With the 2017 Oklahoma legislative session concluded, the final grades are now in and they run the gamut.

Following each session since 2013, the OER has featured comments and letter grades from state leaders and representatives of various interest groups. This year’s composite grade of C- is the lowest recorded.

With an estimated budget shortfall of almost $900 million at the start of session, the primary focus was on whether state leaders would address the state’s ongoing revenue problem. In the end, a balanced budget was enacted, but opinions about the final product and how it was crafted are mixed.

Individual grades ranged from a B+ from House Speaker Charles McCall to an F from Alicia Priest with the Oklahoma Education Association.

Governor Mary Fallin assigned a D+ to the session, while Treasurer Ken Miller gave it a C-. For the first time since the OER began the session analysis, Fred Morgan, president of the State Chamber, chose to not offer a letter grade or provide comments on how the Legislature’s actions impacted the state’s business community. Senate President Pro Tempore

2017 Legislative Session Report Card

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Faced with an $878 million budget hole beginning the 2017 legislative session, policymakers had a hard job in front of them. They also had an opportunity to protect Oklahoma from having to continually dig under the couch cushions for money to keep core government services afloat.

They had a chance to create recurring revenue sources and lessen the dependency on one-time and non-recurring revenue. The proposal was on the table from day one.

It seems like ages ago given the political gymnastics of this last session, but Gov. Mary Fallin offered a balanced-budget proposal (https://www.ok.gov/OSF/documents/bud18.pdf) in February without one-time revenue sources and with the creation of dependable recurring revenue sources.

One-time funds are nontraditional funds available beyond general revenue, often agency-specific funds that build up over time through fee collection, carryover dollars or other means. Recurring revenues are more constant traditional general revenue sources.

Yes, often these are taxes. While there is no magic bullet to make the state immune from economic fluctuations, recurring revenue adds stability.

Occasionally tapping one-time funds as a temporary crutch to fill gaps left by declines in recurring revenue sources makes sense. If there is unused money sitting in a government account, it should be used, especially during a budget crisis, or returned to the taxpayer.

It should be a rare exception, not the rule. It can be risky business.

We’ve become too reliant on one-time funds and too timid in making the often tough political decisions to increase recurring revenue. Any observer on the left, right or center, saw this past session how politics can block sound fiscal policy. While the rhetorical level may have seemed louder this year, the results continued a backward trend.

After cutting the use of one-time funds in half for FY 2014, the Legislature has relied on non-recurring revenue in building budgets ever since, turning its collective back on creating significant recurring revenue.

Since 2014, the amount of one-time funds and non-recurring revenue used to build a balanced budget has increased from $141.8 million.
Donorflinger
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Tempone Mike Schulz was not comfortable offering a letter grade, but did provide commentary.

The following are the individual grades and comments.

Governor Mary Fallin
Grade: D+

This was a difficult legislative session, as it started out with a budget shortfall of nearly $900 million. It’s never easy to close that wide of a gap. But despite challenging circumstances, lawmakers were able to craft a plan that keeps our government from shutting down and funds our core mission services – education, health and human services, public safety and infrastructure. The budget minimizes cuts and puts some recurring revenue on the table. But we missed an opportunity to do more to reform our budget process. We still need to address structural imbalances in the state’s budget and make available more recurring, stable revenue.

It’s disappointing the budget doesn’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

Oklahoma’s ratings could be lowered again unless there were changes this session, of which there were few.

While it may be commendable with the political pressure applied this past session that the Legislature was able to cobble together a budget, holding some core agencies harmless and minimizing cuts to others, the revenue problem was not solved. Politics got in the way.

Options were on the table to create recurring revenue, and they will be again. Before the ink is dry on the FY 2018 budget, we should start looking at the FY 2019 budget. Without structural reform and new recurring revenue sources, Oklahoma is likely to keep facing budget problems.

And it is risky business, indeed.
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a budget done, and the legislative leaders relied on passing measures that produced revenue on the table that required only 51 percent approval instead of the 75 percent majority required for tax increases.

About $500 million of one-time funds were used in this budget, which means we’re going to start out the next year with a shortfall of that amount. As a result, it will be another difficult year as it’s an election year and we know it will be difficult to pass revenue-raising measures.

