



Oklahoma Economic Report™

News and analysis of Oklahoma's economy

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

Off-the-top funds under scrutiny

With the Oklahoma state budget in a worsening revenue failure for the current fiscal year and an unprecedented \$1.3 billion reduction in estimated revenue for next year, policymakers are searching everywhere for ways to mitigate the problem.

The goal is to identify money that can be used to reduce what could otherwise be devastatingly deep cuts to core government services

One target in the cross-hairs is off-the-top or earmarked revenue – tax collections that are apportioned by statute to various state funds,

effectively bypassing annual legislative appropriations or direction.

Where does it go?

Most state revenue, though not all, flows through the Oklahoma Tax Commission (OTC).

Of the \$8.7 billion listed in the OTC FY-15 annual report, slightly more than 62 cents of every dollar, or \$5.4 billion, was apportioned to the General Revenue Fund (GRF), the state's main operating account and the primary source of revenue for legislative appropriations.

The remaining \$3.3 billion was divvied

up among 142 other funds in amounts ranging from \$622 million to \$181.

Of the 142 other funds, more than \$1.3 billion is allocated to three education-related funds, including the Education Reform Revolving Fund, or 1017 Fund, with \$622 million; the Teachers Retirement System, with \$309 million; and, direct school district allocations of \$385 million.

Four transportation-related funds, including the Rebuild Oklahoma Access and Driver Safety Fund, or ROADS

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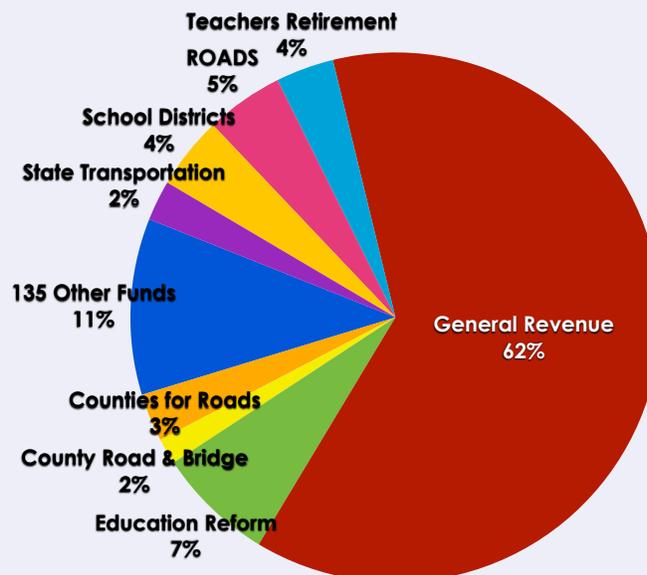
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Editor

Tim Allen, Deputy Treasurer for Communications

FY-15 Statutory Apportionment of Revenues (in millions)



State Transportation	\$214.12
School Districts	\$385.24
ROADS	\$411.80
Teachers Retirement	\$308.53
General Revenue	\$5,430.08
Education Reform	\$621.77
County Road and Bridge	\$138.13
Counties for Roads	\$254.47
135 Other Funds	\$936.04
TOTAL	\$8,700.18

Source: Oklahoma Tax Commission



Governor's Commentary

By Governor Mary Fallin

Bold, specific action needed to deal with Oklahoma's budget shortfall

Oklahoma faces a huge challenge as the state grapples with a \$1.3 billion budget hole in the state budget for the upcoming fiscal year.

Bold, specific action is needed to deal with the shortfall, caused mostly by the oil price collapse and decades-old structural problems with the state budget.

As I told lawmakers at the start of this year's session, we have tough decisions and we need to roll up our sleeves and do the hard work. But we can overcome this challenge if we work together.

It's easy to get discouraged or become timid. Many of us have heard the old saying, "Never let a crisis go to waste." We can use our budget crisis to create new opportunities to build a solid foundation for Oklahoma.

Even in this fiscal climate, we can pass a budget that begins the type of true, meaningful fiscal reform the state needs, and at the same time properly funds corrections to keep our residents safe and education to address Oklahoma's growing teacher shortage.

