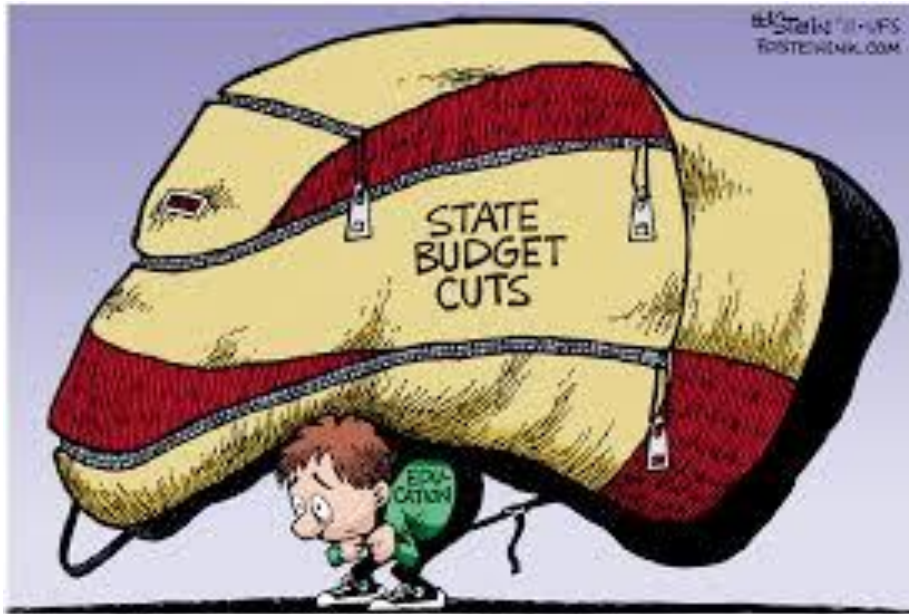


# Oklahoma's Budget Outlook: Confronting the Fiscal Gap

State Budget Summit  
January 29, 2015



David Blatt,  
Executive Director  
OKPolicy.org  
(918) 794-3944  
dblatt@okpolicy.org



**OKPOLICY.ORG**  
Oklahoma Policy Institute

# **NOT ME!!!**

**Cavs GM David Griffin calls David Blatt speculation “totally ridiculous”**

**Cavaliers: Coach David Blatt, LeBron James downplay sideline shove**

**Adrian Wojnarowski Implies That Mark Jackson Could Replace David Blatt**

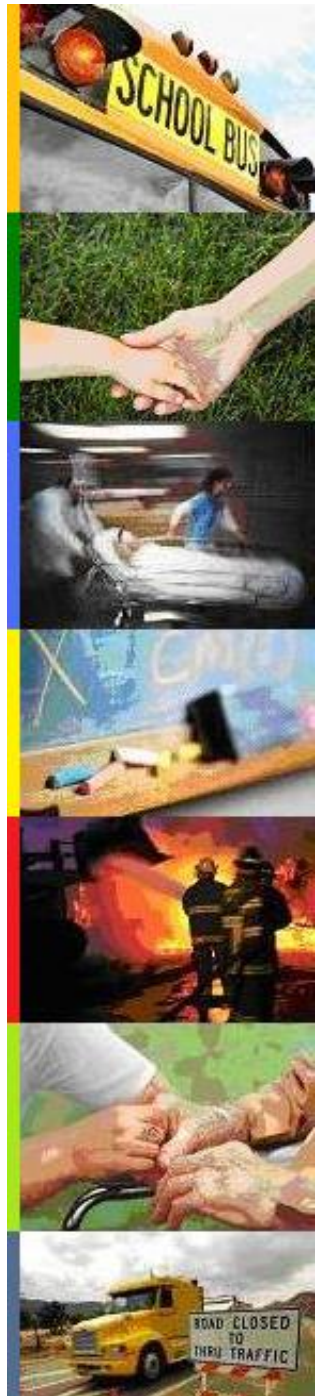


# What Prosperity Looks Like

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

- **Well-educated, well-trained workforce**
- **Well-functioning infrastructure**
- **Enforcement of economic rules**
- **Healthy communities**
- **Safe streets and neighborhoods**
- **Support for those in need**

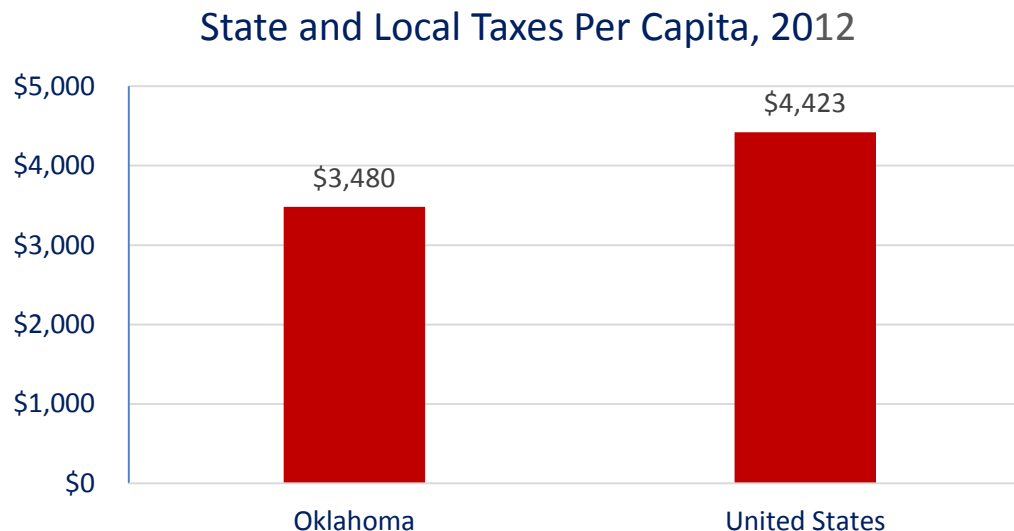
**Proper funding of state and local government is critical for us to achieve our common goals as a state**



