



Oklahoma's Revenue Situation Challenging, but Better than Most

According to the National Conference of State Legislatures (NCSL) and the National Association of State Budget Officers (NASBO), Oklahoma's current and projected budget situation is brighter than most other states. In 2001, seventeen states had to deal with significant budget shortfalls. Recent data indicate that as many as forty states could be dealing with budget shortfalls in 2002.

Oklahoma had a very strong fiscal 2001, thanks largely to higher energy prices. While fiscal year 2002 will present a greater challenge due to more moderate oil and gas prices, and the slowing national economy, Oklahoma's finances are expected to fare relatively well.

Oklahoma's current tax revenues are coming in less than one percent below the prior year. The individual income tax, corporate income tax, and sales tax collections are coming in slightly above the certified estimate. Gas gross production taxes and motor vehicle taxes are down considerably.

OKLAHOMA STATE SENATE
ECONOMIC RESEARCH & POLICY ANALYSIS DIVISION

Economic Monitor



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Post September 11th Economic Outlook for Oklahoma & the U.S.: What the Experts Predict for 2002



Several "key" experts

presented their views on the recently revised national and local economic forecast at the "2002 Economic Outlook Conference" hosted by the Tulsa Chamber of Commerce. The keynote speaker, Dr. Anthony Chan, senior managing director and chief economist for Banc One Investment Advisors Corp., acknowledges that the terrorist events of

age length of expansion of 56 months, far outlast economic downturns, which average just over 10 1/2 months.

While the decline in energy prices, mostly due to the decreased demand for travel and the overall slowing worldwide economy, has been a plus for the nation as a whole, credited with bolstering con-

Dr. Chan reminds us that economic good times, with an average length of expansion of 56 months, far outlast economic downturns, which average just over 10 1/2 months.

on the impact of the terrorists' activity on the airline industry. In the short-run, he estimates that the ten largest U.S. airlines suffered a loss of more than \$2 billion during the third quarter of this year. During the month of October 2001 alone, they noted that airline traffic was nearly 26% below its October 2000 level. To

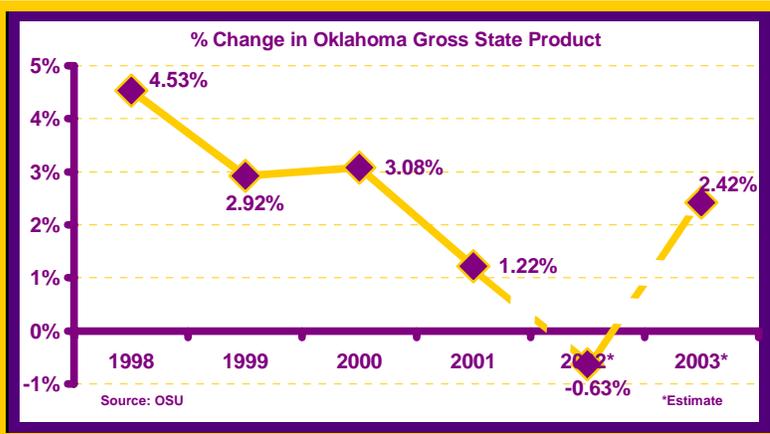
further illustrate the magnitude of this impact, he compared these numbers to those experienced during the Gulf War. During the period of time between 1990 and 1993, these carriers suffered a \$13 billion loss. "This is going to be about five to ten times deeper and two to three times longer. We're going to need 2 1/2 to 3 1/2 years, we think, for the airlines

to get the same kind of traffic that they had prior to September 11th," Hendrickson

over the next twenty years.

Patti Schmigle, senior vice president for Williams Communications Group, Inc. offered the conference attendees some positive news for the state's economy. She acknowledges that the telecommunications and technology sectors have experienced their share of volatility in recent months, but believes that their opportunity for rebound and healthy growth is expected to be quite strong in the coming year. The table below highlights some of these sectors' anticipated growth rates over the next three years.

Dr. Dan Rickman, OG&E Chair in Regional Economic Analysis, and faculty member from the College of Business Administration at OSU,



September 11th "changed life as we know it. . . clearly bringing a lot of emotional scars, but also economic scars," but he is quite optimistic that the slowing economy is not going to be long-lived. In fact, his research indicates that economic conditions will begin improving by the second half of 2002. Despite an increase in the nation's jobless rate, currently 5.4%, and waning consumer confidence ratings, reaching their lowest level in over seven years, the situation is not expected to continue for very long. Dr. Chan reminds us that economic good times, with an aver-

sumer spending by an estimated \$30 billion thus far, Oklahoma's economy will be a bit more affected by these falling prices than other states. Because of a significant reduction in natural gas prices coupled with the unseasonably warm temperatures the state experienced in early fall, natural gas gross production revenues are \$25.5 million (27%) below what they were at this time last year.

