

# **12 Things You Should Know about Oklahoma Budget and Taxes**

**Presentation to FallPol  
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# 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

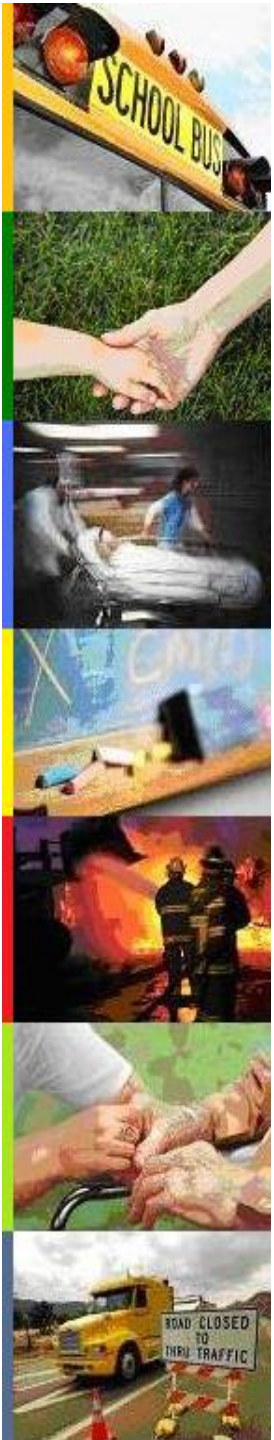


# Our budget is a reflection of our values

**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



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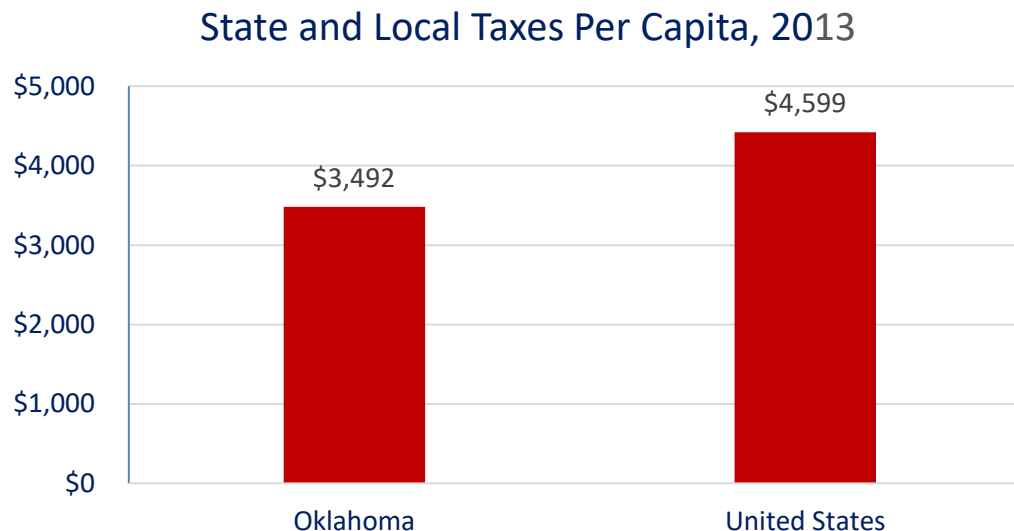
- Balanced budget requirement;
- The legislature can appropriate only 95 percent of certified funds for the upcoming year;
- Surplus revenue collections are deposited to the Constitutional Reserve Fund (Rainy Day Fund);
- $\frac{3}{4}$  vote of both legislative chambers or a vote of the people to raise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

## 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 41<sup>st</sup> in the nation per person and 46th as a share of personal income



