



Economic Monitor

Economic Policy and Research Staff
Oklahoma State Senate

In This Issue:

Page 3: *FY 2000 Revenue Report*

Page 4: *New Study Touts Oklahoma City's & Tulsa's Low Cost of Living*

Page 4: *Reforming Oklahoma's Auto Tags*

Page 6: *Summary of Economic Indicators*

Page 8: *Shifting from Manufacturing Jobs to Service Jobs*

Page 8: *Cyberstates Study*

Oklahoma's Economic Outlook Remains Bright

The State's economy continues to be promising despite Federal Reserve actions designed to slow an overheating national economy. Oklahoma's unemployment rate is currently 2.8 percent which is well below the nation's 3.9 percent rate. The most recent figures from the Bureau of Economic Analysis indicate that 1.58 million Oklahomans are employed, which is an increase of .3 percent from the March figures.

Continued on page 6

2000 Legislation Tracks Economic Advice

The legislature is often accused of making decisions based on short-term political gain and avoiding tough decisions that require sacrifice and longer-term investment horizon. Given this perception how did the 2000 legislature's decisions mesh with the advice of professional economists?

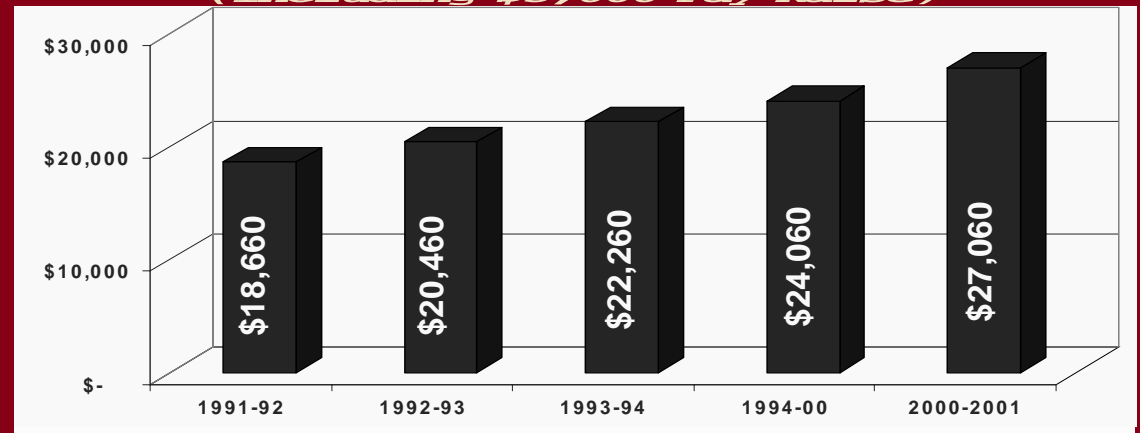
In April the *Oklahoma League of Economists*, a statewide organization of business, nonprofit, government and academic economists, was surveyed in regard to which legislative policy initiatives would be most successful in promoting the growth of the state.

The Following Policy Initiatives Topped Economist's List of Promising Legislative Actions:

- Education Reform
- Transportation
- Higher Education
- Workers' Compensation
- Tax Policy

Continued on page 5

Figure 1: Minimum Teacher Salary History in Oklahoma (Including \$3,000 Pay Raise)



The Cost of Remedial Education in Oklahoma

What is Remedial Education?

With so much attention given to education's impact on our economy's well-being, we've seen much recent debate over the level of remedial education offered in our state system of higher education. You might think that this is something new, but the provision of remedial education isn't a recent phenomenon, it began as early

as the 17th century at Harvard College. Remedial courses are intended to correct or improve deficient academic skills in a particular subject, for students that are determined to be inadequately prepared for college coursework.

In 1993 the Oklahoma State Regents adopted an assessment policy whereby incoming students scoring a

19 or below on the ACT, in the subject areas of mathematics, science reasoning, English, and/or reading, be required to take a remedial course to correct the deficiencies. Figure 1 on page 2 shows that from 1994 to 1998 the percentage of freshmen entering college with an ACT score below a 19 has declined for the four areas identified above.

Continued on page 2

Continued from page 1

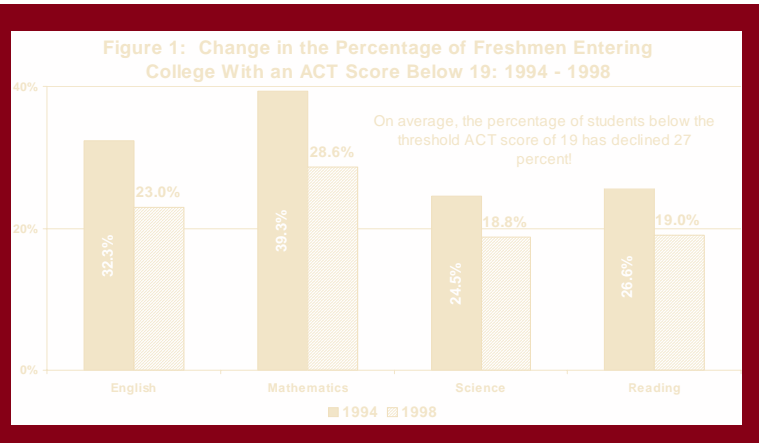
How Common is Remediation?

According to a study released in February 2000 by the Okla-

remediated course in Oklahoma is mathematics; 34.2 percent of the first-time freshmen attending an Oklahoma public college or university enroll in at least one remedial mathemat-

two-year colleges. The report further finds that the primary source of remediation is the state's two-year colleges, which is consistent with their mission and the Regents' goal to focus these "refresher" courses at these institutions, and to reduce remediation at the State system's comprehensive and regional universities.