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 substance abuse problems with 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.

On a bright note, lawmakers approved a fix for REAL ID compliance, reduced the revenue bleeding for overly general wind tax credits, 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.

It was indeed a challenging session. I give it a D+.

State Treasurer Ken Miller
Grade: C-

Assigning grades to my university students is easy – points earned divided by points possible within an objective structure and no allowance for subjectivity. Not so with legislative grading, where subjectivity is the only determinant and assessments bias toward self-interest.

With that perspective, I could assign an A grade for the strong support received from legislators who consolidated state debt under treasury and strengthened the office’s role with pension investments.

Unfortunately, this budget remains heavily dependent on non-recurring revenue; a problem rating agencies are sure to notice." – Treasurer Miller

With so much left undone, I was tempted to assign an Incomplete; but that would have been too easy. One could maybe justify an F for failure to address revenue, spending, teacher pay, or criminal justice reforms. But that seems too harsh and fails to recognize accomplishments, effort and degree of difficulty given a $1 billion budget shortfall for the third year in a row.

Although Governor Fallin opened session with a shock-and-awe executive budget presentation providing one roadmap to structural soundness, the session closed with a ho-hum budget that avoided deep cuts to core services, but again left undone significant structural reform. It also left the budget at risk due to questions regarding the legality of revenue measures.

However, the fact that fuel tax and GPT changes were seriously considered is a striking change in tone that, combined with a strong reality-based freshman class, is encouraging.

Unfortunately, this budget remains heavily dependent on non-recurring revenue leaving the next Legislature with a $500 million hole that keeps state government operational but not structurally sound; a problem rating agencies are sure to notice.

That being said, I’d give an A for effort to both appropriation chairs who worked diligently and pragmatically to build the near impossible supermajority needed to meet the high bar requirements of SQ 640. The three-quarter requirement made the house minority party relevant for the first time in over a decade, but their leader overplayed his hand killing any chance of bipartisan support of revenue reforms, even refusing

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a doubling of the GPT. Curiously, the majority party gave away their bargaining chip by passing long laterals without any change in rates. Though many got riled by the "kicking the can down the road" television ad that aired during session, this year's budget did just that. Pundit comments about this session sound similar to previous years, as they will in the future, until corrective reforms like modernizing the tax code are enacted.

Taking away this session's unusually high level of politicizing and grandstanding, the end product isn't much different than normal: the Legislatures' desire to spend outstrips its desire to generate revenue leading to persistent structural imbalances. So, given the dictionary definition of average, "a typical amount, rate, degree, or norm" – and a slight bump for strengthening the treasury – I settle on a grade of C-

Senator President Pro Tempore Mike Schulz
Grade: None given

The Oklahoma Senate worked this session with the goal of ensuring the policies we enacted had long-term vision and set Oklahoma on the path to success in the future.

Despite a session that was dominated by the $1 billion shortfall, the Senate was able to enact important policies that will help grow our economy, create jobs and generate wealth, and yield new revenues for the state budget.

The Energy Jobs Act of 2017 will help kick start oil and gas drilling, and passage of a bill to bring Oklahoma in compliance with the federal REAL ID law ensures our citizens maintain access to military bases and the ability to board domestic flights with state-issued ID.

During budget negotiations, the Oklahoma Senate showed its willingness to compromise by passing a bill providing $514 million in new, recurring revenue for the state. The bill didn't move forward in the House.

At the outset of the year, 18 – 20 percent cuts were feared but the budgets of common education, DOC, DHS, OHCA, and DPS were kept whole while other agency cuts were less than five percent.

Like most budgets, the FY'18 budget is not a perfect bill but it is an incredible accomplishment considering the Legislature faced a $1 billion budget and the refusal of some lawmakers to compromise.

I'm proud of the members of the Oklahoma Senate for their willingness to put our state above partisan politics.

Speaker of the House Charles McCall
Grade: B+

This was a very challenging legislative session. We faced a smaller budget shortfall than last year, but there was much less money in the Rainy Day Fund and there was little money laying around in revolving funds like we had in 2016. That meant tax increases – which require an almost impossible 76 vote threshold – or huge cuts to agencies. Nevertheless, we were able to close an $878 million budget gap and pass several important pieces of legislation.

