



Economic Monitor

Economic Research & Policy Analysis Staff
Oklahoma State Senate

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Oklahoma's Economic Conditions Improve Even Further...

Despite further actions by the Federal Reserve aimed at controlling the U.S. economy, many indicators remain positive, while only some are beginning to show moderation. Recent measures illustrate that GDP is up 1.4% from the previous quarter and 6.1% from last year at this time. The Consumer Price Index (CPI), which measures inflation, is up 3.5% from last year's level, and has grown

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FYI!

The latest edition of "Oklahoma Facts & Figures" is now available on the Senate's web page: WWW.LSB.STATE.OK.US/SENATE/WELCOME.HTML

Recent Study Finds Improvements in Oklahoma's Business Vitality

Oklahoma's business vitality ranking jumped from a score of "C" to a score of "B" from 1999 to 2000, the state's strongest showing.

However, due to the Sooner State's ongoing human capital problems, as well as other economic development gauges, our overall score remains mired at a "D".

The Corporation for Enterprise Development (CfED), produces a Report Card for the States which provides an objective picture of their overall business vitality.

The *Economic Performance Index* category evaluates a total of 25 components within the following 5 subcategories: employment, earnings & job

quality, equity, quality of life, and resource efficiency.

The *Business Vitality Index* category includes 12 components within the following three subcategories: competitiveness of existing business, structural diversity, and entrepreneurial energy.

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Venture Capital Investment Shortage in Oklahoma

Venture capital investments (also called risk capital) are monies invested, or made available for investment, for a new or fresh entrepreneurial activity. Silicon Valley is perhaps the first thing that pops into one's mind when thinking of high-tech capabilities and investment potential. Oklahoma currently has

"The Internet makes location less important, and we've made everything so bloody expensive [in California], that although the infrastructure is here, there's no talent left."

slightly under \$8 million in VC investment according to an

article featured in the October 30, 2000 issue of *Red Herring*, a business technology magazine.

Oklahoma may begin to look more attractive for future VC as talent pools dwindle and costs of doing business increase in the "traditional" high-tech centers. EM

Figure 1: VC Investment Comparison
 (Ranked from Highest to Lowest in Dollars Per Regional State Resident)

Regional States	Population	Sum of Venture Capital Investments (in Millions)	Venture Capital Dollars Per Resident	% of Population with a College Degree
Colorado	4,056,133	\$ 438.42	\$ 108.09	34.0%
Texas	20,044,141	\$ 1,488.13	\$ 4.24	23.3%
New Mexico	1,739,844	\$ 38.12	\$ 21.91	23.1%
Missouri	5,468,338	\$ 70.58	\$ 12.91	22.4%
Arkansas	2,551,373	\$ 10.70	\$ 4.19	16.2%
Oklahoma	3,358,044	\$ 7.98	\$ 2.38	20.5%
Kansas	2,654,052	\$ 5.44	\$ 2.05	28.2%

Source: Red Herring Magazine, October 30, 2000

Health Care & the State's Economy

Is Oklahoma's Health Care Spending Significant?

Oklahoma's health care expenditures totaled \$11 billion in 1998 – more than 13% of our total economic output of \$82 billion.

- ◆ Nearly 40% of those expenditures were attributable to hospital care;
- ◆ More than 25% was spent in Oklahoma on physician and other professional services;
- ◆ Drug and other medical, non-durable expenditures totaled just under 2% of GSP;
- ◆ Prescription drug outlays rose above the \$1 billion mark for the first time in 1998;
- ◆ Payments for nursing home care escalated to just under \$1 billion in 1998, 45% of which was borne by the Medicaid program.

Of the \$11.0 billion spent by Oklahomans on health care during 1998, \$2.6 billion—or 23.7%—of total health care spending was covered by the Medicare program; \$1.3 billion—or 12.2%—of total health care expenditures were covered by the Medicaid program. There were more than 500,000 Medicare enrollees in Oklahoma in 1998, which represented just under 15% of the state's total population. Approximately 340,000 of the state's population were Medicaid recipients in 1998, which was just over 10% of the state's total population.

Why Does Oklahoma Spend More on Some Health Care Services?

Our relatively higher spending shares for these two programs are likely attributable to the greater-than-average health care needs among elderly citizens—especially nursing home care for Medicaid recipients. Oklahoma has a higher percentage of people over 65

than the nation. Health Care expenditures, when measured as a proportion of the State's economy, have been fairly stable at 13 to 14% of Oklahoma GSP, and 12% for the nation as a whole for the past few years. This stability comes on the heels of moderation in the Medical Consumer Price Index (MCPI), which measures health care inflation. Throughout the decades of the 80s and early 90s, MCPI was generally 3 to 5 percentage points higher than the general rate of inflation for the aggregated economy.

Between the years 1995 and 1999, MCPI averaged just over one percentage point higher than the already low rate of general inflation. Still, price conditions, demographic changes, rising labor costs, and significant costs of new treatments, technology, and newly-available medications have each contributed to the rise in medical expenditures, which were less than 7% of GSP during the decade of the 70s.

