



Economic Monitor

Economic Policy and Research Staff
Oklahoma State Senate

In This Issue:

Page 3: *FY 2000 Revenue Report*

Page 4: *E-Commerce Poses Serious Challenge for Oklahoma State and Local Governments*

Page 6: *Summary of Economic Indicators*

Page 8: *Economic Impact of Tourism on Oklahoma*

Page 8: *Oklahoma's Correctional Costs: Losses in Productivity and State Expenditures*

Oklahoma's Economic Outlook Remains Positive

Oklahoma's economic growth continues on a positive track. The unemployment rate, currently 3.1 percent, declined slightly from last month, and 1.1 percent from this time last year. This level of unemployment is well under the national average of 4.1 percent, according to the most recent data collected from the Bureau of Labor Statistics. While having only a few Oklahomans out of work contributes to our economic prosperity, businesses considering locating or expanding here see this tightening labor market as a potential pitfall. These businesses wonder where their workforce will come from, and what price they'll face if this trend continues or even remains the same.

Continued on page 6

Oklahoma's Tobacco Settlement Payments

A number of states have already enacted legislation specifying how tobacco settlement proceeds are to be spent. Other states, including Oklahoma, have several proposals pending on how these proceeds should be spent. At least 18 bills were filed in the

2000 legislative session dealing with the tobacco settlement issue. Some of the proposed uses of settlement funds include:

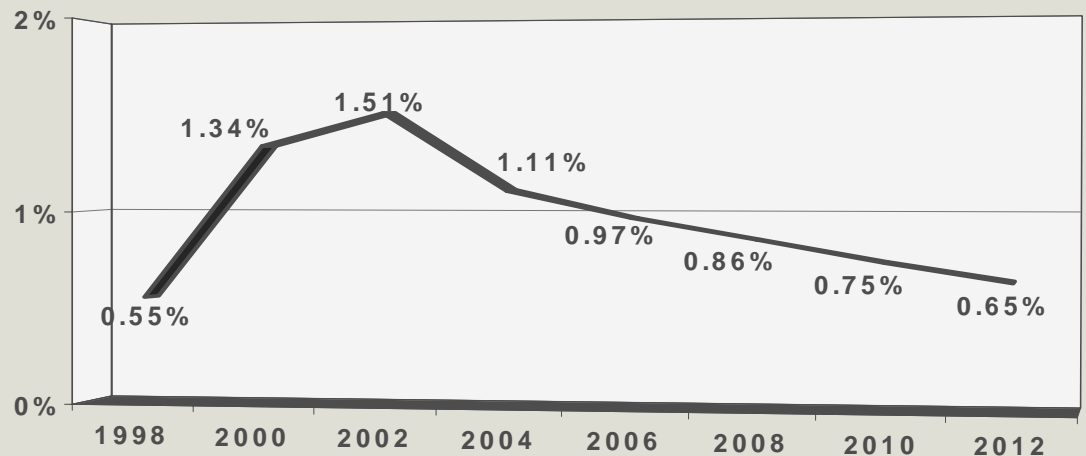
- Preventive material & child health services
- Maternal & child substance

abuse prevention

- Cancer research center (OUHSC)
- Comprehensive tobacco prevention program (\$30 mil—Health Department)
- School health clinics
- Tobacco enforcement

Continued on page 5

Oklahoma's Annual Settlement Payments* as a Percent of Total Budget*



* Payment amounts and Budget amounts projected based on the last four years' average growth.

Industry Site Location Factors: How Oklahoma Ranks

Which Factors Make A Difference?

Low taxes? Transportation? Good education? Abundant labor? Quality of life? Workers Compensation Costs? What is really important? What is not? Assembling the right array of economic and qualitative factors that make states and cities attractive to business sometimes more resembles alchemy than a sci-

ence. Much of the reason for this confusion is because there is no single set of factors that fit the needs of all businesses. The needs of a software company differ greatly from those of an appliance manufacturer. Further complicating the equation is that industries really compare cities – not states. There can be more significant differences within a state sometimes than differences

Continued on page 2

New Report Issued Citing Oklahoma's Accomplishments

A new report was released on March 9 highlighting National publications that have lauded Oklahoma's business strengths. This report entitled "Oklahoma's Economy: A Snapshot of Success" referred to a number of the site selection rankings mentioned in this article.

The report also highlighted areas of Oklahoma's employment, job growth, education and tax systems which rank favorably against the nation. To view and print the entire report, visit the Oklahoma State Senate web site and click on the "Issue Brief" at:

<http://www.lsb.state.ok.us/senate/welcome.html>

Continued from page 1

among neighboring states. Still there is no shortage of rankings of business climate, though many rankings are reflective of specific industry sectors such as technology or manufacturing.

How does Oklahoma Fare?

Oklahoma fares well in most of these rankings to the surprise of some. Despite our cultural tendency to diminish ourselves Oklahoma delivers a strong showing in nearly all nationally published rankings.

Site Selection Magazine lists Oklahoma City and Tulsa as 7th and 8th respectively as “metro hotspots” for new and expanded industries. The magazine says **“Companies that take a fresh look at Oklahoma will be pleasantly surprised by what they find because the state offers a highly competitive business environment”**. *Site Selection* also notes that another industry publication, *Financial World*, ranks Oklahoma 2nd best in the country in lowest overall business costs.

