

Oklahoma's Budget: From Shortfalls to Prosperity

4th Annual State Budget Summit #okbudget17
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OKPOLICY.ORG
Oklahoma Policy Institute

Who We Are

- A non-partisan, independent, non-profit policy think-tank that launched in 2008
- Promote adequate, fair, and fiscally responsible funding of public services and expanded opportunity for all Oklahomans by providing timely and credible information, analysis, and ideas
- Funded by grants from national and local foundations, organizations, businesses – and people like you



Who I Am

- Native of Montreal, moved to Oklahoma in 1996
- B.A. from University of Alberta, Ph.D. from Cornell University
- Worked 3 years for Oklahoma State Senate, then as Policy Director for CAP Tulsa, 2000-2007
- Helped launch OK Policy in 2008, Executive Director since 2010
- Conduct research, give presentations on budget and taxes, health care, poverty, other issues
- Weekly column in the Journal Record
- Proud son and husband of public school teachers
- Father of a public school student
- Go Thunder! And Oilers!







OK Policy Drinking Game!

- Structural deficit!
- Fiscally irresponsible!
- Non-recurring revenues!
- Regressive tax cut!
- Diminished capacity!





Why this matters

- “The moral test of government is how it treats those who are in the dawn of life, the children; those who are in the twilight of life, the aged; and those in the shadows of life, the sick, the needy and the handicapped.”

- Hubert H. Humphrey

- “Society will be judged by how it defends its most vulnerable – the aged, the infirm, the disabled, and the unborn.”

- Mike Pence

- “Don't tell me what you value, show me your budget, and I'll tell you what you value.”

- Joe Biden



What Prosperity Looks Like



What Prosperity Looks Like

- Well-educated citizens, well-trained workforce -
 - Quality education system from early childhood to post-secondary
 - More college graduates

2014 Median U.S. Earnings by Educational Attainment
(for workers age 25 and older)



Source: Bureau of Labor Statistics, Current Population Survey 2014



What Prosperity Looks Like

- Well-functioning infrastructure
- Properly-regulated economy
 - Clearly defined and enforced rules of the game (property rights, health and safety regulations, legal system)
 - Fair competition
- Careful stewardship of our natural resources
- Safe streets and neighborhoods
- Healthy communities -
 - Access to timely and affordable care
 - Public health to eradicate disease
- Stable safety net for those in need



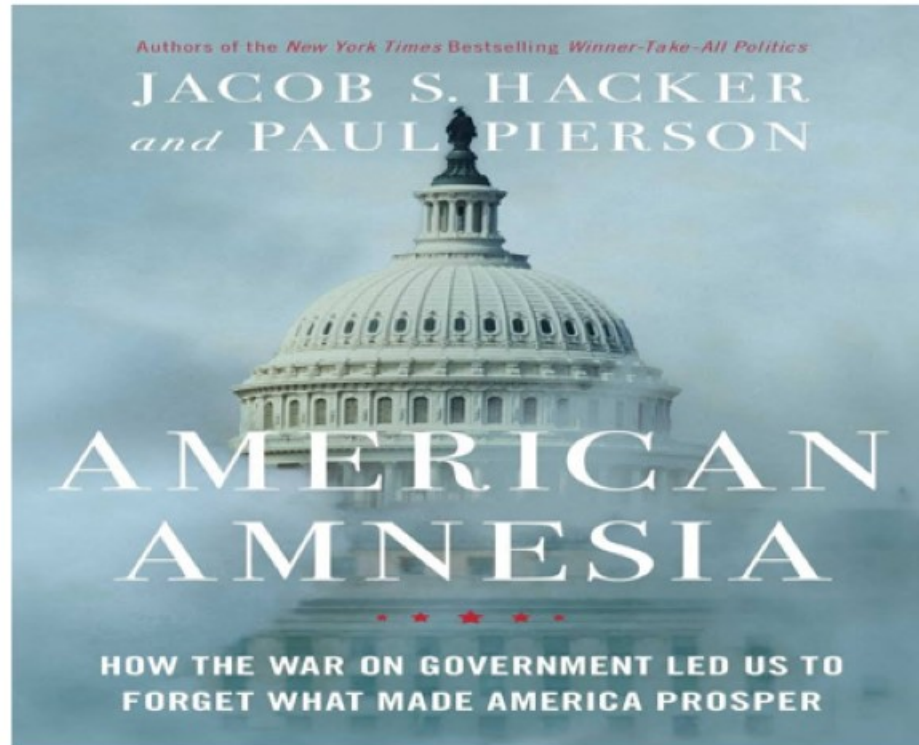
Oklahoma Lags Behind

- We are not truly a poor state (27th in per capita personal income)
- But many critical indicators of well-being are among the worst in the nation
 - 35th: percent of 4th graders proficient or better in reading (2015)
 - 43rd: percent of population with college degree or higher (2014)
 - 45th: overall health status (United Health Foundation, 2014)
 - 22.2%: percent of children living under the poverty level (2015)
 - 1st: percent of children with 3 or more traumatic experiences (2014 Adverse Childhood Experiences Study, ACES)
 - 2nd: overall incarceration rate, 1st in female incarceration (2014)
 - 8th: percent of roadways in mediocre or poor condition (2013)
 - 42nd: "Greenest State" (2015 WalletHub study that considered carbon emissions per person, air and water quality, hazardous waste, energy use, and environmentally friendly behaviors)



We're In This Together

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

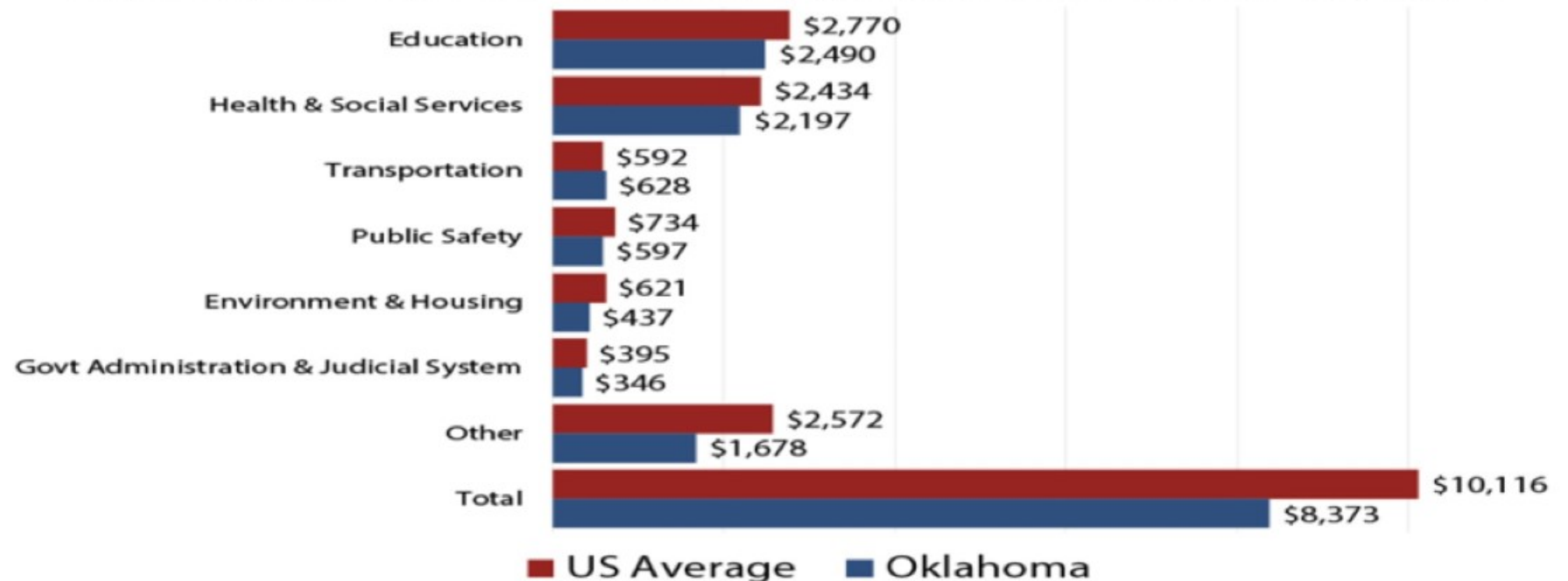


Oklahoma's budget is shrinking

- Oklahoma spends 17 percent less per capita than the national average on state and local public services

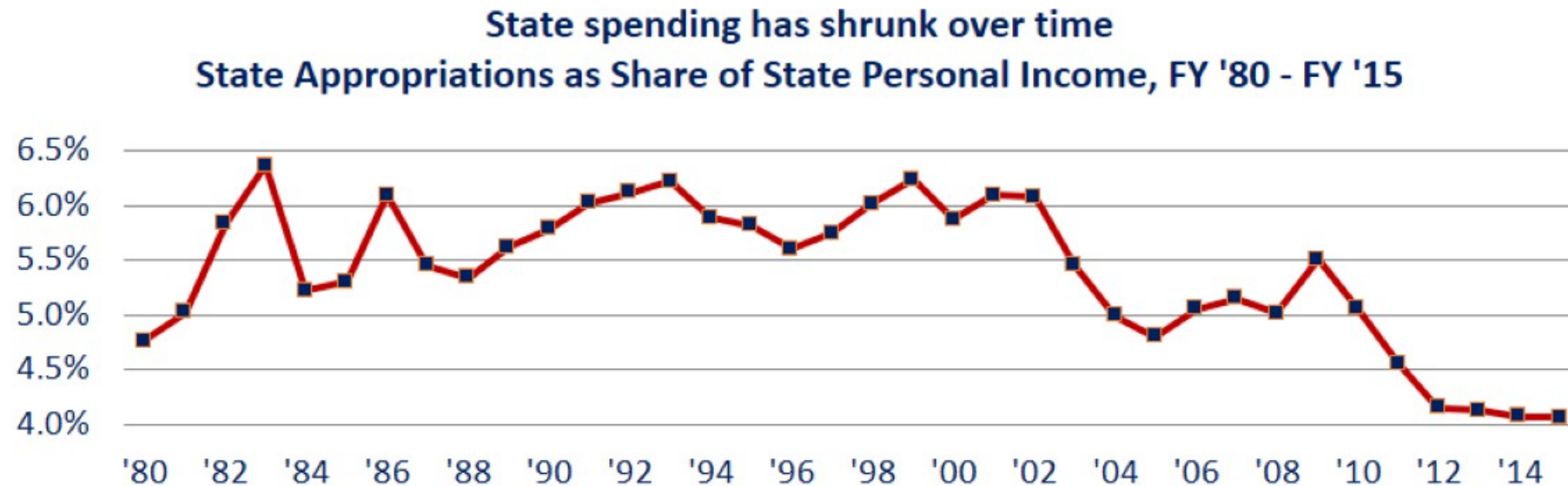
Oklahoma spends less per person than the nation on most public services.

State and Local Government Expenditures Per Person, 2013



Oklahoma's budget is shrinking

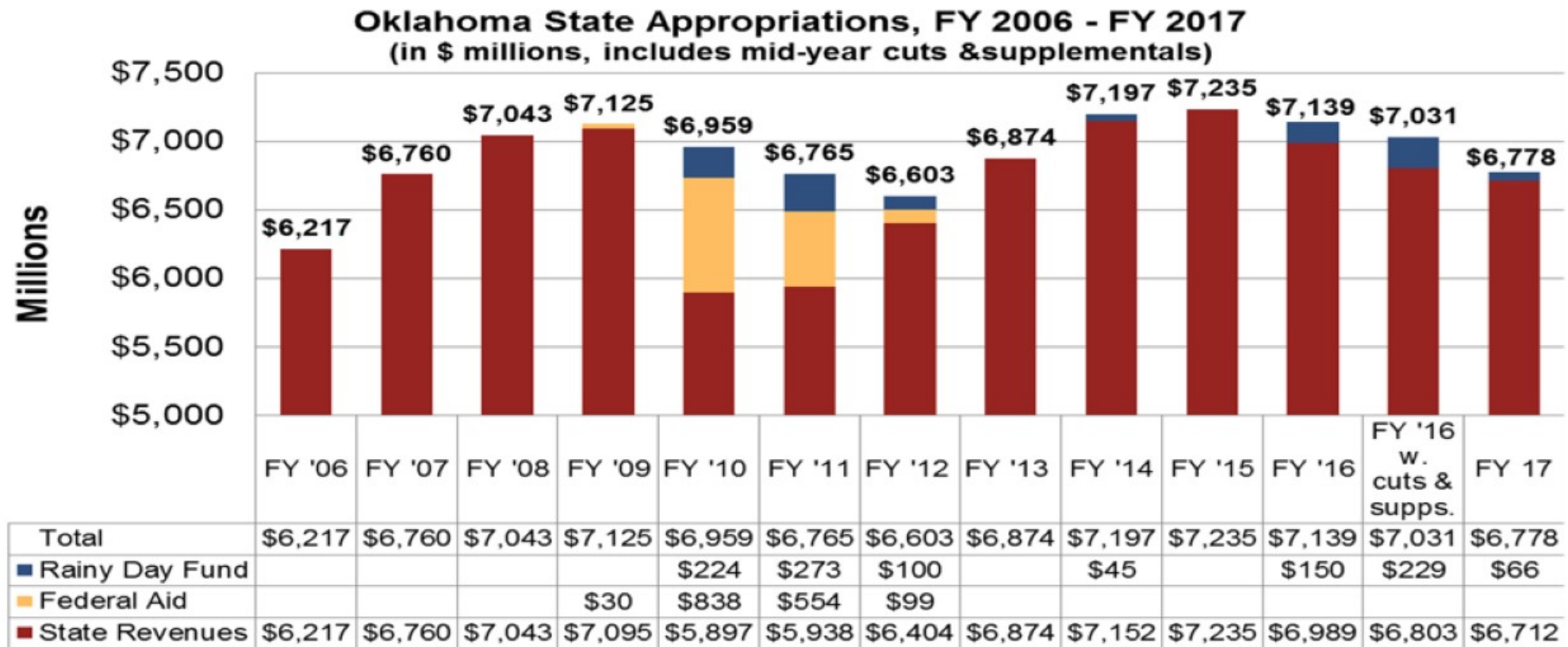
- Over the past decade, state spending is no longer keeping pace with a growing state economy