\* All data for 2013, Tax Policy Center

### 3. Oklahoma has a balanced tax mix

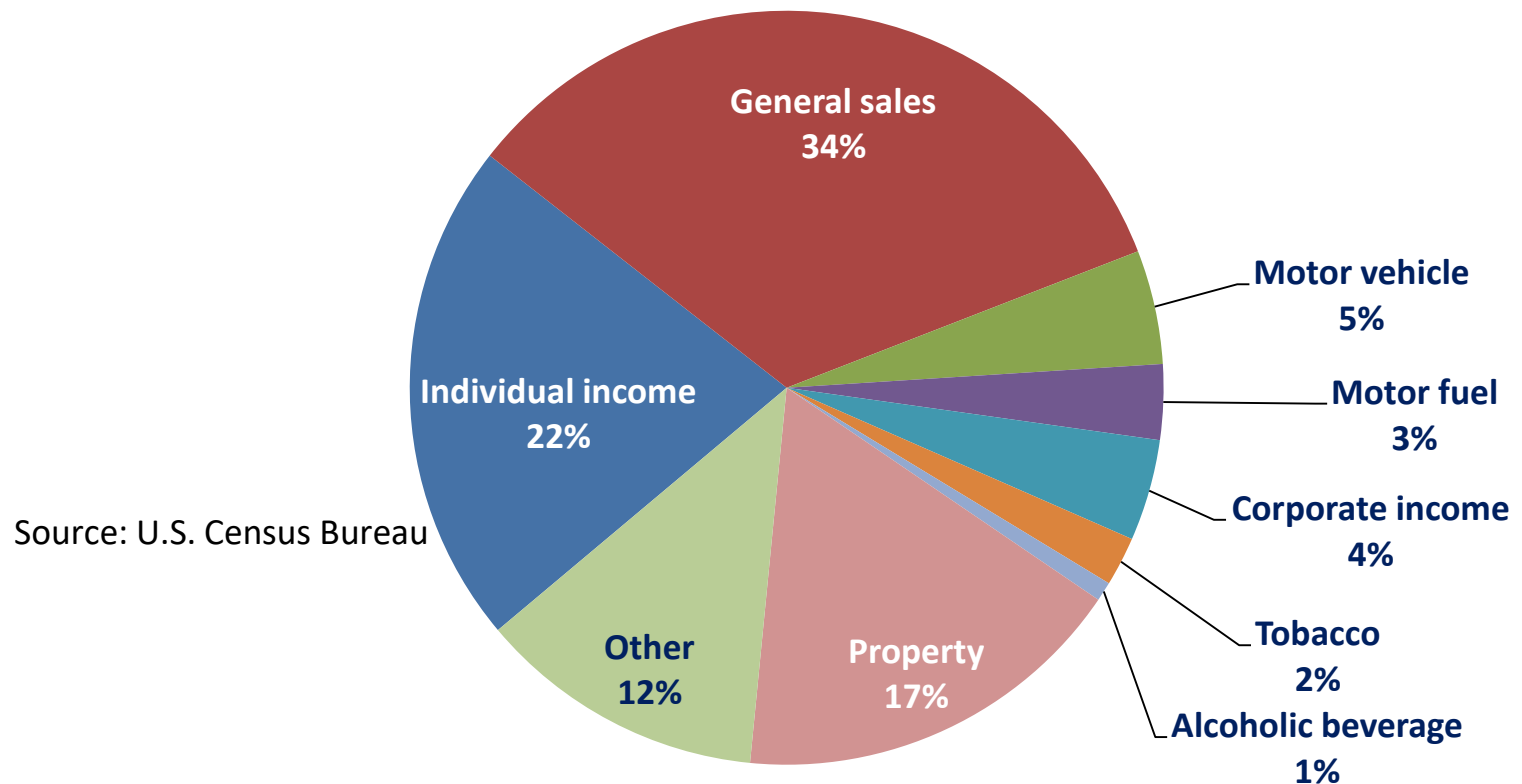




### 3. Oklahoma has a balanced tax mix

**State and Local Taxes by Source, 2013**

Total=\$13.5 billion

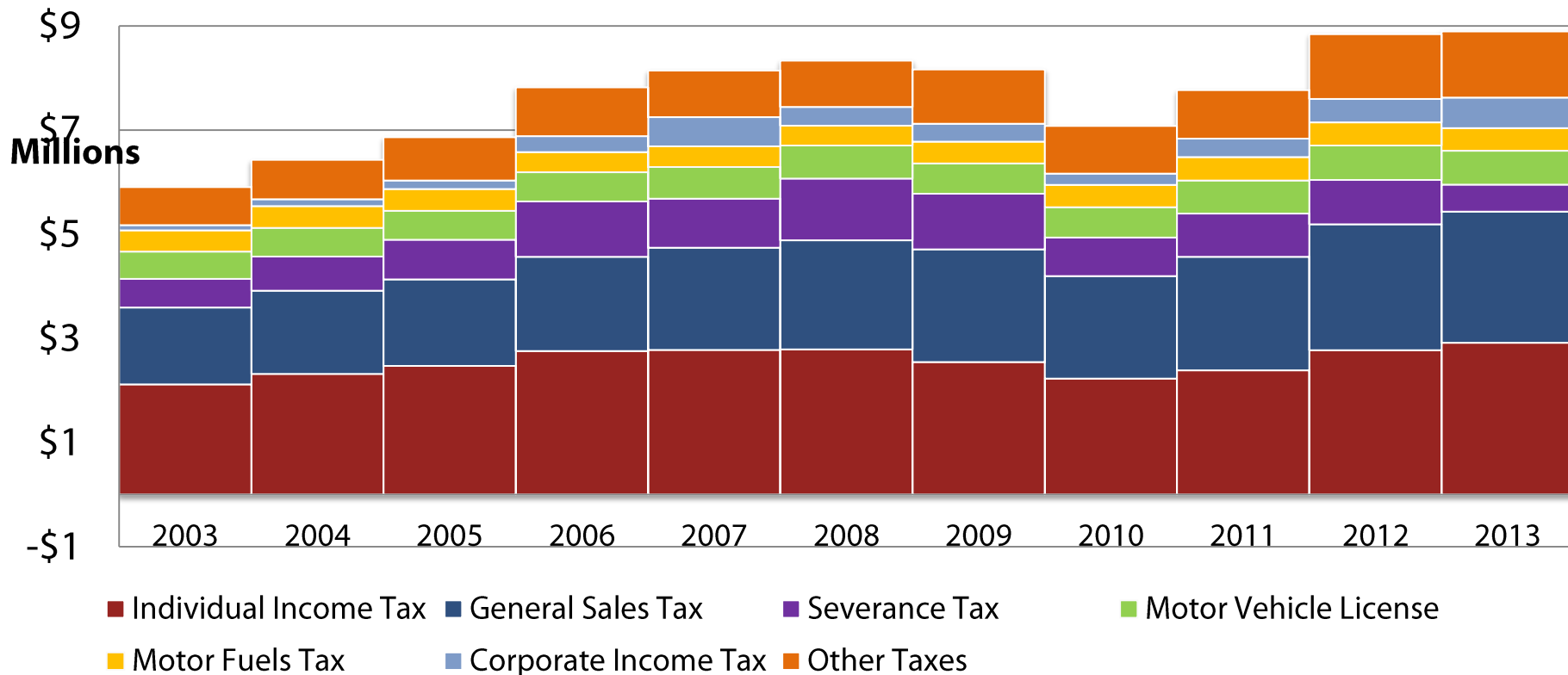


### 3. Oklahoma has a balanced tax mix

The six largest taxes accounted for 85.7 percent of all state 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)**

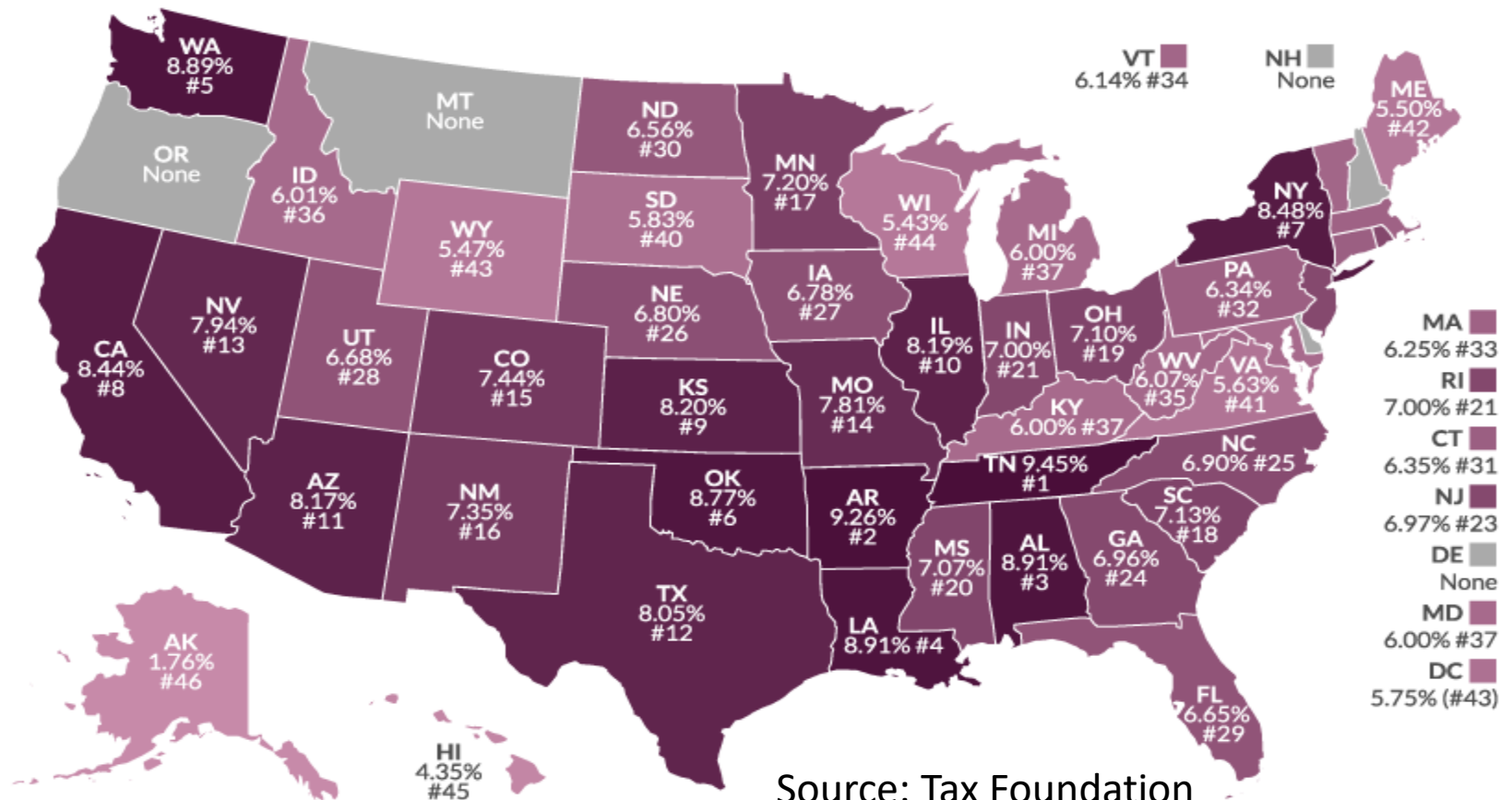


# 3. Oklahoma has a balanced tax mix

- We are a relatively high sales tax state

## How High Are Sales Taxes In Your State?

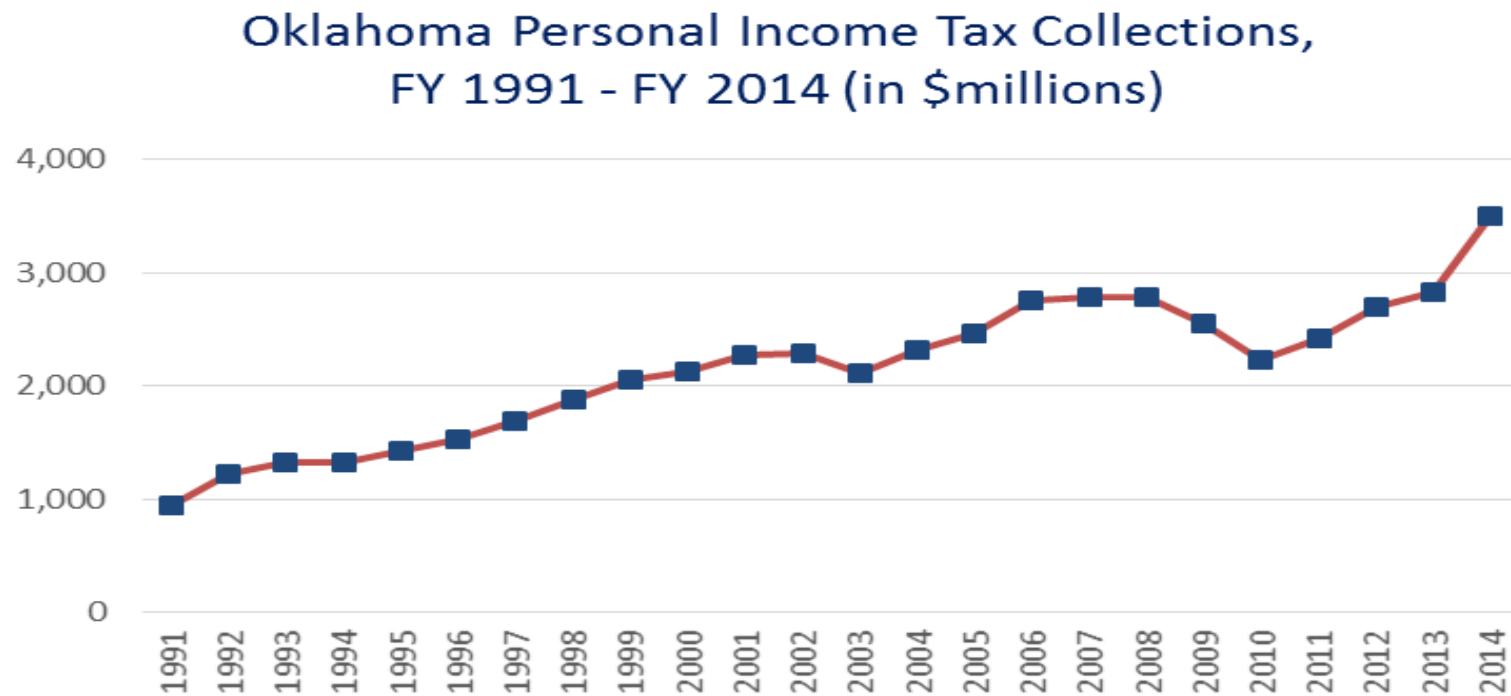
*Combined State & Average Local Sales Tax Rates in 2015*