Oklahoma City and Tulsa also made the list of the 50 Hottest Cities according to the respected site location trade publication *Expansion Management*. Oklahoma City Ranked 24th and Tulsa 27th, besting such competitors as Dallas-Fort Worth (45th) and Kansas City (38th).

Where Oklahoma doesn't fare as well are in rankings that don't place as much emphasis on low business costs and more on factors that influence knowledge based or technology companies. Oklahoma ranked only 40th in the nation according to *The State New Economy Index* – a benchmark of economic transforma-

Ratings of Most Important Factors According the Area Development Magazine (November 1999)

Economic Factors:

1. Skilled Labor
2. Highway Accessibility
3. Labor Costs
4. State and Local Incentives
5. Rent or Construction Costs
6. Tax Exemptions
7. Energy Availability and Costs
8. Telecommunications Services
9. Availability of Land
10. Cost of Land
11. Low Union Profile
12. Environmental Regulation
13. Labor Availability
14. Nearness to Major Markets
15. Right to Work
16. Long-term Financing
17. Technical Training
18. Nearness to Suppliers
19. Raw Materials
20. Major Airport

Quality of Life Factors:

1. Low Crime Rate
2. Ratings of Public Schools
3. Health Facilities
4. Housing Availability
5. Housing Costs
6. Recreational Opportunities
7. Climate
8. Cultural Opportunities
9. Colleges & Universities in Area

tion in the states. This index emphasized entrepreneurship, education and specialized skills. Confirming that Oklahoma does not rank as well when such measures are included are the December 1999, *Inc. Magazine* rankings of America's “Hot Zones”. Oklahoma City ranked 42nd among the 42 largest cities. In the Milken Institute's “Tech-Pole” Oklahoma City ranked 87th among metro areas in the U.S. and Tulsa ranked 78th.
EM

“Companies that take a fresh look at Oklahoma will be pleasantly surprised by what they find because the state offers a highly competitive business environment.”
Site Selection Magazine

Oklahoma's Recent Notable Rankings

**Expansion Management
Top 50 Cities**

*OKC 24th
Tulsa 27th*

RFA Cost of Doing Business

Oklahoma 6th

**Whirlpool Manufacturing
Climate**

Oklahoma 3rd

**Site Selection Southwest
Metro Hot Spots**

*OKC 7th
Tulsa 8th*

**Site Selection 1999 State
Business Climate Rankings**

Oklahoma 17th

**Inc. Magazine's 50 Best
Metro Areas**

OKC 42nd

New Economy Index

Oklahoma 40th

Revenue Roundup

Oklahoma's revenue collections continue to grow thanks to the state's vibrant economic conditions. With the price of a barrel of Oklahoma sweet crude at just under \$30 barrel, gross production revenues are far exceeding projections. For the second-quarter of FY-

2000, gross production gas revenues were nearly 400 percent of their second-quarter FY-1999 collections, and are exceeding projections by 30 percent.

Insurance premium and inheritance/estate tax collections

also far exceeded projections. Individual and corporate income tax, sales, use, motor vehicle, and beverage tax collections came in right at projections, while cigarette, pari-mutuel, and franchise collections came in under projections.

Overall state tax revenues are accruing to the general fund as projected. FY-2000 collections are 103 percent of FY-1999 collections. *EM*

**General Revenue Fund, Fiscal Year 2000
Comparison with OSF Estimate and Prior Year Collections**

Revenue Source	Column 1	Column 2	Column 3	Col 2 / Col 3	Col 2 / Col 1
	Actual Collections				
	FY-99 Year to Date	FY-2000 Year to Date			
TAXES:					
Income					
Individual	\$837.3	\$876.0	\$878.4	100%	105%
Corporate	\$56.4	\$50.2	\$48.8	103%	89%
Gross Production					
Oil	\$25.3	\$0.0	\$0.0	N/A	0%
Gas	\$29.6	\$117.0	\$90.3	130%	395%
Sales	\$575.7	\$572.5	\$581.8	98%	99%
Use	\$36.9	\$36.5	\$37.7	97%	99%
Motor Vehicle	\$138.7	\$147.0	\$145.3	101%	106%
Insurance Premium	\$14.4	\$16.6	\$13.1	127%	115%
Franchise	\$33.6	\$28.5	\$32.5	88%	85%
Inheritance/Estate	\$44.4	\$50.1	\$43.6	115%	113%
Cigarette	\$18.0	\$16.4	\$21.2	77%	91%
Beverage	\$12.6	\$12.5	\$12.7	98%	99%
Alcoholic Beverage	\$7.5	\$8.1	\$7.6	107%	108%
Mixed Beverage	\$6.8	\$7.2	\$7.2	100%	106%
Pari-Mutuel	\$2.1	\$2.0	\$2.3	87%	95%
Other	\$39.7	\$30.2	\$39.4	77%	76%
Subtotal: Taxes	\$1,879.0	\$1,970.8	\$1,961.9	100%	105%
Licences, Permits, & Fees	\$14.5	\$15.3	\$14.2	108%	106%
Income From Money/Property	\$54.3	\$45.3	\$42.0	108%	83%
Other Income	\$12.3	\$34.7	\$12.6	275%	282%
Continuing Collections	\$1,960.1	\$2,066.1	\$2,030.7	102%	105%
Transfers & Lapses	\$1.5	\$1.5	\$2.5	-	-
Revenue Comparisons	\$1,961.6	\$2,067.6	\$2,033.2	102%	105%
One-time Receipts	\$1.4	\$0.0	\$0.0	-	-
Total Revenues	\$1,963.0	\$2,067.6	\$2,033.2	102%	105%

E-Commerce Poses Serious Challenge for Oklahoma State and Local Governments

E-commerce transactions have cost Oklahoma state and local governments nearly \$30 million in state and local sales tax collections for 1999, according to an Oklahoma Municipal League (OML) study.