Source: OK Policy analysis of Bureau of Economic Analysis state personal income data and annual state appropriations, various sources

Oklahoma's budget is shrinking

- FY 2017 Appropriations: \$6.778 billion
- State budget has declined 6 times in last 9 years
- 4 percent less than 9 years ago – without adjusting for inflation or population

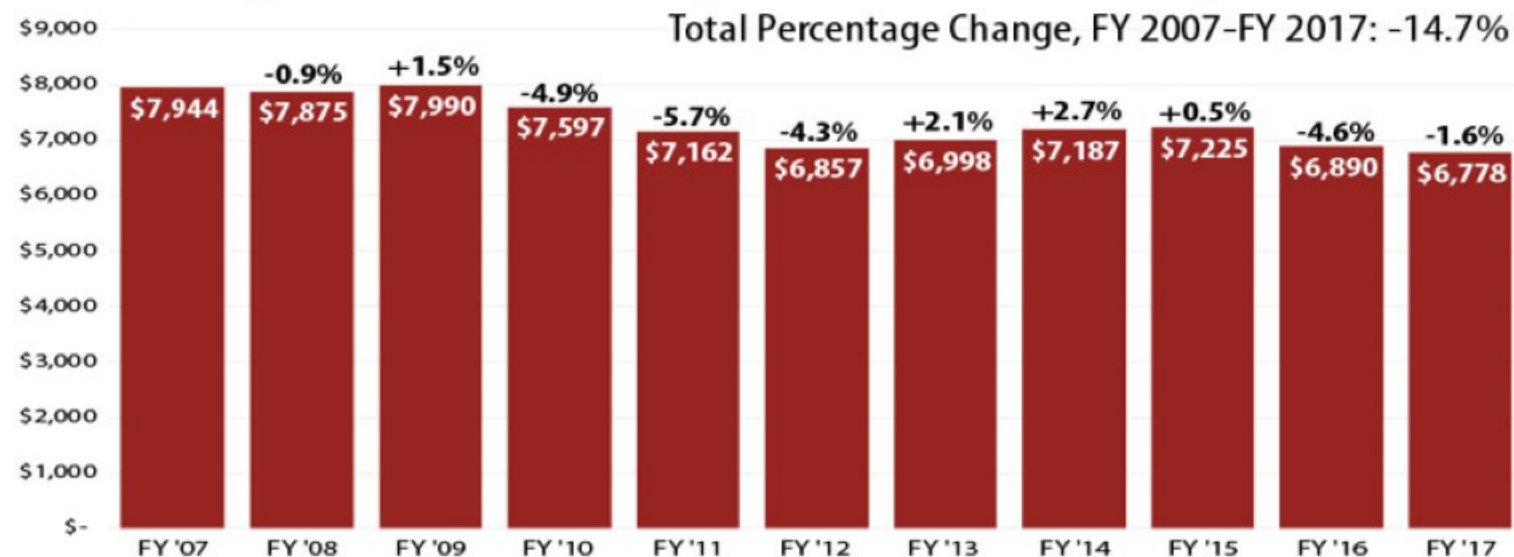


Oklahoma's budget is shrinking

- Adjusted for inflation, the FY 2017 budget is 14.7 percent less than a decade ago

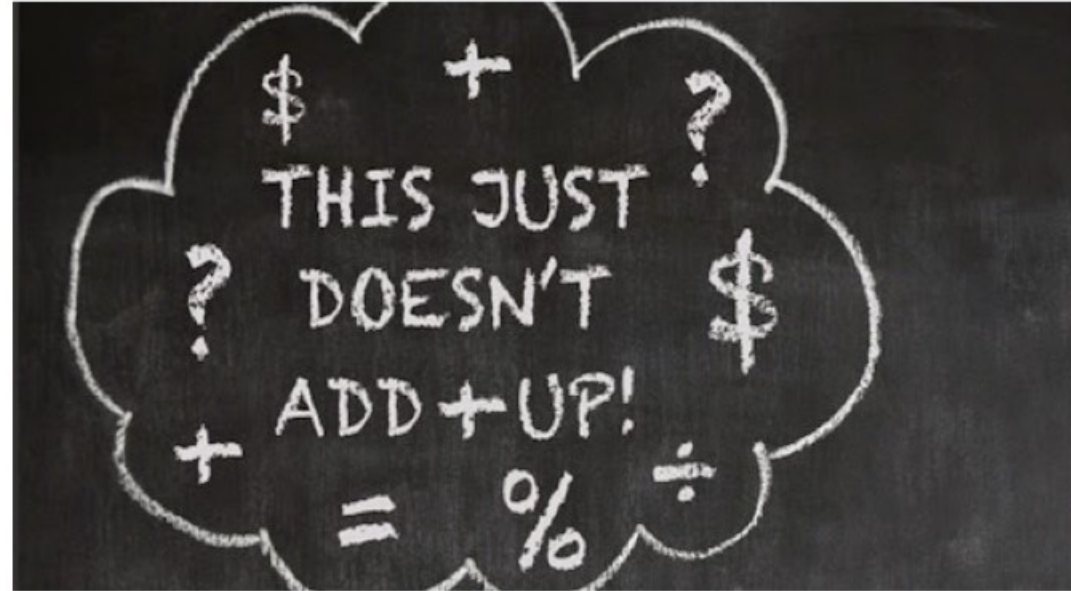
Total State Appropriations and Annual Change, 2016 Dollars

(in \$ millions; adjusted to Q1 2016 dollars using State and Local Government Implicit Price Deflator)



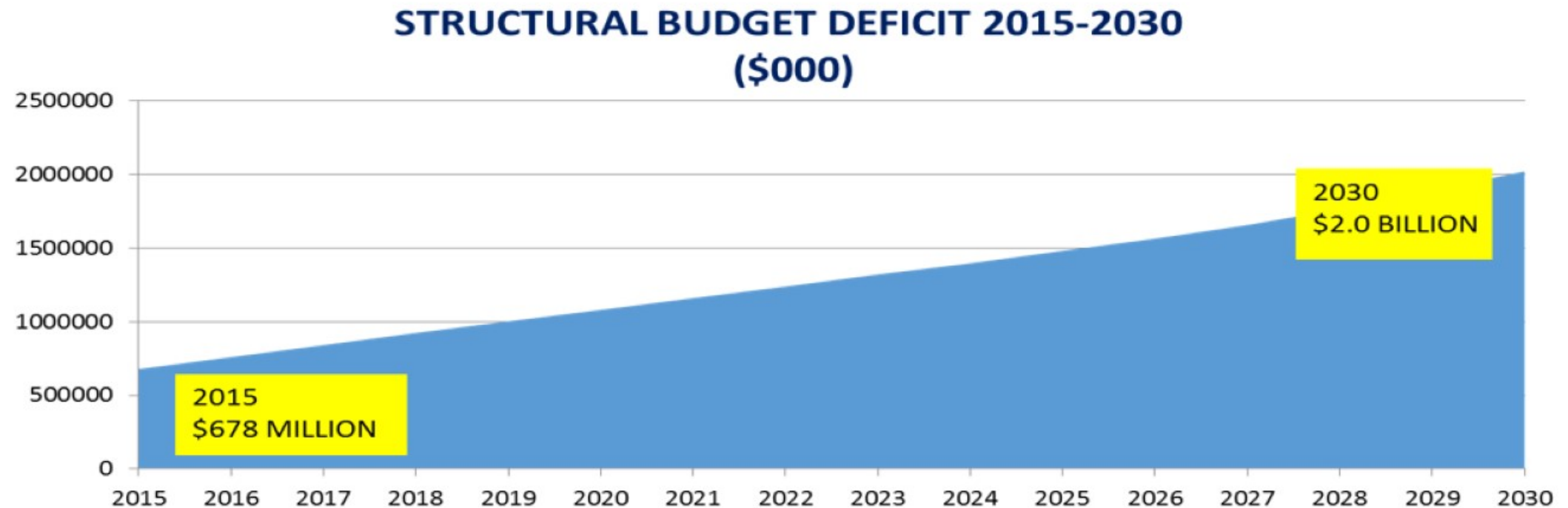
Oklahoma's budget is shrinking

- Why is Oklahoma experiencing chronic budget shortfalls?
 - Low energy prices are only part of the story
 - Even when the economy has been strongest, we're still falling short of being able to pay our bills and take care of our critical needs



Oklahoma's budget is shrinking

- Structural budget deficit already at 9 percent of revenues, projected to rise to 15 percent of revenues by 2030
- The structural deficit will not be solved by higher oil prices
-



Source: Dr. Kent Olson, Oklahoma's Structural Budget: Deficits Ahead, 2015 Oklahoma Academy
Town Hall

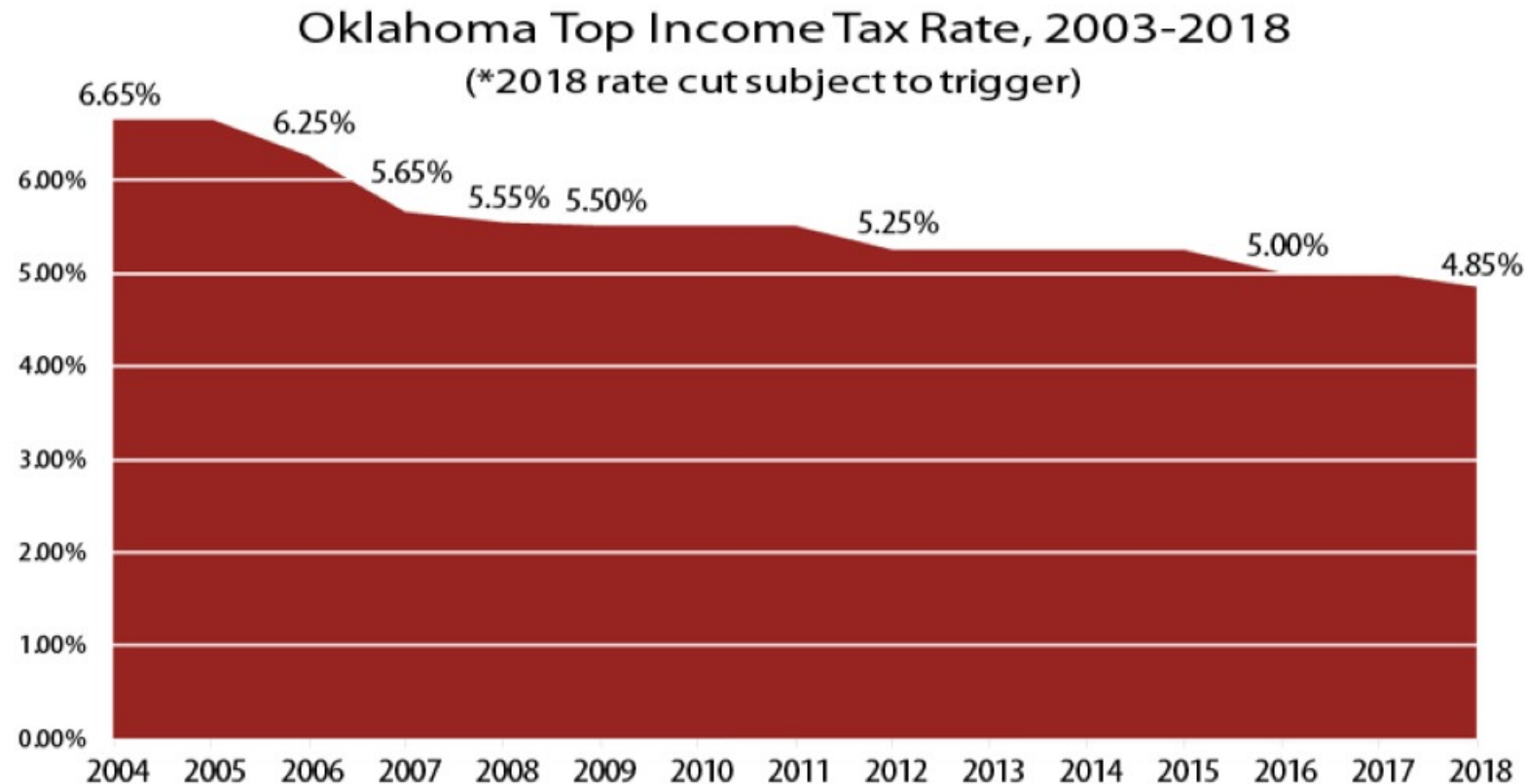
Oklahoma's budget is shrinking

- Why is Oklahoma experiencing chronic budget shortfalls?
 - Repeated income tax cuts from 2004-2014
 - Proliferation of tax breaks
 - Narrowing tax base
 - Growing off-the-top allocations
 - Rising cost of health care
 - Growing prison population
 - Pension obligations
 - The list goes on and on



Taxes have been cut substantially in recent years

- The top income tax rate has been cut by 25 percent, from 6.65% to 5%
- Annual cost of the cut to the top rate: \$1.036 Billion



Taxes have been cut substantially in recent years

- Without the tax cuts, state government would have entered this current downturn without having already endured years of budget cuts and flat funding