# FISCAL FUNDAMENTALS

## 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



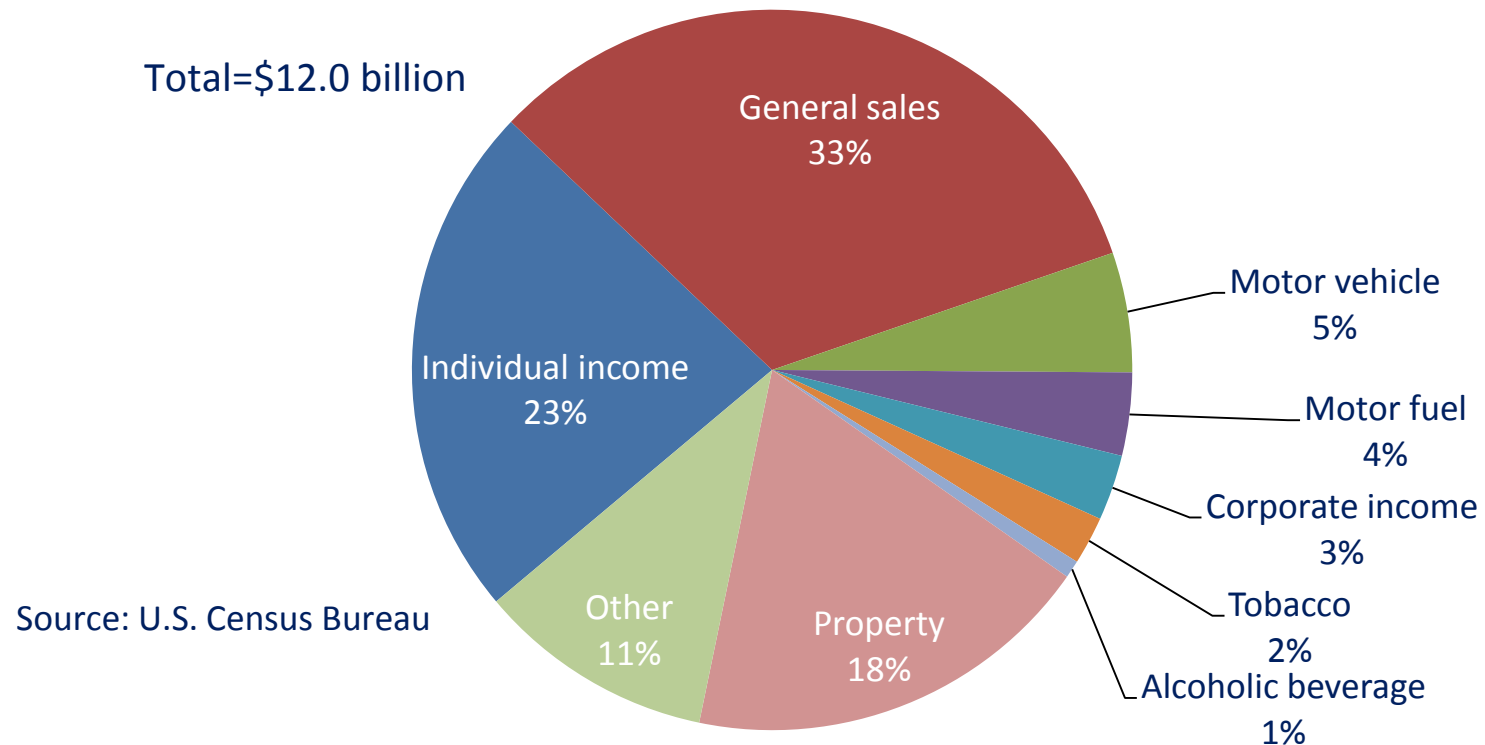
\* All data for 2012,  
Center on Budget and  
Policy Priorities from  
Census of Governments

