

10 Things You Should Know about Oklahoma Budget and Taxes

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Oklahoma's prosperity depends on our ability to invest adequately and effectively in our public structures

- Well-educated, well-trained workforce -
 - Quality education system from early childhood to post-secondary
 - More college graduates
- Well-functioning infrastructure
- Healthy communities -
 - Access to timely and affordable care
 - Public health
- Safe streets and neighborhoods
- Stable safety net for those in need

Proper funding of state and local government is critical for us to achieve our common goals as a state



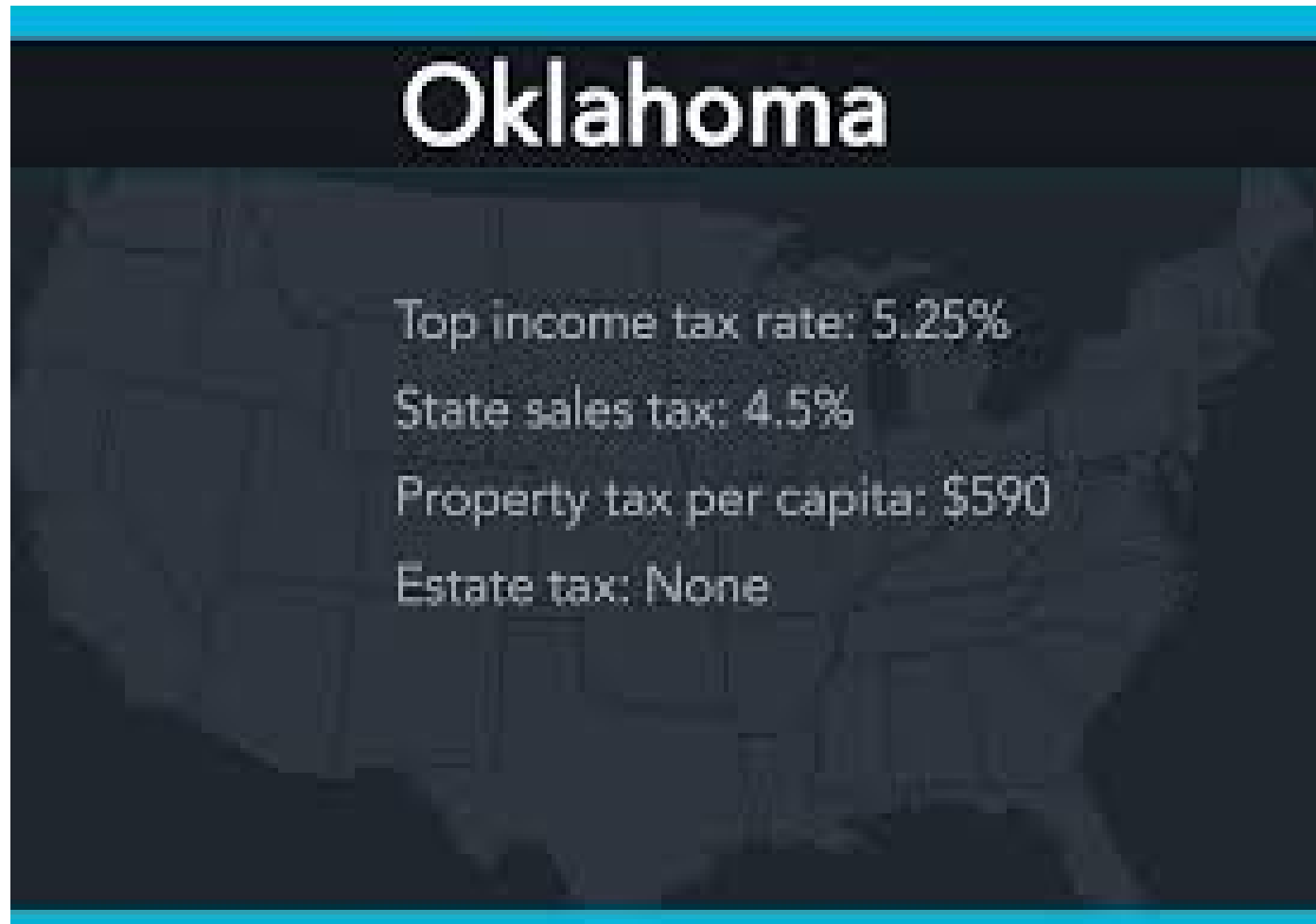
1. Oklahoma has a strict system of constitutional tax & spending limits



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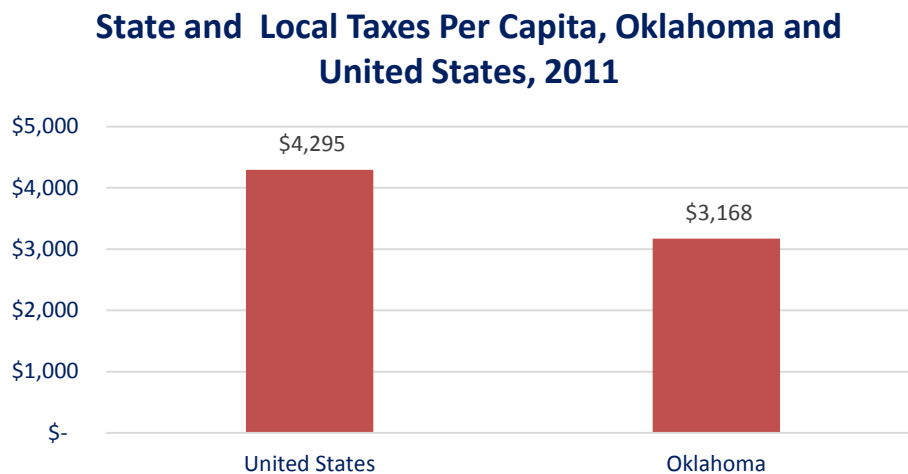
- Balanced budget requirement;
- The legislature can appropriate only 95 percent of certified funds for the upcoming year;
- Surplus revenue collections are deposited to the Constitutional Reserve Fund (Rainy Day Fund)
- It requires a $\frac{3}{4}$ vote of both legislative chambers or a vote of the people to raise revenue (SQ 640);
- No state property tax or local income tax;
- Changes in property taxes require statewide vote

2. Oklahoma is a low-tax state



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- Oklahomans pay 26 percent – or \$1,127 - per person less in taxes than the national average*
- Of every \$100 in income, Oklahomans pay \$8.41 in state and local taxes (U.S. average: \$10.34)*
- Oklahomans' taxes are 45th in the nation per person and 49th as a share of personal income*