Another panel member at this conference, Steve Hendrickson, Director of Strategic Planning & Communications for the Boeing Company, offered some insight

Technology Sector	Anticipated Growth Rate
Web Hosting	75%
Internet Virtual Private Network (VPN)	50%
Video-on-Demand	110%
E-Marketplace Management	125%
Wireless Data	50%
Business DSL	50%

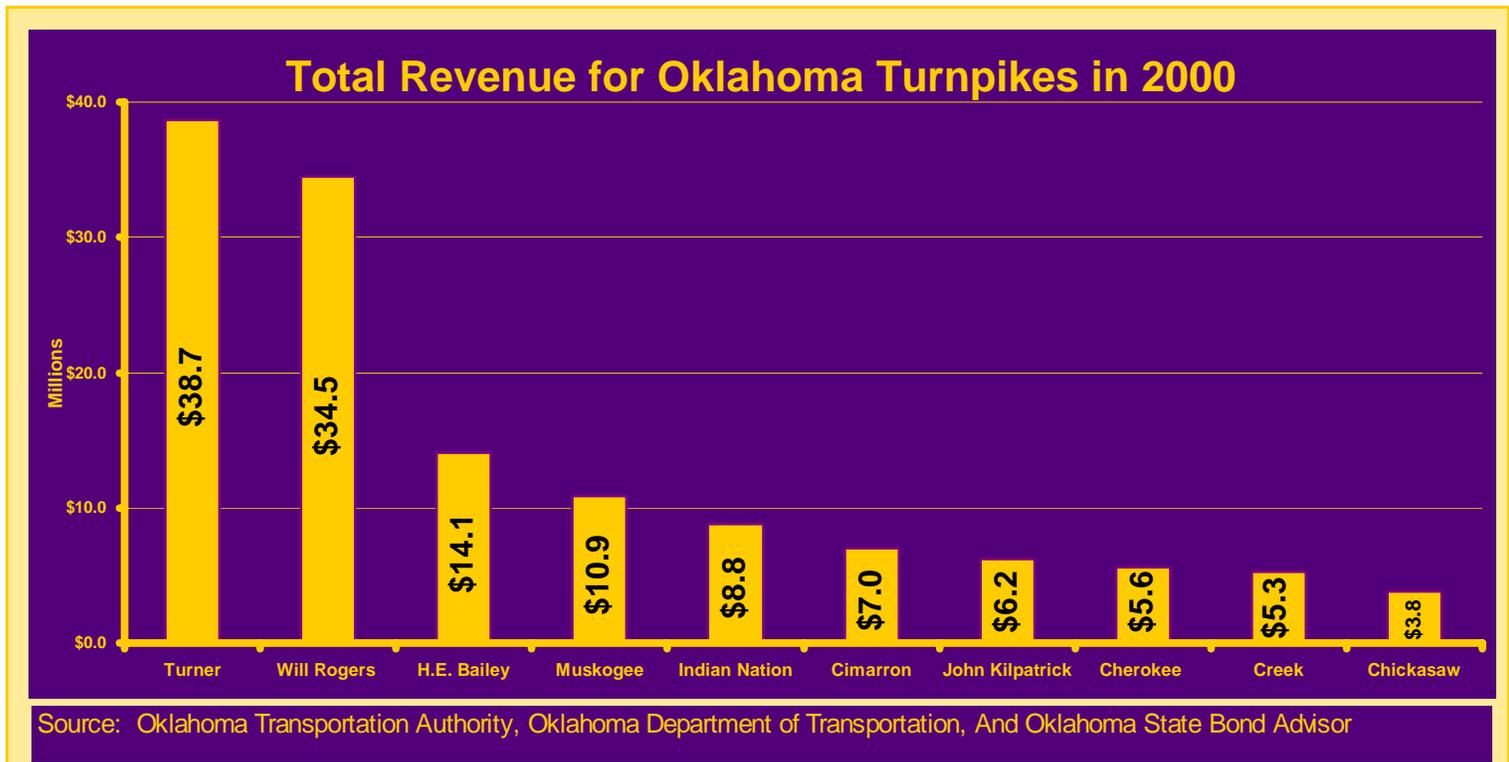
Telecommunications and technology sectors have experienced their share of volatility in recent months, but their opportunity for rebound and healthy growth is expected to be quite strong in the coming year.

stated. He estimates the long-run outlook for this industry to be much more encouraging with an estimated demand for new aircraft and related services to be in the neighborhood of \$4.7 trillion

outlined the latest update from the state's econometric forecasting model. The model predicts that while Tulsa's and Oklahoma City's 2002 employment growth will be the slowest experienced in 13 years, less than half of this year's growth rate, the Sooner State will still significantly outperform most of the U.S. **EM**

Oklahoma's Turnpike System: Facts & Figures

- ◆ The total revenue to the state in 2000 from turnpikes was \$134.9 million;
- ◆ With recently implemented toll increases, the projected 2001 revenues are expected to be \$159 million;
- ◆ The total interest expense on revenue bonds outstanding was \$54 million in 2000;
- ◆ Oklahoma turnpikes earned \$28 million in interest on investments in 2000.