# FISCAL FUNDAMENTALS

## Oklahoma has a balanced tax mix

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

State and Local Taxes by Source, 2011



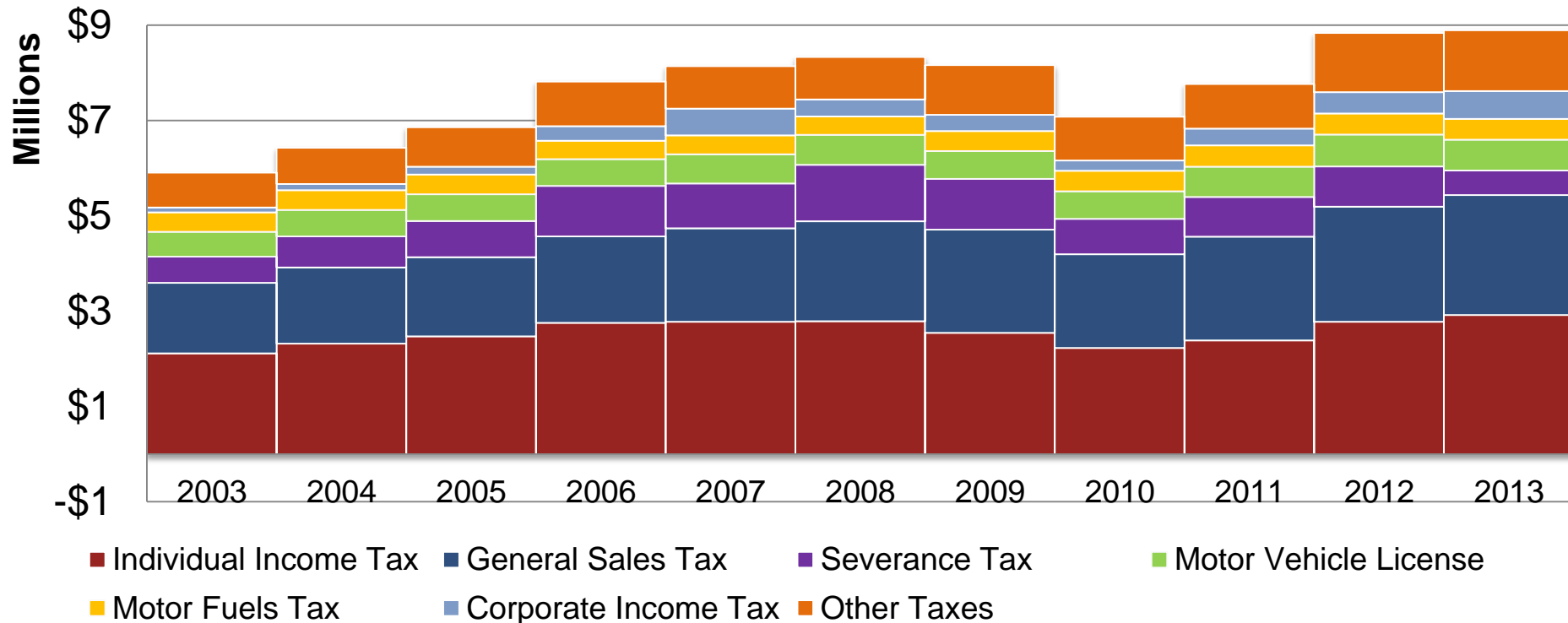
# FISCAL FUNDAMENTALS

## 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)

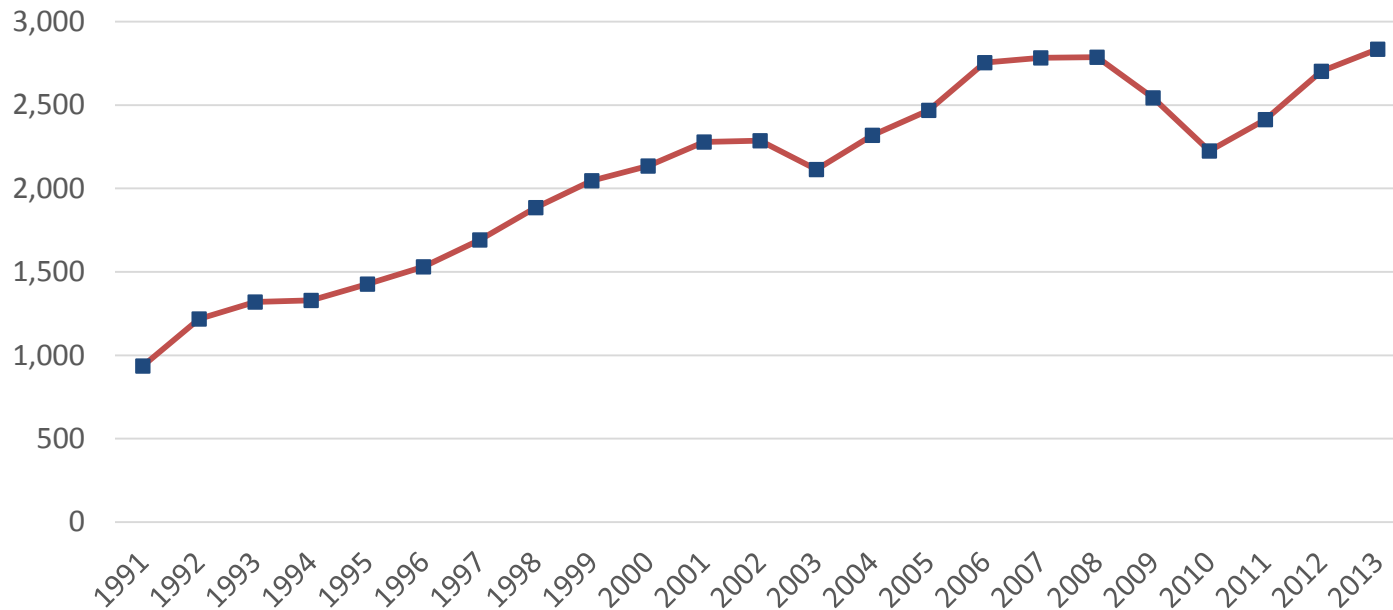


# FISCAL FUNDAMENTALS

## 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 2013 (in \$millions)



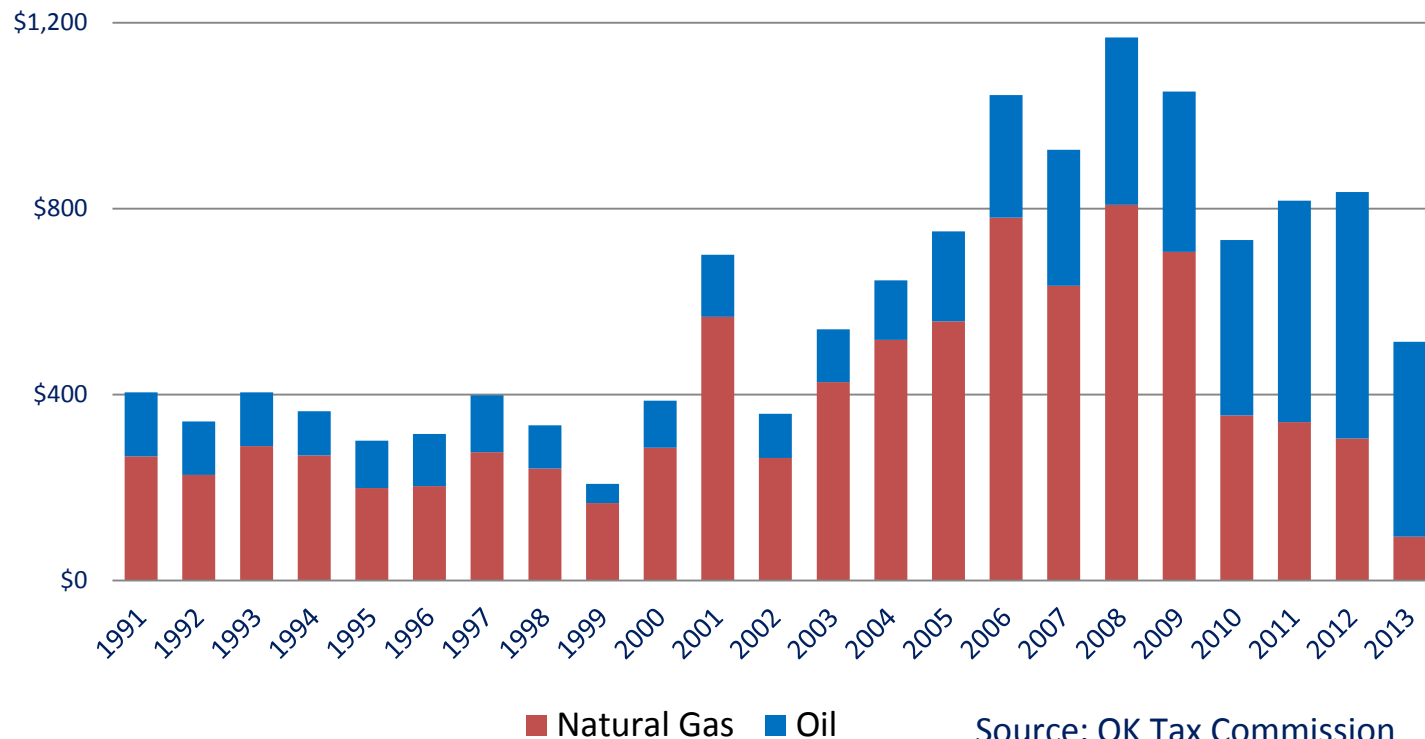
Source: Oklahoma Tax Commission

# FISCAL FUNDAMENTALS

## 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 '13 (in \$ millions)





# FISCAL