Hospital care's portion of the State's economy has also grown, from slightly over 3% in 1980 to just over 5% in 1998. Growth in this area has moderated, at least in part, as a result of reduced lengths of hos-

penditures which have increased from 0.5% of GSP in 1980 to 1.5% in 1998, and rising. This increase in the cost of prescription medications has more to do with the expansive development and subsequent offering of many new types of medications available to the public. However, the increasing cost argument has driven the recent public sentiment for the government to provide for some type of assistance program to absorb at least a portion of these costs.

though differences among the states are quite small, our per capita health care spending has grown faster than that of the other states within our region.

The Medicare and Medicaid programs are large and rather expensive to operate. With some 14% of the nation's population enrolled in Medicare and another 15% receiving Medicaid benefits in 1998, it is not hard to imagine the financial impact of these programs on taxpayers. In fact, the Federal Gov-

Medicare or Medicaid?

Medicare: A non-means-tested*, federally financed program which provides medical coverage to elderly individuals.

Medicaid: A means-tested** program which provides medical coverage to certain segments of the poor population without private health insurance coverage; financed jointly between federal & state governments, with lower-income states receiving a proportionally larger share of federal dollars.

*Income is not an eligibility consideration.

**Income is an eligibility consideration.

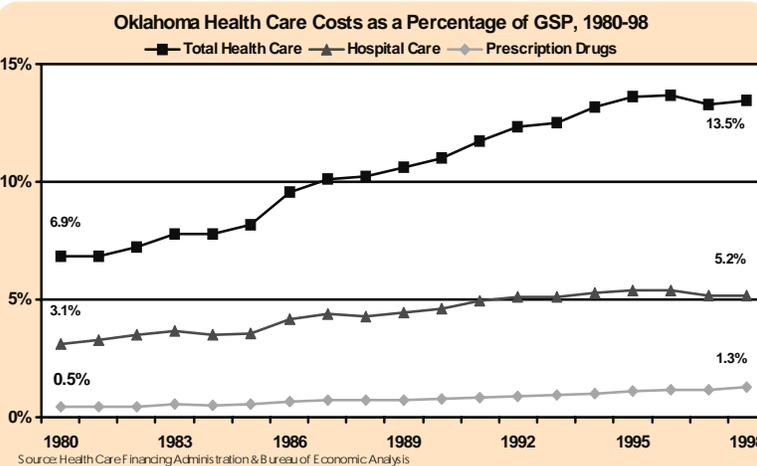
How Does Oklahoma's Health Care Spending Compare?

For all major categories, expenditures on health care in Oklahoma are among the lowest in both the region and the nation. Keep in mind that our income levels are also lower than much

ernment spent \$5,510, per eligible Medicare enrollee, for health care services in 1998. Oklahoma's average Medicare recipient collected an amount just over \$5,200, which partially illustrates our relatively lower cost of services. In Louisiana and Texas, higher hospital expenditures contributed to their costs per Medicare enrollee coming in at well above the national average.

Nursing home costs account for more than 25% of all Medicaid spending nationally, and are responsible for 46% of total nursing home revenues. Oklahoma leads the region in Medicaid nursing home expenditures, with more than 30% its total Medicaid dollars being spent for nursing home care. Colorado, New Mexico, and Texas each allocates a much lower share of their Medicaid dollars for nursing home care.

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pital stays and an increased utilization of outpatient procedures. This, however, is not the case with prescription drug ex-

of the region and are also well below the national average, so our ability to pay for such services is compromised. Al-

Second Quarter Revenue Review

The latest revenue data from the Office of State Finance indicates that collections are 11% above last year's level, as well as 7% above the second quarter FY-2001 estimate.

Notable revenue collection discrepancies occur in gross production taxes on natural gas which are 206% above estimates; Use and Estate tax collections are each 18% above OSF estimates. Both Franchise and Cigarette tax

collections are below estimates, 77% and 83% respectively, while the other major categories are pretty much on target.

In August of this year, voters approved a reduction in mo-

tor vehicle tag fees which took effect in October. While Motor Vehicle tax collections are 17% higher than their FY-2000 level, they are, not surprisingly, below FY-2001 estimates, but only a slight 8%. *EM*

General Revenue Fund, Second Quarter, Fiscal Year 2001
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-2001 Year-to-Date	FY-2001 as % of Estimate	FY-2001 as % of FY-2000
	FY-2000 Year-to-Date	FY-2001 Year- to-Date			
TAXES:					
Income					
Individual	\$579.0	\$622.3	\$598.6	104%	107%
Corporate	\$33.3	\$39.2	\$36.7	107%	118%
Gross Production					
Oil	\$0.0	\$0.0	\$0.0	N/A	N/A
Gas	\$74.5	\$128.2	\$62.1	206%	172%
Sales	\$381.9	\$406.8	\$401.3	101%	107%
Use	\$24.5	\$28.7	\$24.4	118%	117%
Motor Vehicle	\$99.5	\$97.1	\$105.2	92%	98%
Insurance Premium	\$16.3	\$14.6	\$15.6	94%	90%
Franchise	\$27.7	\$26.9	\$34.9	77%	97%
Inheritance/Estate	\$30.1	\$34.4	\$29.1	118%	114%
Cigarette	\$10.7	\$10.9	\$13.1	83%	102%
Beverage	\$8.8	\$8.7	\$9.0	97%	99%
Alcoholic Beverage	\$4.7	\$5.0	\$4.8	104%	106%
Mixed Beverage	\$4.8	\$5.2	\$5.0	104%	108%
Pari-Mutuel	\$1.4	\$1.1	\$1.3	85%	79%
Other	\$21.2	\$23.8	\$23.6	101%	112%
Subtotal: Taxes	\$1,318.4	\$1,452.9	\$1,364.7	106%	110%
Licences, Permits, & Fees	\$10.4	\$8.1	\$10.2	79%	78%
Income From Money/Property	\$27.7	\$41.2	\$29.1	142%	149%
Other Income	\$6.2	\$6.3	\$6.7	94%	102%
Continuing Collections	\$1,362.7	\$1,508.5	\$1,410.7	107%	111%
Transfers & Lapses	\$0.4	\$0.4	\$0.0	-	-
Revenue Comparisons	\$1,363.1	\$1,508.9	\$1,410.7	107%	111%
One-time Receipts	\$0.0	\$0.0	\$0.0	-	-
Total Revenues	\$1,363.1	\$1,508.9	\$1,410.7	107%	111%

