



Oklahoma Economic Report™

News and analysis of Oklahoma's economy



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

State pension investments set the curve

Investment of the \$32.9 billion in Oklahoma's seven public pension systems is doing quite well in the ongoing record-setting bull market – better even than most other public pensions.

The funds' investments during FY-18 saw average returns of 9.5 percent, outperforming 86 percent of all public pensions.

Another strong year

It marks a second consecutive year of strong returns on investment of each of the state's pension systems. In

fact, four of the seven systems have produced positive returns for nine years in a row. The three others have shown growth in eight of the nine years following the end of the Great Recession.

Not surprisingly, the consistently positive investment results track closely with the nine-year current bull market.

The Oklahoma Teachers Retirement System, the state's largest at \$16.5 billion, posted performance in FY-18 at 10 percent. That compares to returns of 15.4 percent during FY-17.

The next largest system, the Oklahoma Public Employees Retirement System, valued

“ Investment returns from Oklahoma's seven public pension systems outperformed 86 percent of all public pensions.”

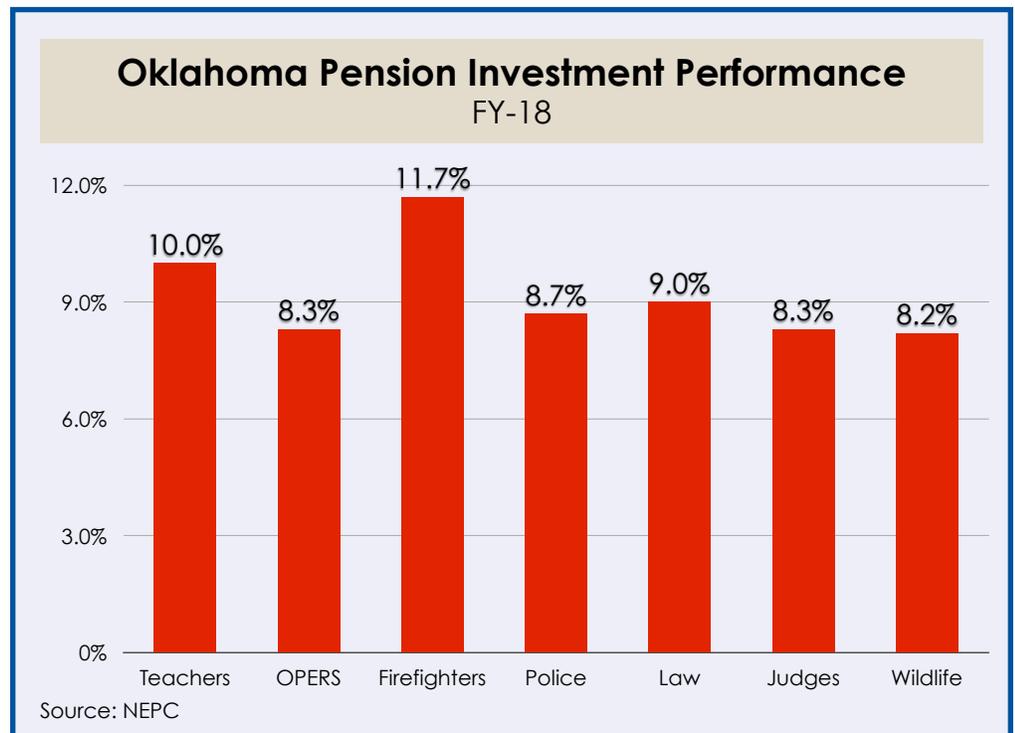
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Editor

Tim Allen, Deputy Treasurer for Communications and Program Administration





Guest Commentary

Rep. Randy McDaniel, Chair Emeritus,
House Banking and Business Committee



Keeping our promises

Abraham Lincoln said, “You cannot escape the responsibility of tomorrow by evading it today.”

Oklahoma is fortunate to have many dedicated educators, state employees and public safety personnel that are willing to serve the public. They are counting on state leaders to make certain the retirement promises made are kept.

Following the Great Recession, the outlook was troubling. Unfunded pension liabilities had grown to more than \$16 billion. The annual funding shortfall was massive, in spite of record contributions made by the state.

In comparison to other states, Oklahoma’s pension system ranked close to the bottom in fiscal stability. Clearly, the status quo was not working and changes were necessary.

