

11 Things You Should Know about Oklahoma Budget and Taxes

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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



Our budget is a reflection of our values

“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.”

- Sen. Hubert H. Humphrey



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

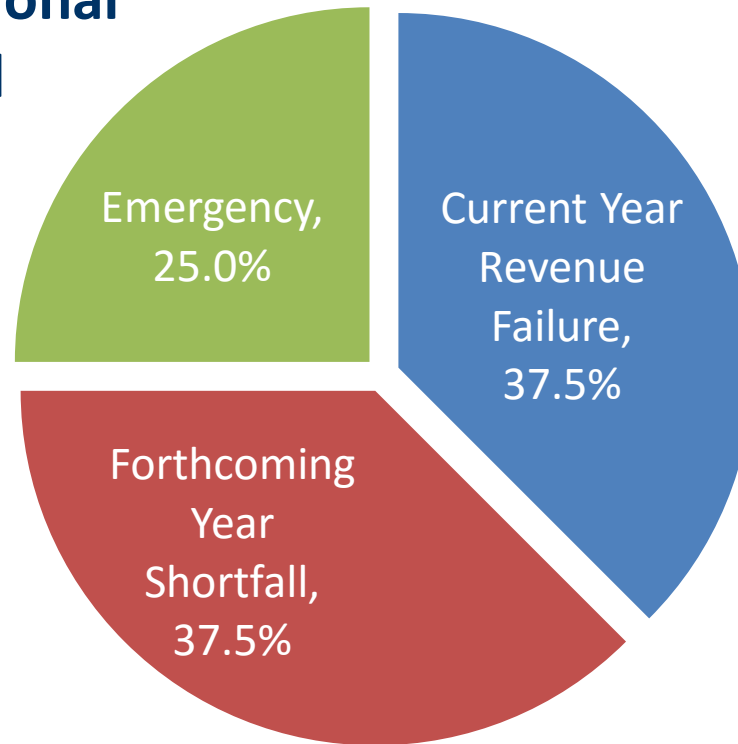


1. Oklahoma has a strict system of constitutional tax & spending limits

- 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

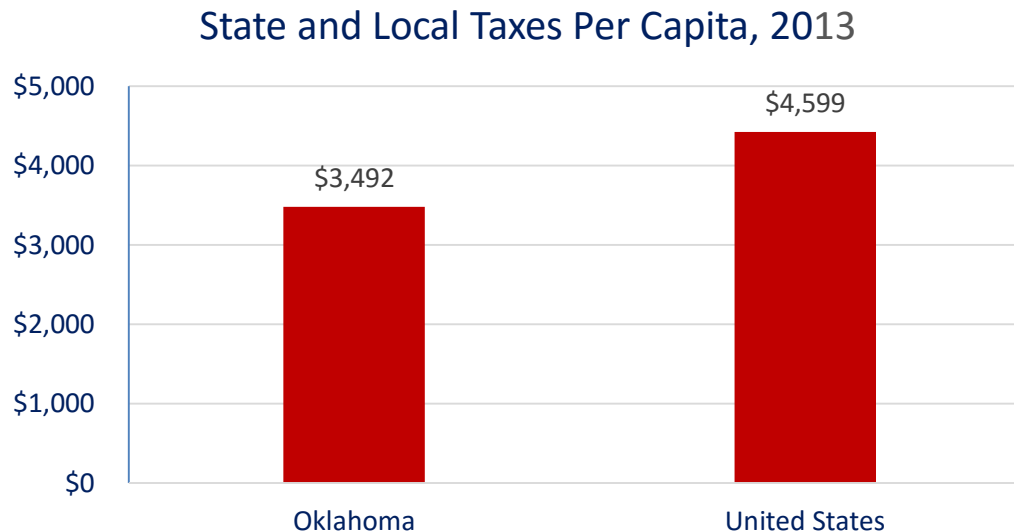


2. Oklahoma is a low-tax state



2. Oklahoma is a low-tax state

- Oklahomans pay 24 percent— or \$1,107 - per person less in state and local taxes than the national average
- Of every \$100 in income, Oklahomans pay \$8.32 in state and local taxes (U.S. average: \$10.35)
- Oklahomans' taxes are 42th in the nation per person and 47th as a share of personal income



* All data for 2013, Tax Policy Center

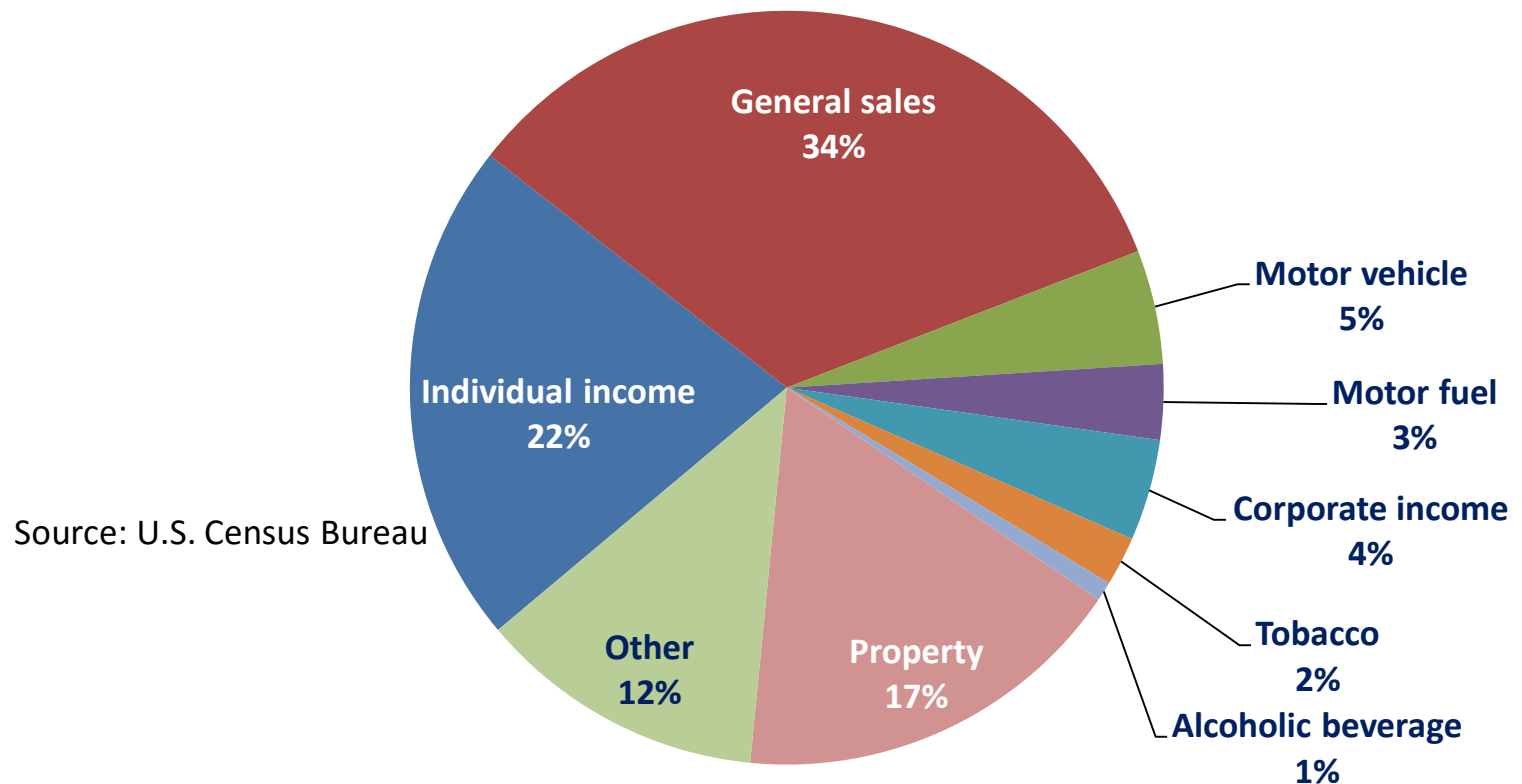
3. Oklahoma has a balanced tax mix



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State and Local Taxes by Source, 2013

Total=\$13.5 billion

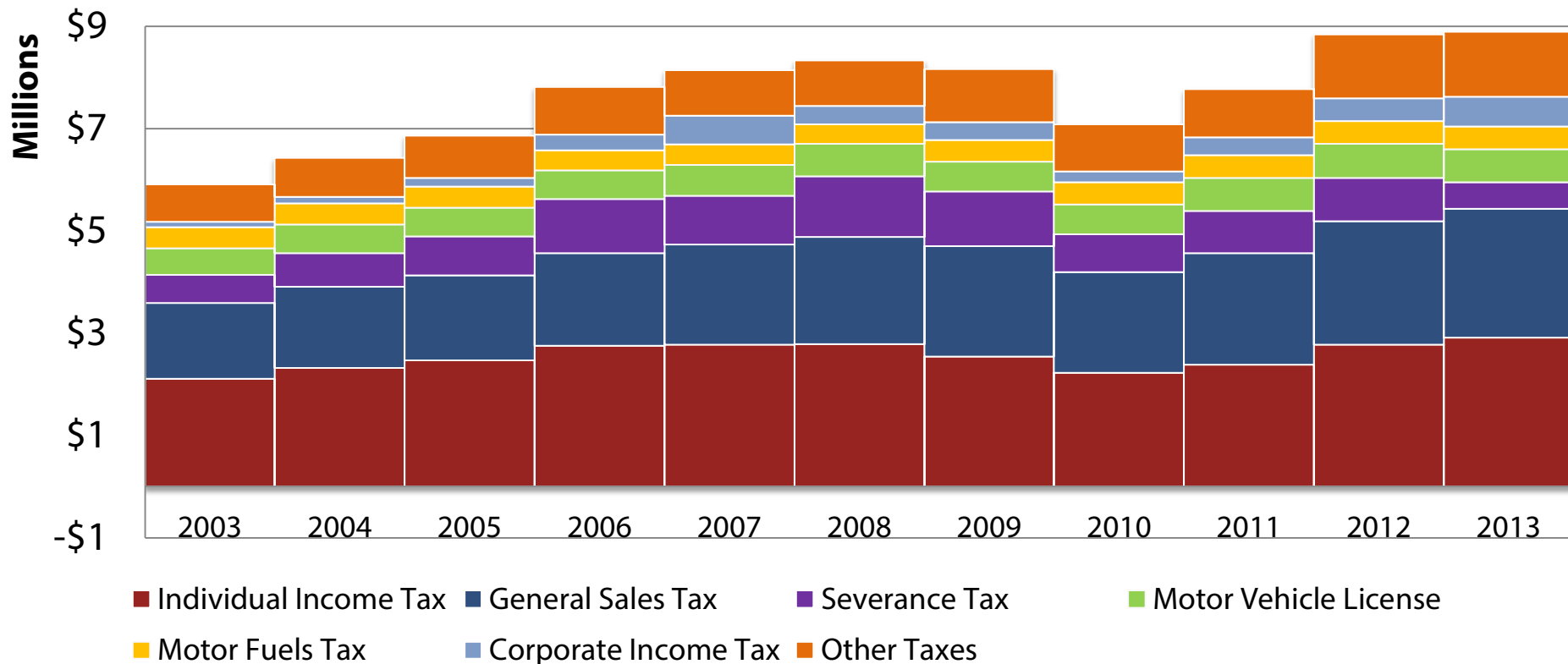


3. Oklahoma has a balanced tax mix

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)