The FY-2018 budget is not perfect, but it is an increase in total funding over FY-2017, holding 15 core agencies flat while other agencies received minimal 4 percent cuts and fully funding Medicaid provider rates and protecting our 8-Year Transportation Plan.

Three times House Republicans passed a teacher pay raise plan only to see it stall in the Senate. We put Oklahoma in compliance with the federal REAL ID Act. We also ended the costly zero-emission tax credit for wind, saving our state $500 million over the next 10 years.

We created a task force to review agency spending and passed a bill allowing Oklahoma to collect taxes owed the state from out-of-state businesses. Despite a very difficult financial year, we accomplished much that will move Oklahoma forward.

Oklahoma Policy Institute
Executive Director David Blatt
Grade: C-

If admitting a problem is the first step in solving it, the 2017 session marked an important, if incomplete, step towards fixing our broken budget.

No longer did we hear tired refrains about government overspending and tax cuts being the path to prosperity. This was replaced by frank recognition of the state's
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revenue problem and the need to tackle our structural budget deficit by supporting new recurring revenues.

The Legislature even struck a blow for fiscal sanity by repealing the next scheduled tax cut.

Overall, however, the session’s outcomes were disappointing. The new revenues - approved as part of a 11th-hour budget rolled out in the dead of night - were taxes thinly disguised as fees that fall heaviest on moderate- and low-income households.

Even those agencies that had their funding held flat will likely enact further cuts as they cope with rising costs and growing populations.

The failure to provide teachers a raise for the 11th straight year or boost total school funding will exacerbate a crisis that has brought the state national shame. And promising, broadly-supported criminal justice reforms fell victim to the failure of House leadership to stand up to one unyielding member.

Oklahoma Council of Public Affairs President Jonathan Small
Grade: C+

Throughout the 2017 legislative session the Legislature faced intense pressure from executive-branch agencies to massively raise taxes on Oklahomans.

Much of the budget gap was filled using one-time revenues. Using one-time revenues during a recessionary period is not ideal but is preferable to permanent tax increases that cement unreformed spending.

Given that Oklahoma’s total state government spending is at an all-time high, it’s disappointing that many opportunities for additional spending reforms were not realized during the session.

Still, the Legislature deserves credit for passing a budget that included relatively few tax increases on Oklahoma families and job-creators.

At a time when Oklahoma is in a recession compared to 2014, after more than 21,800 energy and manufacturing jobs have been cut, when Oklahomans have lost more than $13 billion in taxable income and reduced their purchases subject to sales and use tax by $4.1 billion just to survive, state government shouldn’t complain.

The greatest irony of the 2017 session is that the final appropriated budget that lawmakers passed for state government is higher than last year. This, despite the sky-is-falling tactics and “we’ve already cut to the bone” rhetoric used by state agency bureaucrats to pummel state lawmakers all session long.

The Oklahoma Public Employees Association Executive Director Sterling Zearley
Grade: D

Oklahoma lawmakers fell short in addressing revenue problems resulting in another year of state agency cuts and woefully inadequate state employee pay.

Despite approving questionable tax increases during the session’s last week, lawmakers didn’t adequately fund most state agencies for FY2018. Agencies will implement another round of cuts as a result of this budget.

State leaders relied heavily on one-time funding for next year’s core services assuring more funding troubles for next session. Lawmakers passed an inadequate budget despite ample opportunity to find recurring revenue.

Once again, the budget was unveiled during the session’s last days with little time for input or consideration of its impact. This demonstrates the need to overhaul Oklahoma’s budget process to include more transparency and dialogue from stakeholders.

Defeat of legislation creating harmful changes in state employee and retiree health benefits represents the lone bright spot for state employees but lawmakers did not support common-sense changes to state agencies’ employment system.

Approving a budget resulting in cuts to core services and overlooking state employee pay, participating in unproductive political bickering and failing to implement a consistent plan to provide sufficient recurring revenue to fund core services results in a D grade for the 2017 session.