More National Notice for the *Economic Monitor*!

The *Economic Monitor* was recently quoted in *Area Development Online*, a site selection publication. This article proclaims the benefits of business location in Oklahoma. Some of the positive features mentioned were our low business costs, low cost of living, and a market capable of sustainable growth. The article can be viewed in its entirety at:

www.area-development.com/destination/okla.html.

In the Next Edition of the *Economic Monitor* . . .

- ◆ Tax Reform?
- ◆ Homeland Security
- ◆ Educational Performance Update

Oklahoma's International Trade Office Presence

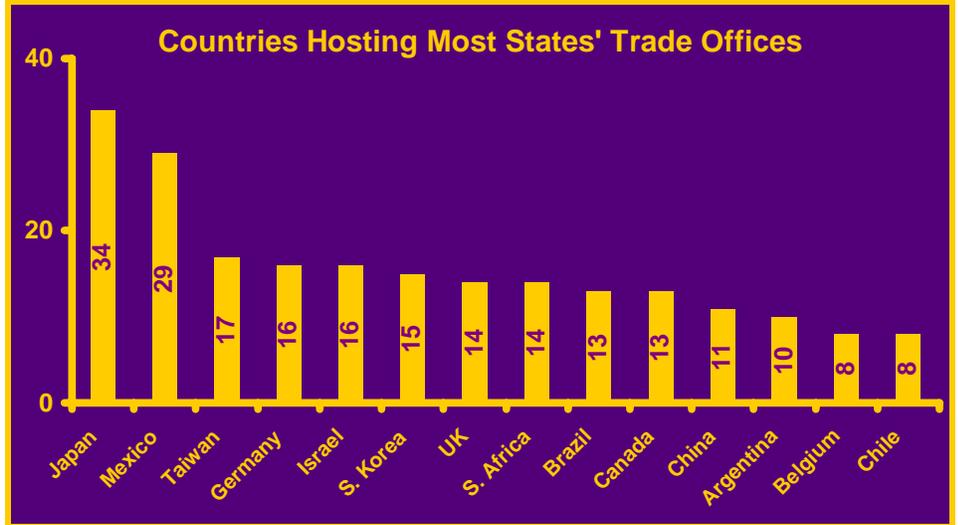


The emergence of global economic competition has

risks, and the managerial difficulties associated with operating such international offices.

drawn many states into the international arena, where they seek to expand their markets by promoting state and local exports, attract investment, and encourage tourism. One way for states to foster international expansion is to establish overseas trade offices. There are 41 states operating 262 offices in 37 countries around the world. Oklahoma is operating five offices in Belgium, China, Israel, South Korea, Vietnam, and has plans of

Oklahoma has a budget of just over \$2 million for trade offices. This budget includes monies used to attract foreign investment and diplomacy programs. Oklahoma has temporarily closed its trade office in Mexico, but plans to re-open it sometime in 2002 along with a location

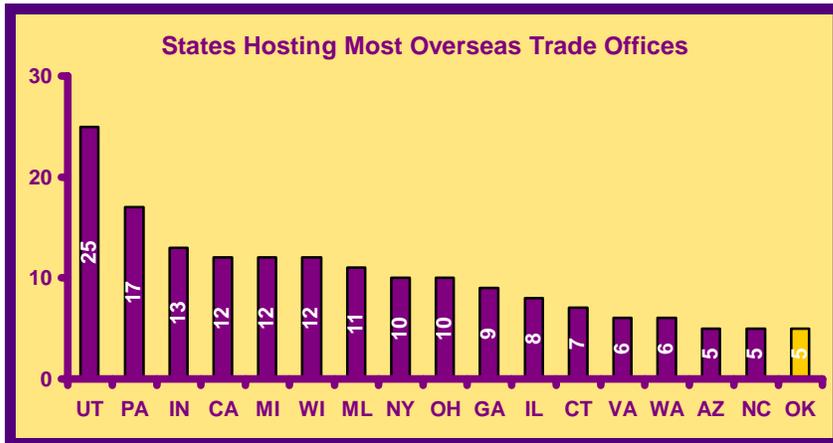


in Japan and Nigeria. The state's Taiwan office is currently unstaffed. In addition to trade offices, Oklahoma has some significant new local-to-local economic development projects ongoing in Brazil and Panama, and also has something in the works in Russia.