Lawmakers basically have three options: Make across-the-board cuts

to agencies; drain the state's Rainy Day Fund savings account and use one-time budget tricks; or take control of the challenges we face today and put us on far better footing for the future. How we respond will define our future more than anything else.

“We can use our budget crisis to create new opportunities to build a solid foundation for Oklahoma.”

Fixing Oklahoma's Unsustainable Budget Trends

I'm asking lawmakers to make necessary cuts that will require continued efficiencies from agencies, prioritizes spending and lessens those reductions in our core service areas wherever possible. My executive budget I proposed to legislators modernizes our tax code to make it more consistent with 21st-century commerce. Because this budget proposes using recurring revenue, it uses zero one-time revenue. It doesn't even use the Rainy Day Fund.



I've made specific recommendations for capturing \$910 million of recurring revenues for appropriations that will help fund core services next year and every year in the future:

- We can reallocate apportionments – most of which are commonly called earmarks - back to the General Revenue Fund that currently go to noble but noncritical functions. Remember, just a few years ago, 55 cents out of every dollar we collected went to the General Revenue Fund. Today, just 45 cents out of every dollar collected goes there, and it is continuing to decline (as you can see in Chart A, next page).
- I have asked the Legislature to consider raising the personal consumption tax on cigarettes. Smoking is Oklahoma's leading cause of preventable death and it costs our state \$1.6 billion in related health costs each year. This is the most

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Fallin

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important thing we can do to improve Oklahoma's health ranking.

- I have proposed eliminating non-statutory, non-critical pass-through appropriations.
- I have proposed reconciling some agency revolving funds, which usually contain about \$1.5 billion. The transfer of monies from these accounts is often mischaracterized as one-time revenue, despite the fact the majority of these accounts replenish yearly. These funds are there every year – they are not one-time funds (as you can see in Chart B).
- It's time to scrutinize the \$8 billion of sales tax exemptions. We could capture approximately \$200 million from the 150 different categories, many of which have been around for decades. The sales tax code in Oklahoma today isn't much different than it was in the 1980s despite huge changes in the way commerce is conducted and the way consumers purchase goods and services. Modernizing the sales tax code means keeping the same low rates and applying them in ways that better reflect today's commerce and consumer behaviors. We exempt more in sales taxes than we appropriate each session (as you can see in Chart C).

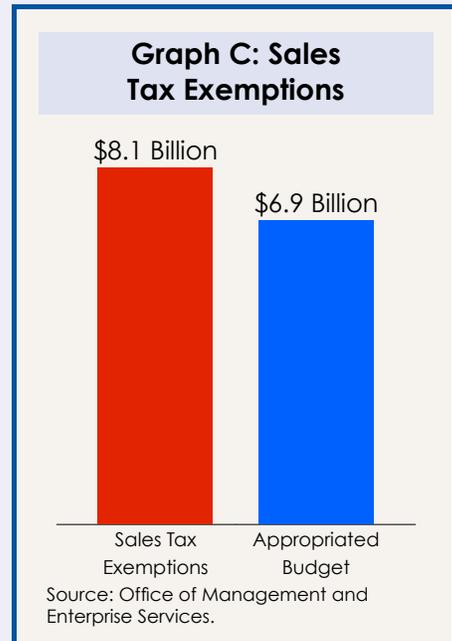
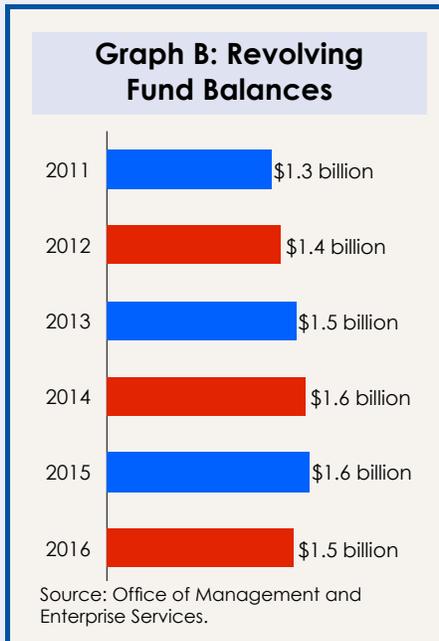
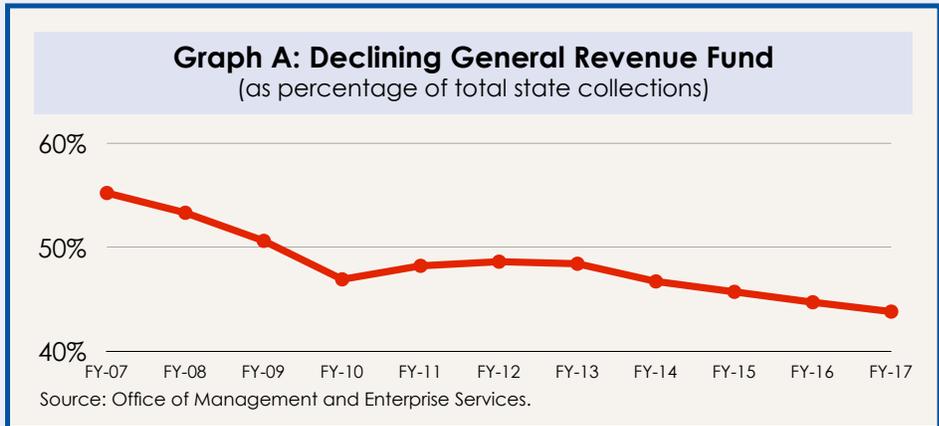
Nobody can remember any of these ever getting repealed, let alone