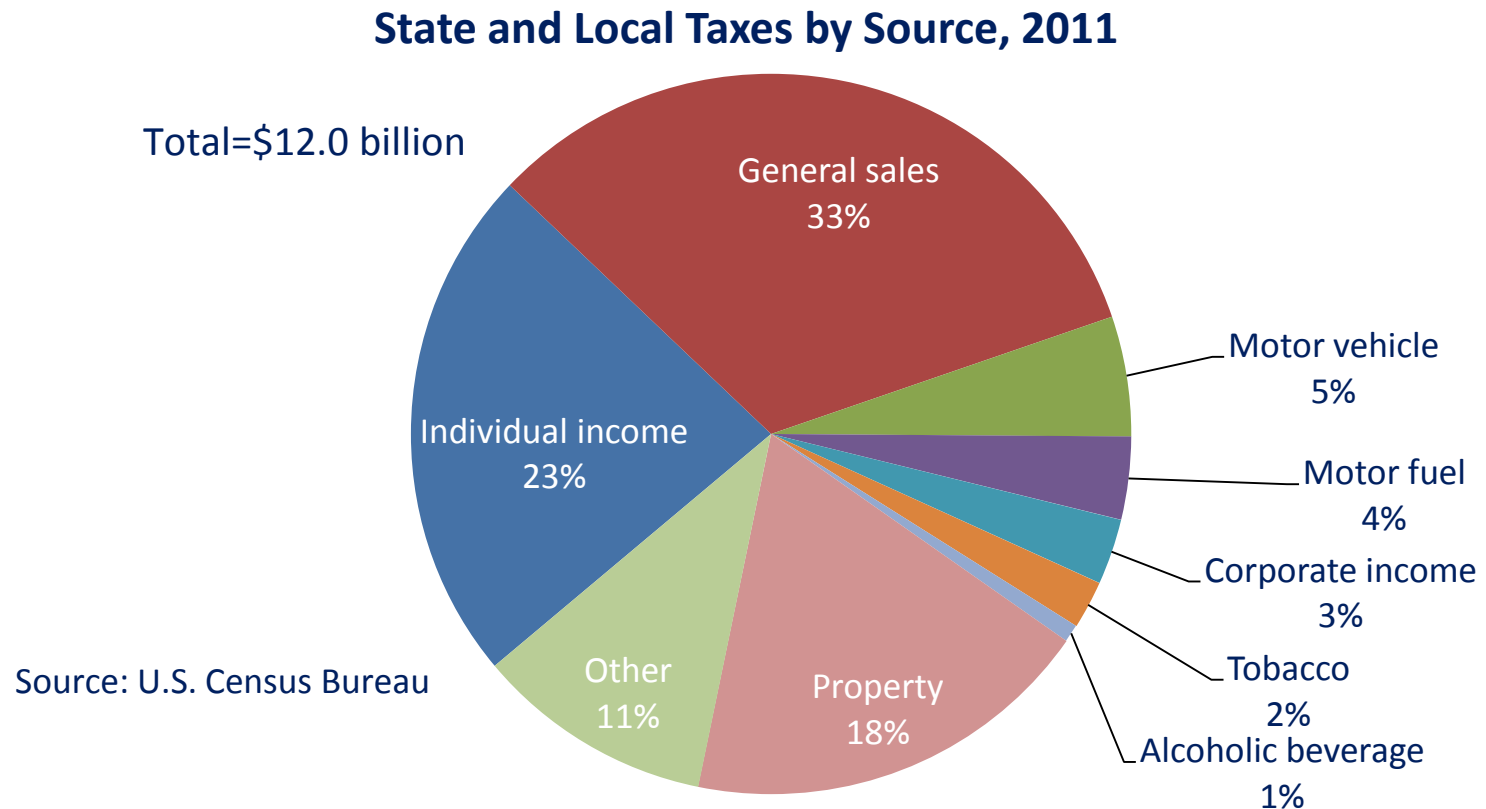
* All data for 2011, Tax Policy Center

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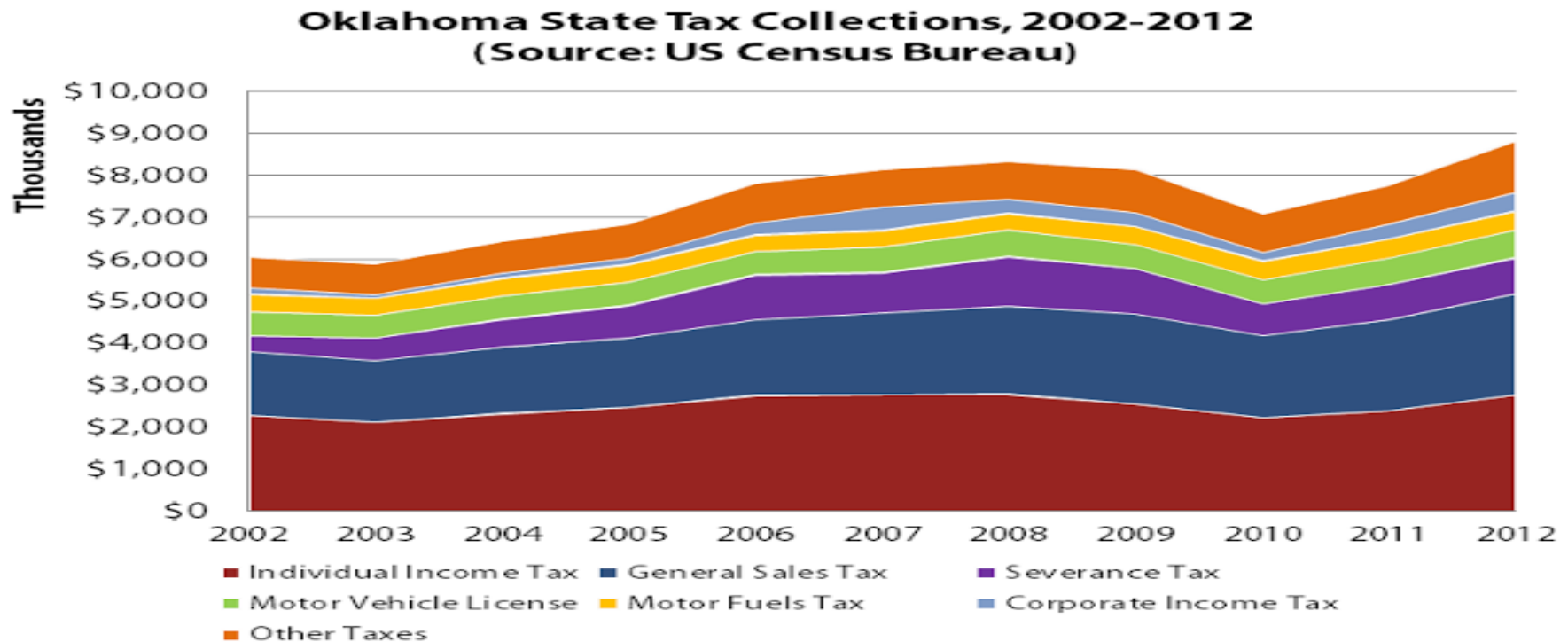
- Sales tax is the largest tax source when state and local taxes are combined



3. Oklahoma has a balanced tax mix

The six largest sources accounted for 86 percent of all state tax revenues in 2012:

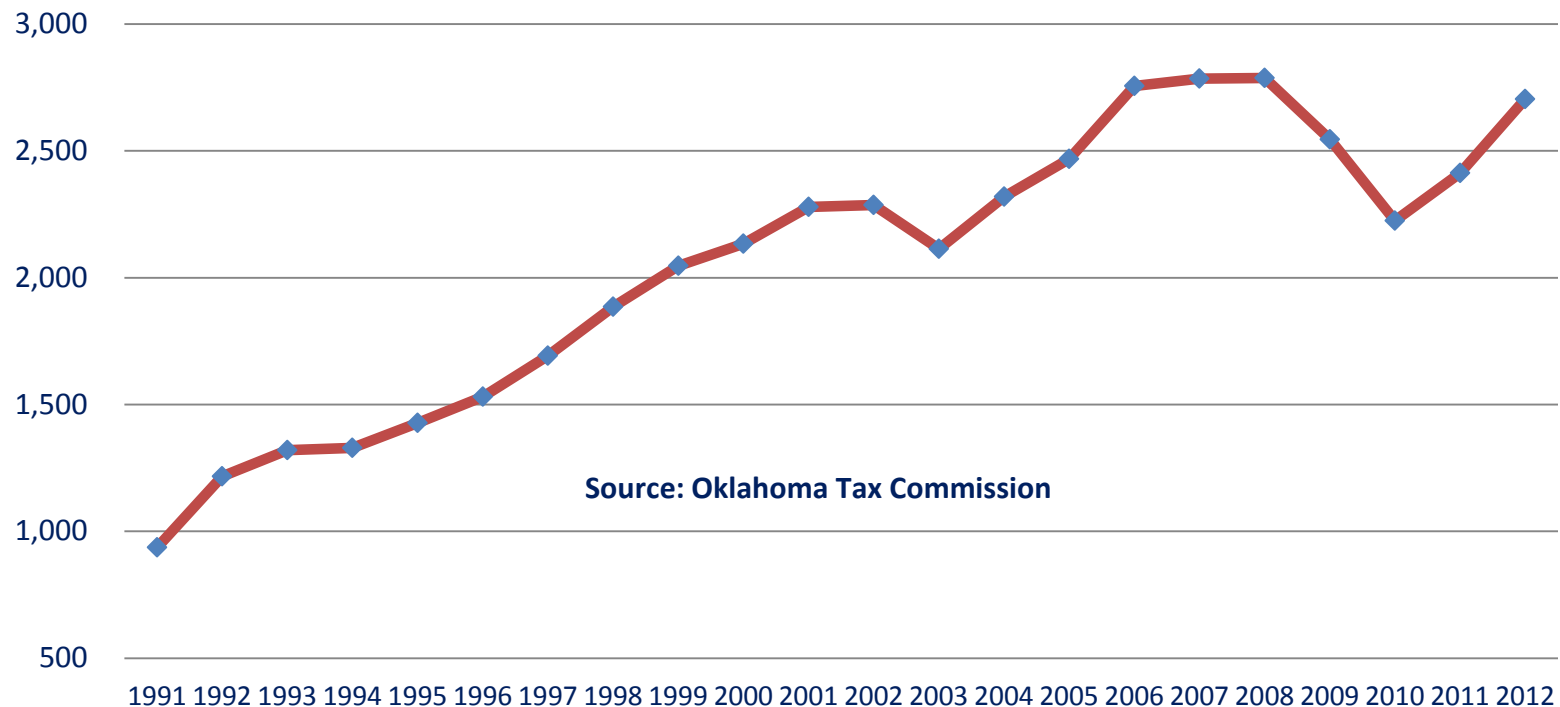
- Personal Income Tax – 31.4 %
- General Sales Tax – 27.3%
- Gross Production Tax (Severance) – 9.6%
- Motor Vehicle Tax – 7.5%
- Motor Fuels Tax – 5.0%
- Corporate Income Tax – 5.0%



3. Oklahoma has a balanced tax mix

- Personal income tax is the largest state tax, but tax cuts and the recession have dampened collections since 2005

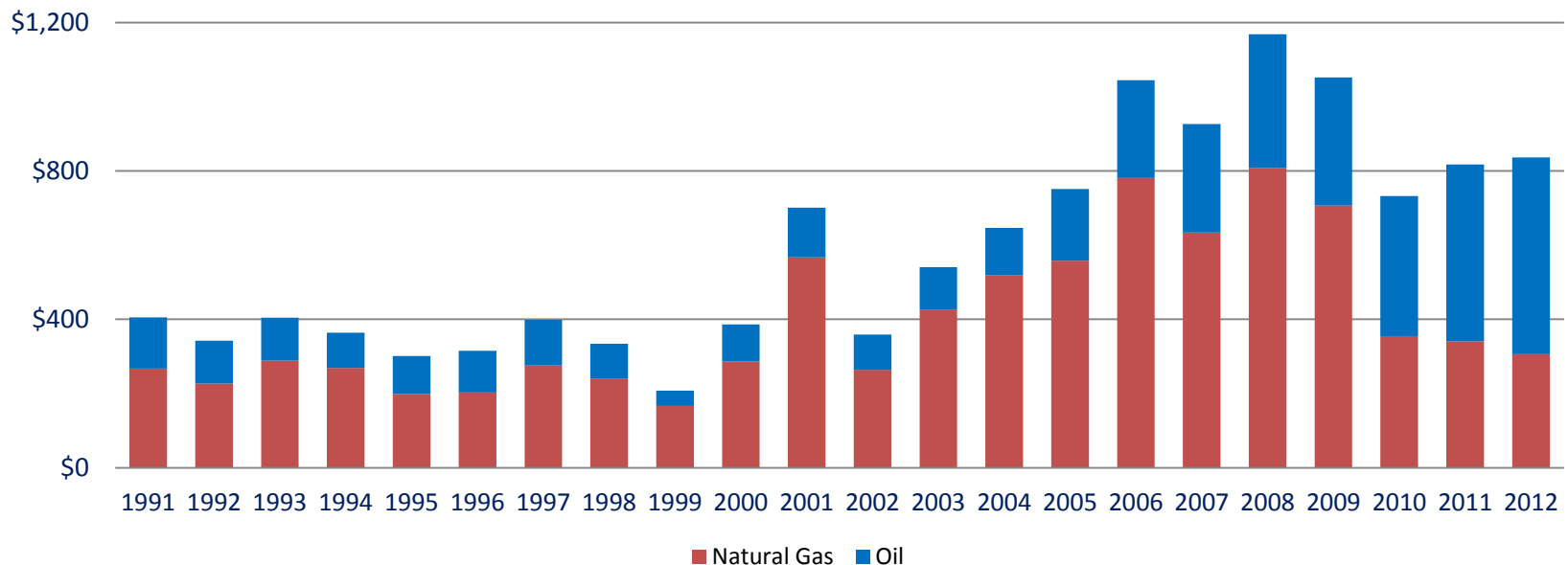
**Oklahoma Personal Income Tax Collections,
FY 1991 - FY 2012 (in millions)**



