



# Oklahoma Economic Report™

News and analysis of Oklahoma's economy

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

## Budget actions of the states

The state of the states' finances might best be termed cautiously optimistic. A year ago, the fiscal crisis in D.C. led states to draft cautious budgets amid the uncertainty of how deeply federal funds to states would be reduced.

As states begin planning for the upcoming fiscal year, some certainty has been restored now that D.C. has an operating budget in place.

However, states still face significant challenges, such as a sluggish national economic recovery, the rising costs of Medicaid, looming pension obligations and the ripple effects of federal policies.

Slow recovery from the recession has restrained growth in revenue and expenditures. Most states are cautiously allocating growth revenue and rebuilding emergency fund balances as economic conditions modestly rebound. And after desperate revenue -raising measures enacted during the height of the recession, several states have implemented relief from taxes and fees.

### Spending priorities

In FY-12, total state spending across all states declined for the first time in at least 25 years, according to the National Association of State Budget Officers

(NASBO). How states dealt with this decline varied from fund reallocation, revenue raising or targeted cuts.

States generally experienced modest growth in the two subsequent fiscal years with 43 enacted higher spending levels in FY-14 compared to FY-13. Most states had the same funding priorities: K-12 education was the largest recipient among all states for increased spending. Medicaid received the second-highest influx of funds, and higher education received the third-highest revenue adjustment.

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#### Contributor

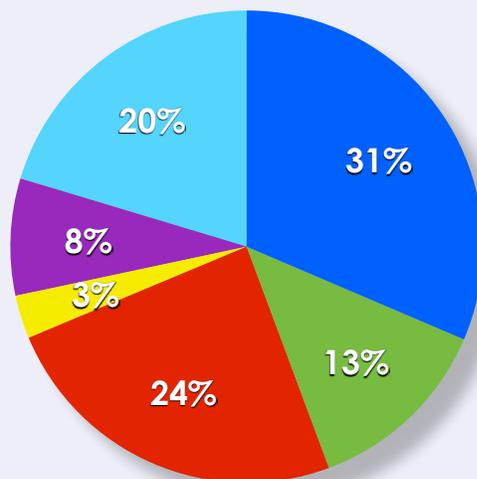
Regina Birchum, Deputy Treasurer for Policy

#### Editor

Tim Allen, Deputy Treasurer for Communications

### Allocation of New Money to Core Functions

All states from FY-13 to FY-14



● K-12 Education    ● Medicaid    ● Transportation  
● Higher Education    ● Corrections    ● Other

### Annual Funding Change (in millions)

|                   |                   |
|-------------------|-------------------|
| K-12 Education    | \$8,757.0         |
| Higher Education  | \$3,596.7         |
| Public Assistance | -\$326.4          |
| Medicaid          | \$6,787.0         |
| Corrections       | \$827.3           |
| Transportation    | \$2,230.8         |
| Other             | \$5,667.2         |
| <b>Total</b>      | <b>\$27,539.6</b> |

Source: NASBO Fall 2013 Fiscal Survey of States



## Congressman's Commentary

By U.S. Representative James Lankford

### Working for the American Dream

We live in the best nation in the world, but the American family is in trouble which means the American economy is also in trouble. Two-parent homes continue to decline, which means Oklahoma children are far more likely to live in hunger and poverty. Quality educational choices lag in many areas.

Job growth and wage growth have been stifled by ever growing federal red tape and a health care law that kills hiring and wages. In a nation renowned for the "American Dream," we have stagnant growth and stagnant income mobility.

We deserve better than declining or even stagnant income mobility in our nation. As President Reagan famously said in his 1988 State of the Union Address, "Put on your work shoes—we're still on the job."

The Pew Charitable Trust conducted a study in 2011 about income mobility. The study concluded that there is a stronger link between parents' education and children's economic, educational, and socio-emotional outcomes in the U.S. than in any other nation in their analyses. In other words, the choices of American

parents impact our children's futures more than the choices of government.

Oklahoma's strong families and strong faith have created a strong economy. Oklahoma City, for example, has the lowest unemployment rate in the nation of similarly sized metropolitan areas. But, the trend in our local economy is very troubling.