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

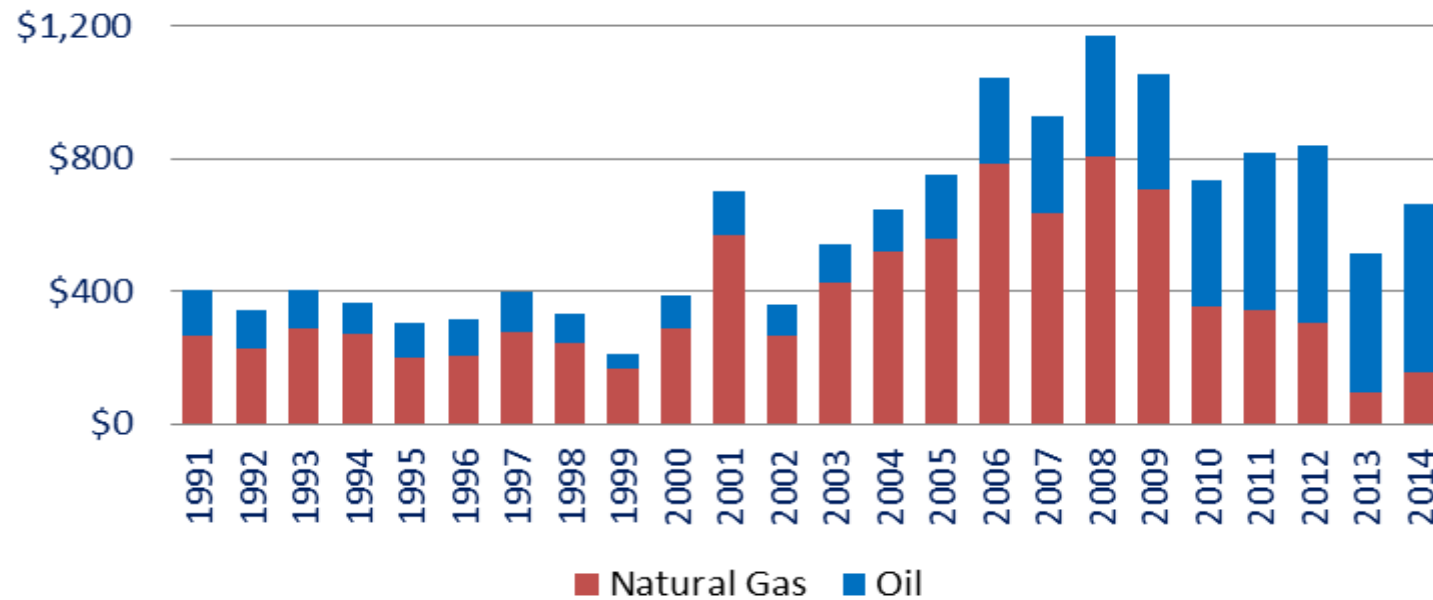


Source: Oklahoma Tax Commission

### 3. Oklahoma has a balanced tax mix

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

**Oklahoma Annual Natural Gas and Oil Tax Collections, FY '91 - FY '14 (in \$ millions)**



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, 2013	Total state and local taxes per person, 2013
Oklahoma	\$ 595	\$3,492
Average of six neighboring states	\$ 1,107	\$3,905
National Average	\$ 1,439	\$4,600

## 4. Low-income Oklahomans pay more

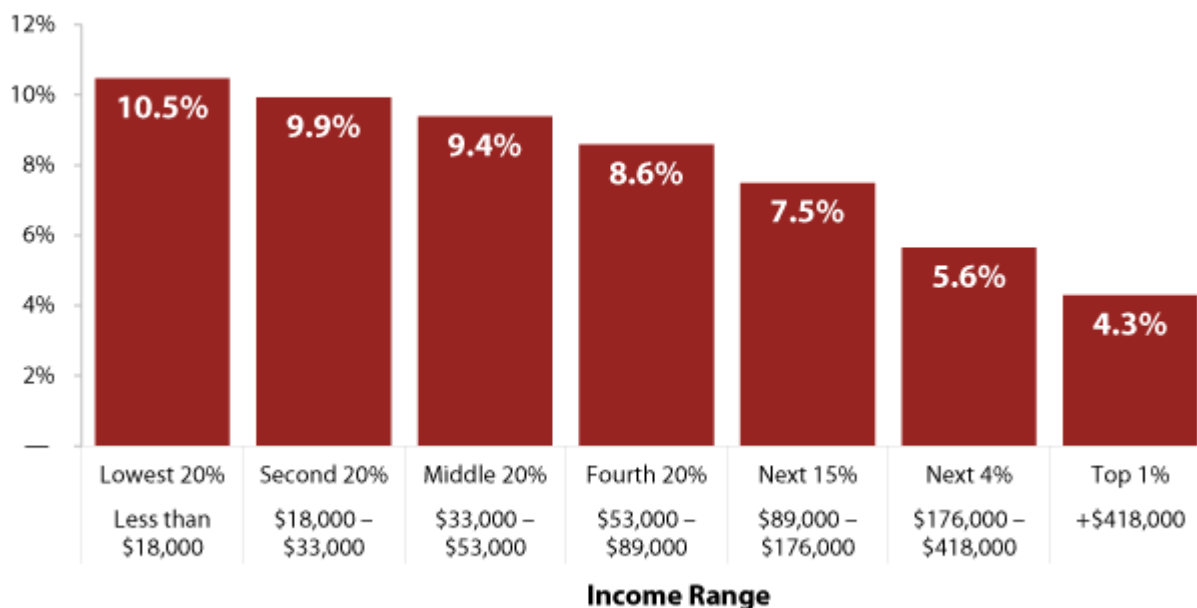


## 4. Low-income Oklahomans pay more

- 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

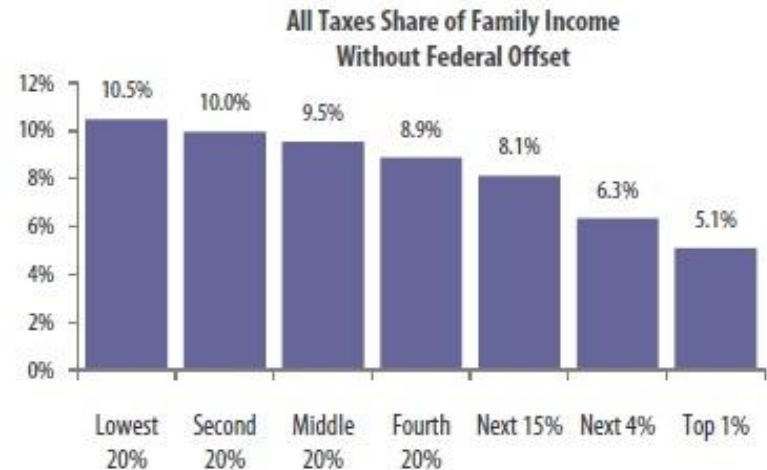
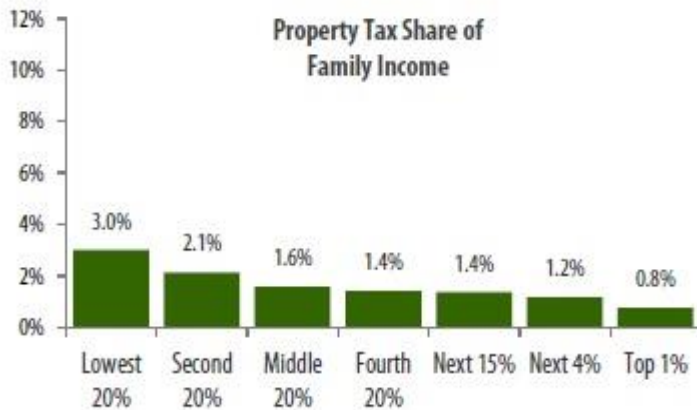
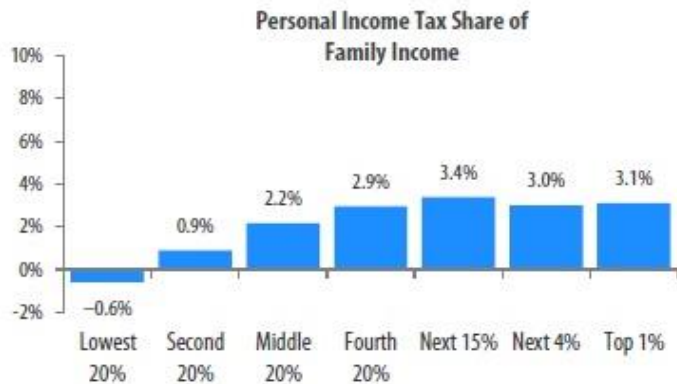


Source: Institute on Taxation and Economic Policy, Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 5th Edition



