

OUR GREAT STATE

Home to all three branches of state government and vast collections of priceless art, the State Capitol is itself a work of art and is more uniquely Oklahoman than any other state building. It was Oklahoma's grandest



achievement as a young state when the Capitol was built between 1914 and 1917. But in 2014, after a century of heavy use, harsh Oklahoma weather, and inconsistent maintenance and preservation efforts, the building's mechanical systems were failing, the

exterior facade was crumbling and its prospects of meeting the state's needs for another hundred years were fading. Recognizing the need to act, legislation was established to provide funding for the Capitol's first comprehensive, top-to-bottom restoration. Investigation and construction work began in 2015.

GOALS OF THE STATE

State Government: In his inaugural address, Governor J. Kevin Stitt set accountability and efficiency in state government as primary goals for his administration. Agency performance and accountability efforts, which ensure public resources are spent appropriately, will bolster public confidence in state governance.

Education: Oklahoma is striving to be a top ten state in the area of education. To reach this goal, the state will break down silos between common education, career tech and higher education. Further, commitments are being made to value and recruit the best teachers in the profession.

Incarceration: Lengthy sentences for nonviolent crimes make reintegration into society challenging. They often destroy families and fall short in respecting the dignity, worth and potential of people who have made mistakes and need help. Reforming sentencing guidelines has begun and will continue.

Growth: The future focus on state initiatives will be driven by growth. Efforts will be made to help local businesses expand and to train and supply a workforce to meet the needs of modern employers.

SIGNIFICANT ACCOMPLISHMENTS IN 2018

While diversification efforts continue to reduce the state's dependence on oil and natural gas tax revenues, the energy sector remains an important driver of the Oklahoma economy. After weathering a significant two-year downturn in energy prices, Oklahoma's economy has continued to expand throughout 2018.

Oklahoma carries a low tax-supported debt burden, with continued declining annual debt service payments. The state constitution requires voter approval of all state general obligation bonds with the stipulation they be secured by a specific tax revenue stream. Currently, the state's only bonds of this type matured in July 2018.

State pension plans recently reported excellent investment performance and continuing funding level improvements. Oklahoma has seven pension systems with the Teachers' Retirement System (TRS) of Oklahoma and the Oklahoma Public Employees Retirement System (OPERS) representing 80 percent of total pension fund assets. The Oklahoma State Pension Commission reported at the end of November that the actuarial funded status of six of the seven systems increased in fiscal year 2018. The funded ratio for the TRS was reported at 72.9 percent. It is the largest state pension system, accounting for just over half of all pension assets. The second largest system, OPERS, holds nearly 30 percent of all assets and ended 2018

SELECTED DEMOGRAPHIC INFO	2016	2017	2018
Population	3,924,000	3,931,000	3,943,000
Per Capita Income	\$45,573	\$42,692	\$43,449
Unemployment Rate	4.80%	4.10%	3.20%
% of Total Workforce in State Gov't	2.2%	2.0%	2.0%
Public School Enrollment	692,670	693,710	694,816
Tax Collections per Capita	\$1,954	\$1,881	\$2,150
Primary Gov't Debt per Capita	\$545	\$569	\$567

with a funded ratio of 97.7 percent. Combined, all state systems currently have a funded ratio of just over 80 percent for 2018.

Data from the U.S. Department of Labor and the Oklahoma Employment Security Commission reports that October 2018 job growth in Oklahoma was flat and unemployment reached a 10-year low of 3.4 percent. Oklahoma's unemployment rate is currently outperforming the national rate of 3.7 percent. The largest gains in employment since last year were in the mining and logging industry, which added 6,900 jobs because of recovering oil prices. Oklahoma added 23,200 jobs through October 2018 year-to-date. Metropolitan areas grew at a more rapid pace compared to nonmetro regions and were primary job growth drivers for the state. For September 2018, Oklahoma City's unemployment rate stood at 2.8 percent and Tulsa at 3 percent.