reviewed. Surely some of that \$8 billion can be revisited. Just 1 percent would net \$80 million to core government services.

These proposed revenue streams lay a solid foundation to enhance outcomes and elevate opportunities. And, it's important for future governors to

have better, more stable revenue streams than I do so policymakers, agencies and the public aren't faced with constant revenue uncertainty.

Read more about Governor Fallin's budget proposals and her priorities in her State of the State address by [clicking here](#).



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Earmarks

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Fund, the State Transportation Fund and two county road and bridge funds receive a total of more than \$1 billion.

At this point, 11 percent of OTC collections, or \$936 million, remained to be shared by 135 accounts.

The trend

The percentage and amount of tax revenue apportioned to funds other than the GRF has grown over time.

In FY-98, the OTC annual report shows the GRF received 74 percent, or \$3.7 billion of \$5.1 billion in total state tax collections.

Of the remaining \$1.4 billion, three education-related and two transportation-related funds shared almost \$1.1 billion, leaving 63 other funds to split up less than \$300 million,

or only 6 percent of the total.

Positive rationale

Arguments in favor of the current system point to the certainty of funding for the programs supported by the earmarks.

Over the years, Legislatures and governors have enacted law changes to ensure a steady flow of money and to protect the funds from future decision makers.

It would appear, at least at the time the earmarking legislation was approved, state policymakers believed shielding the funds was the appropriate action.

Negative rationale

Arguments in favor of changing the current system point to the need to periodically reevaluate state spending

and the priorities it represents. While a previous Legislature may have thought dedicating revenue to a specific program was appropriate a decade ago, this Legislature may have different needs.

Earmarking revenue also weakens the flexibility of the Legislature to respond to current conditions.

Governor's proposals

Governor Mary Fallin is taking a conservative, measured approach to reallocating off-the-top funds.

In her FY-17 budget recommendations, she proposes moving \$40.3 million from the Tourism and Recreation Department, Historical Society and other areas back to the GRF.

Fallin also proposes capturing \$9.2 million through what is termed "apportionment equity," in which off-the-top allocations would be cut when revenue declines are projected with the funds made available for appropriation.

The governor emphasizes that the 1017 Fund, ROADS, Oklahoma's Promise scholarships and pension systems would not be impacted.

No magic bullet

The difficult work of the Legislature to find ways to fund the budget is just beginning.

With the cross-hairs focused on off-the-top funds, a close examination shows there truly is no magic bullet because much of the money will have to continue to be spent on their dedicated core functions anyway, regardless of how they get there.

FY-16 Monthly General Revenue Fund Allocations

Percentage Above or Below Estimate



Source: OMES



Oklahomans strongly oppose changes to unclaimed property fund

New poll results from SoonerPoll’s Quarterly Poll indicate that likely voting Oklahomans oppose any changes to how funds are managed by the state’s unclaimed property program. This legislative session, some life insurance companies are seeking legislation to allow them keep millions in unclaimed life insurance proceeds due beneficiaries who could not be located. The same legislation has been introduced for the last two legislative sessions.