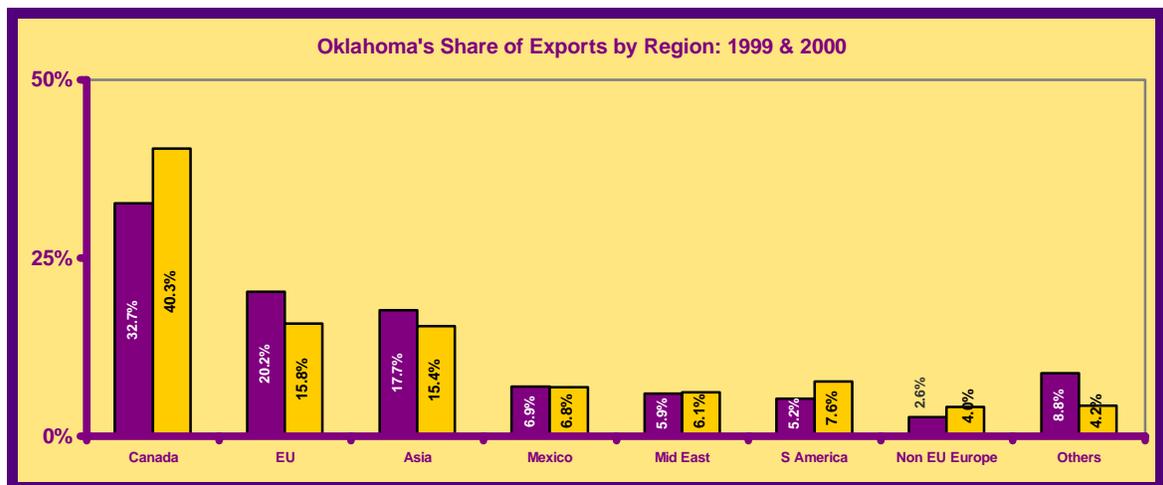
1999-2000—and 47th in total exports per capita. The destination of more than one third of Oklahoma's exports is Canada. While exports to Mexican destinations declined by a slight one-tenth-of-one-percent in the last year, its 6.8 percent share still accounts for Oklahoma's second largest export market.

It is difficult to measure the effectiveness of overseas trade offices. One way to determine the success rate is to measure exports. Oklahoma ranks 34th among the states in total exports—increasing nearly one percent from

Look for more details on this issue in an upcoming Senate Staff Legislative Research Brief. **EM**



opening a sixth office in Nigeria. If Oklahoma does open this office, it will be the first U.S. state to have a trade office within that country. Oklahoma is also launching a private trade enterprise that will be funded both by the public and the private sectors. Although state overseas trade offices can be effective, states have discovered that by sharing offices with one another they are able to reduce the costs,



The Phenomenon of High Technology Clusters & Economic Development



Chapter Three: Colorado Springs: A Technology Workforce Strategy Based on Military Presence

Colorado Springs has the typical assortment of economic incentives in place, such as research and development tax credits, enterprise zone tax credits, and foreign trade zone benefits. The state and local tax burden is at about the national average; ranking 21st per capita. Union membership in the private sector is 7 percent. So, given those less-than-unique characteristics, why is Colorado Springs booming? Aside from its geographic location and its inherent beauty, only two unique policy variables exist:

1. Significant federal installations, and
2. A highly educated technical workforce

Colorado Springs has implemented an economic development strategy designed to foster technology clusters that are aligned with its workforce. Employing a technique designed to capitalize on the federal military's enormous installation investments in the area, and the vicinity's highly educated and technical workforce generated to staff these installations, the region has been able to entice investment from such large firms as Gateway 2000, Hewlett Packard, Lockheed-Martin, Federal Express, Oracle, the U.S. Space Foundation, Compaq Computer, and MCI/WorldCom. The magnitude of this effort can be observed with the more than 12,000 workers that are em-

ployed by software companies.

Forbes magazine has called Colorado Springs one of the 25 "Cities of the Future"; *Entrepreneur* has labeled it "one of the top 30 cities for small business." *Electronic Business Today* has termed it "one of the top 20 cities in which to locate a high-tech manufacturing plant."

Colorado Springs has a workforce that is well educated. Approximately 28 percent of the Colorado Springs workforce holds a college degree while that same statistic for Oklahoma City's population is only 22 percent. Observing that a high percentage of the Air Force Academy graduates return to the Pikes Peak area after graduation, and 75 percent of the graduates of the University of Colorado at Colorado Springs also remain, it is easy to see how this is possible. Further, 53 percent of the entire college-educated workforce has at least a master's degree.

The Colorado Springs Economic Development Corporation proudly publicizes how well the region scores on the *Expansion Management* Education Quotient ranking. This ranking combines student standardized test scores with teacher salary, per pupil spending data, teacher-student ratios, the community's average educational level, and income data. The city's overall score of 119 places it ahead

of San Jose (Silicon Valley – 116) and equivalent to the score obtained by Austin, Texas.