After listening to stakeholders and chairing multiple public meetings, I authored a number of retirement bills in an effort to safeguard beneficiaries and protect the state’s bond rating from being harmed by pension problems.

“The improved condition has allowed us to provide much needed relief for retirees for the first time in a decade.”

Pension reform is about honoring past promises and being able to meet the workforce and economic challenges of the future. My focus has been on prospective reforms to ensure consistency and fairness. The open and equitable process resulted in most of the measures being approved with bipartisan support.

I have also advocated strongly for proper funding. Positive cash flow has allowed more strategic growth investments to be made as capital markets started to rise, significantly aiding in the recovery process.

The reforms, coupled with

sufficient funding and superior investment results, have led to a noteworthy turnaround. The unfunded pension liabilities have been cut almost in half and huge funding gaps have been filled.

The improved condition has allowed us to provide much needed relief for retirees for the first time in a decade. The retirement stipend bill, signed into law in May, aims to be both helpful and fiscally sound.

Due to our efforts, most Oklahoma public retirees will receive a stipend payment in October.

The measure passed almost unanimously through the Legislature and is likely to be an ongoing topic of discussion as we look for ways to help those in need.

Investment performance is a key factor that impacts the financial health of pension systems. While

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McDaniel

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interest rates for investment grade bonds have become more attractive recently, they are still well below the yields needed to meet the discount rates assumed by the pension systems.

In recent years, gains in the stock market have more than offset low-yielding bonds. However, the longevity of the current bull market in U.S. equities has surpassed previous records. The stock market expansion that began in early 2009

has been sustained for nine and a half years. There remain good reasons for continued optimism. Nevertheless, prudent investors should review portfolios and make the changes needed for adequate diversification.

In the past, long-lasting bull markets often encouraged unrealistic expectations. As a result, resources would be cut to fund other priorities. The combination of funding cuts and inevitable market corrections led to growing financial instability.

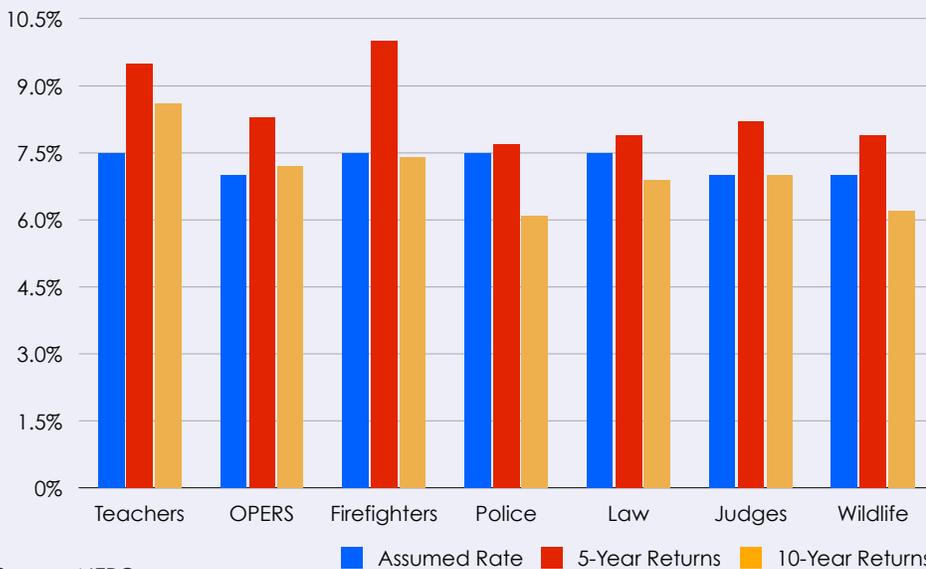
Leaders have a responsibility to balance current and future obligations. The mistakes of the past should be remembered instead of repeated. In many places, government officials have ignored the warning signs of changing demographics and irregular contributions.

Maintaining a sustainable retirement system has been – and should remain – a priority of the state as we strive for a strong and secure future.

Performance

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Performance vs. Assumed Rates of Return



at \$9.7 billion, reported returns of 8.3 percent during the last fiscal year. During FY-17, the system posted returns of 12.8 percent.