However, sixty-two percent (62%) opposed these changes, while only 20 percent supported it and 17 percent were undecided. A majority, 53%, strongly opposed the legislative change.

Currently, unclaimed property worth more than \$585 million is owed to some 900,000 Oklahomans. In the past fiscal year, the state treasurer, who manages the unclaimed property division, returned \$38.7 million to its rightful owners.

No significant variances were observed for any demographic subsets in the poll.

About the Poll

SoonerPoll.com, Oklahoma’s public opinion pollster, asked these questions of Oklahoma likely voters as part of the SoonerPoll Quarterly Poll.

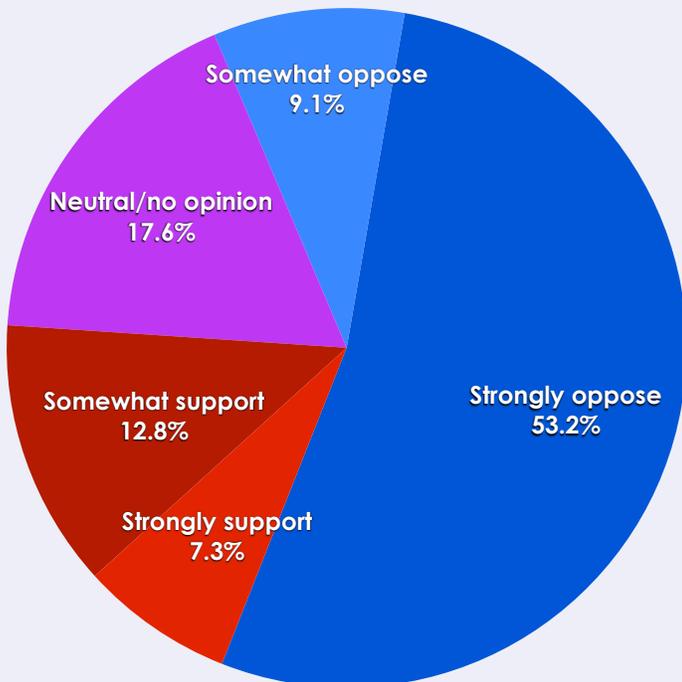
The scientific study was conducted

from February 9-12, 2016 with 410 likely Oklahoma voters selected at random statewide from a dual frame of both landline telephone and cell phones. The sample was weighted by age, congressional district and gender in order to reflect the Oklahoma likely voter population for a general election.

The sample reflects the traditional demographical profile of the Oklahoma likely voter with roughly half of respondents identifying as conservative and attending religious services once or more per week. The study has a Margin of Error (MoE) of ± 4.84 percent.

Reprinted from SoonerPoll.com, February 24, 2016.

Oklahomans Oppose Insurance Company Attacks on Unclaimed Property



The question:

Started in 1967, Oklahoma’s unclaimed property program has required companies that lose track of those to whom they owe money to remit it, along with their names and last-known addresses, to the state. The names are published in newspapers and on the internet. Money is returned to the owners and some is used by the Legislature for public purposes.

Currently, unclaimed property worth more than \$585 million is owed to some 900,000 Oklahomans. In the past fiscal year, the State Treasurer, who manages the unclaimed property division, returned \$38.7 million to its rightful owners.

This legislative session, some life insurance companies are seeking legislation to allow them to keep millions in unclaimed life insurance proceeds due beneficiaries who could not be located. Knowing this, do you SUPPORT or OPPOSE these proposed changes to Oklahoma’s unclaimed property program?

Source: SoonerPoll.com



Unclaimed property marketing campaign launched

A television and internet marketing campaign was launched in February to help Oklahomans find and claim their unclaimed property.

The public service announcements feature a character named Sirius

Lee Scissortail, Oklahoma’s Treasure Catcher, who encourages Oklahomans to visit OKTreasure.com to search for their unclaimed property.

The 30-second television spot can be viewed at <http://go.usa.gov/cyQp5>.