Oklahoma's economy continued to expand in 2018 along with the national economy. According to the most recent real gross domestic product (GDP) data released by the U.S. Bureau of Economic Analysis, Oklahoma's annualized GDP grew by 1.7 percent in the first quarter and 4.1 percent in the second quarter, while the U.S. economy grew 2.2 percent and 4.2 percent, respectively. Oklahoma ranked 16th in the nation for GDP growth through the second quarter. This is a significant improvement over 2017, where Oklahoma GDP grew 0.7 percent but lagged behind the national growth of 2.2 percent.

The aerospace industry remains one of the most important contributors to Oklahoma's economy. This year Oklahoma hosted the annual National Association of State Aviation Officials. The theme of the convention was "Oklahoma — Aircraft Repair Capital of the World." Tinker Air Force Base is the world's largest military aircraft repair facility and the American Airlines maintenance base in Tulsa is the world's largest commercial aircraft repair facility. According to Victor Bird, director of the Oklahoma Aeronautics Commission, the aerospace industry supports 206,000 jobs with an annual payroll of \$11.7 billion and an average salary of \$73,300.

Durable goods and real estate made the largest non-oil-and-

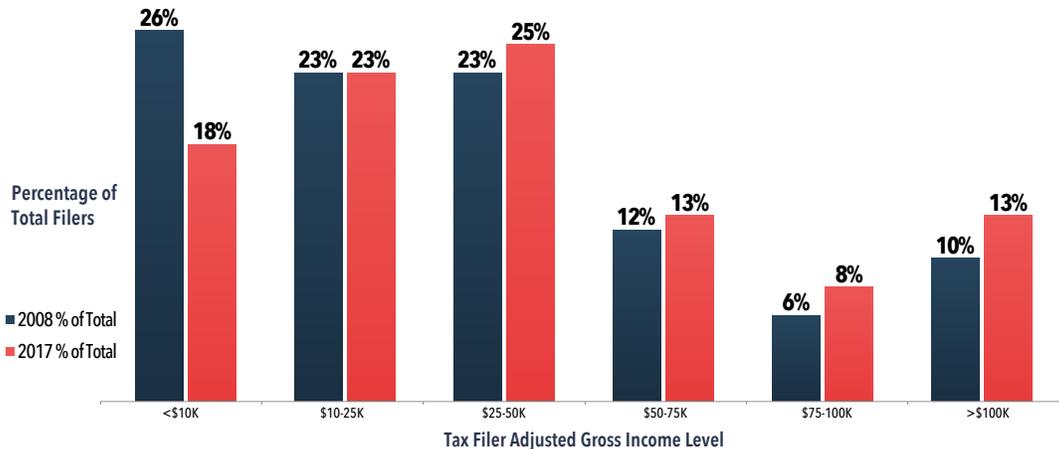


gas-extraction contributions to Oklahoma's GDP in the second quarter at 0.5 percent each. Growth in employment occurred in all industries except for financial activities, construction, arts and entertainment, and nondurable goods. Professional services and trade, transportation and utilities had the strongest 12-month job growth for non-oil industries at 2.8 percent and 2 percent, respectively.

According to the Oklahoma Economic Report published by the Office of the State Treasurer, monthly gross receipts for October 2018 reached a record \$1.1 billion or growth of more than 16 percent. The running 12-month gross receipts were \$12.7 billion. All major revenue streams grew over the last 12 months. Individual income tax reflected strong employment growth with receipts growing more than 9 percent in the past year. Sales tax receipts were also strong at 10 percent growth year-over-year. New revenues generated from tax rate increases approved by House Bill 1010XX made a significant contribution of 4.9 percent of October gross receipts.

According to the Missouri Economic Research and Information Center, Oklahoma had the second lowest cost of living in the United States for the third quarter in 2018, with a composite index of 88.1 normalized to the U.S. average.