Based on information received from the State Regent's office, and illustrated in Figure 3, the provision of remedial education is not only not a drain but is actually quite profitable for many of Oklahoma's universities. By offering these courses, Oklahoma's system of higher education is able to further serve the state by insuring that under-prepared college-bound high school students, as well as adult students returning to college, and students for whom English is a second lan-



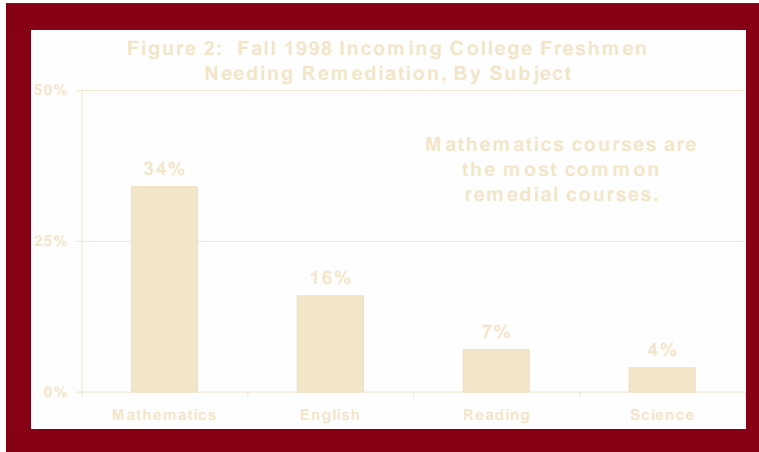
homa State Regents for Higher Education, "Oklahoma High School Indicators Project Remediation Rates for Oklahoma High School Graduates

ics course, and 15.5 percent take at least one English course; other remediable courses include science and reading.

How Much Does Remediation Cost?

Students seeking remedial courses can find the best bargain, \$13 per credit hour, at the State's community colleges, where most of the remediation takes place. The State's com-

"...remedial education...is actually quite profitable for many of Oklahoma's universities."



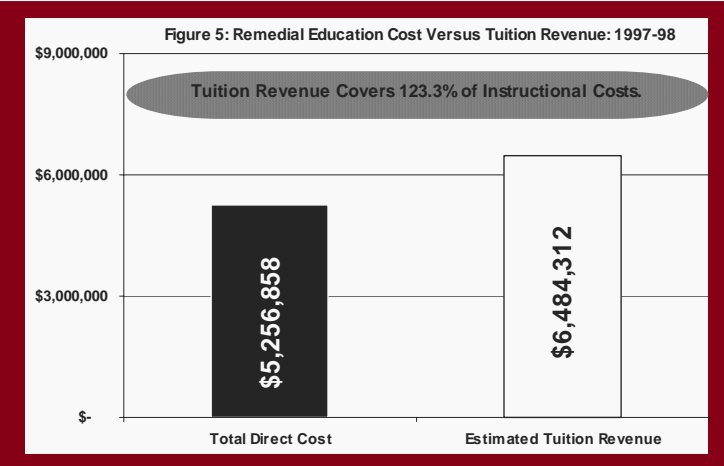
prehensive universities charge their students \$24 per credit hour for remedial coursework. In aggregate, all of the State's institutions generated \$1.9 million from student-paid remedial tuition and fees for the 1998-99 academic year, which covered the costs directly associated with providing these courses. The question has been raised about the potential drain on financial resources for the provision of remedial education in the State's higher education system.

guage are afforded every opportunity to earn a college degree. In study after study a state's citizens' level of educational attainment is indicative of personal income level, lower crime rates, as well as the general quality of life within that state. Generally speaking, a larger proportion of highly-educated residents, benefits all of the state's population. EM

in Oklahoma Public Higher Education", 6,578 students who graduated from an Oklahoma high school, or 40.1 percent of the fall 1998 total freshmen population, enrolled in at least one remedial course during their first year in college. However, studies indicate that Oklahoma high school students enrolling in an institution within the State System are less likely to require remediation than are their adult counterparts returning to school several years after graduating from high school.

Where are Remedial Courses Taken?

One of the findings in another study published by the Oklahoma State Regents for Higher Education, "Annual Student Remediation Report", which was released in April of this year was that of the 38,609 students enrolling in a remedial course during the 1998-99 academic year, 8 percent remediated their deficiencies at one of the state's comprehensive universities, 17 percent at one of the regional universities, and 75 percent at one of the



The most commonly

Revenue Roundup

State revenue collections were mixed as the 2000 Fiscal Year came to a close. Total collections came in at 102 percent of the estimate, and 5 percent higher than last year. However, most of the increase in collections came from higher natural gas prices and payments

from the tobacco settlement. Natural gas gross production taxes came in at 435 percent of last year's collections, boosting the total general fund by nearly \$110 million.

Perhaps indicating a general slowing of the extraordinary growth in the US

economy, corporate income taxes were down \$20.4 million. That represents only 87 percent of last year's collections.

Personal income taxes also decreased but this is largely attributable to the ¼ percent cut in marginal income tax rates.