State Treasurer Ken Miller said he hopes the message, which uses no taxpayer funds, will drive more people to find their lost money.

“The Oklahoma Treasure Catcher is a fun spokesman that will hopefully catch everyone’s attention,” Miller said. “He’s entertaining, but Sirius Lee does have a serious message – and that is finding your name is easy at OKTreasure.com.”

Visitors to OKTreasure.com who find their names can initiate claims and monitor the progress through the site. The unclaimed property program is seeking to reunite 900,000 Oklahomans with more than \$585 million.

During the first week of the television schedule, online claim submissions increased by over 400 percent.

Businesses that lose track of people to whom they owe money are required to submit the funds, along with the names and last-known addresses of the owners, to the state treasurer’s unclaimed property program. The office then works

to reunite the owners with their lost money.

Unclaimed property includes bank accounts, security deposits, old paychecks, royalties, rebates, stock and bonds. Safe deposit box contents are also included.

Miller said the move to television is part of a long-term marketing strategy to supplement newspaper outreach,

as the public is now turning to many alternative sources for news and information.

“For many years, our primary outreach has been the publication in state newspapers of the names and last known addresses of those with unclaimed property,” he said. “Our commitment to

that effort remains, but we’ve found it necessary to expand our focus to reach as many people as possible.”

Instead of taxpayer money, the unclaimed property fund supports the outreach effort. Following competitive bidding, a 12-month, \$600,000 internet and television marketing contract was awarded to Ackerman McQueen.

The expanded outreach efforts are part of an overall strategy Miller instituted two and a half years ago to increase the amount of unclaimed property returned. The effort includes incentive pay for unclaimed property staff members who meet or exceed performance goals.

The result has been a more than 100 percent increase in the amount of returned unclaimed property – from \$18.8 million the year before the change, to \$38.7 million last fiscal year.

“Claims submitted online increased by over 400 percent.”

Image from television public service announcement





Tax-exempt municipal bonds: A critical tool to repair America's infrastructure

By Washington State Treasurer James McIntire and Oklahoma State Treasurer Ken Miller

President Obama's Fiscal Year 2017 budget proposal to limit the tax exemption for municipal bond interest would hobble state and local infrastructure projects nationwide. If implemented, this proposal would raise costs to state and local taxpayers by over \$17 billion – a devastating blow to communities at a time when they can least afford it. Congress must reject this proposal that for the first time in history would tax municipal bonds.

Tax-exempt municipal bonds are an indispensable tool for overcoming our nation's infrastructure challenges. These bonds have financed more than three-quarters of U.S. infrastructure projects in the 21st century. Since the advent of the U.S. tax system, state and local governments have used tax-exempt municipal bonds to finance the construction and maintenance of community necessities such as roads, bridges, schools, hospitals and sewers.

Every day throughout the nation, infrastructure shortfalls are addressed with financing from tax-exempt municipal bonds. Last year, state and local governments invested \$400 billion in public infrastructure. If the tax benefits of municipal bonds are capped as the President proposes, the

nation's mayors – over half of whom cite underinvestment in infrastructure as their greatest challenge – state treasurers and county leaders would have significantly less to invest in infrastructure due to higher interest payments.

For example, in Washington State, the world's longest floating bridge which connects Seattle to eastside cities across Lake Washington needs replacement after more than five decades of heavy traffic, wind and wave action. The state is issuing tax-

exempt municipal bonds to replace the bridge slated to open in April 2016. If the President's proposal was in place, it is estimated that the project would cost Washington taxpayers \$265 million in additional debt service.

In Oklahoma, municipal bond financing is also an important tool in upgrading transportation infrastructure. The President's proposal would add millions in financing costs and be a significant drain on limited tax dollars.

With our nation's infrastructure slowly crumbling, tax-exempt municipal bonds are more important than ever. In 2015 the American Society of Civil Engineers gave the nation's infrastructure a D+ grade. More than 140,000 state or locally owned bridges are deficient and nearly one-third of our schools require major infrastructure investment.

The American Society of Civil Engineers estimates that more than \$3 trillion will be needed to modernize and repair America's infrastructure by 2020. With so many needs throughout the nation, now is the wrong time to make all these projects more expensive by fundamentally changing this incredibly successful financing program.