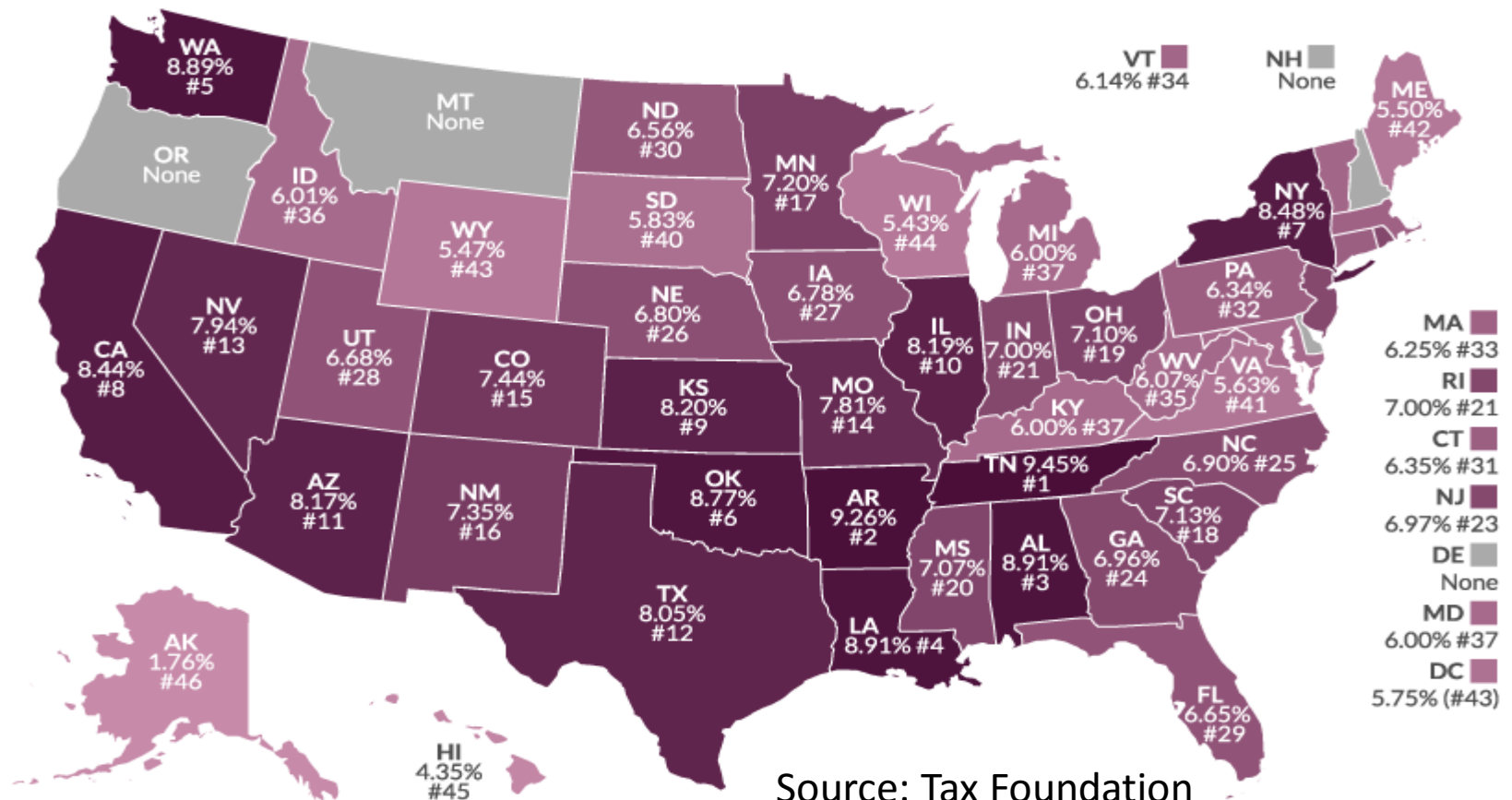


3. Oklahoma has a balanced tax mix

- We are a relatively high sales tax state

How High Are Sales Taxes In Your State?

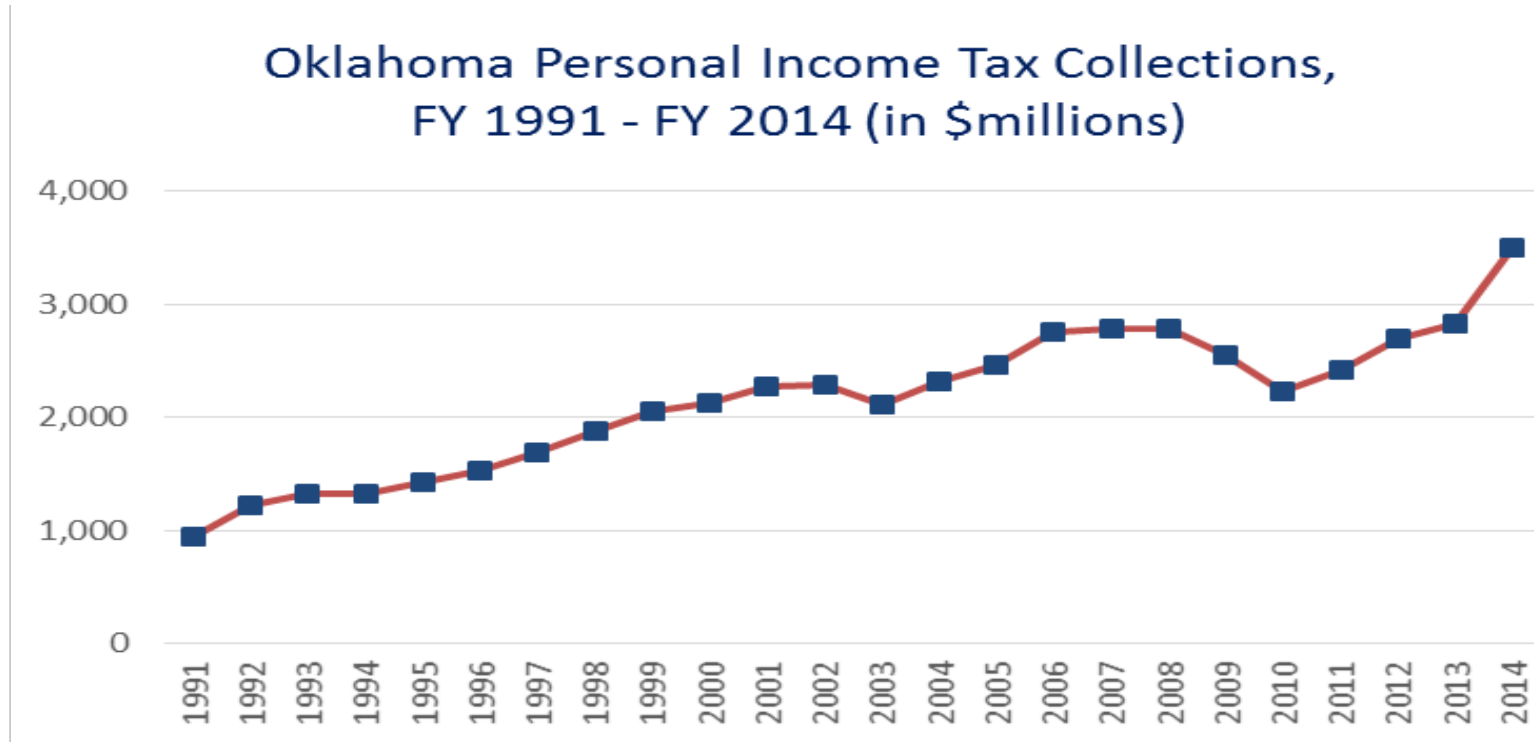
Combined State & Average Local Sales Tax Rates in 2015