The \$2.7 billion Oklahoma Firefighters Pension and Retirement System reported the best investment performance of the state’s public systems at 11.7 percent. That compares to returns of 14.3 percent in FY-17.

The Oklahoma Police Pension and Retirement System, valued at \$2.5 billion, posted gains of 8.7 percent during the fiscal year, compared to 11.6 percent during FY-17.

The Oklahoma Law Enforcement Pension System, with an estimated

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Performance

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value of \$994 million, reported investment returns of 9 percent, compared to 13 percent during the prior fiscal year.

The Uniform Retirement System for Judges and Justices, valued at \$338 million, reported investment returns at 8.3 percent, compared to FY-17 returns at 12.7 percent.

The Oklahoma Wildlife and Conservation Retirement Plan, with

a value of \$114 million, experienced investment returns of 8.2 percent in FY-18, compared to 11.3 percent during FY-17.

Better than most

Firefighters' investment returns ranked in the top 1 percent of all public pensions nationwide.

Teachers was the second best performing Oklahoma public pension, with performance in the top seven

percent of public systems.

Law enforcement was next, with performance ranked in the 22nd percentile. Police system investment ranked in the 30th percentile, while Public Employees and Judges ranked in the 37th and 38th percentiles, respectively. Wildlife ranked in the 41st percentile.

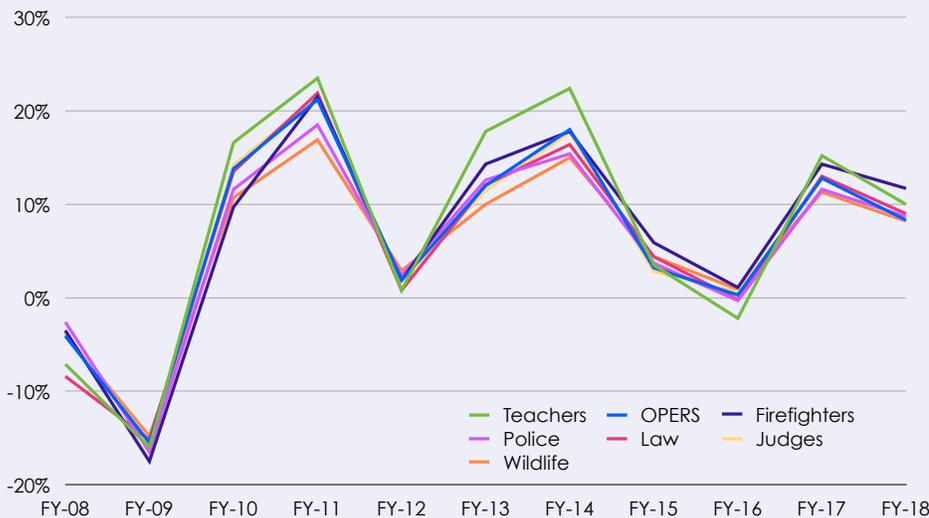
In perspective

Experts agree the strong investment performance of the past few years is unsustainably high. Examining returns over a few years is interesting, but long-term performance compared to assumed rates of return are the key measurement.

In the past two years, all seven systems have outperformed the assumed rate of return.

Oklahoma Public Pensions Investment Returns

FY-08 – FY-18



Learn more

Read the complete State Pension Commission Investment Performance Report at go.usa.gov/xUSKH

	FY-08	FY-09	FY-10	FY-11	FY-12	FY-13	FY-14	FY-15	FY-16	FY-17	FY-18
All OK Pensions	-4.4%	-16.6%	12.7%	21.2%	1.9%	14.9%	19.9%	3.6%	-1.0%	14.0%	9.5%
Teachers	-7.1%	-16.0%	16.6%	23.5%	0.8%	17.8%	22.4%	3.5%	-2.2%	15.2%	10.0%
OPERS	-4.1%	-15.5%	13.8%	21.2%	1.9%	12.0%	18.0%	3.2%	0.3%	12.8%	8.3%
Firefighters	-3.5%	-17.5%	9.7%	21.5%	1.9%	14.3%	17.8%	5.9%	1.1%	14.3%	11.7%
Police	-2.6%	-16.5%	11.6%	18.5%	2.4%	12.6%	15.4%	3.7%	-0.3%	11.6%	8.7%
Law	-8.4%	-15.2%	13.5%	21.9%	0.8%	12.1%	16.4%	4.4%	-0.2%	13.0%	9.0%
Judges	-3.7%	-15.7%	14.2%	21.4%	1.8%	11.5%	17.7%	2.8%	0.6%	12.7%	8.3%
Wildlife	-3.9%	-14.8%	10.7%	16.9%	2.9%	10.0%	15.0%	4.4%	0.9%	11.3%	8.2%