## 4. Low-income Oklahomans pay more

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

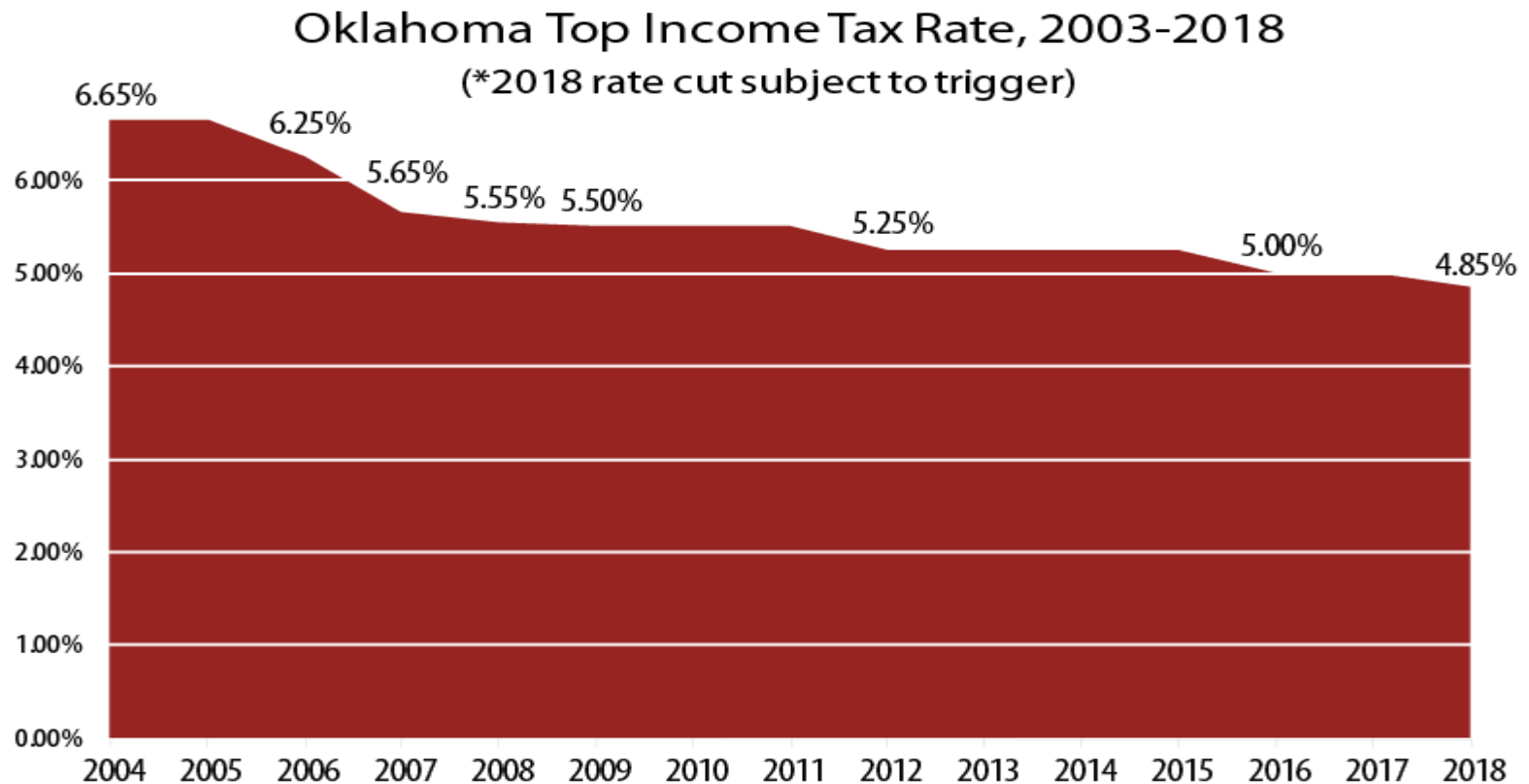


## 5. Taxes have been cut substantially in recent years



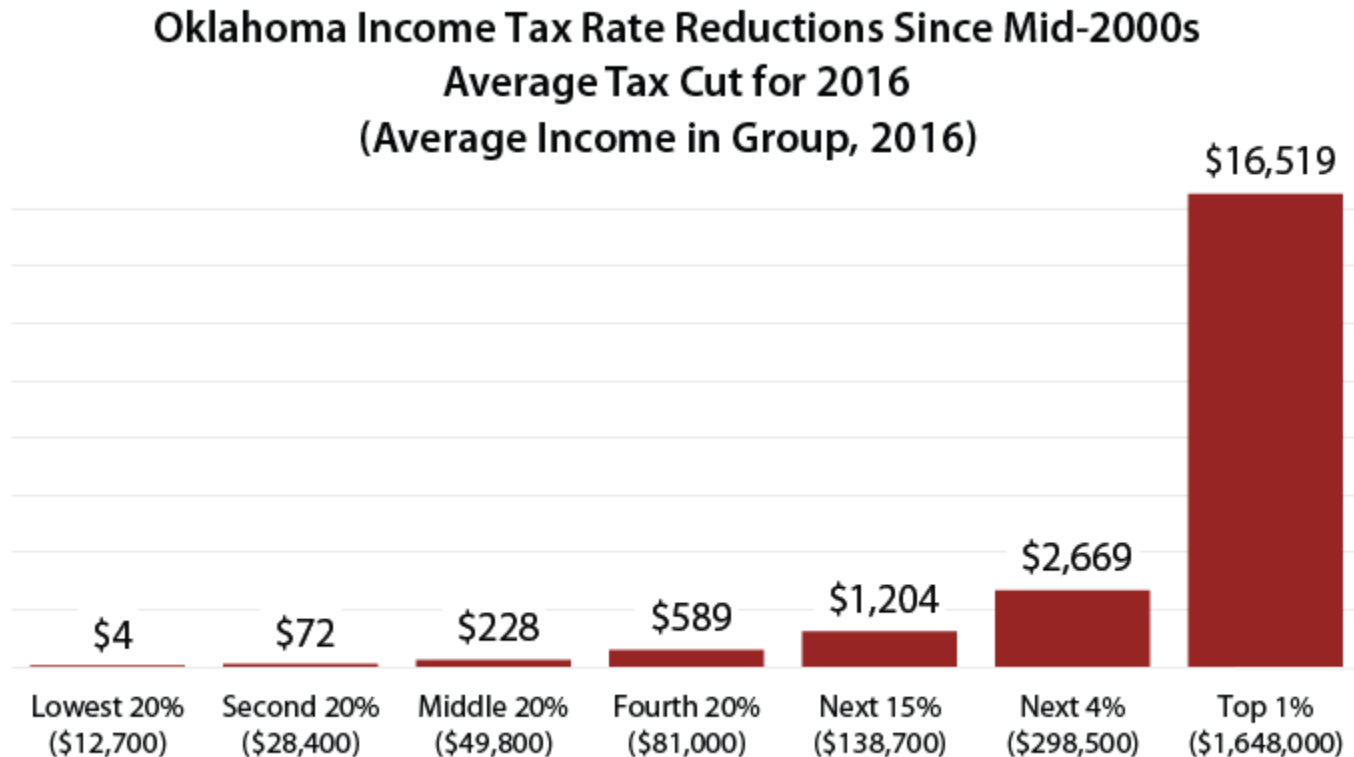
## 5. Taxes have been cut substantially in recent years

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



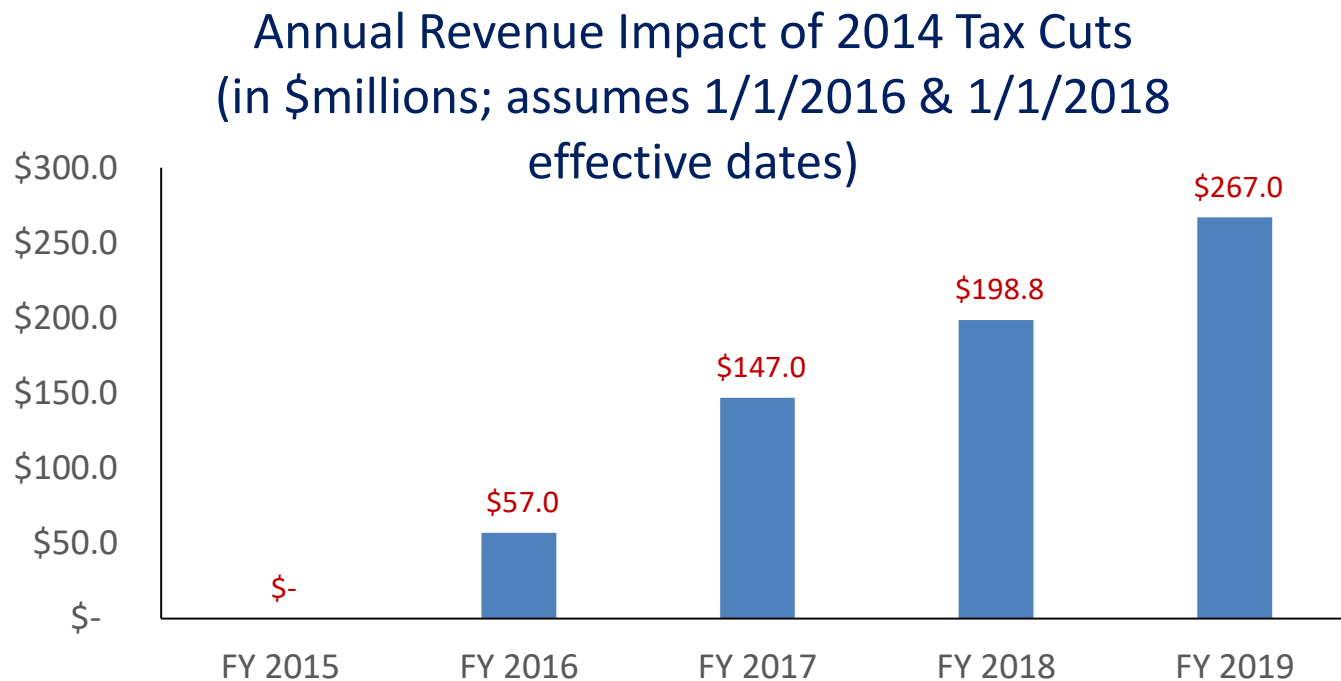
# 5. Taxes have been cut substantially in recent years