What's driving this revenue issue?

The number of U.S. households with Internet access has increased 900 percent in the past six years. The rate at which web-surfing consumers purchased goods and services, valued at \$11.5 billion in 1998, increasing to \$20 billion in 1999, is even more impressive. The Council of State Governments predicts that by 2003 this volume will increase to \$108 billion, or 6 percent of all U.S. retail dollars!

Households, however, aren't the only online spenders. Business-to-business e-commerce sales were \$31 billion for 1999, far exceeding projections. These sales are expected to reach nearly \$180 billion by 2003.

declining sector. Consequently, our tax-base suffers like that of the rest of the nation. A study conducted this year by the Council of State Governments suggests that e-commerce is contributing significantly to the erosion of states' tax-bases. "Now, potential tax-free e-commerce poses a greater threat to the ever-eroding tax base for state and local governments."

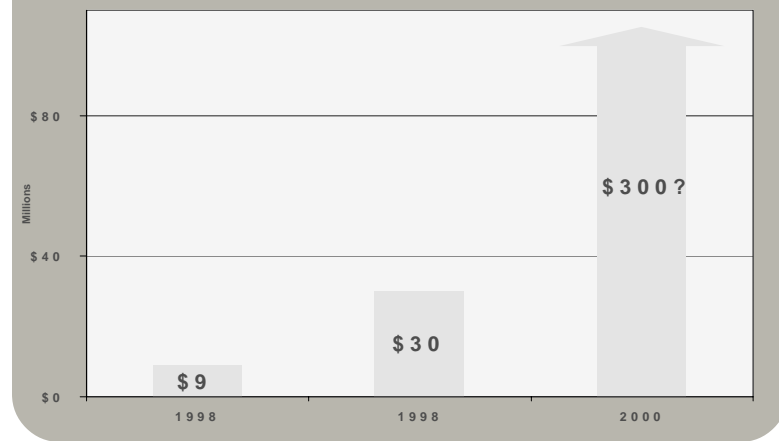
OML researched the monetary impact of the loss of 1998 sales tax revenues on sales made over the Internet. They estimated that retail sales tax losses approached \$9 million for 1998, and are projected to climb well beyond the \$30 million estimated for this year. Business sales tax losses are estimated to have cost the state over \$40 million in revenues for 1998, and are projected to increase to well over \$300 million by 2002.

The Internet Tax Freedom Act of 1998 defines electronic commerce as, "any transaction conducted over the Internet or through Internet ac-

cesses are not subject to sales taxation, per the Internet Tax Freedom Act of 1998. This legislation placed a three-year moratorium on new state and local taxes targeted at

thority. Others believe that by not taxing these goods and services the tax base will further erode. Nationally, over the past three to four decades, state sales-tax bases have

Oklahoma's Projected Lost Revenues from Tax-Free Internet Sales, 1998-2000



Internet access and Internet commerce in order to allow enough time for The Advisory Commission on Electronic Commerce to conduct a national study to devise "rational tax policies" before state and local governments act. This report, along with legislative recommendations, is due in April of this year, and is to address several questions such as, "how do we levy a tax system based on thousands of geographical boundaries over a medium that operates in an environment without boundaries? Do we want to? Is it possible? What are the implications for the medium? What is the cost to our businesses? What is the cost to the privacy of our citizens?"

been steadily shrinking.

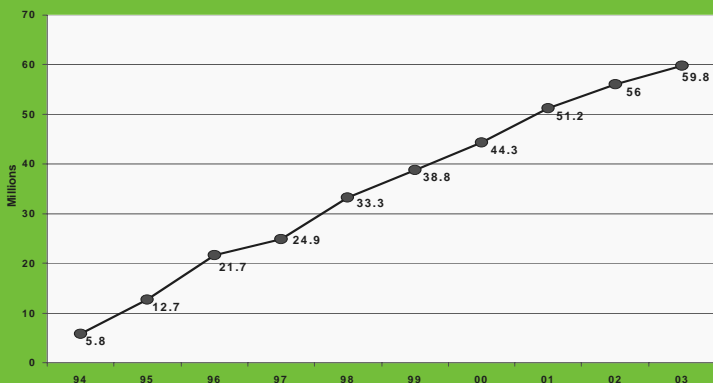
Solutions to this problem have been proposed, many of which focus on two broad areas: uniformity and simplicity. In order for tax systems to be reasonably administered, a single tax rate per state would have to be in place. Vendors would also have to agree to a set of uniform product definitions, register to do business in each state, and be provided with some uniform tax remittance method. If compliance is confusing, time consuming, or difficult the costs may naturally exclude many small businesses from engaging in e-commerce. However, important to consider is that even the most simple system will cause states to have to monitor and audit tax payments.

What can and should policymakers do?