Common Pitfalls of Analyzing State Government Spending

A variety of different individuals and groups have conducted numerous studies and reports of state government spending in the United States. The purpose of these studies is to inform opinions about state and local government expenditures and their effect on the entire economy. These reports range from those produced by respected national authorities such as the National Conference of State Legislatures and the National Association of State Budget Officers to local taxpayer associations and think tanks. A common feature of many of the best of these studies is a section warning readers of common pitfalls in analyzing public finance data that can and should be avoided. The following outlines a few of these errors or omissions.

State/Local Finance Data Should be Combined

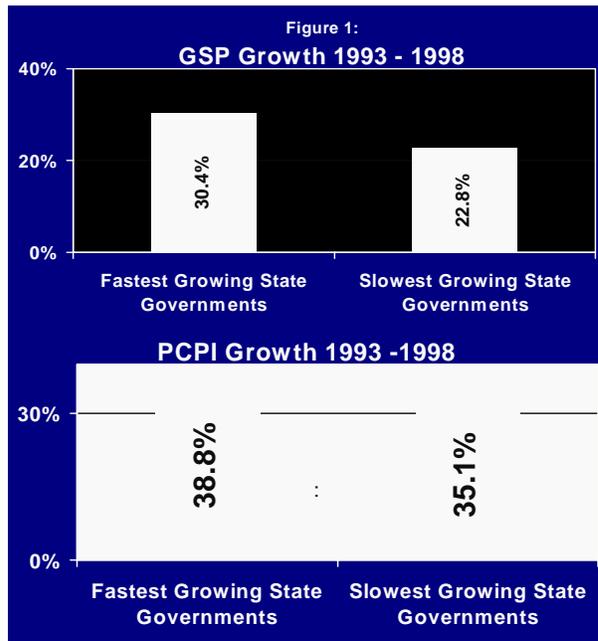
A methodological error often committed by individuals unfamiliar with public finance is the failure to combine state and local spending when comparing states to one another. As state/local revenue structures vary greatly, accurate comparisons between states cannot be made unless state and local expenditures are looked at together. Many states rely much more heavily on local funding of programs that are funded primarily by state expenditures in other states. Oklahoma and Texas are an instructive example. As Figure 1 indicates, the percentage of total taxes collected varies greatly between Oklahoma and Texas, while the total per capita tax burden is very close (OK-\$1,994 - TX-\$2,142). The majority of K-12 education funding in Texas is supplied by the local government, while in Oklahoma the state government picks up the bulk of the tab for educating its schoolchildren. As education

is a large portion of a government's finances, Texas and Oklahoma cannot be effectively compared using state finance data alone.

State/Local Government Spending and Economic Growth

The relationship between state and local government expenditures and a state's economy is quite complex. There are a number of factors that affect a

slowest growing state governments in aggregate from 1993 to 1998 and their gross state product and per capita personal income growth for the corresponding years. From 1993 to 1998, the fastest growing state governments also experienced the largest growths in gross state product and per capita personal income. Further, while government is a component of gross state product, its growth does not usually drive the total



state's economy in addition to state/local spending, such as globalization, national interest rates and the import/export market. Simply focusing on spending which is in the public versus private sector is not sufficient. Economic theory is neutral to what types of investment may stimulate economic activity directly or indirectly, including government. Expenditures such as education, transportation, R&D, and tourism have been shown to stimulate growth when prudently administered.

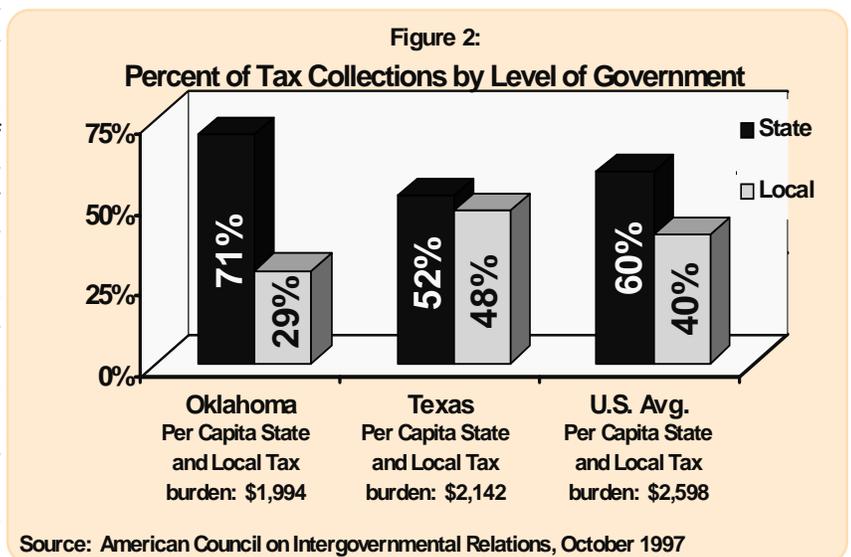
Figure one illustrates the 25 fastest and 25