**“Oklahoma's strong families and strong faith have created a strong economy.”**

Recent census data for central Oklahoma shows that about 65% of our families live below the poverty line and have a single, female parent with children under the age of five.

Raising children on a single income can be one of the hardest tasks in the world. Economic mobility and achieving the American dream seem impossible when you are struggling



to pay monthly bills. Yet, strong family values and a community of support, can help families get out of chronic poverty. But, our families and our children need role models and our support.

America's war on poverty has largely failed. We can do better. The federal government has dozens and dozens of welfare programs. But most have no real annual evaluation, and many programs cannot even detail how many people they serve.

I have proposed the Taxpayers' Right-to-Know Act, which will enable us to expose the federal waste and target our scarce resources to programs that actually help their intended beneficiaries. Wasteful federal programs should be scrapped.

At the state-level, our office consistently works with Governor Fallin and state leaders to help coordinate the efforts of our local charities and religious organizations.

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## Lankford

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We must encourage devotion in marriage and family values in our

children and grandchildren. Malachi 4:6 says the Lord would send Elijah the Prophet to Earth to “turn the hearts of the parents to their children,

and the hearts of the children to their parents.” Let’s get to work on this as a community before he gets here.

## Budgets

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NASBO’s fall edition of its “Fiscal Survey of the States” reports that 30 states enacted program spending cuts in FY-14. Of those, only a handful spread the cuts across multiple program areas. Fifteen states instead chose to implement cuts to a single program area. Six states cut spending on just Medicaid; three limited cuts to public assistance programs; three focused only on transportation spending; two targeted K-12 education, and just one chose to only cut corrections.

Three states protected the core service areas of education, public health and assistance programs, corrections and transportation and instead cut other areas.

Education, including K-12 and higher education, was most protected from reductions, while public assistance programs and Medicaid were the most likely to be cut.

### Tax relief

According to the NASBO survey, states reduced taxes and fees by \$2.1 billion in FY-14 and enacted a net decrease of \$203 million in new revenue measures. Twenty-three states enacted revenue decreases, while 12 states enacted revenue-raising measures.

Contrast this with actions taken in fiscal 2013, when states increased taxes and fees by \$6.9 billion and enacted \$2.5 billion in new revenue measures.

The largest reduction in taxes - \$1.3 billion - resulted from changes to states’ personal income tax codes, the majority of which were small changes in deductions, credits and exemptions. Changes in sales taxes yielded a reduction of \$161.2 million.

Some states raised taxes: corporate income tax changes resulted in a collective increase of \$181.2 million; cigarette and tobacco taxes increased by \$514.6 million and taxes on alcoholic beverages increased by \$6 million.

### Federal effects

The federal government provides substantial funding for state governments, with much of those funds in the form of direct payments to individuals or welfare grants. For example, in Oklahoma the total amount of federal funds received annually is approximately equal to the amount of state funds available for appropriation. Using the U.S. Census Bureau’s 2011 data, Oklahoma received \$7.75 billion in federal revenue; exceeding the \$6.72 billion in state funds appropriated in that year’s budget.

The percentage of federal funds spent by

the states is beginning to taper off after peaking in 2010 at more than 38 percent of total state expenditures. NASBO estimates that federal funds accounted for approximately 31 percent of total state expenditures, still significantly higher than 2008 levels of around 26 percent.

Medicaid, a program whose cost has consistently increased at a faster pace than the U.S. economy, remained the largest single expenditure across all states. Further, the percentage of funds spent on the program continued to rise. In fiscal years 2011 and 2012 Medicaid accounted for 23.9 percent all total state expenditures; fiscal 2013 estimates place that percentage at 24.5 of all state spending.

### Debt factors

As state budgets continue to recover, policymakers will likely be pressured to return spending levels to pre-recessionary levels. However, they must also address their balance sheets. Collectively, state governments hold \$5.1 trillion in debt, according to State Budget Solutions’ annual state debt study, released earlier this month.

State indebtedness includes bonds, but overwhelmingly the largest debt item on states’ books is unfunded pension

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## Budgets

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liabilities, representing nearly \$4 trillion of the nation’s total state debt. If left unaddressed, more state funds will have to be redirected to debt service, siphoning funds from other areas like

education, transportation and health and social services.