FUNDAMENTALS

## 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

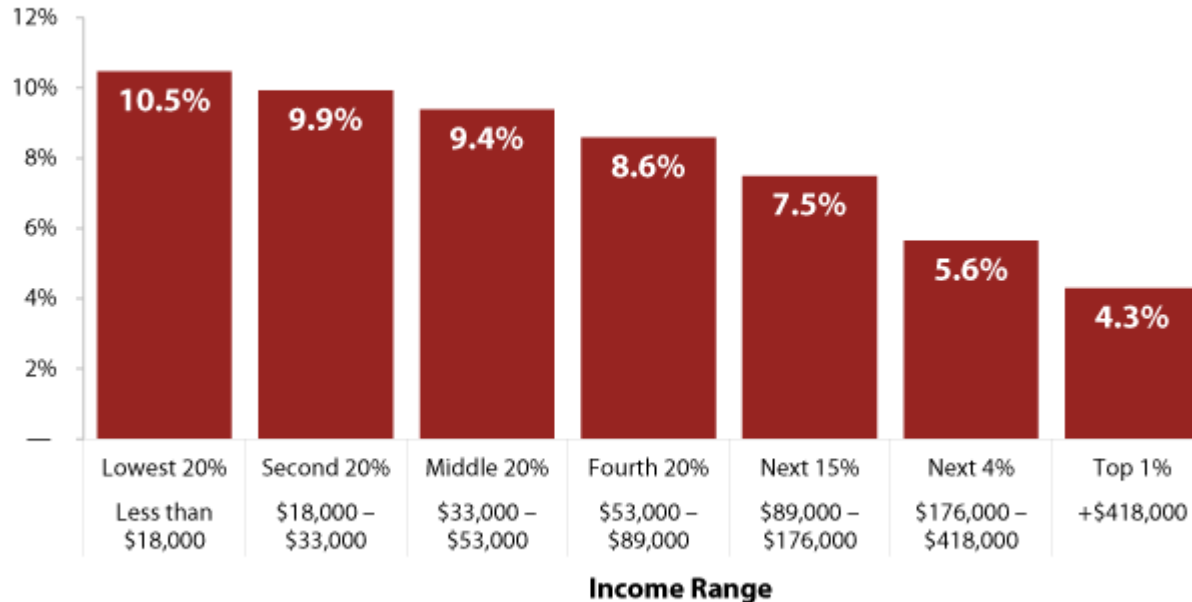
# FISCAL FUNDAMENTALS

## State and local taxes are regressive

- 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

# FISCAL FUNDAMENTALS

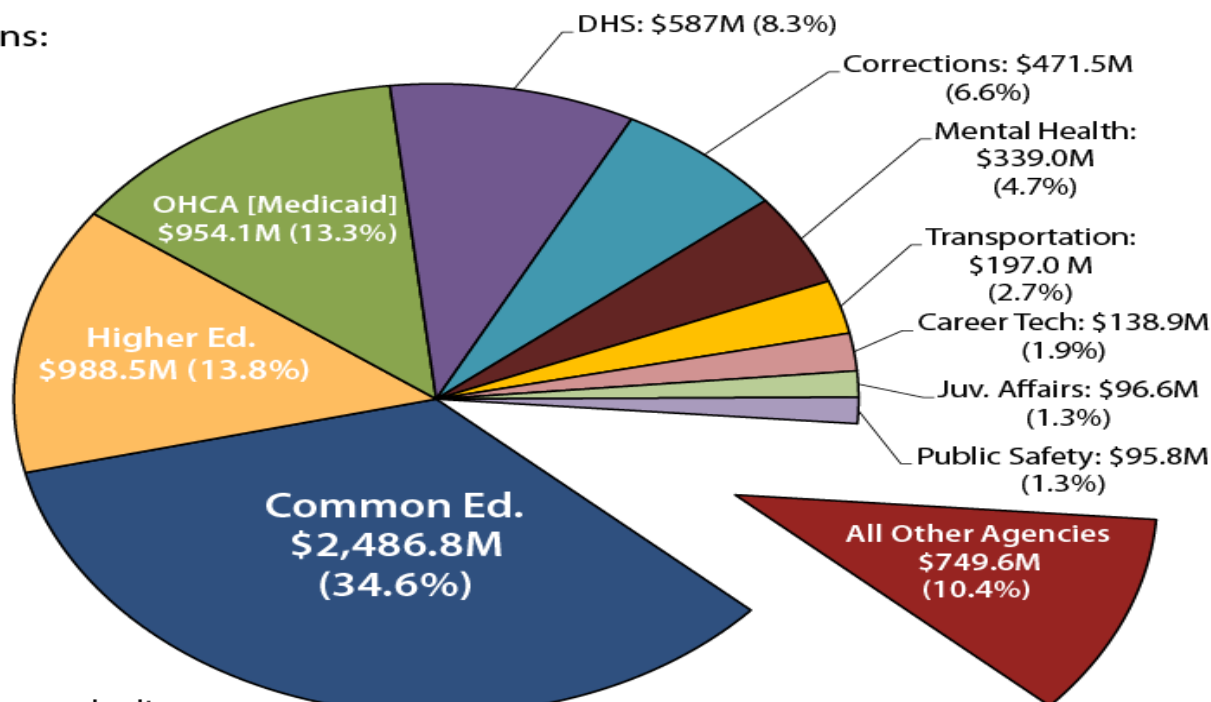
## The Budget Big 10

- Common education gets the largest state appropriation
- 90 percent of appropriations go to core services in education, health, human services, public safety & transportation

### FY 2015 Appropriations to Ten Largest Agencies

Total Appropriations:  
\$7,193.3M

Total Ten Largest:  
\$6,443.7M (89.6%)