Clearly there are pros and cons associated with imposing a sales tax on purchases made over the Internet, therefore policymakers should take much care when choosing sides. Some advocate for making permanent the current moratorium on e-commerce taxation, while others believe that any moratorium period unfairly preempts individual state's au-

Another important consideration is that if a federal consumption or sales tax is imposed on these transactions, complex formulas would have to be developed to calculate redistribution back to the states. If e-commerce sales tax impositions are to be effective, every state will have to implement them in order to prevent "tax-free zones" from developing. *EM*

U. S. Households with Internet Access



What does this mean for Oklahoma?

Since the 1970s expenditures on tangible goods have declined, and intangible service expenditures have increased. Currently, Oklahoma does not tax most services, the growing sector in our economy, and does tax the purchase of most goods, the

cess comprising the sale, lease, license, offer or delivery of property, goods, services or information, whether or not for consideration, and includes the provision of Internet access."

How does this growth affect state revenues?

Currently, the majority of online pur-

Tobacco, Continued from page 1

Table 1: Oklahoma's Projected Annual Payments as a Percent of Projected Budget

Year	Annual Tobacco Payment	Annual Projected State Budget	Payment as a % of Total Budget
1998	\$24,887,238	\$ 4,519,349,595	0.55%
1999	\$0	\$ 4,860,245,020	0.00%
2000	\$66,434,513	\$ 4,962,170,045	1.34%
2001	\$71,738,602	\$ 5,315,848,715	1.35%
2002	\$86,137,122	\$ 5,694,735,832	1.51%
2003	\$88,952,317	\$ 6,100,628,129	1.46%
2004	\$72,571,034	\$ 6,535,450,398	1.11%
2005	\$72,571,034	\$ 7,001,264,626	1.04%
2006	\$72,571,034	\$ 7,500,279,762	0.97%
2007	\$72,571,034	\$ 8,034,862,202	0.90%
2008	\$74,011,265	\$ 8,607,547,005	0.86%
2009	\$74,011,265	\$ 9,221,049,918	0.80%
2010	\$74,011,265	\$ 9,878,280,251	0.75%
2011	\$74,011,265	\$10,582,354,676	0.70%
2012	\$74,011,265	\$11,336,612,005	0.65%
<i>Total Anticipated</i>	<i>\$998,490,253</i>	<i>\$ 110,150,678,178</i>	

**Assuming the budget grows at the past four year's average rate.*

Table 1 provides the estimated annual payments to Oklahoma, 1998 through 2025, projected total payments exceed \$2 billion.

How Does This Money Impact State Coffers?

Some of the proposals dealing with Oklahoma's tobacco settlement proceeds advocate that these funds not be spent for a number of years to allow the money to grow. Others advocate spending for immediate needs. Table 1 illustrates that while the nominal dollar amount of the settlement payments does increase, the state's budget also increases, and at a faster rate. This means that while these payments are certainly substantial (millions of dollars each year), they are, on average, less than one percent of the state's total annual budget. One of the many proposals being considered is to place the money into a trust fund with the stipulation that none of the principal (or the earned interest) be spent for twelve years, at which time the investment would have grown substantially. Other proposals argue that appropriating at least a portion of these funds as the payments are received could serve to maximize their total value. The real return on investment can be calculated by subtracting the opportunity cost(s) from the nominal interest rate, illustrated by the following equation:

$$\text{Real Return on Investment} = \text{Nominal Interest Rate} - \text{Opportunity Costs}$$

Opportunity costs are defined as the relevant costs for economic decision making. For example:

- If the state would have invested

a portion of the settlement monies in public health rather than placing all of it into the trust fund, and low birth weights would have been reduced, the additional public health spending would be offset by the lower spending necessary to provide medical care to these babies.

- Or, if the state allocated a portion of these funds toward the improvement of Oklahoma highways, and traffic accidents would have decreased thereby reducing emergency care costs, the initial investment in highway improvement would be offset by the reduction in the necessary

level of spending on these services.

- Alternatively, if highways were improved in a manner which would alleviate traffic problems making it possible for commuters to reach their workplace in less time, productivity increases would offset the initial cost of the investment.

Opportunity costs, therefore, are not always expressed in dollars, but should be considered in all economic decision making. *EM*

In the Next Issue . . .

- ➔ **Costs of Remedial Education**
- ➔ **Shifts From Manufacturing to Service Jobs: Are We Really All Going to be Flipping Burgers?!**
- ➔ **Reforming Oklahoma's Auto Tag Fees**

