

12 Things You Should Know about Oklahoma Budget and Taxes

**Presentation to FallPol Boot Camp
Oklahoma Christian University, Oct. 3, 2015**

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No, not that David Blatt

Report: LeBron James didn't believe in David Blatt early in season

By Dan Feldman, NBCSports.com

Apr 2, 2015, 11:05 AM EDT



Our budget is a reflection of our values

We need adequate and effective investments to be a thriving, prosperous state

- Well-educated, well-trained workforce
- Well-functioning infrastructure
- Enforcement of economic rules
- Healthy communities
- Safe streets and neighborhoods
- Protected natural resources
- Strong families
- Support 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

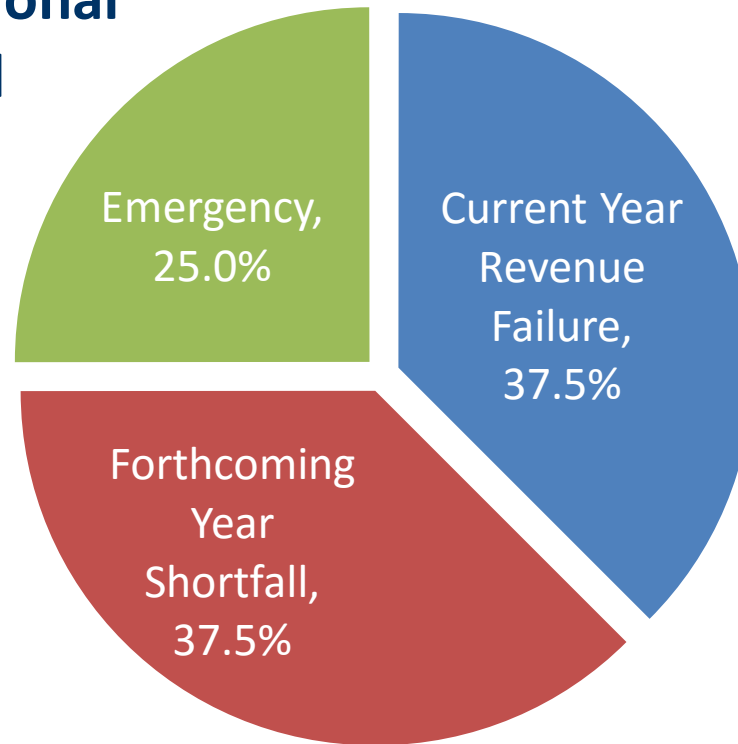


1. Oklahoma has a strict system of constitutional tax & spending limits

- 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

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

Uses of Constitutional Reserve Fund

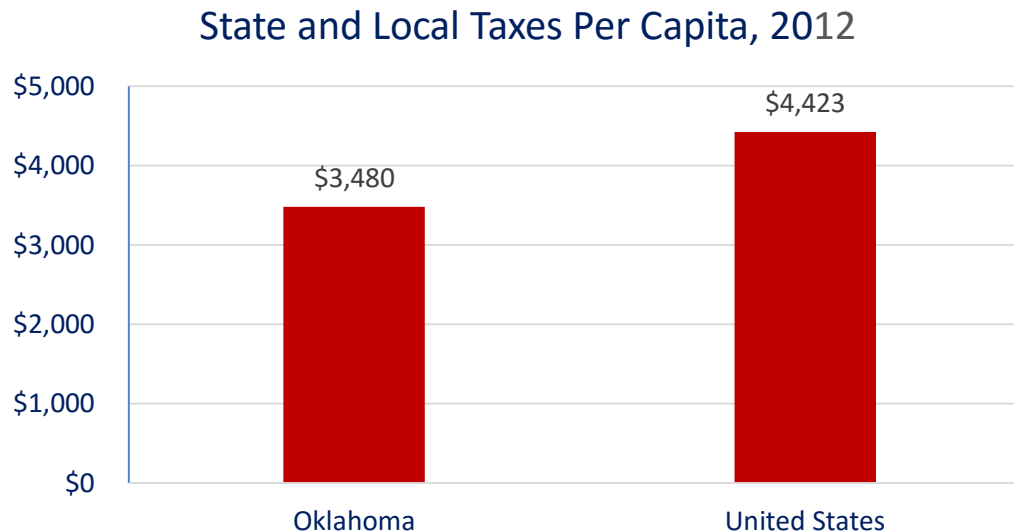


2. Oklahoma is a low-tax state



2. Oklahoma is a low-tax state

- Oklahomans pay 27 percent – or \$943 - per person less in state and local taxes than the national average
- Of every \$100 in income, Oklahomans pay \$8.68 in state and local taxes (U.S. average: \$10.28)
- Oklahomans' taxes are 38th in the nation per person and 44th as a share of personal income



* All data for 2012,
Center on Budget and
Policy Priorities from
Census of Governments

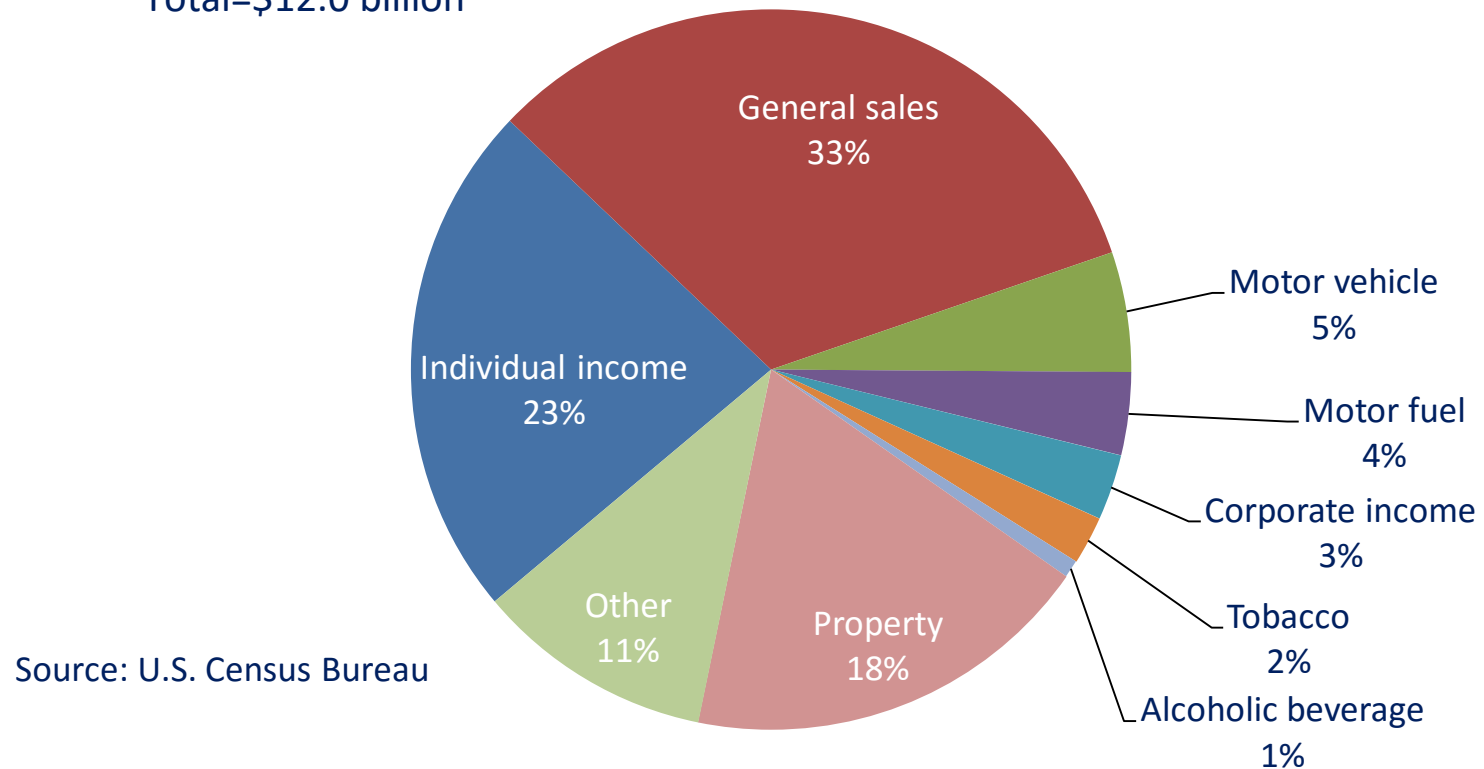
3. Oklahoma has a balanced tax mix



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State and Local Taxes by Source, Oklahoma, 2011

Total=\$12.0 billion

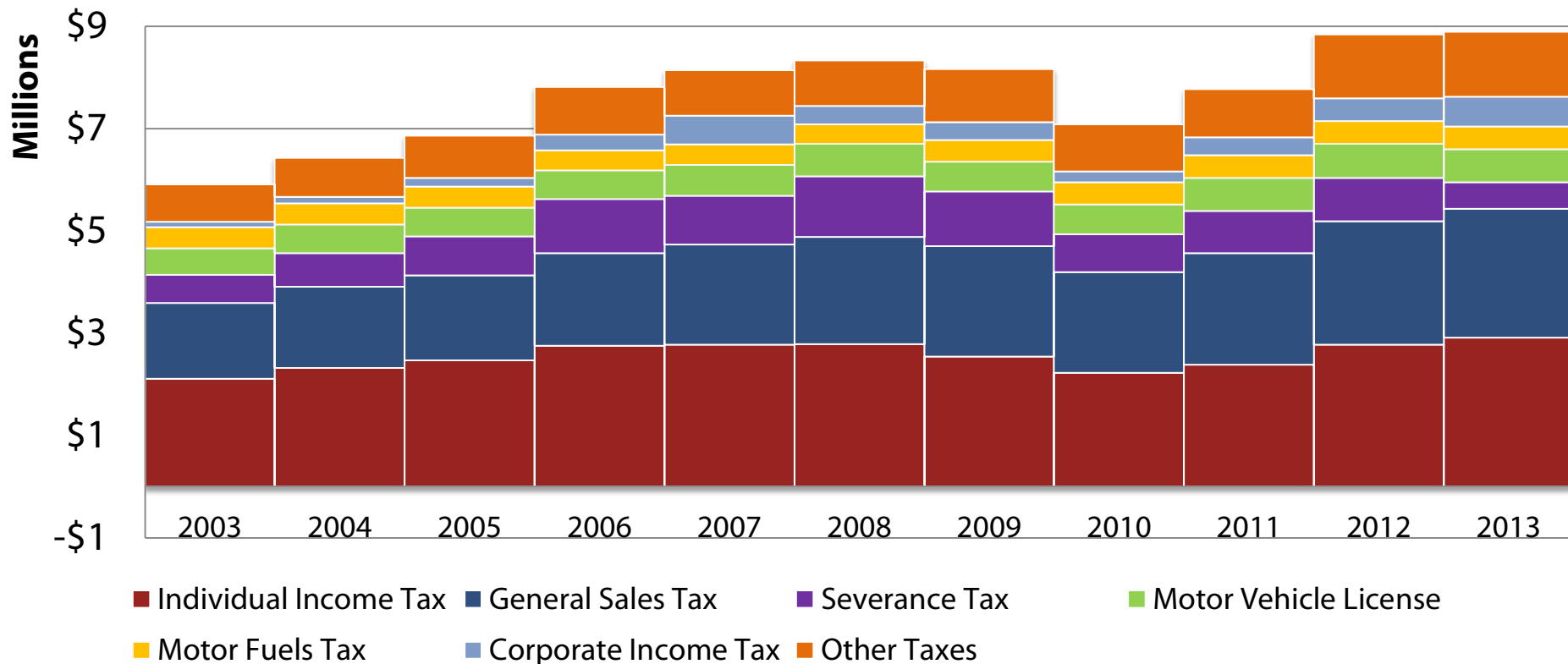


3. Oklahoma has a balanced tax mix

The six largest taxes accounted for 85.7 percent of all Oklahoma's tax revenues in 2013:

- Personal Income Tax – **32.8%**
- General Sales Tax – **28.3%**
- Gross Production Tax (Severance) – **5.8%**
- Motor Vehicle Tax – **7.3%**
- Motor Fuels Tax – **4.9%**
- Corporate Income Tax – **6.6%**

Oklahoma State Tax Collections, 2003-2013 (Source: US Census Bureau)

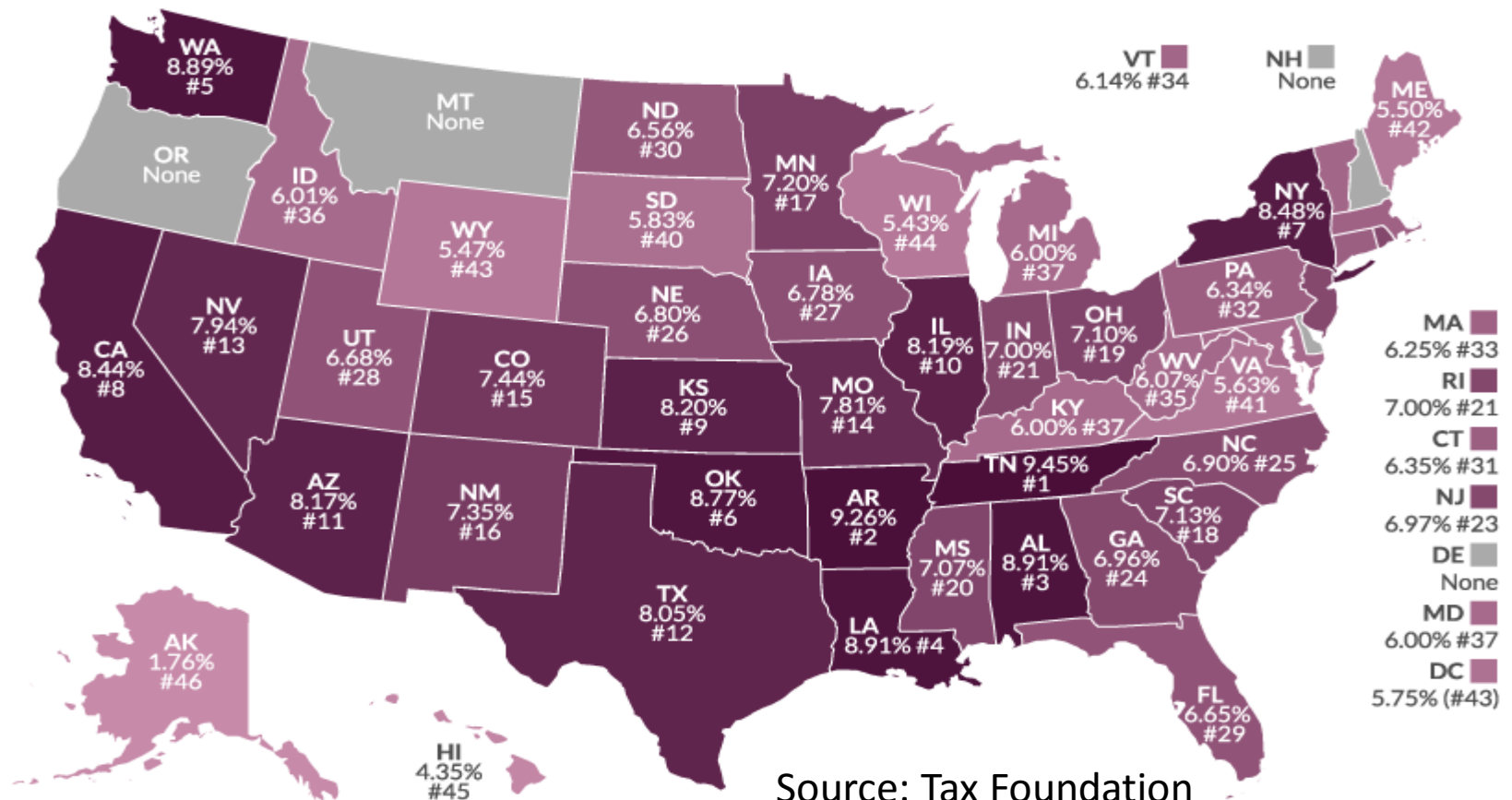


3. Oklahoma has a balanced tax mix

- We are a relatively high sales tax state

How High Are Sales Taxes In Your State?

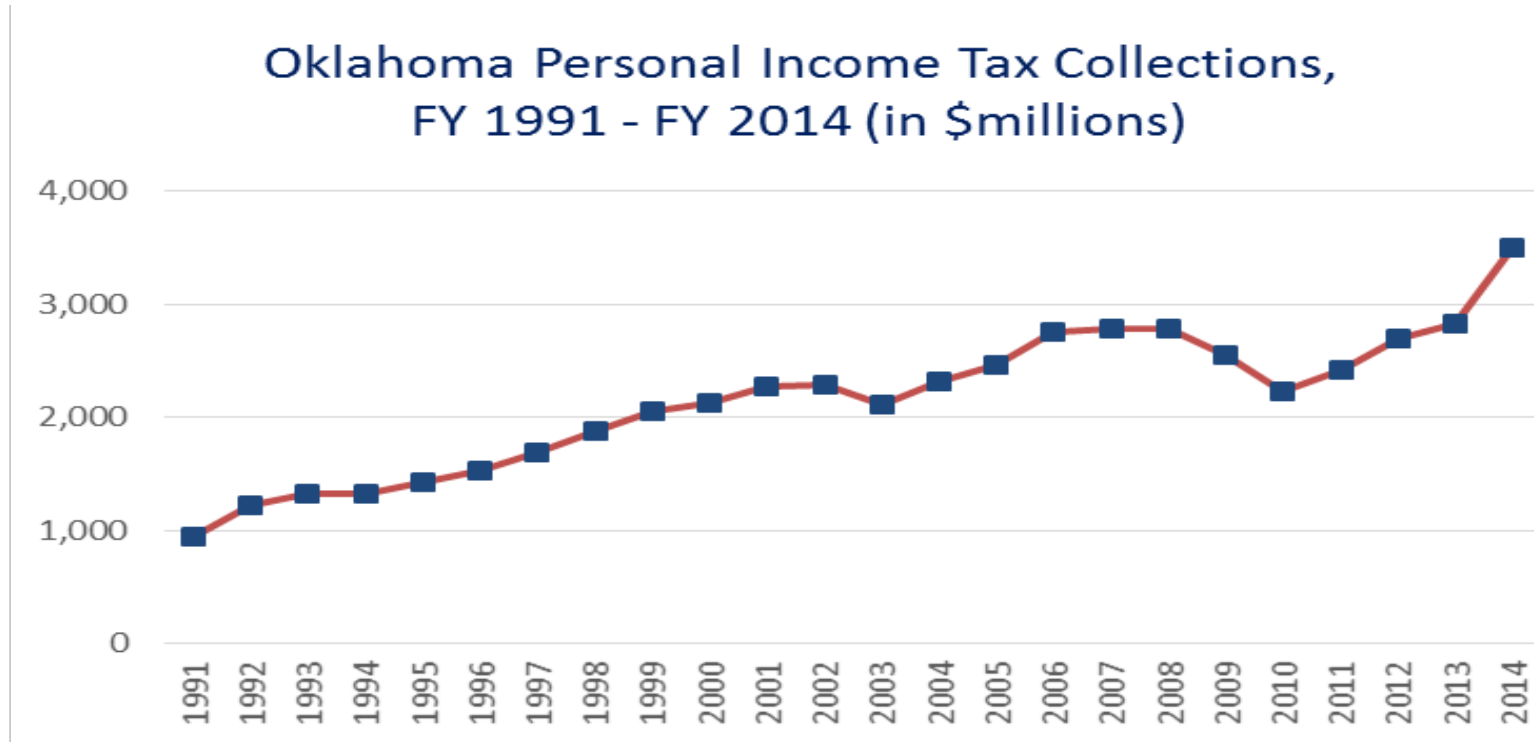
Combined State & Average Local Sales Tax Rates in 2015