Source: Tax Foundation

3. Oklahoma has a balanced tax mix

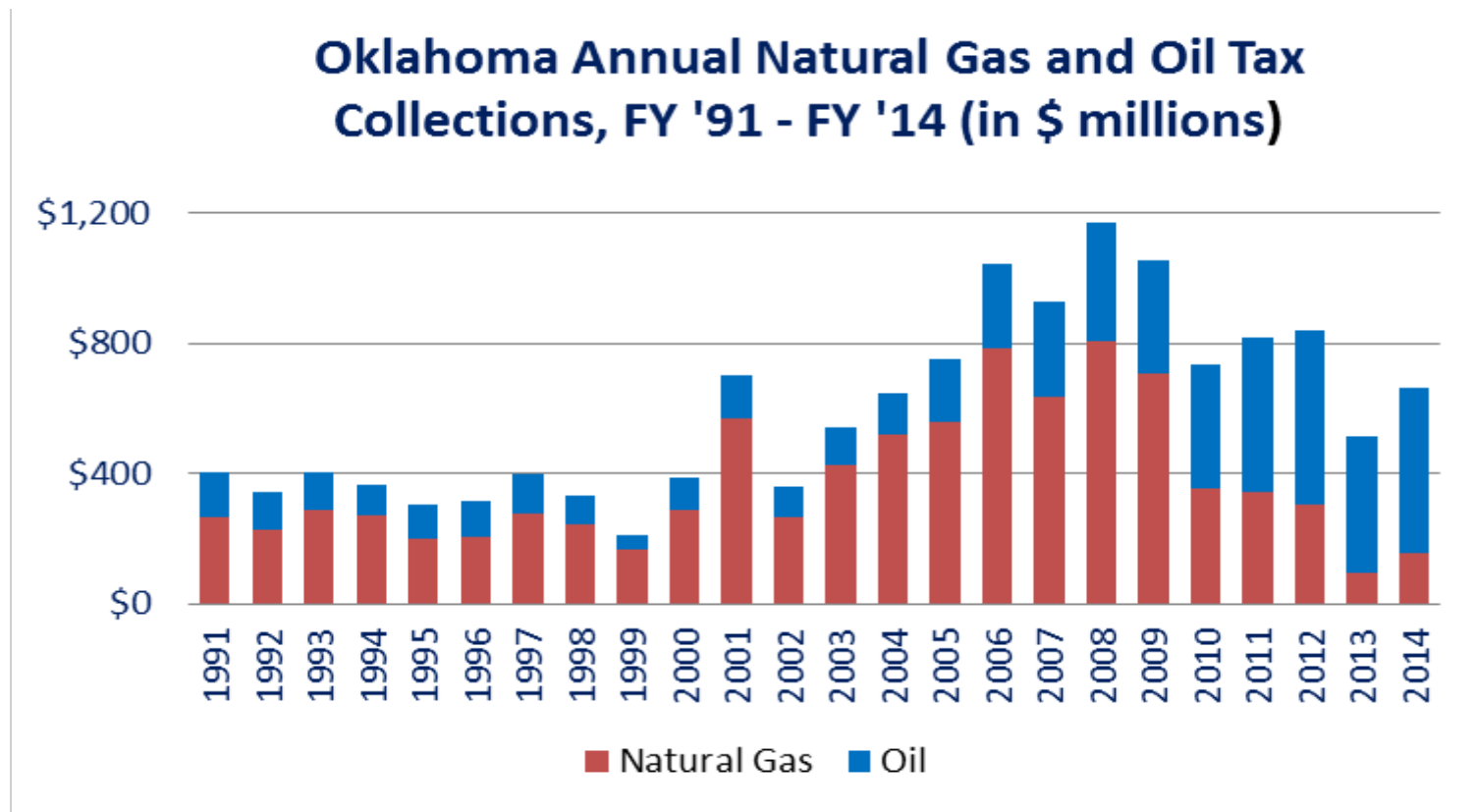
- Personal income tax is the largest state tax, but tax cuts and the recession dampened collections from 2006-2013



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 are a smaller share of total state and local tax revenue than in any state except Hawaii and N. Dakota

	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

4. Low-income Oklahomans pay more

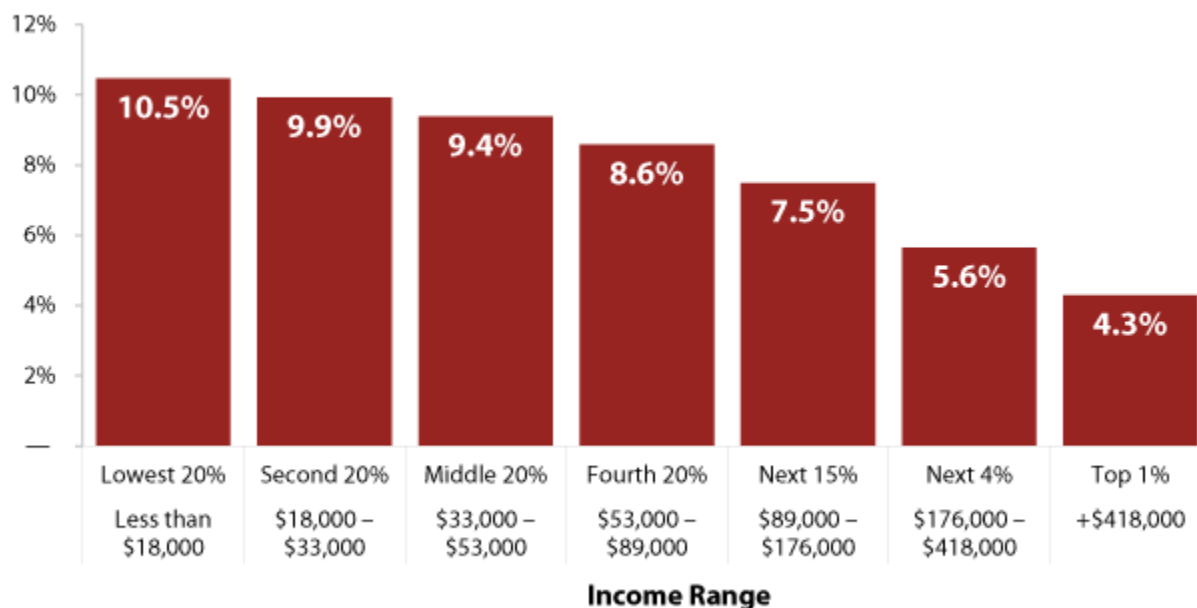


4. Low-income Oklahomans pay more

- 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

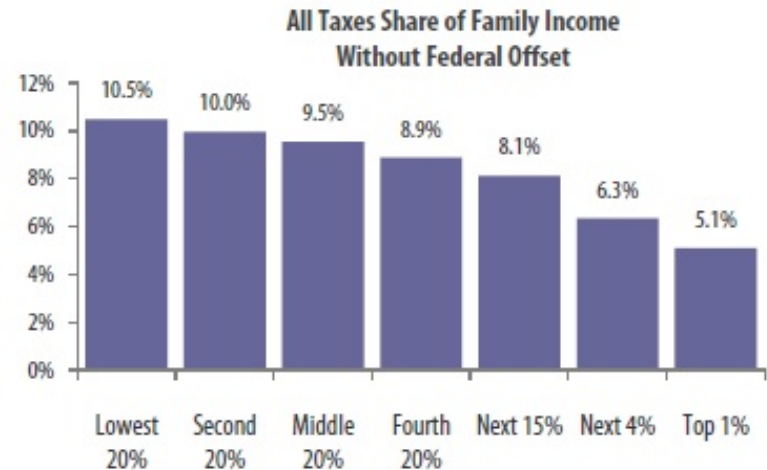
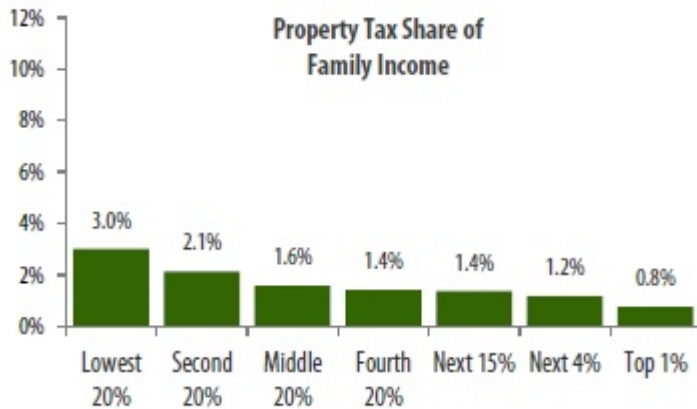
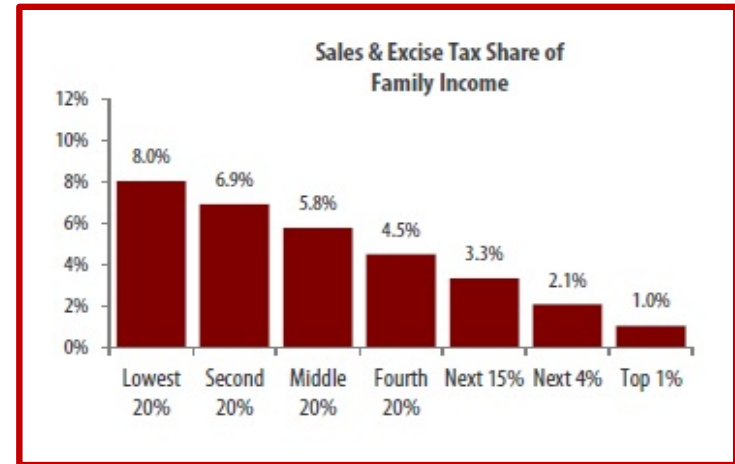
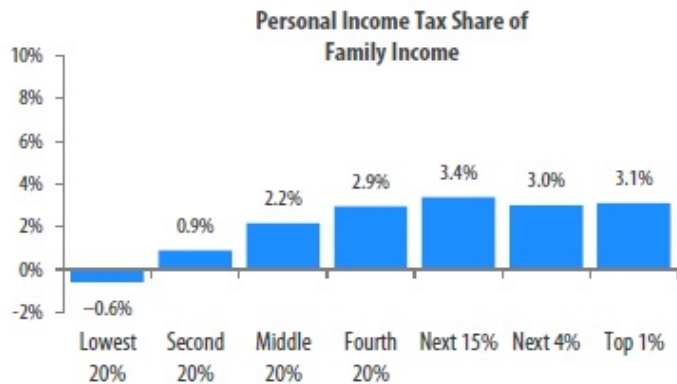
Share of family income for non-elderly taxpayers going to state and local taxes