3. Oklahoma has a balanced tax mix

- Oil and gas (gross production) taxes are typically the third largest state tax – and the most volatile

**Oklahoma Annual Natural Gas and Oil Tax Collections,
FY '91 - FY '12 (in \$ millions)**



3. Oklahoma has a balanced tax mix

- Oklahoma's property taxes are the 4th lowest in the nation (2010)
- Oklahomans pay less than half the national average in per capital property tax

	Property taxes per person, 2010	Total state and local taxes per person, 2010
Oklahoma	\$ 642	\$3,029
Average of six neighboring states	\$ 1,123	\$3,716
National Average	\$ 1,434	\$4,109

Source: Tax Foundation; Tax Policy Center

4. Low-income Oklahomans pay more

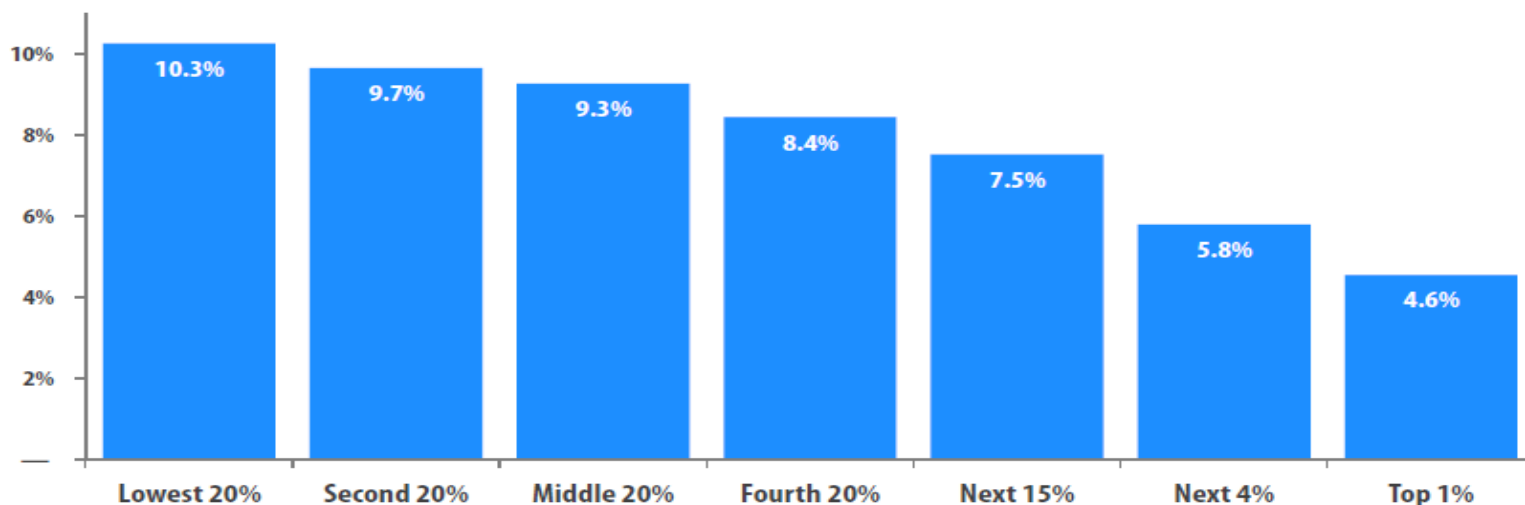


4. Low-income Oklahomans pay more

- Lowest-income households pay more than twice as much of their income in state & local taxes as do the wealthiest 1 percent of households

Oklahoma State & Local Taxes

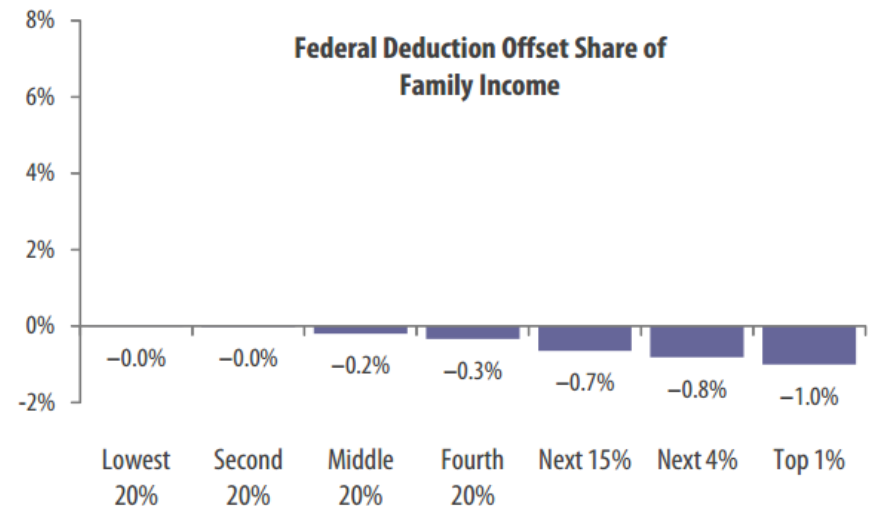
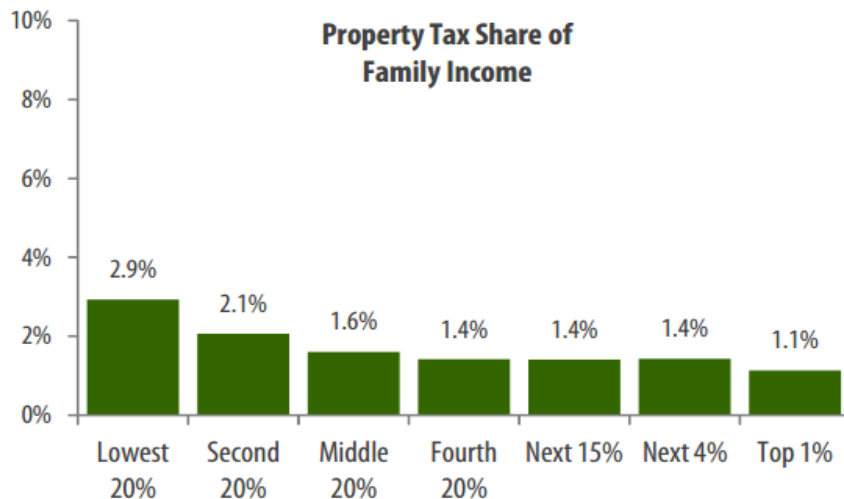
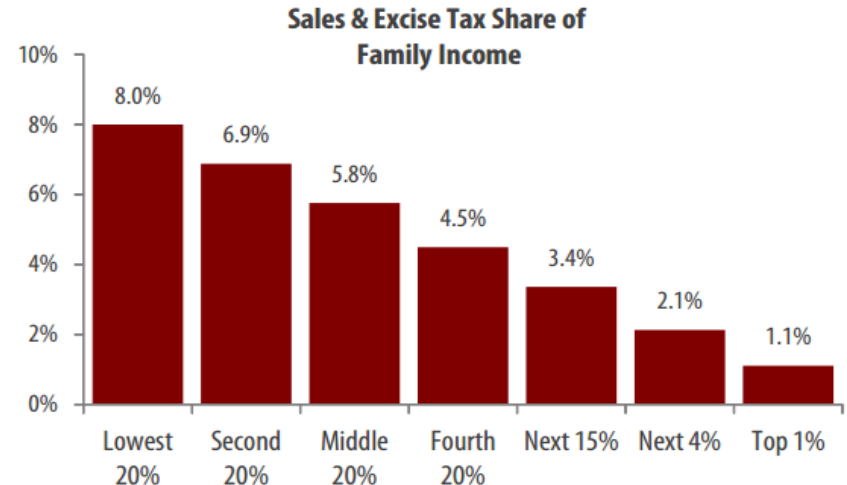
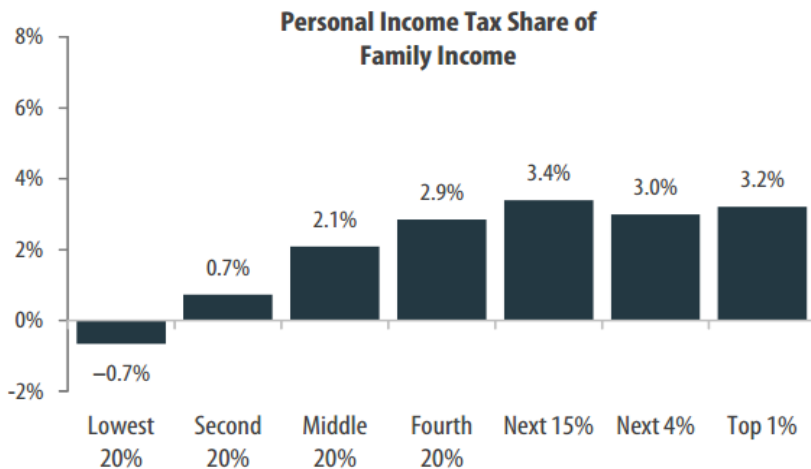
Shares of family income for non-elderly taxpayers