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



## 5. Taxes have been cut substantially in recent years

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

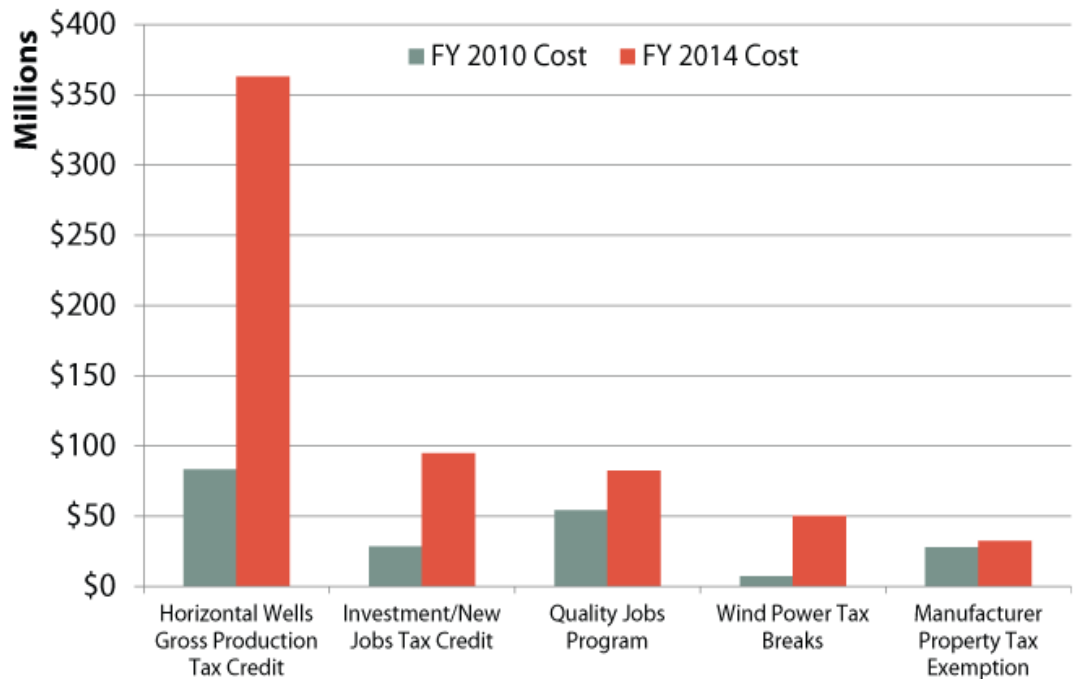


Source: Oklahoma Tax Commission, SB 1246 Fiscal Impact report, Feb 26, 2014

## 5. Taxes have been cut substantially in recent years

- 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](http://www.togetherok.org)



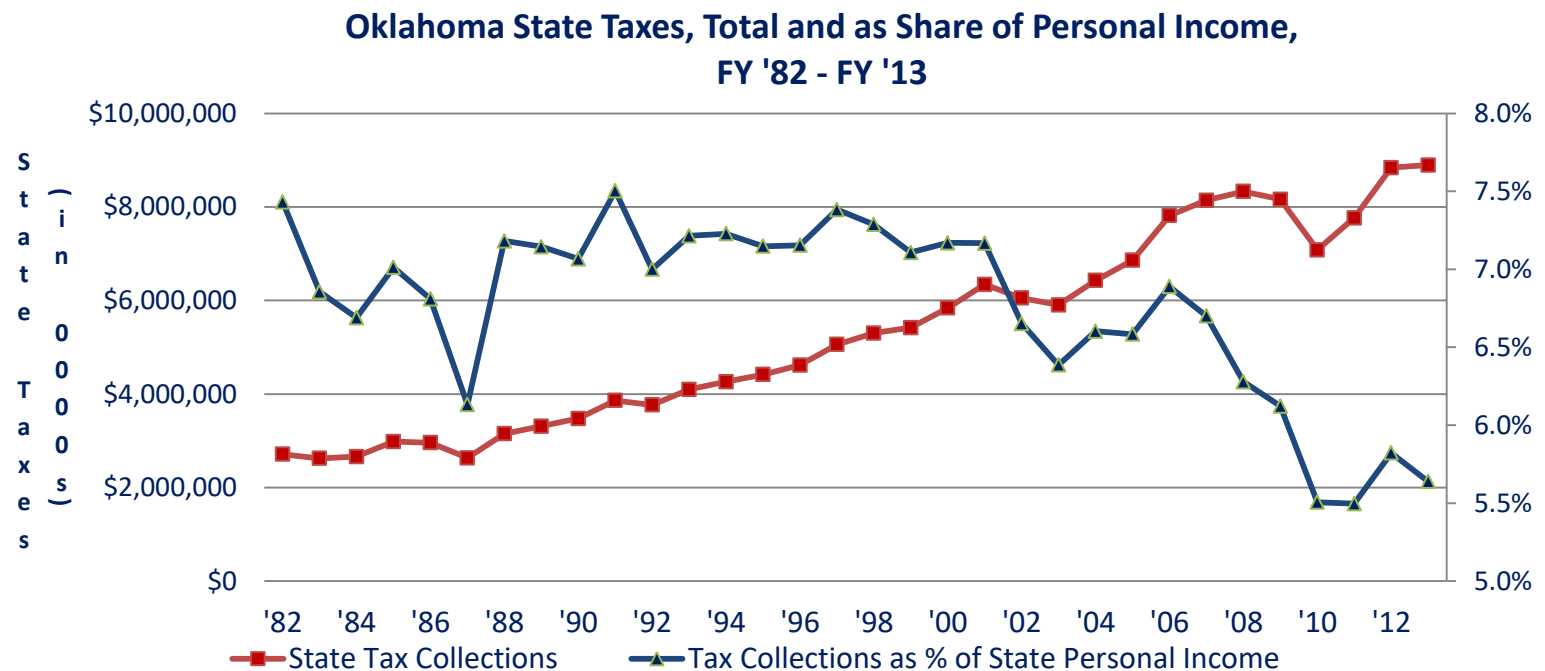
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## 6. Revenues are at historically low levels



## 6. Revenues have not fully recovered

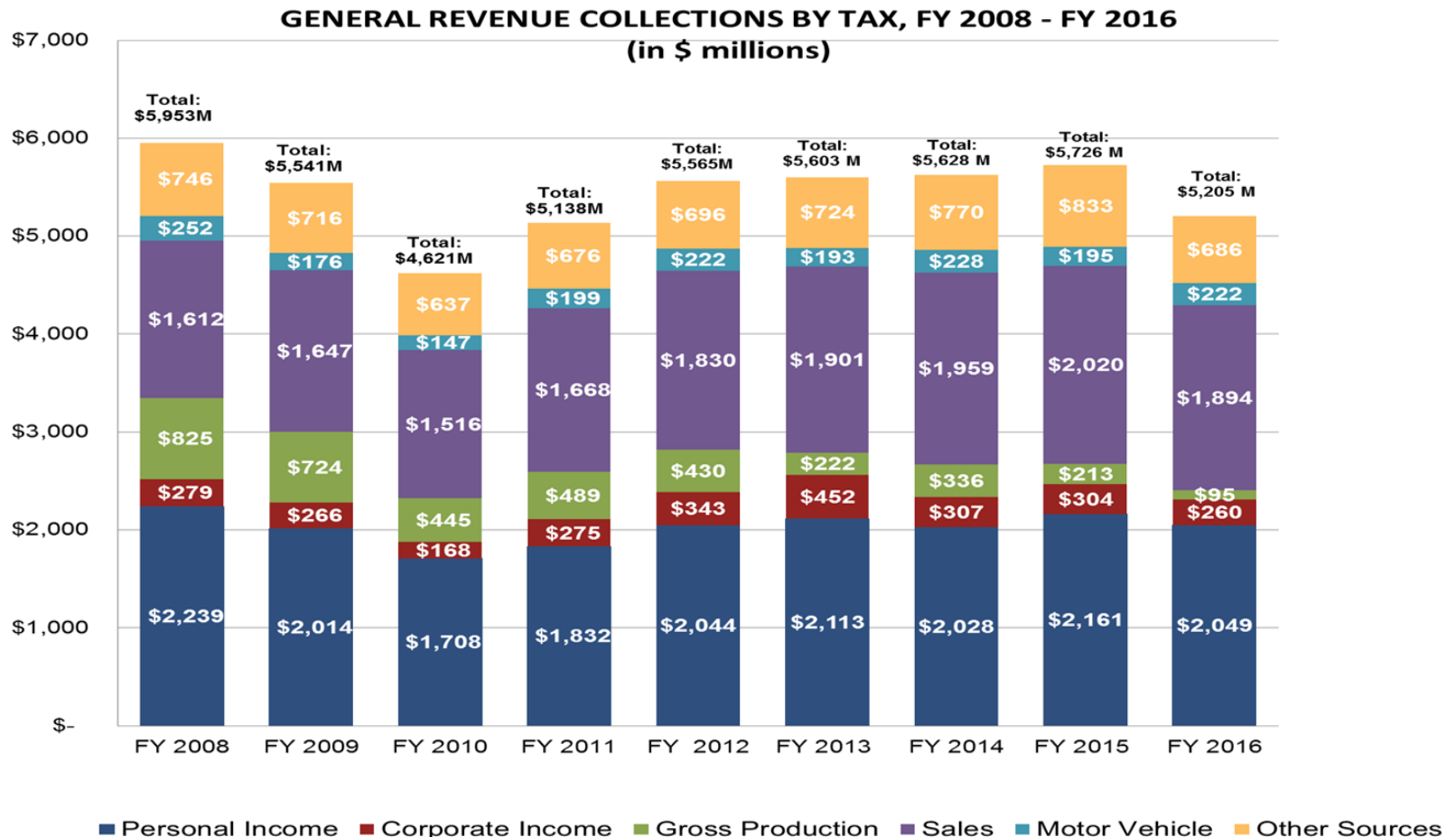
- In FY '13 tax collections equaled just 5.6 percent of state personal income, compared to 7.2 percent in FY '01
- Impact of tax cuts of mid-2000s and recession of 2008-10 can both be seen