July Gross Receipts to the Treasury & General Revenue compared

July Gross Receipts to the Treasury totalled \$1 billion, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received \$449.1 million, or 43.7%, of the total.

The GRF received between 33.5% and 57% of monthly gross receipts during the past 12 months.

From July gross receipts, the GRF received:

- Individual income tax: 63.7%
- Corporate income tax: 59.2%
- Sales tax: 38.5%
- Gross production-Gas: 71.1%
- Gross production-Oil: 16.4%
- Motor vehicle tax: 25.3%
- Other sources: 31.7%

July and fiscal-year-to-date GRF allocations were below the estimate by 2.1 percent, or \$9.6 million.

July insurance premium taxes totaled \$456,424, an increase of \$201,722, or 79.2%, from the prior year.

Tribal gaming fees generated \$12.1 million during the month, up by \$965,192, or 8.6%, from July 2017.

August Gross Receipts to the Treasury show double-digit growth

Oklahoma's Gross Receipts to the Treasury in August, which provide a broad overview of state economic activity, show double-digit expansion over the past 12 months, State Treasurer Ken Miller announced today.

August gross receipts of \$995.1 million are up by 13.1 percent from August of last year, and gross receipts over the

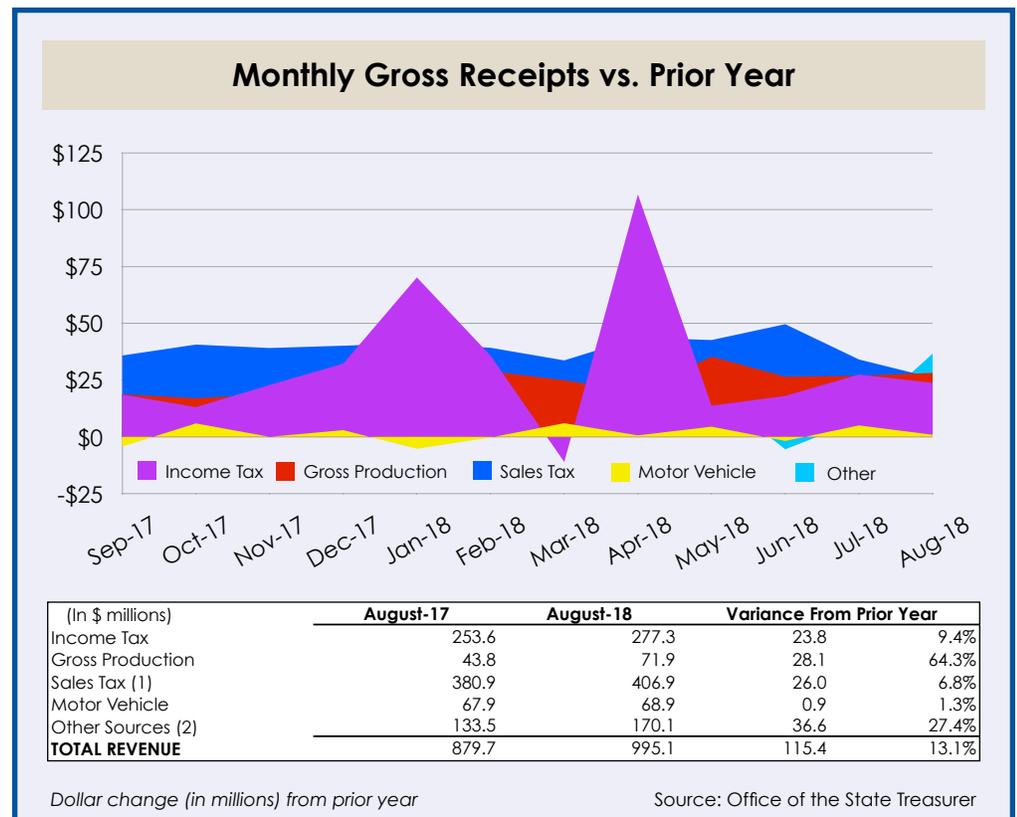
past 12 months, at \$12.4 billion, are 11.9 percent more than the prior 12 months.

