



A REPORT TO OUR CITIZENS

FY 2015

OUR GREAT STATE

OKLAHOMA STANDARD

April 19, 1995, altered the face of Oklahoma - and the nation - forever. But rather than bow to fear as the attackers intended, the people of Oklahoma banded together in a community-wide display of spontaneous altruism. Cars became ambulances. Strangers became neighbors. People literally donated the shoes off their feet.

"People went out of their way to share everything they had to make it comfortable for the rescue workers, the firefighters, anyone who was there to help. This became known as the Oklahoma Standard."

- **Frank Keating**, former governor of Oklahoma



"You have lost too much, but you have not lost everything. And you have certainly not lost America, for we will stand with you for as many tomorrows as it takes.... If anybody thinks Americans have lost the capacity for love and caring and courage, they ought to come to Oklahoma."

- **President Bill Clinton**

GOALS OF THE STATE

Education: Oklahoma's future sits in the classrooms of today. To increase educational attainment, Governor Fallin has proposed appropriating \$178 million in new money for a permanent \$3,000 teacher pay raise for every teacher in the state. The governor feels this can be accomplished without raising the state sales tax rate. It is also time to merge the administrative costs of the state's underperforming K-8 dependent school districts by putting them into existing pre-K-12 school districts.

Incarceration: Oklahoma's drug possession sentences haven't deterred substance abuse and have filled our prisons to overcapacity. These sentences, while well-intentioned, tend to send some nonviolent offenders into prison for years and years, where they live alongside violent offenders whose influences can make nonviolent offenders worse. To reduce the incarceration rate among nonviolent offenders, Governor Fallin proposed the lowering of Oklahoma's mandatory drug possession sentences.

Oklahoma's Budget: The oil price collapse and decades-old structural problems with the budget have caused over a \$1 billion dollar deficit. The governor has asked lawmakers to approve a measure that would automate the reconciliation of some agency non-revolving funds from "one-time" funds to general revenue. These funds account for about \$1.5 billion annually.

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. Annual sales tax exemptions total \$8 billion. By

modernizing the way sales tax is collected it is estimated that the state could bring in an additional \$200 million in sales tax revenues a year.

Health Outcomes: Smoking is Oklahoma's leading cause of preventable death and it costs the state \$1.6 billion in related health costs each year. One in 5 Oklahomans are smokers. The governor's budget proposes increasing the personal consumption tax on cigarettes.

State Capitol Repairs: Lawmakers approved legislation two years ago that authorized a \$120 million bond issue to begin restoring the State Capitol. The bond issue was a start, not a total, and contractors estimate it will take another \$120 million to complete the work.

SELECTED DEMOGRAPHIC INFO	2013	2014	2015
Population	3,851,000	3,878,000	3,911,000
Per Capita Income	\$40,620	\$41,861	\$43,138
Unemployment Rate	5.4%	4.5%	4.1%
% of Total Workforce in State Gov't	2.0%	2.0%	1.9%
Public School Enrollment	681,578	677,325	688,300
Tax Collections per Capita	\$2,042	\$2,040	\$2,133
Primary Gov't Debt per Capita	\$699	\$633	\$572

SIGNIFICANT ACCOMPLISHMENTS IN 2015

The Mercatus Center, a university-based research center at George Mason University, ranked Oklahoma ninth in overall fiscal health, 15th in terms of cash solvency, 21st in terms of budget solvency, sixth in terms of long-run solvency, 15th in terms of service-level solvency and second in terms of trust-fund solvency.

Using real personal state income data, the Tax Foundation in a report released July 8, 2015, found that Oklahoma ranks No. 9 in the U.S. for purchasing power. The state's purchasing power of \$111.23 is \$11 more than the national average.

The U.S. Chamber of Commerce Foundation ranked Oklahoma fifth for per-capita income growth in its "States Innovate" 2016 report on which states have the best policies to promote growth and a high-tech economy. Other top 10 rankings for the state in the report include fifth in college affordability, sixth in productivity growth, seventh in gross state-product growth, eighth in research and development investment, ninth in state fiscal condition, ninth in cost-of-living and tenth in long-term job growth.

Two Oklahoma metropolitan areas outpaced the U.S. metropolitan area average real GDP growth of 2.3 percent in 2014, according to the U.S. Bureau of Economic Analysis statistics. Tulsa grew 3.7 percent and ranked 51st out of 381 metro areas. The Oklahoma City area grew 2.6 percent and ranked 99th.

The Oklahoma Department of Career and Technology Education system is often used as a model for other programs. The system offers programs and services throughout nearly 400 public school districts, 29 technology centers with 58 campus sites, and 17 correctional facility skills centers. Annually, enrollment in CareerTech classes is about 500,000.

