Sausages, laws and especially budgets

“Laws, like sausages, cease to inspire respect in proportion as we know how they are made.” – John Godfrey Saxe, March 27, 1869

Almost 150 years ago, Saxe, an American poet, eloquently characterized the less than poetic process of lawmaking. As products of the political process, state budgets can be particularly odious and such is arguably the case with Oklahoma’s Fiscal Year 2018 budget.

At session’s end, the Legislature had passed what would appear to be a balanced budget that includes almost $1 billion in added revenue to fill a certified budget hole. A handful of agencies – including common education, transportation and corrections – saw their appropriations remain about the same or rise slightly, but most agencies saw more cuts, and a much ballyhooed pay raise for teachers never materialized.

An additional $946.3 million for the budget was gathered during the session from a combination of one-time cash transfers, recurring and non-recurring tax revenue, and fees.

Governor Mary Fallin signed the $6.8 billion budget into law, but due to the manner in which much of the

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Work remains to be done after challenging session

With a nearly $900 million budget gap, this session was indeed one of the most challenging. Keep in mind, it comes on the heels of having to deal with a $1.3 billion budget gap last year – the largest budget hole in state history.

It hasn’t been easy dealing with these ongoing significant budget challenges we face. It is definitely not an ideal budget. But we did prevent draconian cuts to critical services and kept government from shutting down.

Despite challenging circumstances, we were able to fund core mission services such as education, health and human services, and public safety.

Unfortunately, we missed an opportunity to reform our budget process – to address structural imbalances in the budget, fix problematic tax policies, and access more recurring and stable revenue. All topics I have repeatedly warned about; topics that do not go away just because we wish they would.

It’s also disappointing the budget didn’t include a teacher pay raise, but there were some members who refused to vote on a number of revenue ideas that would have helped pay for a teacher pay raise. It was hard to get a budget done, forcing legislative leaders to rely on passing measures that produced revenue that required only 51 percent approval instead of the 75 percent majority required for tax increases.

It was definitely not an ideal budget. But we did prevent draconian cuts to critical services and kept government from shutting down.

So there is much work still to do to fix these structural issues that undermine our budget year after year. It is why I have emphasized smart reforms in areas from government accountability and efficiency to criminal justice – an ongoing top priority for me as many of my bills were held up in the Legislature this year.

I am disheartened we didn’t get more of the criminal justice bills passed into law. A lot of people worked very hard on these recommendations.

We can do better in dealing with nonviolent offenders who have mental health conditions or who are addicted to drugs or alcohol by pursuing appropriate treatment, rather than felony prosecution and long-term incarceration. Oklahoma has the second-highest
imprisonment rate in the country. By 2018, we will have the highest incarceration rate in the country.

One of the bills that was held up this session was House Bill 2281. It included important sentencing changes to low-level property crimes, and would have had a particularly important impact on our female prison population.

Without jeopardizing public safety, with these bills, we could have implemented smart, data-driven solutions to safely and prudently fix our criminal justice system. I will continue to work with lawmakers on this important topic, which I have strongly advocated during the past three legislative sessions.

On a bright note, lawmakers approved a fix for REAL ID compliance, reduced the revenue bleeding for overly general wind tax credits, and passed an oil and gas long lateral bill, which will encourage more production and return more revenue.

I also signed into law a new task force to develop recommendations for a better way to administer our school funding formula and school districts.

A major accomplishment was the negotiated deal to bring an Amazon distribution center to Oklahoma City, thus allowing the state to collect new sales tax revenue from Amazon purchases.

Looking ahead to next session, I know that if we work together, we can invest in Oklahoma and make it the best state in this nation. It can be a place where hard-working individuals and ambitious businesses cannot just survive – but thrive.

new revenue was created, whether the framework will hold is far from settled.

**Bold start, rambunctious finish**

In February, Governor Fallin launched the budget discussion with proposals to add some $2 billion to state spending by, among other things, expanding the sales tax to all services and raising taxes on fuel and cigarettes.