Continued from page 1

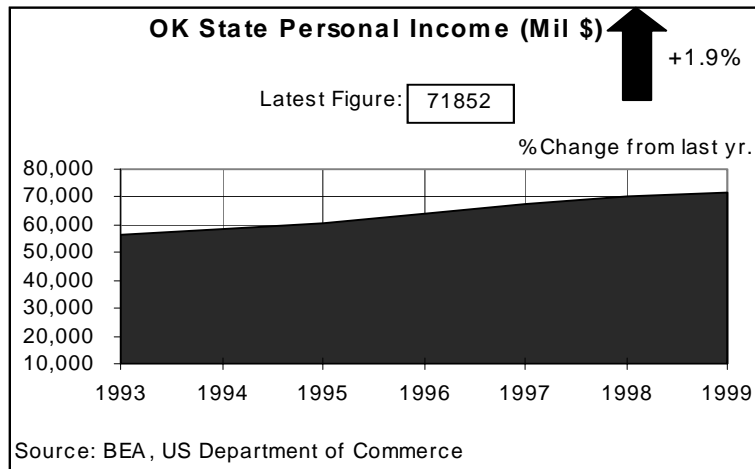
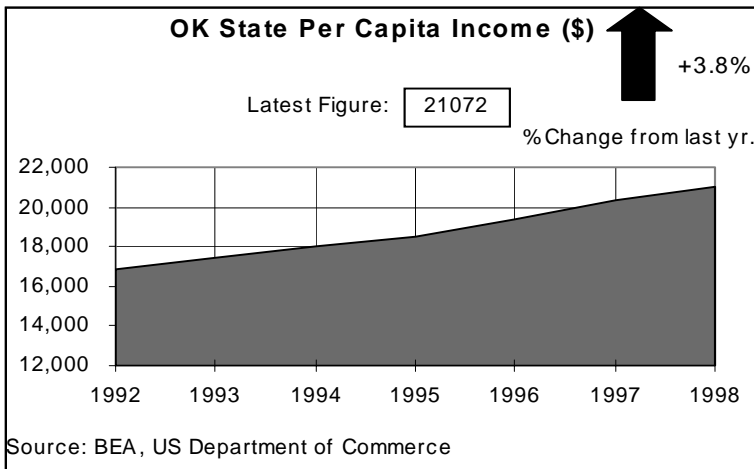
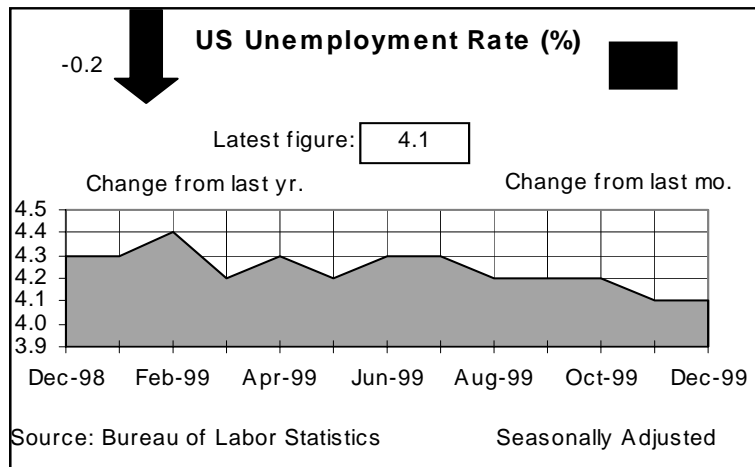
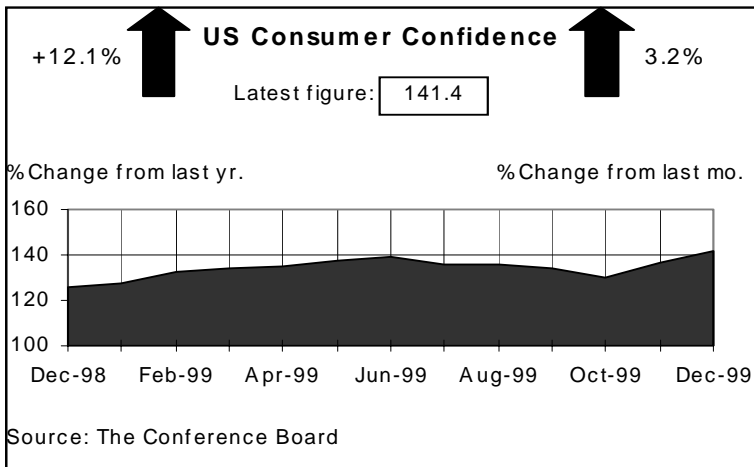
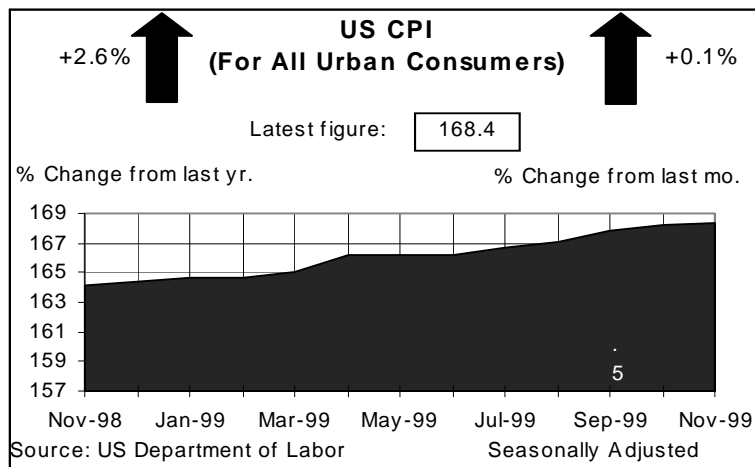
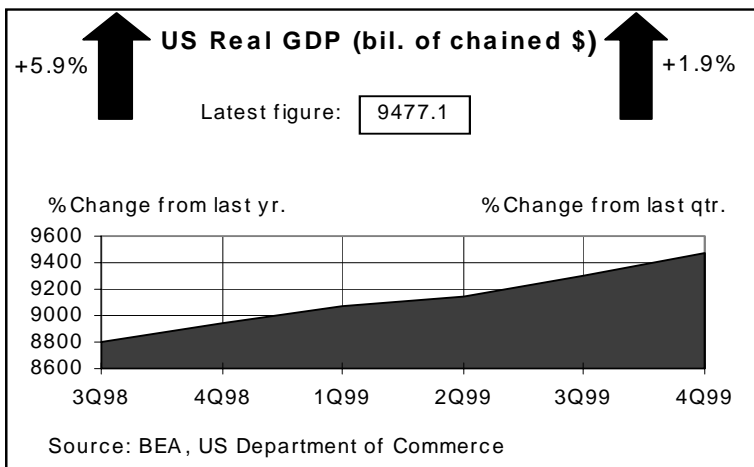
The type of jobs offered by these potential new and expanded businesses should be, perhaps, more of a concern than the tight labor market conditions. Many Oklahomans report that they are "underemployed" and would respond favorably to higher-paying new