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

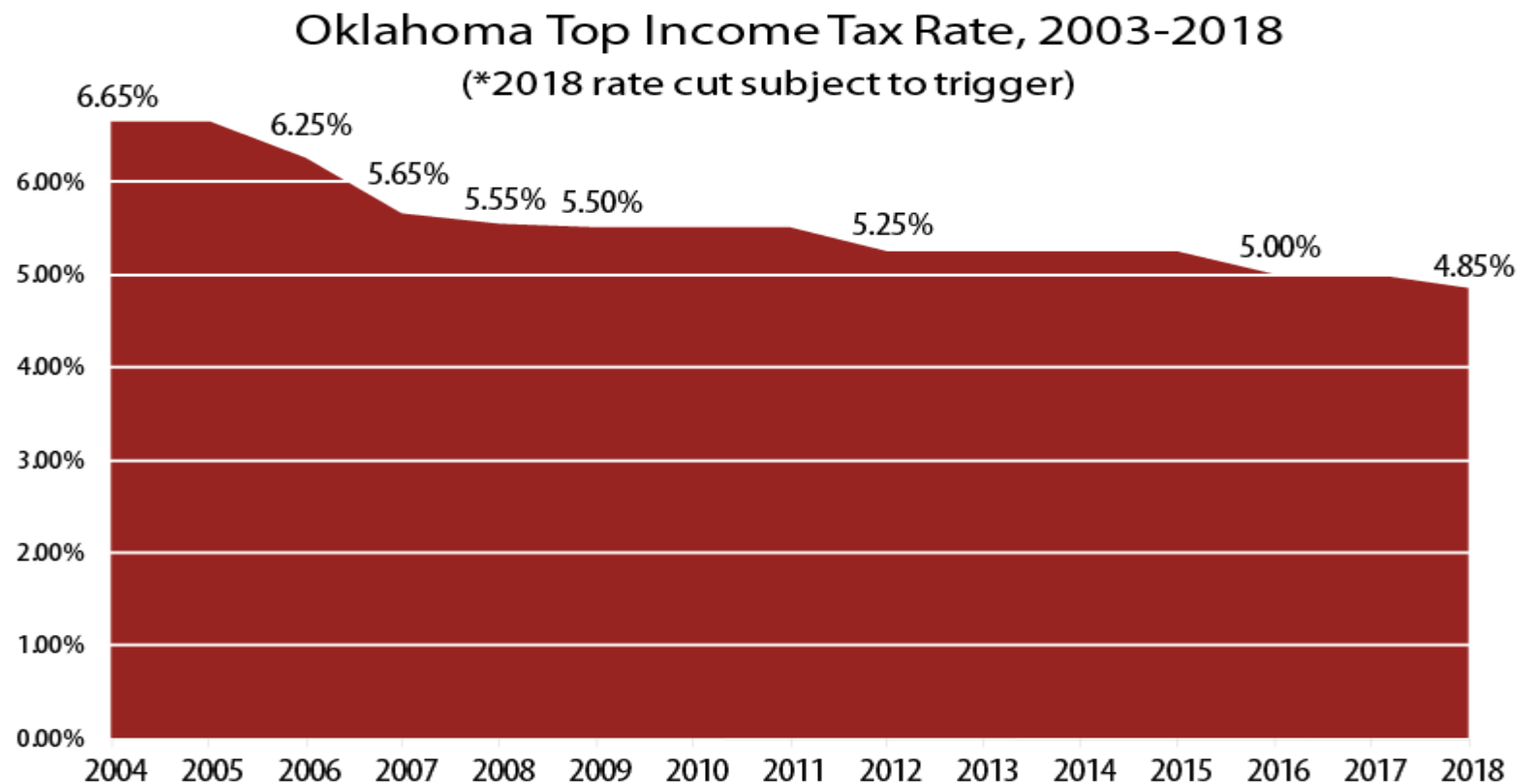


5. Taxes have been cut substantially in recent years



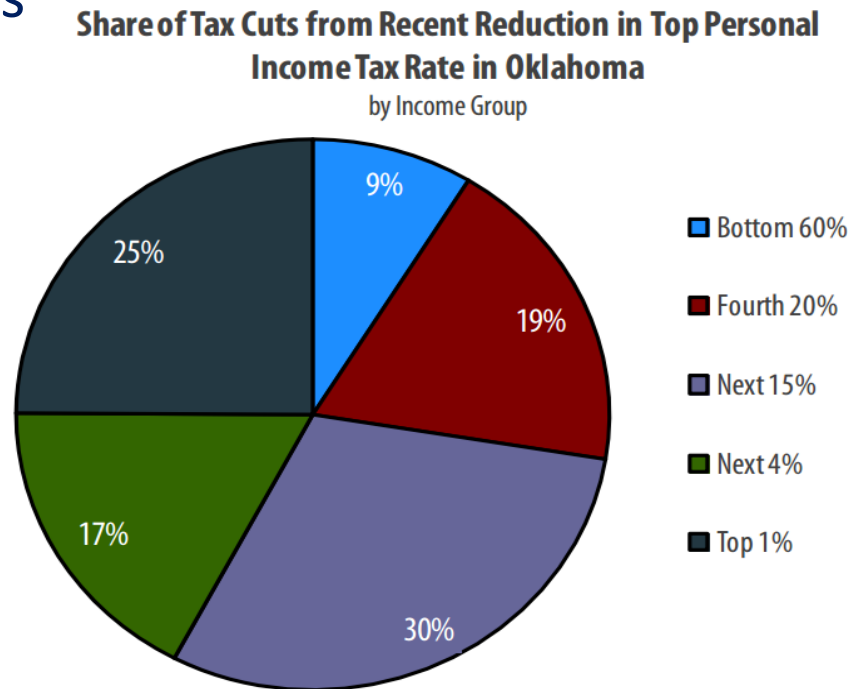
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- The top income tax rate has been cut by 27 percent
- Revenue impact of cut to top rate: \$1.022 billion in FY 2016



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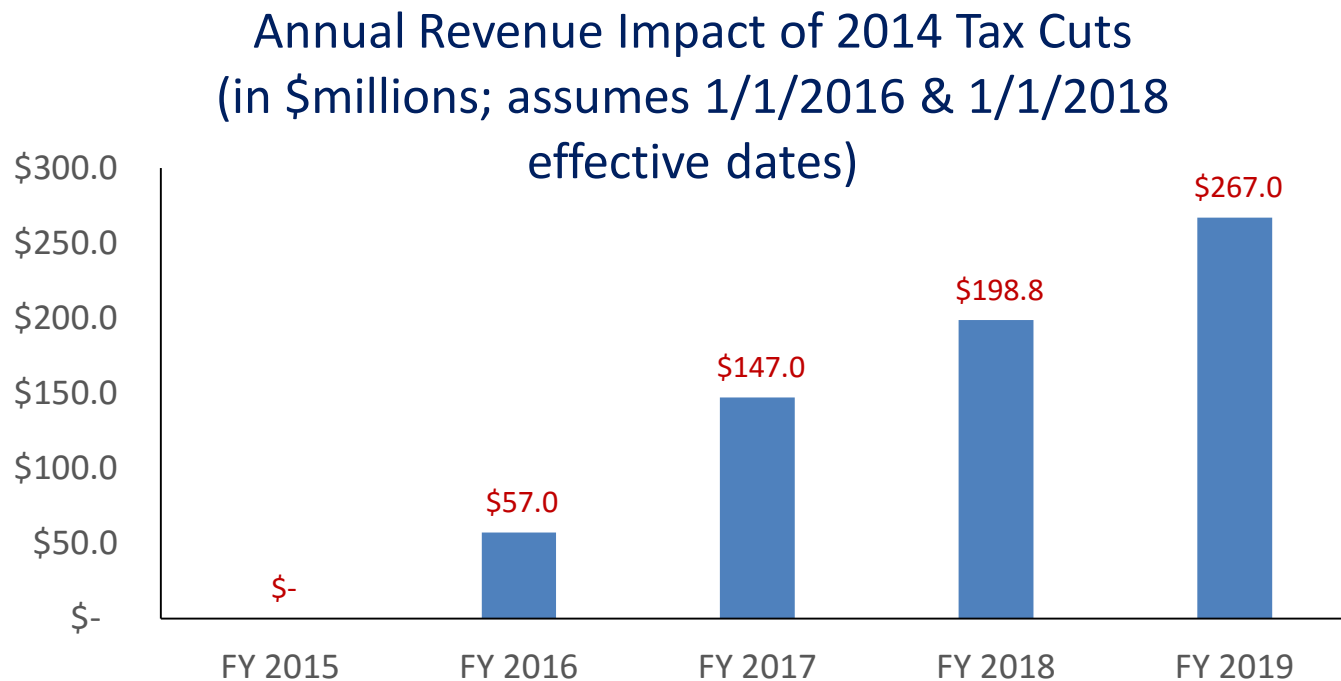
- **Less than 10 percent** of the benefit from income tax cuts of mid-2000s went to the bottom 60 percent of households



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

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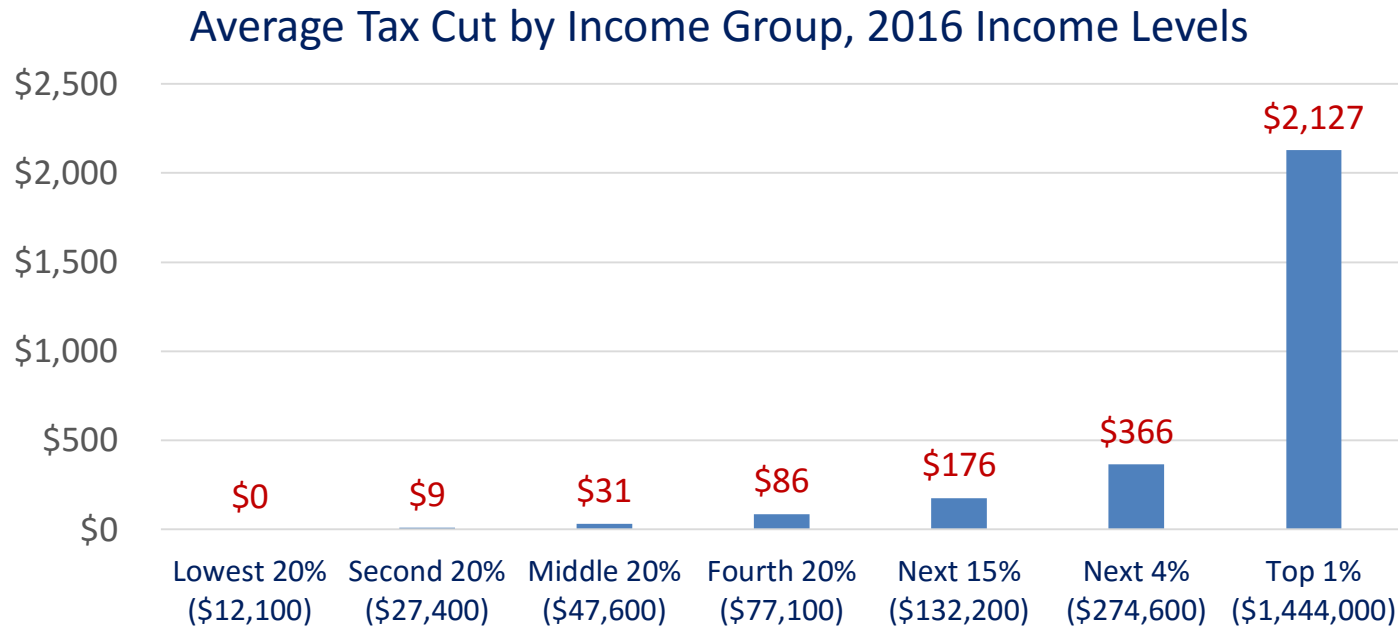
- 2014 Tax cut (SB 1246)
 - Reduces top rate to 5 percent in 2016 and 4.85 percent in 2018 (subject to trigger)