# 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



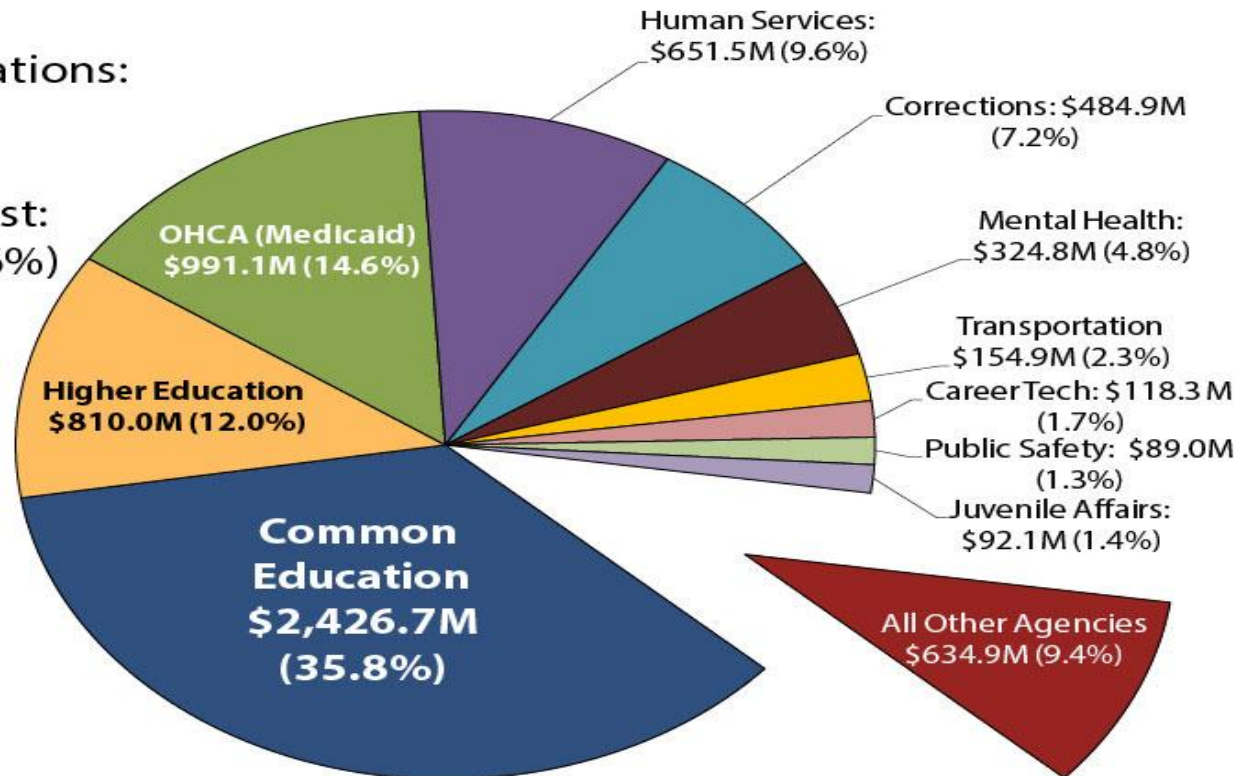
# 7. Most of the state budget funds 10 agencies

- 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

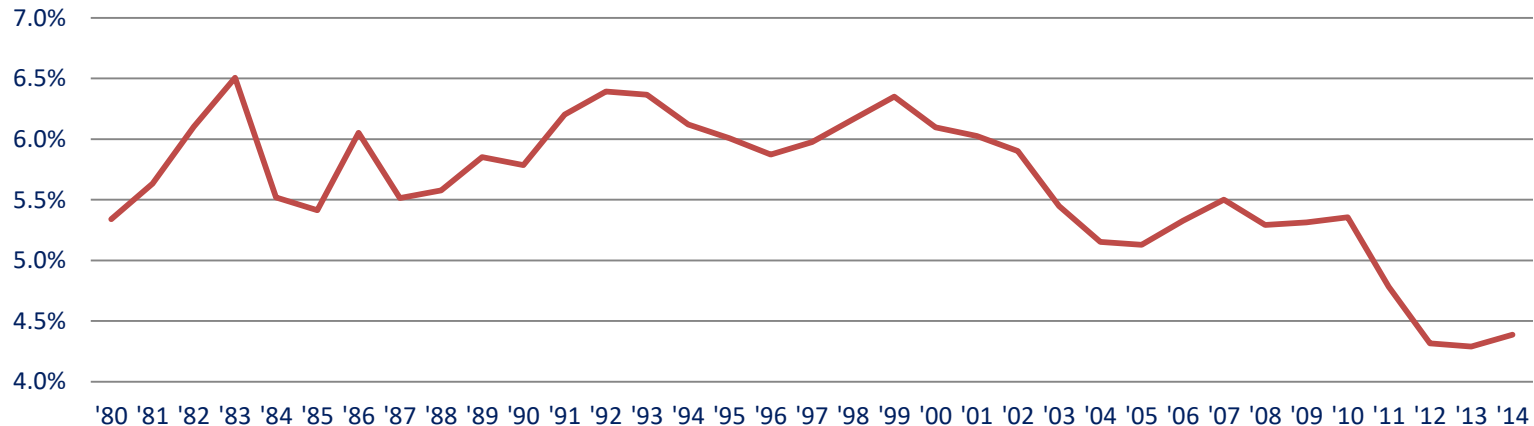


## 8. State budgets have been slashed in recent years

- 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

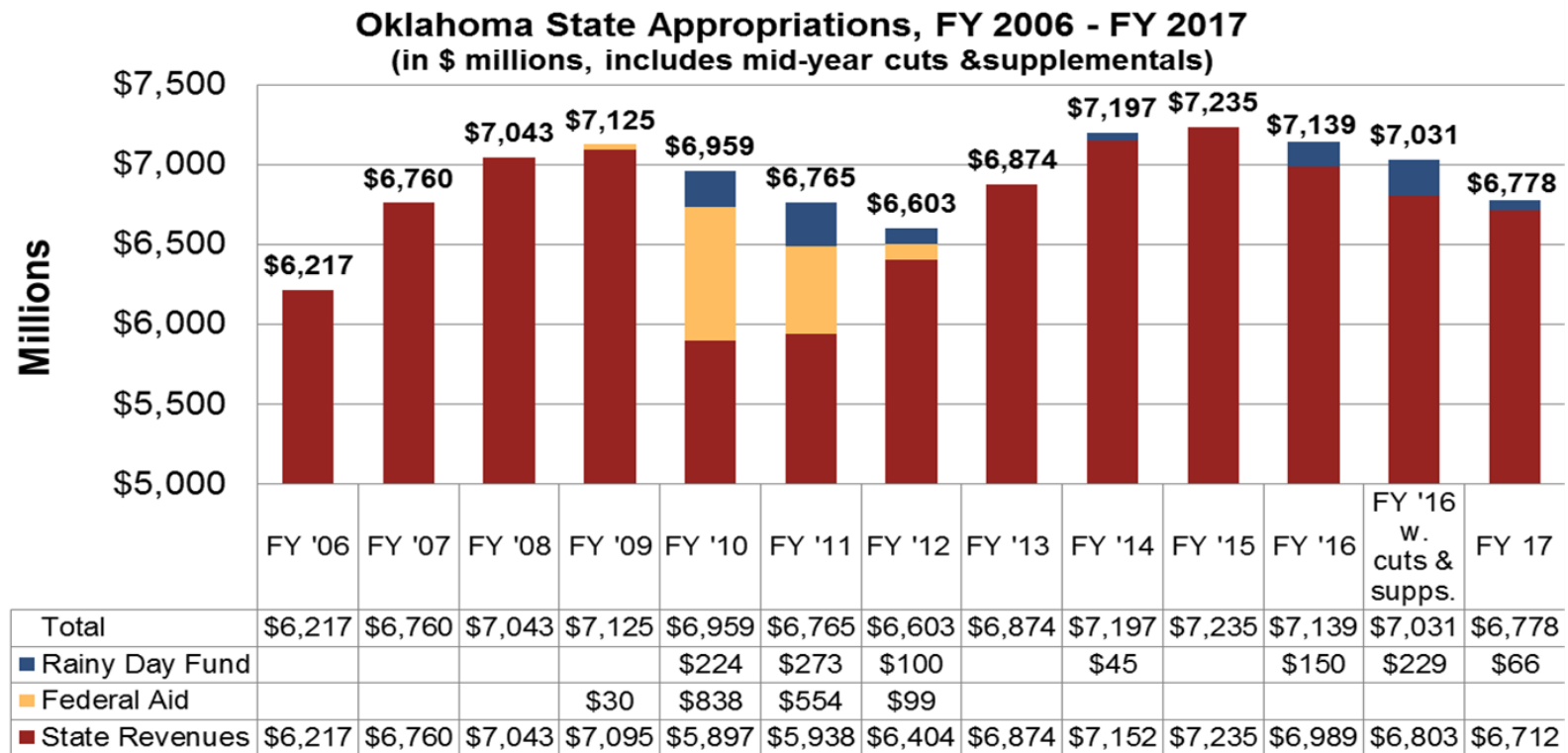
State Appropriations as Share of State Personal Income, FY '80 - FY '14