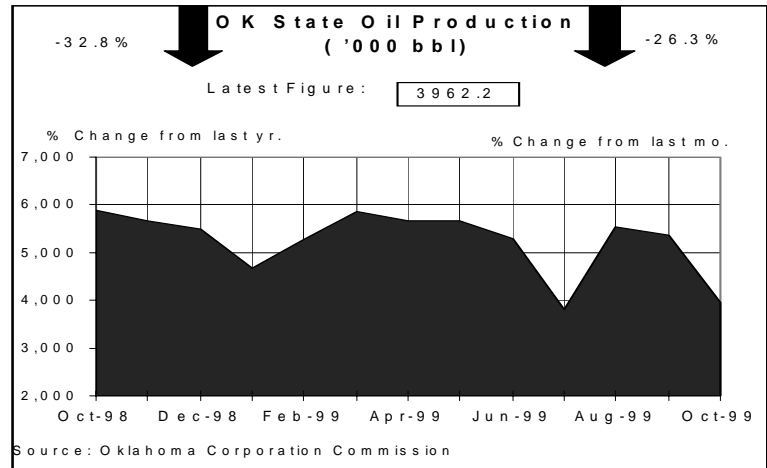
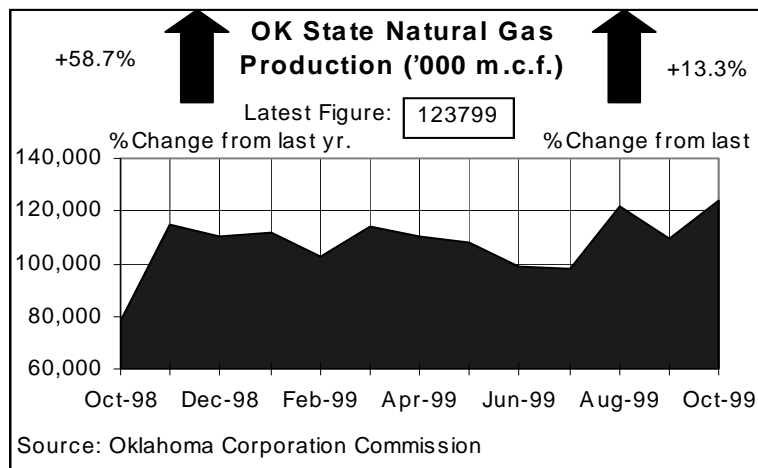
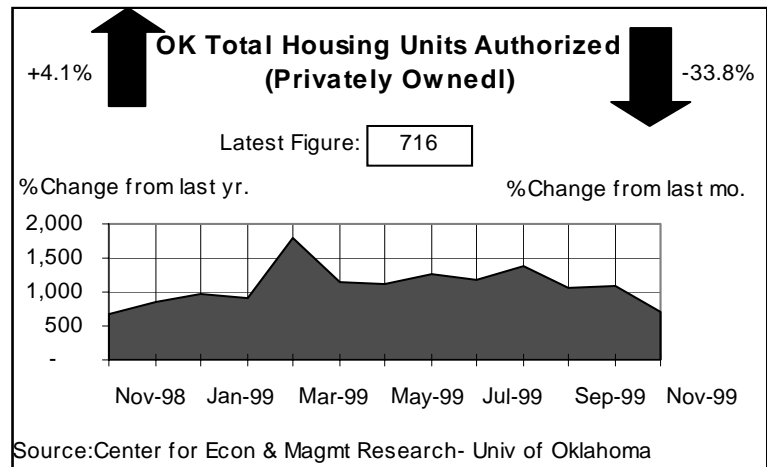
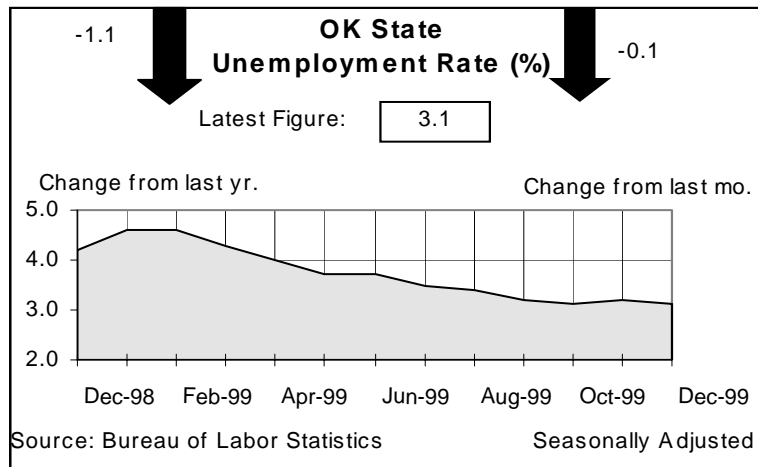
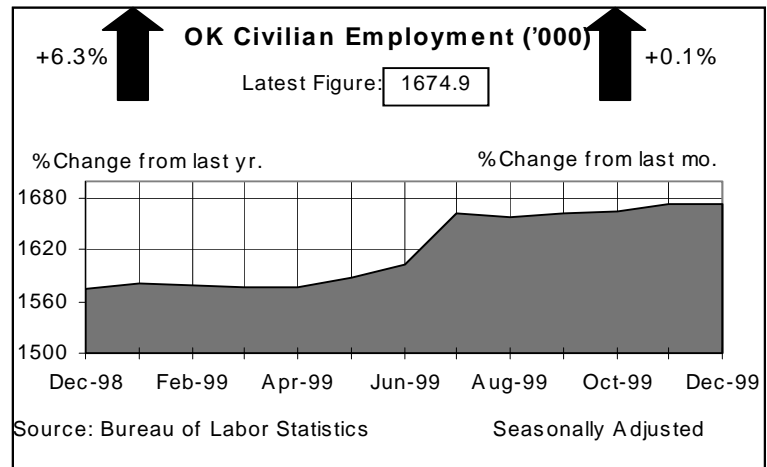
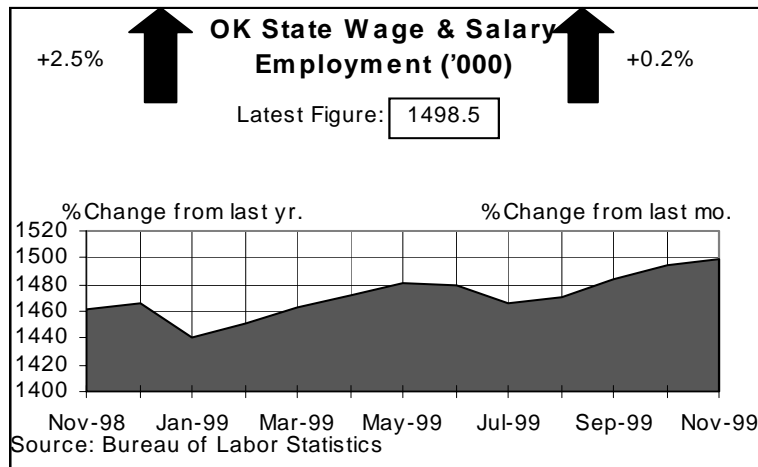