The most recent preliminary figures indicate that sales tax collections increased a very moderate ½ percent, which is a gain of \$5.6 million. Motor vehicle tax collections were up \$20.3 million. *EM*

General Revenue Fund, Fiscal Year 2000 (Through May)
Comparison with OSF Estimate and Prior Year Collections (\$ Millions)

Revenue Source	Column 1	Column 2	Column 3	Col 2 / Col 3	Col 2 / Col 1
	Actual Collections		Estimated FY-2000 Year-to-Date	FY-2000 as % of Estimate	FY-2000 as % of FY-99
	FY-99 Year-to-Date	FY-2000 Year-to-Date			
TAXES:					
Income					
Individual	\$1,665.7	\$1,663.2	\$1,716.0	97%	100%
Corporate	\$143.1	\$123.9	\$124.0	100%	87%
Gross Production					
Oil	\$27.0	\$0.0	\$0.0	N/A	0%
Gas	\$51.1	\$222.4	\$160.5	139%	435%
Sales	\$1,057.1	\$1,062.7	\$1,064.9	100%	101%
Use	\$68.6	\$69.5	\$71.6	97%	101%
Motor Vehicle	\$256.4	\$275.7	\$269.3	102%	108%
Insurance Premium	\$42.0	\$45.4	\$42.8	106%	108%
Franchise	\$34.9	\$38.8	\$34.0	114%	111%
Inheritance/Estate	\$80.7	\$81.1	\$79.9	102%	100%
Cigarette	\$29.4	\$27.4	\$28.5	96%	93%
Beverage	\$21.6	\$21.4	\$21.9	98%	99%
Alcoholic Beverage	\$12.9	\$13.4	\$12.8	105%	104%
Mixed Beverage	\$12.8	\$13.6	\$13.5	101%	106%
Pari-Mutuel	\$3.8	\$3.7	\$4.5	82%	97%
Other	\$76.0	\$63.4	\$72.9	87%	83%
Subtotal: Taxes	\$3,583.1	\$3,725.6	\$3,717.1	100%	104%
Licences, Permits, & Fees	\$40.1	\$39.1	\$33.6	116%	98%
Income From Money/Property	\$89.7	\$95.5	\$71.1	134%	106%
Other Income	\$21.6	\$66.2	\$22.9	289%	306%
Continuing Collections	\$3,734.5	\$3,926.4	\$3,844.7	102%	105%
Transfers & Lapses	\$1.7	\$1.5	\$2.5	-	-
Revenue Comparisons	\$3,736.2	\$3,927.9	\$3,847.2	102%	105%
One-time Receipts	\$1.4	\$0.0	\$0.0	-	-
Total Revenues	\$3,737.6	\$3,927.9	\$3,847.2	102%	105%

New Study Touts Oklahoma City's & Tulsa's Low Cost of Living

Tulsa and Oklahoma City tied for the 10th best Cost of Living Index among 162 U.S. metropolitan areas in a new Regional Financial Associates (RFA) report. The April 10, 2000 issue of *Business Week* highlighted the RFA report and cited Oklahoma as one of the least expensive places to settle down.

Both Tulsa and Oklahoma City have cost of living indices of 91.3. This means that \$91.30 buys the same amount of goods and services in Oklahoma as \$100 would buy nationally. By comparison it takes \$131.50 in San Jose California (Silicon Valley) to purchase the equivalent of \$100 of goods at the national average. RFA, a leading national provider of economic data to Fortune 500 and Moody's Investor Services, also cites Tulsa and Oklahoma City as experiencing the largest relative cost of

living decline among major metropolitan areas. Oklahoma's two largest cities have both posted over a 5 percent drop since 1985.

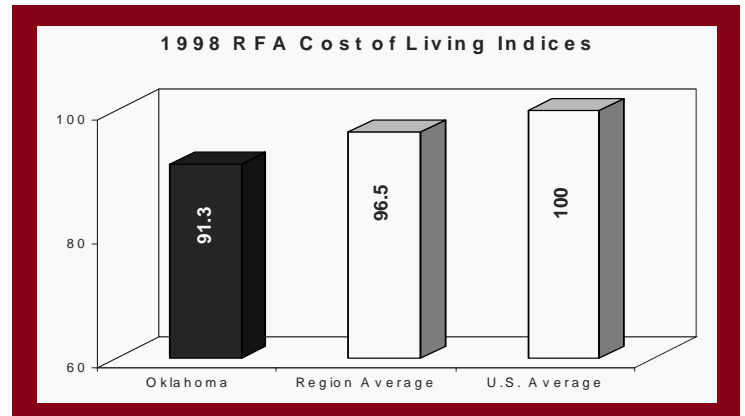
The RFA report points out that:

"Differences in the cost living across regions are important to consider because they are an important determinant of difference in living standards across regions ... Differences in living costs are also important determinant of regional growth patterns. All else being equal, migrants are attracted to regions where living costs are low ... Indeed there has been a strong apparent relationship between living costs and job growth across metropolitan areas during the last decade.

Reinforcing the relationship between regional living costs

and growth is the strong relationship between living and business costs. Businesses are keenly attuned to regional differences in the cost of doing

greatly to Oklahoma's excellent business climate. However the new RFA study is an improvement over previous studies in that it introduces a new,