10-YEAR TAX FILING COMPARISON



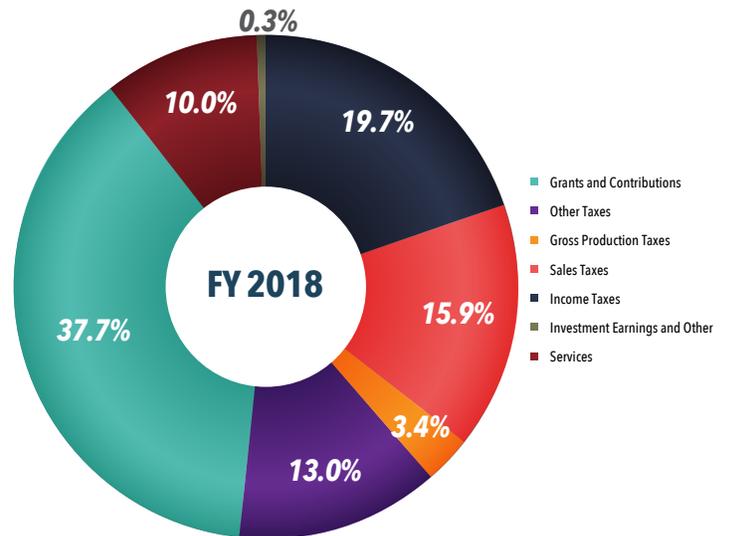
TOP 10 SOURCES OF TAX REVENUE (EXCLUDING SALES AND INCOME TAX)

		FY 2016 (\$)	FY 2017 (\$)	FY 2018 (\$)
1	Gross Production Tax - Oil and Gas	196,635,110	270,569,184	480,533,689
2	Tag Agent Remittance Tax	385,676,774	391,613,483	404,913,340
3	Insurance Premium Tax	257,217,612	243,245,651	280,967,940
4	Use Tax	208,492,766	219,582,282	276,137,946
5	Gasoline Excise Tax	214,758,884	204,215,392	213,150,162
6	Cigarette Tax	198,606,624	185,771,745	197,801,584
7	Gaming Exclusivity Fees	134,390,332	135,437,136	139,811,191
8	Diesel Fuel Excise Tax	68,837,914	80,680,616	83,928,077
9	Franchise Tax	56,198,494	52,175,517	59,063,475
10	Mixed Beverage Gross Receipts Tax	52,872,099	54,204,358	57,325,035

PRIMARY GOVERNMENT SOURCES OF REVENUE

	FY 2016	FY 2017	FY 2018
Income Taxes	3.3	3.1	3.5
Sales Taxes	2.5	2.5	2.8
Gross Production Taxes	0.3	0.4	0.6
Other Taxes	2.1	2.1	2.3
Grants and Contributions	6.8	7.1	6.7
Services	1.7	1.8	1.8
Investment Earnings and Other	<0.1	<0.1	<0.1

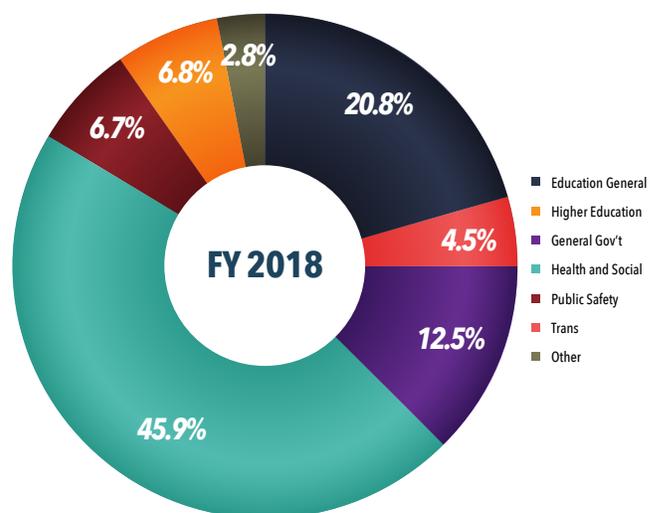
All figures are in billions USD.



PRIMARY GOVERNMENT FUNCTIONAL EXPENSES

	FY 2016	FY 2017	FY 2018
Education-General	3.4	3.4	3.5
Higher Education	0.9	0.9	0.8
Government Administration	2.1	1.9	2.1
Health and Social	8.1	7.8	7.7
Public Safety	1.1	1.2	1.1
Transportation	1.1	1.1	1.1
Other	0.6	0.5	0.5

All figures are in billions USD.