Source: Tax Foundation

3. Oklahoma has a balanced tax mix

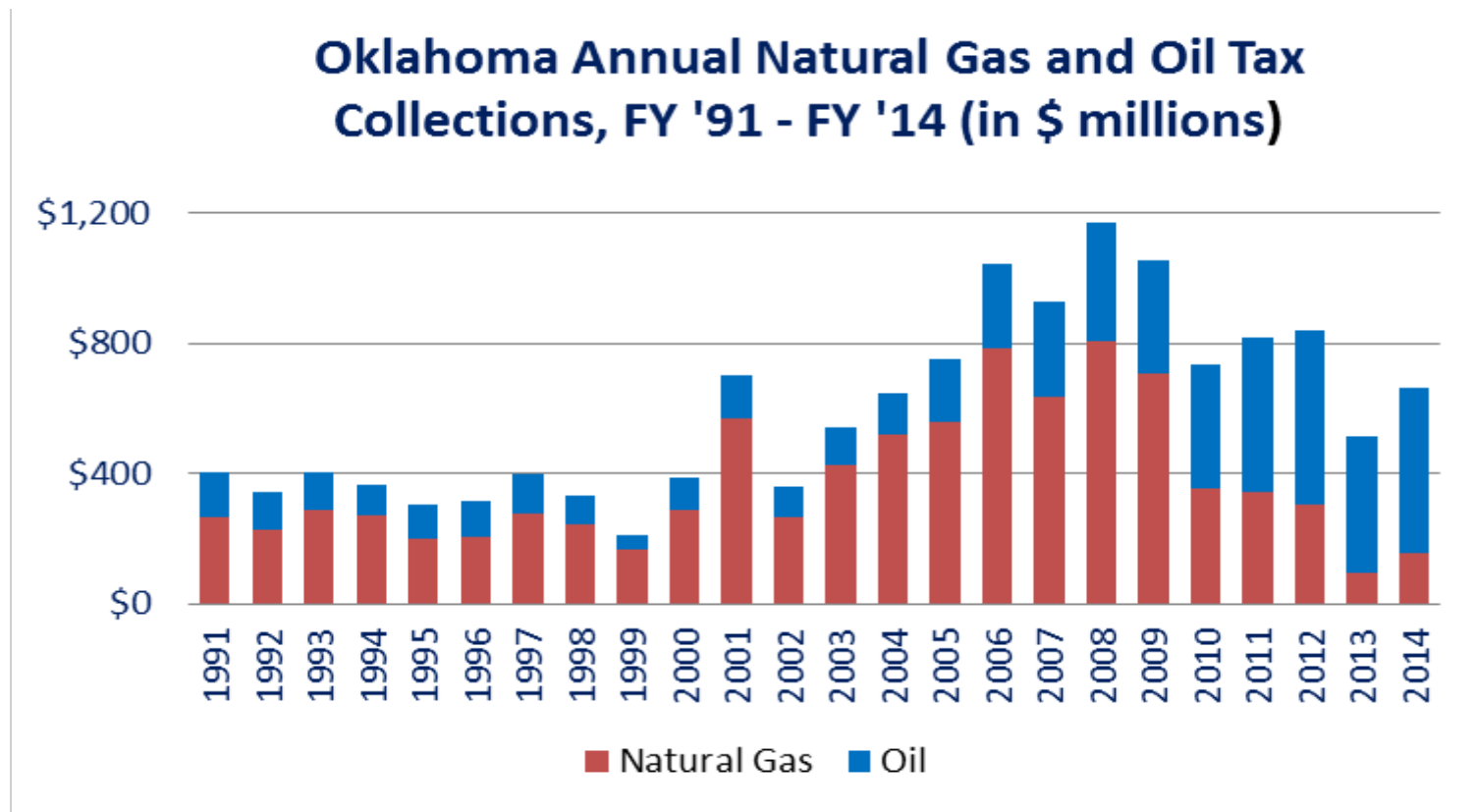
- Personal income tax is the largest state tax, but tax cuts and the recession dampened collections from 2006-2012



Source: Oklahoma Tax Commission

3. Oklahoma has a balanced tax mix

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



Source: Oklahoma Tax Commission

3. Oklahoma has a balanced tax mix

- Oklahoma's property taxes are the 2nd lowest in the nation (2011)
- Oklahomans pay less than half the national average in per capital property tax

	Property taxes per person, 2011	Total state and local taxes per person, 2011
Oklahoma	\$ 642	\$3,029
Average of six neighboring states	\$ 1,130	\$3,491
National Average	\$ 1,423	\$4,109

Source: Tax Policy Center

4. Low-income Oklahomans pay more

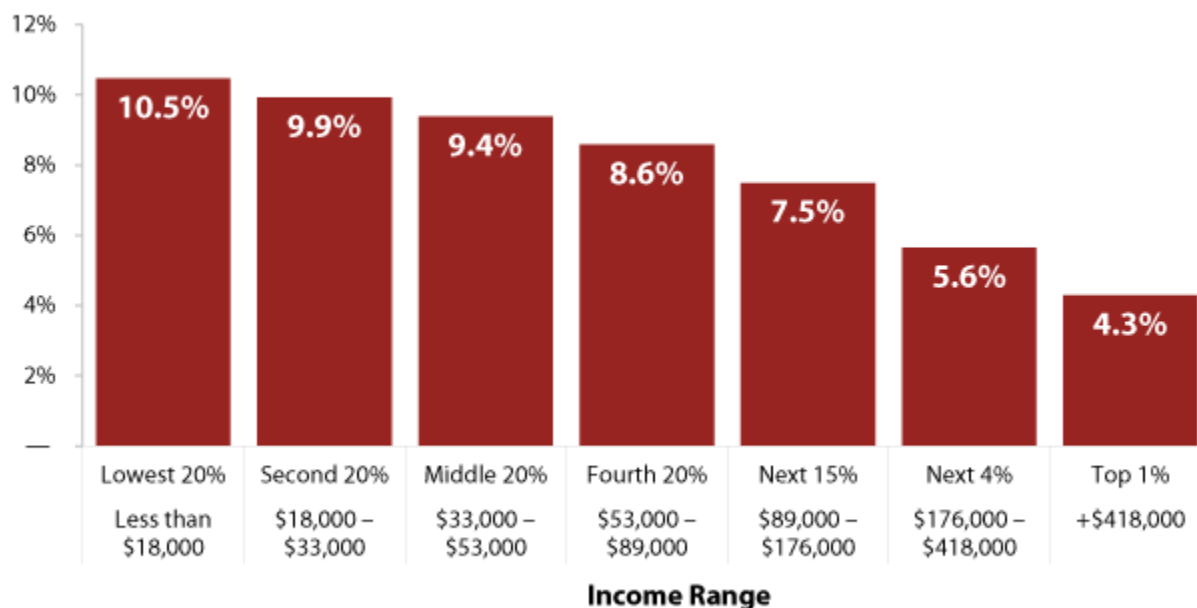


4. Low-income Oklahomans pay more

- Bottom 80 percent of households are paying 2 – 2 ½ times as much of their income in state and local taxes as the wealthiest 1 percent

Oklahoma State & Local Taxes in 2015

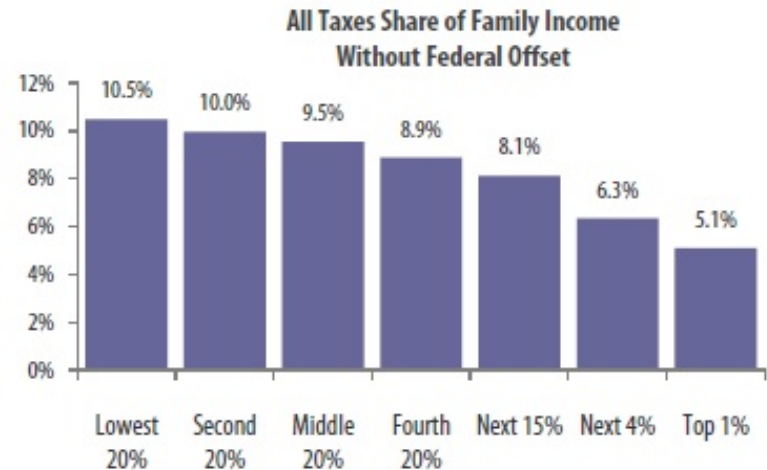
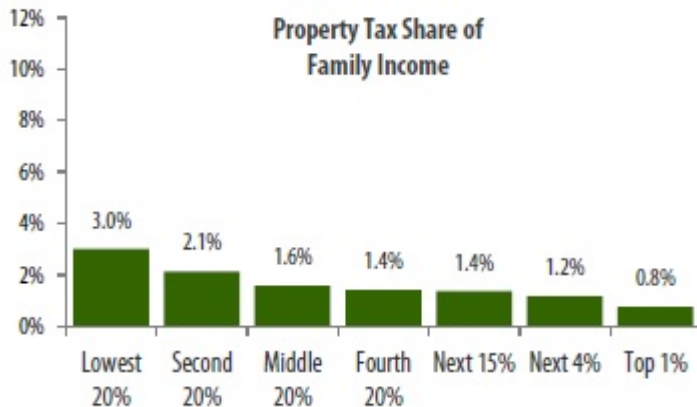
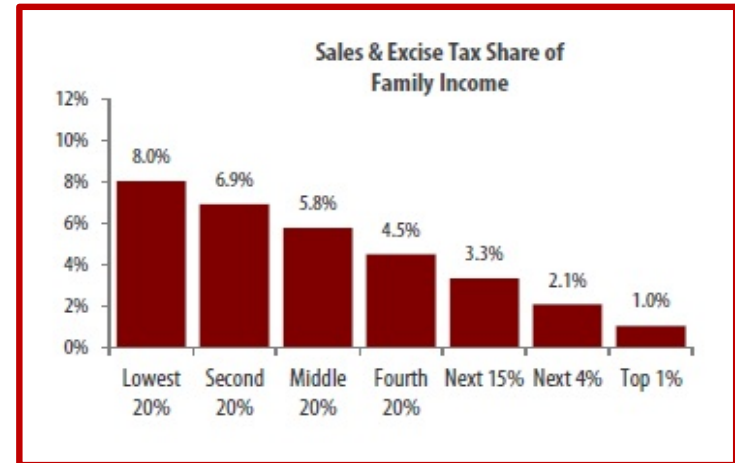
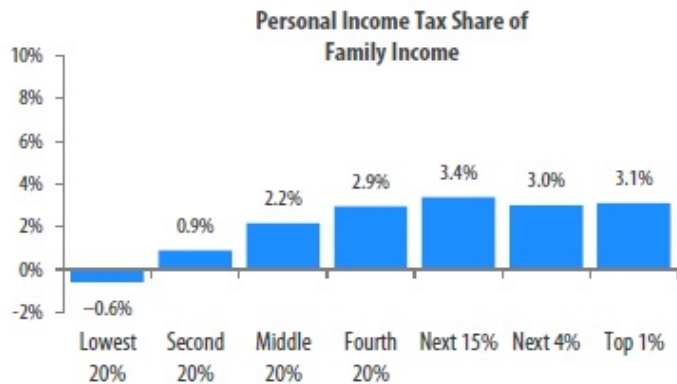
Share of family income for non-elderly taxpayers going to state and local taxes



Source: Institute on Taxation and Economic Policy, Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 5th Edition