“Gross receipts are expanding at a double-digit pace, even when recent tax increases are taken out.”

Both totals are record highs.

“Clearly, Oklahoma is doing much more than ‘fine’ with gross receipts expanding at a double-digit pace, even when recent state tax

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Revenue

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increases are taken out,” Miller said.

Tax hikes enacted last legislative session took effect July 1 and were reported for the first time in August.

The \$1 per pack increase in cigarette taxes produced \$8.3 million, the three-cent per gallon hike in gasoline taxes generated \$5.1 million, and the six-cent per gallon rise in diesel fuel tax brought in \$4.9 million during the month.

When the \$18.3 million in new tax revenue is excluded from the monthly growth calculation, August gross receipts are shown as increasing by 11 percent compared to August 2017.

The increase from three to five percent on gross production taxes

on new oil and gas wells has yet to generate additional revenue.

All major revenue streams – individual and corporate income, sales, gross production, and motor vehicle taxes – show increases in both the monthly and 12-month reports ranging from 1.3 percent in motor vehicle collections to 64.3 percent in gross production taxes.

Business conditions

The Oklahoma Business Conditions Index has topped growth neutral for 13 consecutive months.

The August index decreased slightly to 60.4, from 60.6 in July. Numbers above 50 indicate anticipated economic growth during the next three to six months.

August collections

August gross collections total \$995.1 million, up \$115.4 million, or 13.1 percent, from August 2017.

Gross income tax collections, a combination of individual and corporate income taxes, generated \$277.3 million, an increase of \$23.8 million, or 9.4 percent, from the previous August.

Individual income tax collections for the month are \$268.3 million, up by \$21.5 million, or 8.7 percent, from the prior year.

Corporate collections are \$9.1 million, an increase of \$2.2 million, or 32.7 percent.

Sales tax collections, including remittances on behalf of cities and counties, total \$406.9 million in August.

That is \$26 million, or 6.8 percent, more than August 2017.

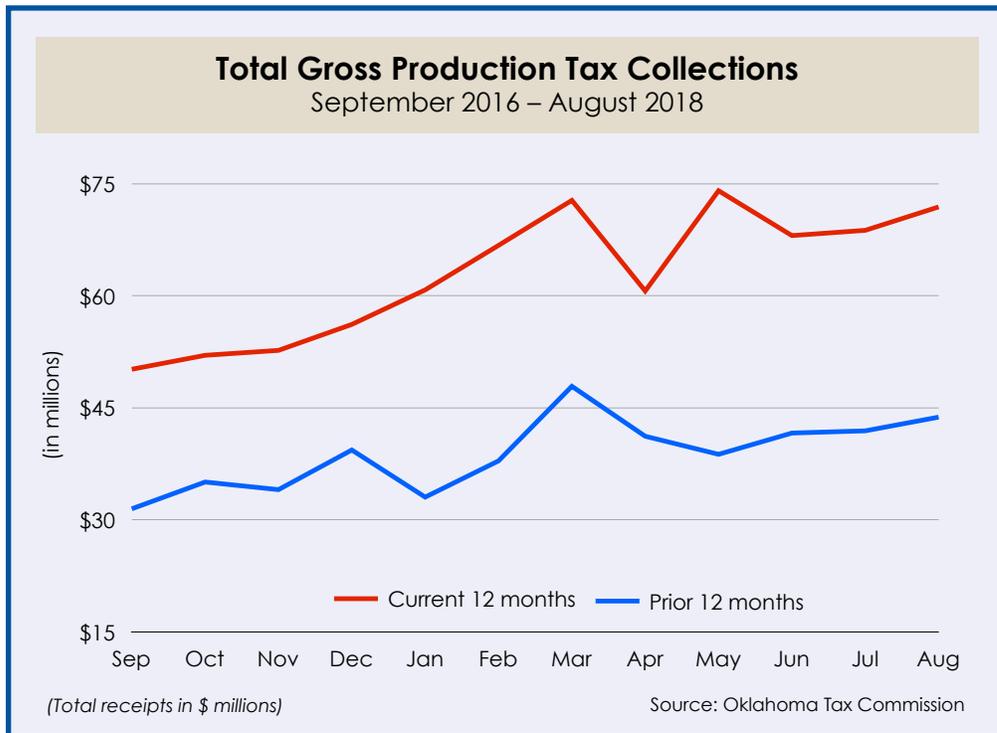
Gross production taxes on oil and natural gas generated \$71.9 million in August, an increase of \$28.1 million, or 64.3 percent, from last August.