Changes were made to Oklahoma's Reading Sufficiency Act. The law has helped elementary school students bolster their reading skills. State fourth-graders improved their reading scores by five points in 2015, putting Oklahoma above the national average with the most significant gain. Changes to the law included the formation of a committee to help

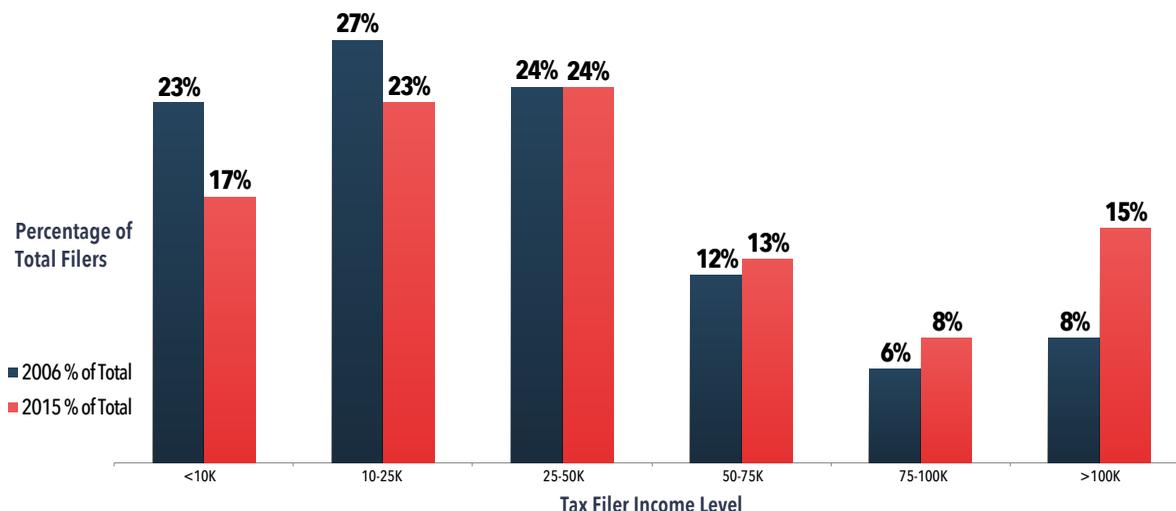
students who are struggling to read at their grade level, while increasing the minimum reading level for students to be promoted to fourth grade beginning in the 2016-17 school year.

In the criminal justice system, legislation was passed that allows judges to impose shorter sentences for some nonviolent crimes. The Justice Safety Valve Act is an attempt to divert more nonviolent offenders, such as those with substance abuse addiction, into alternative programs and away from the state's overcrowded prisons. The state provided judges with greater discretion in other drug cases involving mandatory life sentences for repeat drug offenders. Another new law makes it easier for offenders to get a job after they are released from prison by creating a path to obtain a commercial driver's license.

On the health front, legislation was signed to address Oklahoma's prescription drug abuse problem. The new law requires doctors to check a Prescription Monitoring Program database before prescribing potentially addictive drugs like oxycodone. The database can help doctors reduce the likelihood patients are seeking prescription drugs from more than one physician.



TEN YEAR TAX FILING COMPARISON



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

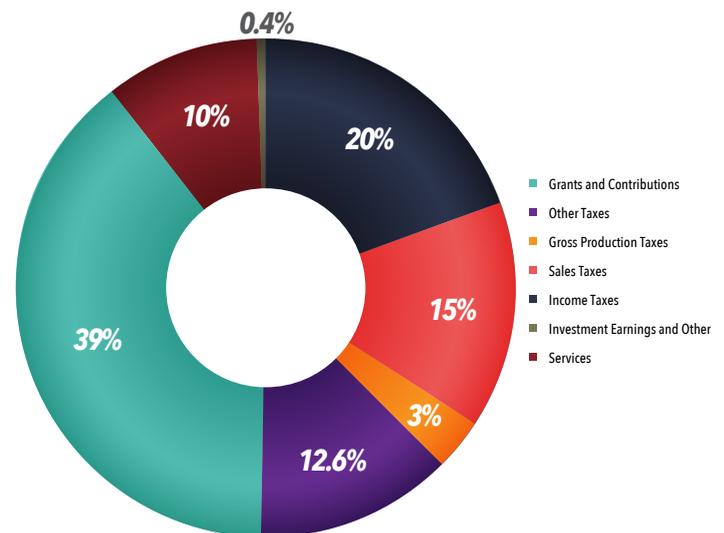
	FY 2013 (\$)	FY 2014 (\$)	FY 2015 (\$)
1 Gross Production Tax - Oil and Gas	373,494,633	477,781,300	401,619,064
2 Tag Agent Remittance Tax	330,838,092	388,643,946	376,730,773
3 Insurance Premium Tax	213,675,180	223,090,507	244,415,684
4 Use Tax	221,082,285	237,162,483	240,423,735
5 Gasoline Excise Tax	203,403,445	202,091,479	207,370,800
6 Cigarette Tax	210,231,001	195,926,775	197,553,535
7 Gaming Exclusivity Fees	129,286,255	123,376,190	128,443,759
8 Diesel Fuel Excise Tax	73,785,574	80,309,870	79,234,208
9 Workers' Compensation Awards - Assessments	34,801,759	55,465,606	63,469,440
10 Franchise Tax*	540,824	1,126,240	56,540,151