4. Low-income Oklahomans pay more

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

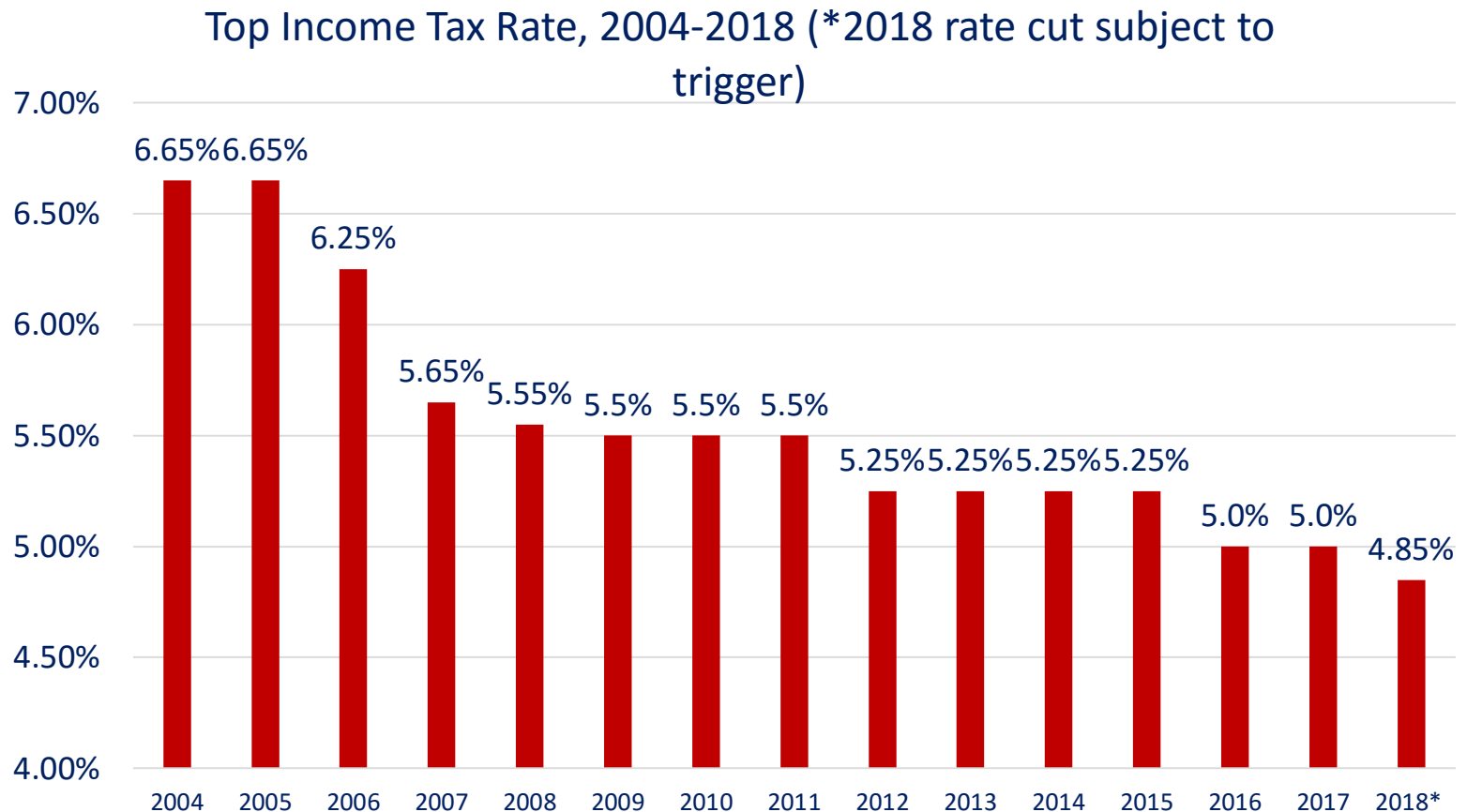


5. Taxes have been cut substantially in recent years



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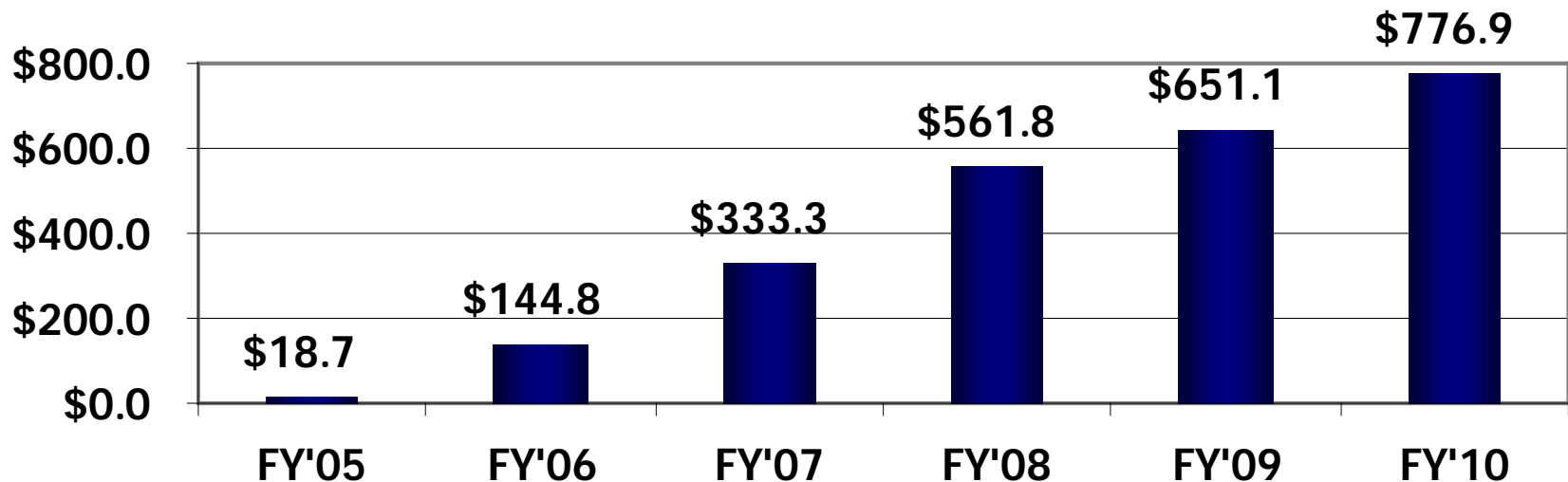
- Top income tax rate lowered from 6.65 to 4.85 percent



5. Taxes have been cut substantially in recent years

- Income tax cuts enacted between 2004-07 were large, permanent and back-loaded

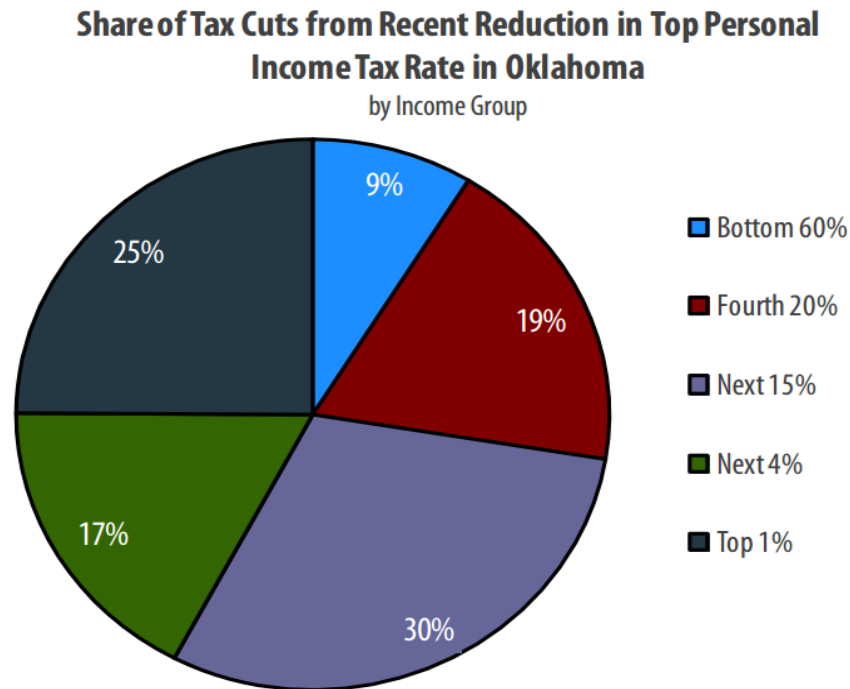
Lost Revenues from Select Tax Cuts Enacted 2004 - 2006
FY'05 through FY'10 (in \$ millions)



source: Oklahoma Tax Commission

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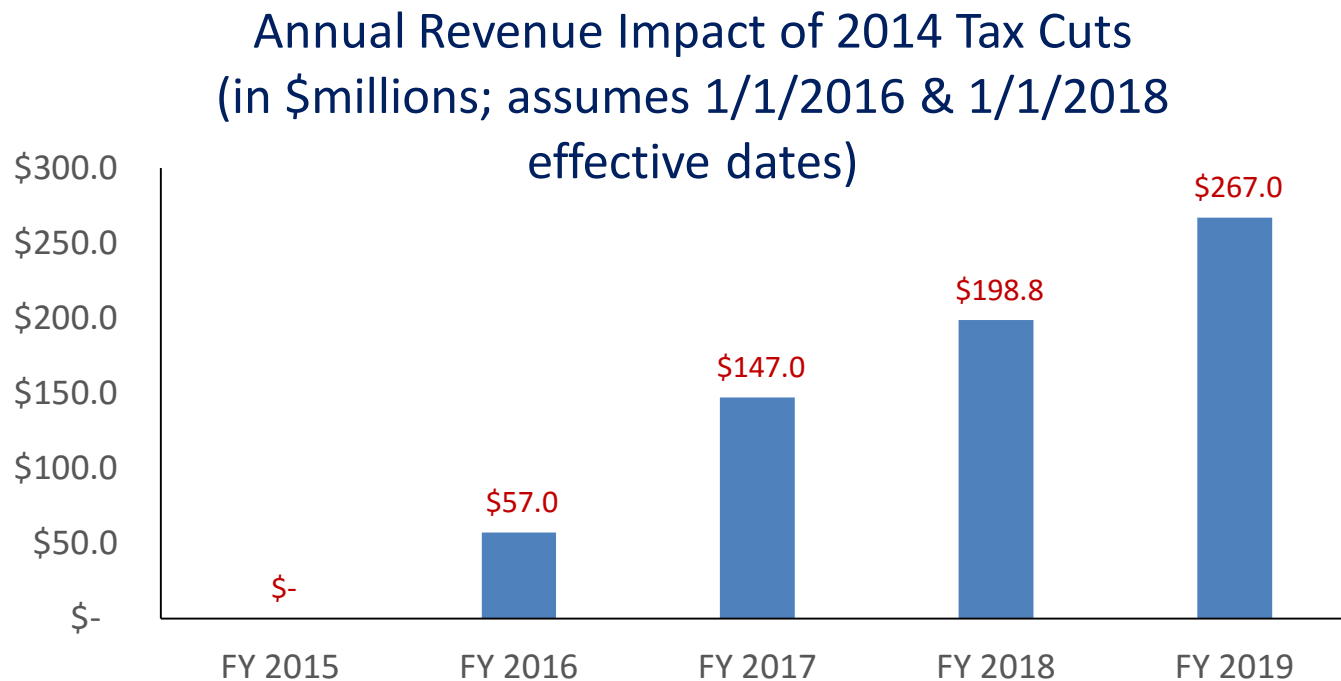
- Over 70 percent of the benefit from income tax cuts of mid-2000s went to the top 20 percent of households