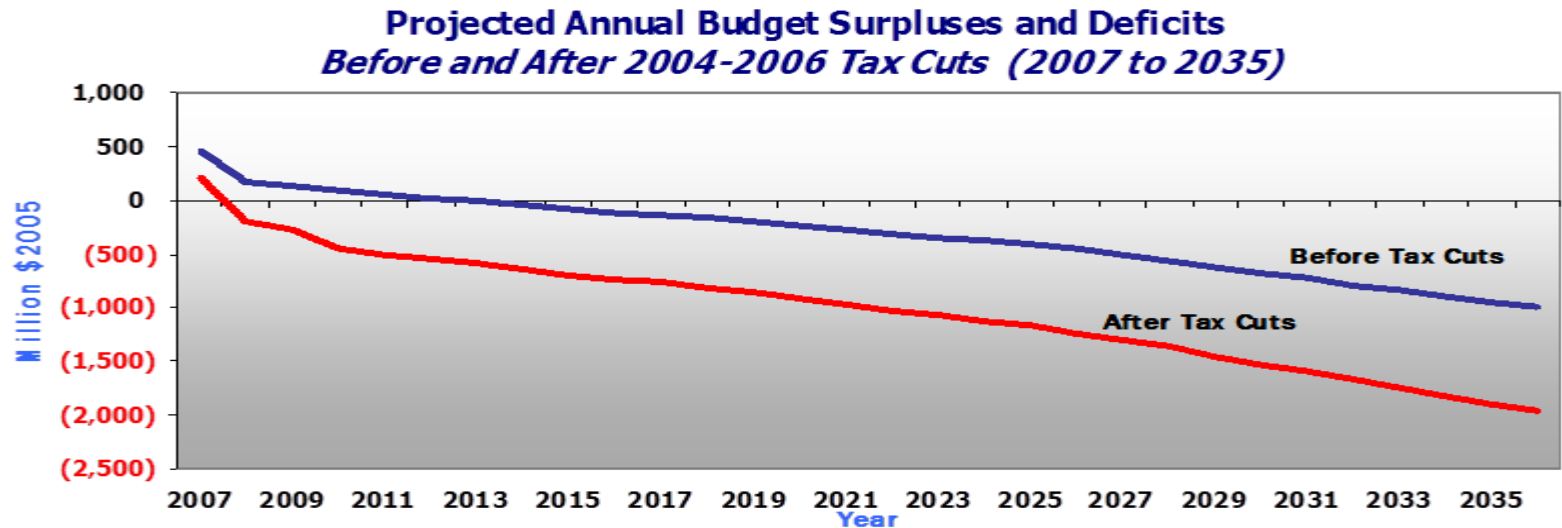
# STRUCTURAL DEFICIT

- 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"



# STRUCTURAL DEFICIT

Even prior to the tax cuts of the mid-2000s, the state faced a growing fiscal gap over the long term



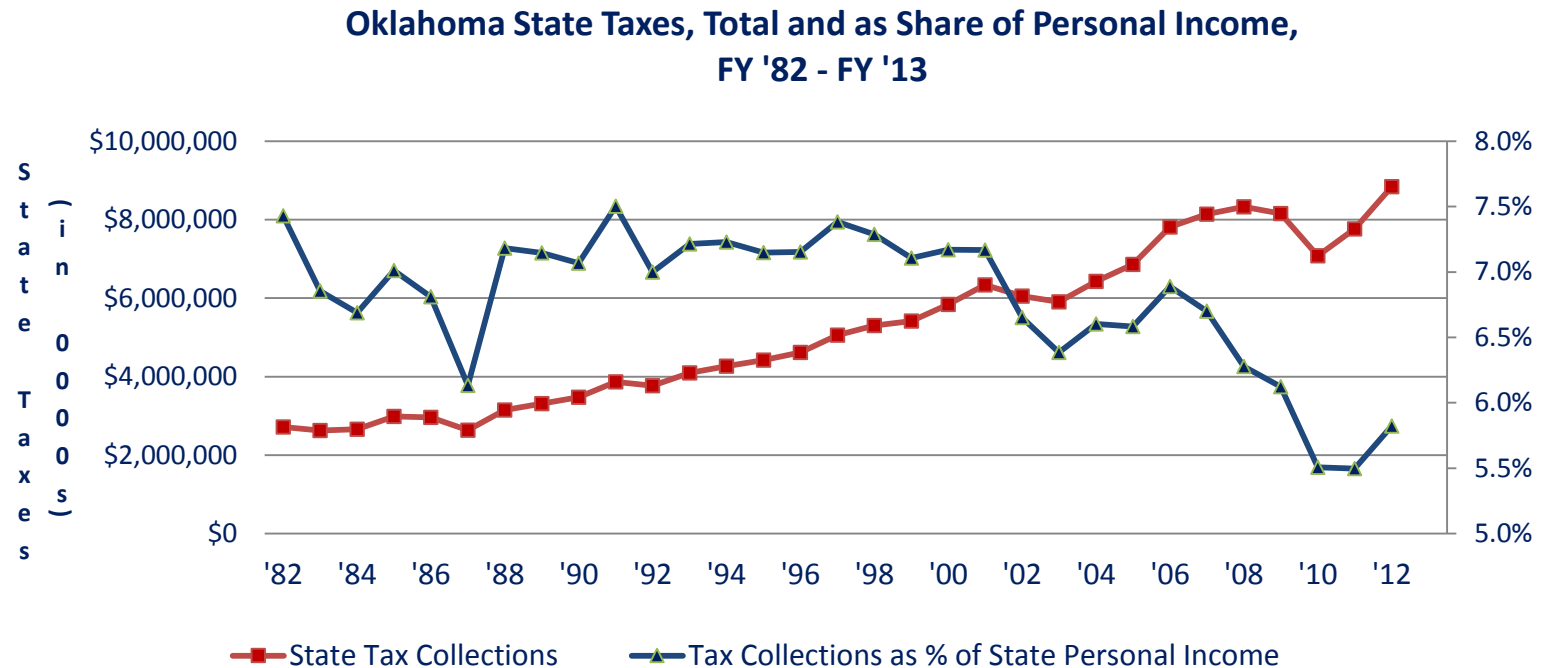
Source: Projections conducted in 2007 by Dr. Kent Olson, Professor of Economics, Oklahoma State University



**OKPOLICY.ORG**  
Oklahoma Policy Institute

# STRUCTURAL DEFICIT

Over the past decade, state tax collections are no longer keeping pace with a growing state economy