State and local governments are not just another "special interest," they provide essential public services that are the building blocks of our federal Union. National tax policy should encourage state and local governments to invest in their public infrastructure.

Taxpayers in every state have a very real interest in good, safe highways and modern schools that will help our economy prosper and thrive. But this interest is not limited by state borders.

Our ability to stock our shelves, get our goods to market and compete globally depends on quality transportation infrastructure. Our national economy would be ill-served by school overcrowding and the lack of buildings designed for 21st Century instruction and technology. By encouraging state and local governments to invest in public infrastructure we help weave the fabric of a stronger Union that is striving to be more perfect.

James McIntire is President of the National Association of State Treasurers. Ken Miller is Senior Vice President of the National Association of State Treasurers.

Reprinted from The Hill, February 28, 2016.

“National tax policy should encourage state and local governments to invest in their public infrastructure.”



Gross Receipts & General Revenue compared

January Gross Receipts to the Treasury totalled \$985.4 million, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received \$507.6 million, or 51.5% of the total.

The GRF received between 35.7% and 53.6% of monthly gross receipts during the past 12 months.

From January gross receipts, the GRF received:

- Personal income tax: 64.3%
- Corporate income tax: 40%
- Sales tax: 44%
- Gross production-Gas: 56.9%
- Gross production-Oil: 3.8%
- Motor vehicle tax: 27.2%
- Other sources: 59.3%

January GRF allocations are below the estimate by \$105.5 million or 17.2%. Fiscal year-to-date collections are less than the estimate by \$277.6 million or 8.2%.

January insurance premium taxes totalled \$103,912, an increase of \$86,472, or 495.8%, from the prior year.

Tribal gaming fees generated \$11.58 million during the month, up by \$171,944, or 1.5%, from last January.

Gross Receipts to the Treasury plunge at start of 2016

Monthly Gross Receipts to the Treasury in January took their largest plunge in more than five years, State Treasurer Ken Miller said.

January collections of \$985.4 million are down by almost \$150 million, or more than 13 percent, compared to the same month of the prior year. It is the first double-digit percentage reduction in monthly gross receipts since the treasurer’s office began tracking them in March 2010.

Oklahoma’s main revenue sources,” Miller said. “Every major revenue stream in January is smaller than a year ago. Collections from oil and natural gas gross production are off by more than 50 percent, and the downturn is suppressing

income, sales, and motor vehicle tax collections.”

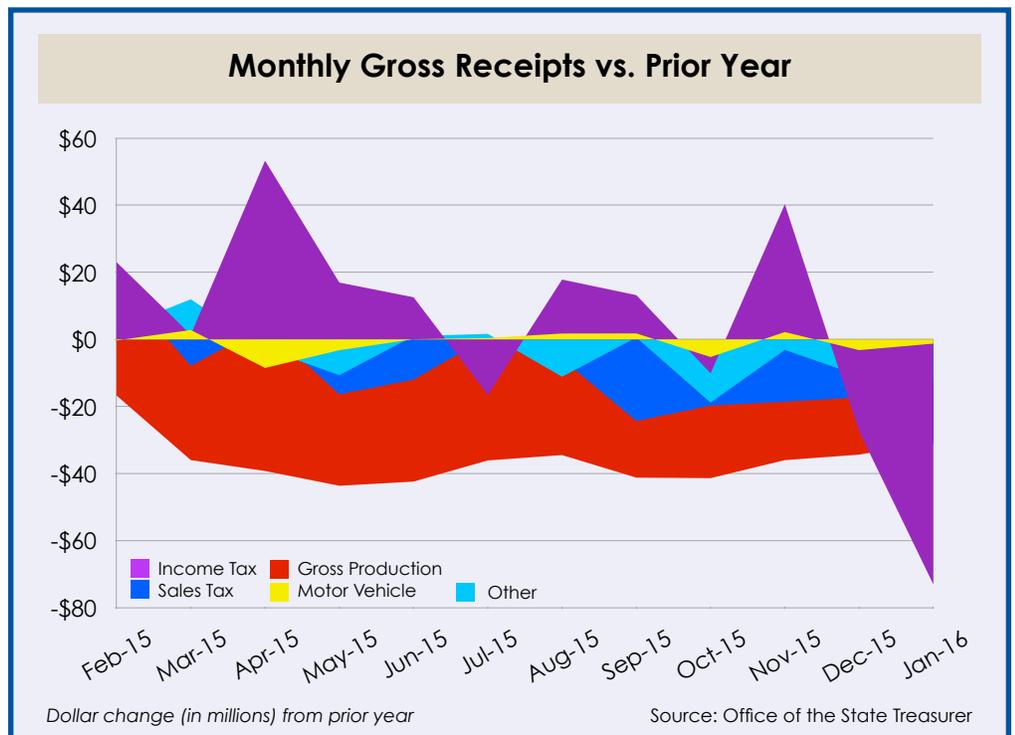
Twelve-month Gross Receipts to the Treasury shrank by almost 5 percent compared to the previous 12-month period, and – at \$11.5