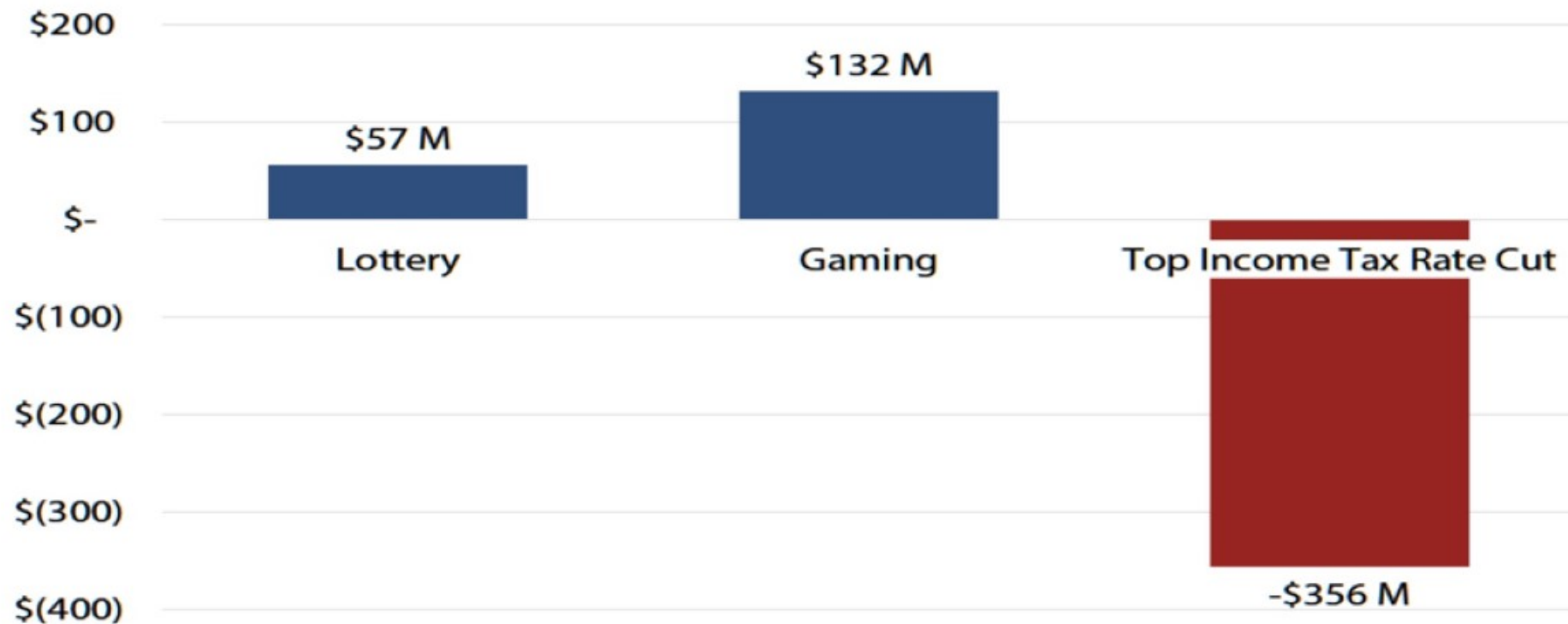
**Table 1: Share of Revenue Lost to Tax Cuts
by Largest State Agencies Based on
Current Budget Proportions**

Agency	Revenue Lost to Tax Cuts
Education	\$356 M
State Regents for Higher Education	\$138 M
Health Care Authority	\$139 M
Human Services	\$97.2 M
Corrections	\$69.4 M
Mental Health & Substance Abuse Services	\$48.4 M
All Agencies	\$1.022 B

Taxes have been cut substantially in recent years

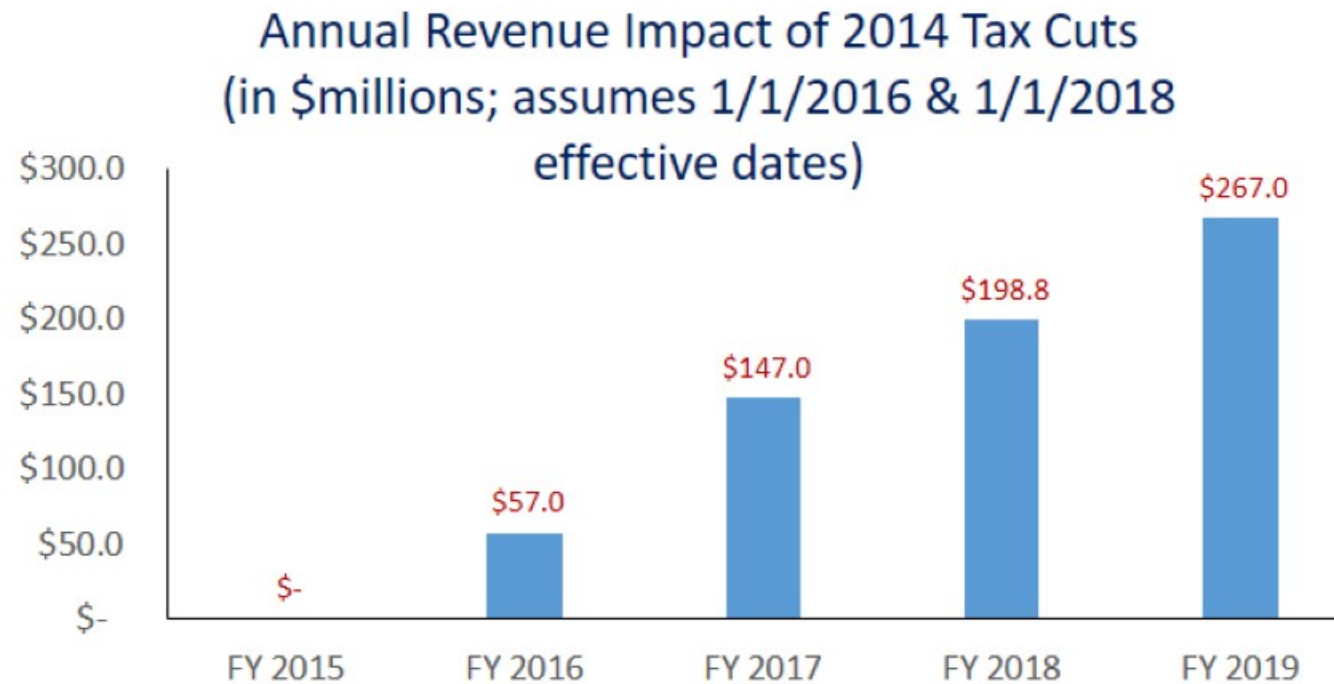
Common education lost almost twice as much from tax cuts as it gained from the lottery and tribal gaming

Revenue Impact of Lottery, Gaming and Tax Cuts, 2016 (in \$M)



Taxes have been cut substantially in recent years

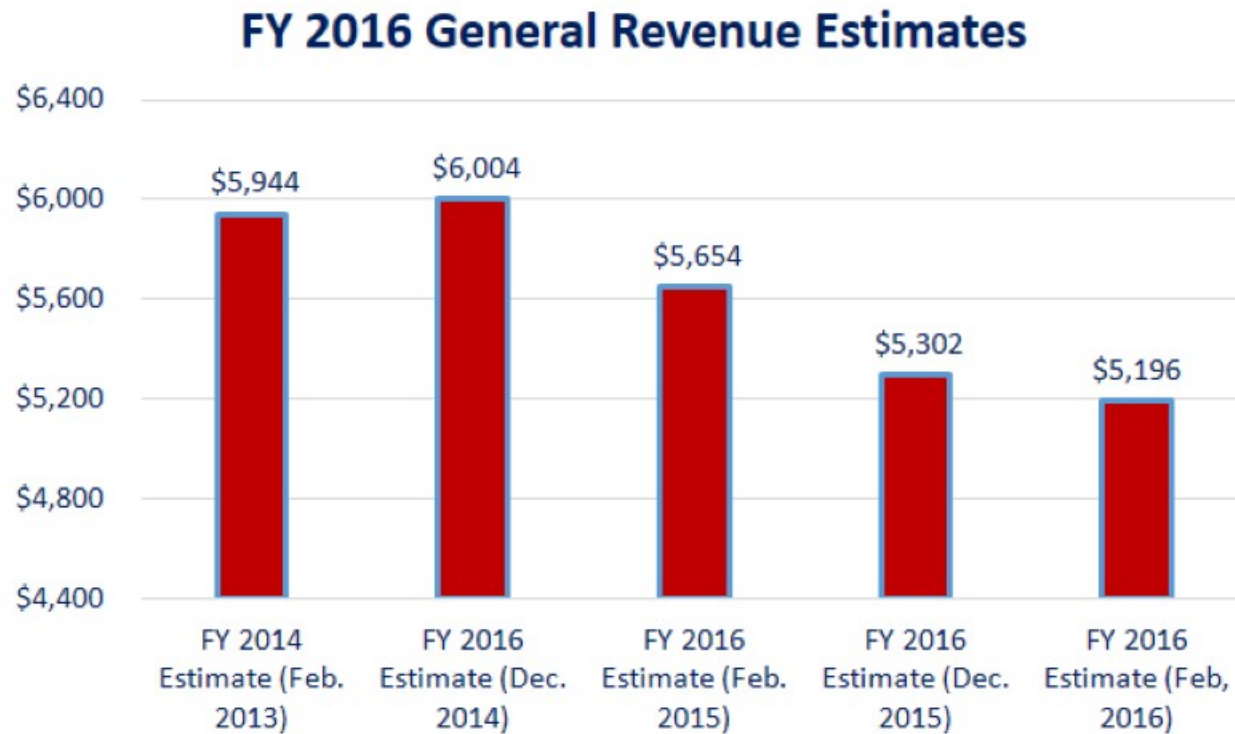
- 2014 Tax cut (SB 1246)
 - Reduced top rate to 5 percent in 2016 and 4.85 percent in 2018 (subject to trigger)



Source: Oklahoma Tax Commission, SB 1246 Fiscal Impact report, Feb 26, 2014

Taxes have been cut substantially in recent years

- The terrible thing about triggers, pt. 1
 - 2016 tax cut took effect in the midst of two mid-year revenue shortfalls AND a projected shortfall for the coming year of over \$900 million



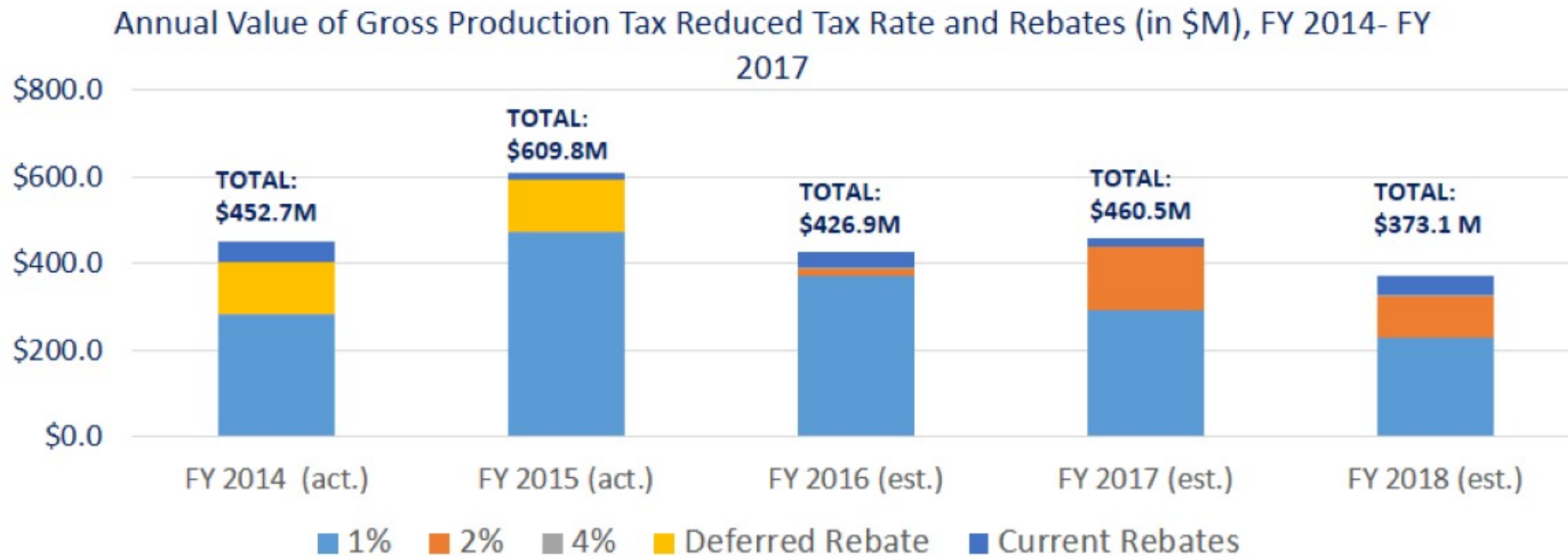
Taxes have been cut substantially in recent years

