

Oklahoma's State Budget: Is There A Light at the End of the Tunnel?

5th Annual State Budget Summit
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#okbudget18



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Oklahoma Policy Institute

Who We Are

- OK Policy is an independent, nonpartisan, 501c3 non-profit.
- We research and advocate for fair and responsible public policies.
- We are funded by grants from national and local foundations and contributions from individuals, organizations, businesses, and people like you!





Why this matters

“The budget is not just a collection of numbers, but an expression of our values and aspirations.” – Jacob Lew

What Prosperity Looks Like

- Good-paying jobs
- Educated workforce
- Functioning infrastructure
- Access to health care
- Safe streets and neighborhoods
- Stable safety net for those in need

We're In This Together

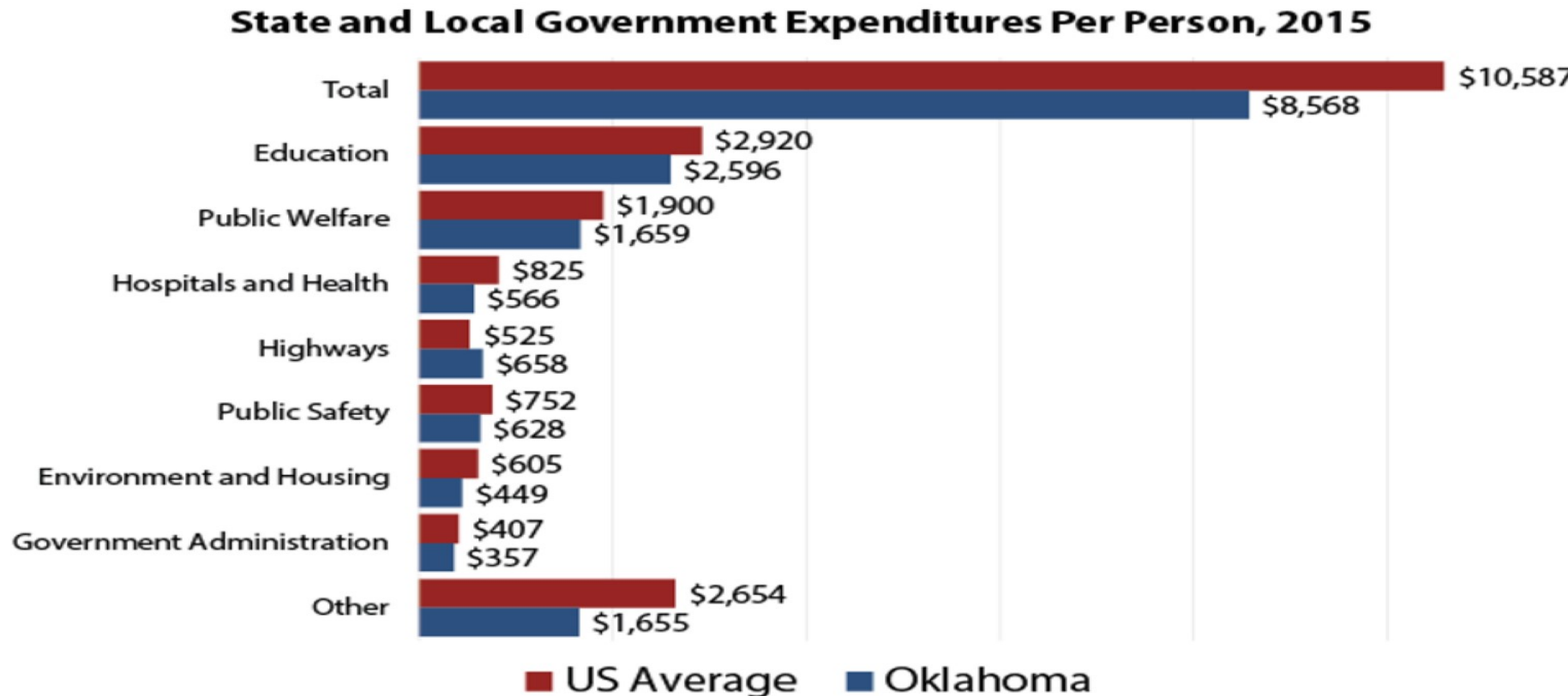
- An effective government is crucial for achieving our common goals as a state – alongside businesses, unions, non-profits, philanthropies, faith and community groups, and families.



Oklahoma's budget is shrinking

- Oklahoma spends 19 percent less per capita than the national average on state and local public services

Oklahoma spends less in nearly all core services

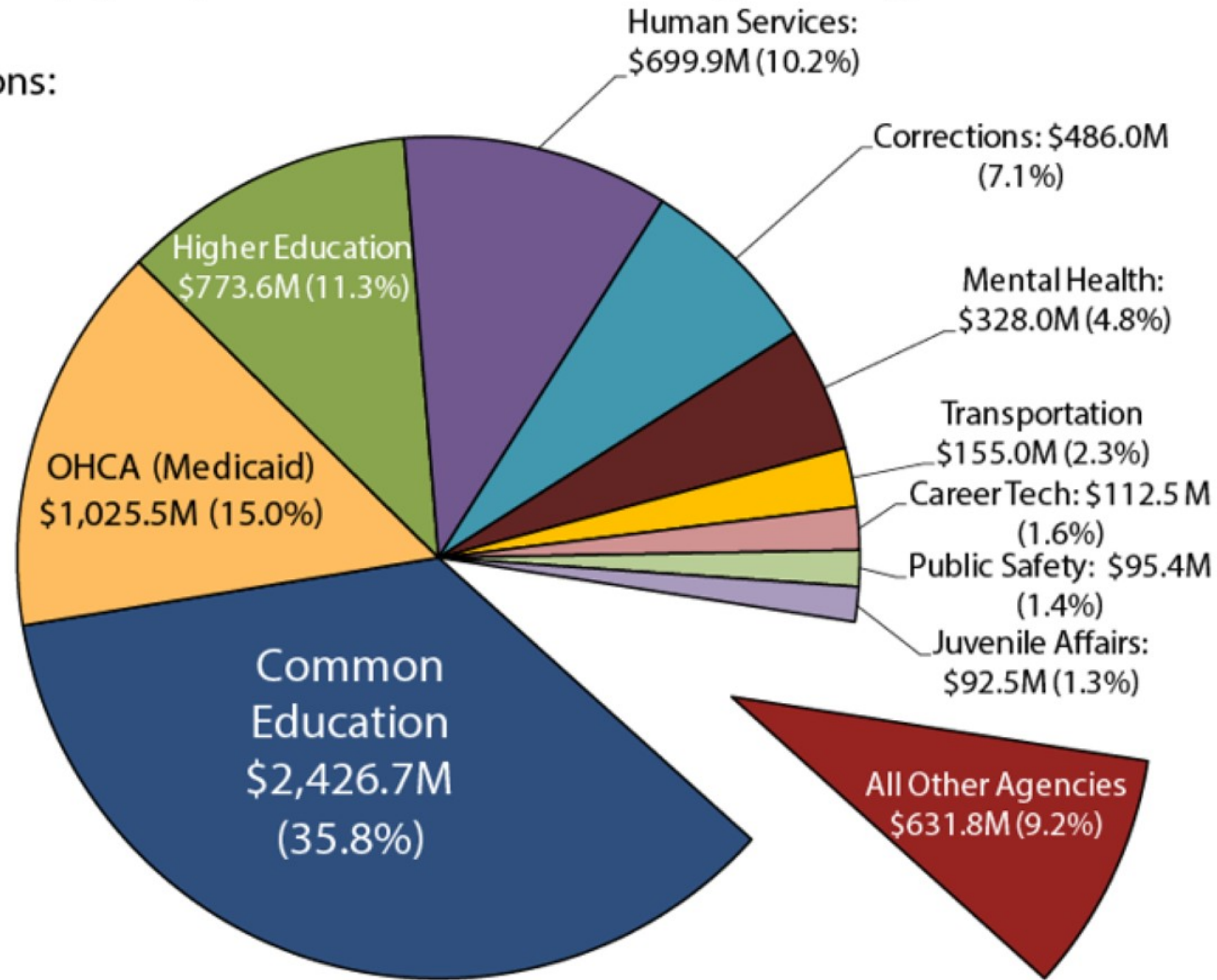


Nearly all of the budget goes to core services in education, health, human services, public safety, & transportation.

FY 2018 Appropriations to Ten Largest Agencies

Total Appropriations:
\$6,848M

Total Ten Largest:
\$6,216M (90.8%)



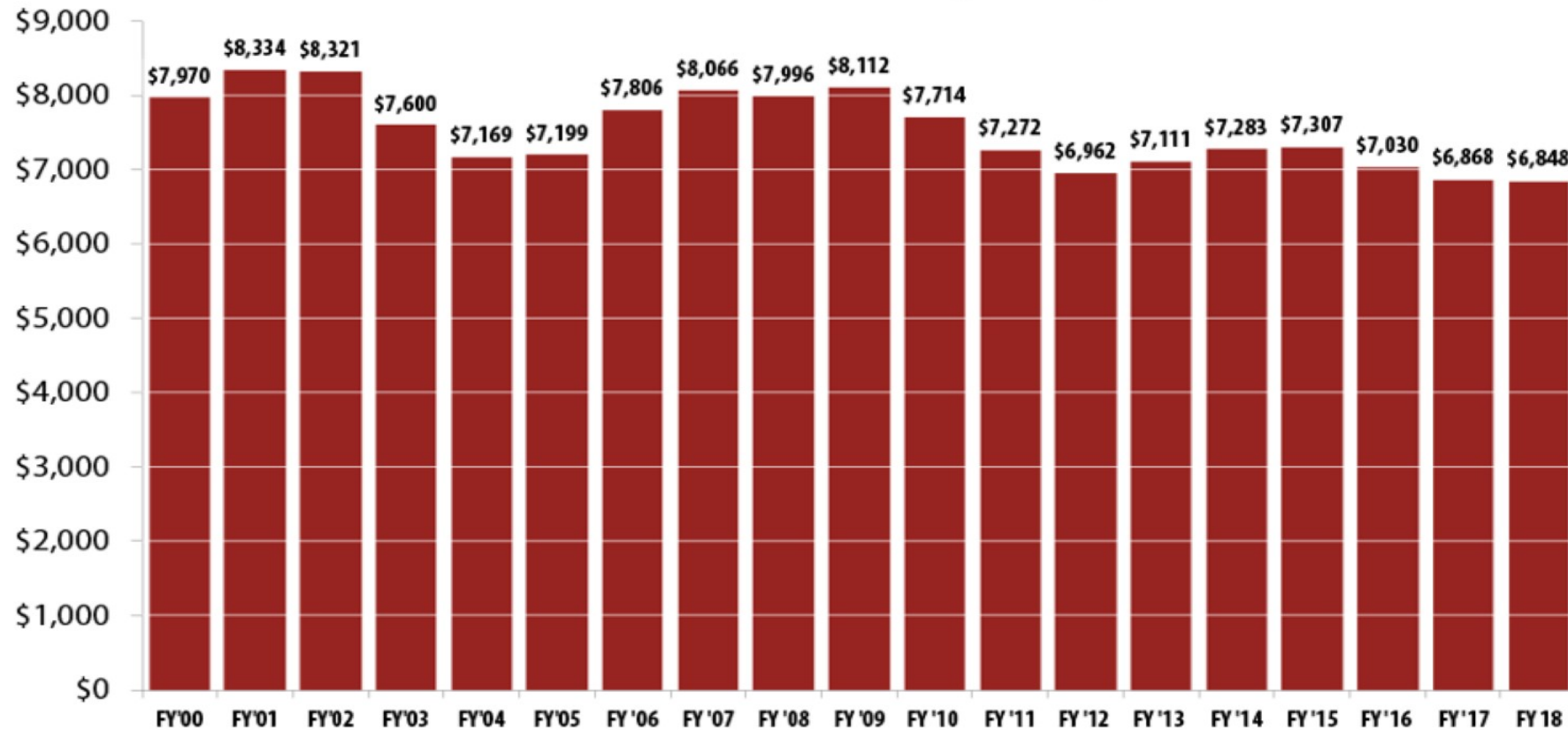
Oklahoma's budget is shrinking

Adjusted for inflation, the FY 2018 budget is 15.6% (\$1.26 billion) less than FY 2009.