*Franchise tax was reinstated in FY 15 after 3 year moratorium.

PRIMARY GOVERNMENT SOURCES OF REVENUE

	FY 2013	FY 2014	FY 2015
Income Taxes	3.5	3.3	3.3
Sales Taxes	2.5	2.6	2.6
Gross Production Taxes	0.5	0.7	0.6
Other Taxes	1.9	2.1	2.2
Grants and Contributions	6.9	7.3	6.7
Services	1.7	1.4	1.7
Investment Earnings and Other	0.1	<0.1	<0.1

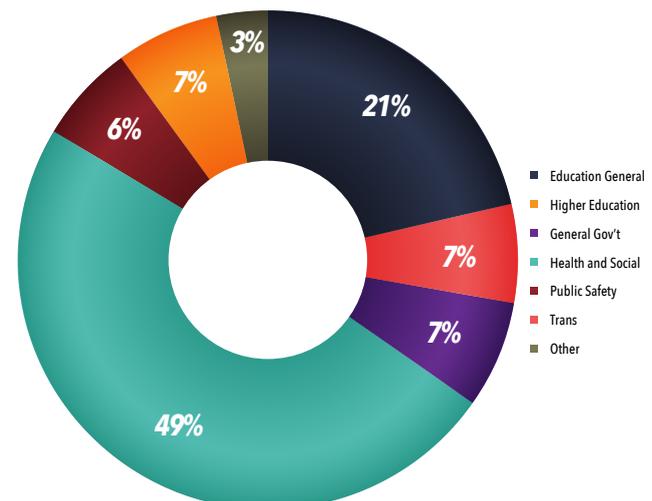
All figures are in billions USD



PRIMARY GOVERNMENT FUNCTIONAL EXPENSES

	FY 2013	FY 2014	FY 2015
Education-General	2.4	3.3	3.4
Higher Education	2.0	1.1	1.0
Government Administration	1.9	1.8	1.1
Health and Social	7.7	8.0	7.8
Public Safety	1.1	1.1	1.0
Transportation	0.9	1.0	1.1
Other	0.6	0.5	0.6

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 fiscal year 2015 rainy day fund balance was \$385.2 million. In March of 2016, an agreement was reached to withdraw \$78.5 million from the Rainy Day Fund to offset budget cuts to public education and corrections.

FUTURE ECONOMIC CHALLENGES

Low oil and natural gas prices remain a drag on Oklahoma's economy into 2016, putting the onus on other state industries to help drive economic growth. Indeed, with an increasingly diversified economy, Oklahoma is weathering recent reductions to its largest industry better than it has during previous energy market downturns.

While the prolonged nature of the oil price decline will pose challenges for Oklahoma, the state will face those challenges with momentum from a solid stint of recent economic growth.

Oklahoma's gross domestic product – the output of goods and services produced by the labor and property used as the broadest measure of economic activity – has been one of the strongest among states for several years. Oklahoma's real gross domestic product grew by 2.8 percent in 2014, above the national average of 2.2 percent, according to U.S. Bureau of Economic Analysis' latest available numbers.

Since 2009, the annual Oklahoma GDP growth has averaged 2.5 percent, compared with a national average growth rate of 1.9 percent, placing Oklahoma as the tenth highest annual GDP growth-rate state among all other states and the District of Columbia.

Oklahoma has taken several steps to confront the economic challenge:

- Governor Fallin issued a series of executive orders in October 2015 asking agencies to dispose of underutilized properties and plan to reduce nonessential spending by 10 percent.
- Oklahoma has taken several steps to help its workforce diversify and meet the challenges of the energy sector slump. Economic development entities designed to grow sustainable and consistent high-tech industries to counter the cyclical nature of staple industries like agriculture and energy are having success.
- Governor Fallin signed legislation into law in early 2015 in an effort to address workforce shortages and more closely align industry and education. Fallin's vision for the Oklahoma Works initiative is to close the skills gap in its workforce by teaching people the skills needed to meet the demand of Oklahoma's growing businesses.