- 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



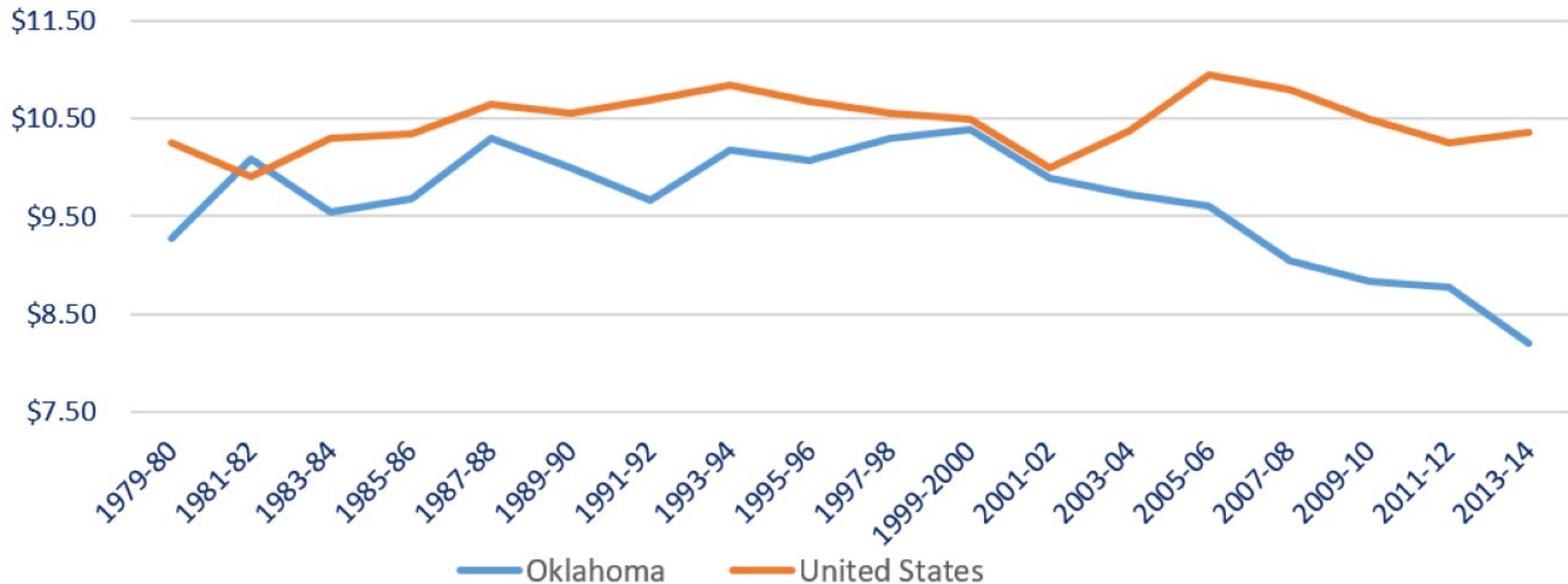
Taxes have been cut substantially in recent years

- Growing cost of tax incentives for oil and gas producers and other tax breaks are a major cause of stagnant revenues



Taxes have been cut substantially in recent years

**State and Local Taxes per \$100 of Personal Income,
Oklahoma and United States, FY 1980 - FY 2014**



Source: Center on Budget and Policy Priorities

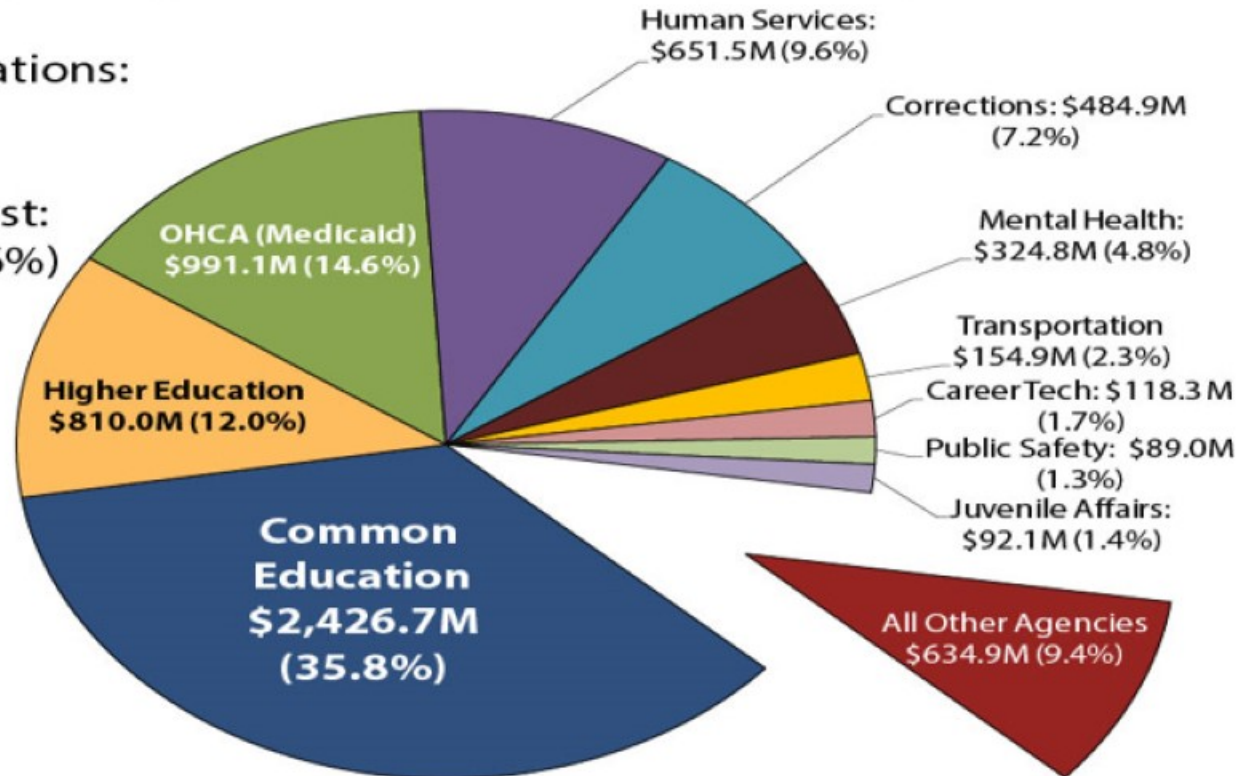
Most of the state budget funds 10 agencies

- 90 percent of appropriations go to core services in education, health, human services, public safety & transportation

FY 2017 Appropriations to Ten Largest Agencies

Total Appropriations:
\$6778.1M

Total Ten Largest:
\$6,143.2M (90.6%)



Shrinking Budgets: Common Education

Noble school board approves plan for four-day school week

BY KEATON FOX | TUESDAY, MAY 10TH 2016

4-day school week prompts concern for hungry students 

Oklahoma remains nation's top state for education cuts 

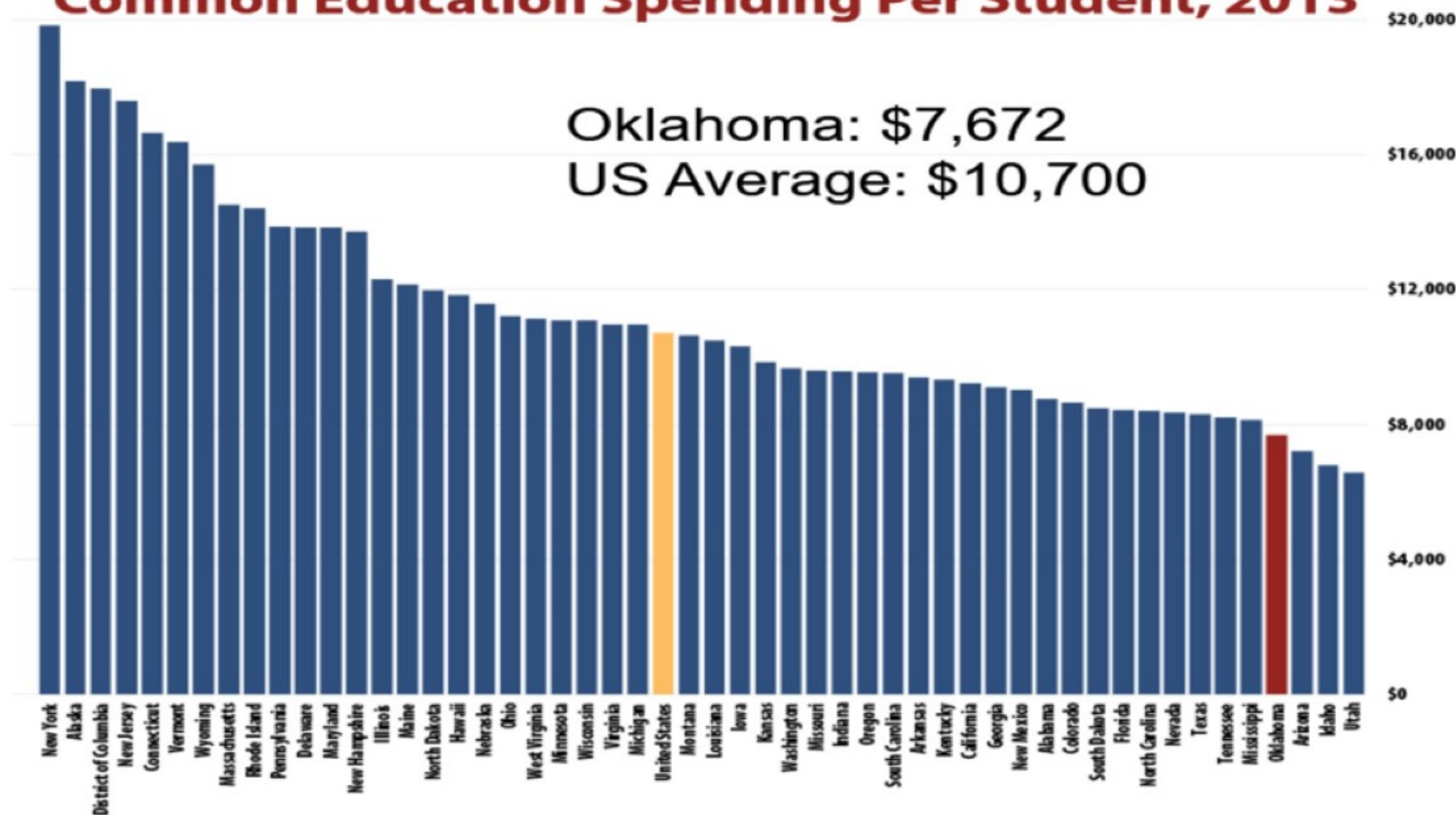
208 Oklahoma City teaching positions will be cut because of "catastrophic budget crisis" 

State Could Fall to Bottom in Average Teacher Salaries  **Oklahoma Watch**
impact journalism in the public interest

Shrinking Budgets: Common Education

- Oklahoma is near the very bottom in per pupil funding

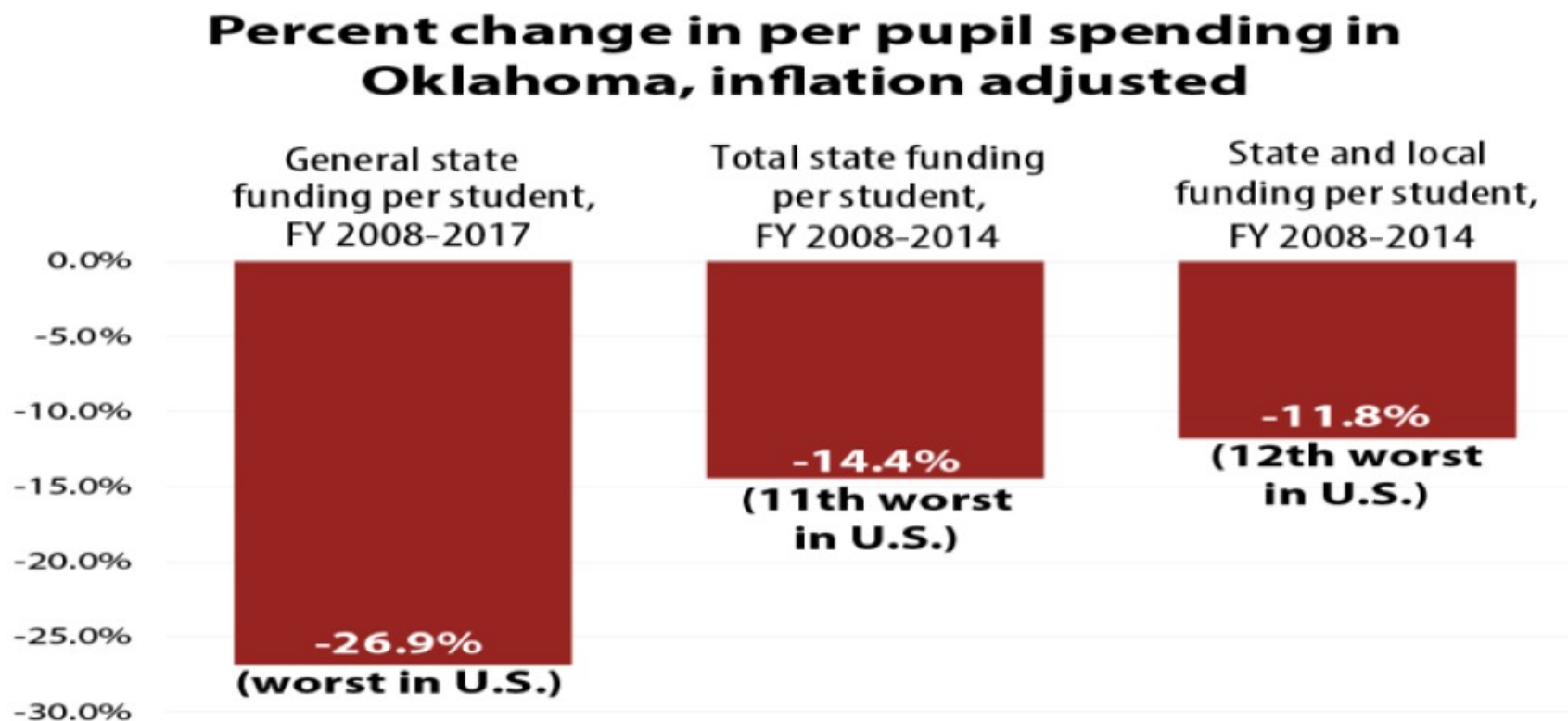
Common Education Spending Per Student, 2013