billion – is the lowest 12-month total since December 2013.

“The surplus-driven energy contraction continues to spill over into all of Oklahoma’s main revenue sources.”

“The surplus-driven energy contraction continues to spill over into all of

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Revenue

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Monthly collections from oil and natural gas production taxes have been lower than the same month of the prior year for 13 straight months. January gross production collections are almost 55 percent lower than last January. Monthly receipts are based on production activity from November when the average price of benchmark West Texas Intermediate crude oil was \$42.39 per barrel.

Employment picture

Oklahoma’s seasonally-adjusted unemployment rate was set at 4.1 percent in December, down by one-tenth of one percentage point from November, according to the Oklahoma Employment Security Commission.

The number of those listed as unemployed has increased by 6,904 in the past year.

The national unemployment rate was set at 5 percent in December.

January collections

Receipts for January set gross collections at \$985.4 million, down \$148.8 million or 13.1 percent from January 2015.

Gross income tax collections, a combination of personal and corporate income taxes, generated \$377.07 million, a decrease of \$73.07 million or 16.2 percent from the previous January.

Personal income tax collections for the month are \$341.47 million, down by \$32.71 million, or 8.7 percent from the prior year. Corporate collections are \$35.6 million, down by \$40.36 million or 53.1 percent.

Sales tax collections, including

remittances on behalf of cities and counties, total \$374.62 million in January. That is \$31.22 million or 7.7 percent less than January 2015.

Gross production taxes on oil and natural gas generated \$25.24 million in January, a decrease of \$30.56 million or 54.8 percent from last January. Compared to December reports, gross production collections are down by \$12.47 million or 33.1 percent.

Motor vehicle taxes produced \$67.24 million, down by \$1.27 million or 1.9 percent from the same month of last year.

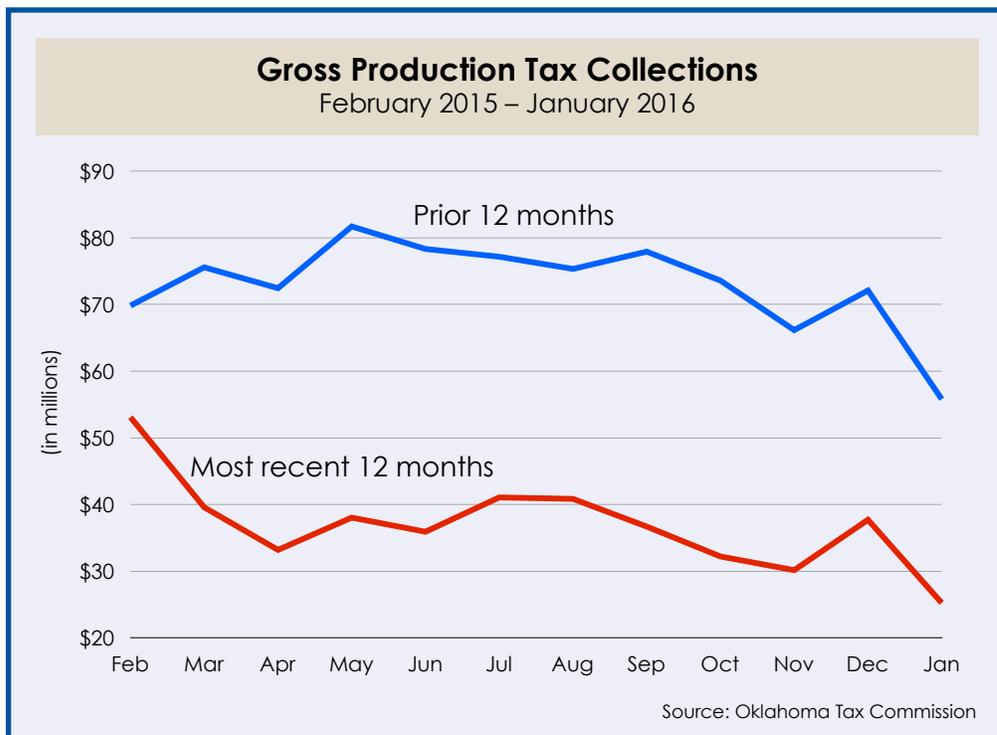
Other collections, consisting of about 60 different sources including taxes on fuel, tobacco, horse race gambling and alcoholic beverages, produced \$141.22 million during the month. That is \$12.68 million or 8.2 percent less than last January.