Structural and Administrative Differences of State Governments

Those who attempt to analyze public finance data may also commit an oversight by not taking into account structural and administrative differences among states in numbers reported to the U.S. Census Bureau. Some of the categories which are a part of state government expenditures in Oklahoma are not funded with tax dollars when examined more closely. The Grand River Dam Authority, the State Insurance Fund, and Oklahoma's municipal trust hospitals are examples of functions of the economy which run as essentially private enterprises but are characterized as state operations under the Census Bureau's classification system. While these entities receive no state funding, their operations' expenditures still show up as state spending. Such differences must be accounted for in any analysis.

It is important for policymakers and others to study and gauge state spending to ensure that spending growth is in check and that the funds are being expended properly. In order to conduct an accurate analysis, these items should be considered and taken into account.

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CfED, Continued from page 1

The *Development Capacity Index* category measures 36 components within the following 5 subcategories: human resources, financial resources, infrastructure resources, amenity resources and natural capital, and innovation assets/technology resources.

Figure 2 illustrates Oklahoma's scores in each of the 3 broad categories. The Sooner State's Business Vitality score improved from a grade of "C" to an impressive grade of "B". However, the remaining two categories, Economic Performance,

and Development Capacity, each with an ongoing score of "D", could be improved upon. Also demonstrated in Figure 2 is the historical depiction of Oklahoma's scores in each of the three major categories for each of the years between 1994 and 2000. Oklahoma boasted a letter grade improvement, from a "C" to a "B", in the "Business Vitality" component. On a more somber note, our "Performance" and "Development Capacity" measures have remained virtually unchanged, with a score of "D" in recent years.

Figure 1: Oklahoma's Score Card

High Scores	Low Scores
◆ Structural Diversity	◆ Quality of Life
◆ Entrepreneurial Energy	◆ Competitiveness of Existing Business
◆ Amenity Resources & Natural Capital	◆ Financial Resources
◆ Employment	◆ Infrastructure Resources
◆ Resource Efficiency	◆ Innovation Assets
◆ Human Resources	

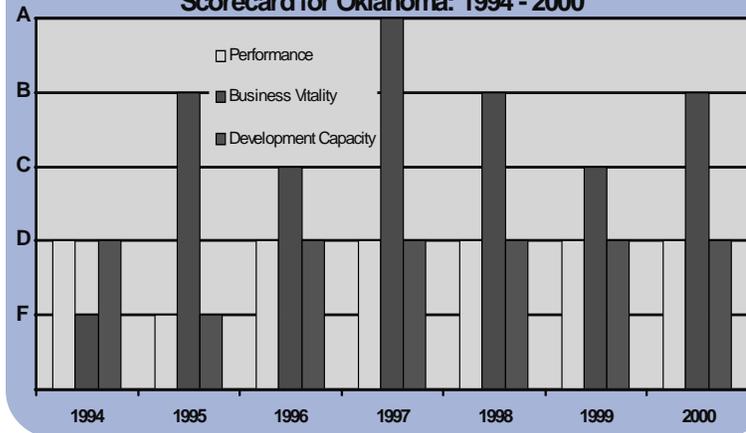
Some of the State's high and low scores are included as Figure 1. Some of these measures are intuitive, while others may appear contrary to what we know or have heard. For instance, Oklahoma received a decent score in the area of "Human Resources", but isn't this an area that has often been a weakness for the Sooner State? A look at the descriptive definition of this measure will explain. This measure includes our impressive educational reading proficiency and high school graduation rates--however, it combines those positives with our less-than-impressive low income levels, especially teachers' salaries, and our relatively low K-12 expenditures.

Lower scores were awarded in such categories as "Infrastructure Resources." Which variables are included in this measure? Highway, bridge, and digital asset deficiencies are to blame for this low score. Another low score was awarded in the category of "Quality of Life". Our high rates of charitable giving and homeownership are offset by our also high infant mortality, uninsured low-income children, teen pregnancy, heart disease, and crime rates--all of which contributed to our less-than-admirable score in this category.

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For more information the full CfED report can be found online at: www.cfed.org.

Figure 2: Corporation for Enterprise Development Scorecard for Oklahoma: 1994 - 2000



Higher Ed & Economic Development: an Update on Cameron University

The April 1999 issue of the *Quarterly Economic Monitor*, featured a story outlining the State Regents' economic development grant program which was created in 1996. The program prescribes a competitive grant proposal process whereby the State's universities apply for grant monies to fund innovative projects aimed at positively impacting local economic development. One of the more interesting grant awards went to Cameron University; this grant provided funding for a "Center of Excellence in Multimedia Design", where students are trained in artillery fire in a

simulated, "virtual-reality" setting.