The governor said the proposals were intended to initiate discussion, but the general reception from the

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Sausages

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Legislature was less than enthusiastic and it prompted some gubernatorial candidates to distance themselves from the state’s incumbent chief executive.

During the following four months, a number of proposals to increase revenue were floated and as session’s end drew close, incremental revenue enhancements were enacted. But due to the super majority vote by each house required for revenue-raising measures, the budget hole remained largely unfilled until the final week of session.

The difficulty in raising taxes under the provisions of State Question 640 meant the Republican majority would be required to negotiate an agreement with the much smaller Democratic minority. With many Republican legislators refusing to back any revenue-raising bills, a deal with the Democrats was seen – at least initially – as the only solution.

Negotiations proved to be contentious with the minority leader of the House, Rep. Scott Inman, D-Del City, holding frequent news conference to defend his caucus’s position and criticize the governor and legislative leaders. Also during that time, Inman announced his candidacy for governor.

Once it became clear no agreement would be reached and with time running out, legislative leadership ran a series of bills that resulted in increased revenue, but that required only a simple majority for passage.

Those bills included imposing a $1.50 per pack “smoking cessation fee” on cigarettes and a 1.25 percent sales tax on motor vehicle sales.

The final budget included $233.1 million in new revenue, but resorted to more than $500 million in one-time, or non-recurring, revenue. Most state agencies saw their appropriations reduced by about five percent.

The fallout

The final chapter of the FY-18 budget has yet to be written.

Three lawsuits are now pending before the Oklahoma Supreme Court challenging the constitutionality of the measures that resulted in increased revenue for this year’s budget.

One has been filed by tobacco companies, another by automobile dealers, and another by Republican gubernatorial candidate Gary Richardson.

The court has scheduled oral arguments for early August and many will be watching closely to see whether the budget passes constitutional muster and, if not, whether the Legislature can reach agreement in special session on what to do.

In the meantime, state colleges and universities are enacting another round of tuition hikes, the tax commission is collecting new taxes on car sales and is preparing to charge more for cigarette tax stamps beginning in late August, and state agencies are reducing services and making the cuts required to live within the dwindling resources in the new budget.

<table>
<thead>
<tr>
<th>Non-recurring Revenue Used in Oklahoma Budgets</th>
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<tbody>
<tr>
<td></td>
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<tr>
<td>(in millions)</td>
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</table>

Source: Office of Management and Enterprise Services

www.treasurer.ok.gov • Page 4
Oklahoma Gross Receipts to the Treasury for Fiscal Year 2017 indicate the state’s treasury began recovery at the midpoint of the fiscal year and continued through June, lagging slightly behind state gross domestic product figures (GDP), State Treasurer Ken Miller said today during a July 10 State Capitol news conference.

Monthly gross receipts have been higher than the same month of the prior year for five of the past six months.

FY-17 gross receipts remain lower than the prior fiscal year by 1.5 percent, but the rate of decline has become much smaller than the 7.2 percent decline between FY-15 and FY-16.

June gross receipts, at $1 billion, are the highest June total since 2014. FY-17 gross receipts, at $11 billion, are the highest 12-month total in 10 months.

The latest state GDP figures from the federal Bureau of Economic Analysis provide additional evidence of recovery. The most current figures, released in May, show Oklahoma’s economy expanded by 1.3 percent in

May 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 $385.5 million, or 45.1%, of the total.

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

From May gross receipts, the GRF received:

- Individual income tax: 52%
- Corporate income tax: 0.4%
- Sales tax: 44.7%
- Gross production-Gas: 57.4%
- Gross production-Oil: 12.4%
- Motor vehicle tax: 27.3%
- Other sources: 55.4%

May GRF allocations are below the estimate by $6.1 million, or 1.5%. Year-to-date GRF revenue trails the estimate by $196.2 million, or 4.2%.