Compared to July reports, gross production collections are up by \$3.1 million, or 4.6 percent.

Motor vehicle taxes produced \$68.9 million, up by \$916,000, or 1.3 percent, from the same month of 2017.

Other collections, consisting of about 60 different sources including use taxes, along with taxes on fuel,

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Revenue

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tobacco, and alcoholic beverages, produced \$170.1 million during the month.

That is \$36.6 million, or 27.4 percent, more than last August.

Twelve month collections

Gross revenue totals \$12.4 billion from the past 12 months.

That is \$1.3 billion, or 11.9 percent, more than collections from the previous 12 months.

Gross income taxes generated \$4.3 billion for the period, reflecting an increase of \$371 million, or 9.4 percent, from the prior 12 months.

Individual income tax collections total \$3.8 billion, up by \$294.8 million, or 8.3 percent, from the prior 12 months.

Corporate collections are \$475.2 million for the period, an increase of

\$76.2 million, or 19.1 percent, over the previous period.

Sales taxes for the 12 months generated \$4.7 billion, an increase of \$465.7 million, or 10.9 percent, from the prior period.

Oil and gas gross production tax collections brought in \$754.9 million during the 12 months, up by \$288.9 million, or 62 percent, from the previous period.

Motor vehicle collections total \$774.6 million for the period. This is an increase of \$14.2 million, or 1.9 percent, from the trailing period.

Other sources generated \$1.8 billion, up by \$174.7 million, or 10.7 percent, from the previous year.

About Gross Receipts to the Treasury

The Office of the State Treasurer has issued the monthly Gross Receipts to

the Treasury report since March 2011 to provide a timely and broad view of the state's macro economy.

It is released 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 complete report and view charts and graphs at go.usa.gov/xPxNB

State unemployment rate drops to 3.8 percent in July

Oklahoma's seasonally adjusted unemployment rate of 3.8 percent in July is down by one-tenth of a percentage point from June. The U.S. jobless rate of 3.9 percent also reflects a decrease of the same amount from the prior month, according to figures released by the Oklahoma Employment Security Commission.

Since July 2017, the number of working Oklahomans has risen by 33,920, while the number of those listed as unemployed has dropped by 6,772.

Oklahoma Unemployment Report					
July 2018					
		Unemp. rate*	Labor force*	Employment*	Unemployment*
July 2018					
	Oklahoma	3.8%	1,862,735	1,792,356	70,379
	United States	3.9%	162,245,000	155,965,000	6,280,000
OKLAHOMA	June '18	3.9%	1,859,187	1,787,007	72,180
	May '18	4.0%	1,854,897	1,781,093	73,804
	April '18	4.0%	1,851,095	1,776,424	74,671
	Mar'18	4.0%	1,848,315	1,773,774	74,541
	Feb '18	4.1%	1,845,063	1,769,910	75,153
	July '17	4.2%	1,835,587	1,758,436	77,151

