Under a watchful eye

Vulnerable Oklahomans in danger of losing government health services and state residents potentially required to pay higher taxes aren’t the only people paying close attention to the activity – or lack thereof – at the State Capitol Building.

A group of researchers and analysts in New York City are also tightly focused on the activities at 23rd and Lincoln.

While that initially might not seem like a big deal, those analysts work for the three principal rating agencies – Moody’s, Standard & Poor’s, and Fitch – and are responsible for grading the state’s credit worthiness. The decisions they make have huge financial implications for Oklahoma’s efforts to finance infrastructure repairs and improvements.

Higher ratings lead to lower borrowing costs, while downgrades mean increased interest rates on state bonds.

The actions of state policymakers – not just during the current special session, but in general over the past three years – are not making a good impression on those analysts.

In March, Standard & Poor’s downgraded Oklahoma’s credit score, the first negative action on the

Moody’s: Special Session Impasse “Credit Negative”

Moody’s “Issuer Comment” was released November 6, 2017.

Costly consequences
In October, Governor Fallin again led a cadre of state finance officials on our annual pilgrimage to New York City to meet with the ratings agencies. During our meeting prep, she lamented the timing of our trip given the special session and unresolved budget problems saying, "I guess we'll just have to try to put lipstick on this pig".

After seven years, the meetings have become routine and comfortable with all participants familiar, friendly and well informed of the issues surrounding Oklahoma’s financial affairs.

We painted a realistic picture of likely outcomes for special session, but did express some cautious optimism that the Legislature would bring enough new revenues to the table to ease the structural imbalance.

On November 6, after watching a weeks long special session that failed to pass remedies, Moody’s Investors Service published a commentary on the credit implications of Oklahoma’s current events.

They affirmed a less than positive outlook stating, “The legislature’s inability to pass a comprehensive and permanent solution is credit negative.”

With all the political spin currently in force, perhaps hearing directly from a non-biased source could be helpful. The following is an excerpt from the Moody’s publication.

“Absent meaningful structural reforms that align revenues and expenditures . . . we could lower the ratings (again).”

– Standard & Poor’s

“The budget gap at 4% of estimated general fund spending is not huge, but it is meaningful. The nearly six-week-long impasse underscores the economic and institutional weaknesses that have led to a persistent structural budget imbalance since 2015.

“These exacting constitutional structures, alongside a lack of policy agreement on viable revenue measures, leave the structural deficit unresolved and weigh on Oklahoma’s credit quality. Unable to pass the most recent comprehensive revenue bill out of committee, the legislature is currently focused on non-recurring fixes.

“The stopgap measures leave more than half of the gap outstanding, necessitating further action from the legislature before the end of the fiscal year. Moreover, the bills draw the maximum allowable contribution for an emergency provision from the rainy day fund and rely on carryover funds from last year, doing nothing to address the ongoing structural imbalance, which increases the difficulty of drafting a 2019 budget.

“Future budget challenges are compounded by a reduced availability of cash reserves for onetime fixes”.

The Moody’s credit negative outlook affirmation follows the first Oklahoma credit downgrade.
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**

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in 30 years. Last March, Standard and Poor’s Global Ratings lowered its rating on the state one notch to “AA-” from “AA”. Below are their comments that accompanied the change.

“The downgrade reflects our view that persistently weak revenue collections have further compounded the state’s challenge to achieve structural balance in fiscal 2018.

“The state’s financial position has deteriorated to a point that further precludes the state from building up reserves in subsequent fiscal years.

“Given the state’s reliance on nonrecurring measures to balance fiscal 2016 and 2017 budgets, coupled with shrinking reserves balances, we believe the state is vulnerable to further revenue declines.

“In the absence of meaningful structural reforms that align revenues and expenditures and that do not materially depend on one-time budget solutions...we could lower the ratings (again).”

In its downgrade commentary S&P wrote it could raise the rating should there be recovery in economic indicators, improvements in state revenues that are sustainable, and meaningful measures to align revenue and expenditures leading to growth in reserves.

While there have been improvements in our economy and state revenues, there is no meaningful fix for the structural imbalance in sight and reserves continue to be depleted. It appears the lipstick is wearing off this pig and it may well be slapped with another credit downgrade.