More than 400 outplacements from military installations within the Colorado Springs MSA reenter the workforce in the private sector each month. Peterson Air Force Base alone—part of NORAD—sends 84 technically trained personnel into the private sector monthly; of these, 62 percent have a master's degree. Further, some 55 percent of the Air Force Academy's personnel have reached educational attainment of a master's degree or higher.

Another side benefit of the military's expansive presence in Colorado Springs is the city's highly sophisticated telecommunications network. The region boasts a broad fiber optics infrastructure and transmission mechanism that serves all of the area's major industrial, commercial, and residential areas.

Despite Colorado Springs' growth in the technology sector, and the private sector in general, the city's economy

is still largely based on federal military spending. According to data released by the Colorado Springs Economic Development Corporation, the economic impact of military installations, such as Fort Carson, Peterson Air Force Base and the United States Air Force Academy, is a contribution of more than \$2 billion annually to the local economy. More than 43 percent of the local economic output is related to military spending, and nearly 56 percent of the area's total employment is directly attributable to the military's presence, which includes defense contractors, according to the January 2001 Economic Development Corporation Study conducted by David Bamberger and Associates. **EM**

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Phillips and Conoco Merge: Headquarters Moving to Houston

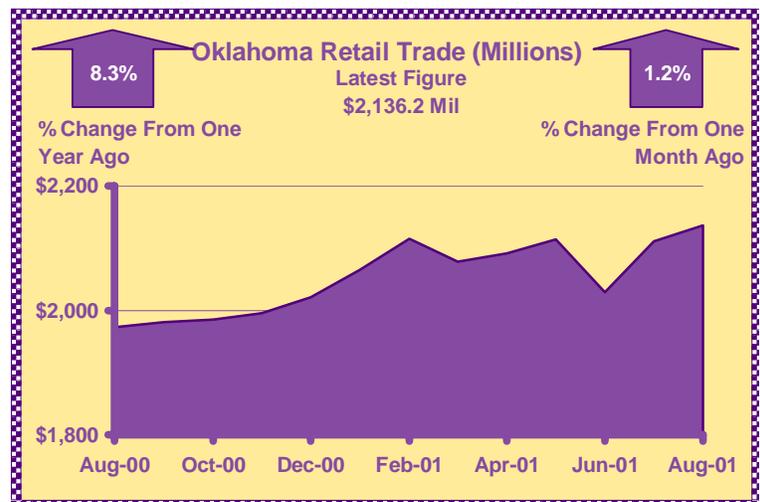
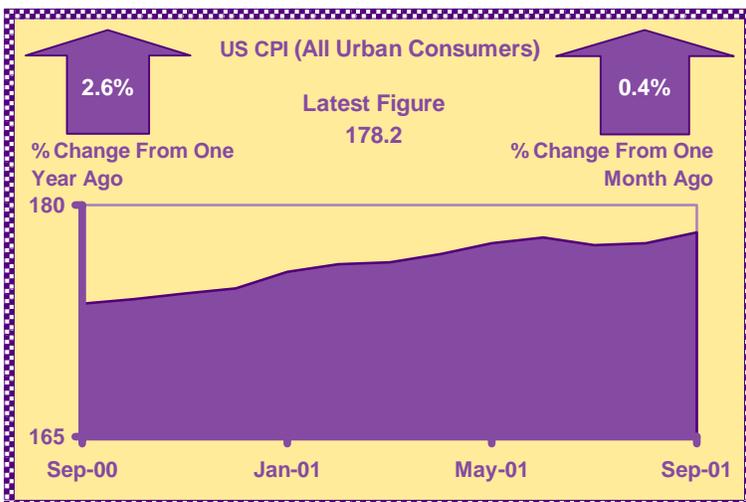
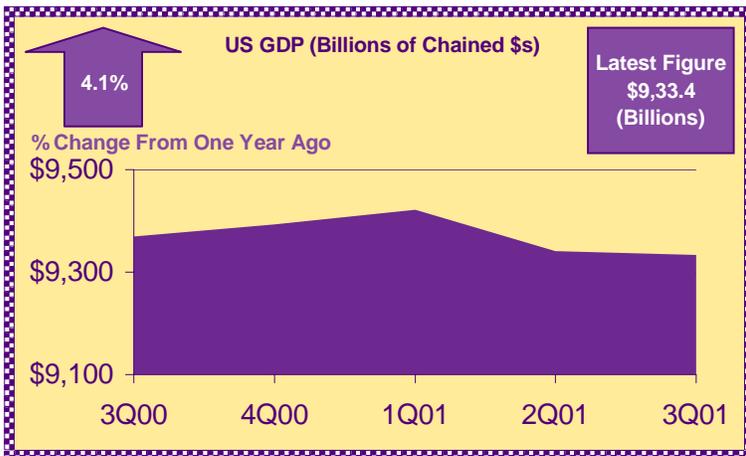
Oklahoma was dealt a difficult economic blow on November 18 when Phillips Petroleum Company and Conoco announced their merger and their intention to move the merged entity's headquarters to Houston. Top executives of the new ConocoPhillips have said that they are moving their headquarters from Bartlesville because they view the Houston area as being a better place for attracting and retaining employees. Archie Dunham, Conoco Chairman, said the decision was also partly due to air travel, entertainment, cultural, and educational opportunities available in Texas for executives.