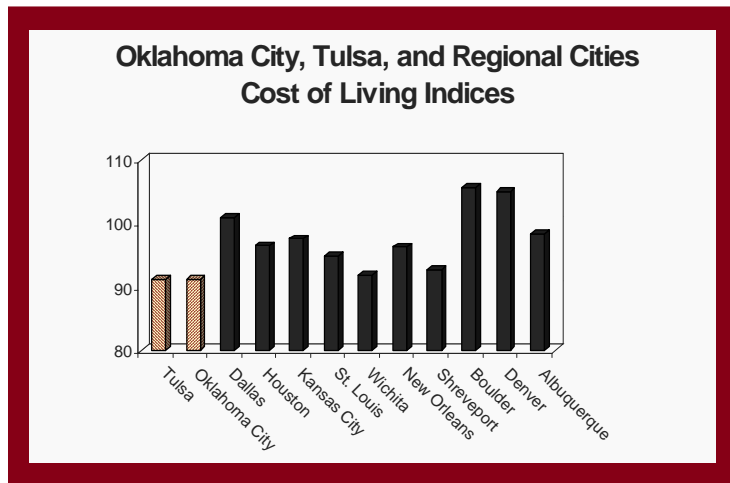
business and are more likely to locate and expand in relatively low cost areas ... Labor costs for business are generally attractive in regions where living costs for housing, electricity, and other essentials are low."

more accurate methodology to calculate cost of living. It essentially calculates a market basket of "needs" rather than goods. This methodology corrects for errors that occur in other calculations where, for example, heating oil is included as a good, but is only purchased in a certain area of the country. RFA uses Bureau of Labor Statistics Consumer Expenditure data to calculate expenditures for energy, shelter, food, and services as classes rather than a specific market basket of goods.

This relationship may partially account for Oklahoma's lower than average unemployment rate and growth in manufacturing and telecommunications jobs.

The RFA report confirms earlier data from the American Chamber of Commerce Researchers Association and from other Cost of Living studies that show that favorable cost of living characteristics contribute

Source: Rick Parnell, Ryan Cardwell, "Cost of Living"; Dismal Sciences/RFA, Inc. December 1999. *EM*



2000 Session Car Tag Reform

The legislature passed a significant reform in motor vehicle taxation during the 2000 legislative session. HB 2663 containing those changes was vetoed by the Governor. However, the legislature subsequently passed HB 2189 containing the same tax cut provisions. This measure refers the question to the people for a vote. Passage of the State Question will reduce net motor vehicle tax collections by \$22 million. Major

provisions of the State Question include:

- Changing the basis for calculation of the tax for new vehicles from the factory delivered price to the actual purchase price;
- Leaving the excise tax at the current 3.25% for new vehicles;
- Changing the basis for calculation of the tax for used vehicles to \$20 for the first \$1,000 of the actual purchase price plus 3.25% of the remaining

value (The \$1,000 base increased to \$1,250 in FY'02 and \$1,500 in FY'03);

how the reform would work in specific new and used car purchase scenarios:

The following are examples of

Scenario 1:

New Vehicle
 Sticker Price: \$25,000
 Actual Sales Price: \$22,500

	Current Law	HB 2663
Tax & Tag (Year 1)	\$ 1,134	\$ 816
Tag (Year 2)	\$ 291	\$ 85
Tag (Year 5)	\$ 216	\$ 75
Total (Years 1-6)	\$ 2,338	\$ 1,221

Continued on page 6

Continued from page 1

Education Reform:

91 percent of the economists said that education reform, including teacher pay raises, was the most important initiative the legislature could undertake to improve the state's economy. The economists said that reform proposals that included teacher pay raises, curriculum reform and controls of administrative costs would be important.

How did the legislature respond to these challenges? One of the very first actions of the 2000 legislative session was to enact a \$165 million teacher pay raise to stop the drain of talented teachers from the state.

The legislative pay package translated into a \$3,000 per teacher hike in pay. Figure 1 on page one illustrates a history of the minimum salary for Oklahoma public school teachers from 1991 to 2001, which includes the \$3,000 raise.

Curriculum reform was also high on the agenda of the legislature. HB 2728 was enacted which built upon the successes of 1999s major reforms as well as fixing some mistakes in the far-reaching act. Flexible but higher academic standards were central to these reforms. These curriculum reforms have resulted in Oklahoma being graded by Education Week as being among the top states in the nation.

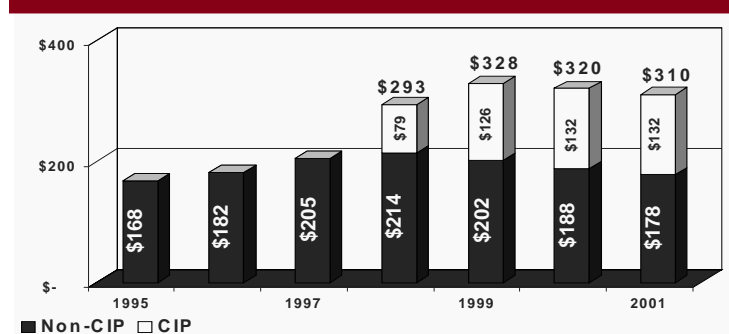
Additionally the legislature appropriated new dollars for the innovative Great Expectations program, for early intervention through Sooner Start and a state-of-the-art web based curriculum called Vision. Total new funding for these programs exceeded \$1 million.

Legislative scrutiny of administrative costs led to redefinition and refinement of the Oklahoma Cost Accounting System at the State Department of Education.

Transportation:

91 percent of the economists also said that further investment in road and airport projects would be crucial to the state's economic future. The legislature, building upon prior year commitments to transportation improvements invested an additional \$300 million to complete phase one of a billion-dollar transportation project. These projects included key economic development corridors in both urban growth areas and smaller cities and rural Oklahoma.

Figure 2: ODOT Funding History 1995 - 2001



\$150,000 was provided for activation of the Oklahoma Space Port Authority upon notification that the state was an active contender for NASA projects.

Additional funds totaling \$500,000 were made available for airports across the state.

HB 2258 provided \$2 million for public transportation.