Total State Appropriations and Annual Change, 2016 Dollars

(in \$ millions; adjusted to 2016 dollars using State and Local Government Implicit Price Deflator)

Percentage Change, FY 2009-FY 2018: -15.6%

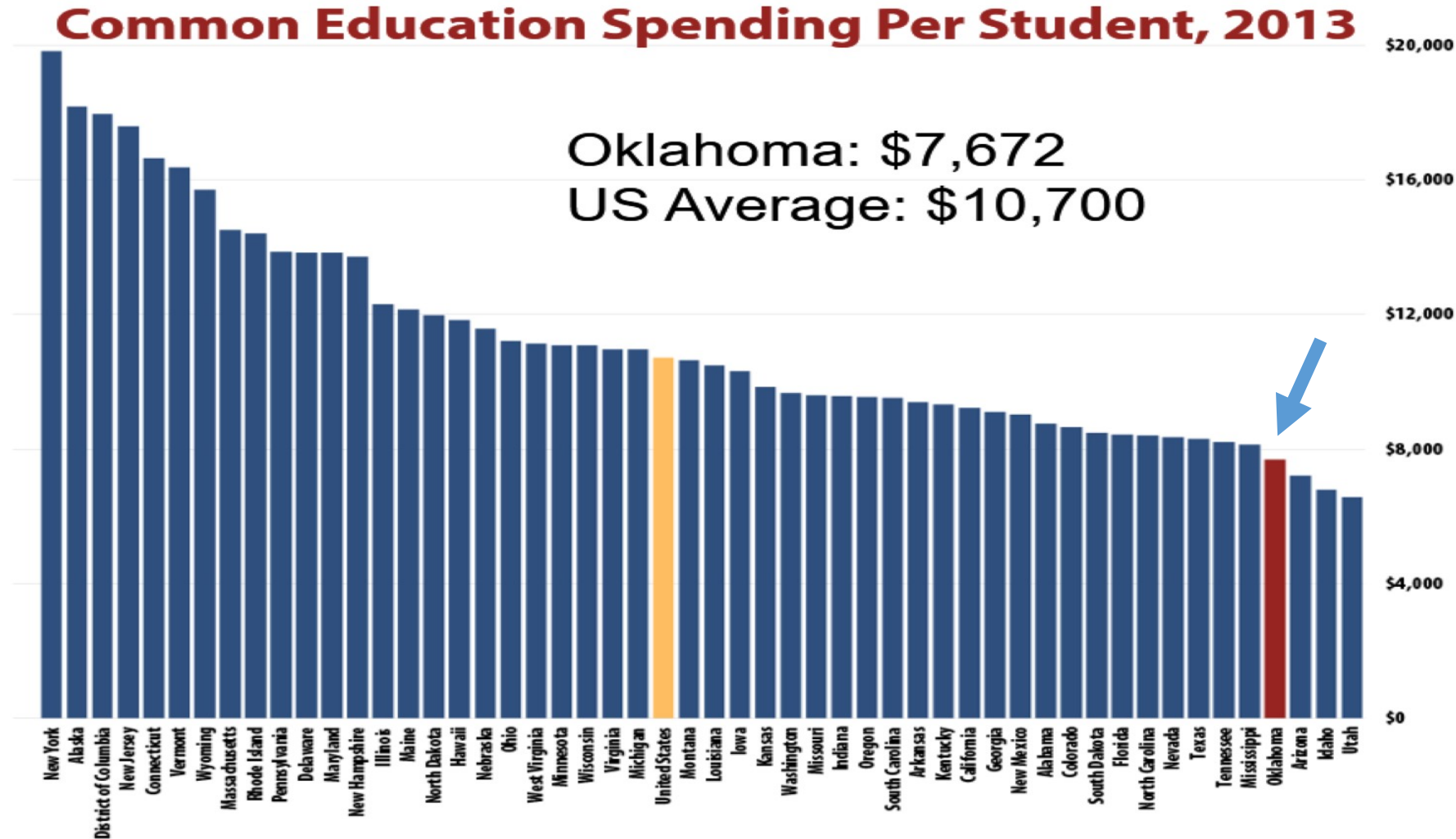


The Impact of Shrinking Budgets



Shrinking Budgets: Common Education

- Oklahoma is near the very bottom in per pupil funding

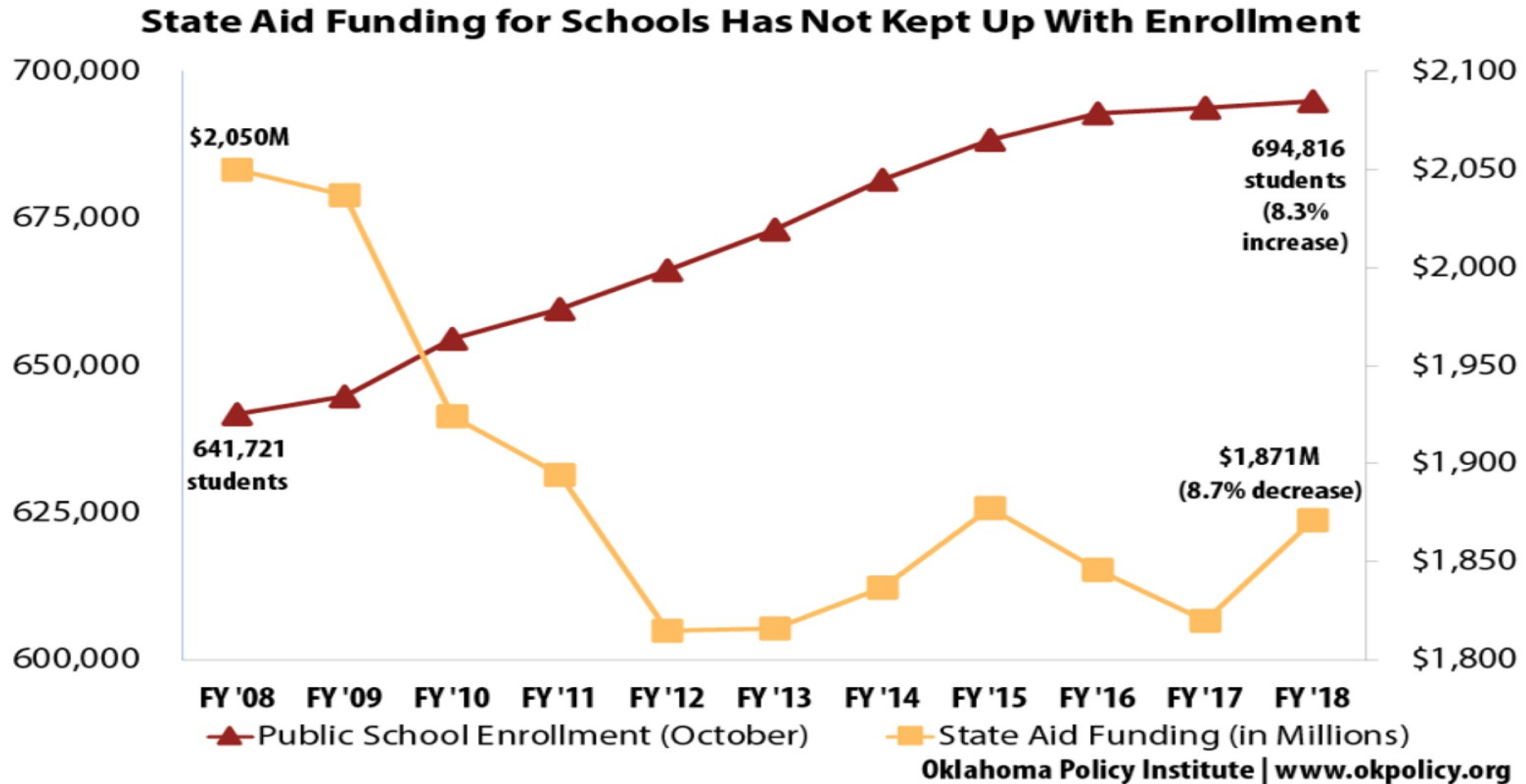


Data Source: U.S. Census

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Shrinking Budgets: Common Education

- Enrollment is up over 50,000 students while state aid funding is down \$179M

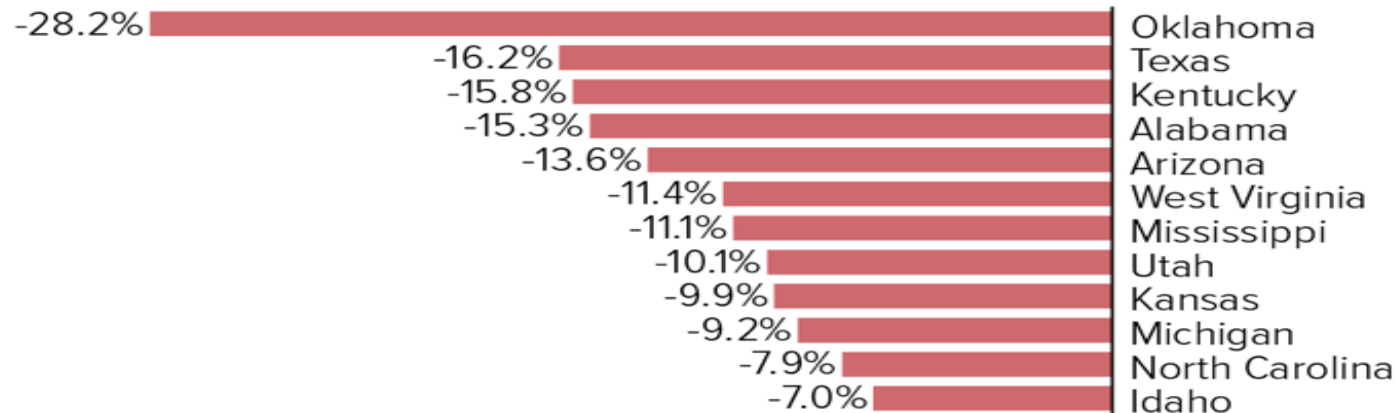


Shrinking Budgets: Common Education

- Per pupil funding to the state aid formula has been cut more deeply in Oklahoma than in any other state since 2008
- By any measure, education funding is falling behind in Oklahoma