Oklahoma Education Association President Alicia Priest
Grade: F

The challenges we called on our elected officials to tackle this

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May brings another month of growth to Gross Receipts to the Treasury

Editor’s note: Beginning this month, the Oklahoma Economic Report will be consistently released after the end of the month to allow for publication of the most recent Gross Receipts to the Treasury (GRT) report. All previous GRT releases, including the April report, can be found at https://go.usa.gov/xNyqB.

“...Oklahoma is marching up the expansion side of the business cycle.”

May Gross Receipts to the Treasury continued a trend of rising collections that began at the start of the calendar year, State Treasurer Ken Miller announced.

May receipts of $854.8 million are up by $72.3 million, or 9.2 percent, compared to May of 2016. Except for March, collections during each month of 2017 have shown growth.

“...Oklahoma is marching up the expansion side of the business cycle.”

Our analysis of all major sources of revenue deposited into the treasury would appear to indicate Oklahoma’s economy is recovering from the energy downturn,” Miller said. “In addition to the gross receipts picture, numerous other indicators add credence to the conclusion that Oklahoma is marching up the expansion side of the business cycle.”

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### April Gross Receipts & General Revenue compared

April Gross Receipts to the Treasury totalled $1.2 billion, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received $611.8 million, or 50.3%, of the total.

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

From April gross receipts, the GRF received:

- Individual income tax: 59.7%
- Corporate income tax: 60.4%
- Sales tax: 44.4%
- Gross production-Gas: 59.2%
- Gross production-Oil: 10.7%
- Motor vehicle tax: 26.2%
- Other sources: 40.4%

April GRF allocations are below the estimate by $90.3 million, or 12.9%. Year-to-date GRF revenue trails the estimate by $190.1 million, or 4.4%.

April insurance premium taxes totaled $50.9 million, a decrease of $2.9 million, or 5.3%, from the prior year.

Tribal gaming fees generated $12.4 million during the month, up by $0.7 million, or 5.9%, from April 2016.

### Monthly Gross Receipts vs. Prior Year

![Graph showing monthly gross receipts vs. prior year](source: Office of the State Treasurer)
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legislative session were enormous.

In public education, we looked to our leaders to put nearly one hundred school districts back on solid enough financial footing that they could resume educating children five days a week.

We expected relief from a teacher shortage that placed 1,123 emergency certified teachers at the front of students’ classes.

We looked to legislators to honor their campaign promises to raise educator pay in order to stop the exodus of new and veteran teachers from our borders.

A new class of freshmen legislators gave us hope. They ran on platforms of moderation. They acknowledged that a government can’t cut it’s way to prosperity; rather, they recognized, at times we must increase investment in infrastructure if we want our government to accomplish its true purpose of furthering the wellbeing of its citizens.

Ultimately, however, our elected officials failed us. Our highest-ranking leaders blocked progress and our governor didn’t keep her word to veto a budget that made cuts or relied upon one-time funding.

After the dust settled, Big Oil continues to benefit from one of the most generous and needless tax breaks in the nation and those who protect the underfunded status quo continue to reign in Oklahoma.

Meanwhile, Oklahoma schools will resume in August still facing every fiscal challenge they desperately looked to the Legislature to address. Failure on that scale warrants only one grade: F.

Revenue
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All major revenue streams rose in May compared to the prior year.

Gross production tax collections are higher than the prior year for an eighth consecutive month.

May receipts from the production of oil and natural gas generated $38.8 million, an increase of $14.7 million, or 61 percent.

Individual income, sales, and motor vehicle taxes show increases ranging from 11 percent to 0.3 percent during the month. Corporate income tax rose by more than 200 percent compared to last May, but wide variances in that revenue stream are not uncommon.

Over the past 12 months, gross receipts of $10.9 billion are less than the total from the previous period by $324.9 million, or 2.9 percent. However, collections for the period are the highest in seven months.

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.
Economic Indicators

**Unemployment Rate**
January 1980 – April 2017

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

**Leading Economic Index**
January 2001 – April 2017

**Oklahoma Stock Index**
Top capitalized companies
January 2009 – May 2017

**Oklahoma Natural Gas Prices & Active Rigs**
January 2011 – May 2017

**Oklahoma Oil Prices & Active Rigs**
January 2011 – May 2017