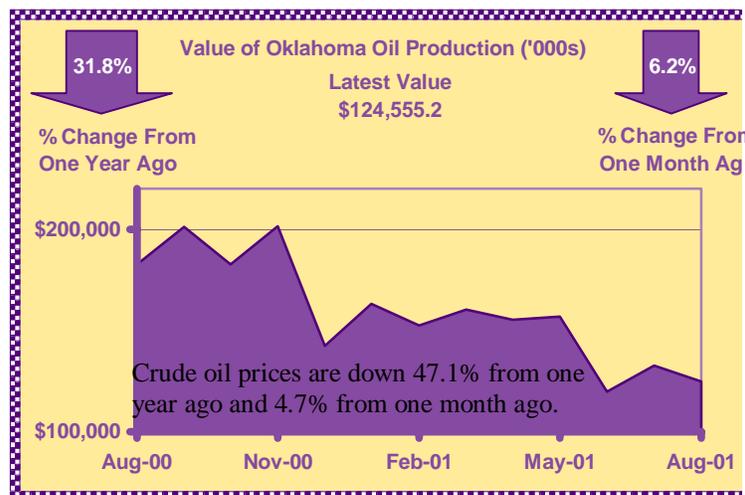
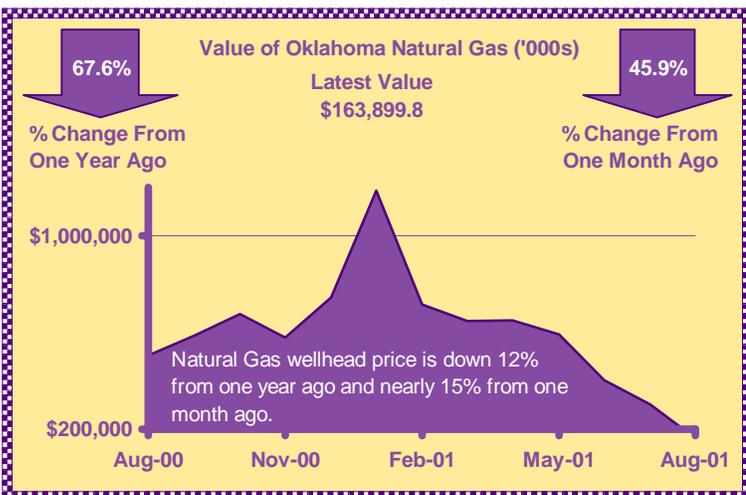
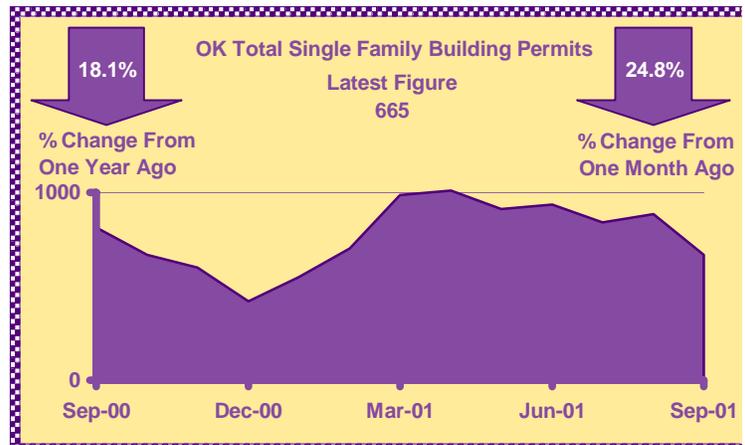
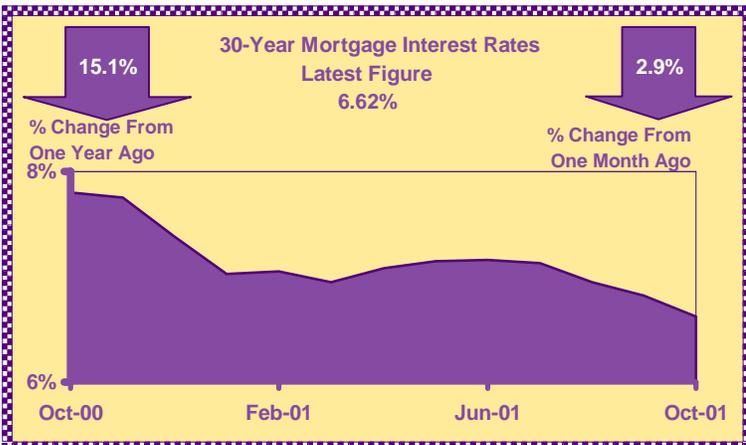
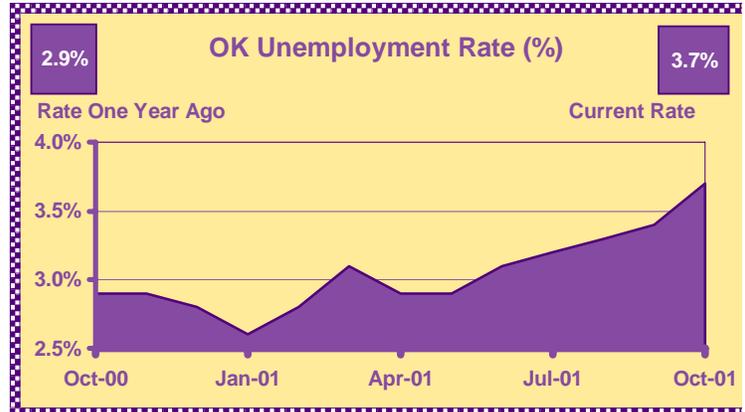
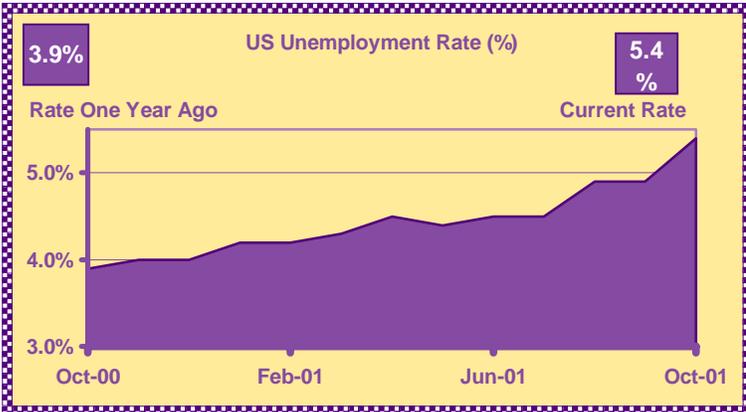
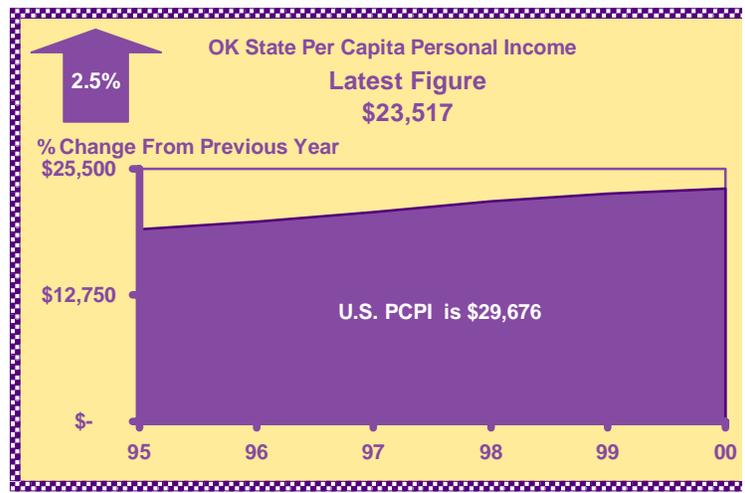
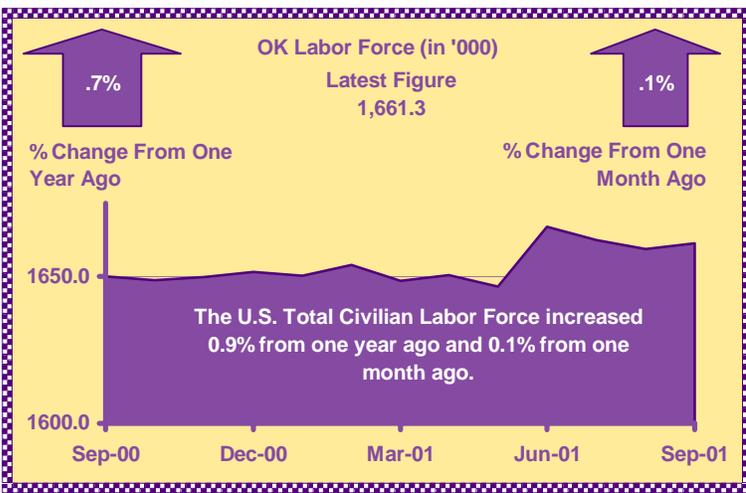
If the merger is approved, ConocoPhillips will have its headquarters in Houston probably by the second half of 2002. Phillips' headquarters in Bartlesville will shut down, although a portion of the company would remain, company officials have said. Phillips currently employs approximately 2,400 in Bartlesville, while Conoco's Ponca City employment is around 1,900. At this time, it is unknown how many of those Oklahoma jobs will be lost as a result of the merger and move. Phillips is the state's largest publicly held company and one of only four Oklahoma corporations on the Fortune 500, a