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

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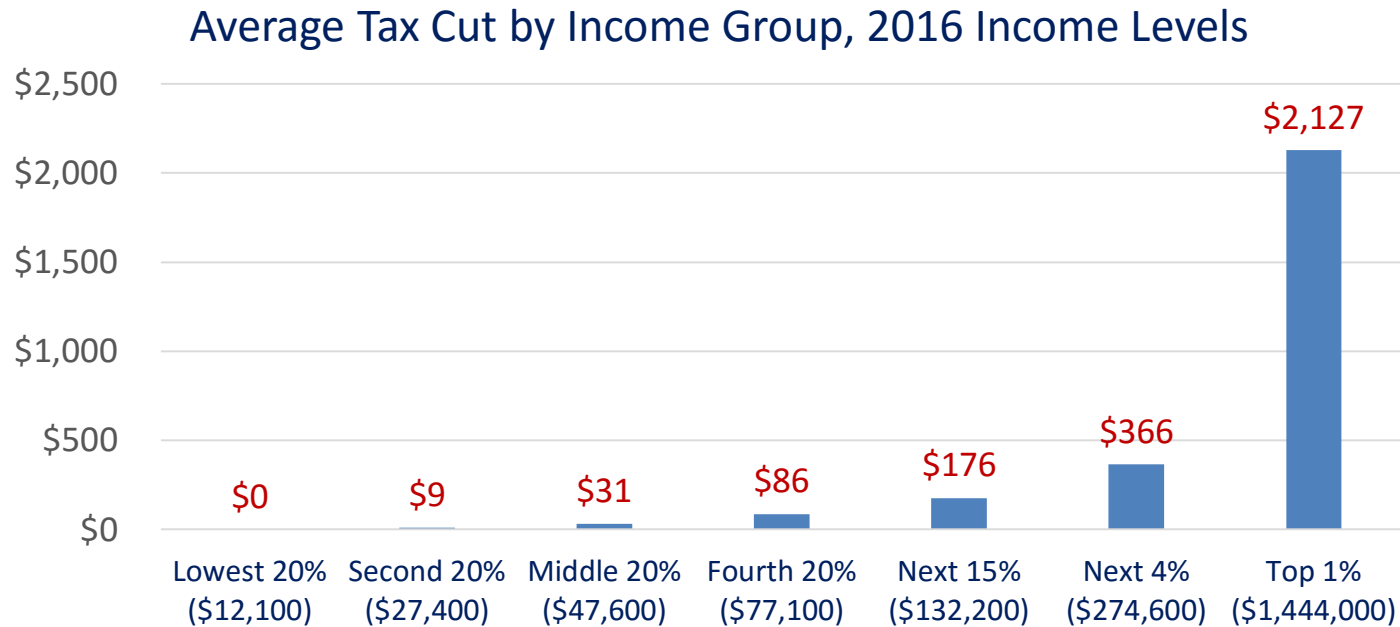
- 2014 Tax cut (SB 1246)
 - Reduces top rate to 5 percent in 2016 and 4.85 percent in 2018 (subject to trigger)



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

5. Taxes have been cut substantially in recent years

- 2014 Tax cut (SB 1246)
 - Benefits go disproportionately to the wealthiest:
 - 41 percent of households get \$0; Median household gets \$31; Top 1 percent gets \$2,127 [2016]

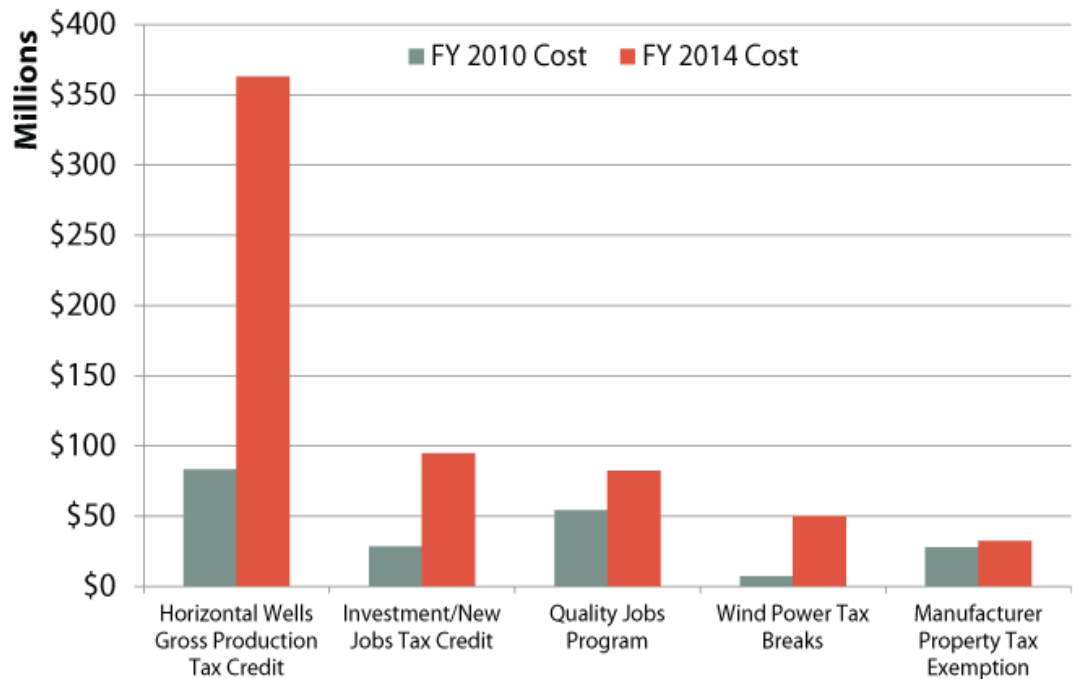


Source: Analysis of SB 1246 by Institute on Taxation and Economic Policy, May 2014.
Incomes are average income in each group