Source: Institute for Taxation and Economic Policy, **Who Pays?**, 3rd ed., 2012 <http://www.itep.org/pdf/ok.pdf>

4. Low-income Oklahomans pay more

- Progressive effects of income tax more than offset by regressive effect of sales and property taxes



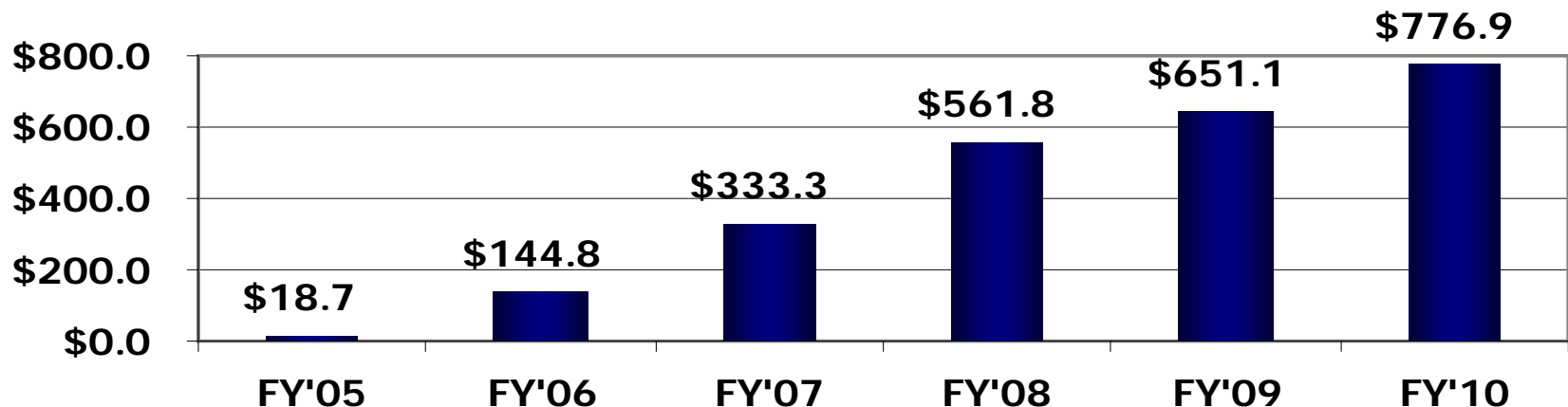
5. Taxes have been cut substantially in recent years



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- Income tax cuts enacted between 2004-07 were large, permanent and back-loaded
- Top income tax rate lowered from 6.65 to 5.5 percent; dropped to 5.25 percent in 2012

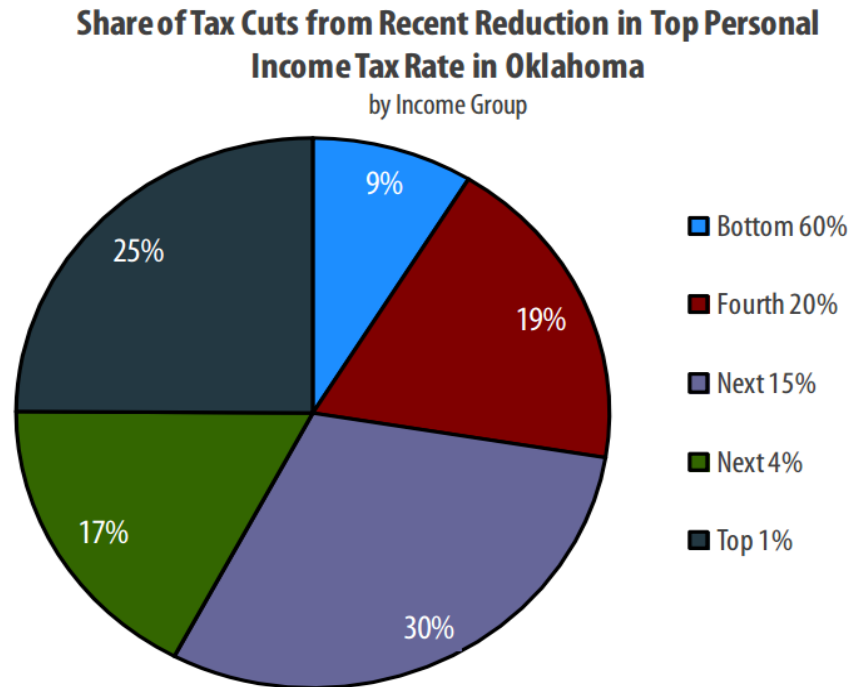
**Lost Revenues from Select Tax Cuts Enacted 2004 - 2006
FY'05 through FY'10 (in \$ millions)**



source: Oklahoma Tax Commission

5. Taxes have been cut substantially in recent years

- Over 70 percent of the benefit from income tax cuts of mid-2000s went to the top 20 percent of households

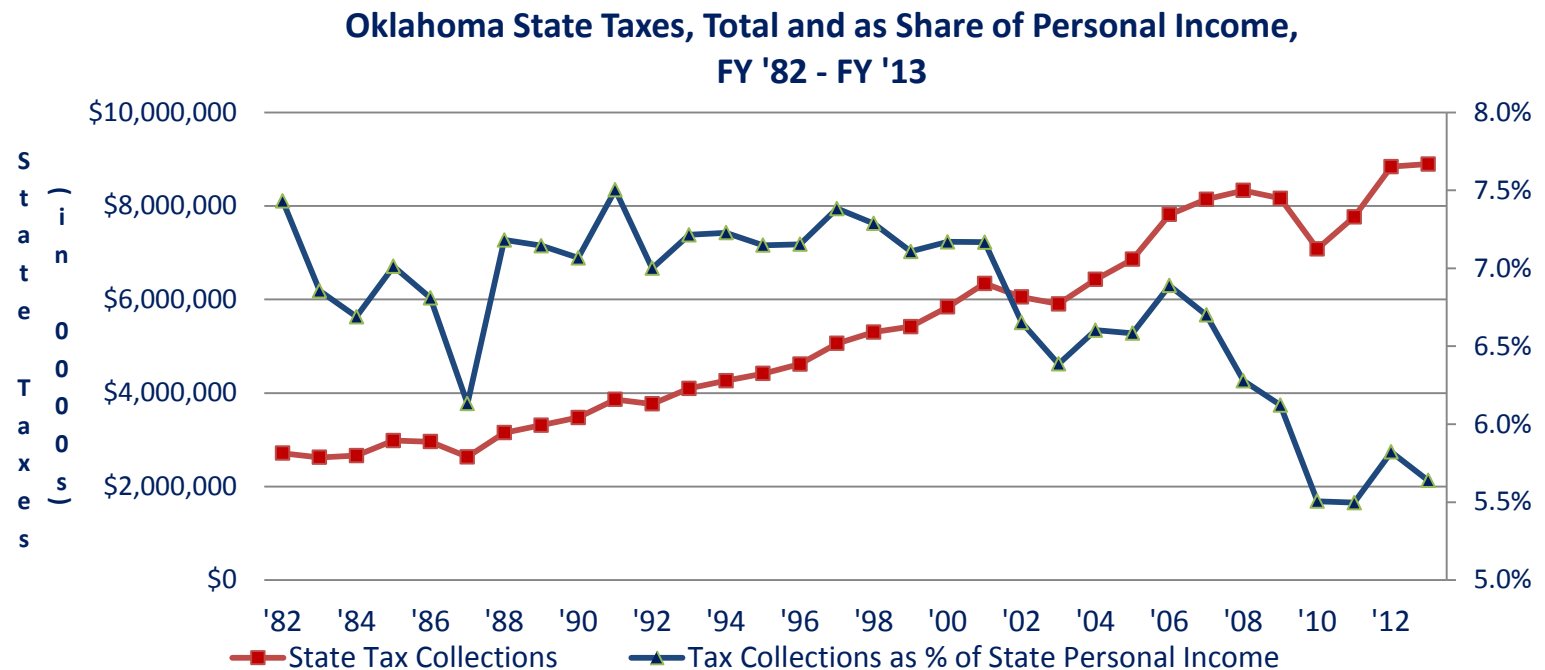


Source: Institute for Taxation and Economic Policy, **Who Pays?**, 3rd ed., 2012 <http://www.itep.org/pdf/ok.pdf>