Oklahoma’s public pensions have more than \$11 billion in unfunded liability, with the lion’s share in the Teachers Retirement System.

The economy and state budgets may

be on the mend, but there are plenty of reasons for a cautious approach to budgeting. The reductions and efficiencies forced by events over the past several years are an opportunity for all states to apply revenue growth to targeted areas, address looming debt obligations and plan on less reliance on federal funds.

## Red vs. Blue on federal spending

The Nov/Dec 2013 issue of *Capitol Ideas* magazine, published by the Council of State Governments (CSG), contained a graph that indicated Oklahoma was the top state in the nation for percentage of state expenditures from federal funds. The graph also showed Massachusetts as having the lowest percentage of federal funds in total state spending.

*Oklahoma Economic Report* was

intrigued by the apparent juxtaposition with one of the more conservative states in the nation spending the highest percentage of federal funds compared to one of the more liberal states spending the least.

While attempting to find the source information as cited by CSG, it was determined the graph contained incorrect data. CSG confirmed the error and provided us with accurate data

which was used to create the graph below.

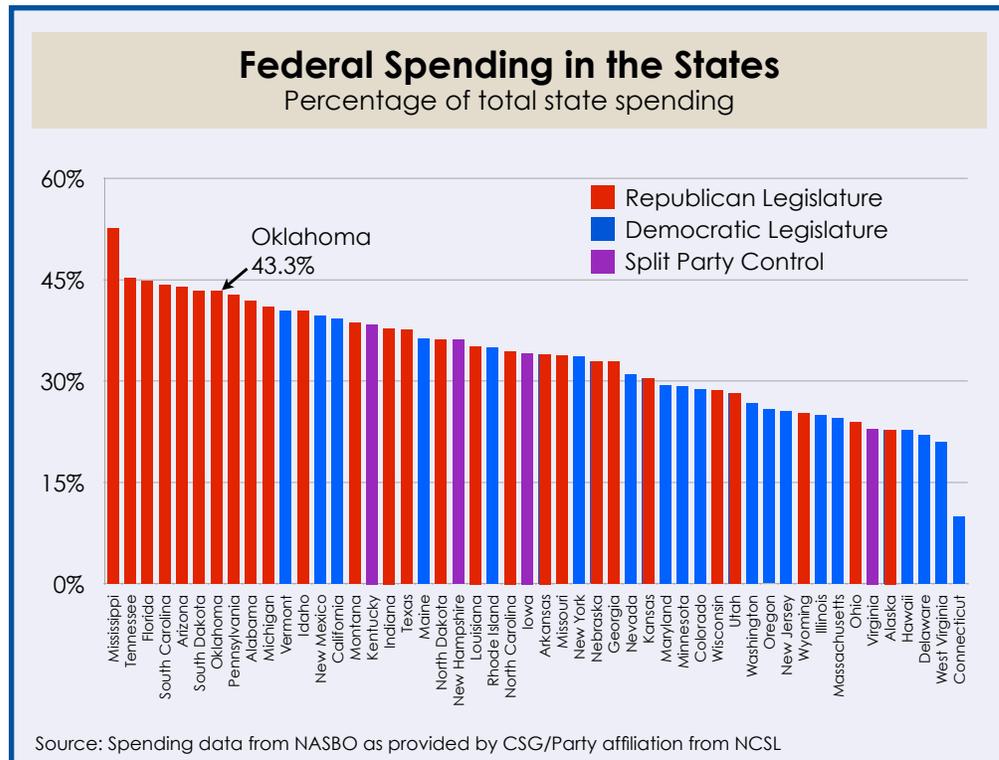
While the rank order changed somewhat, the graph still shows a curious counter relationship between state expenditure of federal funds and party control of state legislatures, with Republican-controlled states depending more on federal dollars than Democratically-controlled states.

Of the top ten states in percentage expenditure of federal funds, all have Republican majorities in both houses of their legislatures. Of the bottom ten states, six have Democratic majorities, three are controlled by Republicans and one has split control.

Of each dollar spent by Oklahoma government during FY-11, the data show more than 43 cents was provided by the federal government. In Mississippi, almost 53 cents of every dollar spent came from the feds.

Meanwhile, in Connecticut the federal government provided less than 10 cents on the dollar of total state spending.