Data Source: U.S. Census

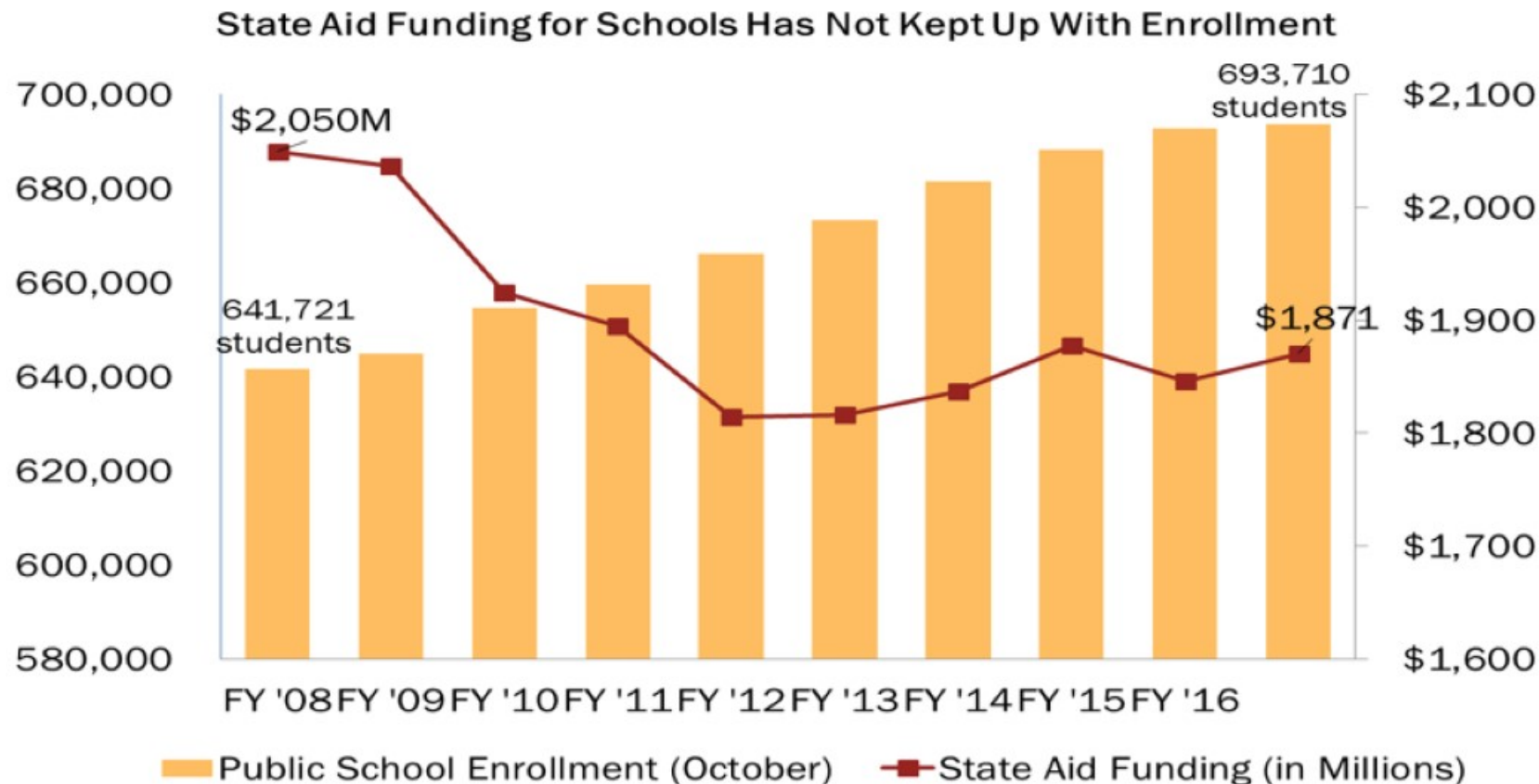
Shrinking Budgets: Common Education

- 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



Shrinking Budgets: Common Education

- Since 2008, state aid funding has decreased by \$179 million
- During this time, enrollment has grown by over 50,000 students

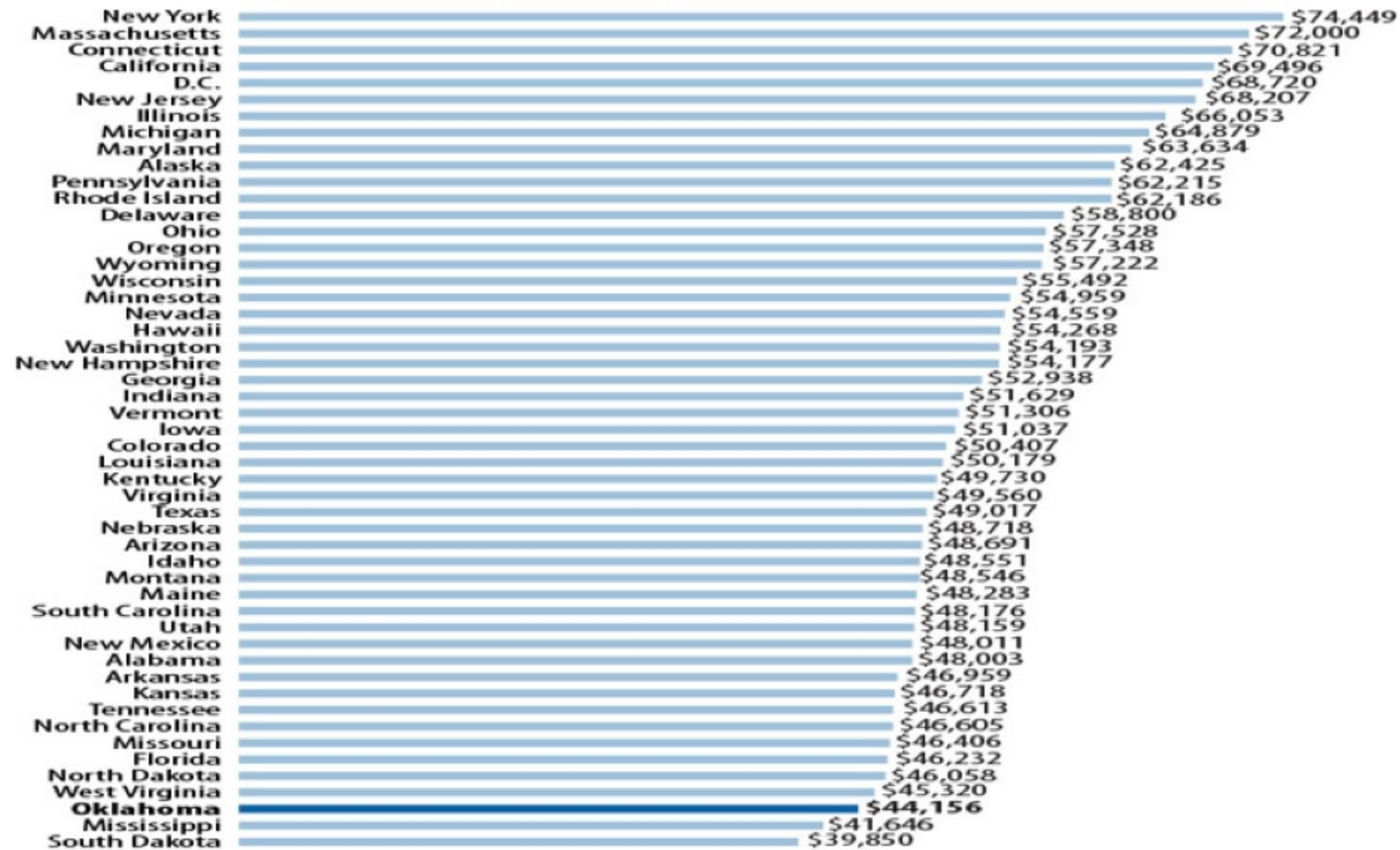


Shrinking Budgets: Common Education

- 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

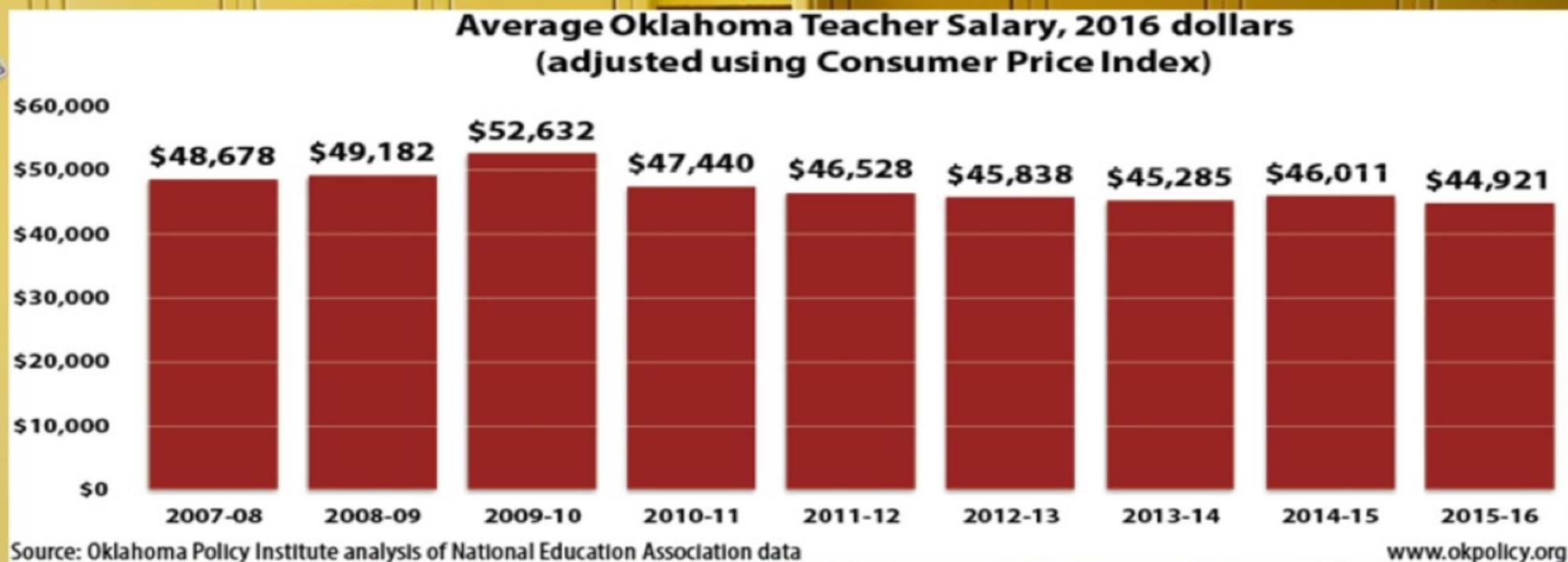
Estimated average annual salary in school year 2011-2012



Source: National Center for Education Statistics

Shrinking Budgets: Common Education

Impact of Funding Cuts



In real dollars, Oklahoma's average teacher salary has fallen more than \$7,500 since 2009-2010.

Shrinking Budgets: Common Education

A photograph of a classroom with rows of wooden desks and chairs. Large windows in the background show a view of trees and a building. The text is overlaid on this image.

78.9%

Average salary of Oklahoma public school teachers as a percentage of the national average, 2014-2015.