May insurance premium taxes totaled $3.6 million, a decrease of $188,360, or 4.9%, from the prior year.

Tribal gaming fees generated $11.6 million during the month, up by $363,130, or 3.2%, from May 2016.

The chart shows the monthly gross receipts compared to the prior year, with income tax, gross production, sales tax, motor vehicle tax, and other sources represented. The table below details the dollar change and variance from the prior year:

<table>
<thead>
<tr>
<th>Monthly Gross Receipts vs. Prior Year</th>
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</thead>
<tbody>
<tr>
<td>Income Tax</td>
</tr>
<tr>
<td>July-16</td>
</tr>
<tr>
<td>$25.46</td>
</tr>
<tr>
<td>$129.92</td>
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<tr>
<td>$925.75</td>
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</table>

<table>
<thead>
<tr>
<th>PRELIMINARY</th>
<th>June-16</th>
<th>June-17</th>
<th>Variance From Prior Year</th>
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</thead>
<tbody>
<tr>
<td>Income Tax</td>
<td>$353.42</td>
<td>$371.65</td>
<td>$18.24</td>
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<tr>
<td>Gross Production</td>
<td>$25.46</td>
<td>$41.63</td>
<td>$16.17</td>
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<tr>
<td>Sales Tax (1)</td>
<td>$351.14</td>
<td>$373.53</td>
<td>$22.39</td>
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<tr>
<td>Motor Vehicle</td>
<td>$65.82</td>
<td>$69.34</td>
<td>$3.52</td>
</tr>
<tr>
<td>Other Sources (2)</td>
<td>$129.92</td>
<td>$156.61</td>
<td>$26.69</td>
</tr>
<tr>
<td>TOTAL REVENUE</td>
<td>$925.75</td>
<td>$1,012.76</td>
<td>$87.01</td>
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</tbody>
</table>

Dollar change (in millions) from prior year

Source: Office of the State Treasurer
Revenue
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fourth quarter of 2016 following four consecutive quarters of contraction.

With recessions typically defined as two or more consecutive quarters of GDP reduction, the state has emerged from a one-year recession.

“Current data is encouraging with lagging economic indicators showing improvement in the state economy,” Miller said. “Leading indicators also point to continued growth, but the anticipated strength of the recovery may be moderating as oil prices have come down slightly.”

June gross receipts are higher than those of June 2016 by $87 million, or 9.4 percent. All major revenue streams – income, gross production, sales and motor vehicle taxes – are above those of the prior year.

Collections from gross production taxes on crude oil and natural gas are higher than the prior year for a ninth consecutive month, generating $41.6 million, up by 63.5 percent.

FY-17 collections are down by $164.2 million, or 1.5 percent, compared to FY-16. Gross production receipts are up by more than 20 percent, while income, sales and motor vehicle tax receipts are down by rates ranging from 4.8 percent to 0.7 percent.

Other indicators

The Oklahoma Business Conditions Index, predicting economic activity for the next three to six months, was set at 57.7 in June, up from 54.2 in May. It marks a sixth consecutive month above growth neutral following seven months of negative ratings. Numbers above 50 indicate anticipated economic expansion.

June collections

The report for June shows gross receipts at $1 billion, up $87 million, or 9.4 percent, from June 2016.

Gross income tax collections, a combination of individual and corporate income taxes, generated $371.7 million, an increase of $18.2 million, or 5.2 percent, from the previous June.

Individual income tax collections for the month are $302.3 million, up $16.9 million, or 5.9 percent, from the prior year. Corporate collections are $69.4 million, up by $1.3 million, or 2 percent.

Sales tax collections, including remittances on behalf of cities and counties, total $373.5 million in June. That is $22.4 million, or 6.4 percent above June 2016.