**Rating**

FROM PAGE 1

state’s bond rating in 30 years, due to a number of factors, including the ongoing use of nonrecurring revenue to pay for recurring expenses.

The current inability of the Legislature to gather enough constitutionally-required support to raise new revenue to sufficiently fund core government services has captured the attention of Moody’s Investors Service.

On November 6, Moody’s issued what it termed an “issuer comment,” in which it pointed to the failure of the Legislature to enact any measures that would provide a permanent solution to the state’s current structural budget imbalance.

Moody’s declared the failure to find a solution as “credit negative,” the term used by rating agencies as they consider whether the state’s credit rating should be downgraded.

Moody’s and the other two rating agencies have long held that the constitutionally-required three-quarters approval by the Legislature to raise taxes poses a significant risk to Oklahoma’s credit worthiness.

As was most recently demonstrated on November 8, the super majority required to raise taxes has thus far proved insurmountable.

**Annual meetings**

The Moody’s comment comes a little more than two weeks after Governor Mary Fallin, Treasurer Ken Miller, and Finance Secretary Preston Doerflinger traveled to New York for annual meetings with the three rating agencies.

The purpose of the meetings is to give state leaders an opportunity to update the analysts on the current state of the state’s economy and governmental actions to manage its responsibilities, including infrastructure and long-term debt.

A 20-page report was presented

SEE RATING PAGE 4
Rating

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during the meetings and included sections on recent developments, financial structure and results, economic performance, and debt and debt management.

The report, while presenting factual information about Oklahoma and its government, also outlines positive efforts to improve the state’s financial picture and generate positive economic activity.

For example, the report’s executive summary focused on Governor Fallin’s call for an end to suboptimal budget practices. The governor also presented an update on current efforts to recruit new business to the state.

While the Oklahoma delegation was met positively by the analysts, concerns were expressed about the state’s structural budget imbalance for the past several years.

In addition to concerns about the high-bar requirements to raise new revenue, the analysts also reiterated their reservations about the ongoing budget imbalance and depletion of cash reserves.

All was not negative, however, as they do see encouraging signs with the improvement in public pension funding and constitutional limits on appropriations.

A 20-page report was presented to the three rating agencies.

Learn more

Read the Oklahoma Credit Update presented to the rating agencies at: https://go.usa.gov/xnDY8

State Bond Advisor responsibilities move to Treasurer’s Office

Effective November 1, the responsibilities of the State Bond Advisor are under the authority of the State Treasurer’s Office.

The State Bond Advisor, previously appointed by the Council on Bond Oversight, is now hired by the state treasurer. In addition, the treasurer has been added as a member of the council, replacing the director of the Office of Management and Enterprise Services.

Andrew Messer, Deputy State Treasurer for Policy and Debt Management, has been named as interim bond advisor by State Treasurer Ken Miller.

Miller said he intends to have Messer continue in the position through the end of the treasurer’s current term.

Miller expressed his confidence in Messer, “due to his exemplary performance in the treasurer’s office and his past experience as a staff attorney for the State Senate and as legal counsel to the Oklahoma tax commissioners.”

The bond advisor provides advice and assistance on capital planning, debt issuance, and debt management to state leaders. The council reviews and approves requests for financing by state governmental entities.
October Gross Receipts to the Treasury show accelerated growth

October Gross Receipts to the Treasury are up by more than 10 percent from the same month of the prior year; the first time double-digit growth has been seen in four and a half years. It also marks the ninth time since the start of the calendar year that monthly Gross Receipts to the Treasury are more than the prior year, State Treasurer Ken Miller announced November 3.

At $980.2 million, October collections are up by 10.6 percent, or $94.1 million, compared to receipts from October 2016. The last time monthly gross receipts grew by more than 10 percent was in April 2013.

"Such strong revenue growth is encouraging, with all four major revenue sources in positive territory."

Total gross receipts from the past 12 months also paint a positive picture.
Revenue

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with all major revenue streams except gross income tax showing increases over the prior 12 months.

New revenue collections (UPDATED – November 9)

The tax commission attributes $25.7 million in October to new revenue resulting from legislation enacted during the last regular session. The largest amount, $11.7 million, is tied to a 1.25 percent state sales tax on motor vehicles. A $5 fee on motor vehicle registration increased collections by $1.9 million for the month.