5. Taxes have been cut substantially in recent years

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

The Cost of Oklahoma's Major Tax Breaks for Big Business Has Skyrocketed



Data Source: Oklahoma Watch

www.togetherok.org

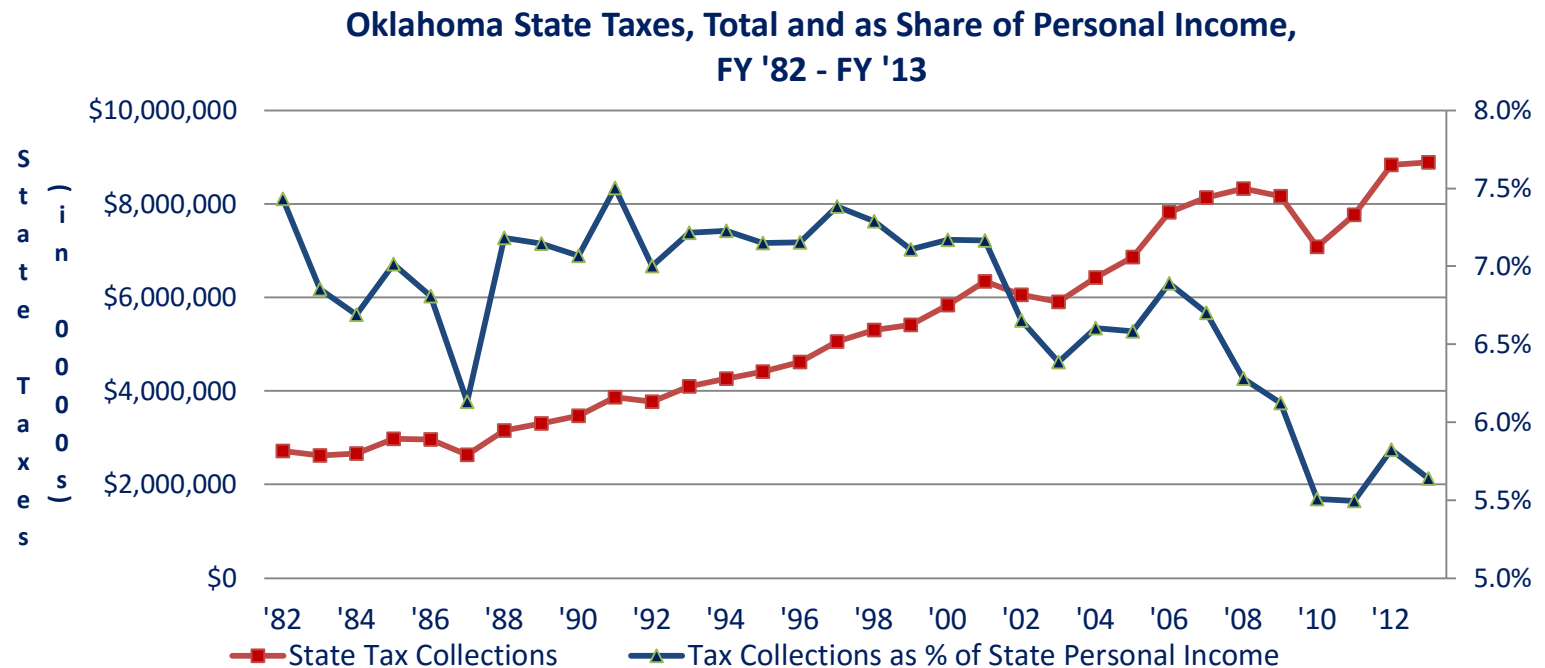


OKPOLICY.ORG
Oklahoma Policy Institute

6. Revenues have not fully recovered
from the last recession

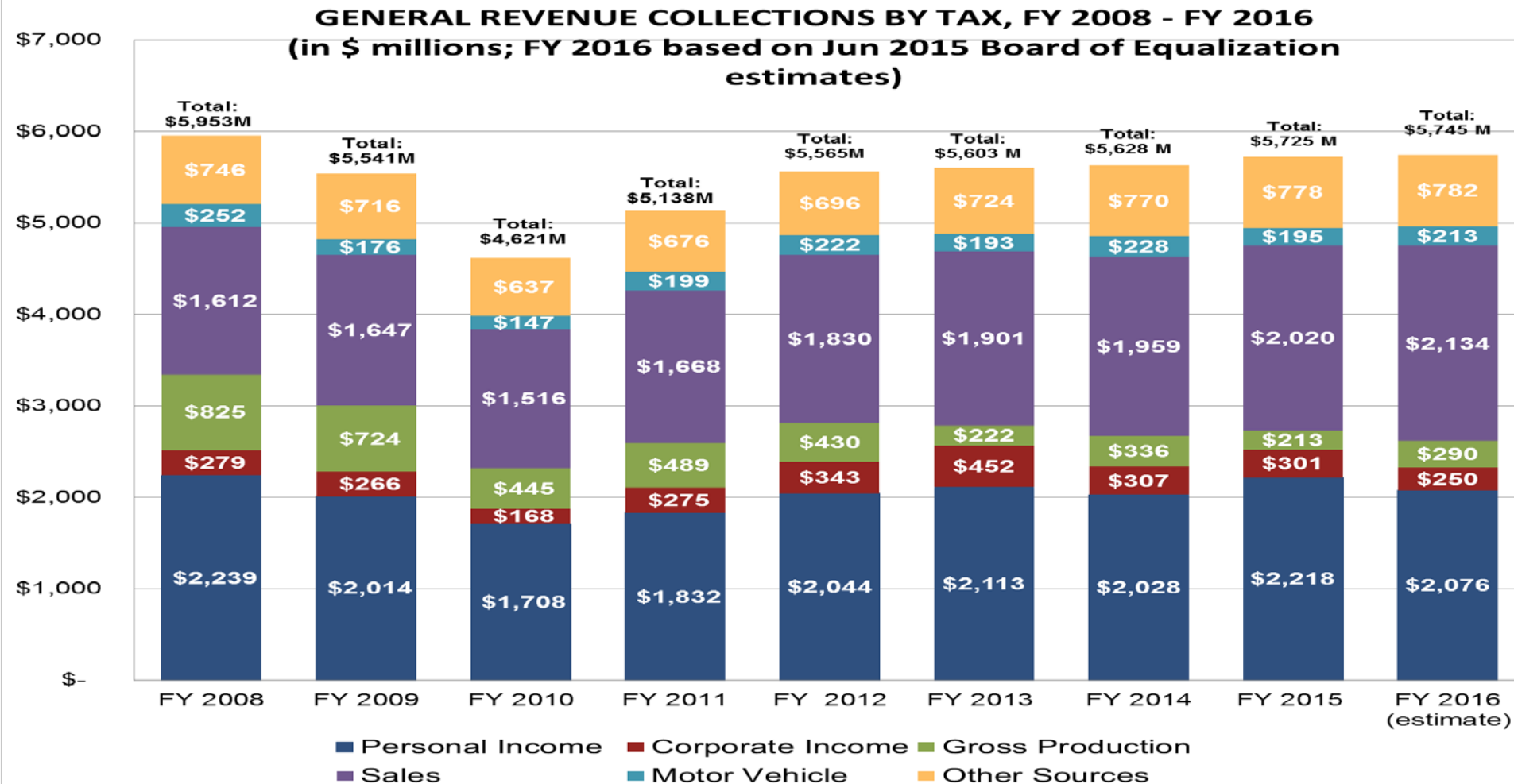
6. Revenues have not fully recovered

- 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 fully recovered

- Gen. Rev. collections in FY 2015 were 3.8 percent below FY 2008
- Collections have grown less than 3 percent in past 3 years



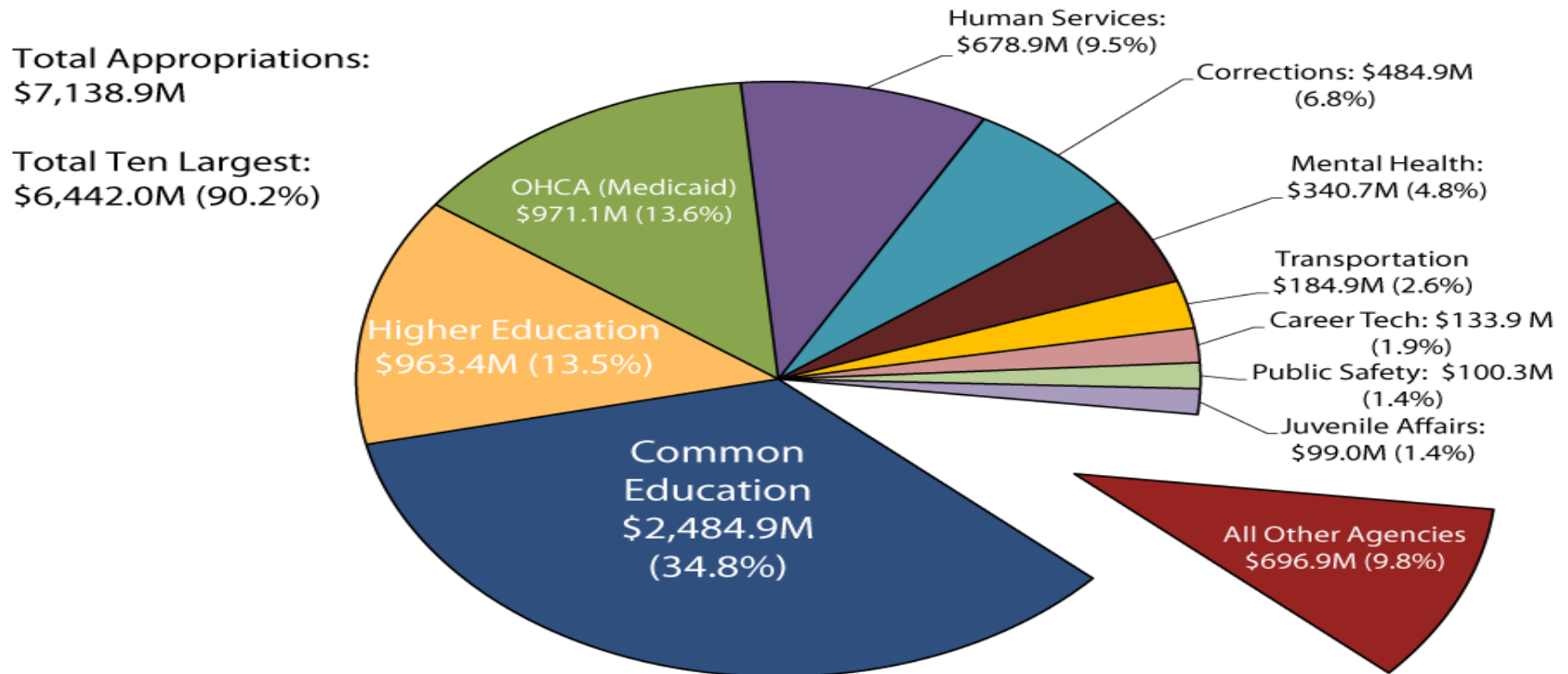
7. Most of the state budget funds 10 agencies



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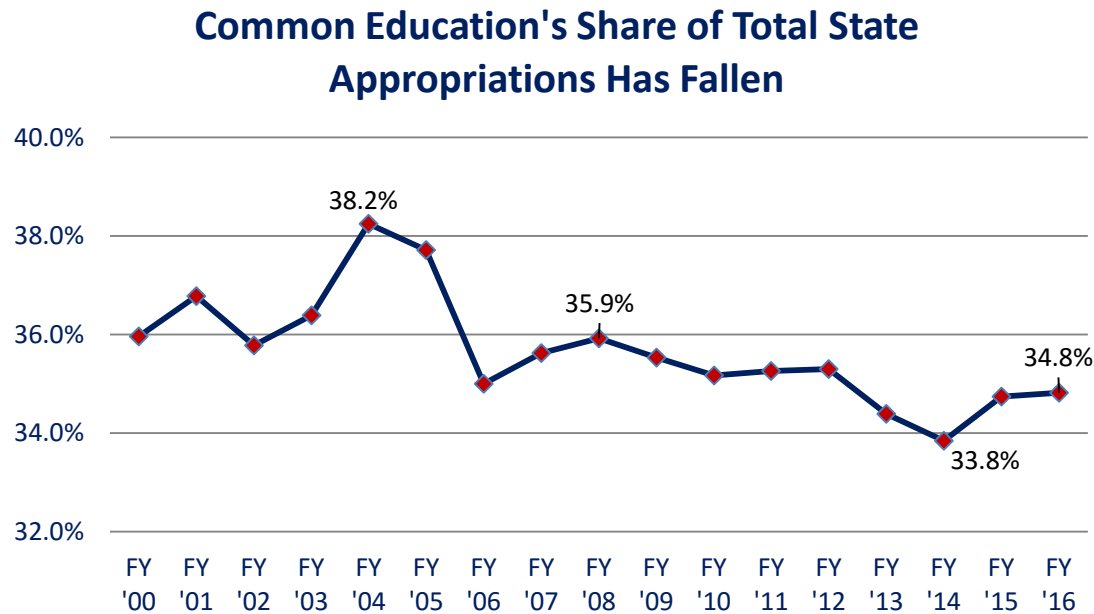
- 90 percent of appropriations go to core services in education, health, human services, public safety & transportation