Recently, the staff of the *Economic Monitor* visited Cameron University, and was treated to a day-long series of presentations and campus tours by key university personnel, including President Don Davis. To Cameron, establishing public/private partnerships in order to create lucrative employment opportunities

According to President Davis, Cameron University is said to house one of the top two multimedia programs in the nation, thanks to being selected to receive this grant.

should be the primary focus of regional universities' economic development initiatives.

With these awards, the Regents actively encourage the State's universities to explore potential new economic development ideas and possibilities. Since its inception, the Regents have continued to expand their financial contributions to this program. In fact, funds allocated to this program have increased from \$3 million

last year to \$8.3 million this year, and that commitment is expected to continue growing. *EM*

In the Next Issue . . .

- ➔ Update on Oklahoma's Tax Rankings;
- ➔ Workers' Comp. & the Oklahoma Economy;
- ➔ The Economics of Crime.

Continued from page 1

by one-half of a percentage point from the previous month.

Oklahoma's unemployment rate fell further and, at 3%, is now nearly one percentage point lower than the overall U.S. rate of unemployment. Clearly, though, by looking at the State's basically unchanged Labor Force statistics, our labor

force participation rate is likely as high as it is going to get—there simply aren't many people scrambling to find a job here.

The most current Oklahoma Per Capita Income (PCPI) figures available from the Bureau of Economic Analysis, 1999, indicate that PCPI has increased a full 9% from its 1998 level, and is currently just under \$23,000.

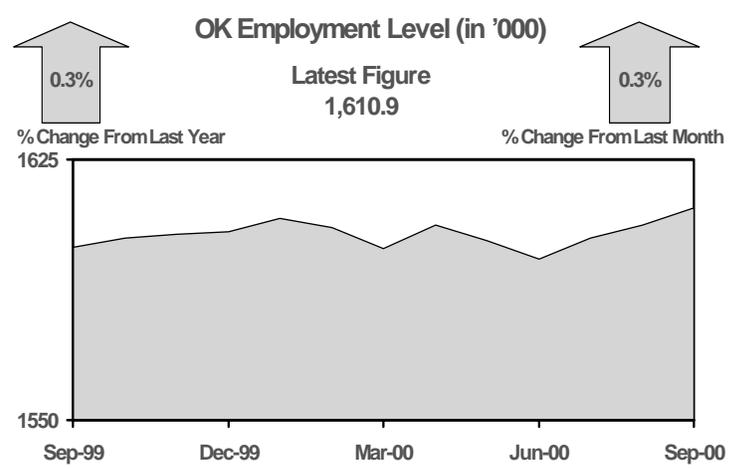
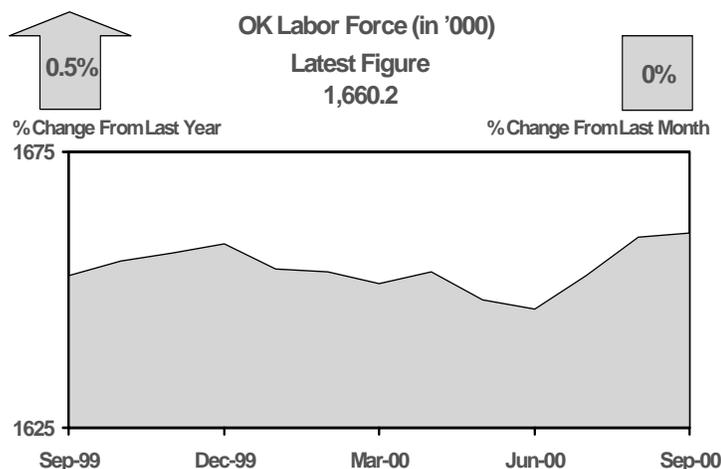
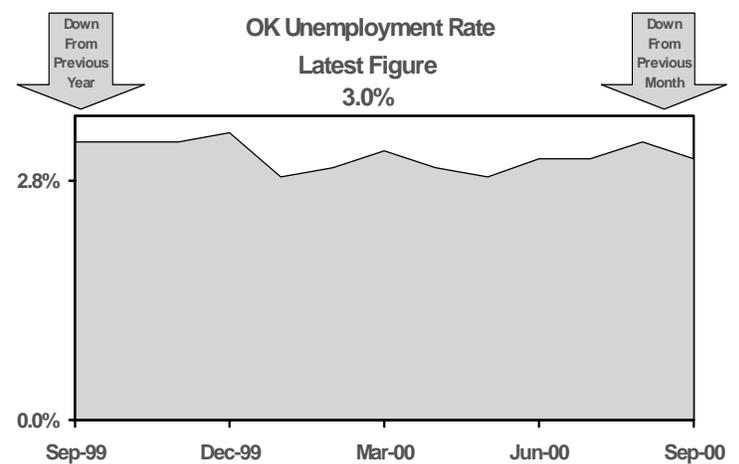
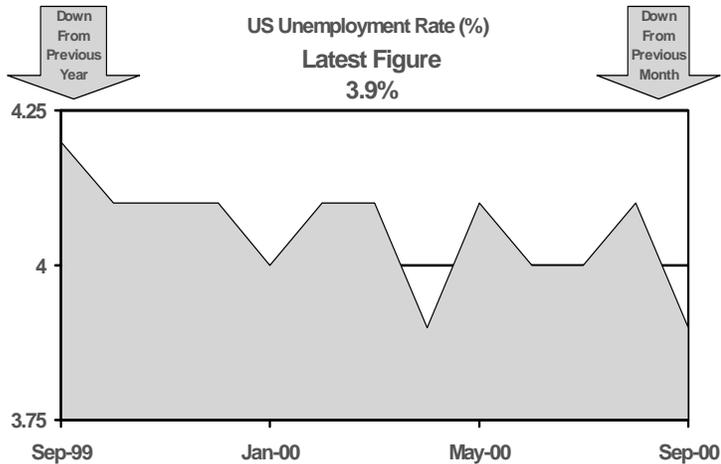
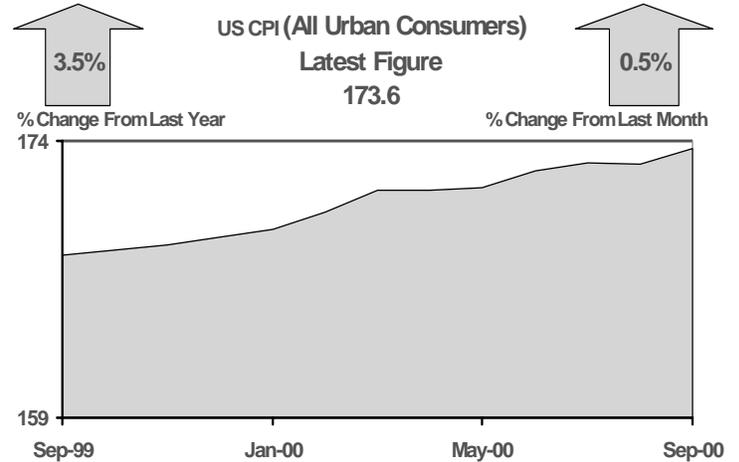
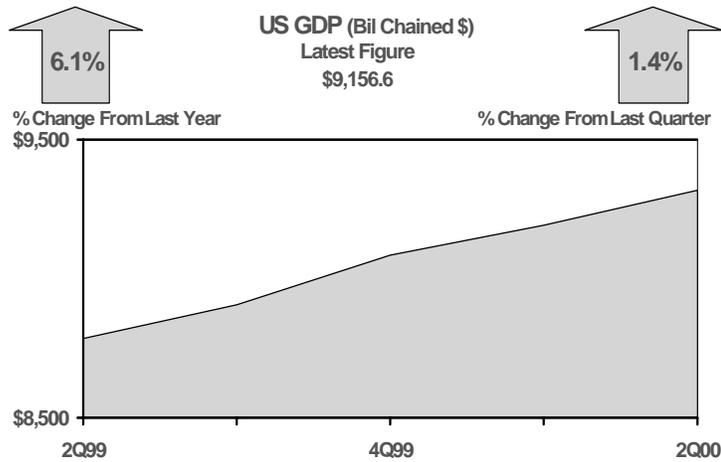
While there was a 12% increase in the number of single family building permits issued in the State from the previous month, there were still 22% fewer than the number issued a year ago.