* Data adjusted for seasonal factors

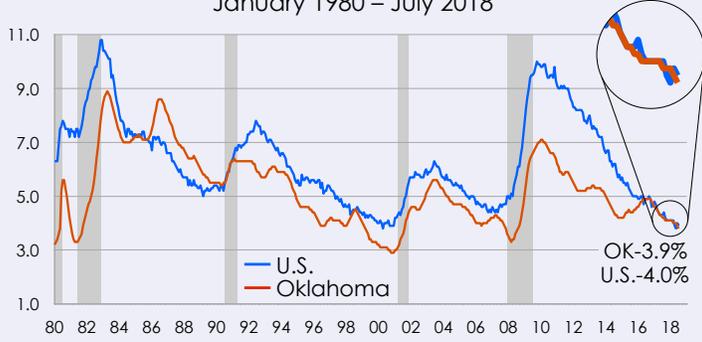
Source: OESC



Economic Indicators

Unemployment Rate

January 1980 – July 2018

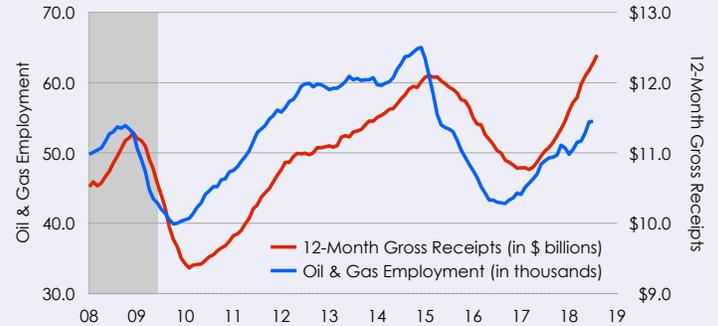


Shaded areas denote U.S. recessions

Source: Bureau of Labor Statistics

Gross Receipts vs. Oil & Gas Employment

January 2008 – August 2018

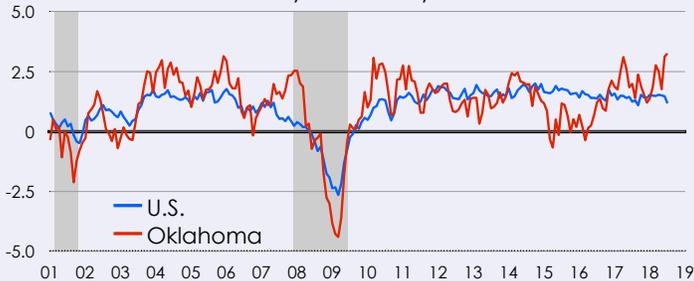


Shaded area denotes U.S. recession

Sources: Bureau of Labor Statistics & State Treasurer

Leading Economic Index

January 2001 – July 2018



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.

Shaded areas denote U.S. recessions

Source: Federal Reserve of Philadelphia

Oklahoma Stock Index

Top capitalized state companies
January 2009 – August 2018

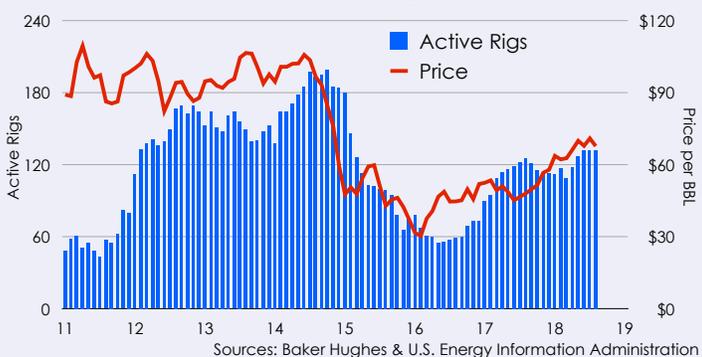


Shaded area denotes U.S. recession

Source: Office of the State Treasurer

Oklahoma Oil Prices & Active Rigs

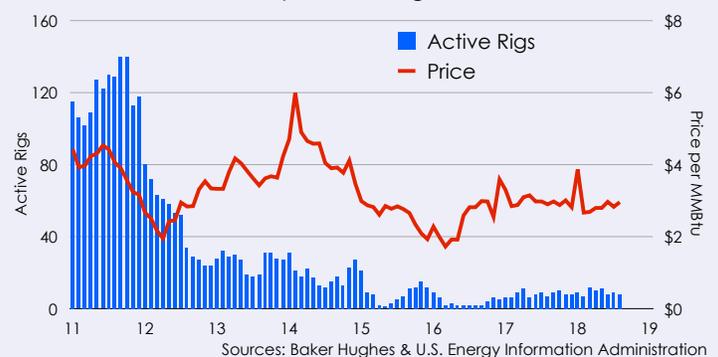
January 2011 – August 2018



Sources: Baker Hughes & U.S. Energy Information Administration

Oklahoma Natural Gas Prices & Active Rigs

January 2011 – August 2018



Sources: Baker Hughes & U.S. Energy Information Administration