State General Funding Per Student Still Far Below 2008 in at Least 12 States

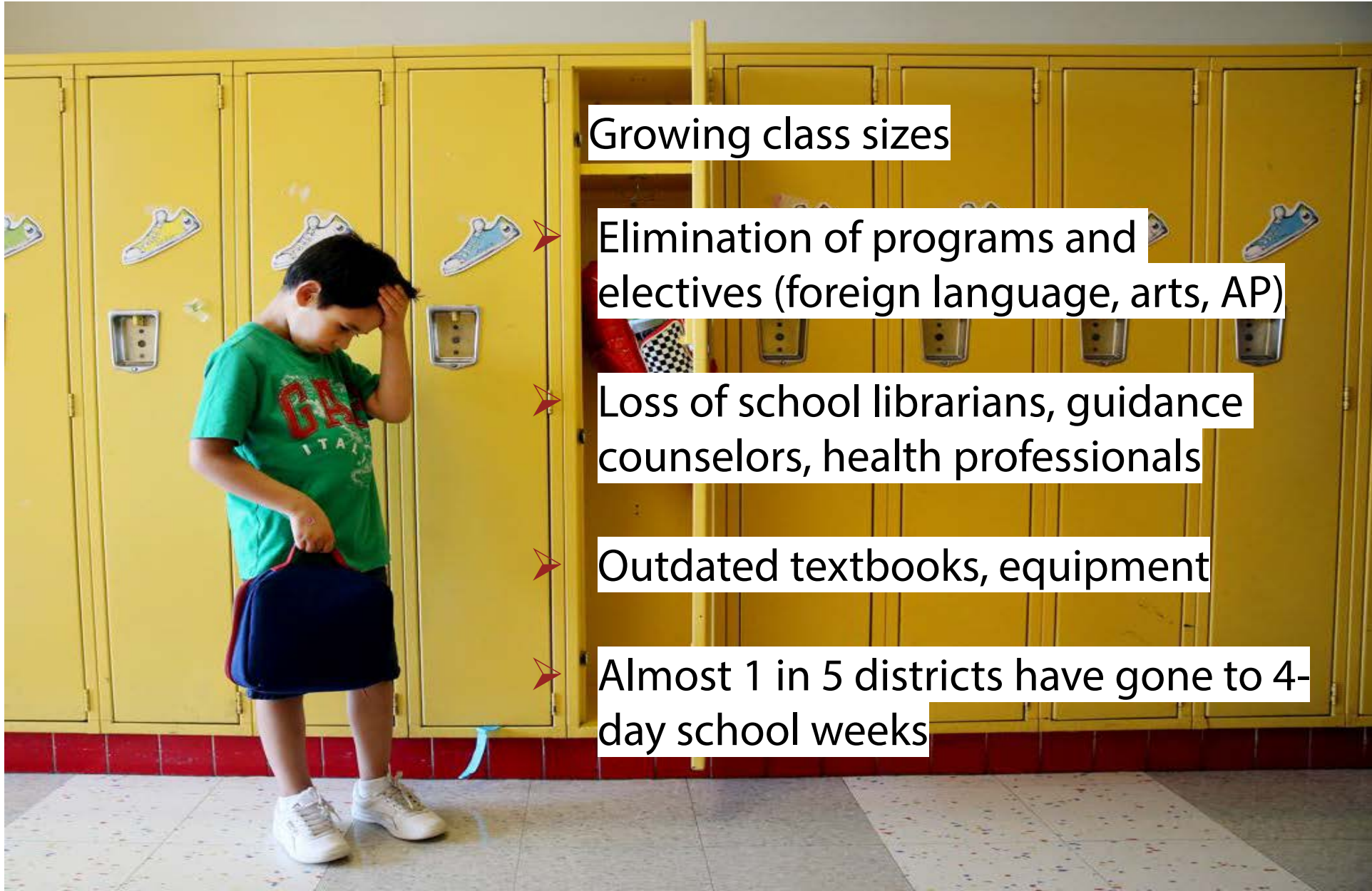
Percent change in state formula funding* per student, inflation adjusted, fiscal years 2008-2018



*General or formual funding is the primary form of state K-12 funding. States also typically provide revenue for other, more specific purposes, such as bus transportation and contributions to school employees and pension plans.

Source: CBPP budget and enrollment analysis.

Shrinking Budgets: Common Education



Growing class sizes

Elimination of programs and
electives (foreign language, arts, AP)

Loss of school librarians, guidance
counselors, health professionals

Outdated textbooks, equipment

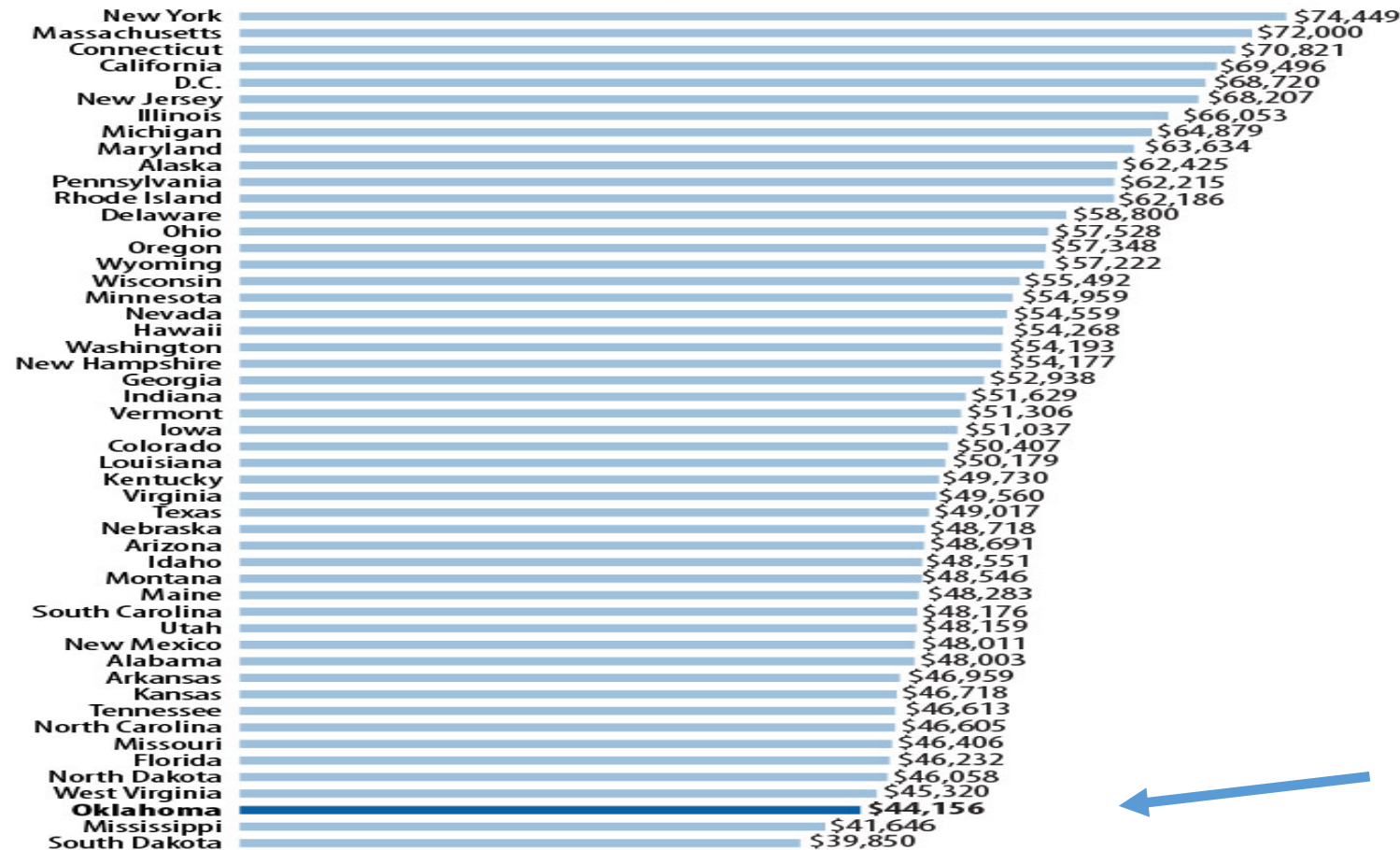
Almost 1 in 5 districts have gone to 4-
day school weeks

Shrinking Budgets: Common Education

- Oklahoma teachers earn the third lowest average annual salary in the nation
- Minimum teacher pay scale has not risen since 2008

Oklahoma Teachers Are Poorly Paid

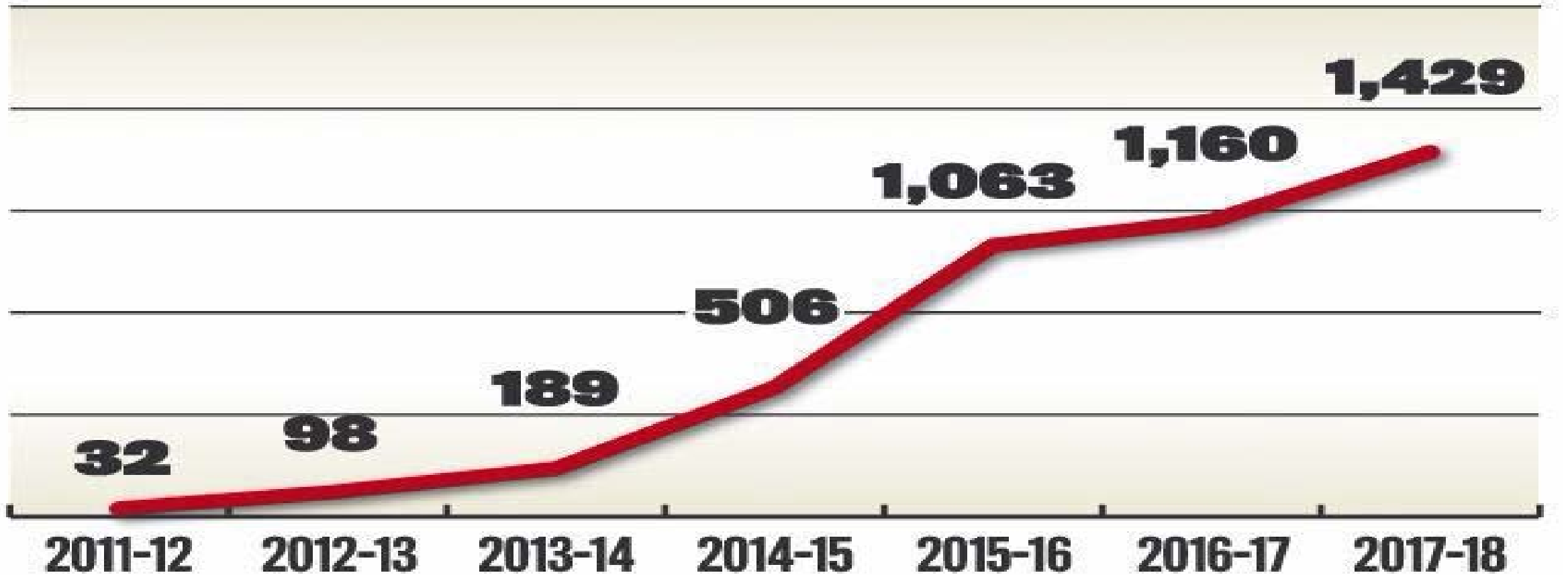
Estimated average annual salary in school year 2011-2012