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

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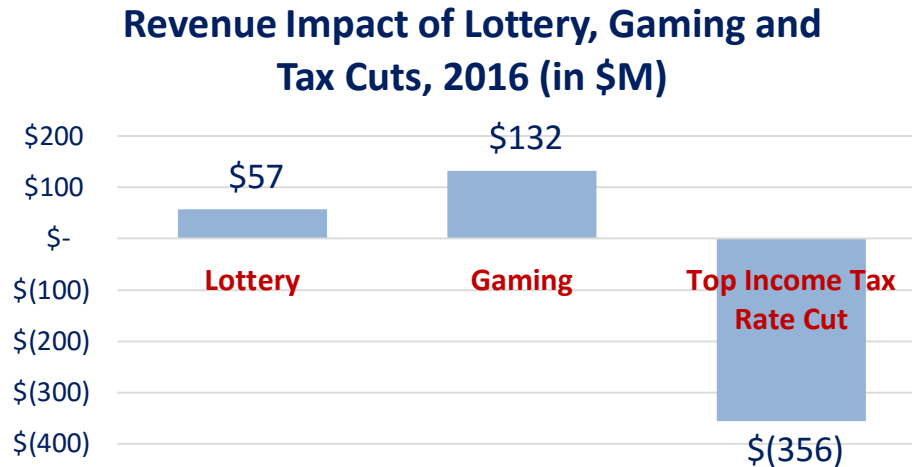
- 2014 Tax cut (SB 1246)
 - Benefits go disproportionately to the wealthiest:
 - 41 percent of households get \$0; Median household gets \$31;



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

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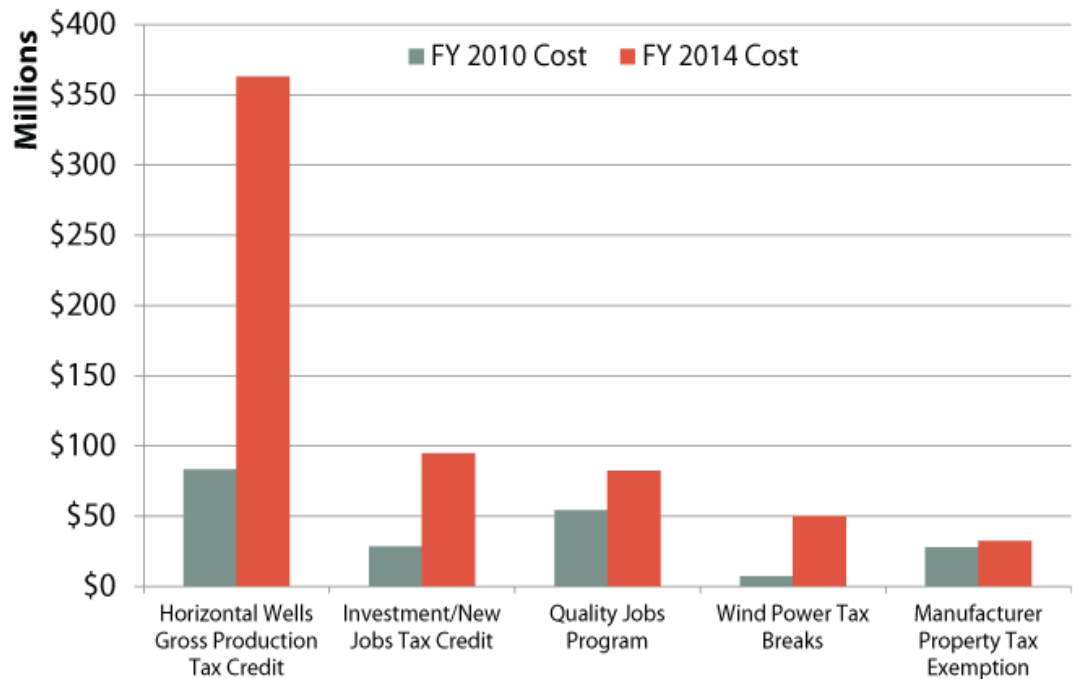
- Common education has lost twice as much from the tax cuts as it has gained from voter-approved lottery and tribal gaming



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

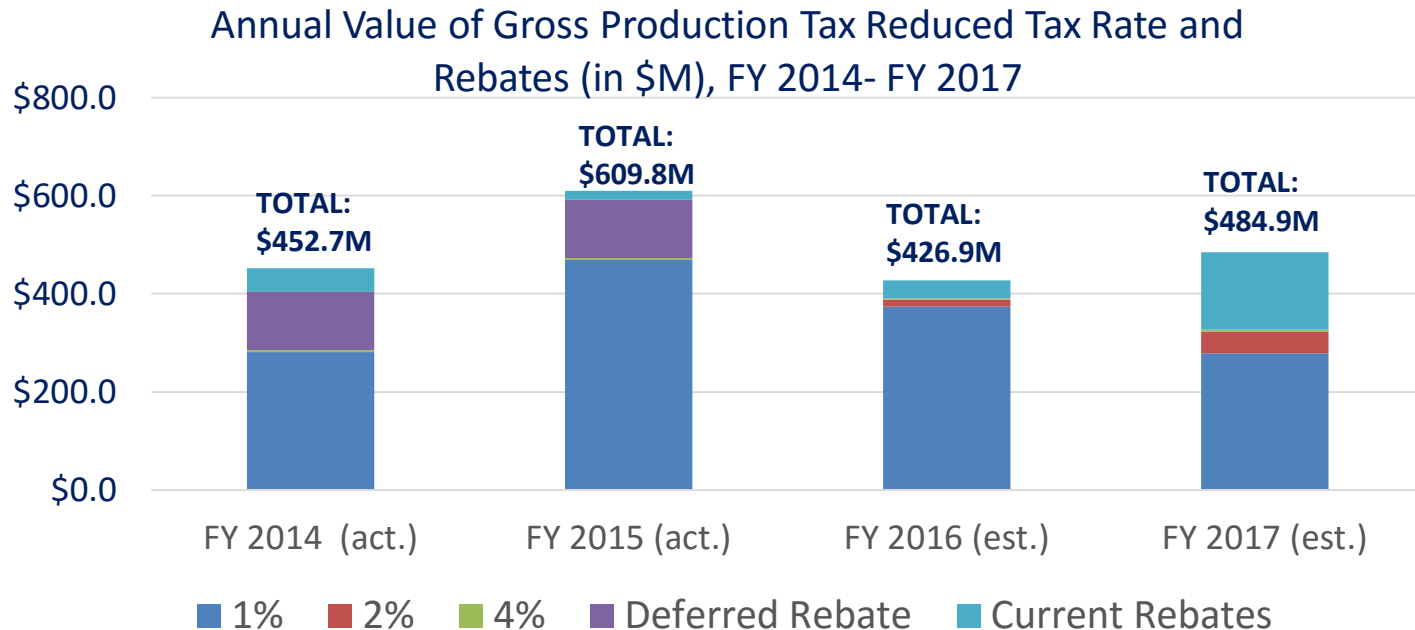
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Tax breaks for oil and gas production exceed \$400 million annually