The underlying reasons for the apparent juxtaposition will be examined in a future edition of the *Oklahoma Economic Report*.





## General Revenue Fund short of estimate at mid-year

At the midpoint of Fiscal Year 2014, allocations to the General Revenue Fund (GRF) total \$2.6 billion and are short of estimated collections by \$187.5 million or 6.7 percent, according to the Office of Management and Enterprise Services.

### Largest sources down the most

Of the four major revenue streams, net income tax – a combination of personal and corporate income tax collections and the primary source of funding for state government – is short of the estimate by the largest amount and percentage. That allocation is below the estimate by \$127.4 million or 10.5 percent.

Personal income tax allocations to the GRF are \$49.8 million or 4.8 percent short of the estimate.

Corporate income tax collections so far this fiscal year have missed the estimate by \$77.6 million or 41.7 percent.

Sales tax allocations are below expected collections by \$36.8 million or 3.6 percent.

The two other major revenue streams, gross production and motor vehicle allocations, are ahead of the estimate.

Gross production allocations are up by \$12.6 million or 15 percent, while motor vehicle taxes exceed the estimate by \$1.6 million or 1.5 percent.

Other sources, a combination of several dozen smaller sources of revenue, are below the estimate by \$37.5 million or 10.2 percent so far this fiscal year.

### Officials: We can still make it

Each year, the Legislature is authorized to appropriate no more than 95 percent of the official estimate to allow for up to a 5 percent downward variance in GRF allocations without triggering constitutionally-mandated across-the-board spending cuts.

Even though total allocations are more than 5 percent below the estimate six months into the fiscal year, Secretary of Finance, Administration and Information Technology Preston Doerflinger maintains revenues are sufficient to make it through the fiscal year without instituting mandatory spending reductions.

The GRF receives about half of the revenue collected by the state and is the primary source of appropriations by the Legislature. Remaining collections are earmarked for specific programs, distributed to government subdivisions, or returned to taxpayers as rebates or refunds.

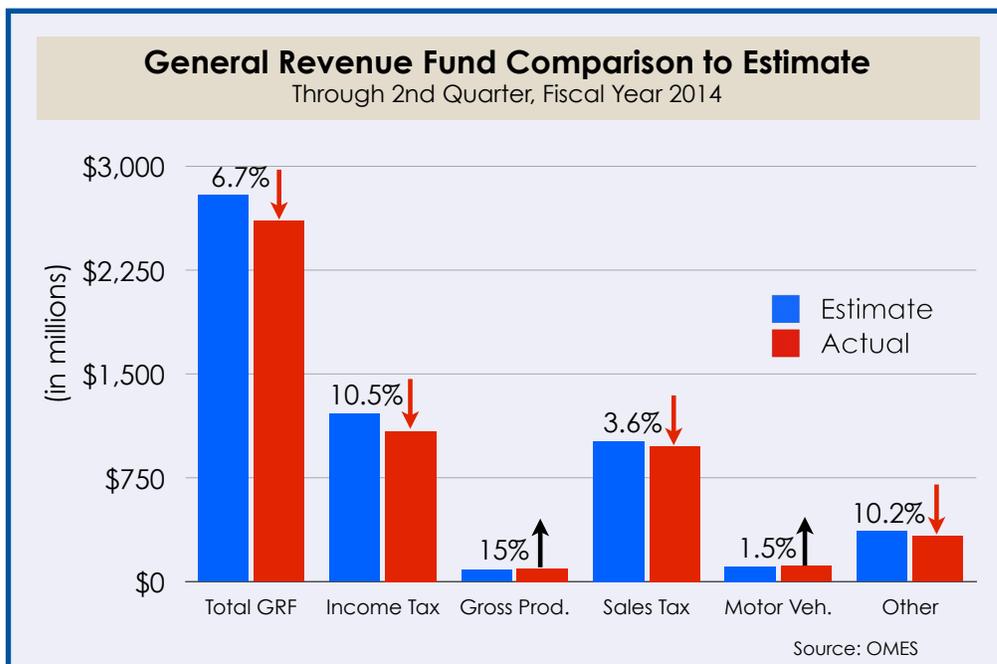
State officials have observed that the Oklahoma economy is continuing to grow, but say the GRF is shrinking due primarily to increased use of earmarks to bypass legislative appropriations and other factors not related to the economy.

