

October 2009

## OKLAHOMA POLICY INSTITUTE'S ONLINE BUDGET GUIDE

[www.okpolicy.org/online-budget-guide](http://www.okpolicy.org/online-budget-guide)

### THE TALKING POINTS VERSION



*State and local governments provide an essential foundation for Oklahoma's society and economy. Governments create and maintain the public structures that help promote our prosperity, security, and well-being. The way government supports our public structures—what it spends, what it accomplishes, what it does and chooses not to do—reflects our common priorities and affects our common achievements. The same is true of how we divide the responsibility to pay for these structures. The taxes and other revenues collected by government represent each person's investment in shared prosperity.*

*Oklahoma Policy Institute's Online Budget Guide helps a diverse audience—from citizens to policy makers—learn more about how government shapes our state and builds its future. It describes how state and local governments spend money, how they collect it, and how the budget process works. It also identifies key policy challenges and offers readers ideas on getting more information and getting involved. See the full Online Budget Guide at <http://www.okpolicy.org/online-budget-guide>. Its menus allow for easy navigation and the guide is searchable. Pages are printable and you can leave comments and questions. We'll be updating the online version regularly as new data are available.*

*This "Talking Points Version" provides highlights from the Online Guide.*

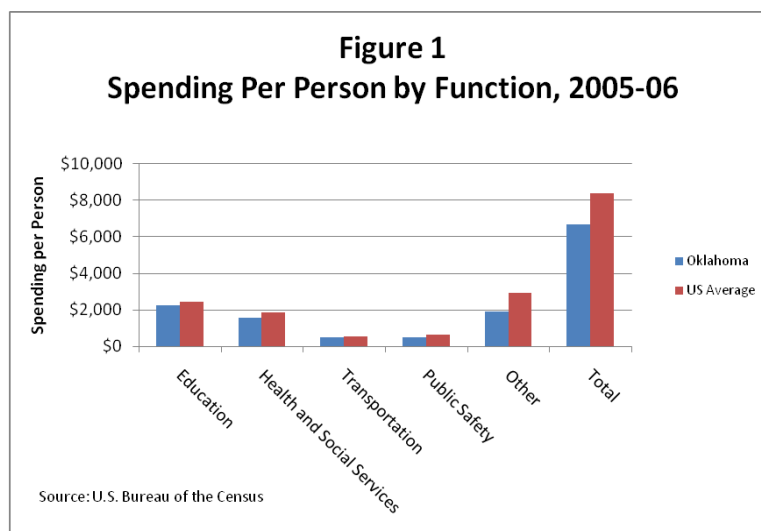
## I. EXPENDITURES

The most important themes from this section are:

- Government spends money to purchase goods and services for improving the community. Government spending creates and supports public structures to protect quality of life and allow society to get things done.
- State and local government spending is twenty percent less per person than the national average.
- While our accomplishments in improving public structures have been significant, there are many areas where we perform well below national and regional standards. We have a long way to go to meet our common goals.

*The expenditure section of the Guide shows how we use public money to meet our goals as a state. It describes the functions of state and local government, the services these governments provide, and indicators of how we are doing. Here are some of the most important findings about Oklahoma government expenditures:*

- ⇒ Of the total 2006 government spending of nearly \$24 billion, the State of Oklahoma spends 58 percent. The rest is spent by local governments.
- ⇒ Oklahoma governments spent \$6,691 per person in 2006, well below the national average of \$8,381 (see Figure 1). In 2005, we ranked last among the states in combined state and local spending per person.
- ⇒ The largest share of state spending from all sources goes to health and social services (36 percent) and education (23 percent).
- ⇒ Appropriations by the Legislature (\$7.2 billion in FY '10) represent less than half of the state's total spending, but are essential to funding state services.
- ⇒ Nearly 90 percent of total state appropriations go to the ten largest agencies.