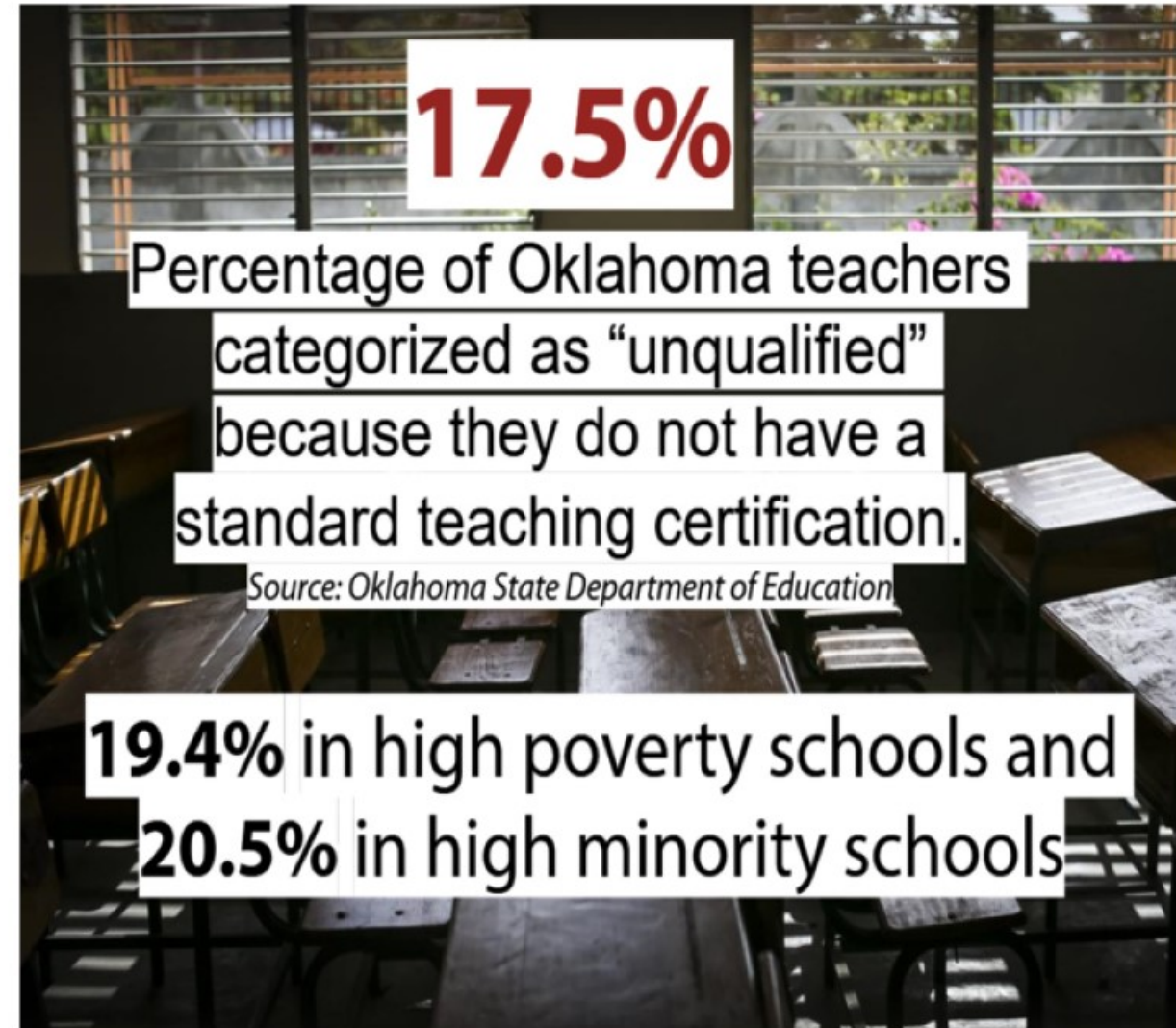
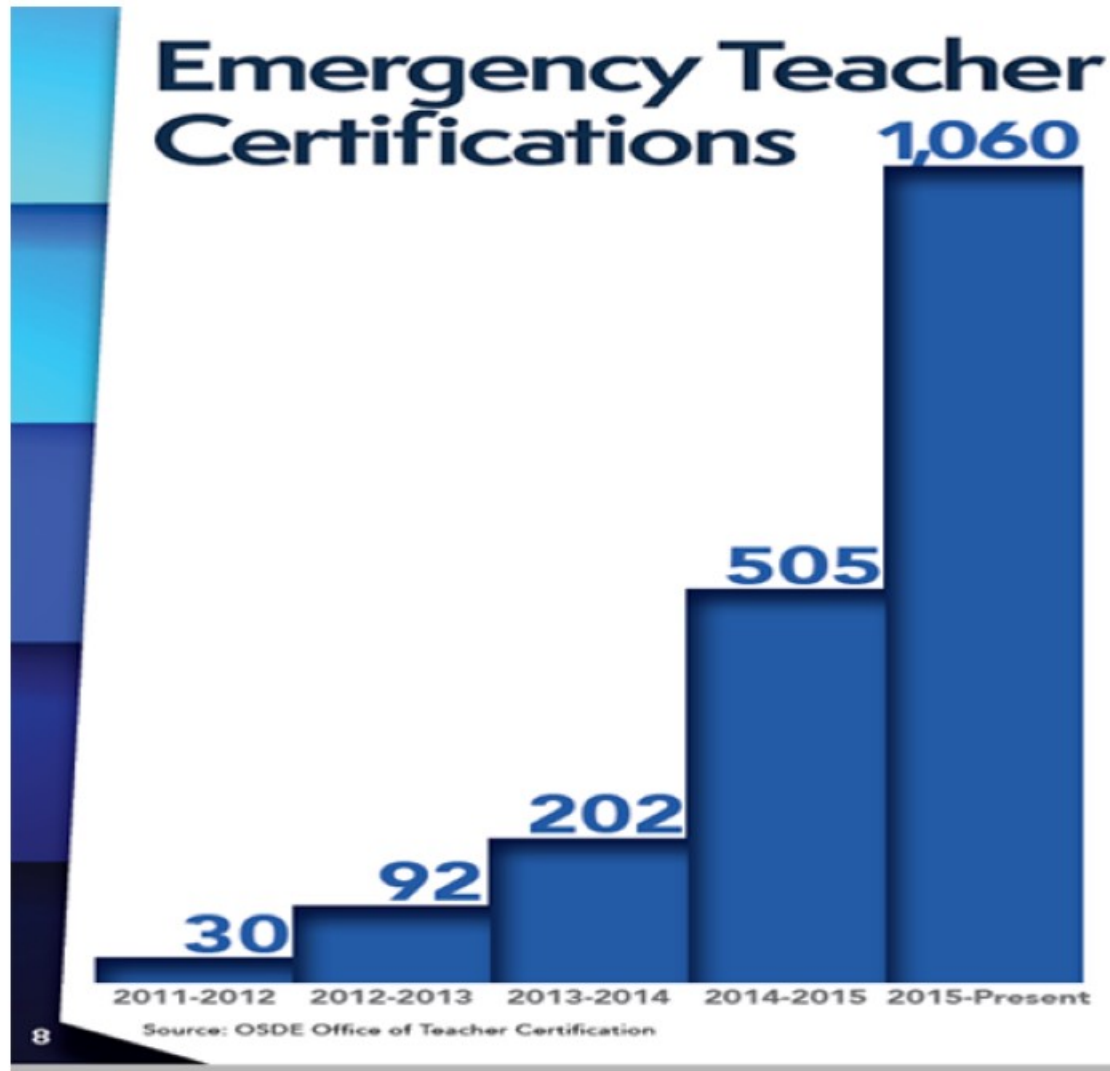
Source: National Education Association

87.9%

Cost of living in Oklahoma as a percentage of the national average, Q1 2016.

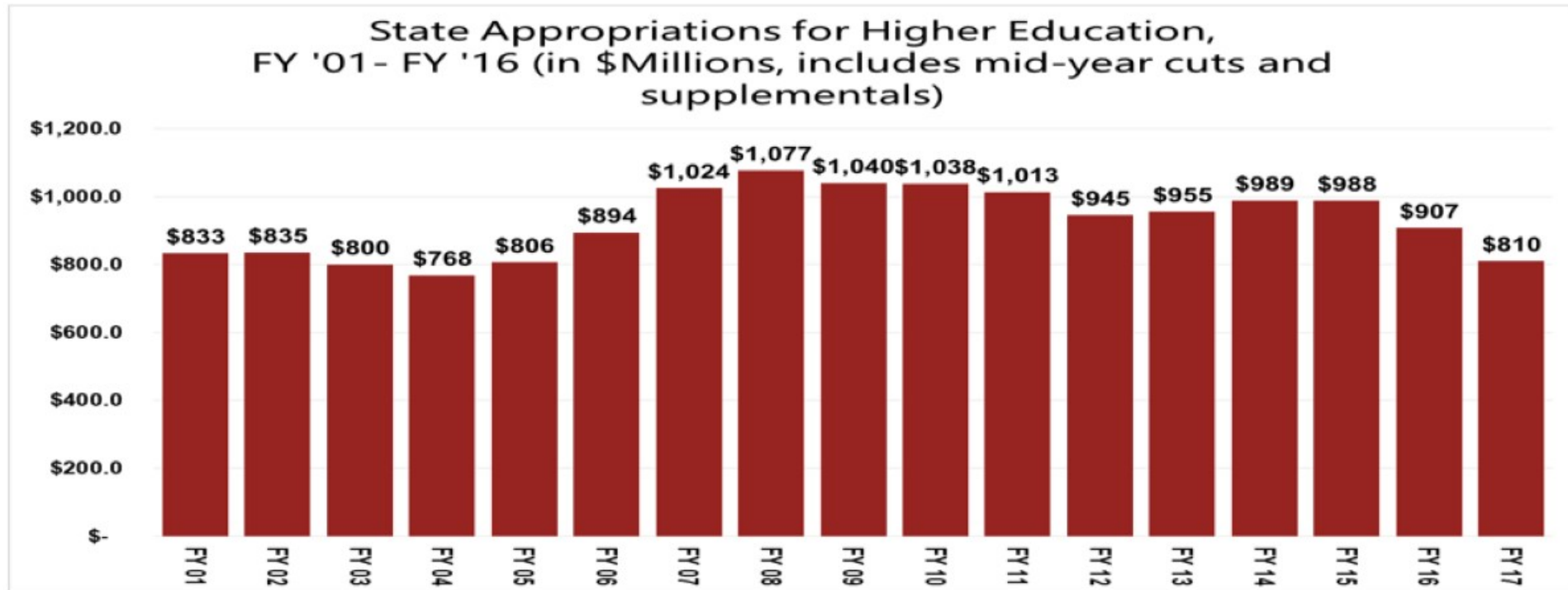
Source: Missouri Economic Research and Information Center

Shrinking Budgets: Common Education



Shrinking Budgets: Higher Education

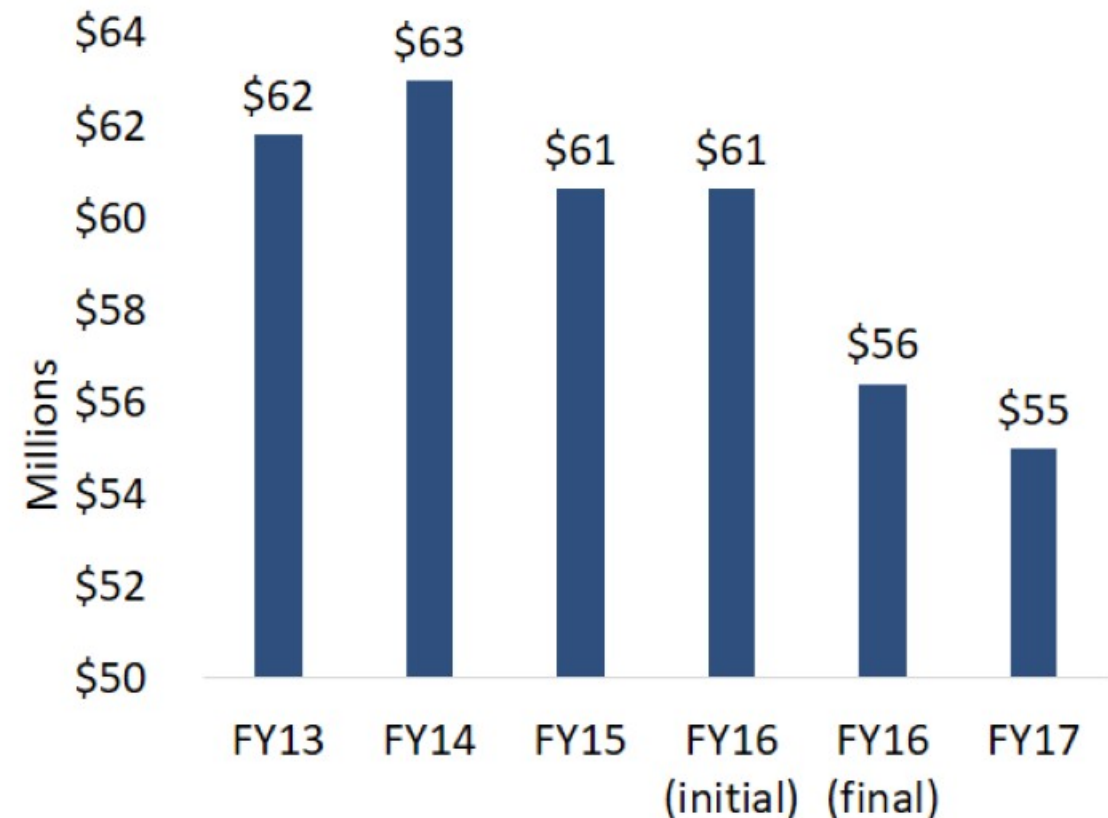
- State support for higher education down 22.1 percent from 2009
 - 16 percent cut in FY 2017
- 2,097 positions eliminated or unfilled; 42 degree programs; 1,822 courses, more than 5,100 awards from scholarship programs
- Annual tuition increases of 5-10 percent



Oklahoma State Department of Health

- The State Department of Health has been cut by more than one-quarter since 2009
- Five county health departments scheduled to close
- Cuts to Child Abuse Prevention, Uncompensated Care Fund