6. Revenues have not recovered to
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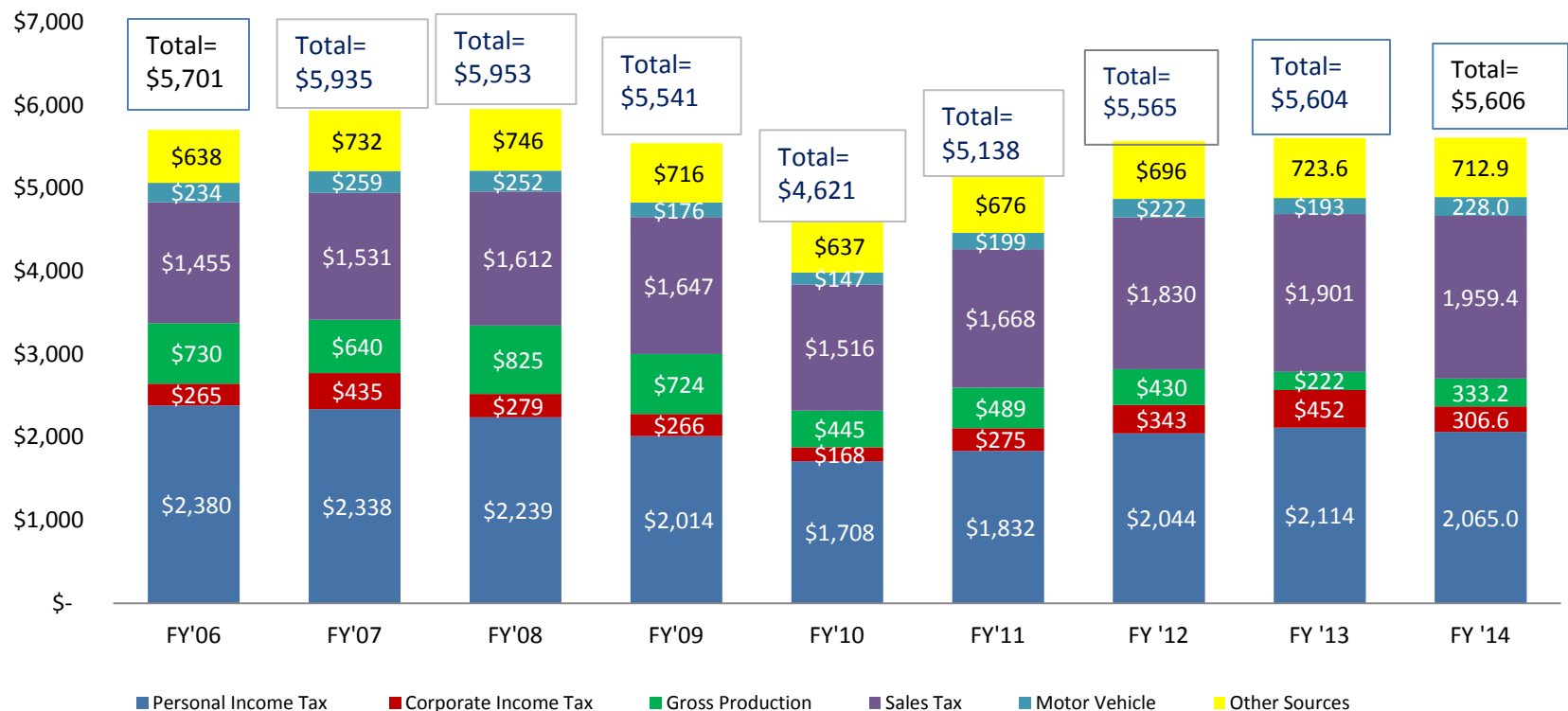
- In FY '13 tax collections equaled just 5.6 percent of state personal income, compared to 7.2 percent in FY '01
- Impact of tax cuts of mid-2000s and recession of 2008-10 can both be seen



6. Revenues have not recovered to pre-downturn levels

- Gen. Rev. collections in FY 2014 were 5.8 percent below FY 2008
- Collections have grown less than 1 percent in past 2 years

Oklahoma General Revenue Collections, FY '06 - FY '14 (in \$ millions)



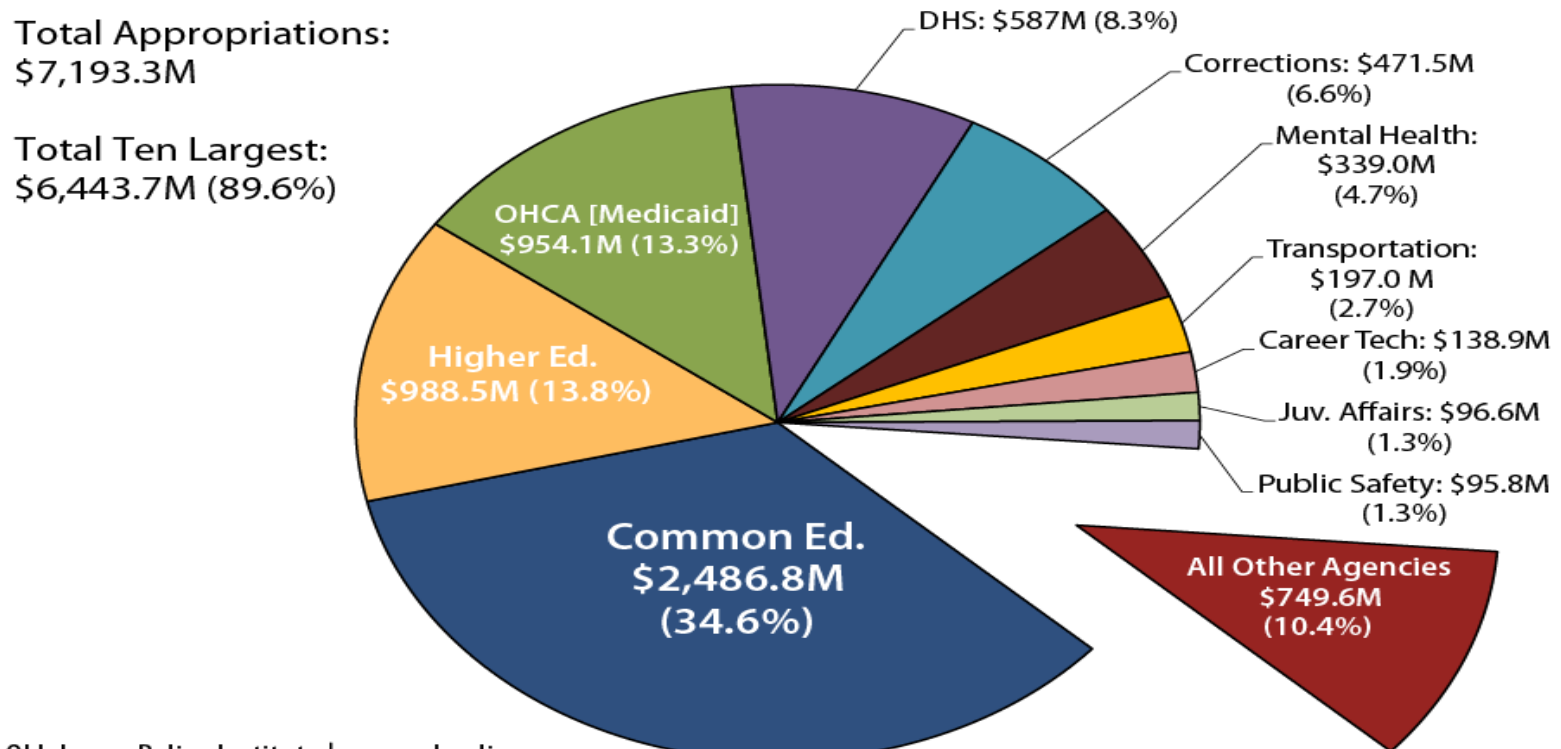
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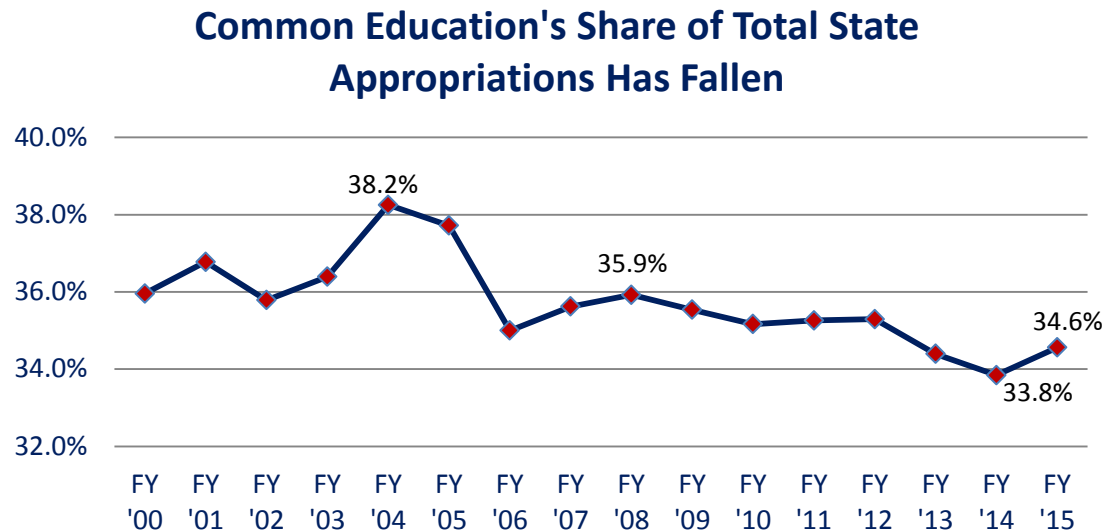
- 90 percent of appropriations go to core services in education, health, human services, public safety & transportation

FY 2015 Appropriations to Ten Largest Agencies



7. Most of the state budget funds 10 agencies

- Common education is the largest agency but its share of the budget has declined in recent years