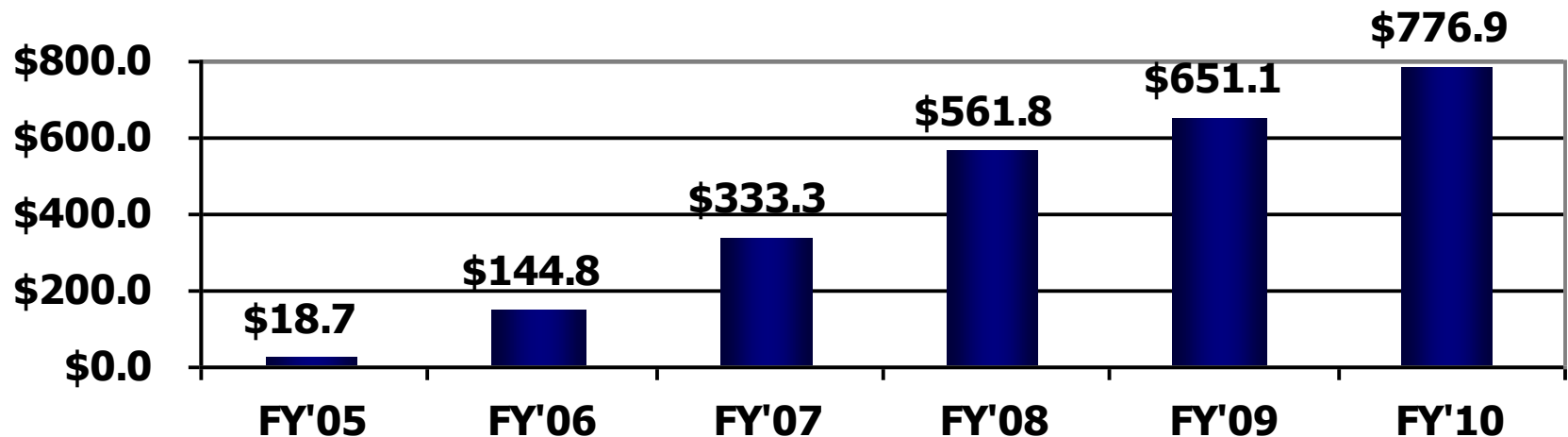


# STRUCTURAL DEFICIT

## Major Tax Cuts in Recent Years

- Income tax cuts of mid-2000s were large, permanent and back-loaded
- Top income tax rate lowered from 6.65 to 5.25 percent;

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



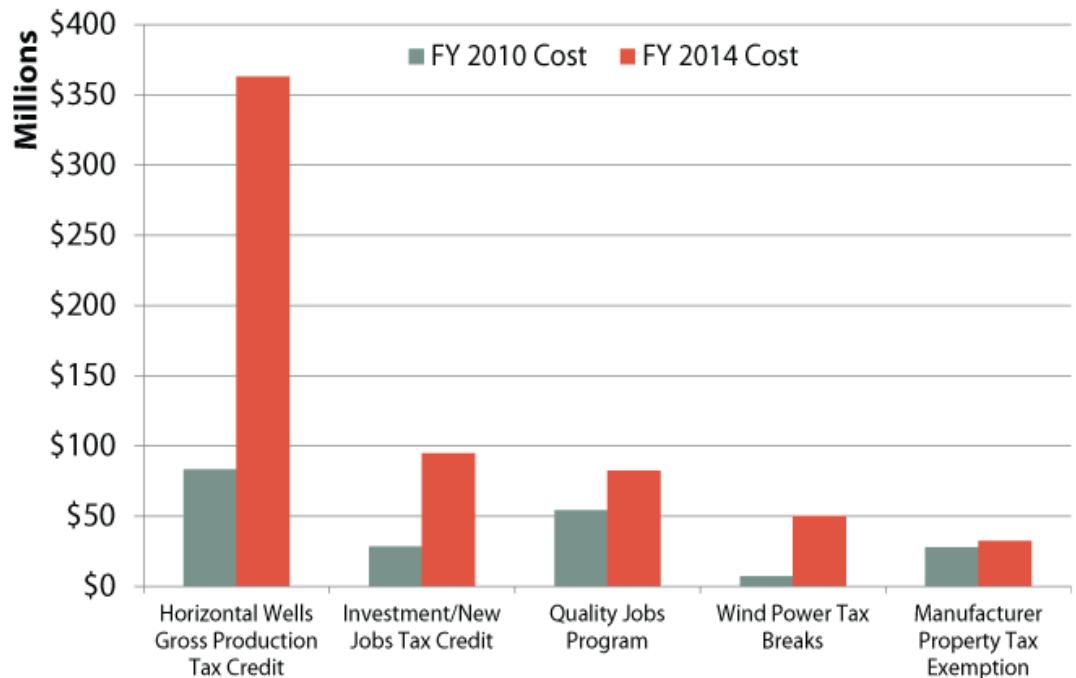
*source: Oklahoma Tax Commission*

# STRUCTURAL DEFICIT

## Tax Breaks Take a Toll

- 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)



**OKPOLICY.ORG**  
Oklahoma Policy Institute



# STRUCTURAL DEFICIT

- Other contributors to the structural deficit:
  - Outdated tax system
  - Rising health care costs
  - Pension liabilities
  - Mass incarceration

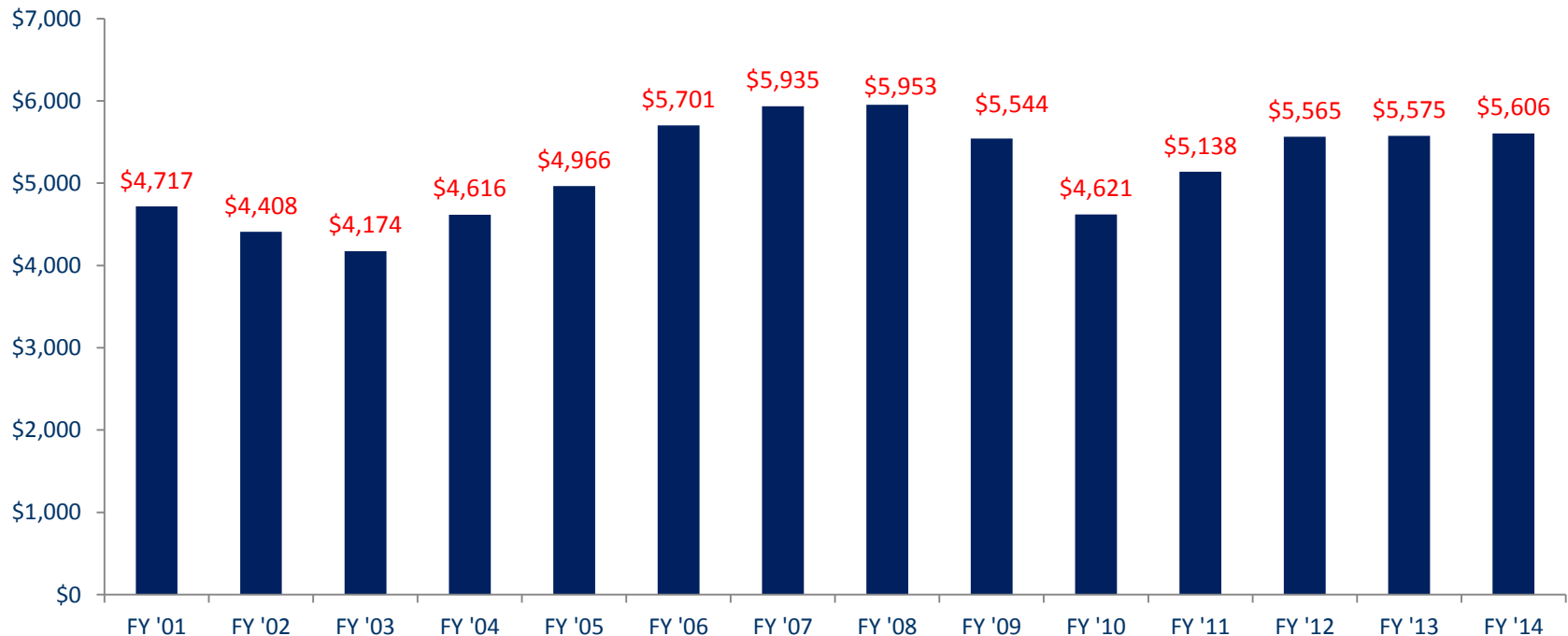
# 2009-14: Major Collapse, Partial Recovery