### Looking ahead

The State Board of Equalization, which certifies each year’s official estimate, has preliminarily determined collections for the next fiscal year, which begins July 1, 2014, will be \$170.8 million less than the current estimate.

The preliminary estimate made in December is being used by Governor Mary Fallin for her proposed state budget to be presented to the Legislature on February 3. The board will meet again in late February to certify a final estimate from which the budget for next fiscal year will be built.

State agencies are being told to anticipate flat to reduced budgets for the coming fiscal year.





## Gross receipts & General Revenue compared

The Treasurer's January 6 gross receipts to the treasury report and the Office of Management and Enterprise Services' January 14 General Revenue Fund (GRF) report contain several differences.

December gross receipts totaled \$965.6 million, while the GRF received \$509.5 million or 52.8% of the total.

The GRF received between 32.2% and 57.3% of gross receipts during the past 12 months.

From December gross receipts, the GRF received:

- Personal income tax: 70.2%
- Corporate income tax: 66.9%
- Sales tax: 44.8%
- Gross production-Gas: 7.6%
- Gross production-Oil: 68.4%
- Motor vehicle tax: 26%
- Other sources: 44.4%

December GRF allocations missed the estimate by \$40.7 million or 7.4%. Fiscal year-to-date allocations are below the estimate by \$187.5 million or 6.7%.

For December, insurance premium taxes totaled \$47.8 million.

Tribal gaming fees generated \$10.5 million during the month.

## Oklahoma economy yields moderated growth in 2013

The Oklahoma economy continues to advance but backed off the accelerator a little during 2013, State Treasurer Ken Miller said as he released the state's monthly gross receipts to the treasury report.

"All major sources of revenue finished the year in growth territory, just not as robust as during the past few years," Miller said.

"National and state economic data, such as consumer and business confidence, real estate and stock prices, point to continued growth in the new year."

**“National and state economic data point to continued growth in the new year.”**

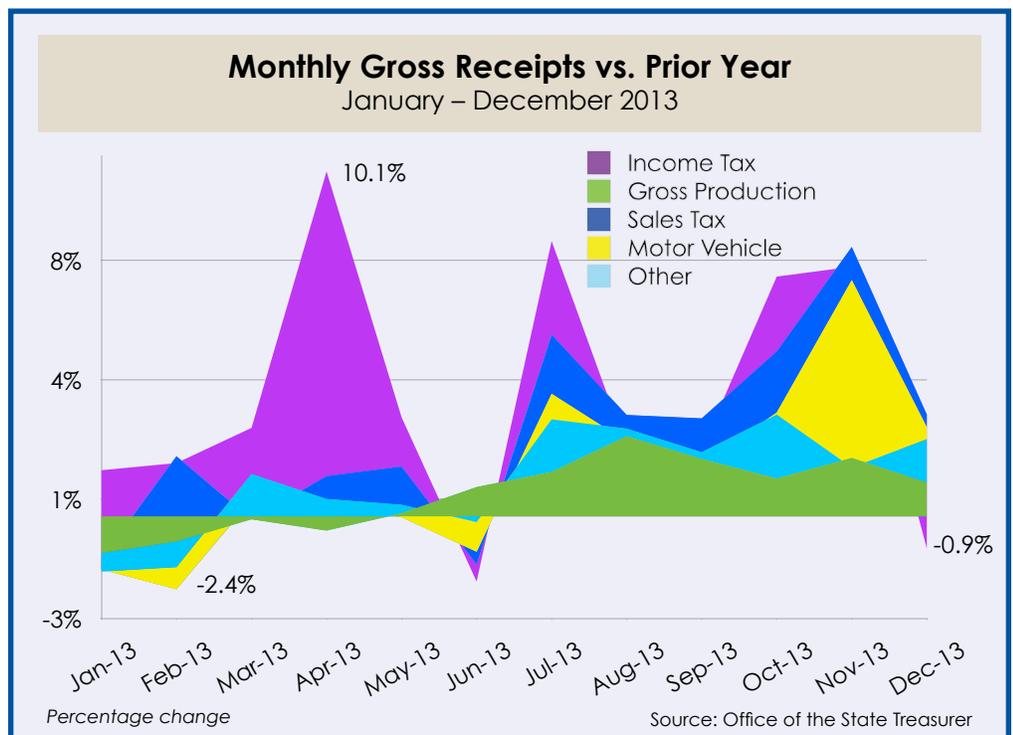
The growth in gross collections during 2013 was 3.2 percent, compared to 3.8 percent in 2012 and 9.6 percent in 2011. In December, a more than 10 percent drop in gross income tax collections

pushed the bottom line down by almost one percent from December of last year.