The figures shown on the Purchasing Managers' Index, which is a measure of the cost of doing business, are from a study done by Creighton University. Our rate is lower than that of the

U.S., and impressively lower than that of our neighboring states.

It should come as no surprise that the value of our oil and gas production has significantly increased in recent months. Further, glancing at a few years' historical data shows how this surge in values has helped offset the losses which were suffered during the prior three years.

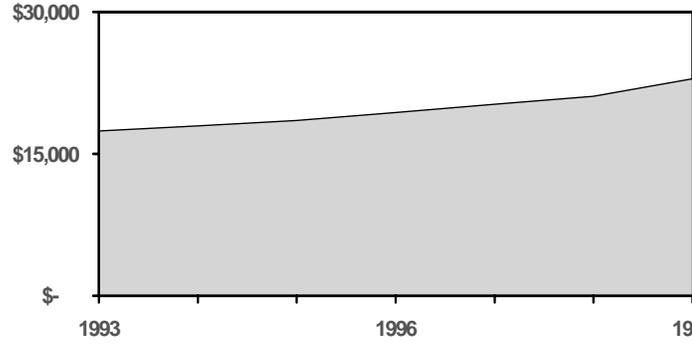
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OK State Per Capita Income
Latest Figure
\$22,953

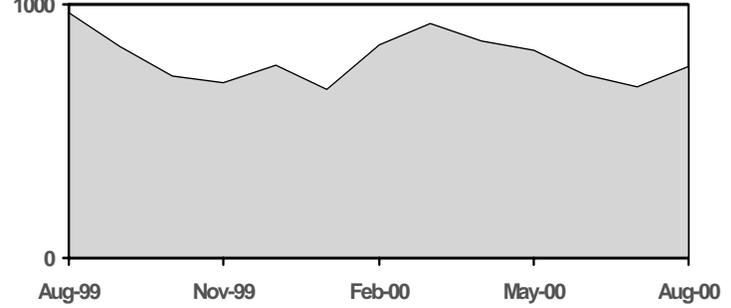
% Change From Previous Year



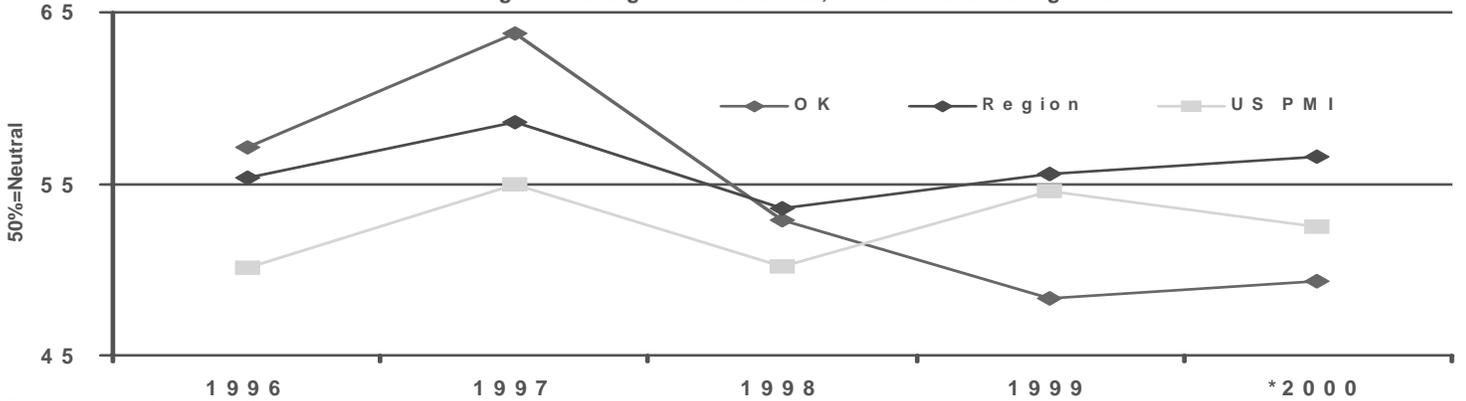
OK Total Single Family Building Permits Authorized
Latest Figure
756

% Change From Last Year

% Change From Last Month

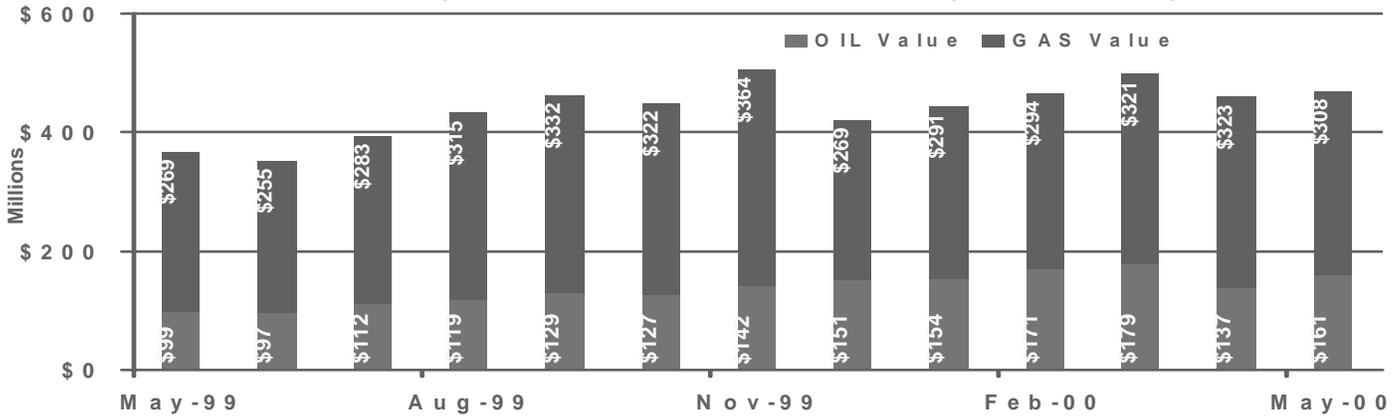


Purchasing Managers' Index, U.S. and Region

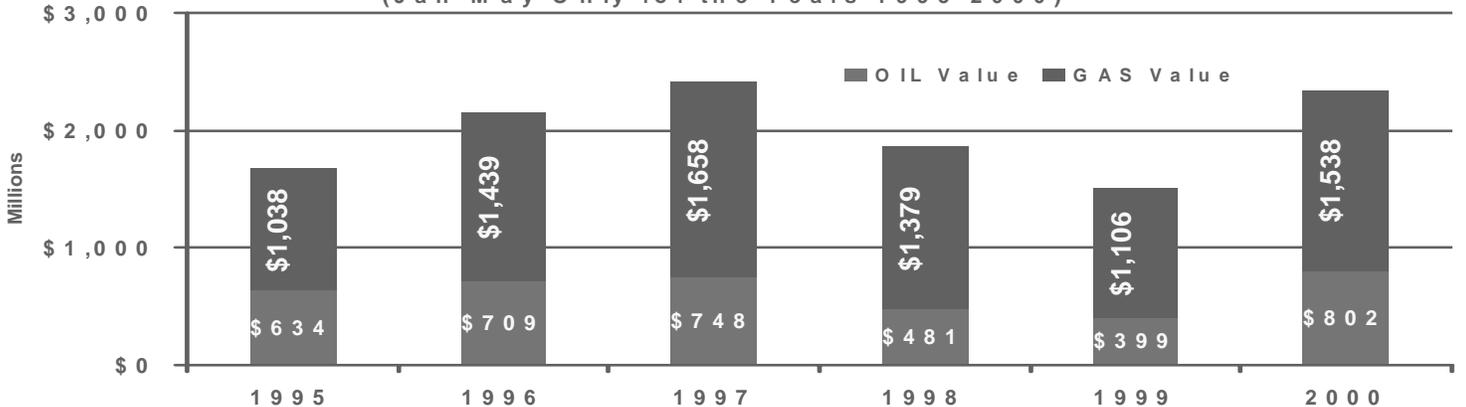


Source: NAPM and Creighton University
*Year 2000 includes only the first nine months' data