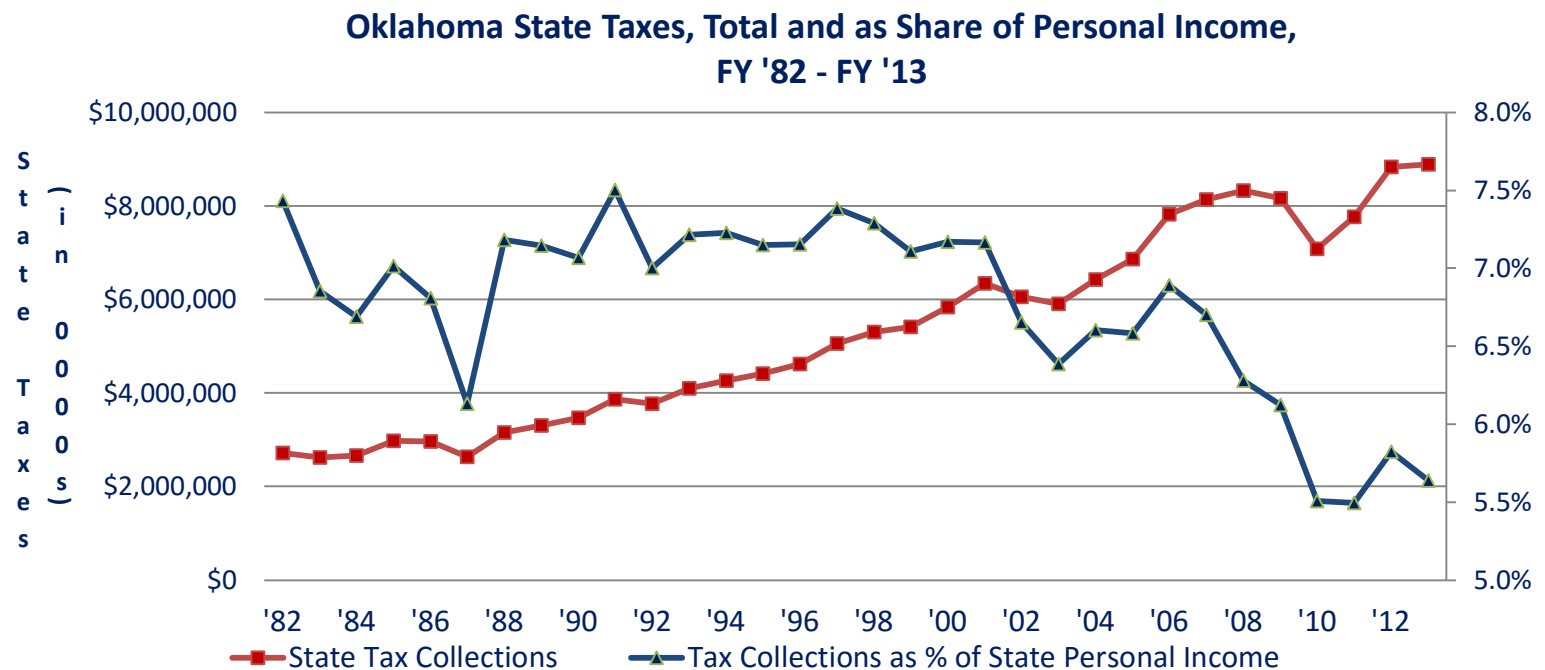


6. Revenues have not fully recovered from the last recession



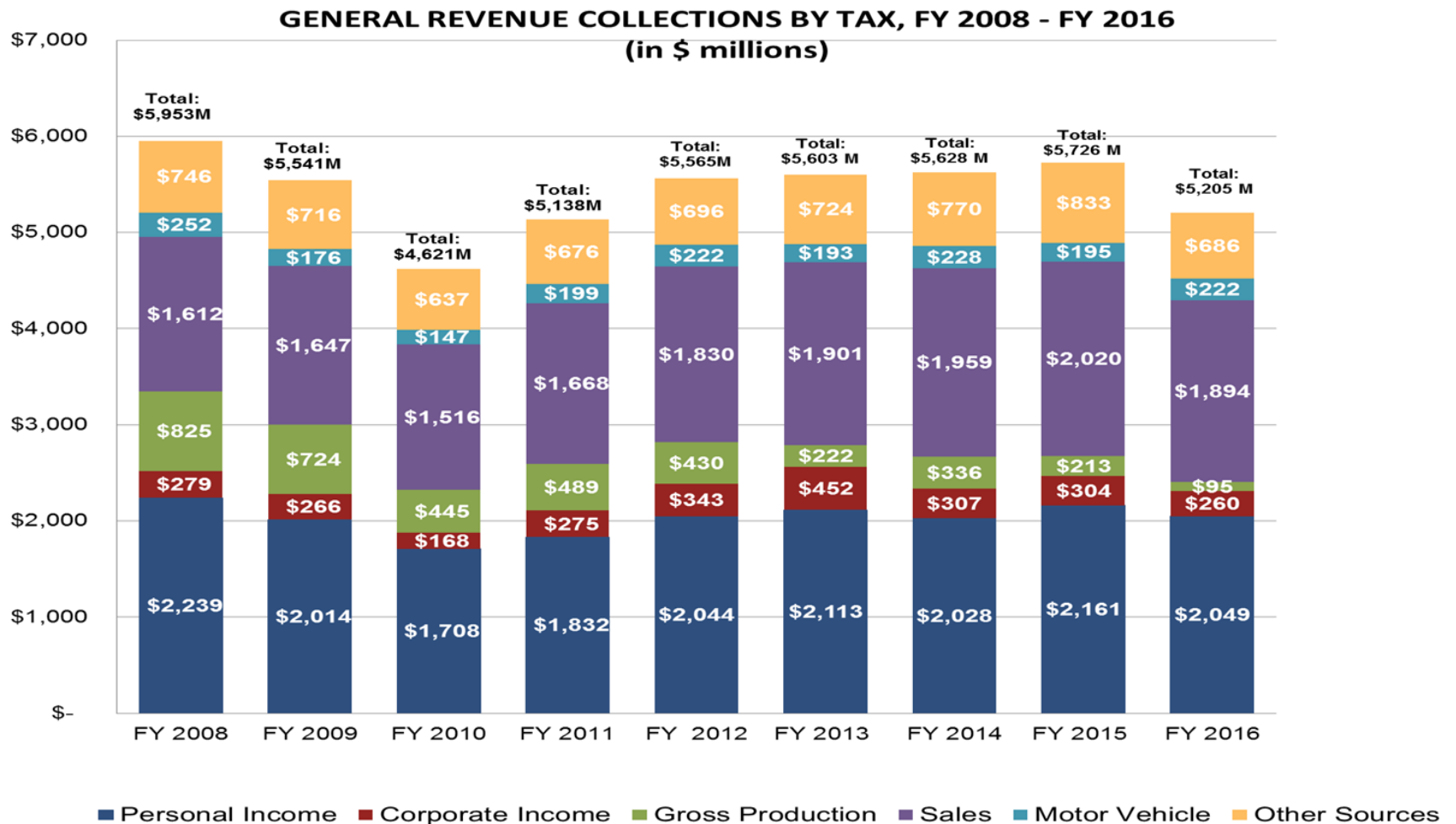
6. Revenues have not fully recovered

- 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 2016 were 12.6 percent below FY 2008, lowest since the Great Recession



7. Most of the state budget funds 10 agencies



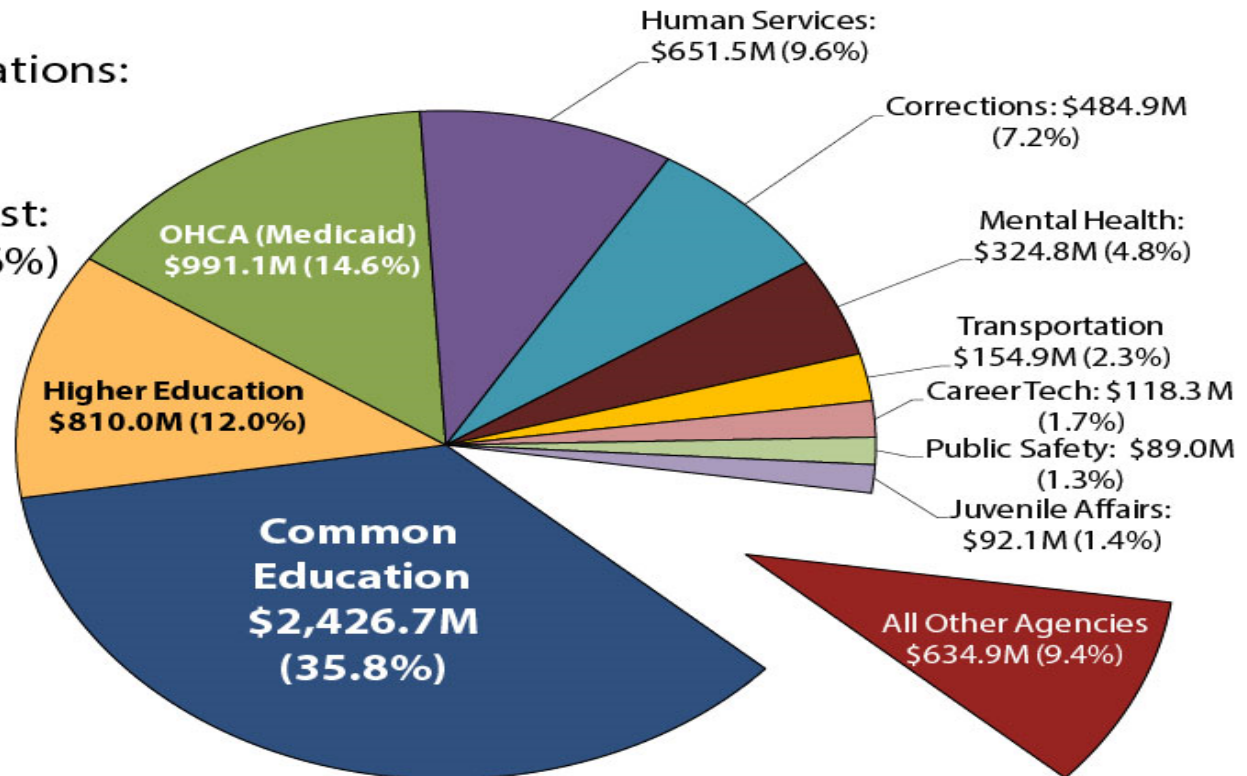
7. Most of the state budget funds 10 agencies

- 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%)