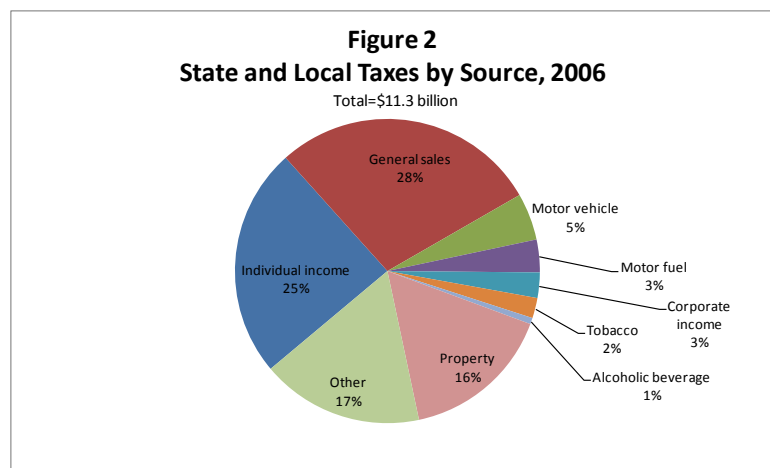
## II. REVENUES

The major themes of the revenue section are:

- Oklahoma governments rely on many revenue types to fund essential government services. While taxes are the most visible and largest revenue source, they represent less than half of all revenue.
- Oklahoma taxes are among the lowest in the nation. The gap between Oklahoma tax revenue and the national average has grown over the last decade.
- Over time, Oklahoma has increased its reliance on the sales tax and individual income tax, which are the two largest tax sources.
- User charges and federal funds provide significant revenues for public services, particularly for health and social services, education, and transportation.

*The revenue section of the Guide summarizes Oklahoma state and local government revenues. The Guide emphasizes our tax structure, but also describes the user fees and federal grants that are needed to fully fund needed government services. This section includes several important findings about Oklahoma government revenues:*

- ⇒ State government collected nearly \$20 billion from all revenue sources in 2006, while local governments collected over \$10 billion.
- ⇒ Taxes are the largest source of revenue--\$8 billion for the state in 2006 and \$3 billion for local governments--but they still make up less than half of all government revenue.
- ⇒ Oklahoma's revenue system is very centralized. State government collects a higher percentage of taxes and of all revenues than the average state.
- ⇒ Sales taxes are the largest tax source for Oklahoma governments, followed by the individual income tax. Together these account for more than one-half of Oklahoma tax revenue (see Figure 2).
- ⇒ In 2006, Oklahomans paid \$834 less in taxes per person than the national average. Most individual taxes are below average as well. Property taxes are among the lowest in the nation.



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- ⇒ Federal funds, user charges, utilities, and insurance trust revenues make important contributions to funding government services.

### III. BUDGET PROCESS

The key themes of this section are:

- Oklahoma's budget is the product of legal, political, and practical limitations that require significant effort every year in trying to satisfy all participants and to use public money wisely and effectively.
- Oklahoma's budget must be completed within constitutional and legal limits that attempt to prevent spending beyond the available resources, restrict certain revenue streams only for specific agencies and purposes, set aside money for future emergencies and economic downturns, and maintain accountability to taxpayers.
- The annual budget process takes more than two years from the planning stages through audit and evaluation.



*The budget process section describes the legal structures and informal practices that govern Oklahoma state budgeting. It walks through the budget process in a step-by-step format. Its key elements are:*

- ⇒ Oklahoma divides state money between a number of funds. There are 14 separate funds in the annual state budget; these funds restrict and track how specific money is received and spent.
- ⇒ Oklahoma's revenue certification process minimizes the likelihood that the state will spend more than it collects and seeks to set aside funding to meet emergency needs and help maintain services during economic downturns.
- ⇒ The Constitutional Reserve Fund (or Rainy Day Fund) may be used to make up for shortfalls in the current budget, used in the budget for the coming year if revenues are forecast to fall, or spent for an emergency.
- ⇒ The budget is developed through an annual process in which the Governor proposes the executive budget; the Legislature develops its own budget plan considering the input of

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the Governor, state agencies, and the public; and the Legislature and Governor agree on appropriation bills that allocate all available money across the government;

- ⇒ At the end of each fiscal year, the actual revenue and spending of agencies and the government as a whole are subject to independent audits and other reviews. We use many accountability tools to be sure the budget is carried out legally, effectively, and efficiently.

#### IV. POLICY CHALLENGES WE FACE

Key themes of this section are:

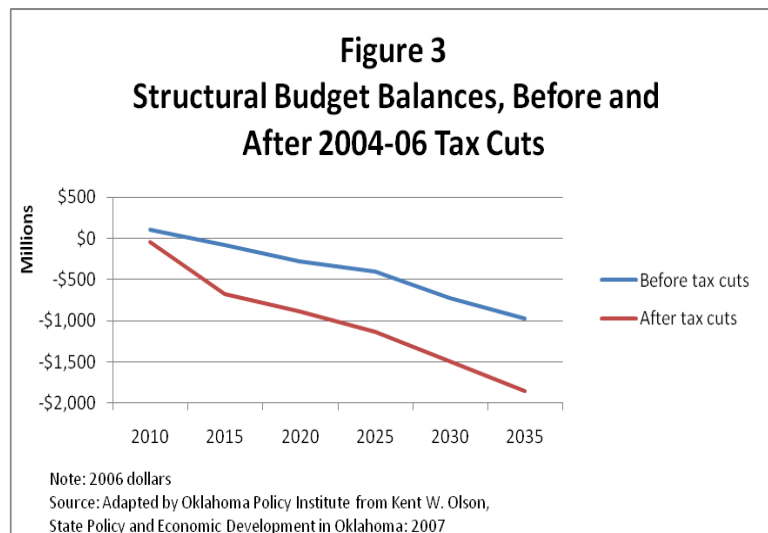
- Oklahoma often makes financial decisions for the short term but rarely considers the long-term impacts on taxpayers and government services.
- Oklahoma faces serious fiscal challenges that will require us to think more strategically about how we will continue to provide public services and how we will pay for those services.

*The policy challenges section of the Guide describes significant fiscal policy issues that Oklahoma should address to improve the long-term performance of our state and local governments. This section reaches several major conclusions:*

- ⇒ Oklahoma state and local government faces a long-term fiscal gap in which ongoing revenues will not be enough to pay ongoing spending commitments (see Figure 3).

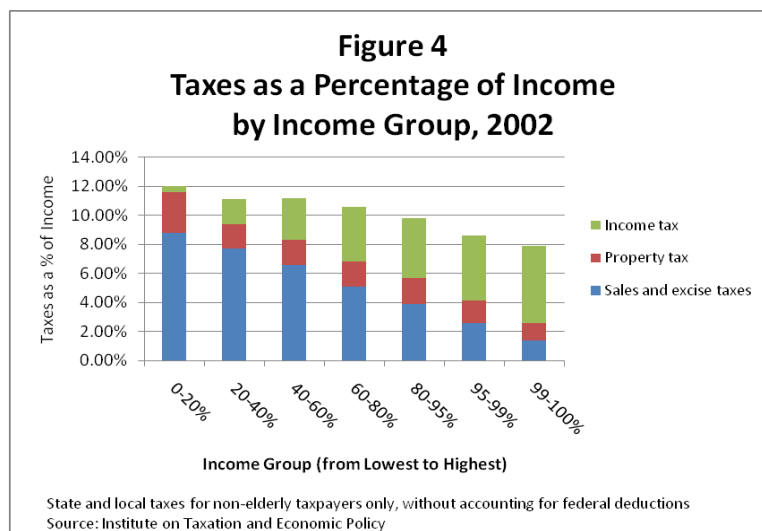
- ⇒ The fiscal gap results from rapidly increasing health care costs, an aging population, commitments for employee and retiree benefits, spending that does not demand results or consider long-term effects, a tax system that does not keep up with the economy, and tax cuts and exemptions.

- ⇒ The fiscal gap can be controlled by better forecasting and reporting long-term commitments, paying for new tax cuts and services through other budget reductions,



and funding new mandates on state and local governments. The state will require new revenues and reductions in service to restore and maintain long-term fiscal balance.

⇒ Oklahoma's tax system is inequitable. The lowest income earners pay 12 percent of their income in state and local taxes while the highest pay 8 percent. This "regressivity" results from relying on sales and excise taxes and on gambling as a major source of government revenue (see Figure 4).



⇒ Oklahoma can make its tax system more equitable by increasing the income tax credit for sales taxes on groceries, and making the income tax more progressive.

## V. NEXT STEPS

*The next steps section provides links for more information from a variety of local, state, and national sources on budget and tax information. It also gives suggestions as to how citizens can get involved to make the system more responsive to their needs. Here's the major point of this section:*

It's good to have information. It's better to be able to act on the information. Democracy works best when those it serves—you and your fellow citizens—take an interest, learn what is going on, and help create better government. Most of us let our power as citizens sit idle except for the occasional trip to the ballot box. If you have read this far, you probably are ready to do more. You can take the next step by following legislation, contacting your elected officials, making your views known to leaders and your fellow citizens, and joining groups that share your interests.

Oklahoma Policy Institute (OK Policy) is committed to advancing policies aimed at alleviating poverty, expanding economic opportunity and promoting fiscal responsibility. To that end, OK Policy conducts objective analysis of state policy issues in order to better position Oklahoma to become a more prosperous, better educated, healthier and increasingly equitable state.

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