Higher Education:

70 percent of economists said that additional higher education funding was key to the state's future. The legislature added \$44 million to higher education building on prior year commitments in this important area. Historical funding for higher education is provided in Figure 3.

\$22 million went to salary increases and

\$23 million for operational priorities at the institutions.

Important higher education projects included the Oklahoma Mesonet and Climatological survey.

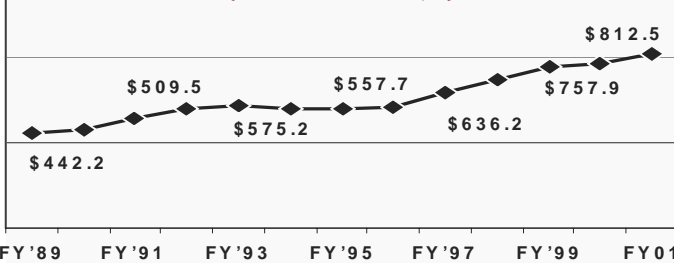
The legislature has become keenly aware that improving Oklahoma's workforce, including increasing the number of college graduates in the population, is a must for future economic viability. In addition to direct appropriations to higher education, the legislature also appropriated \$12 million to the

Oklahoma Center for the Advancement of Science and Technology to underwrite and stimulate research designed to improve Oklahoma's economic competitiveness.

Workers' Comp.:

60 percent of economists said that reform of Oklahoma's workers' compensation system would be helpful to the state's economic growth. SB 1414 by Brad Henry was passed that required the Workers' Compensation Court to reduce medical costs by 5 percent by September 2000 and limited

Figure 3: State Appropriations to Higher Education (Millions of \$s)



workers compensation health care costs to the rate of the medical CPI.

Another far reaching proposal (SB 1606) was studied in detail but put on hold after actuarial studies from the National Council of Compensation Insurance showed its cost saving potential to be very limited. Additional work over the interim is being conducted in hopes of developing a more efficacious solution.

Tax Policy:

59 percent of the economists replied that they supported a ¼ point reduction in the highest marginal rate of the personal income tax. This measure was not considered seriously after spending commitments for higher ranking priorities such as K-12 education, transportation and higher education funding were addressed and exhausted the available new revenues that might have been used for tax expenditures. A ¼ point reduction in the personal income tax was enacted by the legislature in 1998.

A number of other tax relief and tax related economic development incentives were addressed by the legislature however. These measures ranged from SB 1019 which addressed the ad valorem tax exemption of large manufacturing facilities such as the General Motors Plant to SB 1326 which addressed the need to stimulate the growth of higher paying jobs in rural Oklahoma. Other measures provided incentives to venture capitalists, banks involved in small business capital formation, enterprise zone incentives, and measures to streamline sales tax collections in accordance with a multi-state pilot program. *EM*

Continued from page 1

There has been an increase of 31.7 percent in private housing starts, and per capita personal income and gross state product both continue their ascent.

There are numerous national indicators of an economic slowdown which may affect the Sooner state. US consumer confidence is down slightly and there are hints that the tight job market and higher energy costs