FY 2016 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



8. State budgets have been slashed in recent years

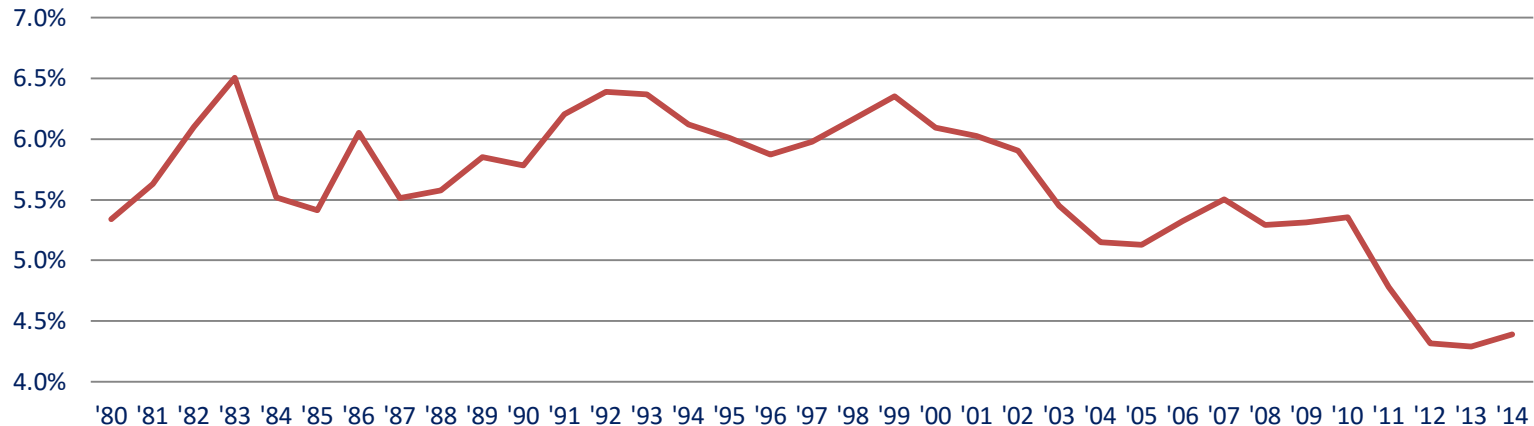


8. State budgets have been slashed in recent years

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

State spending has shrunk over time

State Appropriations as Share of State Personal Income, FY '80 - FY '14



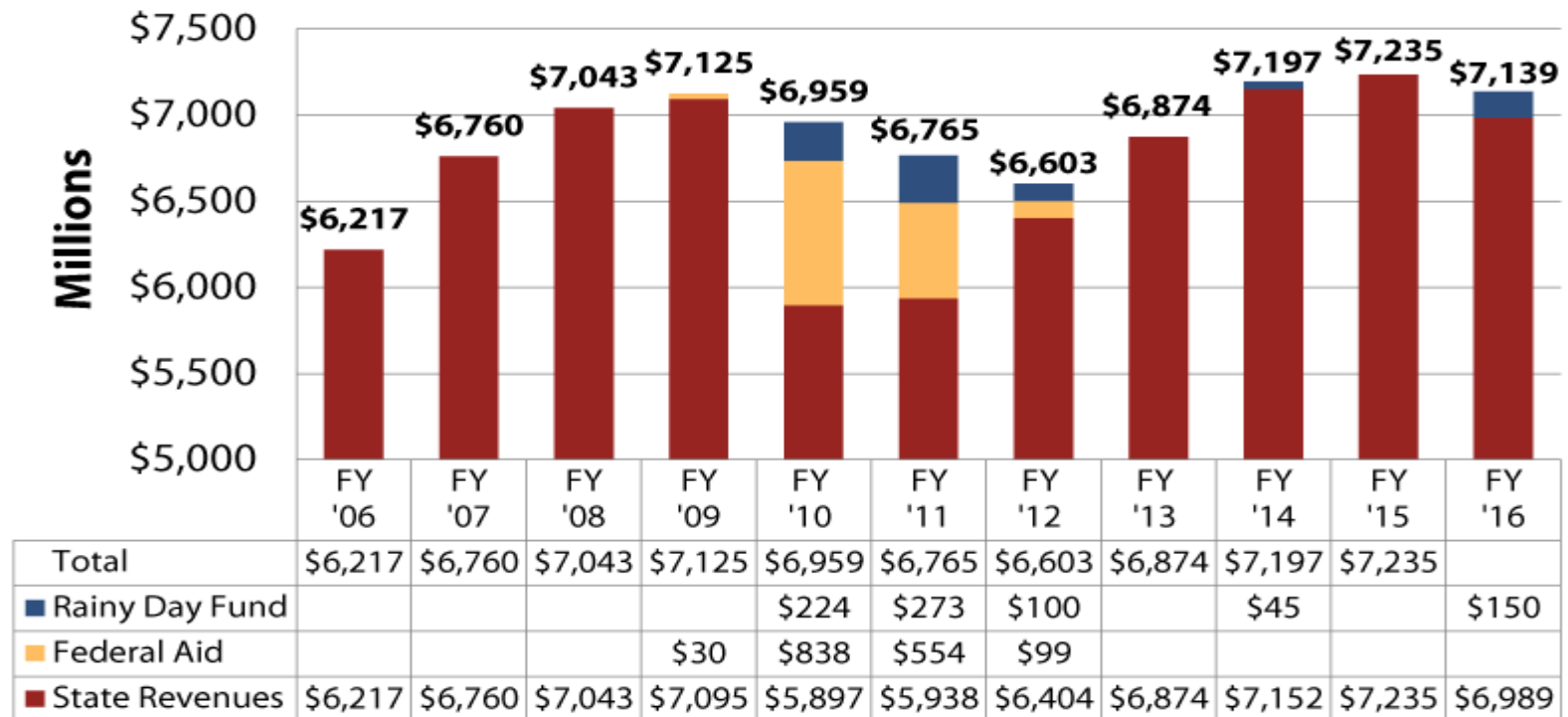
Source: OK Policy analysis of Bureau of Economic Analysis state personal income data and annual state appropriations, various sources

8. State budgets have been slashed in recent years

- This year's budget is just 0.2 percent more than seven years ago – without adjusting for inflation

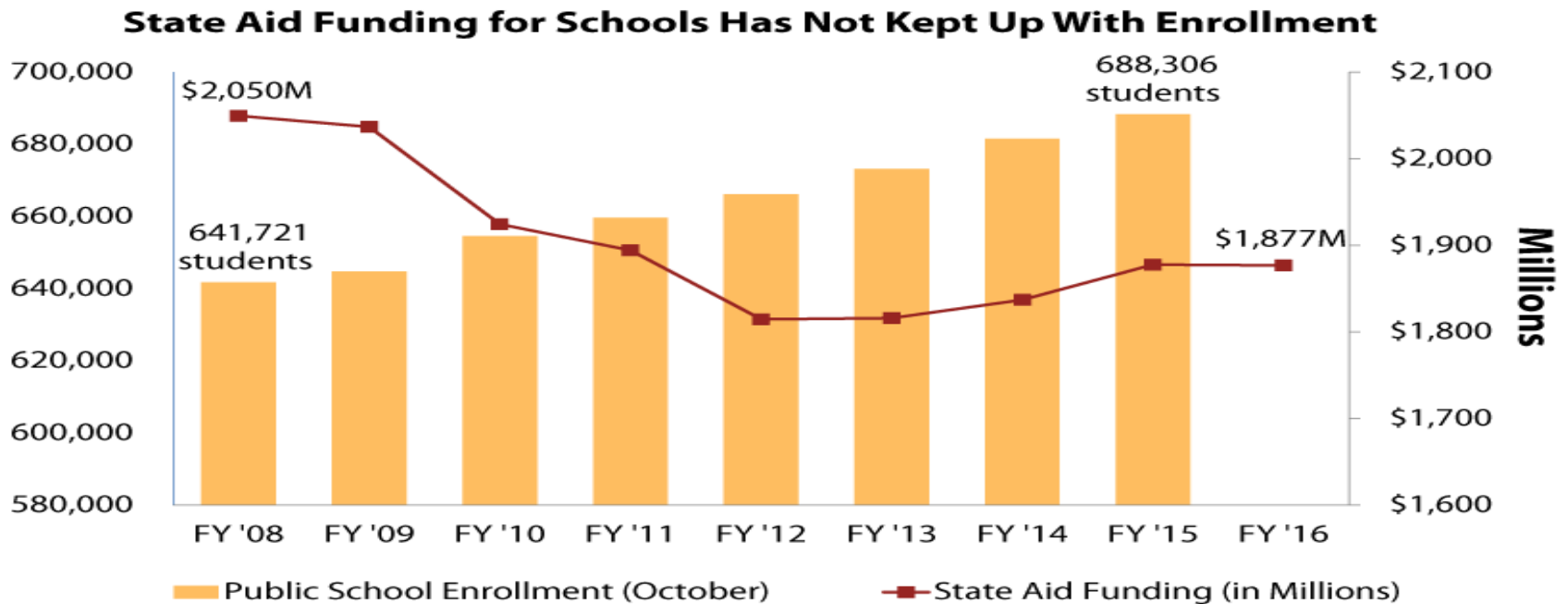
Oklahoma State Appropriations, FY 2006 to FY 2016

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



8. State budgets have been slashed in recent years

- Funding for common education remains **down by over \$170 million** while enrollment has increased by over 45,000 students

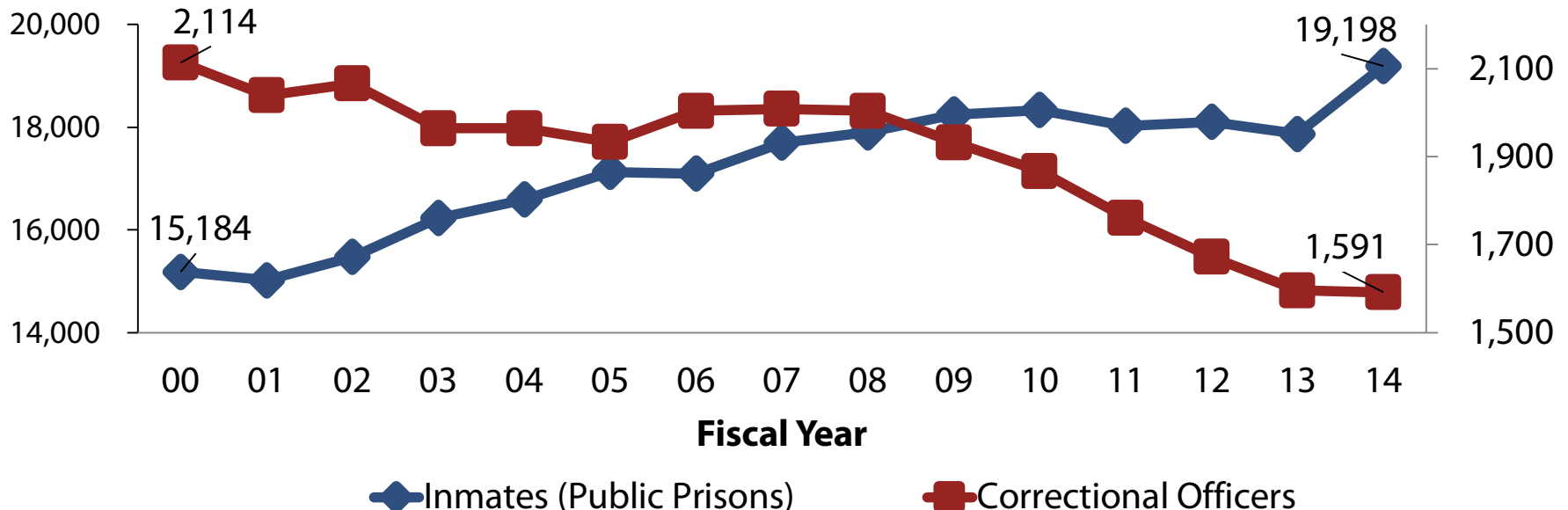


Note: State Funding excludes money allocated for textbooks

8. State budgets have been slashed in recent years

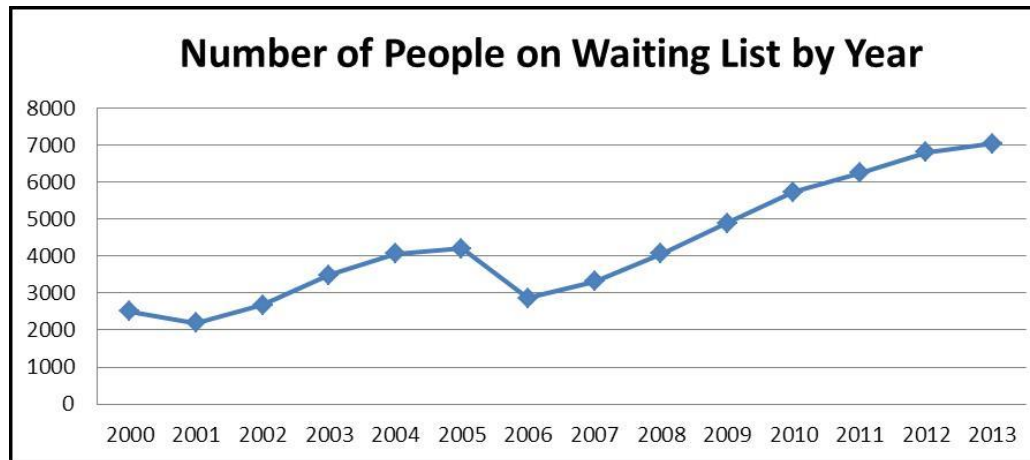
- Since 2008, the number of inmates per correctional officer has jumped from 7.2 to 12.1
- Oklahoma has the lowest staffing ratio in the nation