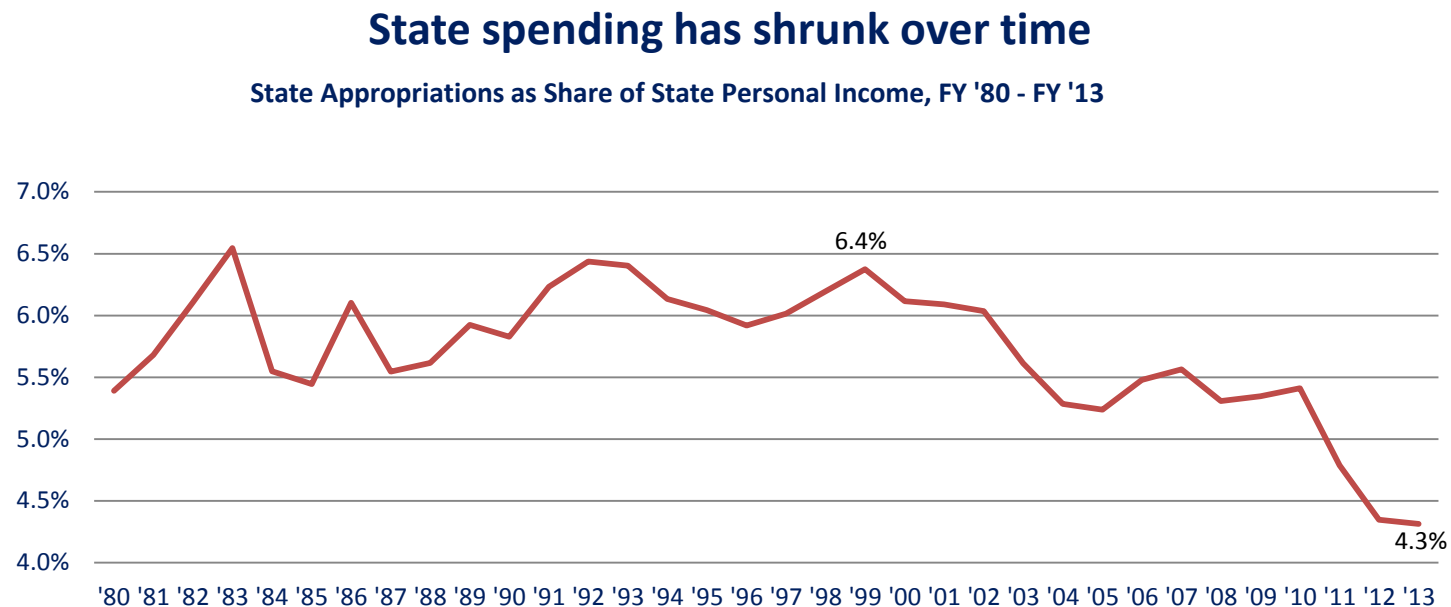


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- State appropriated spending has fallen far below historical averages and is at its lowest level in at least 30 years



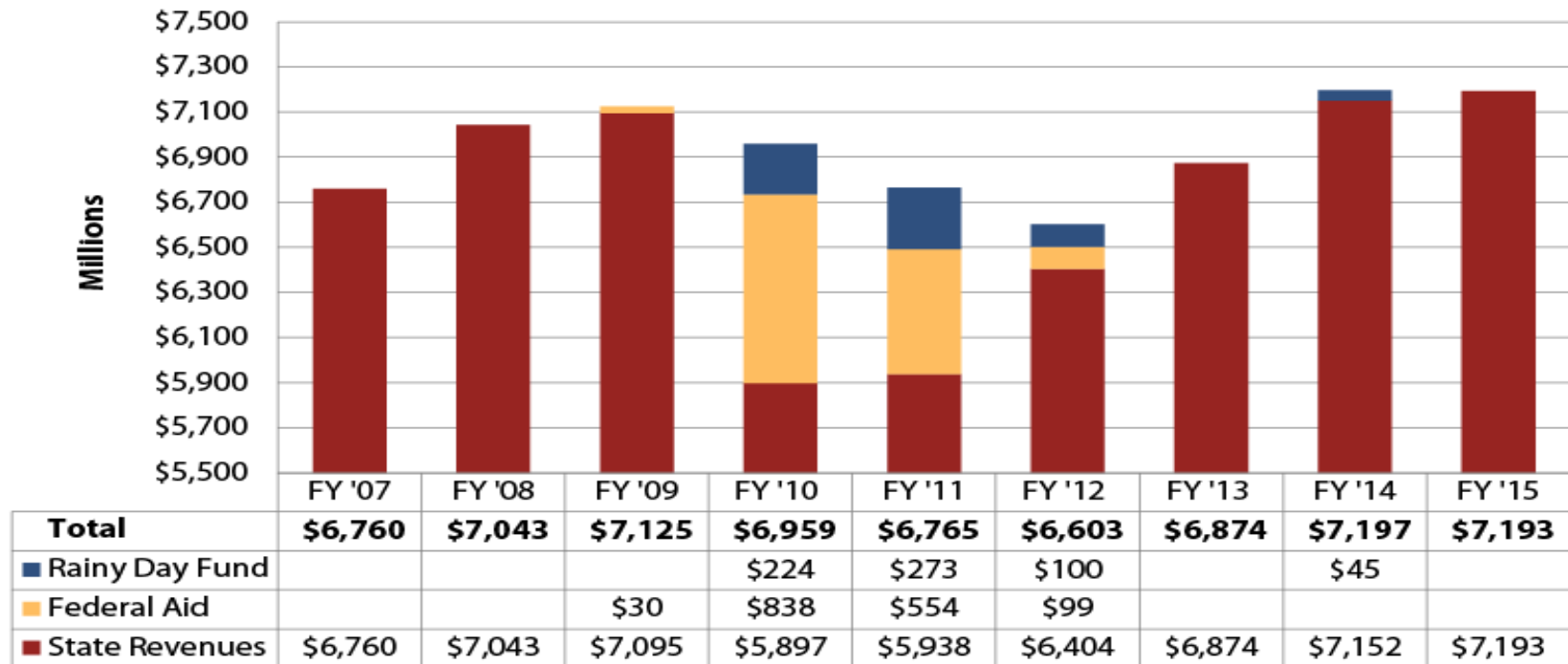
Source: OK Policy analysis of Bureau of Economic Analysis state personal income data and annual state appropriations, various sources

8. State budgets have been cut sharply in recent years

- This year's budget is just 0.1 percent more than six years ago – without adjusting for inflation

State Appropriations, FY 2007 to FY 2015

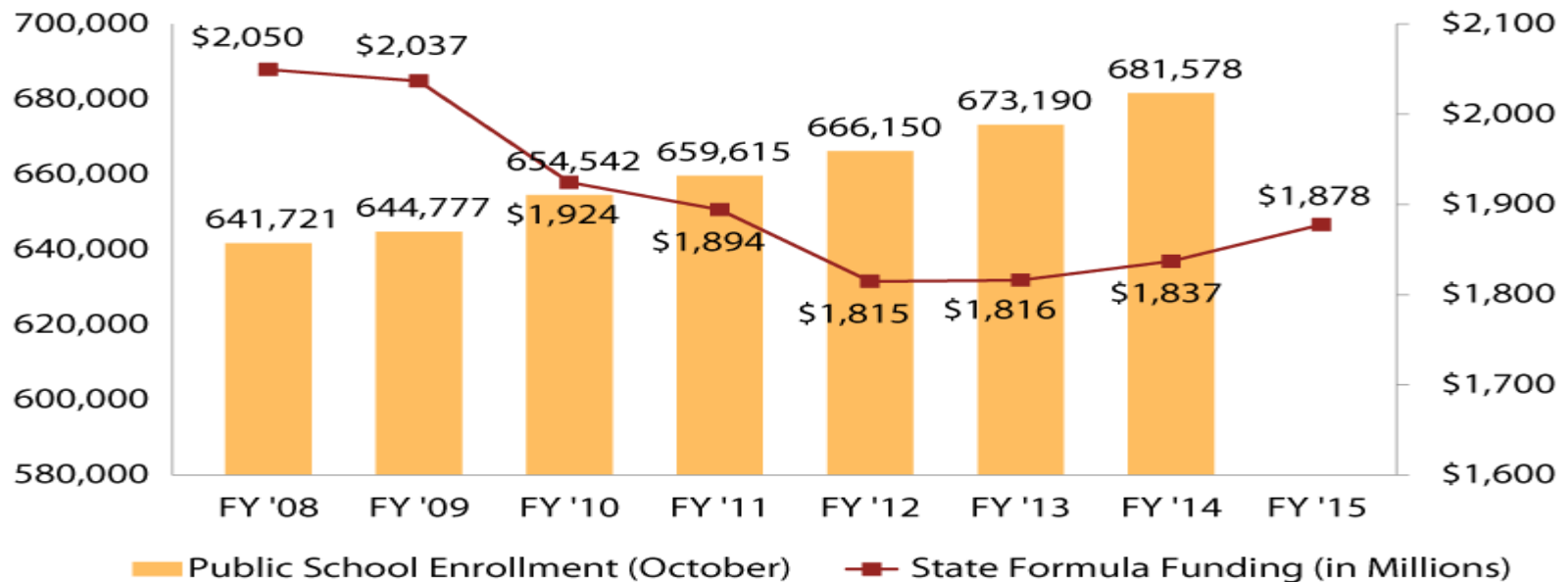
(in \$ millions; includes supplementals, Rainy Day spillover funds)



8. State budgets have been cut sharply in recent years

- Funding for common education remains **down by over \$170 million** while enrollment has increased by over 40,000 students