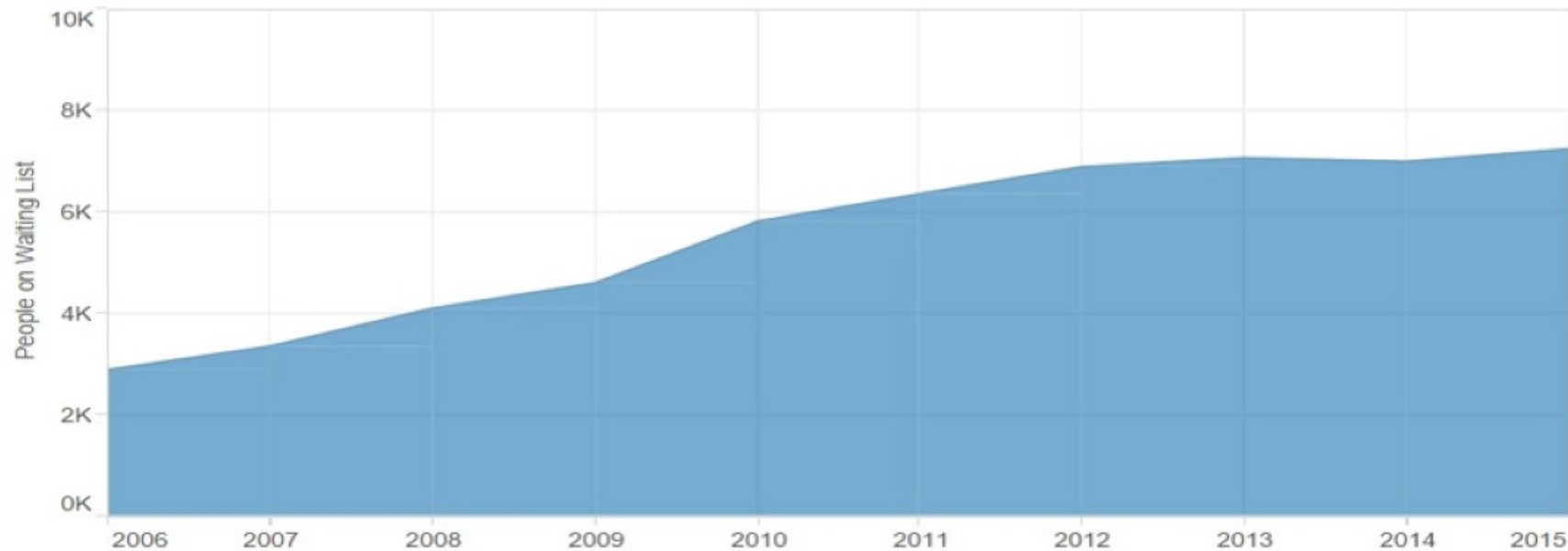
SDH Appropriations FY2013-
FY2017



Shrinking Budgets: Human Services

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

Over 7,400 families are on the DDSD waiting list

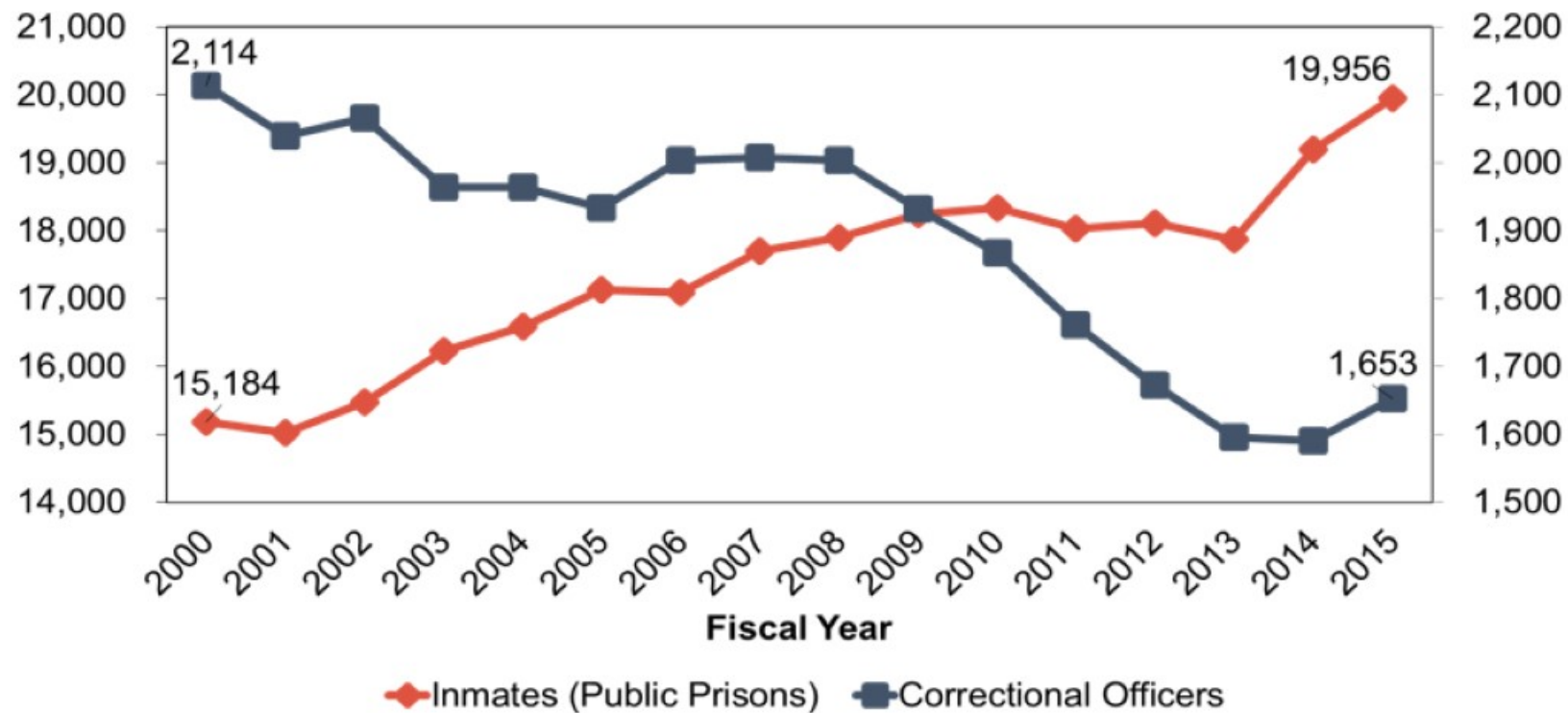


Developmental Disabilities Services division of Oklahoma Department of Human Services

Shrinking Budgets: Public Safety

- Oklahoma's correctional facilities are critically overcrowded and understaffed

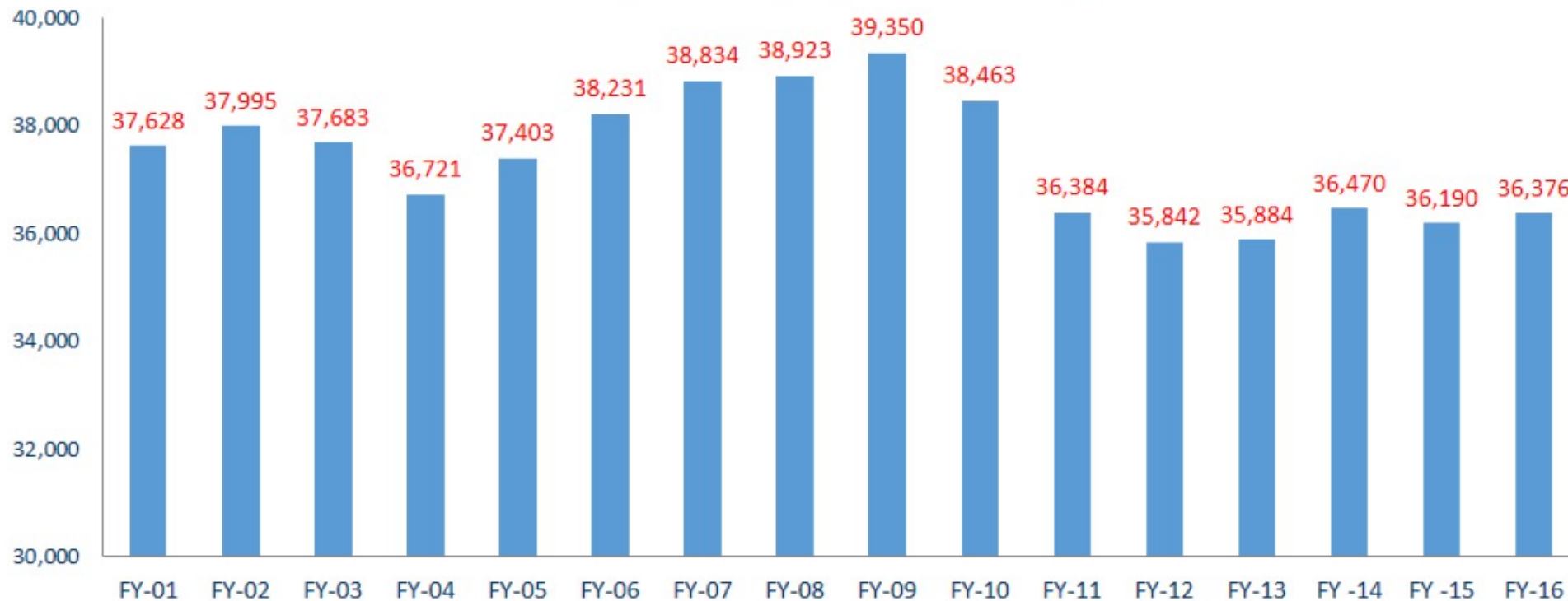
Oklahoma State Prisons Have 4,772 More Inmates and 461 Fewer Correctional Officers Since 2000



Shrinking Budgets: State Workforce

- State workforce is 8 percent smaller than it was in 2009
- 1,252 fewer employees than in 2001, while state population has grown by 350,000

State Employee FTE Count by Fiscal Year Average, FY01 - FY16
(excluding Higher Education)

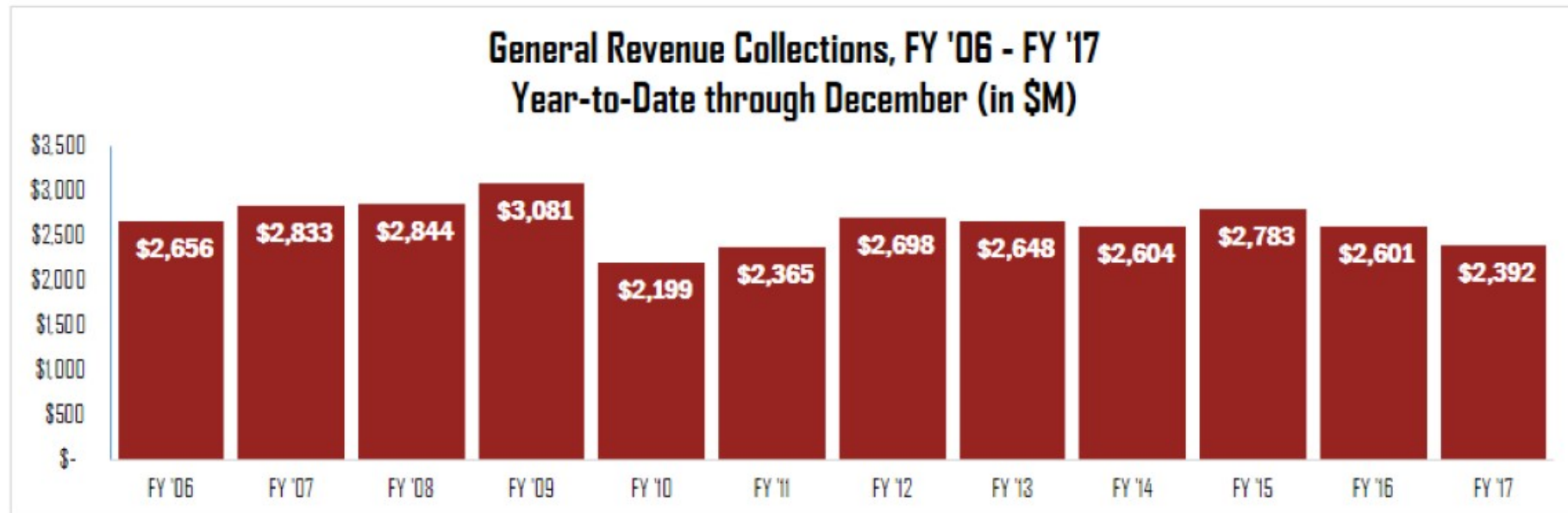


Short- term Budget Challenges



Short- term Budget Challenges

- FY 2017 collections 2.7 percent (\$99.0M) below the estimate through December
- GR collections through Dec. are 8.0 percent (\$209M) below last year; 15.6 percent below ten years ago, lowest levels since the Great Recession
- GR projected to be 4.4 percent below the estimate for the year



Short- term Budget Challenges

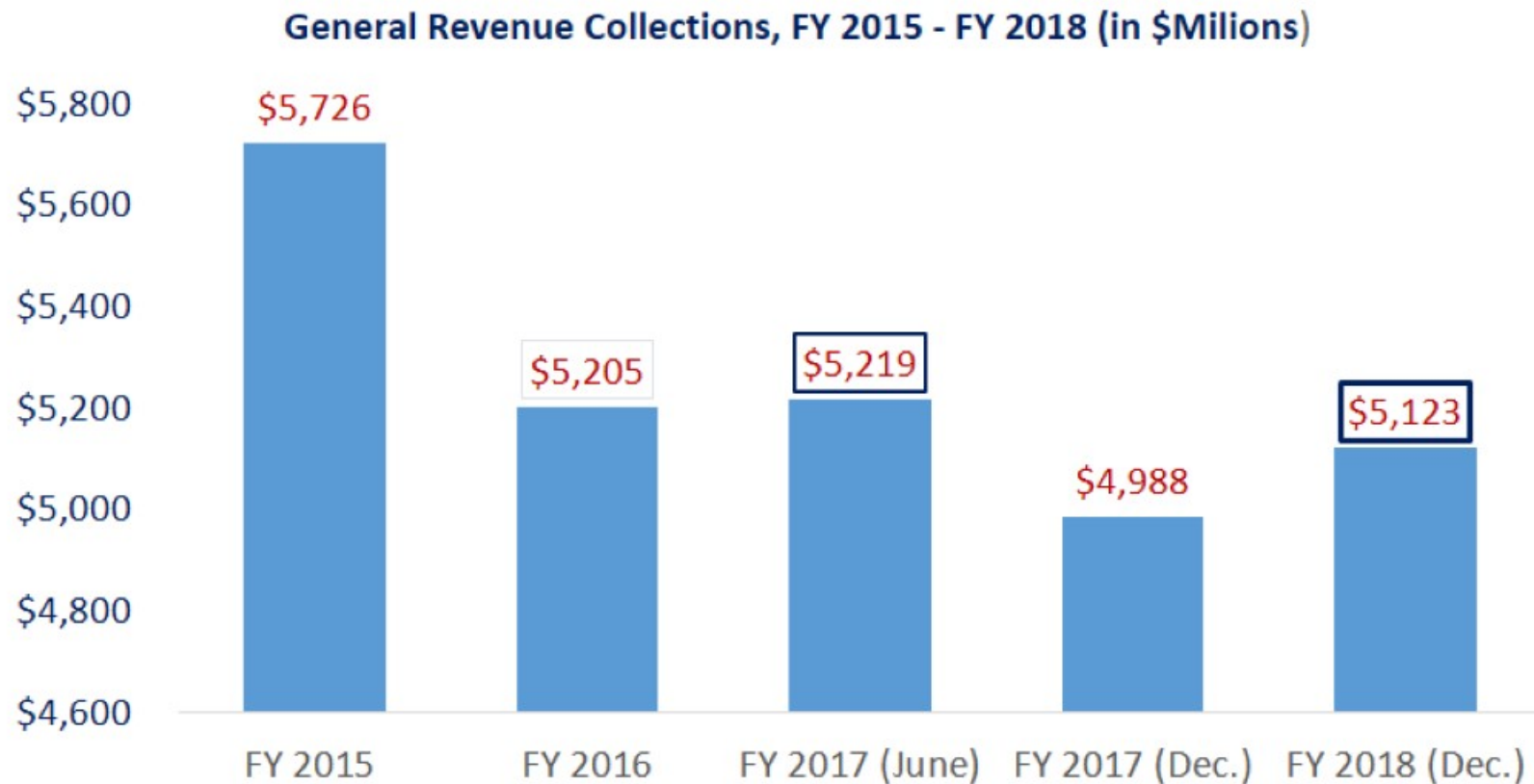
- Close to \$1 billion in revenue enhancements used to fill FY 2017 budget
- \$300 million in recurring revenues
 - Ended various tax breaks and deductions for individuals and businesses
 - Additional tax enforcement
- \$560 - \$690 million in one-time revenue
 - \$200M in bonds
 - Transfers from numerous funds
 - \$66M from Rainy Day Fund