# 2009-14: Major Collapse, Partial Recovery

- Tax collections plummeted during the downturn and haven't fully recovered
- Gen. Rev. collections in FY 2014 were 5.8 percent below FY 2008
- GR has grown less than 1 percent in past 2 years

**General Revenue Collections,  
FY '01 - FY '14 (in \$Millions)**

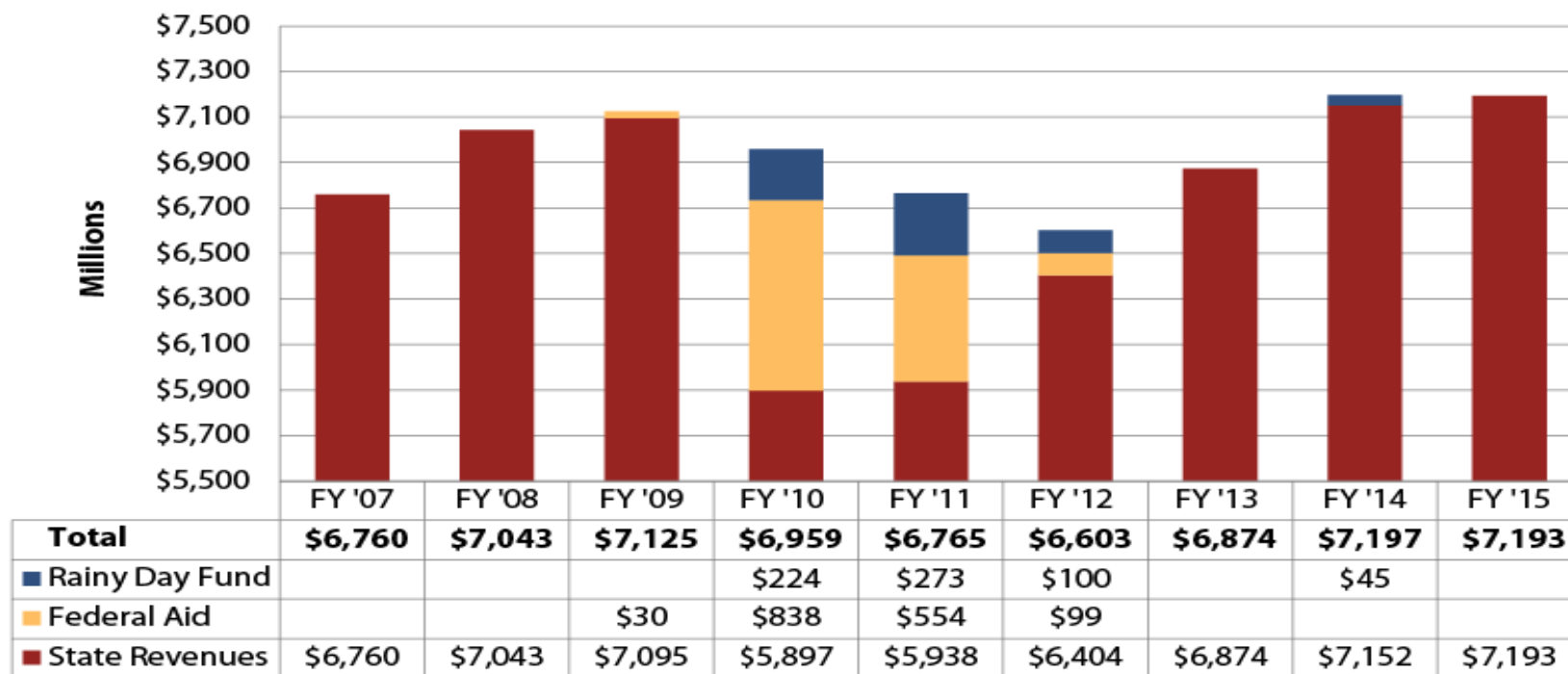


# 2009-14: Major Collapse, Partial Recovery

- This year's budget is just 1 percent more than six years ago – without adjusting for inflation