8. State budgets have been slashed in recent years

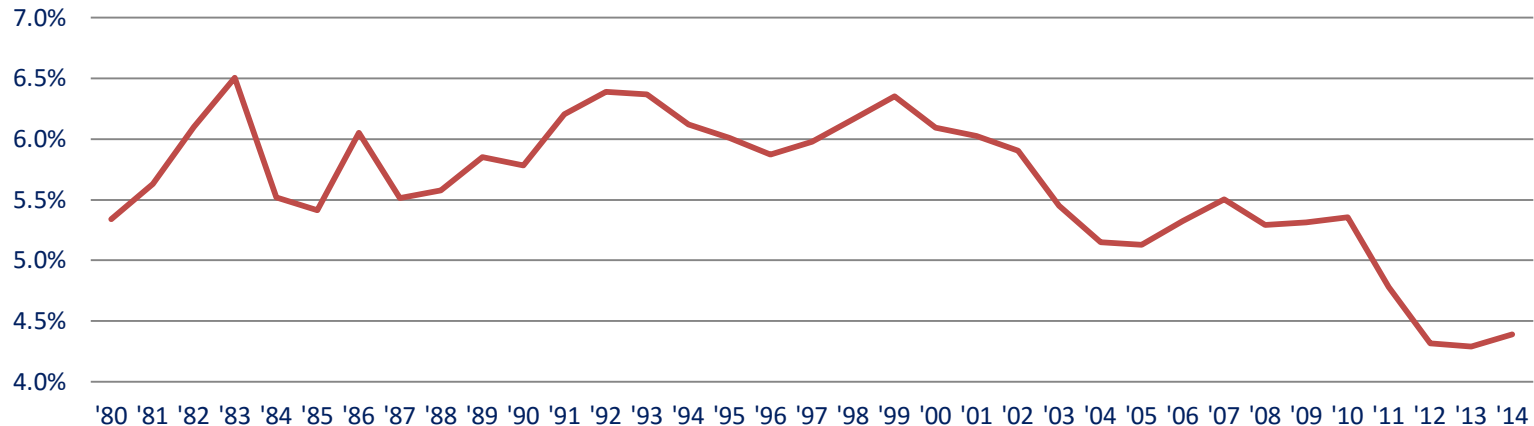


8. State budgets have been slashed in recent years

- 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

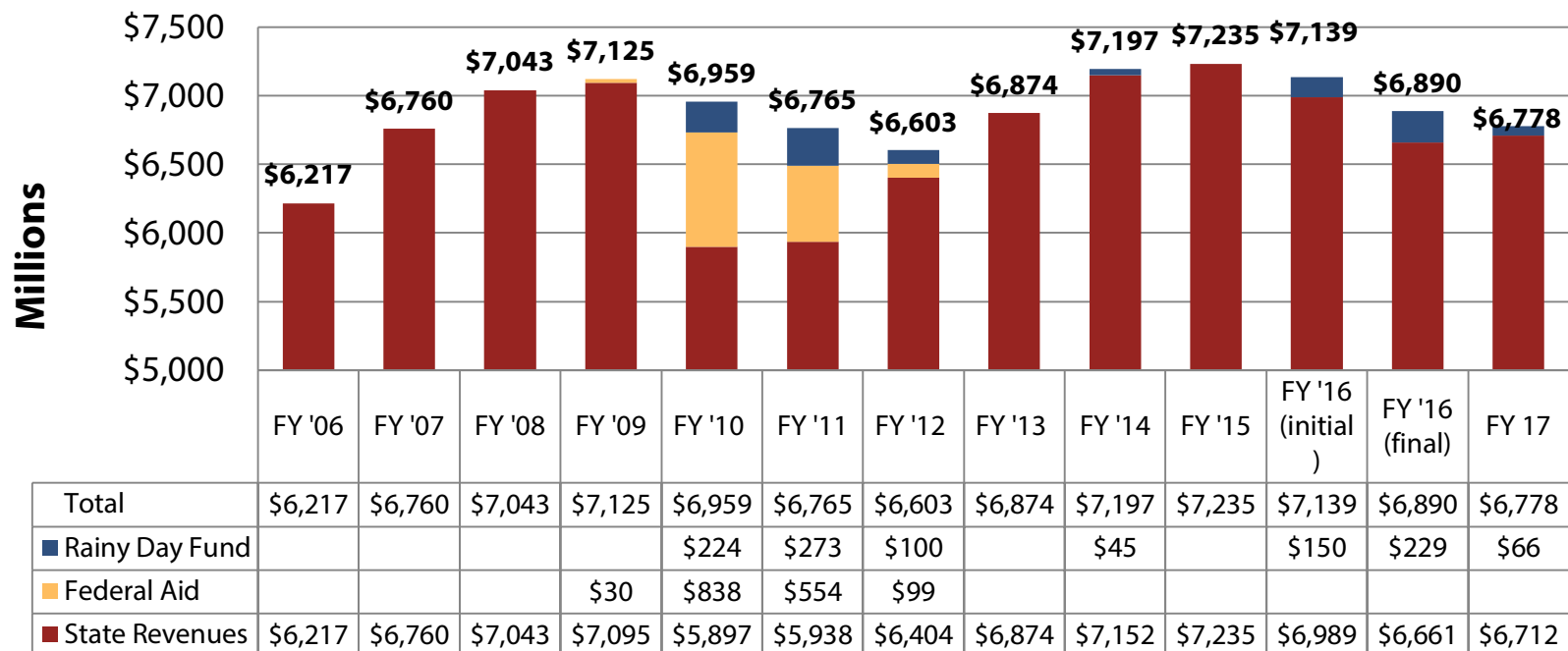


Source: OK Policy analysis of Bureau of Economic Analysis state personal income data and annual state appropriations, various sources

8. State budgets have been slashed in recent years

- Total Appropriations for FY 2017 are \$6.778 billion
- Appropriations are \$358 million (5.0 percent) less than the initial FY 2016 budget and \$112 million (1.6 percent) less than the final FY 2016 budget after mid-year budget cuts and supplemental appropriations.

Oklahoma State Appropriations, FY 2006 - FY 2017

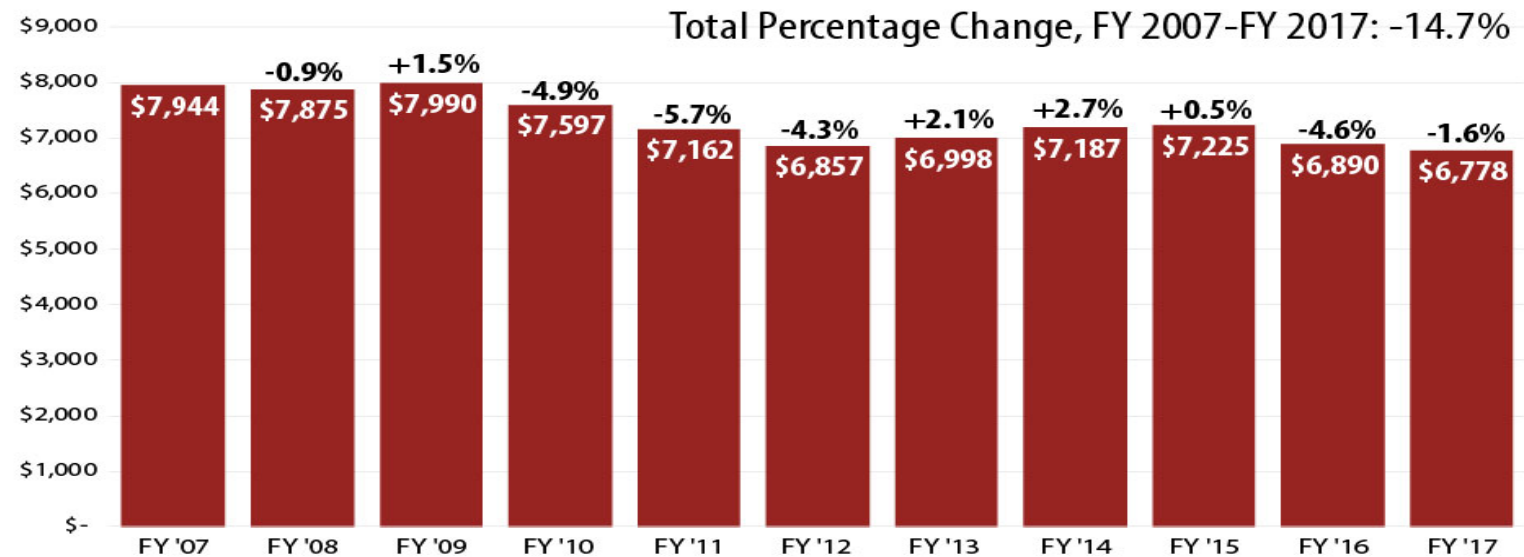


8. State budgets have been slashed in recent years

- Adjusted for inflation, the FY 2017 budget is 14.7 percent less than a decade ago
- State funding has shrunk six times in the past 10 years

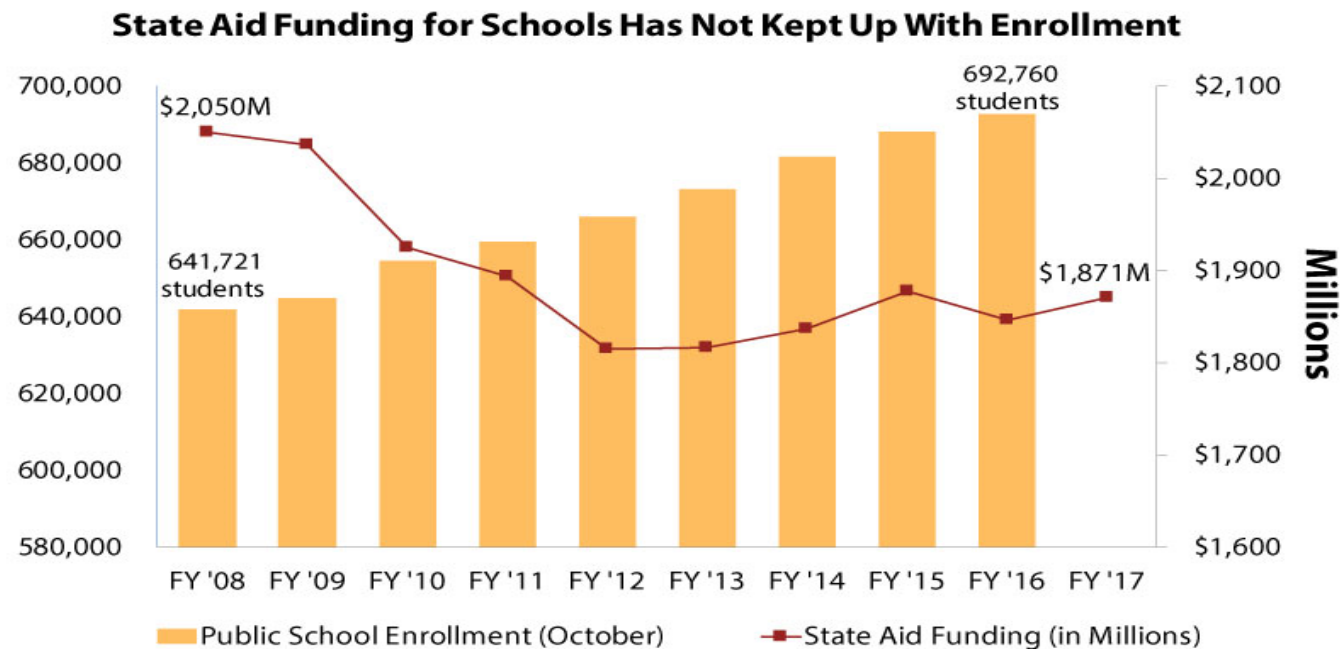
Total State Appropriations and Annual Change, 2016 Dollars

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



8. State budgets have been slashed in recent years

- Since 2008, state aid funding has decreased by \$179 million – including mid-year budget cut (\$25.0M)
- During this time, enrollment has grown by over 50,000 students