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 (GRF) allocation report from the Office of Management and Enterprise Services, which provides important information to state agencies for budgetary planning purposes.

The GRF receives just 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 other state funds.

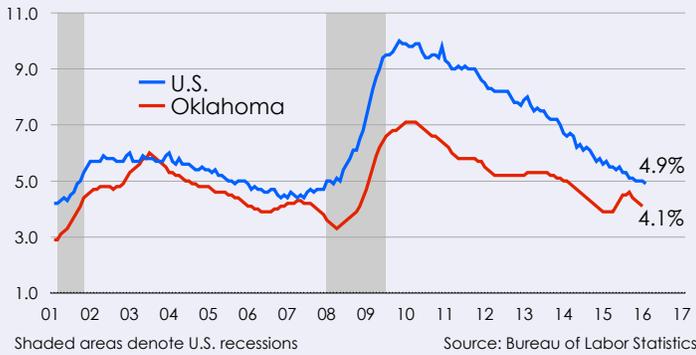




Economic Indicators

Unemployment Rate

January 2001 – January 2016



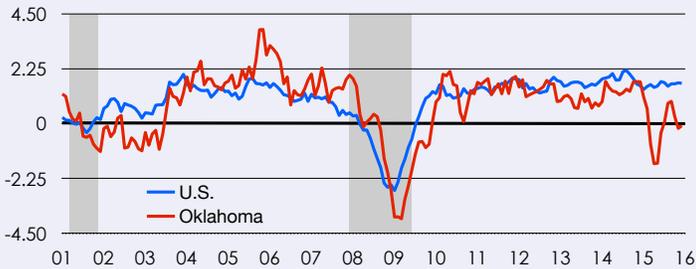
Oklahoma 12-Month Gross Receipts

January 2008 – January 2016
(in billions)



Leading Economic Index

January 2001 – December 2015



This graph predicts six-month economic movement by tracking leading indicators, including initial unemployment claims, interest rate spreads, manufacturing and earnings. Numbers above 0 indicate anticipated growth.

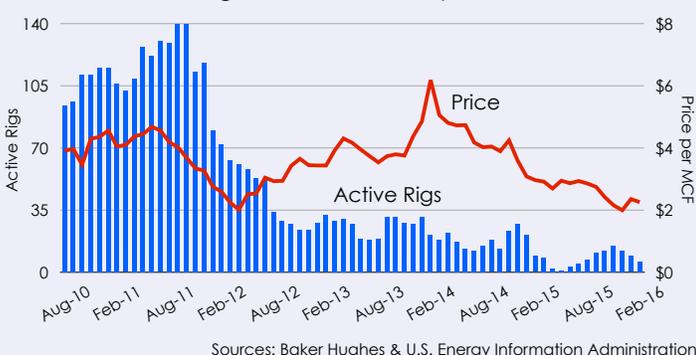
Oklahoma Stock Index

Top 23 capitalized companies
January 2009 – February 2016



Oklahoma Natural Gas Prices & Active Rigs

August 2010 – February 2016



Oklahoma Oil Prices & Active Rigs

August 2010 – February 2016