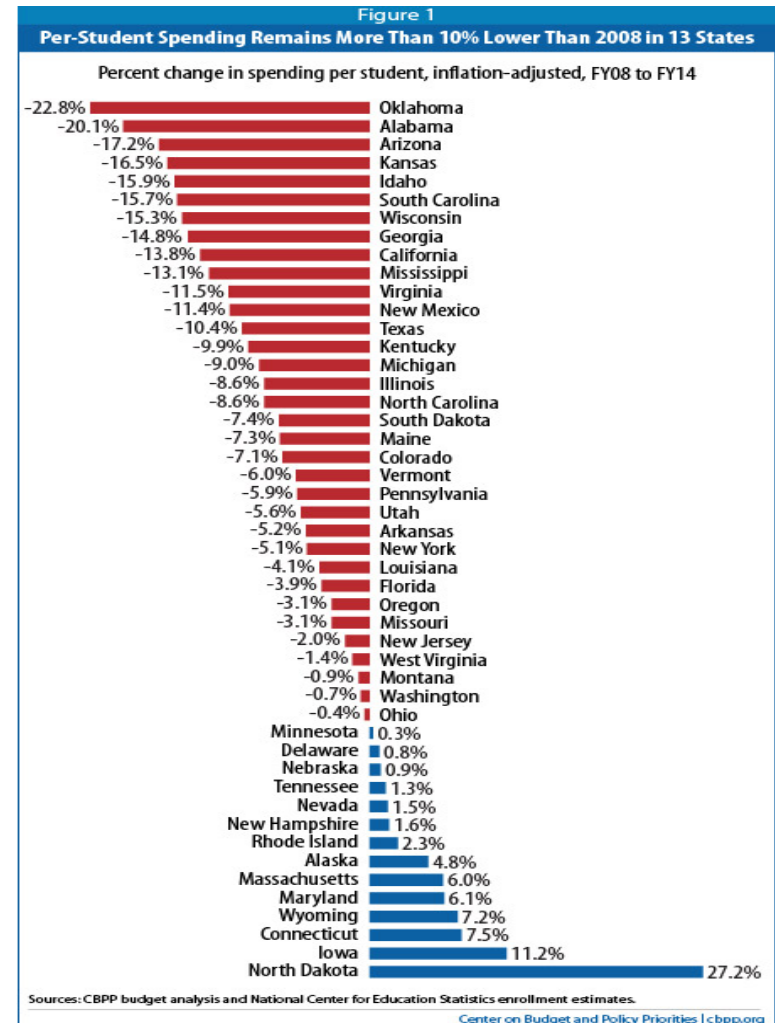
**Public School Enrollment and State Formula Funding (in millions),
FY 2008 to FY 2015**



Note: State Funding excludes money allocated for textbooks

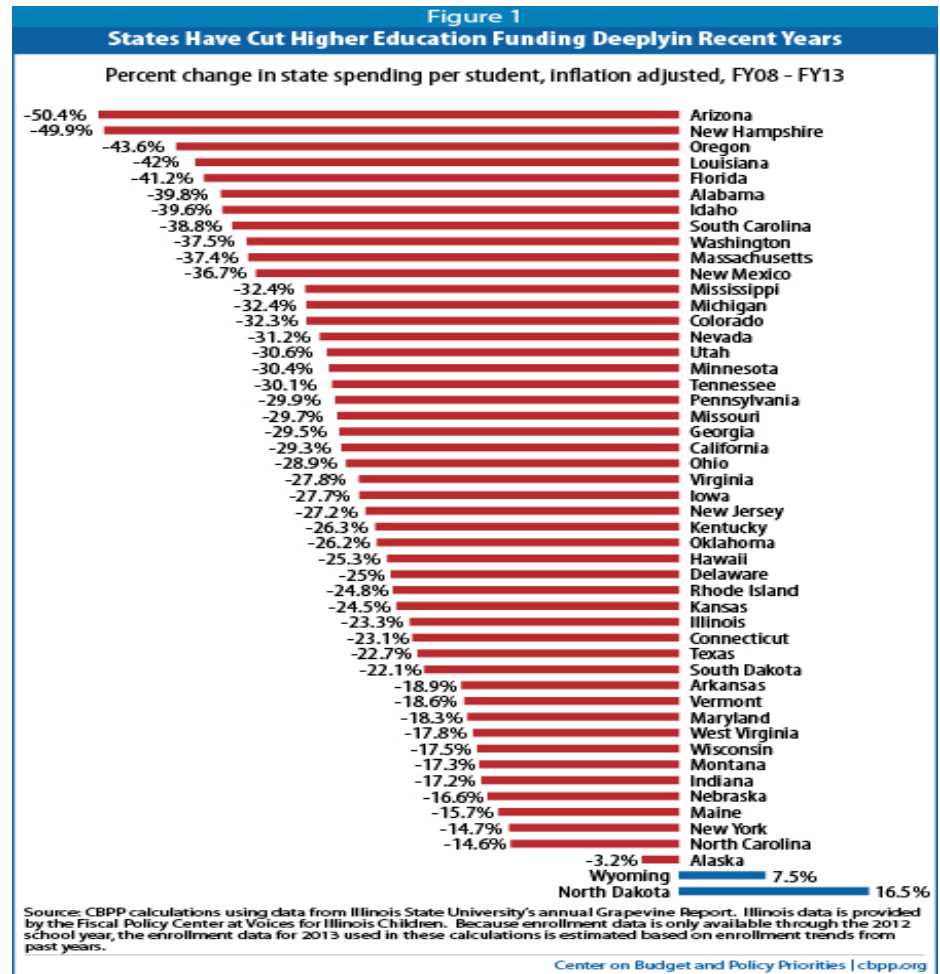
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- **Per pupil funding** in Oklahoma has been cut by \$810 per student - 22.8 percent - since 2008 (adjusted for inflation)
- Steepest cuts in the nation



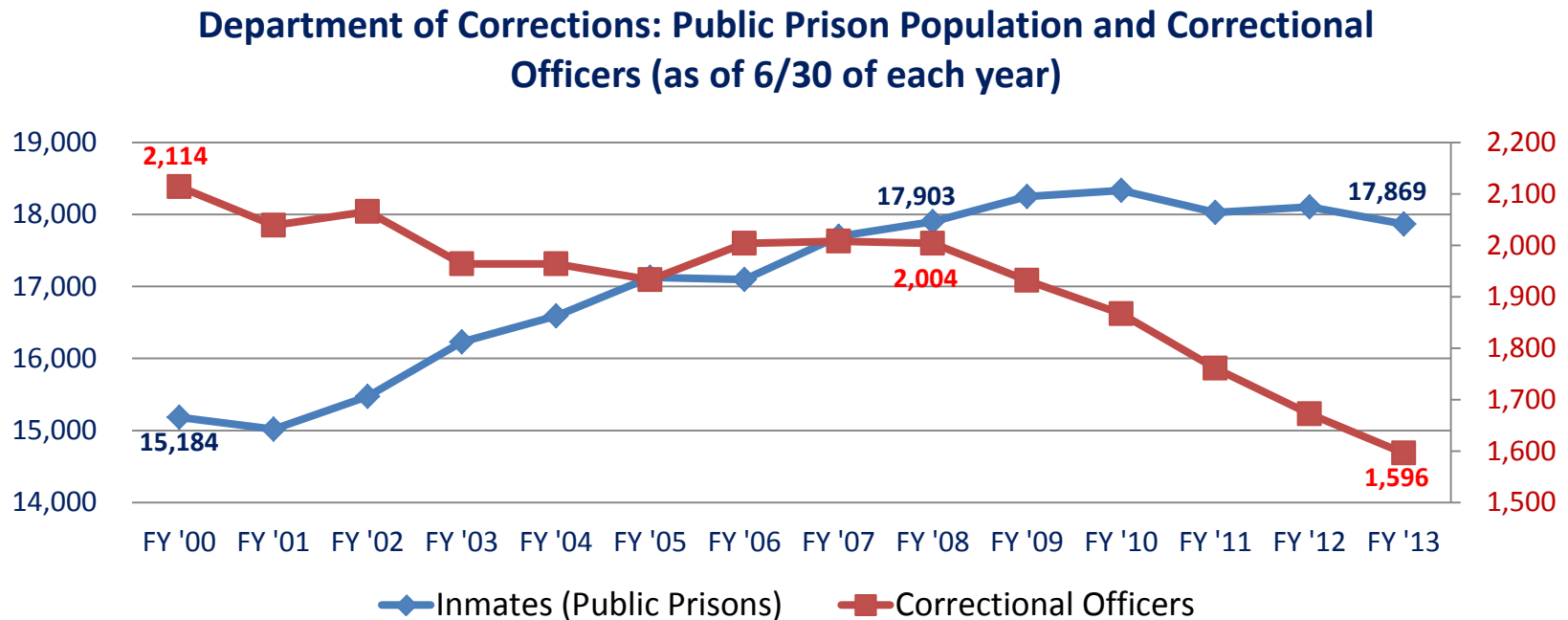
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- Per pupil **higher education** funding in Oklahoma has been cut by 26.3 percent since 2008 (adjusted for inflation)



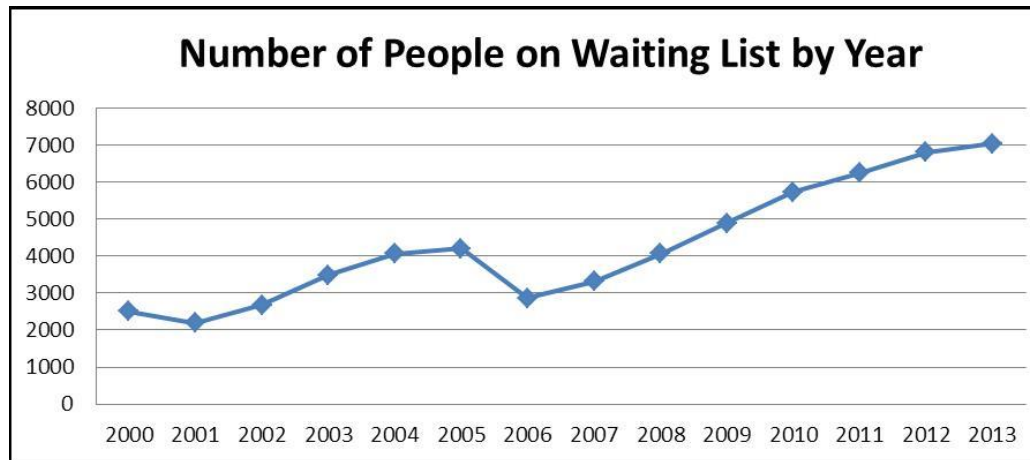
8. State budgets have been cut sharply in recent years

- Since 2008, the number of inmates per correctional officer has jumped from 7.2 to 11.2
- Oklahoma has the lowest staffing ratio in the nation