RAINY DAY FUND

The state's Rainy Day Fund is a reserve used to offset revenue shortfalls. Money is deposited into the Rainy Day Fund when state revenue collections for a fiscal year exceed 100 percent of the official estimate. The fund balance cannot exceed 15 percent of the General Revenue Fund estimate for the prior fiscal year. The Rainy Day Fund balance as of June 30, 2018, was \$451.6 million.

FUTURE ECONOMIC CHALLENGES

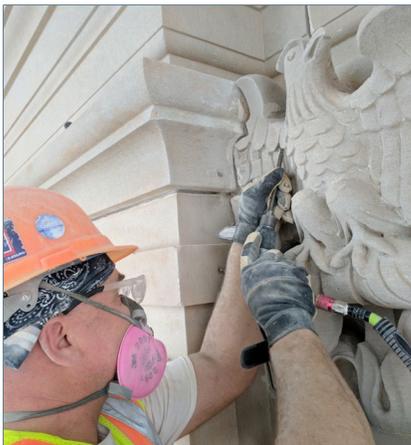
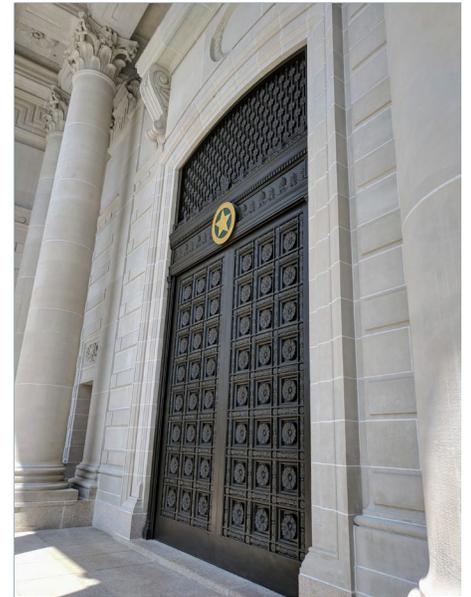
In his Jan. 9, 2019, news release, Oklahoma State Treasurer Randy McDaniel stated, "Oklahoma's economy has been performing admirably. Gross receipts have improved significantly, while unemployment remains low. These and other economic indicators point to a favorable outlook for the state but could be restrained by the downturn in energy prices, global trade uncertainty and stock market volatility."

Fluctuating oil prices continue to have an unreliable impact on the state economy. West Texas Intermediate (WTI) crude prices moved significantly upward after a sub-\$30 per barrel bottom in 2016, surpassing \$70 per barrel several times in 2018. However, recent gains were erased in November as prices briefly dipped below \$50, the lowest since October 2017. Current U.S. Energy Information Administration estimates expect spot prices for the WTI to average \$65 a barrel in 2019.

Receipts to the General Revenue Fund are trending modestly positive over the first four months of fiscal year 2019. The Office of Management and Enterprise Services reports collections to the fund to be \$20.4 million, or 1 percent, above the year-to-date estimate through October 2018, and \$202.6 million, or 11.5 percent, above prior year collections. For fiscal year 2019, increased revenues are expected and target estimates are higher than actuals from the previous year — meaning that collections constantly above the prior year are not only expected but also necessary to meet current year state allocations.

Addressing the Challenges:

- During the last two regular legislative sessions, as well as in two special sessions, state policymakers have increased recurring revenues for upcoming fiscal years and substantially reduced the use of nonrecurring revenues in the fiscal year 2019 budget.
- Revenue generated by increased tax rates approved in House Bill 1010XX during special session last year added \$62.6 million to monthly collections. The largest share, \$38.5 million, came from the increase from 2 percent to 5 percent in the incentive tax rate on oil and natural gas gross production. Higher tax rates on gasoline and diesel fuel generated \$9.5 million, and the \$1 per pack hike in cigarette taxes added \$14.6 million to December's total.



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