Monthly gross receipts were less than prior year collections only three times during 2013.

However, gross income tax numbers underperformed the prior year during five months, with corporate income

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## State jobless rate unchanged in December

Oklahoma’s seasonally-adjusted unemployment rate was listed at 5.4 percent in December by the Oklahoma Employment Security Commission. The rate is unchanged from what was reported in November.

During the month, employment increased by 5,850 jobs, while unemployment dropped by 740 people.

| State Unemployment Report |              |              |             |               |
|---------------------------|--------------|--------------|-------------|---------------|
| OKLAHOMA                  | Unemp. rate* | Labor force* | Employment* | Unemployment* |
| Dec '13                   | 5.4%         | 1,821,560    | 1,723,740   | 97,810        |
| Nov '13                   | 5.4%         | 1,816,440    | 1,717,890   | 98,550        |
| Oct '13                   | 5.5%         | 1,812,660    | 1,712,260   | 100,400       |
| Dec '12                   | 5.1%         | 1,816,630    | 1,723,540   | 93,090        |

\* Data adjusted for seasonal factors Source: OESC

## Revenue

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taxes missing the mark eight times. Corporate collections finished the year down by 1.6 percent from the prior 12-months.

Miller said performance in the oil patch is the brightest spot in the annual numbers.

“After falling throughout 2012 and the

beginning of 2013, gross production receipts have topped prior year collections for the past eight consecutive months and finished the year up by more than 9 percent over 2012,” he said.

Sales tax collections indicate a Christmas shopping season marginally better than last year. December sales tax collections, reflecting sales between mid-November and mid-December, were \$3.5 million or 1 percent higher

than the same period of 2012. Last December, sales taxes were up by 5.9 percent over the prior year.

### Positive outlook

Miller said that while the federal government provided impediments to growth during 2013, recent developments in Washington give reason to be hopeful in future months.

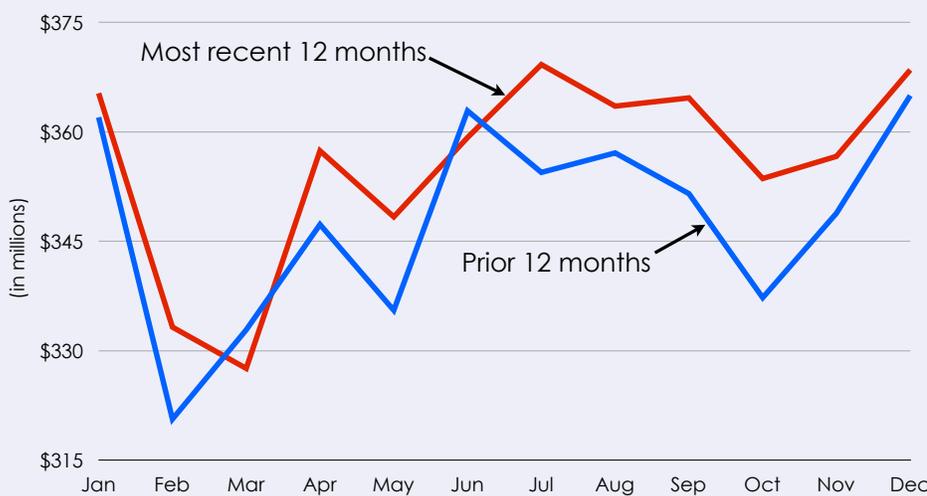
“Taking the economy to the brink in the showdown over the federal budget and debt limit during the past year had a chilling effect on the nation’s economy,” he said. “But now that lawmakers have finally approved a budget, perhaps some stability will be restored.”