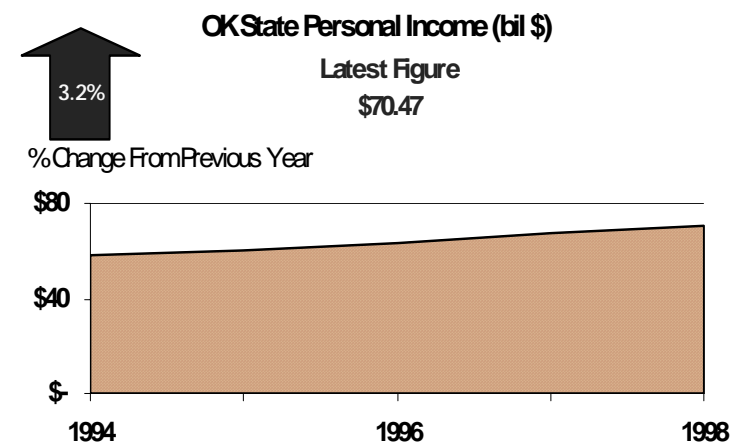
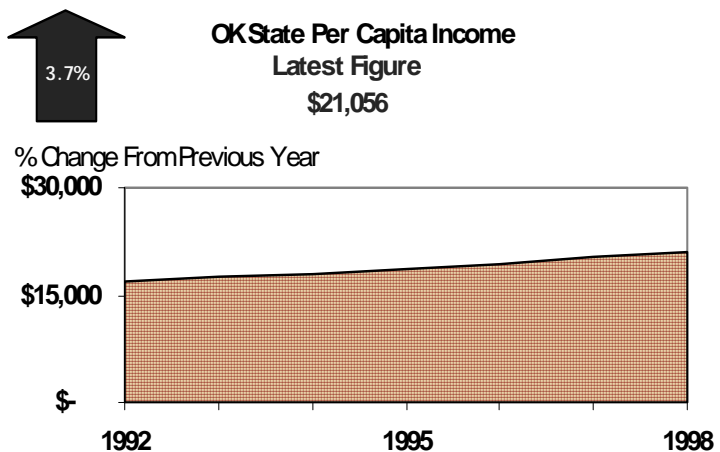
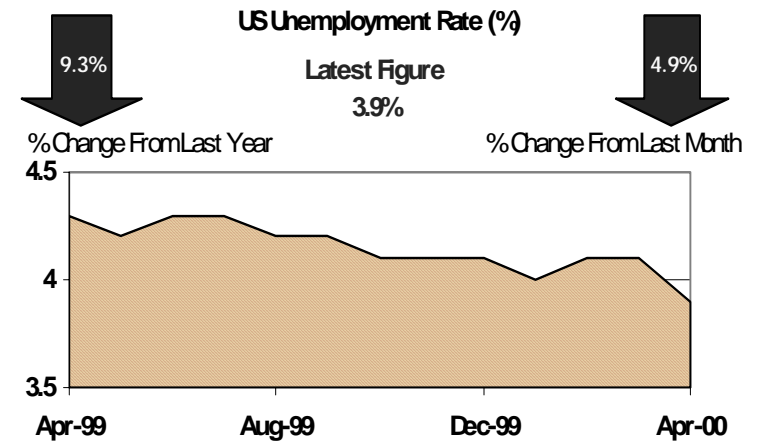
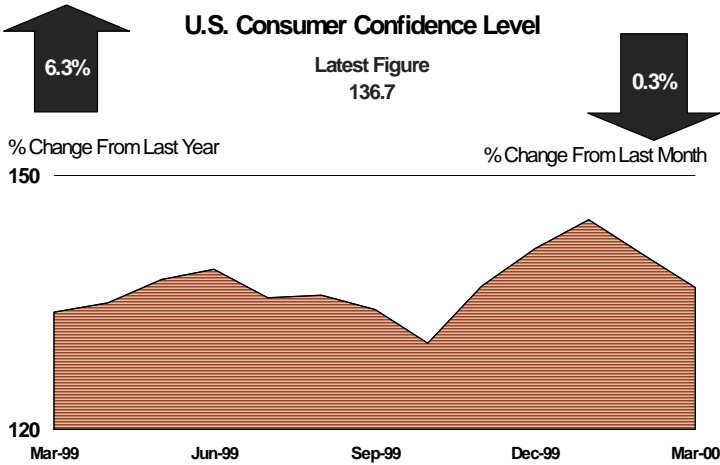
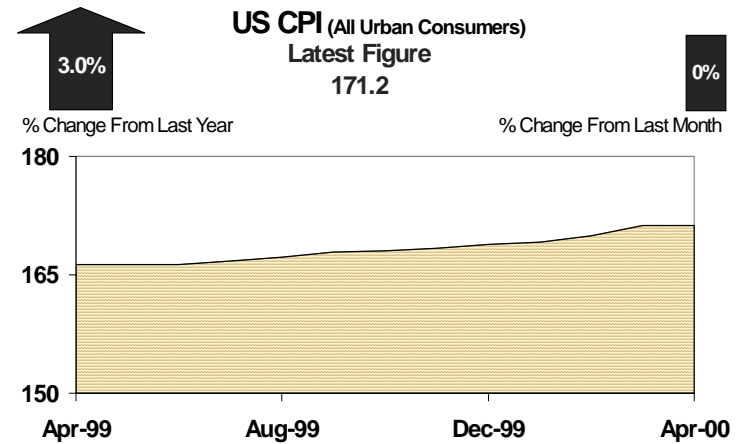
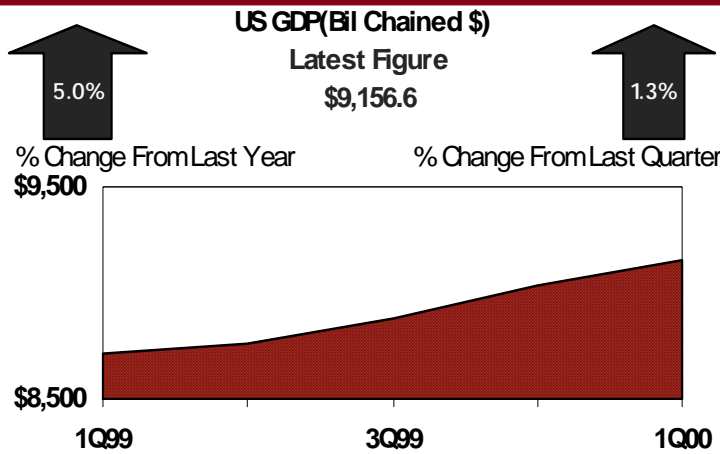
may trigger some significant inflation.

Oil prices remained relatively stable during June with the average price of an OPEC barrel of oil at \$29.70. Many analysts believe that Saudi production boosts will stabilize the world price of oil at about \$25 per barrel. At the time of this writing, some of the effects of the decline in oil prices were being seen at the gas pump with

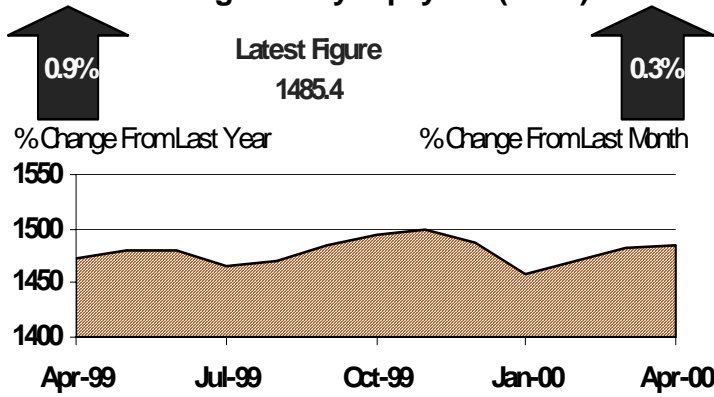
prices coming down from what they were in early June, but were still over \$1.30 per gallon in most of the state. The increase in oil prices has been good for state tax collections and has helped Oklahoma energy businesses. But these price levels will have to become more permanent for the state to see an increase in drilling and related oil field employment.