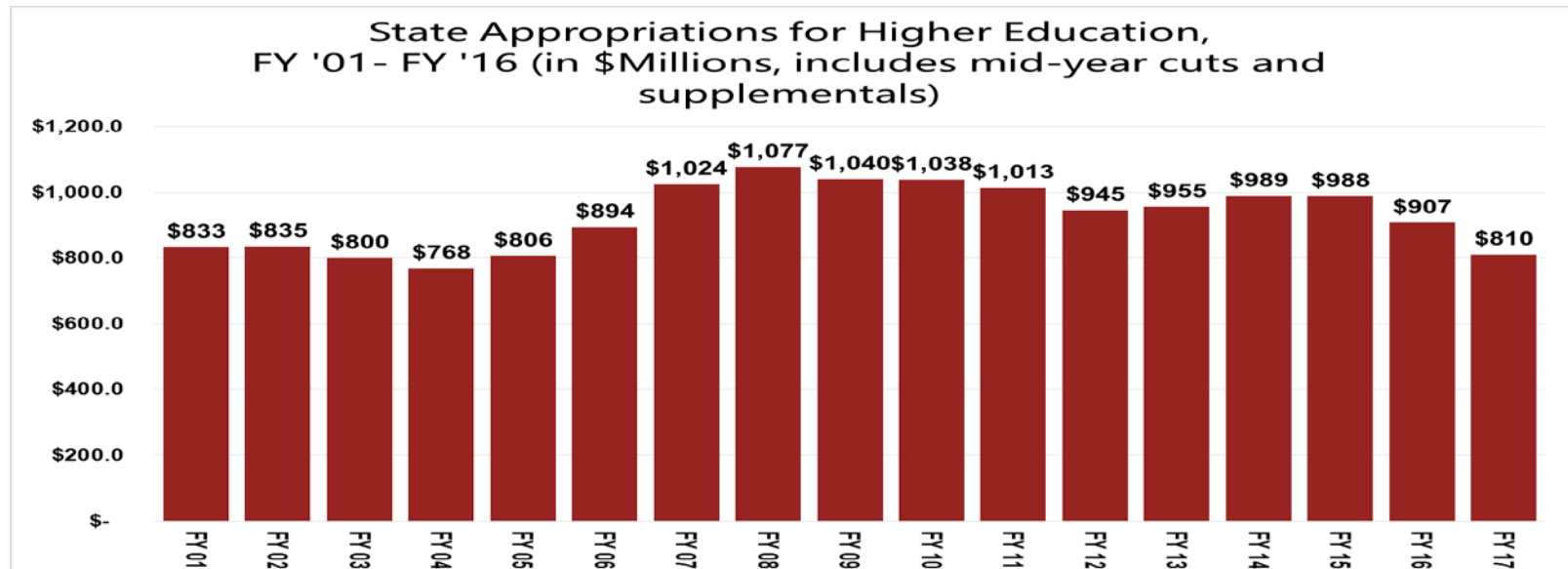


Note: State Funding excludes money allocated for textbooks

8. State budgets have been slashed in recent years

FY 2017 Higher Education Budget:

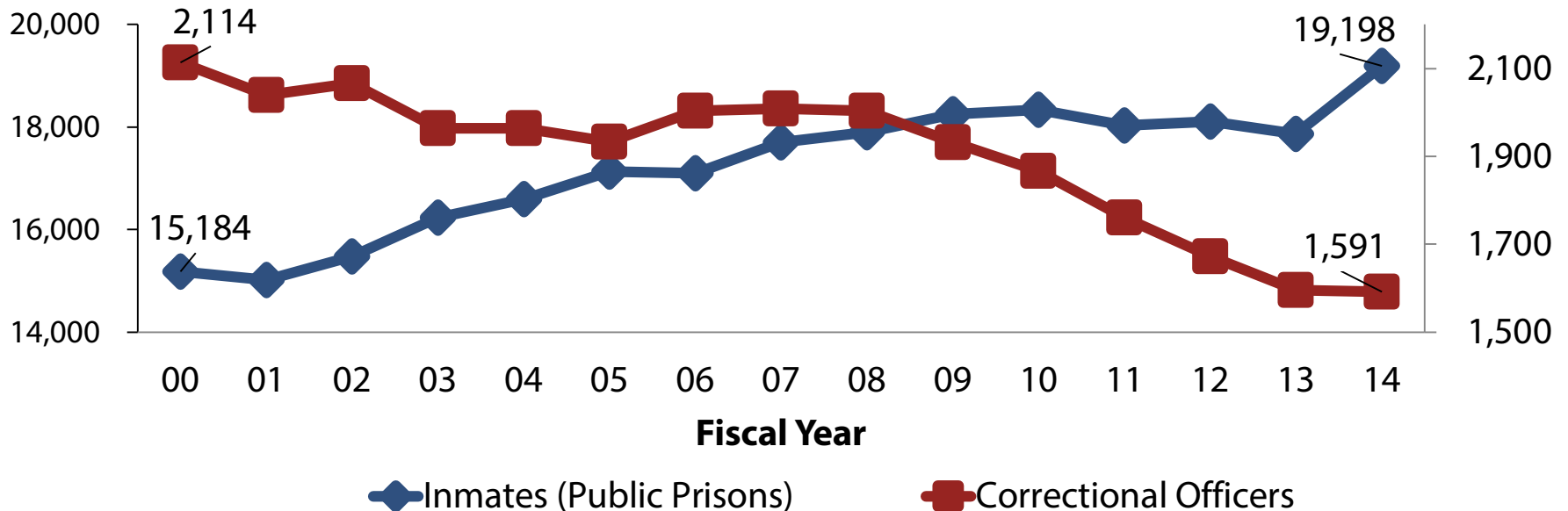
- \$810.0 million appropriation
 - 18 percent cut over two years
 - 22 percent cut since FY 2009
- Tuition increases of 5-10 percent
- State share of higher ed budget down from 74 percent in 1988 to <35 percent now



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

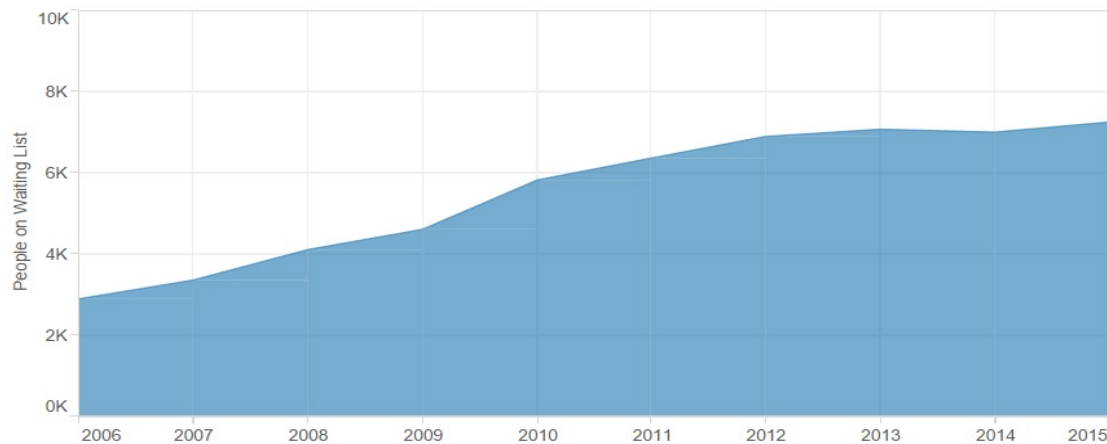
Number of Prisoners and Correctional Officers in Public Prisons, FY 2000-2014
(figures as of 6/30 of each year)



8. State budgets have been slashed in recent years

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

Over 7,300 families are on the DDSD waiting list



Developmental Disabilities Services division of Oklahoma Department of Human Services

Chart by Oklahoma Watch

9. Oklahoma faces serious short- term budget challenges



9. Oklahoma faces serious 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
- Next income tax could kick in for FY 2018 if revenues rise even slightly

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

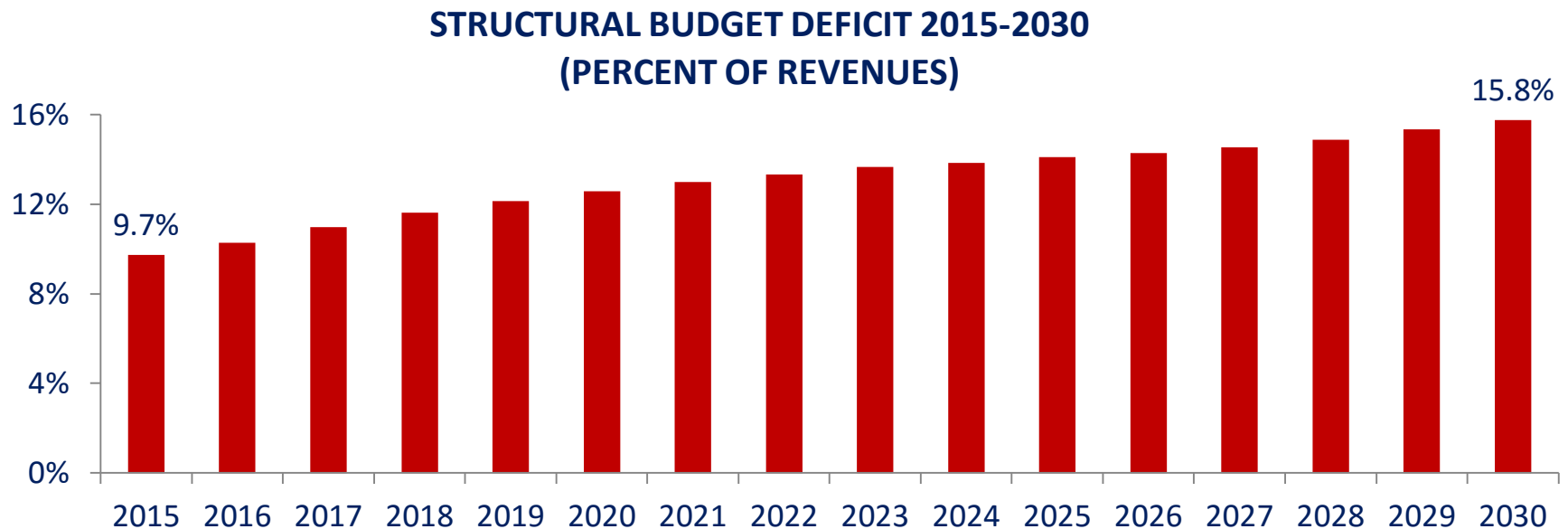
Recurring Revenue	
Economically at-risk rebate	\$ 110,958,893
End double deduction	\$ 87,296,435
EITC non-refundable	\$ 25,937,185
OTC Tax compliance initiative	\$ 48,998,204
Investment/New Job credit	\$ 12,652,032
Sales Tax statute of limitations	\$ 9,078,840
Income tax withholding reconciliation	\$ 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

10. Oklahoma faces serious long-term budget challenges



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

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



11. Oklahoma needs sensible tax and budget reform

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

- Roll back income tax cuts;
- Curb unnecessary tax breaks;
- Selective tax increases;
- Target any tax relief towards those in greatest need;
- Improve our budgeting practices;
- Revisit State Question 640

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