While the near term looks positive, Miller said long term economic challenges still remain with the Affordable Care Act, federal deficit spending and public pension problems across the nation, including in Oklahoma.

“More must be done to bring Washington’s appetite for spending under control,” he said. “Plus, the implementation problems with Obamacare continue to prolong the uncertainty of its costs to individuals and businesses.”

## Gross Sales Tax Collections

January – December 2013



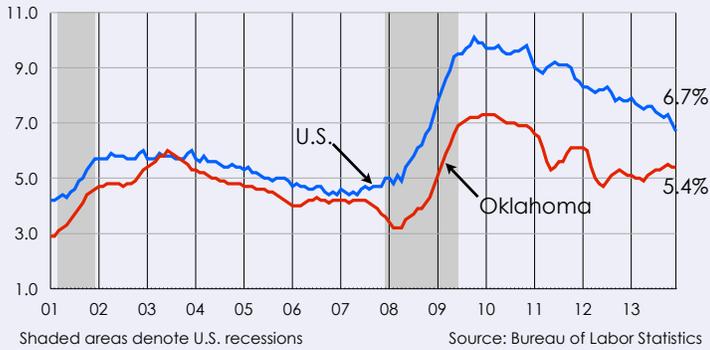
Source: Oklahoma Tax Commission



## Economic Indicators

### Unemployment Rate

January 2001 – November 2013



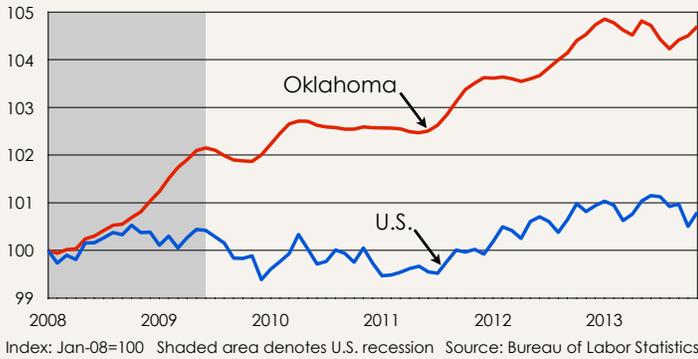
### Oklahoma 12-Month Gross Receipts

June 2008 - December 2013  
(in billions)



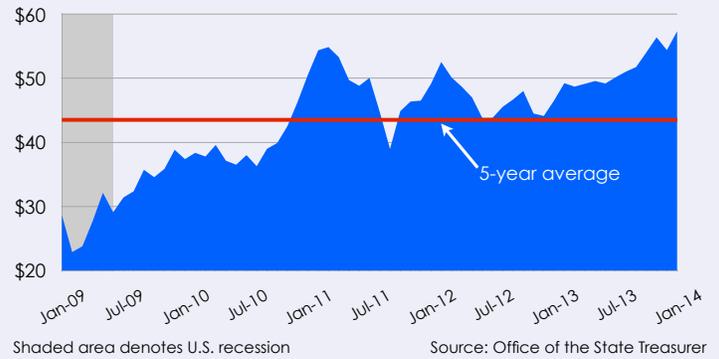
### Number of People in the Labor Force

Seasonally Adjusted

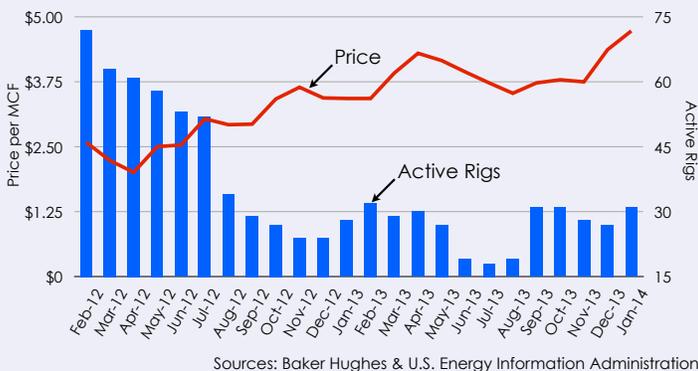


### Oklahoma Stock Index

Top 25 capitalized companies



### Oklahoma Natural Gas Prices & Active Rigs



### Oklahoma Oil Prices & Active Rigs