gas prices is that summer electricity prices will rise as gas-fired generating units supplement base load capacities. Natural gas prices have also reached record highs, and while this is good for the energy industry in Oklahoma it does add costs to other businesses, including the state's burgeoning manufacturing base. **EM**

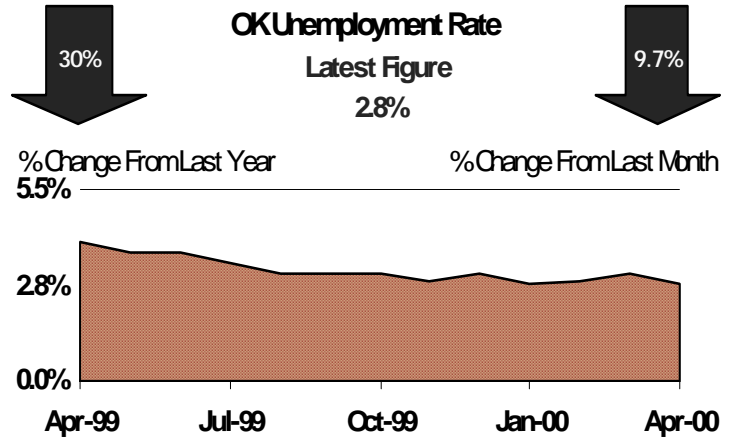
A side effect of higher oil and



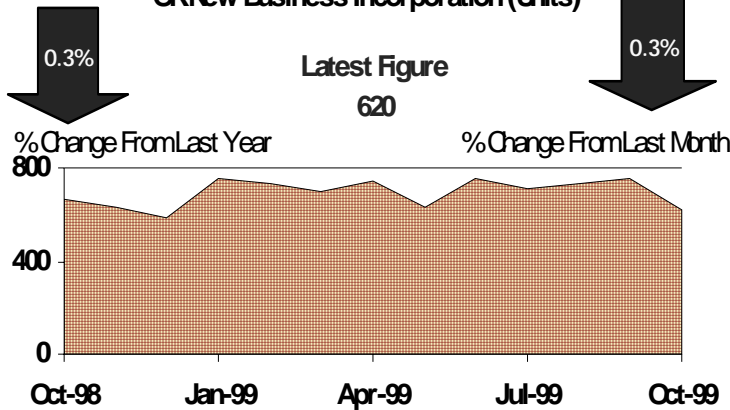
OK Wage & Salary Employment (in '000)



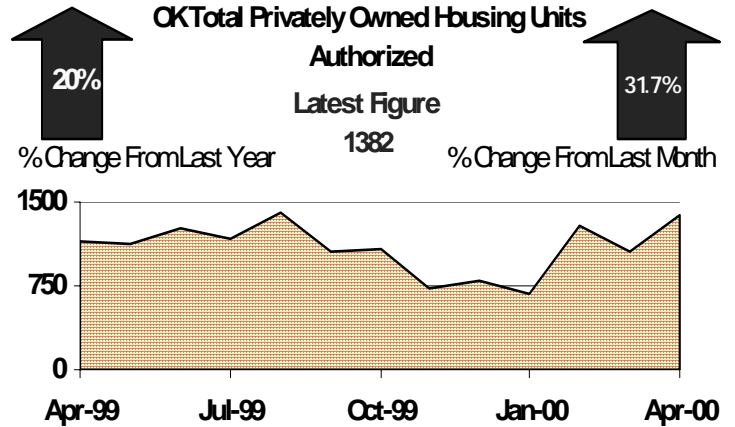
OK Unemployment Rate



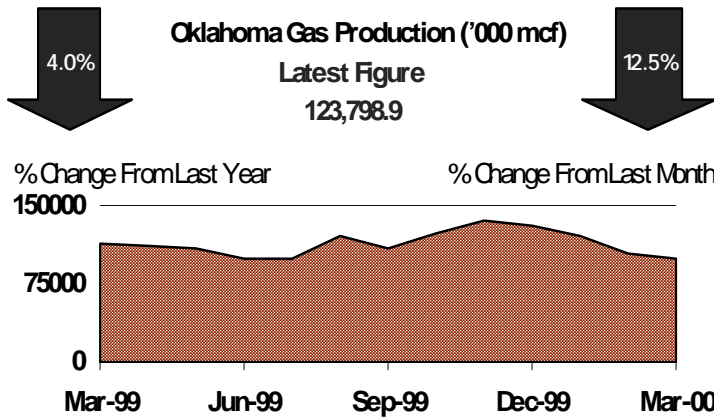
OK New Business Incorporation (Units)



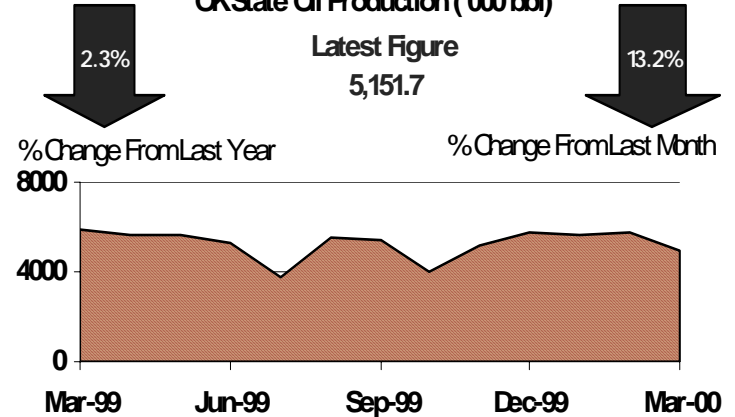
OK Total Privately Owned Housing Units



Oklahoma Gas Production ('000 mcf)