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



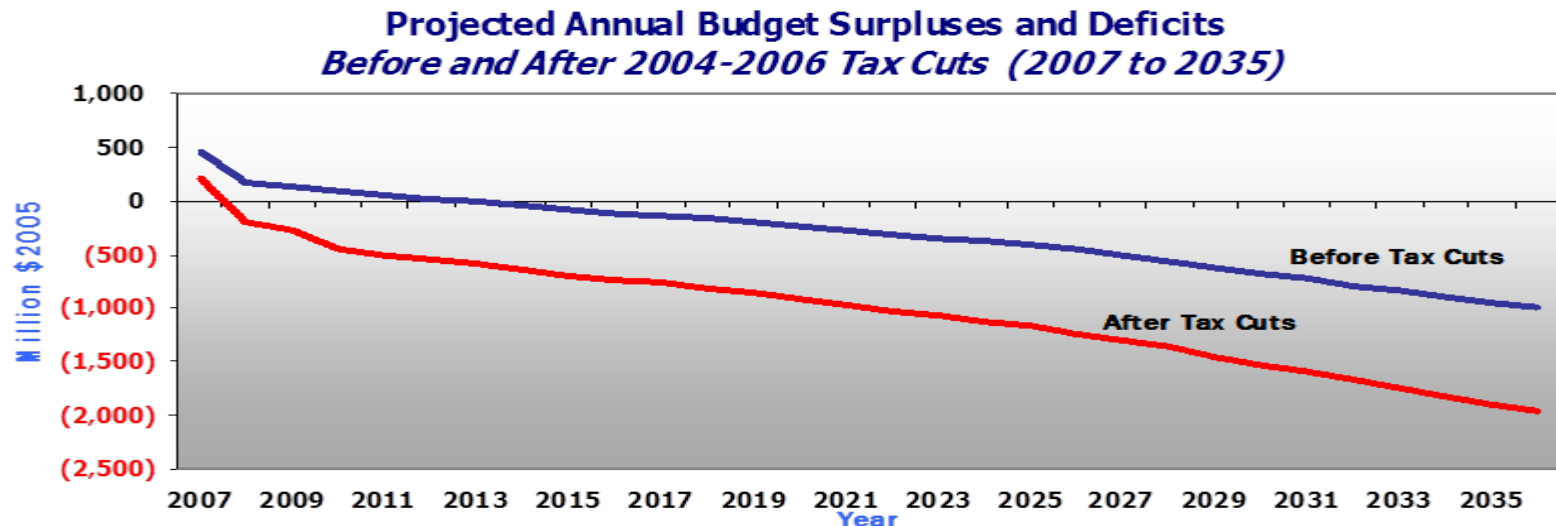
Graph via www.okwaitinglist.org

9. Oklahoma faces serious long-term budget challenges



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- Structural deficit: A situation that occurs when a state's “normal growth of revenues is insufficient to finance the normal growth of expenditures year after year”



Source: Projections conducted in 2007 by Dr. Kent Olson, Professor of Economics, Oklahoma State University

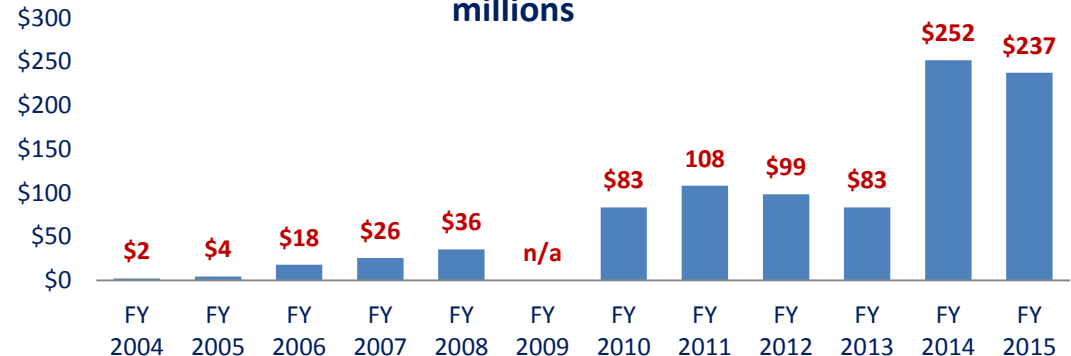
9. Oklahoma state faces serious long-term budget challenges

- Contributors to the structural deficit:
 - Outdated tax system
 - Expansion of tax breaks
 - Rising health care costs
 - Unfunded pension liabilities
 - Mass incarceration
 - Fiscally irresponsible tax policies

9. Oklahoma faces serious long-term budget challenges

- Growing cost of tax incentives for horizontal drilling and other forms of production are a major cause of stagnant revenues

Tax Breaks for Horizontal Drilling FY 04 - FY 15, in \$ millions

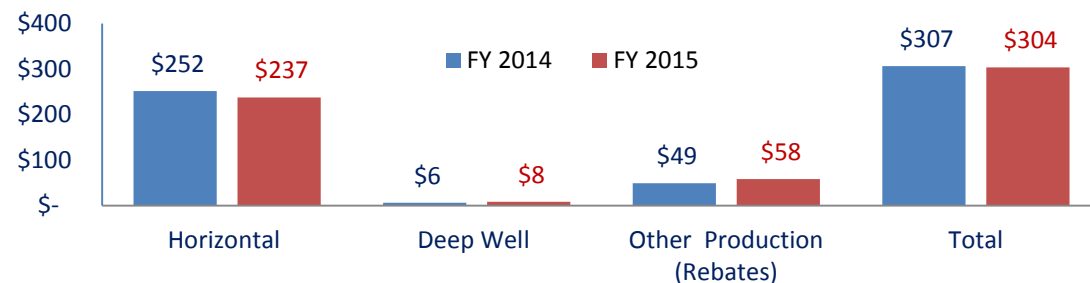


Notes:

- (1) Rebates for prior production FY '04 - FY '11; reduced tax rate FY '12 - FY '15
- (2) Rebates accrued in FY '10 and FY '11 and paid out FY '13 - FY '15 not included
- (3) FY '14 & FY '15 projections prepared by OTC Dec. 12, 2013

Source: Oklahoma Tax Commission

Oil and Gas Tax Breaks, FY 2014 - FY 2015, by Type of Production (in \$ million)



Source: Calculated based on Oklahoma Tax Commission revenue estimates, Dec. 12, 2013

10. Oklahoma needs sensible tax reform



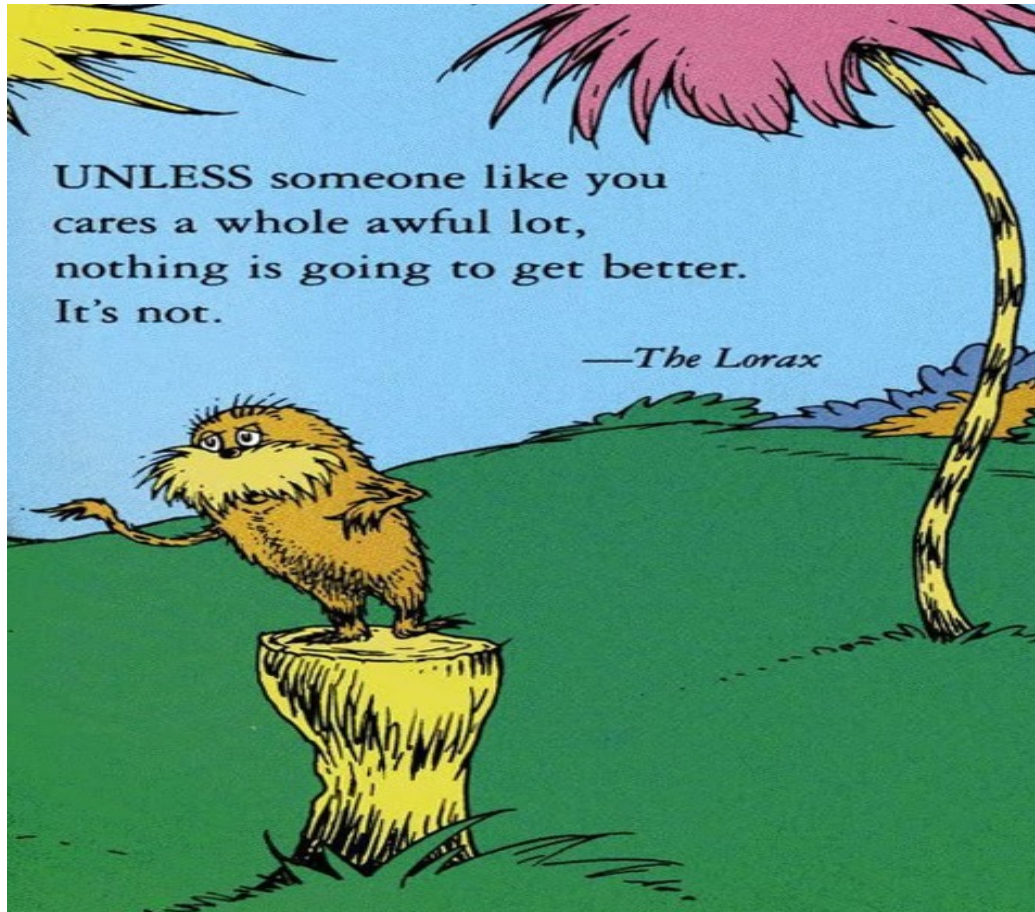
10. Oklahoma needs sensible tax reform

We must create a revenue structure that allows us to meet our obligations and ensure our prosperity

- Avoid further income tax cuts;
- Curb unnecessary tax breaks;
- Modernize the sales tax;
- Target any tax relief towards those in greatest need.

For more proposals, see Action Items for Oklahoma: Tax Reform
<http://okpolicy.org/action-items-for-oklahoma-tax-reform>

11. You have the power to make change happen



Get engaged with the
Together Oklahoma
coalition
<http://togetherok.org>

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