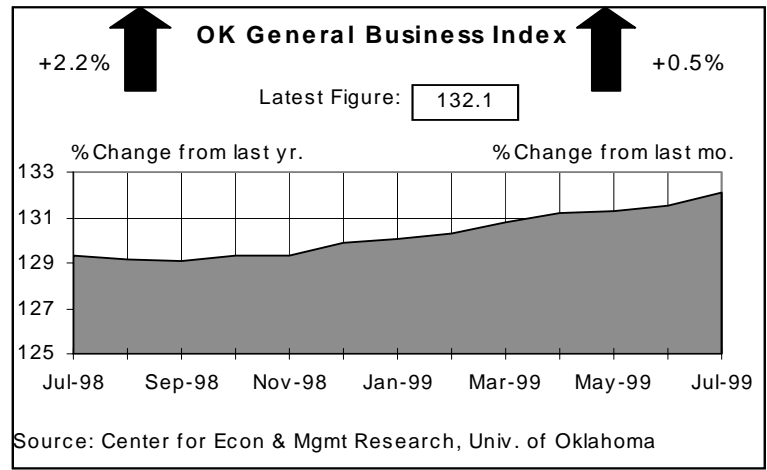
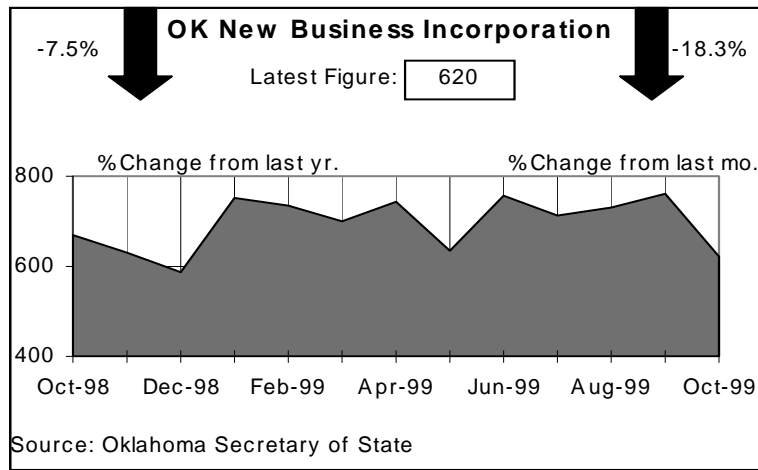
job offerings. Nationally, labor shortages are a growing concern across the board, and Oklahoma's situation is no different.