OK State Oil Production ('000 bbl)



Continued from page 4

Scenario 2:

Used Vehicle, Two Years Old

Sticker Price: \$35,000

Actual Sales Price: \$19,000

	Current Law	HB 2663
Tax & Tag (Year 1)	\$ 820	\$ 690
Tag (Year 2)	\$ 307	\$ 85
Tag (Year 5)	\$ 228	\$ 75
Total (Years 1-6)	\$ 2,089	\$ 1,075

Scenario 3:

Used Vehicle, Ten-Years-Old

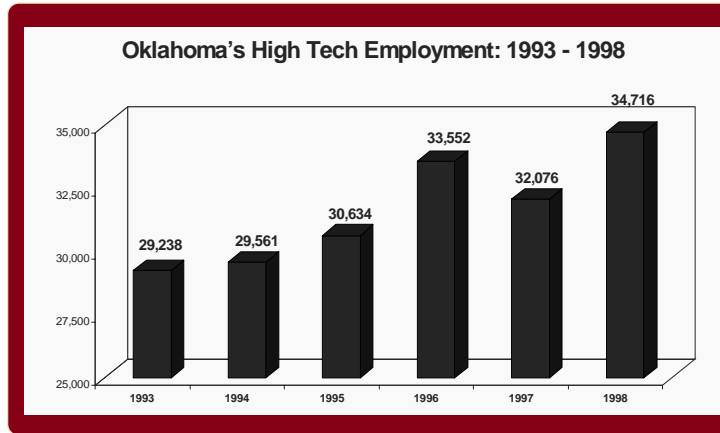
Sticker Price: \$10,000

Actual Sales Price: \$1,500

	Current Law	HB 2663
Tax & Tag (Year 1)	\$ 67	\$ 91
Tag (Year 2)	\$ 55	\$ 55
Tag (Year 5)	\$ 55	\$ 35
Total (Years 1-6)	\$ 342	\$ 286

Oklahoma's High-Tech Explosion

Cyberstates 4.0, a publication of the American Electronic Association, recently issued 1998 state data on high-tech employment, wages, establishments, and payroll. Oklahoma fared well with a high-tech employment state ranking of 28th since 1993. Oklahoma was highlighted in the report for its explosive growth in the data processing and information services industry between 1993 and 1998, moving it from 32nd to 25th. *EM*



Other Facts about Oklahoma's High-Tech Sector:

- 28th state ranking in high tech employment with 34,716 jobs;
- 43rd state ranking in high-tech average wages at \$39,059;
- 1,841 establishments with a payroll of \$1.4 billion;
- 31 of every 1,000 private sector workers are employed by high-tech firms;
- 42nd in research and development per capita (1997);
- 31st in venture capital investments.

In the Next Issue . . .

- ➔ Oklahoma Universities Strengthening Business Programs
- ➔ Cost of Health Care to Oklahoma
- ➔ Pay Inequality
- ➔ Prudent or Profligate?

Employment in the Manufacturing & Service Sectors: How Does Oklahoma Fare?

While the manufacturing industry continues to be an important component of Oklahoma's industrial mix, the service sector is gaining significant ground. The following facts are based on the latest data available from the Bureau of Labor Statistics:

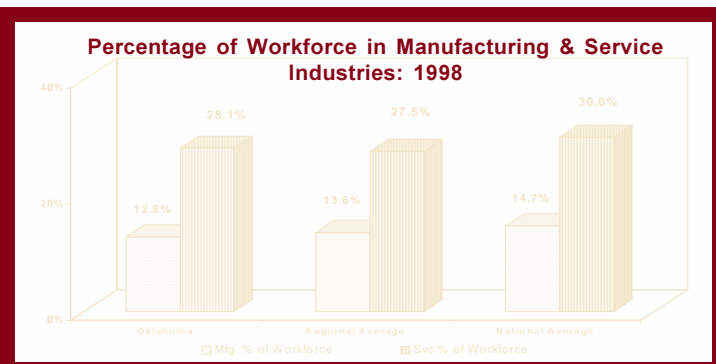
Manufacturing Industry:

- Employs nearly 13% of the State's workforce;
- Pays a wage which is approximately 131% of the average state wage, and higher than the regional & U.S. averages;
- Contributes nearly 19% to Oklahoma's Gross State Product.

Service Industry:

- Employs over 28% of Oklahoma's workforce, which is more than the regional & U.S. averages;
- Pays a wage which is just over 91% of the average state wage, just under the regional & U.S. averages;
- Contributes nearly 17 percent to Oklahoma's Gross State Product;
- Includes a mix of higher-end, higher-paying service jobs, such as engineering, accounting, legal, and medical services, and traditional lower-end, lower-paying service jobs, such as food service and janitorial services.

EM



Economic Monitor

*Published by the Staff of the Oklahoma Senate
Economic Research and Policy Analysis
Division.*

*Senator Stratton Taylor
President Pro Tempore*

Monitor Staff:

*Tony Hutchison, Director;
Charles Israel, Research Analyst;
Tom Marcum, Research Analyst;
Jeannie Parker, Policy Analyst;
Megan Williams, Policy Analyst;
Robert Goodner, Intern*

Comments and suggestions are welcome. Please contact Jeannie Parker at (405) 530-2324 or send comments via electronic mail to parker@lsb.state.ok.us