leading indicators of the state economy including initial unemployment claims, interest rate spreads, manufacturing and earnings. Shaded area denotes U.S. recession

Source: Federal Reserve

### Oklahoma Stock Index Top 25 capitalized companies



### Oklahoma Natural Gas Prices & Active Rigs



### Oklahoma Oil Prices & Active Rigs