The general business index for Oklahoma increased as did wage & salary employment. The number of permits granted for privately

owned residential construction fell just under 34 percent over the last quarter, but remains 4.1 percent higher than this time last year. Oklahoma's new business incorporation declined slightly over 18 percent over the last quarter and is down 7.5 percent from one year ago.

Despite rising prices at the pump, Oklahoma's oil production continued to decline, down 32.8 percent since last year, and 26.3 percent from September 1999 to October 1999. *EM*





The Economic Impact of Tourism on Oklahoma

According to a 1999 economic impact study conducted by the U.S. Travel Data Center, the direct impact of domestic travel on the Oklahoma economy includes the following:

- ◆ Domestic travel spending in Oklahoma reached nearly \$3.6 billion during 1998, which reflected a 3.8 percent increase over 1997.

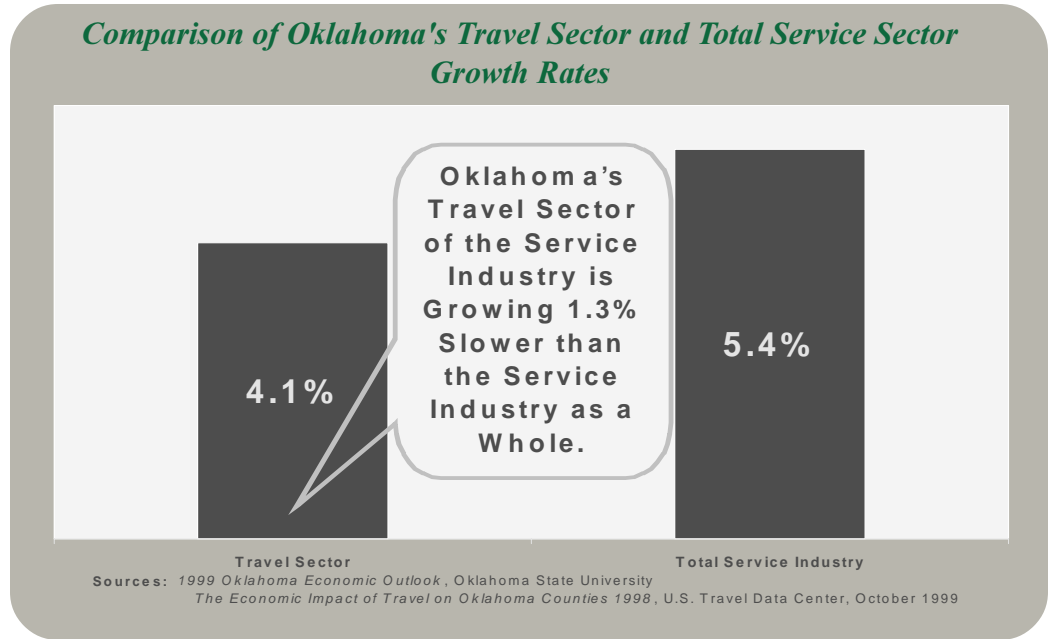
- ◆ Oklahoma ranked 35th among the fifty states and the District of Columbia in 1998 domestic travel expenditures.

- ◆ Spending on domestic travel increased Oklahoma's tax revenue by \$627 million.

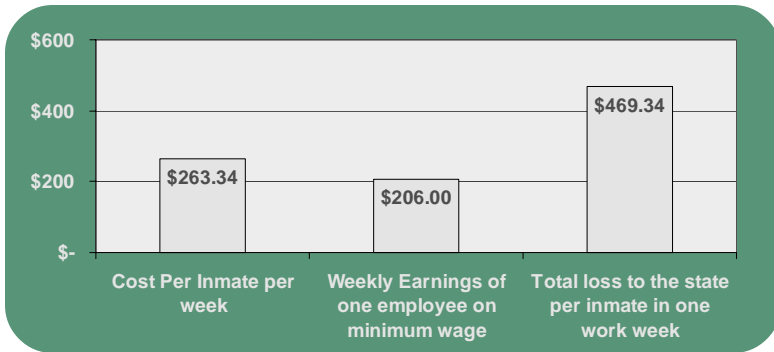
- ◆ The travel related sector of

the service industry generated approximately \$1.3 billion in wage and salary income for 1998.

The figure above compares this portion of the service industry's growth to that of the industry as a whole. *EM*



Oklahoma's Correctional Costs: Losses in Productivity & State Expenditures



- Oklahoma's prison population in 1998 was 20,982.

- In 1998, Oklahoma had the third highest incarceration rate in the nation at 622 per 100,000, following Texas (724) and Louisiana (736). The U.S. average incarceration rate is 461 per 100,000 in the population.

- Oklahoma loses \$24,405 per inmate in incarceration costs and

lost earnings per year. That's a loss to the state of over \$509 million for all Oklahoma inmates.

- If Oklahoma's incarceration rate was lowered to the U.S. average of 461 per 100,000, the total loss to the state in costs per inmate and lost earnings would be \$133 million, or 26 percent less. *EM*

Economic Monitor
Published by the Oklahoma Senate Economic and Policy Analysis Staff.

Senator Stratton Taylor
President Pro Tempore

Monitor Staff:
Tony Hutchison, Director;
Megan Williams, Policy Analyst;
Tom Marcum, Research Analyst;
Charles Israel, Research Analyst;
Jeannie Parker, Policy Analyst;
Tressa Williams, Intern
Robert Bilbo, Intern

Comments and suggestions are welcome. Please contact Megan Williams at (405) 521-5704 or send comments via electronic mail to williamsm@lsb.state.ok.us

Economic data for the Economic Monitor's economic indicators provided by:

Economics Department
College of Business Administration
University of Central Oklahoma
100 North University Drive
Edmond, OK 73034