New revenue gained during the month by boosting the 1 percent horizontal drilling gross production tax rate to 4 percent is reported as $7.8 million by the tax commission.

Elimination and suspension of gross production rebate payments added $3 million to gross collections during the month. Ending a discount for businesses that remit sales tax added $1.2 million for the month, and a new fee assessed on professional sports tickets contributed $71,622.

Since August, law changes from last session have yielded more than $66.2 million in new gross revenue.

Other indicators

After dropping below growth neutral in July, the Oklahoma Business Conditions Index has topped growth neutral for three consecutive months. The October index was set at 63, up from 62.7 in September. Numbers above 50 indicate anticipated positive economic growth in the next three to six months.

October collections

October gross collections total $980.2 million, up $94.1 million, or 10.6 percent, from October 2016.

Gross income tax collections, a combination of personal and corporate income taxes, generated $323.3 million, an increase of $13 million, or 4.2 percent, from the previous October.

Individual income tax collections for the month are $309 million, up by $18.9 million, or 6.5 percent, from the prior year. Corporate collections are $14.3 million, a decrease of $5.9 million, or 29.2 percent. Large variances in monthly corporate tax collections are not uncommon.

Sales tax collections, including remittances on behalf of cities and counties, total $384.1 million in October. That is $40.6 million, or 11.8 percent, more than October 2016.

Gross production taxes on oil and natural gas generated $52 million in October, an increase of $17 million, or 48.4 percent, from last October. Compared to September reports, gross production collections are up by $1.9 million, or 3.7 percent.

Motor vehicle taxes produced $63.9 million, up by $5.9 million, or 10.2 percent, from the same month of last year.

Other collections, consisting of about 60 different sources including use taxes, along with taxes on fuel, tobacco, and alcoholic beverages, produced $156.8 million during the
Revenue

FROM PAGE 6

month. That is $17.6 million, or 12.6 percent, more than last October.

Twelve-month collections

Gross revenue totals $11.2 billion from the past 12 months. That is $377.8 million, or 3.5 percent, more than collections from the previous 12 months.

Gross income taxes generated $4 billion for the November 2016-October 2017 period, reflecting a decrease of $16.5 million, or 0.4 percent, from the November 2015-October 2016 period.

Individual income tax collections total $3.6 billion, up by $48.5 million, or 1.4 percent, from the prior 12 months. Corporate collections are $397.6 million for the period, a decrease of $65 million, or 14 percent, over the previous period.

Sales taxes for the period generated $4.4 billion, an increase of $135 million, or 3.2 percent, from the prior year.

Oil and gas gross production tax collections brought in $501.7 million during the past 12 months, up by $157 million, or 45.6 percent, from the previous 12-month period.

Motor vehicle collections total $762 million for the period. This is an increase of $15.7 million, or 2.1 percent, from the trailing period.

Other sources generated $1.7 billion, up by $86.6 million, or 5.5 percent, from the previous 12 months.

About Gross Receipts to the Treasury

Since March 2011, the Office of the State Treasurer 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 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.

Learn more

Read the full Gross Receipts monthly report and view additional charts and graphs here.

State jobless rate rises, national rate falls in September

At 4.5 percent, Oklahoma’s seasonally-adjusted unemployment rate in September was unchanged from the prior month, according to figures released by the Oklahoma Employment Security Commission.

State jobless numbers improved by one-half of a percentage point over the year.

The U.S. jobless rate was set at 4.2 percent in September, down by two-tenths of a percentage point from the prior month.

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<tr>
<th>September 2017</th>
<th>Unemp. rate*</th>
<th>Labor force*</th>
<th>Employment*</th>
<th>Unemployment*</th>
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<td>Oklahoma</td>
<td>4.5%</td>
<td>1,827,099</td>
<td>1,745,393</td>
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<td>United States</td>
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<td>OKLAHOMA</td>
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<td>Aug ‘17</td>
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<td>1,823,655</td>
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</table>

* Data adjusted for seasonal factors  
Source: OESC
Economic Indicators

Unemployment Rate
January 1980 – September 2017

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

Leading Economic Index
January 2001 – September 2017

Oklahoma Stock Index
Top capitalized state companies
January 2009 – October 2017

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

Oklahoma Oil Prices & Active Rigs
January 2011 – October 2017