Number of Prisoners and Correctional Officers in Public Prisons, FY 2000-2014
(figures as of 6/30 of each year)



8. State budgets have been slashed in recent years

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



Graph via www.okwaitinglist.org

9. Oklahoma faces serious short-term budget challenges



9. Oklahoma faces serious short- term budget challenges

- Budget shortfall of \$600M - \$1.2B for FY 2017
 - \$450 million in one-time revenue to balance the FY 2016 budget
 - Additional \$100M cost of income tax cut
 - Automatic \$60M increase to ROADS
 - Reduced federal Medicaid matching rate
 - Low energy prices and economic slowdown
- Significant funding needs to operate existing programs and services



9. Oklahoma faces serious short-term budget challenges

	Oil (per barrel)	Natural Gas (per MCF)
Forecasted Amount	\$57.55	\$3.97
Current Price	\$45.41	\$2.62

CLX15 - Crude Oil WTI (NYMEX)



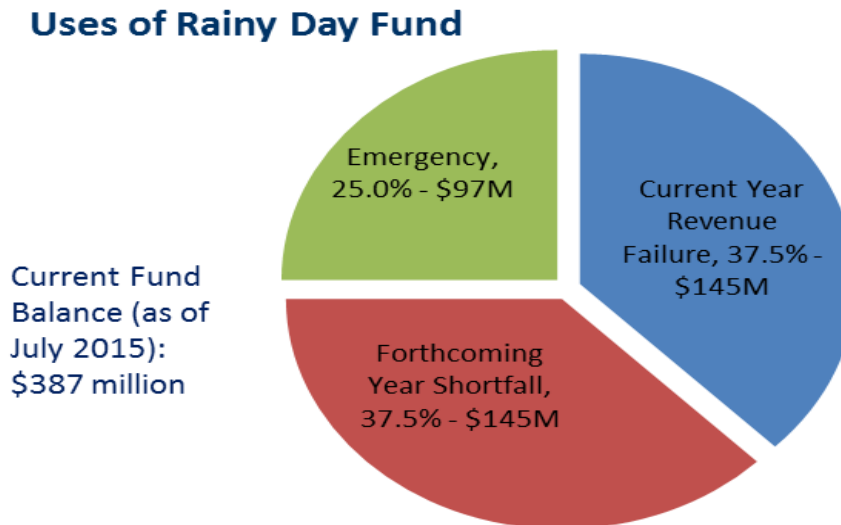
NGX15 - Natural Gas (NYMEX)



Prices current as of 9/29/15

9. Oklahoma faces serious short- term budget challenges

- Will anything other than more budget cuts and one-time revenue be on the table?

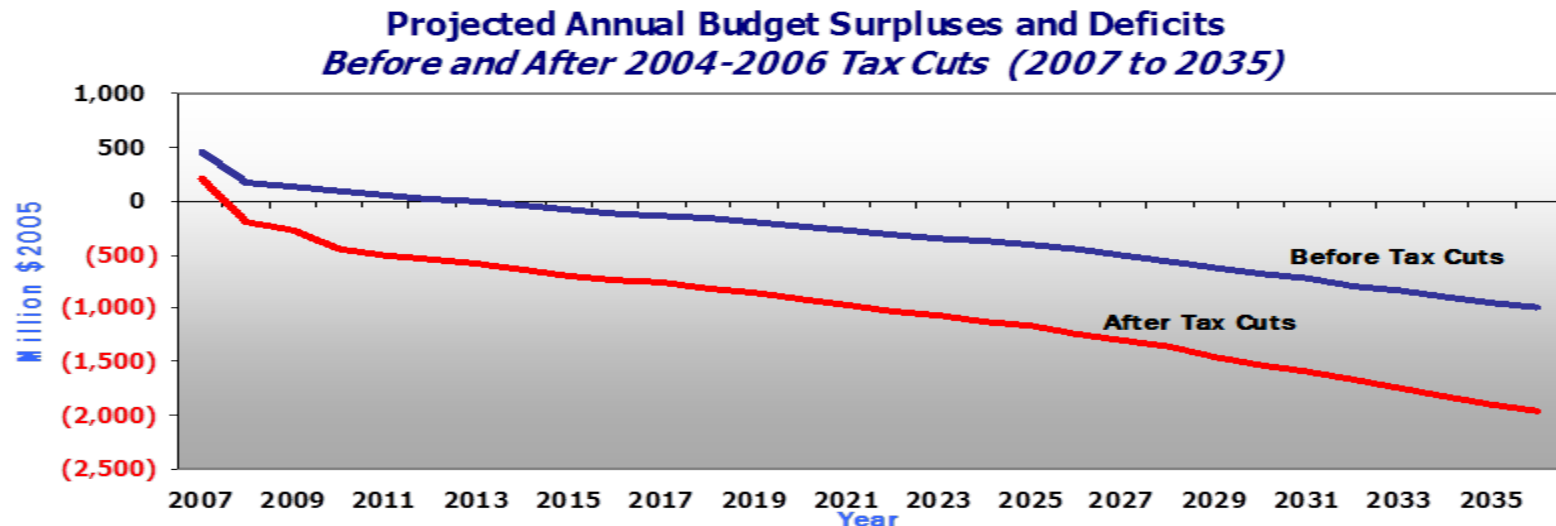


10. Oklahoma faces serious long-term budget challenges



9. Oklahoma faces serious long-term budget challenges

- 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

10. 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

11. Oklahoma needs sensible tax and budget reform



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

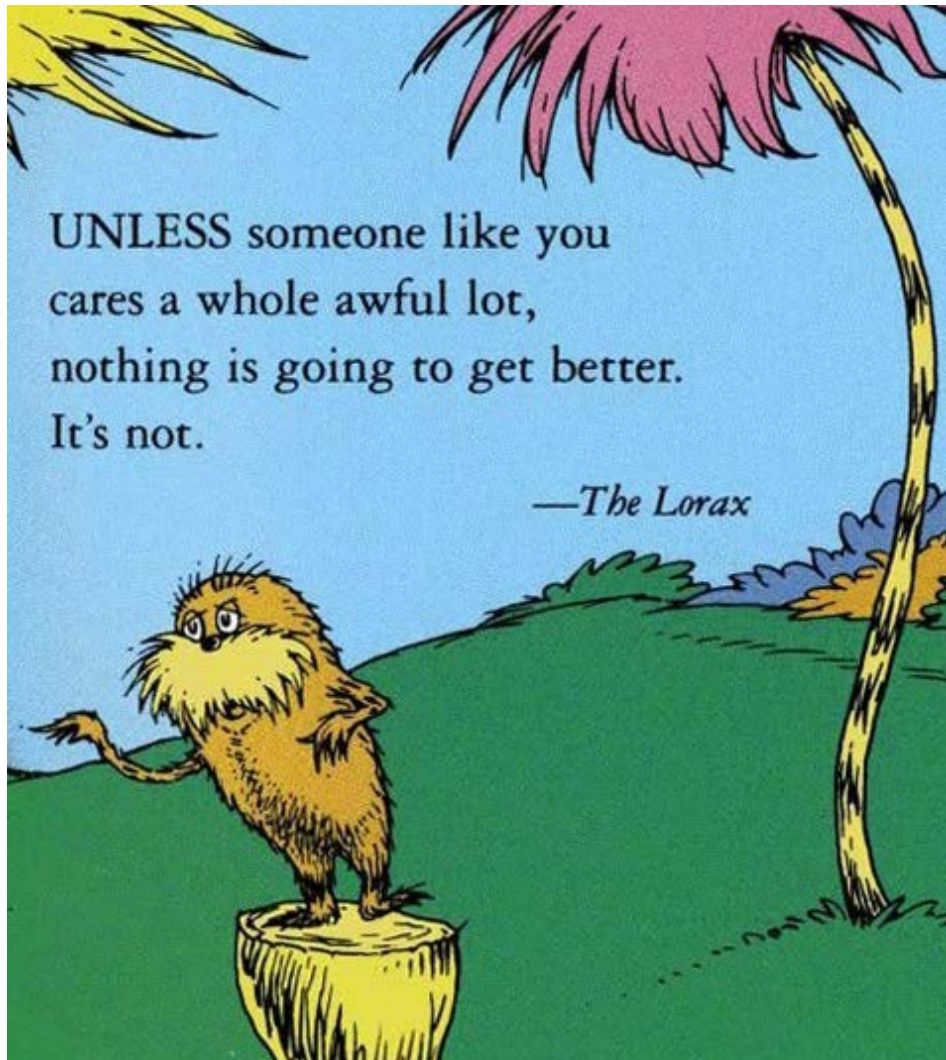
- Avoid further income tax cuts;
- Curb unnecessary tax breaks;
- Modernize the sales tax;
- Target any tax relief towards those in greatest need.
- Improve our revenue forecasting and develop a current services budget

11. Oklahoma needs sensible tax and budget reform

A policy agenda to confront the budget shortfall

- Avoid further income tax cuts
 - Repeal the next phase of the tax cut
- Curb unnecessary tax breaks
 - Eliminate the double deduction of state income tax
 - Adopt combined corporate reporting
 - Repeal or narrow sales tax exemptions
- Modernize the sales tax
 - Enact an “Amazon Law” to enhance online sales collections
 - Collect taxes on digital downloads
- Modernize the motor fuels tax
- Accept federal Medicaid funds to expand health coverage
- Limit off-the-top appropriations, especially the automatic \$58 million increase for ROADS

12. You have the power to make change happen



- Get engaged with the Together Oklahoma coalition
<http://togetherok.org>
- Email, phone and visit your legislators
- Write an op-ed or letter to the editor
- Register people to vote

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