Table 1: FY 2017 Revenue Enhancements
(includes \$55.1 M for FY 2016 supplementals)

Recurring Revenue	
Economically at-risk rebate	\$ 110,958,893
End double deduction	\$ 87,296,435
EITC non-refundable	\$ 25,937,185
OTC Tax compliance initiative	\$ 48,998,204
Investment/New Job credit	\$ 12,652,032
Sales Tax statute of limitations	\$ 9,078,840
Income tax withholding reconciliation	\$ 4,483,475
Railroad maintenance credit	\$ 122,570
Child Care Facilities credit	\$ 115,074
Coal credit	\$ 881,473
Total Recurring	\$ 300,524,181
Cash Flow Reserve Fund	\$ 132,000,000
One-Time Revenues	
Transportation Bond issue	\$ 200,000,000
Transportation ROADS Fund transfer	\$ 73,000,000
Rainy Day Fund for FY 17	\$ 65,865,088
Revolving Funds (Agency Budgets)	\$ 53,066,387
CIRB (County Roads & Bridges) Transfer	\$ 50,000,000
Revolving Funds to Special Cash	\$ 46,700,000
Unclaimed Property Fund	\$ 36,000,000
Railroad Sale Proceeds	\$ 26,328,480
License Plate Reissuance	\$ 12,687,303
Total One-Time	\$ 563,647,258
Total additional revenue	\$ 996,171,439

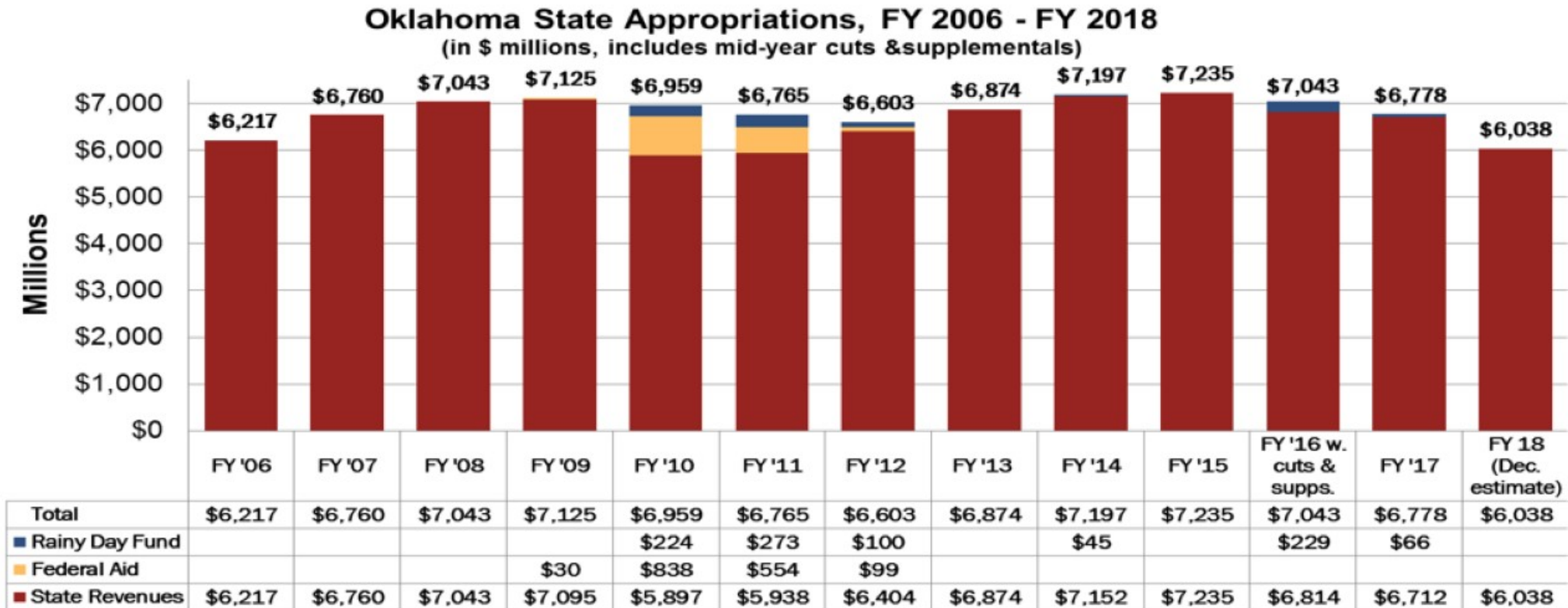
Short- term Budget Challenges

- Next year's General Revenue collections are projected to be about \$96 million less than what was certified for FY 2017 in June



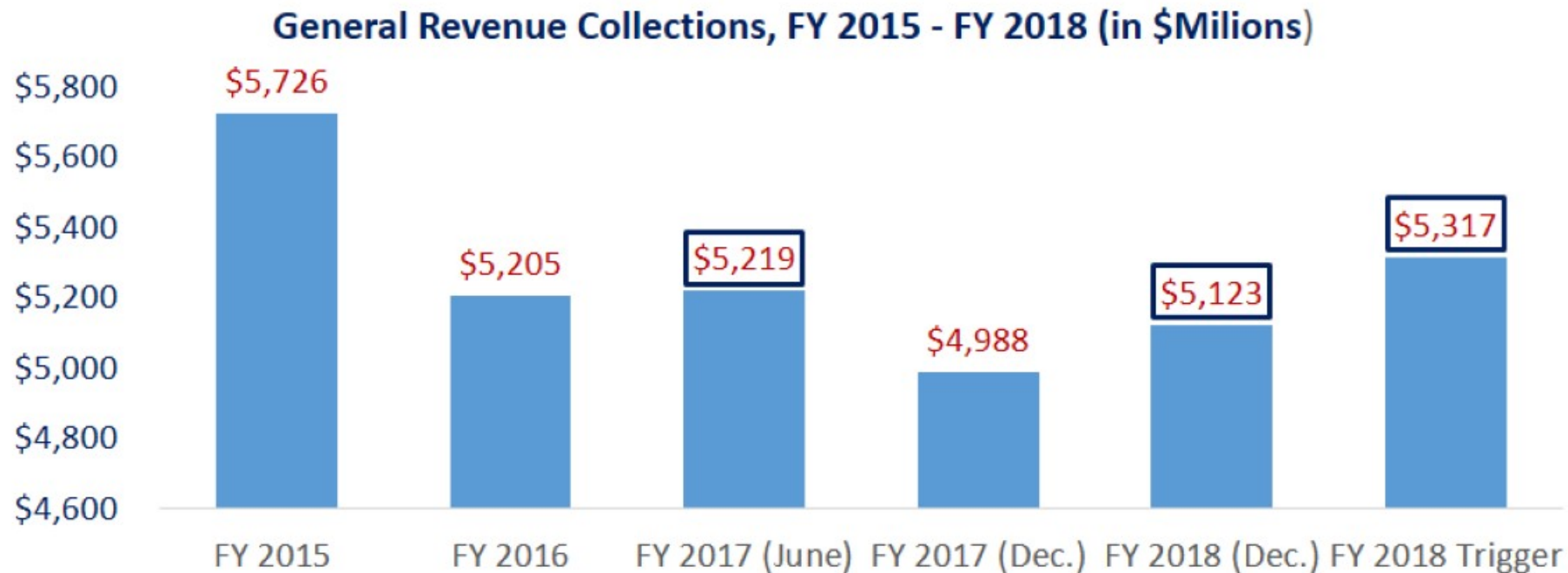
Short- term Budget Challenges

- There will be \$740 million less in FY 2018 than what was appropriated in FY 2017



Short-term budget challenges

- The terrible thing about triggers, part II
 - Preliminary finding that trigger threshold will not be met for 2018
 - If revised certification increases by \$200 million, 2018 trigger could be met even while revenues remain deflated
 - Revenues would need to grow by \$409 million more than the trigger to return to 2015 levels





Oklahoma needs sensible fiscal policy

We must:

- reinvest in public services that allow for a secure, healthy, prosperous state
- create a revenue structure that allows us to meet our obligations
- stop our reliance on one-time and stopgap revenue sources



Oklahoma needs sensible fiscal policy

- Avoid further income tax cuts;
- Reverse previous tax cuts
- Curb unnecessary tax breaks;
- Explore selective tax increases
- Target any tax relief towards those in greatest need.
- Revisit State Question 640

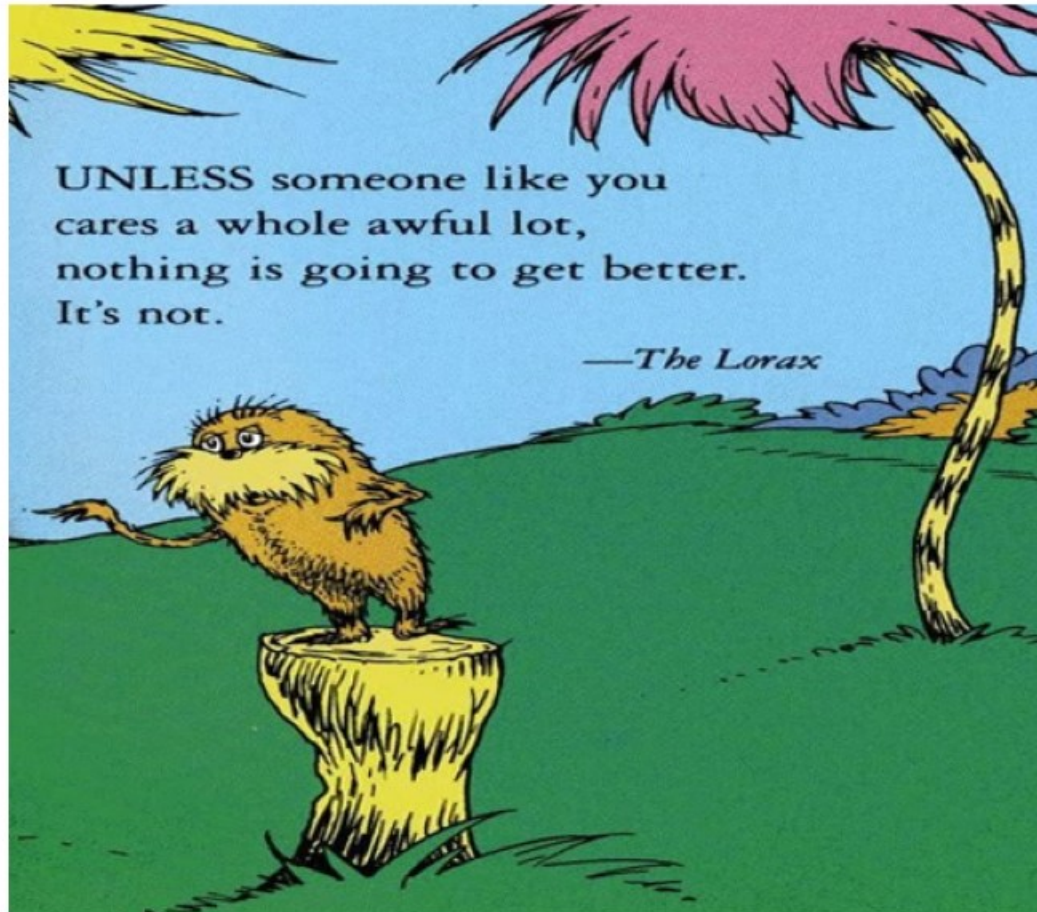


There are some reasons for hope!

- Positive steps in recent sessions
 - Tobacco trust fund protected
 - Stronger pension systems
 - Greater scrutiny of tax credits
 - New budget reserve fund
 - New forecasting legislation
 - Stopped the movement for income tax repeal
 - Openness to tax increases
 - Chance to roll back last tax cut



Do something to make change happen



- #dosomethingok
- #Betterbudgetok
- Togetherok.org

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