ranking of public companies with the most revenue. Phillips Petroleum Company was founded in Bartlesville in 1917.

The merger and location announcement has revived the calls for the elimination of Oklahoma's state income tax with the hope that the decision would be reconsidered. The Governor, state legislators, and University of Oklahoma President and Phillips Board member David Boren are all proposing changes to Oklahoma's current tax structure in an attempt to change the minds of the ConocoPhillips executives.

Economic Indicator Updates: Oklahoma & the Nation





Recent Legislative Action will Affect Revenue Collections in 2002

Effective January 1, 2002, Oklahoma's top marginal income tax rate drops from 6.75% to 6.65%. Additionally, HB 1933 created an Earned Income Tax Credit (EITC) making Oklahoma the 16th state to adopt such a measure. Oklahoma's EITC is calculated at 5% of the Federal EITC. This amount increases with earnings and family size. It is estimated that between 250,000 and 300,000 Oklahoma families will be eligible for this credit when they file their income tax returns, with an average payment of \$80 annually. A number of other, more significant, tax reforms are currently being studied by the Governor and the legislature, including the elimination of the personal income tax.

Oklahoma had a very strong fiscal 2001, thanks largely to higher energy prices. While fiscal year 2002 will present a greater challenge due to more moderate oil and gas prices and the slowing national economy, Oklahoma's finances are expected to fare relatively well.

Some state revenue forecasters have noted that while sales tax collections are above both last year's values and this year's estimates that this may have more to do with a change in forecasting methodology and less to do with a "true" increase in revenues.

Oklahoma's current tax revenues are coming in at a mere 2% below the prior year. The individual income tax, corporate income tax and sales tax collections are all coming in slightly above certified estimates, while gas gross production, motor vehicle, cigarette, and pari-mutuel tax revenues are down considerably. **EM**

General Revenue Fund, as of November 2001					
Comparison with OSF Estimate and Prior Year Collections (\$ Millions)					
Revenue Source	Column 1	Column 2	Col 2 / Col 1	Column 3	Col 2 / Col 3
	Actual Collections			Estimated Collections	
	FY-01 Y-T-D	FY-02 Y-T-D	FY-02 as % of FY-01	FY-02 Y-T-D	FY-02 as % of Estimate
TAXES:					
Income					
Individual	\$622.3	\$647.6	104%	\$637.4	102%
Corporate	\$39.2	\$42.2	108%	\$39.0	108%
Gross Production, Gas	\$128.2	\$86.0	67%	\$135.2	64%
Sales	\$406.8	\$421.8	104%	\$421.5	100%
Use	\$28.7	\$25.5	89%	\$31.6	81%
Motor Vehicle	\$97.1	\$76.8	79%	\$89.6	86%
Insurance Premium	\$16.3	\$15.3	94%	\$14.5	106%
Franchise	\$26.9	\$27.4	102%	\$30.2	91%
Inheritance/Estate	\$34.4	\$28.5	83%	\$29.0	98%
Cigarette	\$10.9	\$9.2	84%	\$13.9	66%
Beverage	\$8.7	\$8.8	101%	\$9.0	98%
Alcoholic Beverage	\$5.0	\$4.8	96%	\$4.7	102%
Mixed Beverage	\$5.2	\$5.4	104%	\$5.0	108%
Pari-Mutuel	\$1.1	\$0.9	82%	\$1.2	75%
Other	\$22.1	\$24.7	112%	\$21.3	116%
Subtotal: Taxes	\$1,452.9	\$1,424.9	98%	\$1,483.1	96%
Licences, Permits, & Fees	\$8.1	\$8.5	105%	\$9.1	93%
Income From Money/Property	\$41.2	\$38.5	93%	\$31.2	123%
Other Income	\$6.3	\$5.9	94%	\$6.4	92%
Continuing Collections	\$1,508.5	\$1,477.8	98%	\$1,529.8	97%
Transfers & Lapses	\$0.4	\$0.5	-	\$0.0	-
Total Revenues	\$1,508.9	\$1,478.3	98%	\$1,529.8	97%