Source: National Center for Education Statistics

Shrinking Budgets: Common Education

Emergency teacher certifications issued



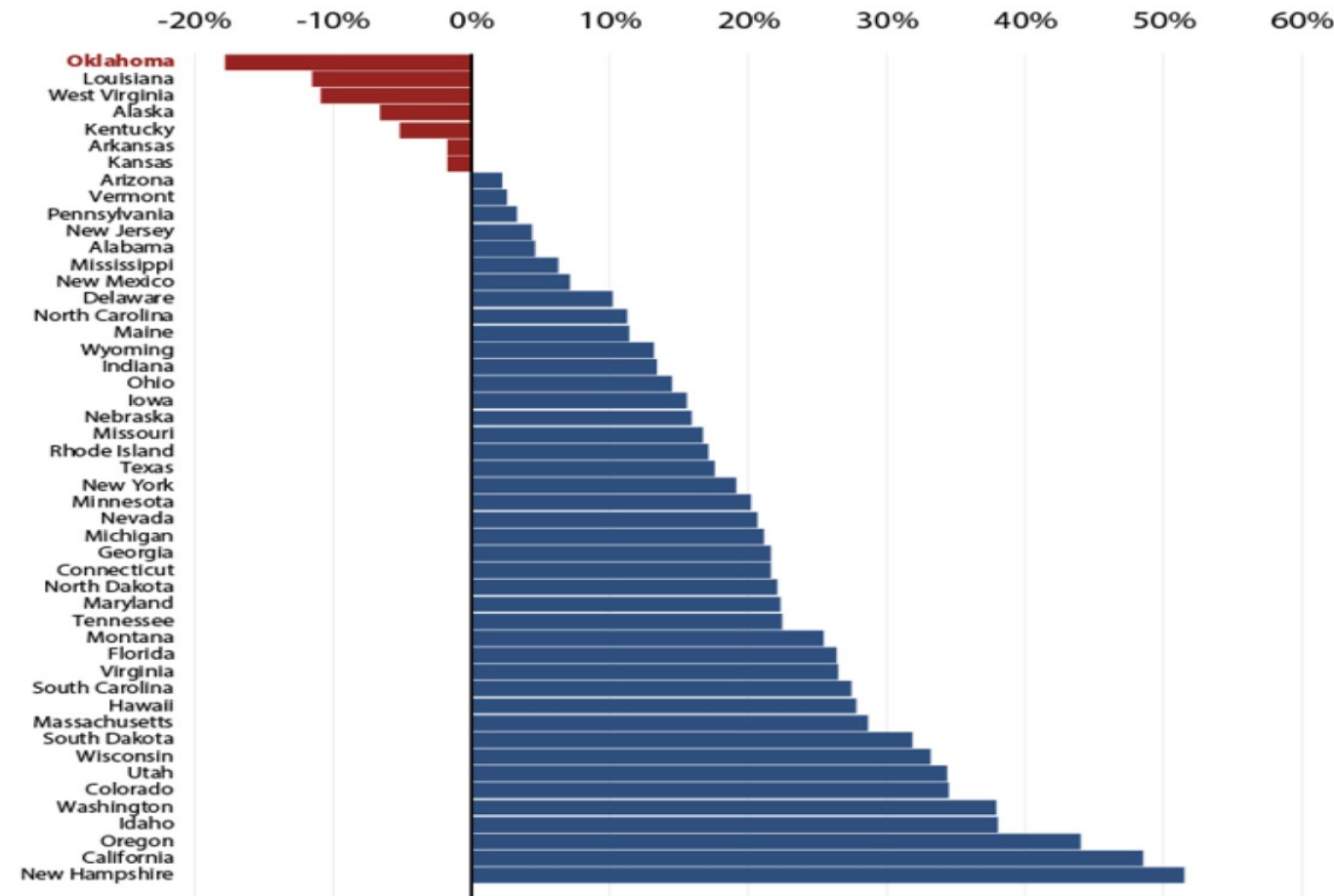
SOURCE: Oklahoma State Department

STEVEN RECKINGER/Tulsa World

Shrinking Budgets: Higher Education

- Largest cuts to higher education in the nation

Changes in State Funding of Higher Education, FY12-FY17



* FY17 funding for Illinois has not yet been finalized

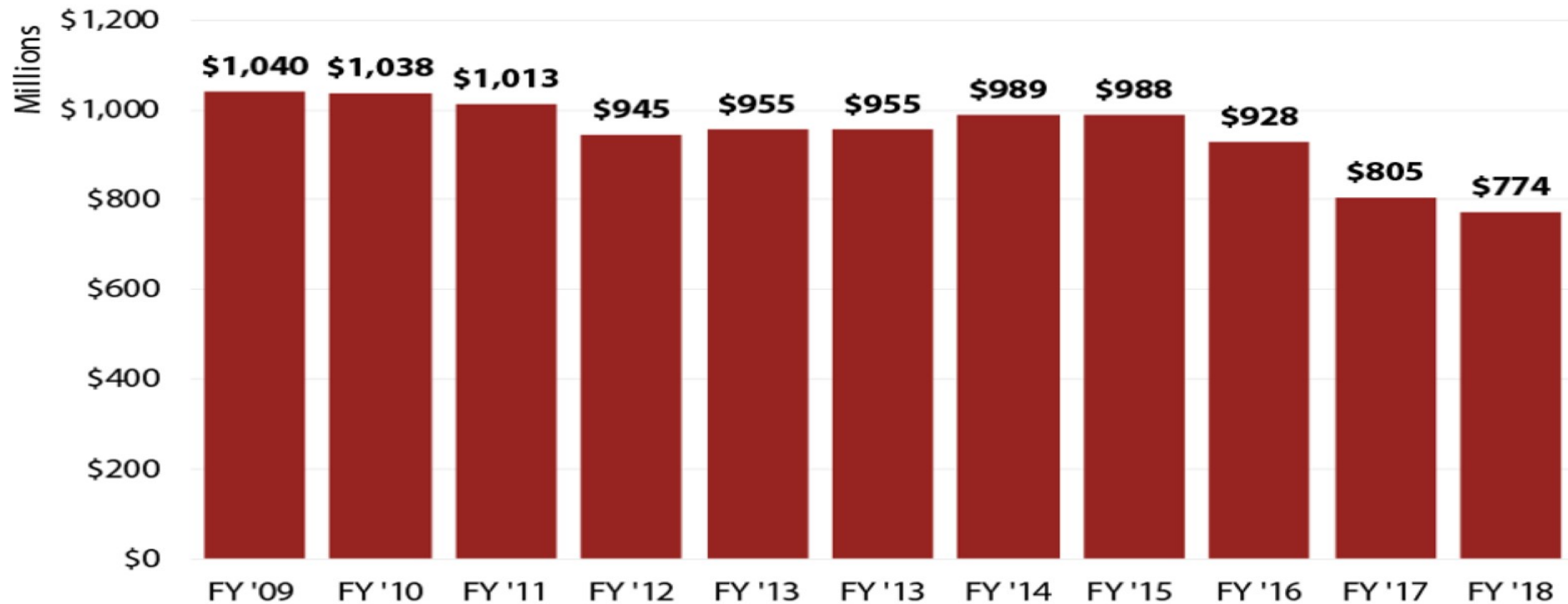
Data Source: Illinois State University College of Education Grapevine Project

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Shrinking Budgets: Higher Education

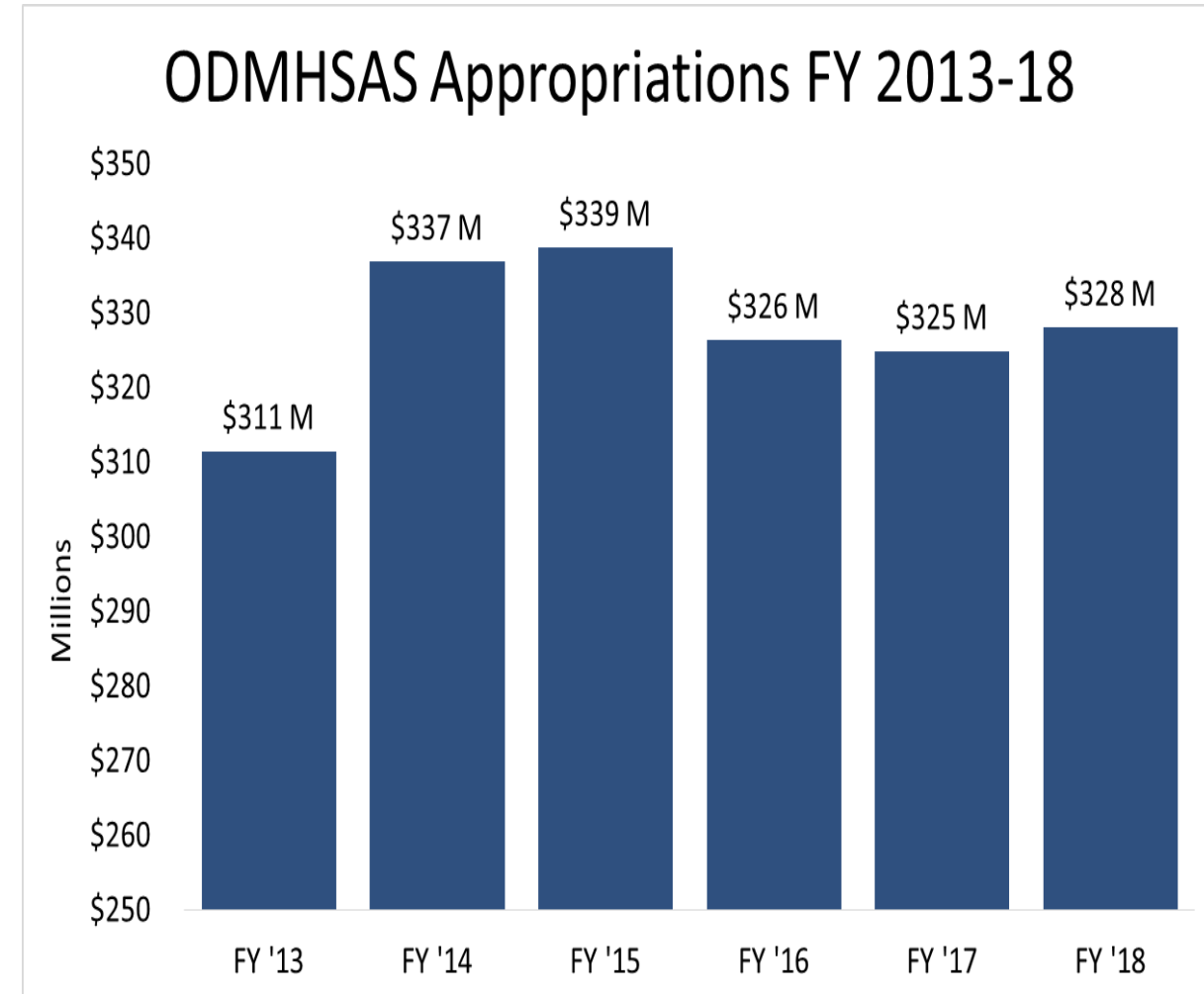
- Positions, programs and courses eliminated
- Annual tuition increases of 5-10 percent