Value of Monthly Oil and Gas Production, May 1999 to May 2000



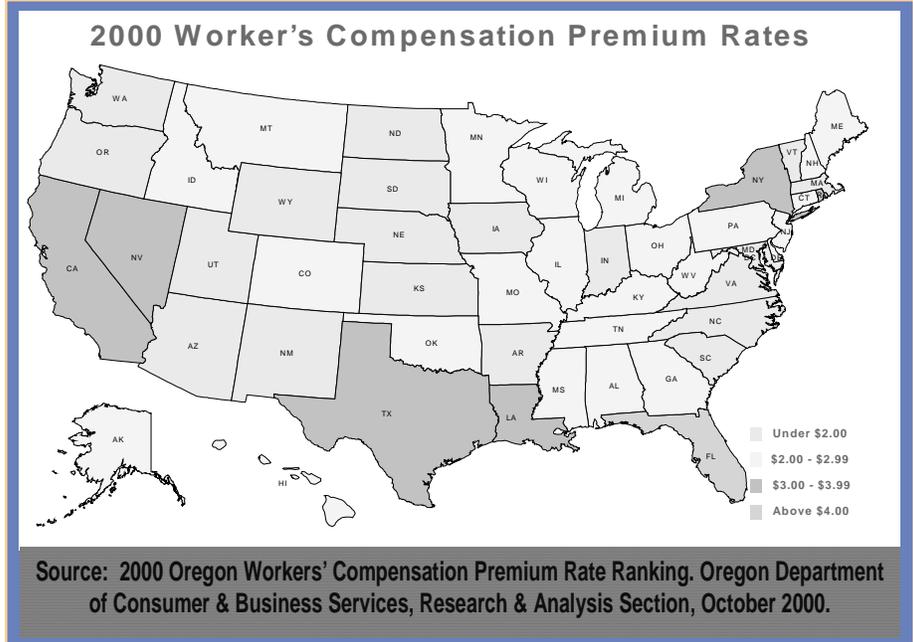
Value of Oil and Gas Production (Jan-May Only for the Years 1995-2000)



WORKERS' COMPENSATION STUDY FINDS IMPROVEMENT IN OKLAHOMA'S PREMIUM RATE RANKING

In a preliminary release from the upcoming 2000 Workers' Compensation Premium Rate Ranking report, Oklahoma's employers pay, on average, \$2.85 per \$100 of payroll which is 57 cents more than the national average of \$2.28, and 61 cents higher than the regional average. This places the State in the second-lowest cost grouping of states. Noting that Oklahoma employers face the 11th highest workers' compensation premiums within the 50 states plus the District of Columbia, it is clear that there is not much

of a difference in the rates for most states nationwide. The state of Florida clearly has the highest rates, \$4.08 per \$100 of payroll, while Virginia boasts the lowest workers' compensation rate of \$1.27 per \$100 of payroll. The full report is due out sometime before the new year. *EM*



Pay Inequality Gap Narrows, Problems Persist in the Sooner State

Median earnings for women in Oklahoma are 68% of men's earnings compared with 76.5% nationwide. This puts Oklahoma at 46th in the nation in women's earnings as a percentage of men's.

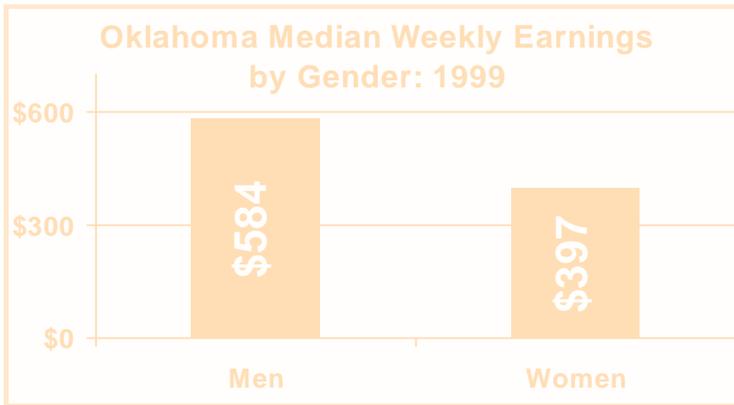
Administrative, and managerial occupations grew from 34.2% in 1983 to 46.7% in 1999.

Women are four times as likely to work in administrative support occupa-

Earnings for women with college degrees have increased 30.5% since 1979 while male college graduates' earnings have

risen by only 14.8% over the same period of time. *EM*

Source: "Highlights of Women's Earnings in 1999" U.S. Department of Labor, Bureau of Labor Statistics, May, 2000.



While women have increased their representation in managerial and professional occupations, men remained more likely than women to work in some higher-paying occupations. The percentage of women working in execu-

tions, where the pay is about 19% lower than the overall median, while men were about eight times as likely to be employed in precision production, craft, and repair occupations where earnings are above the median.

Economic Monitor

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