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

- FY 2017 Appropriations: \$6.778 billion
- \$360 million (5.0 percent) less than initial FY 2016 budget; \$253 million (3.6 percent) less than final FY 2016 budget

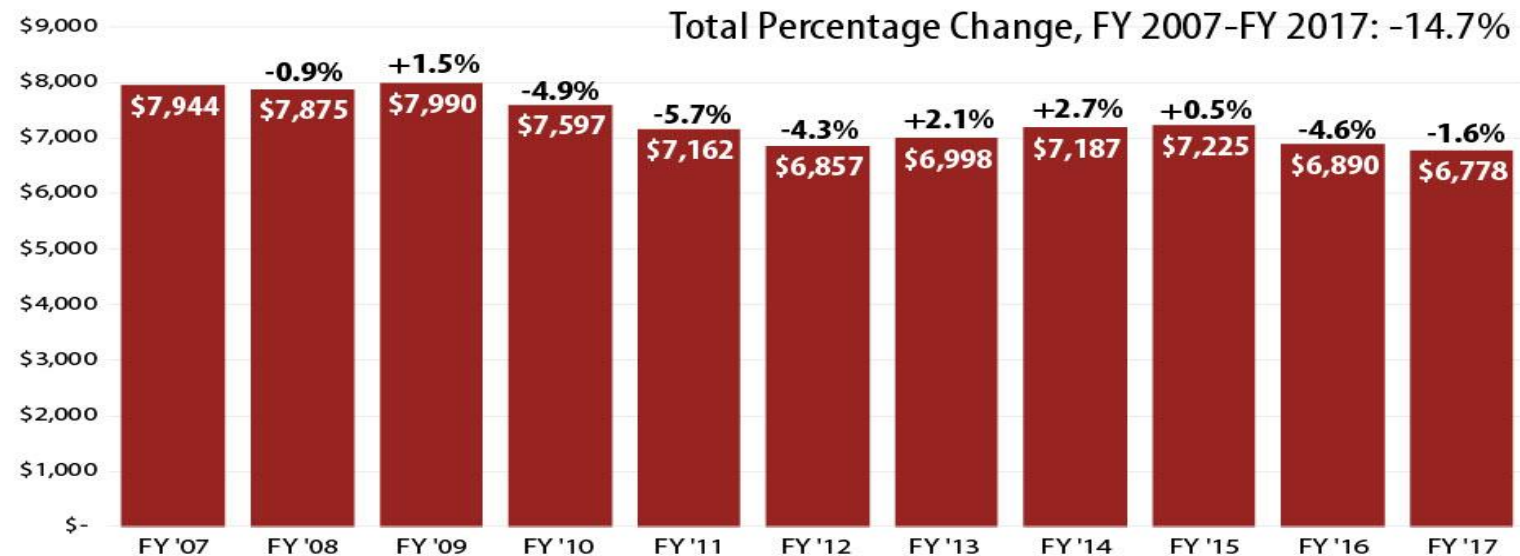


## 8. State budgets have been slashed in recent years

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

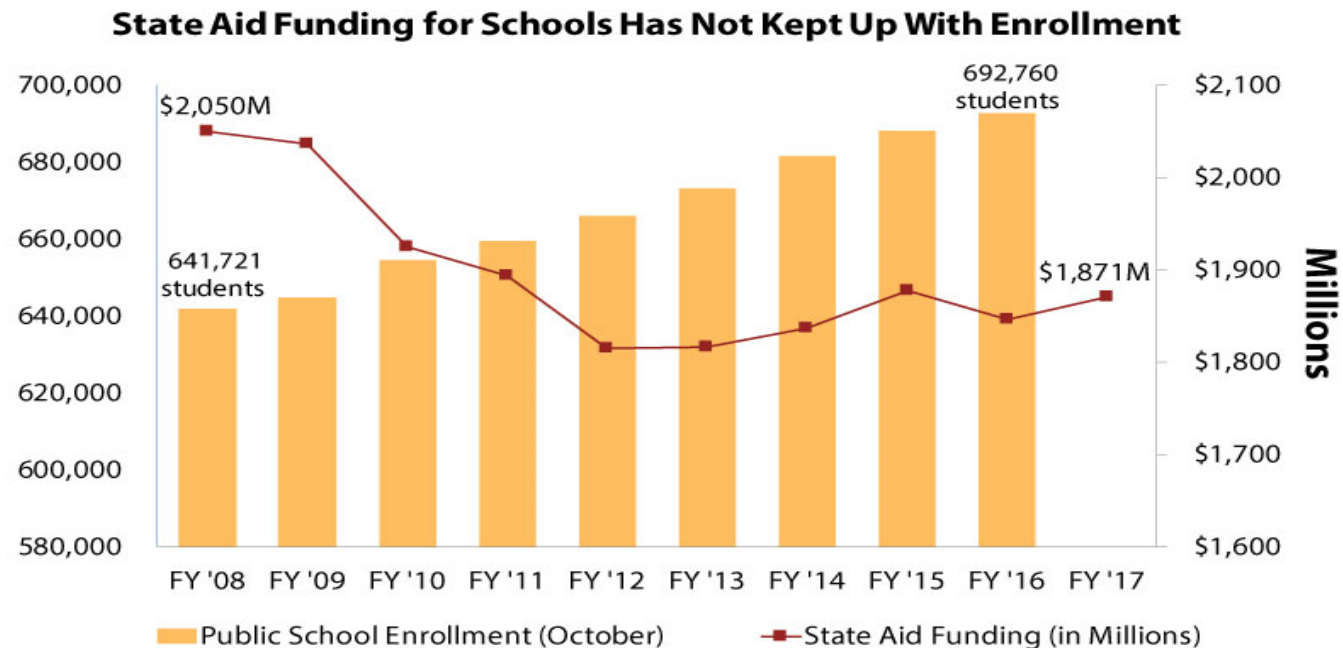
### Total State Appropriations and Annual Change, 2016 Dollars

(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
- During this time, enrollment has grown by over 50,000 students



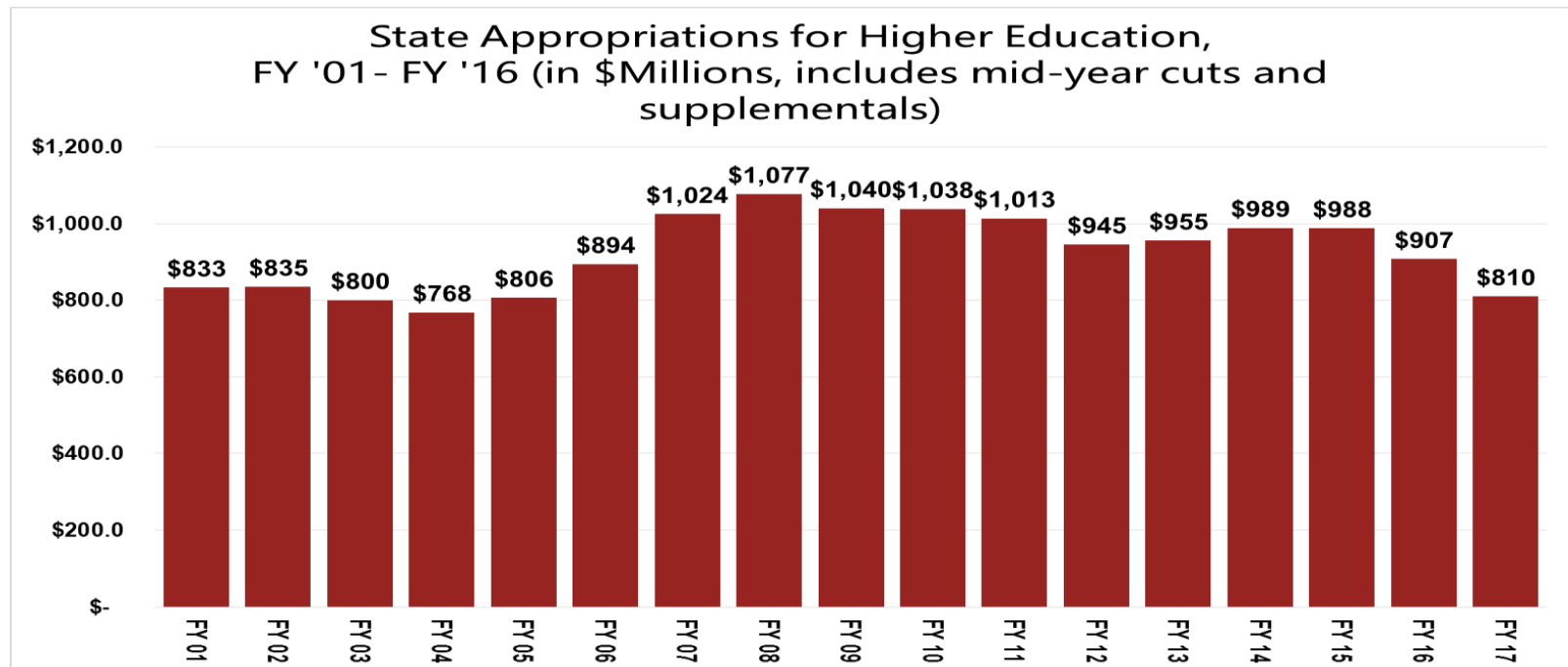
Note: State Funding excludes money allocated for textbooks



# 8. State budgets have been slashed in recent years

FY 2017 Higher Education Budget:

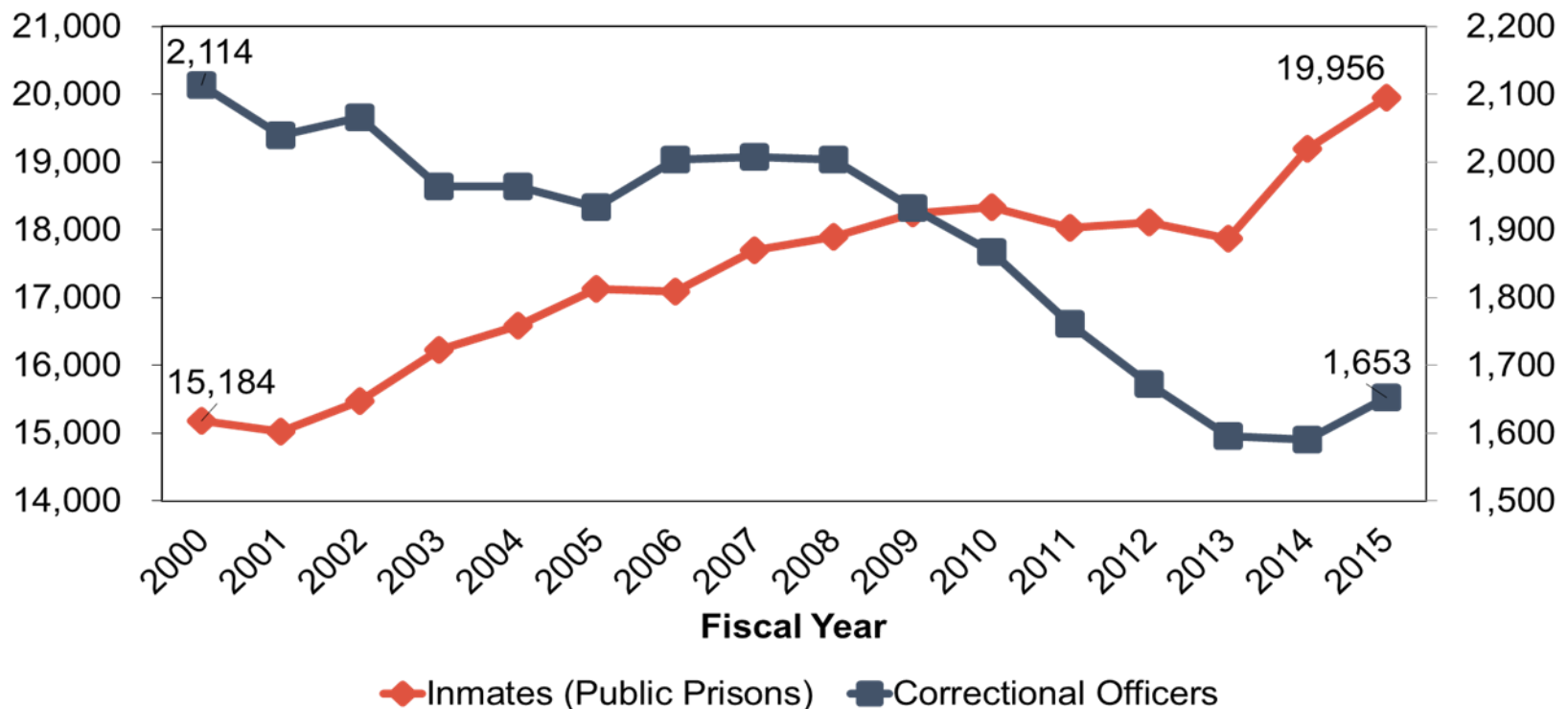
- 18 percent cut over two years
- 22 percent cut since FY 2009
- State share of Higher Ed budget down from 74 percent in 1988 to <35 percent now



## 8. State budgets have been slashed in recent years

- Oklahoma has the lowest staffing ratio in the nation

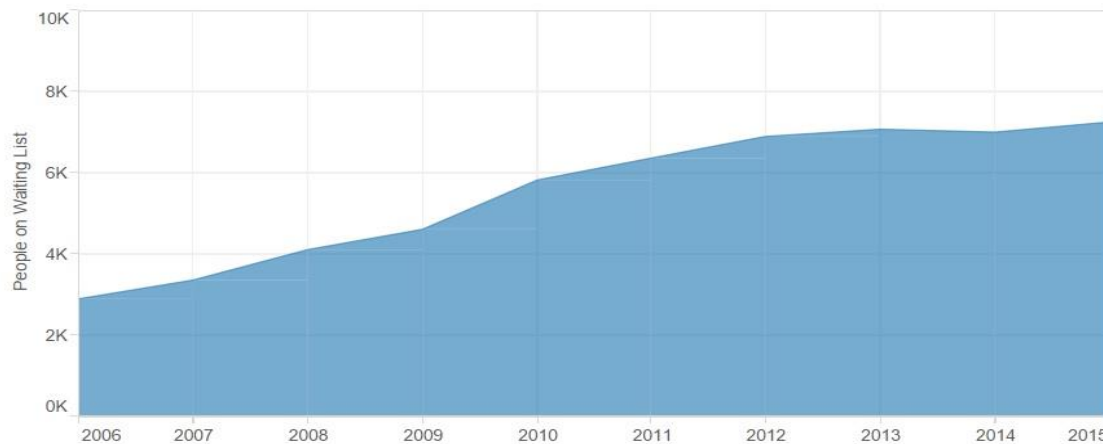
Oklahoma State Prisons Have 4,772 More Inmates and 461 Fewer Correctional Officers Since 2000



## 8. State budgets have been slashed in recent years

- 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*

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)

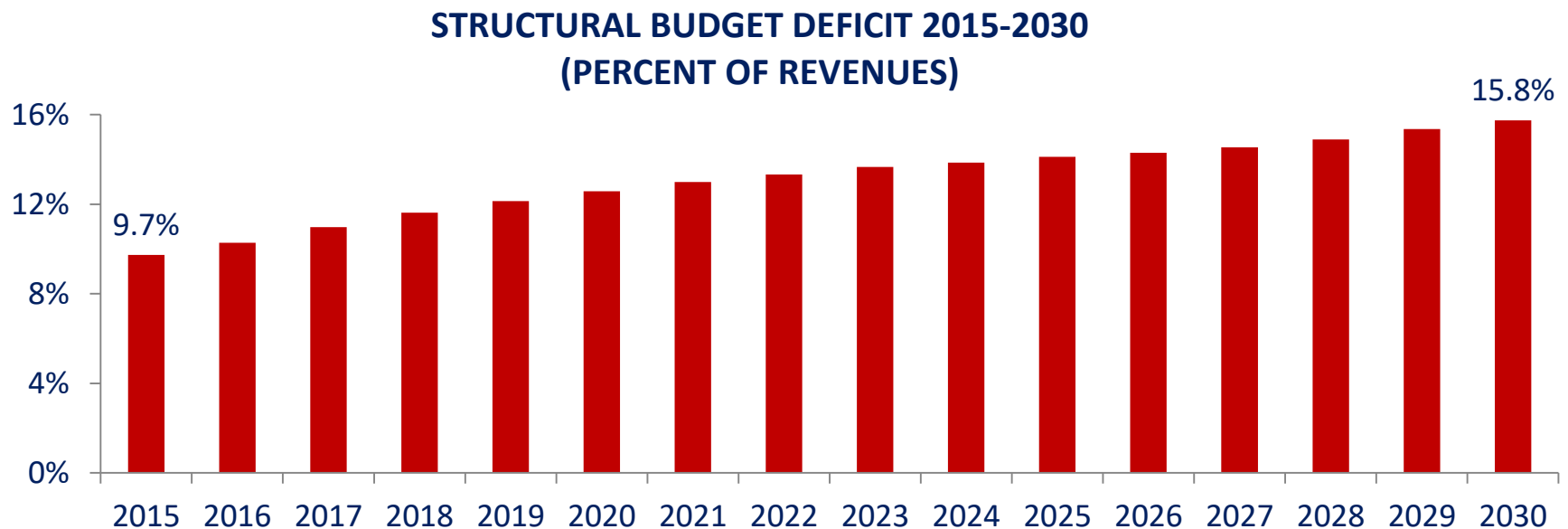
Recurring Revenue	
Economically at-risk rebate	\$ 110,958,893
End double deduction	\$ 87,296,435
EITC non-refundable	\$ 25,937,185
OTC Tax compliance initiative	\$ 48,998,204
Investment/New Job credit	\$ 12,652,032
Sales Tax statute of limitations	\$ 9,078,840
Income tax withholding reconciliation	\$ 4,483,475
Railroad maintenance credit	\$ 122,570
Child Care Facilities credit	\$ 115,074
Coal credit	\$ 881,473
<b>Total Recurring</b>	<b>\$ 300,524,181</b>
<b>Cash Flow Reserve Fund</b>	<b>\$ 132,000,000</b>
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
<b>Total One-Time</b>	<b>\$ 563,647,258</b>
<b>Total additional revenue</b>	<b>\$ 996,171,439</b>

# 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
  - Fiscally irresponsible tax policies
  - Rising health care costs
  - Unfunded pension liabilities
  - Mass incarceration



# 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

**See OK Policy: Agenda for Prosperity – A Better Budget**

## 12. There are some reasons for hope!

Better Days  
are coming



# 12. 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
  - Openness to tax increases
  - Chance to roll back last tax cut



## 12. 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](http://www.togetherok.org)

**Follow on Twitter:** @togetherok

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