State appropriations for higher education down 25.6% from 2009



Shrinking Budgets: Mental Health

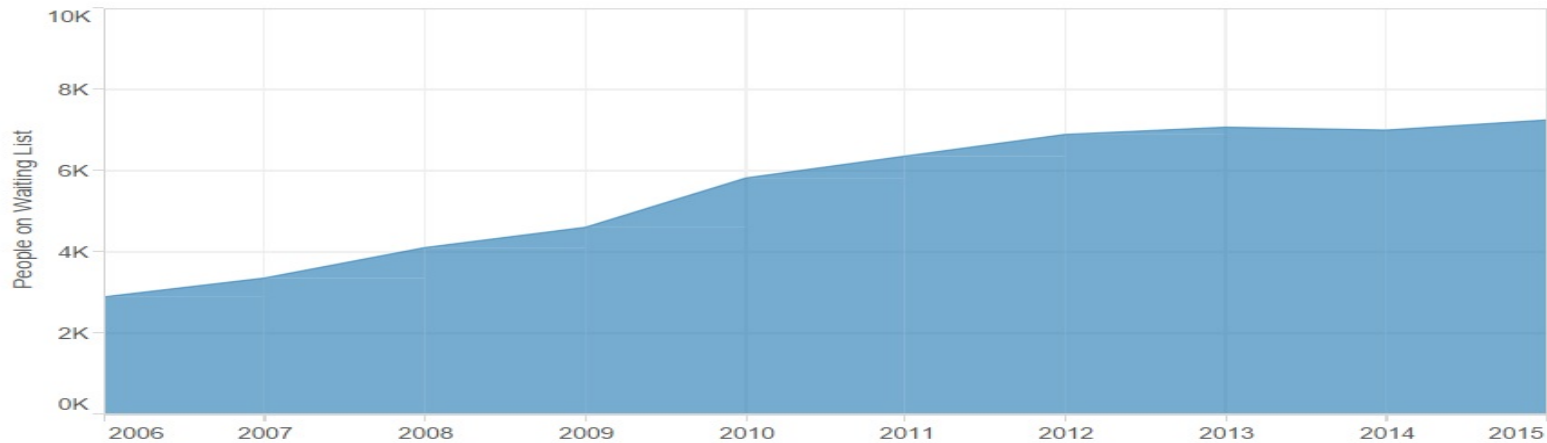
- Oklahoma has the second-highest rate of mental illness in the US
- Oklahoma's per capita mental health funding is among the lowest in the nation
- In FY 2016, provider rates were cut from 3% - 30% and more than 70,000 Oklahomans lost some access to care
- Expansions of effective programs have been derailed by budget cuts



Shrinking Budgets: Human Services

- Thousands of Oklahomans with developmental disabilities are waiting over a decade to receive home- and community-based waiver services

Over 7,500 families are on the DDSD waiting list



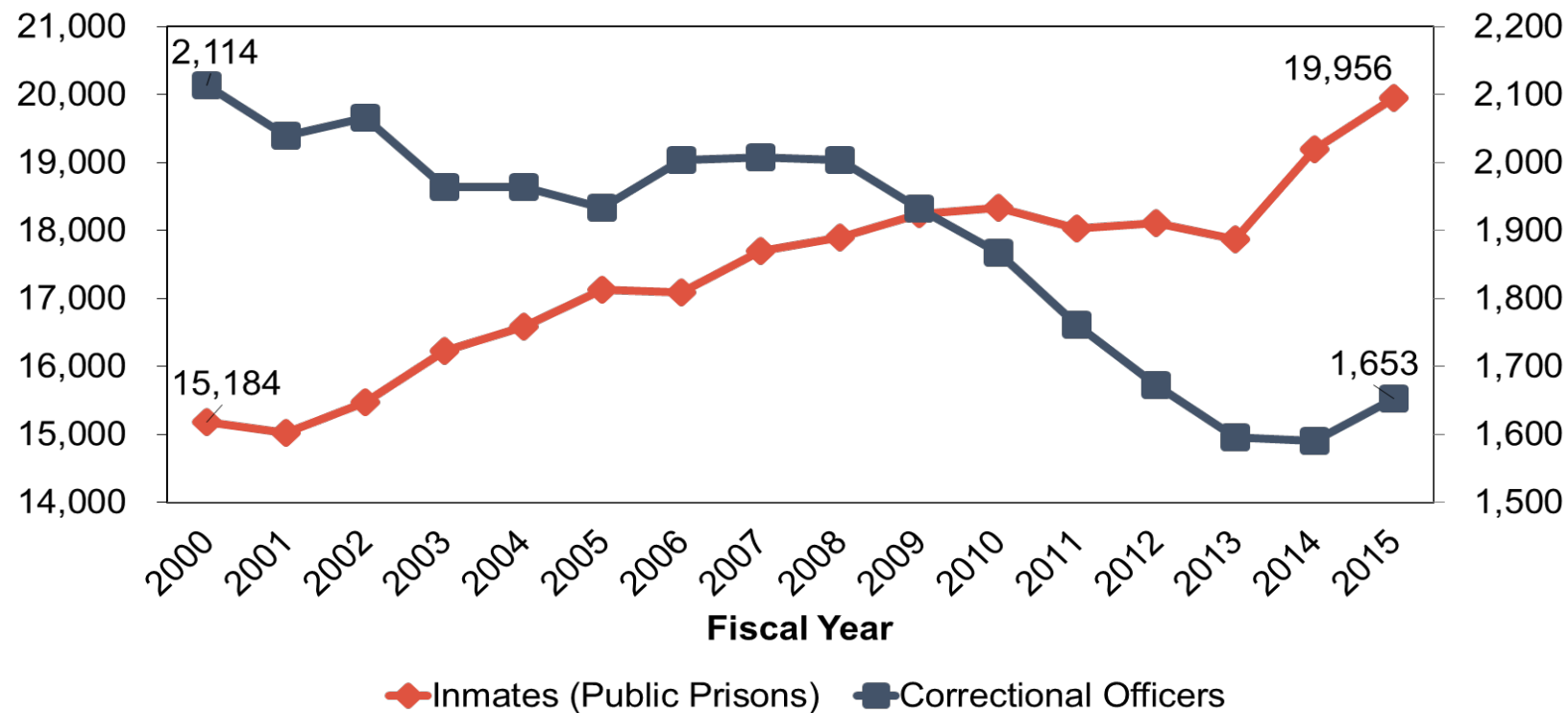
Developmental Disabilities Services division of Oklahoma Department of Human Services

Chart by Oklahoma Watch

Shrinking Budgets: Public Safety

- Oklahoma's correctional facilities are critically overcrowded and understaffed

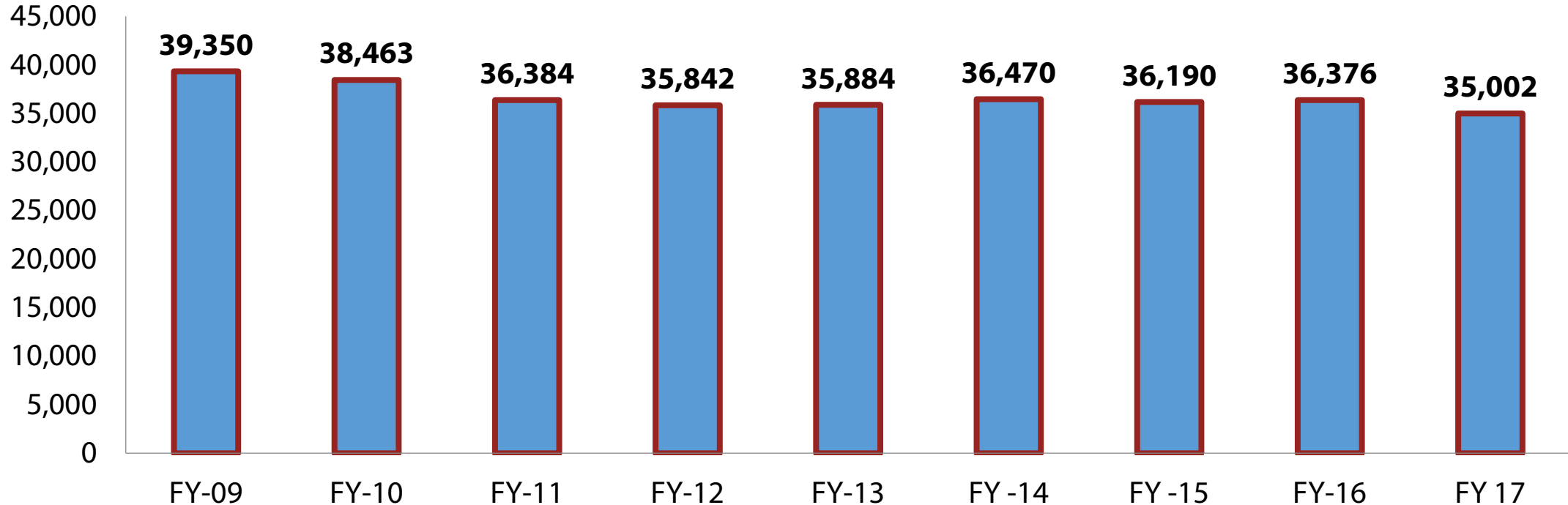
Oklahoma State Prisons Have 4,772 More Inmates and 461 Fewer Correctional Officers Since 2000



Shrinking Budgets: State Workforce

- State workforce is 11 percent smaller than it was in 2009
- 2,626 fewer employees than in 2001, while state population has grown by 350,000
- Most of these public servants have gone 7-10 years without a raise

Oklahoma State Government Employs More Than 4,000 Fewer Workers Compared to 2009



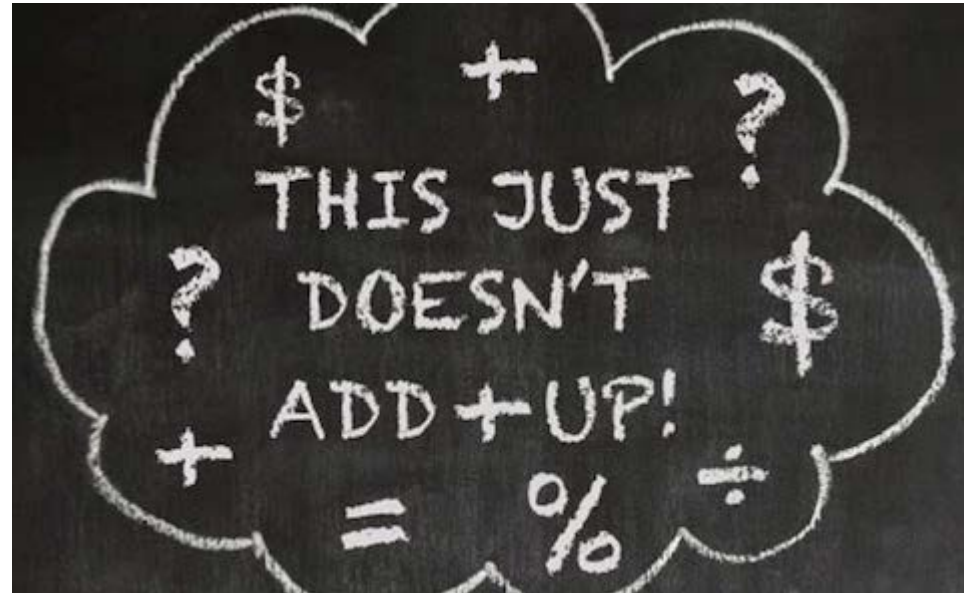
How Did We Get Here?



How Did We Get Here?

Why is Oklahoma experiencing chronic budget shortfalls?