Gross production taxes on oil and natural gas generated $41.6 million in June, an increase of $16.2 million, or 63.5 percent, from last June. Compared to May reports, gross

Current data is encouraging with lagging indicators showing improvement in the state economy.”

Source: Oklahoma Tax Commission
Revenue
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production collections are up by $2.9 million, or 7.4 percent.

Motor vehicle taxes produced $69.3 million, up by $3.5 million, or 5.3 percent, from the prior year.

Other collections, consisting of about 60 different sources including taxes on fuel, tobacco, horse race gambling and alcoholic beverages, produced $156.6 million during the month. That is $26.7 million, or 20.5 percent, more than last June.

Fiscal Year 2017 receipts

During Fiscal Year 2017, July 2016 through June 2017, gross revenue totals $11 billion. That is $164.2 million, or 1.5 percent, below collections for the previous fiscal year.

Gross income taxes generated $3.9 billion for the period, reflecting a drop of $198.6 million, or 4.8 percent, from Fiscal Year 2016, July 2015 to June 2016.

Individual income tax collections total $3.5 billion, down by $72.3 million, or 2 percent, from the prior fiscal year. Corporate collections are $400.7 million for the period, a decrease of $126.2 million, or 24 percent, from the previous period.

Sales taxes for FY-17 generated $4.2 billion, a decrease of $68.7 million, or 1.6 percent, from FY-16.

Oil and gas gross production tax collections brought in $442.7 million during the fiscal year, up by $76.1 million, or 20.8 percent, from the previous period.

Motor vehicle collections total $753.6 million for the period. This is a decrease of $5.2 million, or 0.7 percent, from the trailing 12 months.

Other sources generated $1.6 billion, up $32.2 million, or 2 percent, from the previous 12 months.

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

The General Revenue Fund receives about 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.

May state unemployment rate unchanged at 4.3 percent

Oklahoma’s seasonally-adjusted unemployment rate remained at 4.3 percent for a third consecutive month in May, figures released by the Oklahoma Employment Security Commission show.

State jobless numbers improved by seven-tenths of a percentage point over the year.

The rate is equal to the national jobless rate for the same month and follows four months in which the Oklahoma rate was lower than the national average.

<table>
<thead>
<tr>
<th>May 2017</th>
<th>Unemp. rate*</th>
<th>Labor force*</th>
<th>Employment*</th>
<th>Unemployment*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oklahoma</td>
<td>4.3%</td>
<td>1,830,935</td>
<td>1,751,933</td>
<td>78,982</td>
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<tr>
<td>United States</td>
<td>4.3%</td>
<td>159,784,000</td>
<td>152,923,000</td>
<td>6,861,000</td>
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<tr>
<td>OKLAHOMA</td>
<td>April '17</td>
<td>4.3%</td>
<td>1,835,764</td>
<td>1,757,402</td>
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<td>Mar '17</td>
<td>4.3%</td>
<td>1,836,595</td>
<td>1,756,875</td>
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<td></td>
<td>Feb '17</td>
<td>4.5%</td>
<td>1,831,799</td>
<td>1,749,824</td>
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<td>Jan '17</td>
<td>4.7%</td>
<td>1,827,615</td>
<td>1,742,286</td>
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<td>Dec '16</td>
<td>4.8%</td>
<td>1,823,830</td>
<td>1,735,518</td>
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<td>May '16</td>
<td>5.0%</td>
<td>1,826,357</td>
<td>1,735,161</td>
</tr>
</tbody>
</table>

* Data adjusted for seasonal factors

Source: OESC
Economic Indicators

Unemployment Rate
January 1980 – May 2017

Gross Receipts vs. Oil & Gas Employment
January 2008 – June 2017

Leading Economic Index
January 2001 – May 2017

Oklahoma Stock Index
Top capitalized companies
January 2009 – June 2017

Oklahoma Natural Gas Prices & Active Rigs
January 2011 – June 2017

Oklahoma Oil Prices & Active Rigs
January 2011 – June 2017