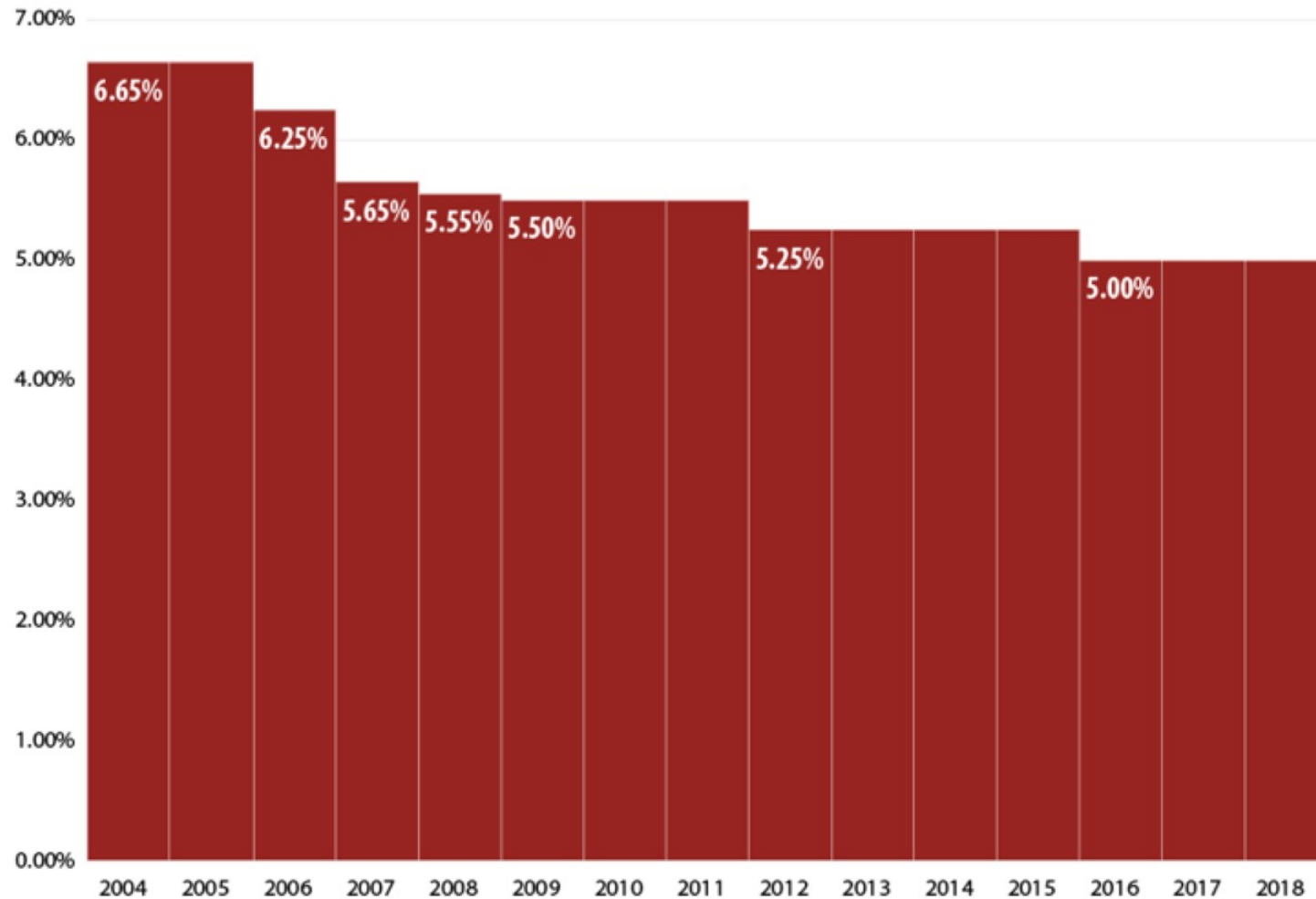
- Low energy prices are only part of the story.
- Even when the economy was strong, we can't pay our bills and take care of critical needs.



How We Got Here: Tax Cuts

The top income tax rate has been cut by 27 percent, costing \$1.02 billion in FY 2016.

Oklahoma Top Income Tax Rate, 2004-2018



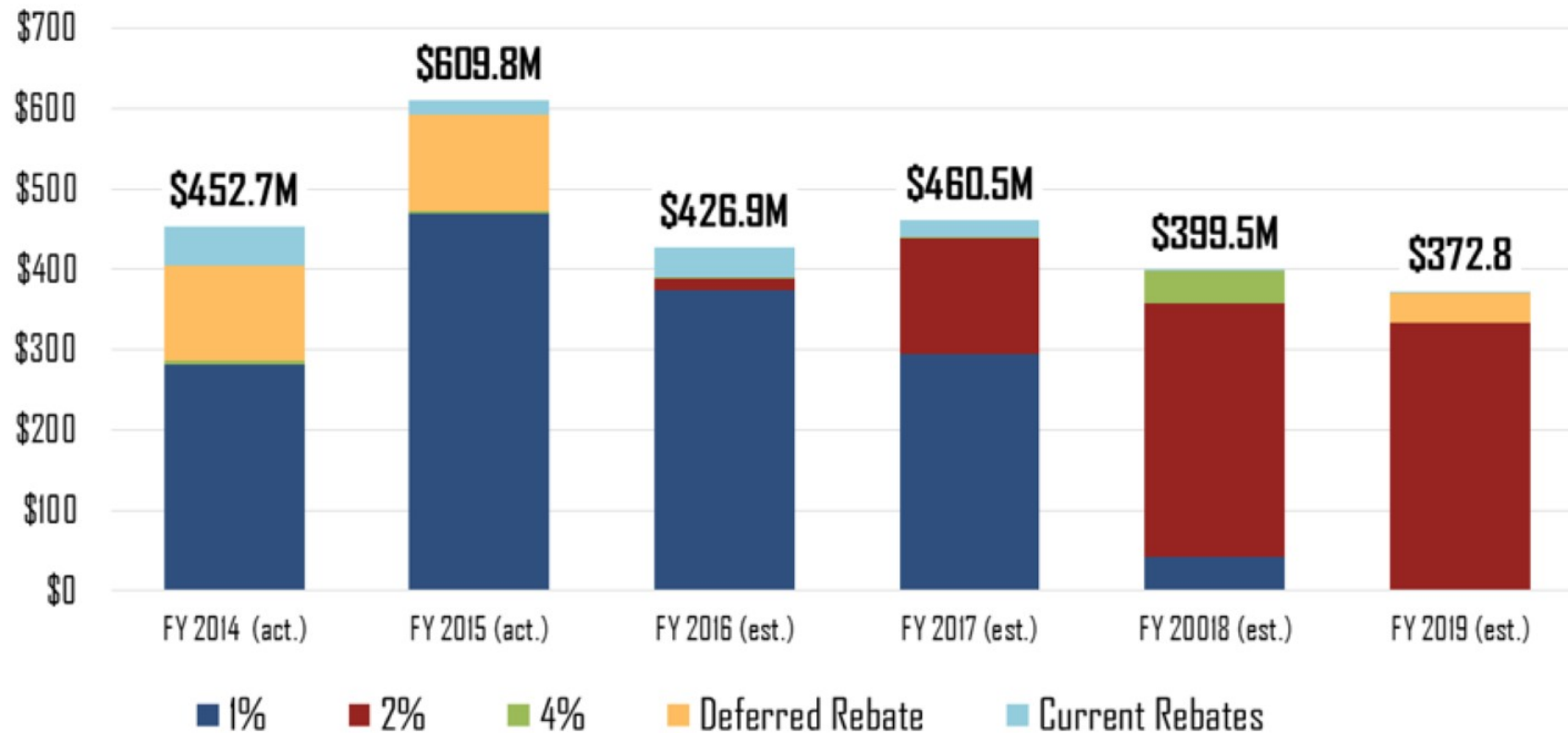
How We Got Here: Tax Cuts

When all tax cuts since 2004 are included, annual revenue loss reaches \$1.5 billion.

- Estate tax abolished
- Capital gains exemption for sale of Oklahoma property
- Standard deduction raised and indexed
- Greater exemptions for retirement income
- Tax preferences for veterans

How We Got Here: Tax Cuts

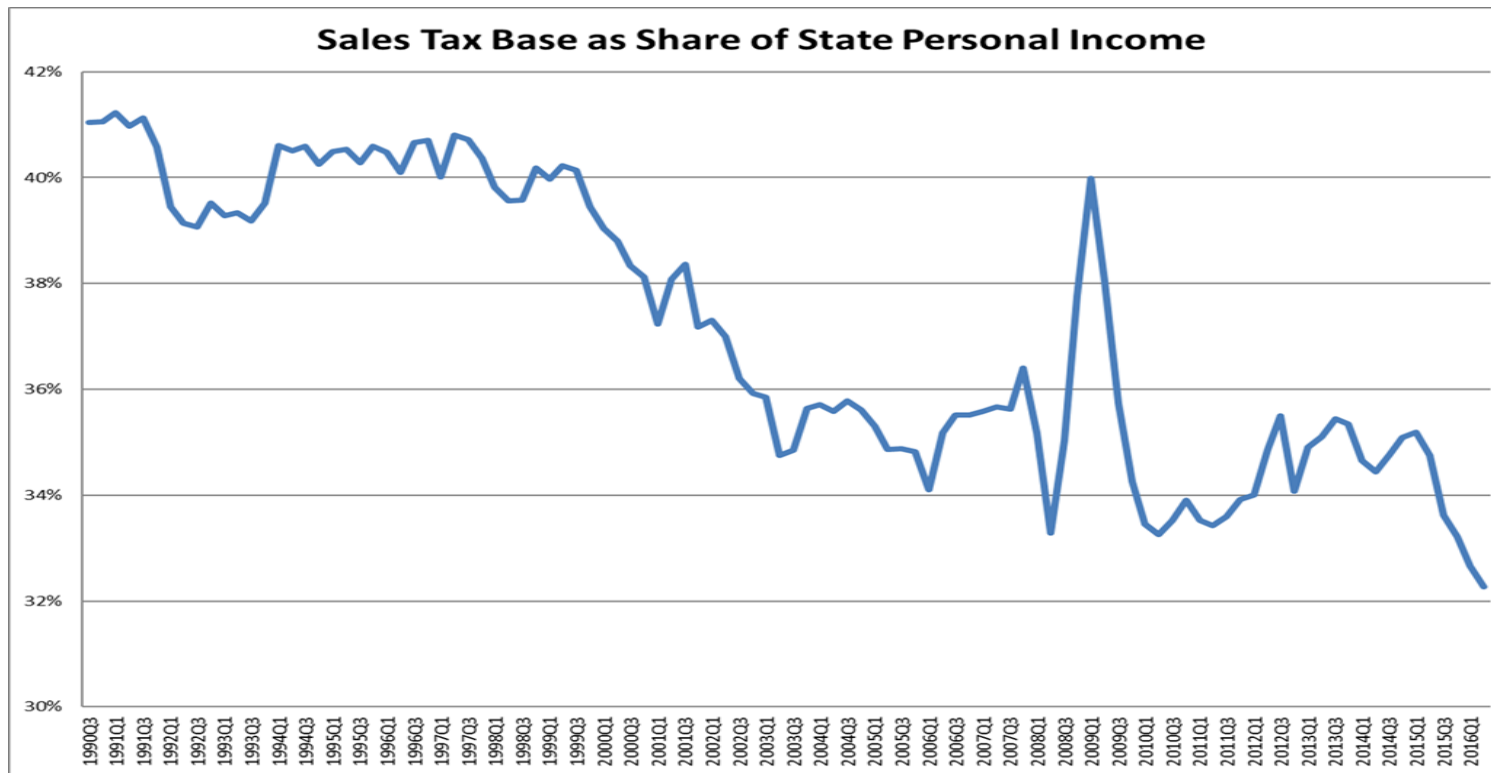
Annual Cost of Gross Production Tax Breaks and Rebates (in \$M), FY 2014- FY 2019



Source: Oklahoma Policy Institute calculations based on Oklahoma Tax Commission data

How We Got Here: Economic Changes

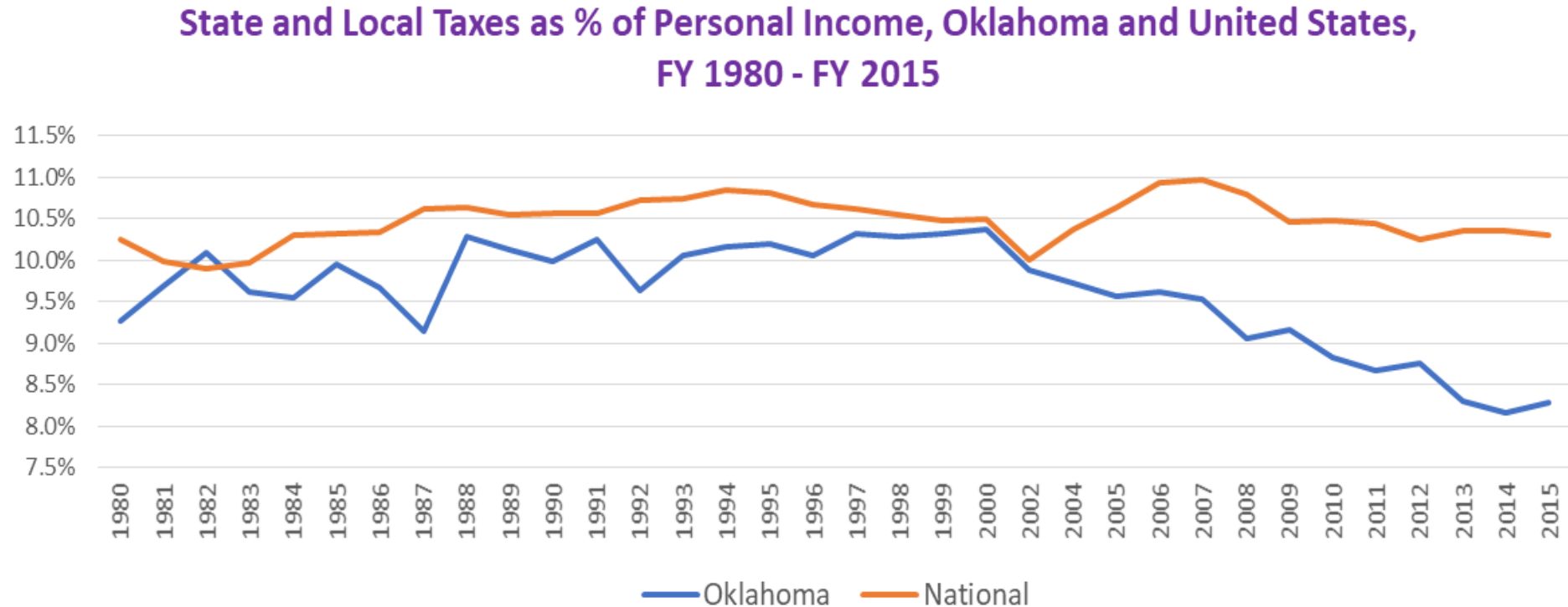
In 1990, the sales tax base was equal to 40 percent of state personal income; now it's 32 percent



Source: OMES Dec. 2017, Used with permission from Professor Robert C. Dauffenbach, 2017 OKC Economic Roundtable

Oklahoma is a low tax state

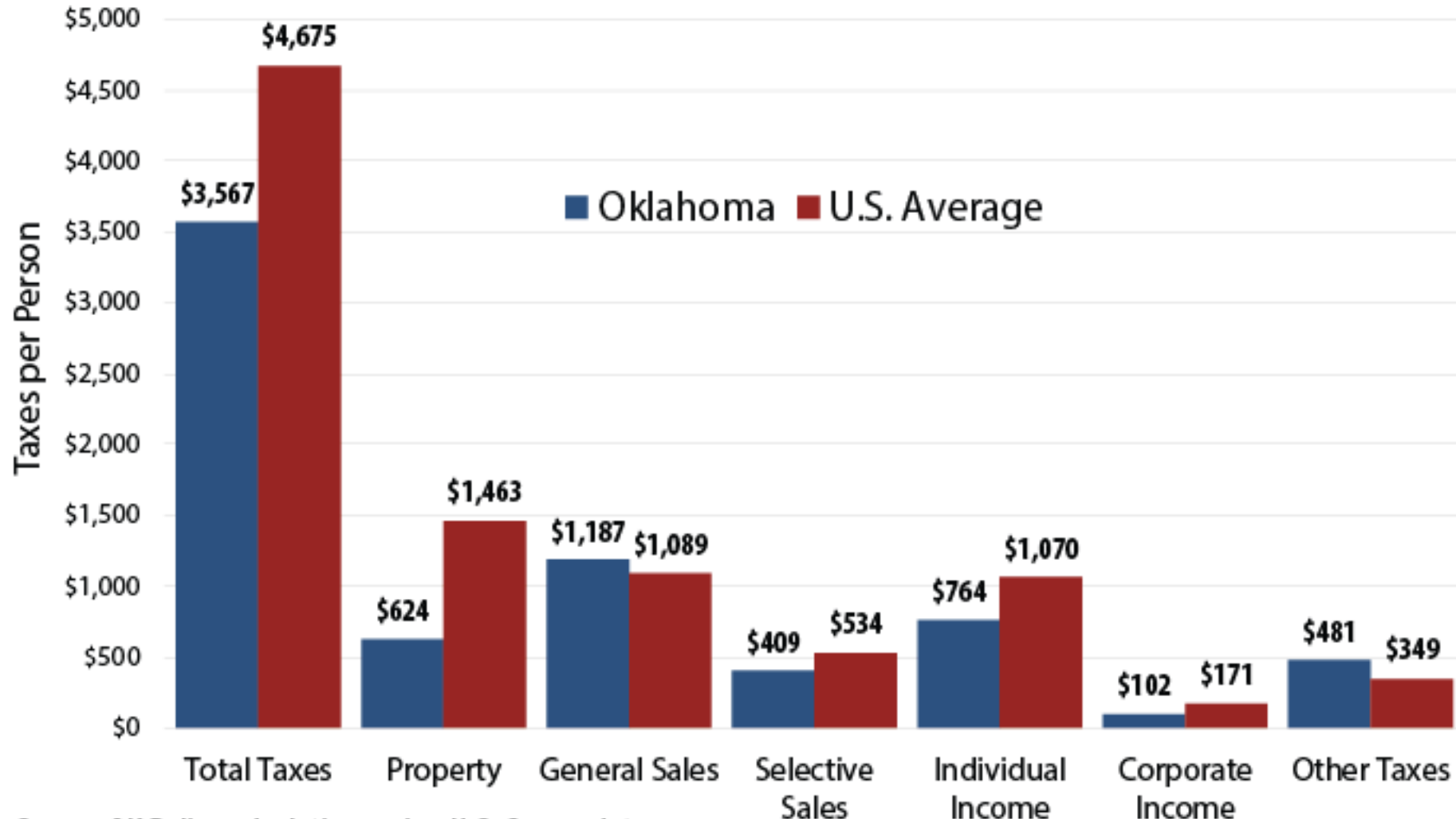
- State and local taxes as a share of income are now 20 percent below the national average and almost 25 percent below levels of late 1990's



Source: Center on Budget and Policy Priorities. Data unavailable for 2001, 2003

Oklahoma is a low tax state

State and Local Taxes Per Person, 2014



Source: OK Policy calculations using U.S. Census data

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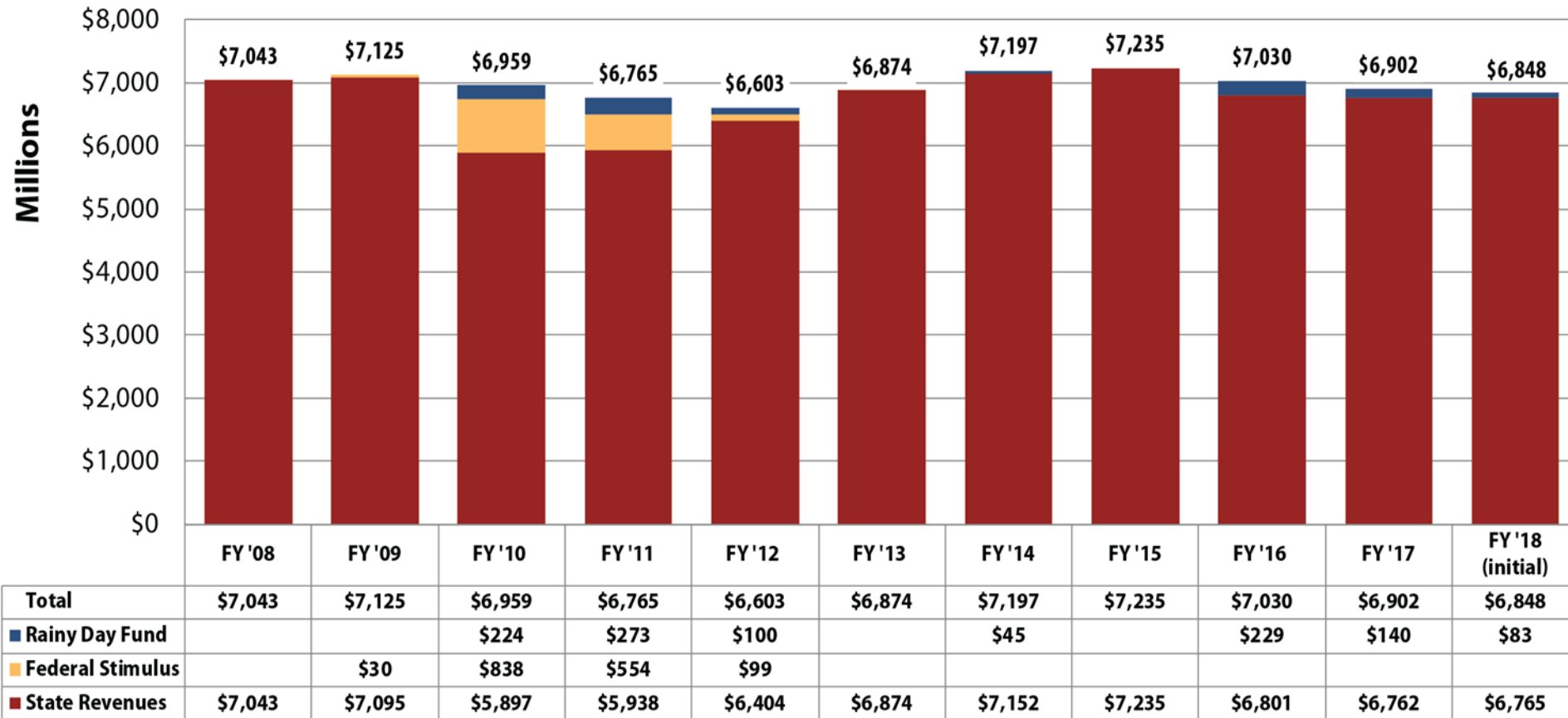
Oklahoma faces serious budget challenges



Oklahoma faces serious budget challenges

- Lawmakers reached an (almost) flat budget last year after entering session facing a massive budget hole

Oklahoma State Appropriations, FY 2008 - FY 2018
(in \$ millions, includes mid-year cuts & supplementals)



Oklahoma faces serious budget challenges

Recurring Revenue	
Cigarette Smoking Cessation Fee (\$1.50 per pack)	\$214,000,000
Vehicle Use Tax 1.25%	\$110,908,950
Increase GPT on horizontal wells to 4%	\$94,989,966
Real ID drivers licenses	\$17,860,182
Non-compliant business initiative	\$15,510,757
End sales tax vendor rebate	\$12,659,138
Long lateral drilling	\$9,001,275
Freeze standard deduction	\$3,950,239
Fee for professional sports tickets	\$2,527,000
Other measures	\$4,370,050
Total Recurring Revenue	\$485,777,557

One-Time Revenue	
Transfer ROADS Funds	\$100,000,000
Rainy Day Fund	\$83,000,000
Agency revolving fund transfers	\$60,299,818
Transfer County Improvement Roads & Bridges	\$50,000,000
Gross production tax rebate moratorium	\$43,054,286
Taxpayer voluntary disclosure initiative	\$13,116,277
Change franchise tax filing fee	\$12,027,000
Unclaimed property fund	\$7,203,502
Total One-Time Revenue	\$368,700,883

Lawmakers passed \$854 million in additional revenues to close this year's budget hole.

Use of one-time funds and increasing non-discretionary spending creates at least \$400 million budget hole for next year.

Oklahoma faces serious budget challenges

- Supreme Court struck down the \$1.50-per-pack smoking cessation fee
 - Created a \$214 million hole in the budget of three agencies
 - Mental Health and Substance Abuse Services (\$75M)
 - Health Care Authority (\$70 million)
 - Human Services (\$69 million)
- Massive cuts were set to take effect December 1st
- Governor announced Special Session for September



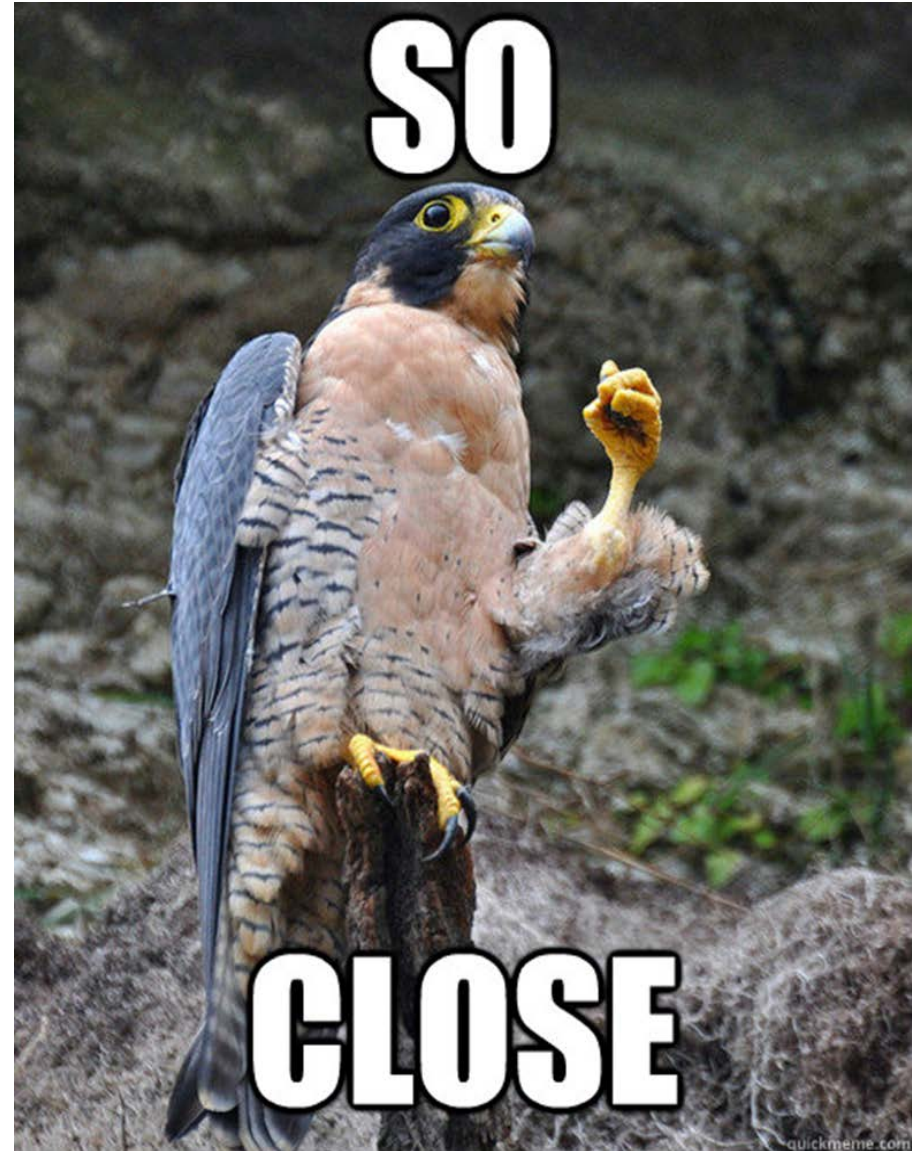
Oklahoma faces serious budget challenges

Comprehensive budget plan proposed in special session (HB 1054):

- **\$1.50-per-pack tobacco tax; \$ 0.06 motor fuel tax, 4% initial rate on gross production**
- **\$3,000 teacher pay raise, \$1,000 state employee pay raise**
- **Restored the EITC**
- **37-5 vote in the Senate**
- **71-28 vote in the House - 5 votes short of $\frac{3}{4}$**

Won support of 77% of legislators

- **80 of 107 Republicans (75%)**
- **28 of 33 Democrats (85%)**



Oklahoma faces serious budget challenges

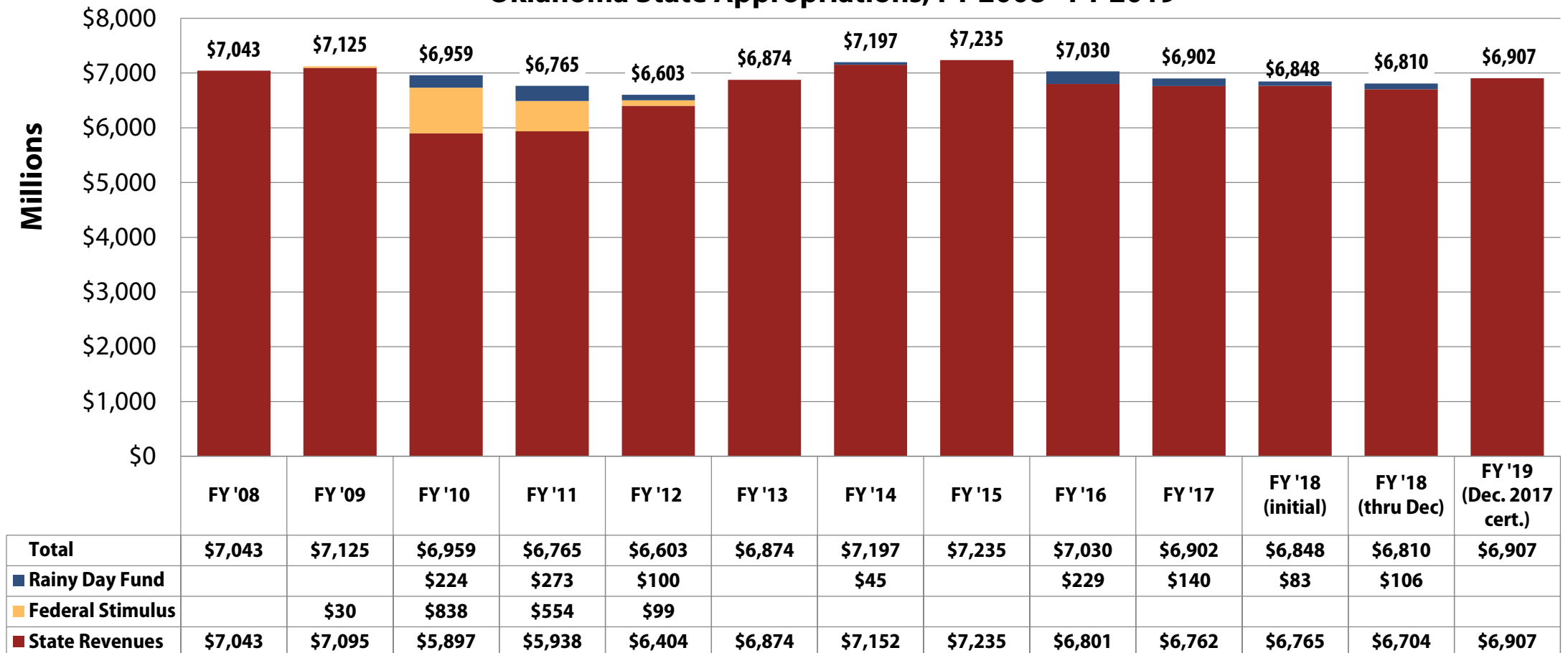


- Cash-and-cuts budget approved on last day of special session (HB 2019)
- Governor line-item vetoed most of the new budget bill
 - Left \$80 million in funding for Mental Health, Medicaid, DHS to fill part of their budget hole
 - \$30 million supplemental for the Health Department
- Second Special Session (December): Supplemental funds to DHS, OHCA to avert cuts through April
- DMHAS, DHS, OHCA still \$67 million below their initial FY 2018 appropriation

Oklahoma faces serious budget challenges

- Initial FY 2019 estimates show enough revenue growth to allow for modest budget increase for next year – but a lot remains uncertain

Oklahoma State Appropriations, FY 2008 - FY 2019



There are some reasons for hope!



Positive steps in recent sessions

- Tobacco trust fund protected
- Stronger pension systems
- Greater scrutiny of tax credits
- New budget reserve fund
- Stopped the movement for income tax repeal
- Recognition of structural deficit and need for new revenues
- Openness to new taxes

What can be done?

We have responsible & feasible solutions



BLUEPRINT *for a* **BETTER BUDGET**

SOS
save Our State

What can be done?

We have responsible & feasible solutions

- Increase the cigarette tax
- Increase the fuel tax
- Curtail tax breaks and off-the-top spending
- Modernize/extend the sales tax
- Restore top rate for high incomes
- Restore 7% gross production tax rate
- Reverse cuts to the state Earned Income Tax Credit
- Reform State Question 640

What can be done?



- **Cigarette Tax** - \$243.9mm - *Increased by \$1.50 per pack*
 - **Gross Production Tax** - \$133.5mm - *All wells currently at 2% will be increased to 4% and all future wells will begin at 4% for first 36 months and move to 7% after*
 - **Little Cigars and Chewing Tobacco & E- Cigarettes** - \$12.9mm
 - **Motor Fuel Tax** - \$170.4mm - *Increase rate on diesel and gasoline by \$0.06 per gallon*
 - **Wind Generation Tax** - \$15.0mm –
 - **Transferable / Refundable Income Tax Credits** - \$18.0mm - *Cap transferability / cash refundability for coal, wind, and railroad credits effective 2018 tax year*
 - **Gaming Modernization** - \$22.0mm
 - **Individual Income Tax Reform** - \$175.0mm
- Total New Revenue** - \$790.7mm –
- Teacher & Principal pay raise** - (\$285.0mm)
- Revenue for Essential Services and Budget Stabilization** - \$405.7.0mm

There are some reasons for hope!



Together Oklahoma is a grassroots, nonpartisan coalition of citizens, community groups, and businesses working together to ensure important public investments that support a robust economy and quality of life.

Website: www.togetherok.org

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