## State Appropriations, FY 2007 to FY 2015

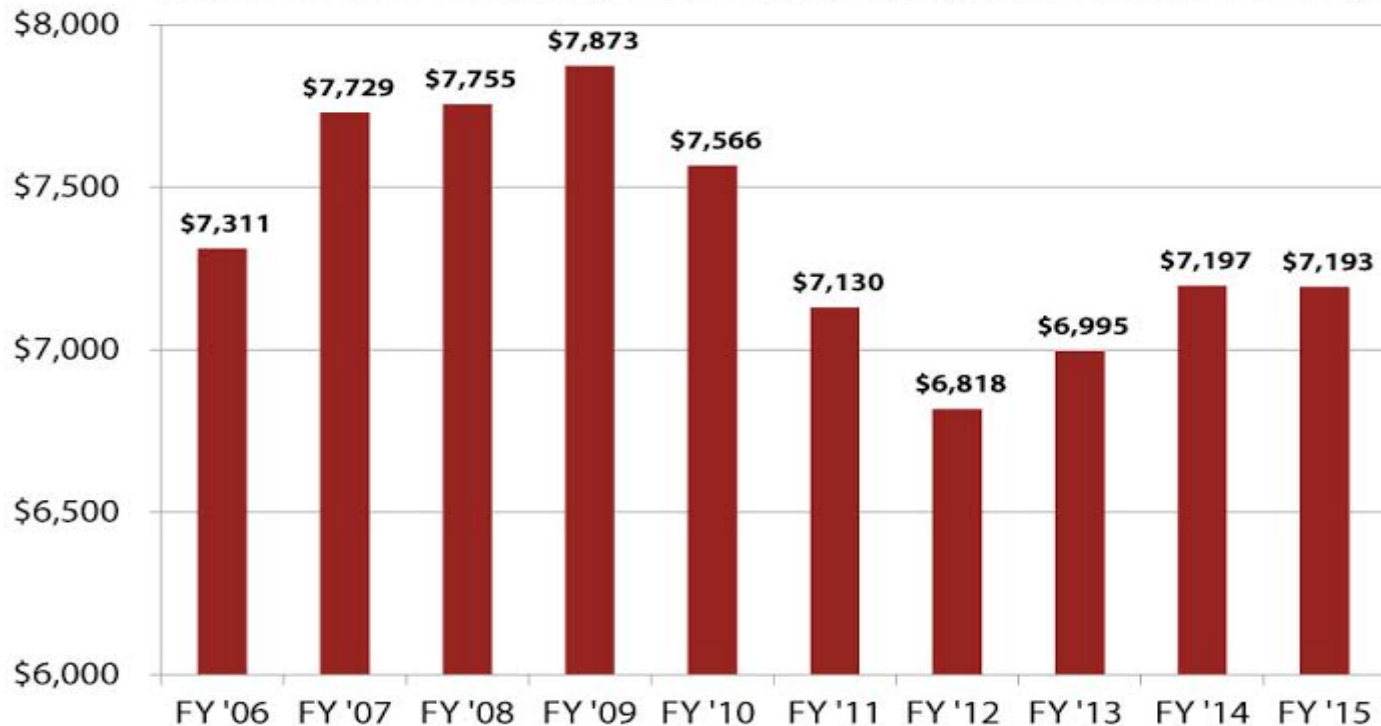
(in \$ millions; includes supplementals, Rainy Day spillover funds)



# 2009-14: Major Collapse, Partial Recovery

- Adjusted for inflation, the FY 2015 budget is \$680 million below FY 2009

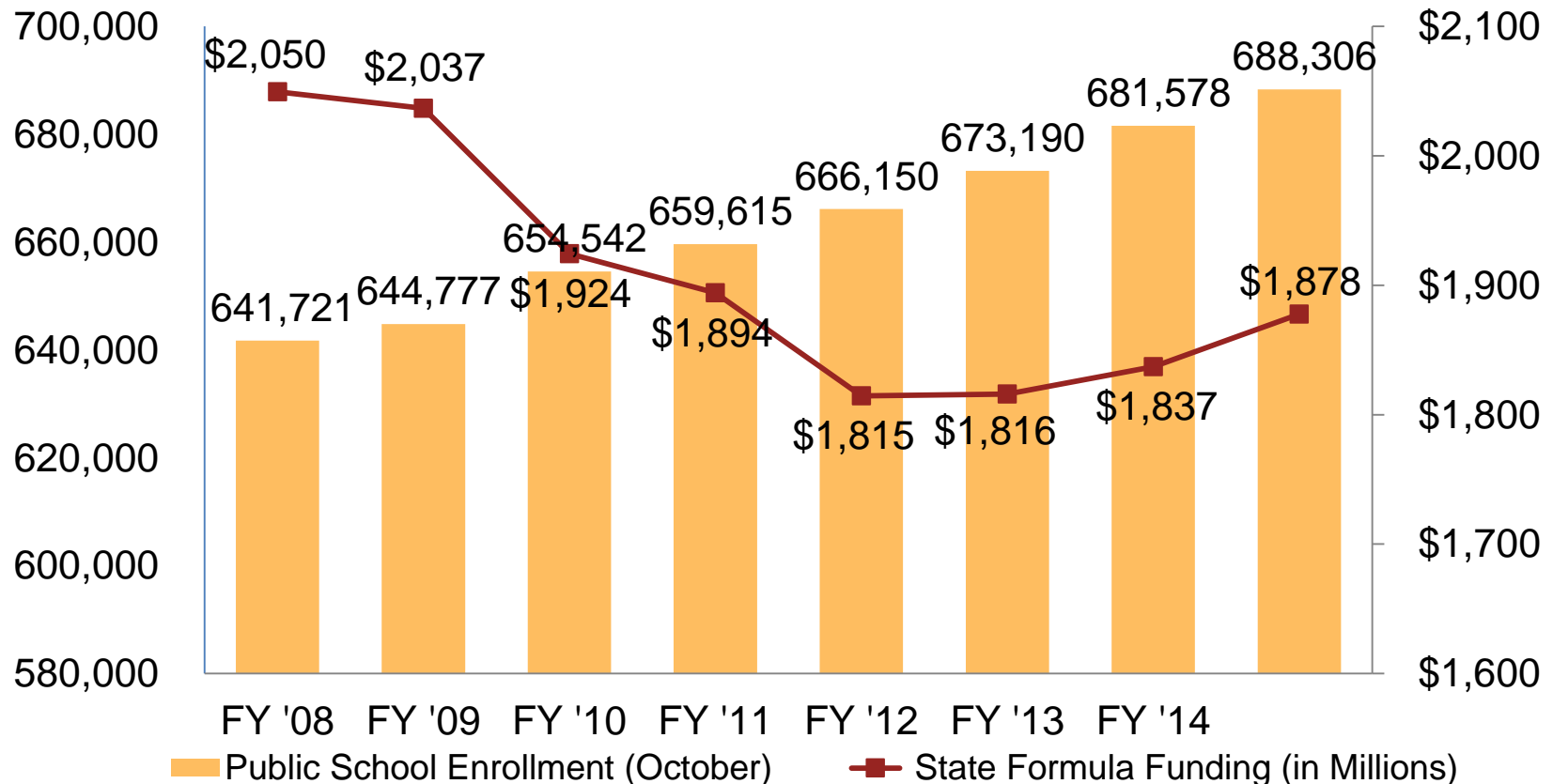
**Oklahoma State Appropriations, FY '06-'15**  
(in \$ millions; 2014 dollars adjusted for inflation using the Consumer Price Index)



# 2009-14: Major Collapse, Partial Recovery

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

Public School Enrollment and State Aid Funding, 2008 – 2015



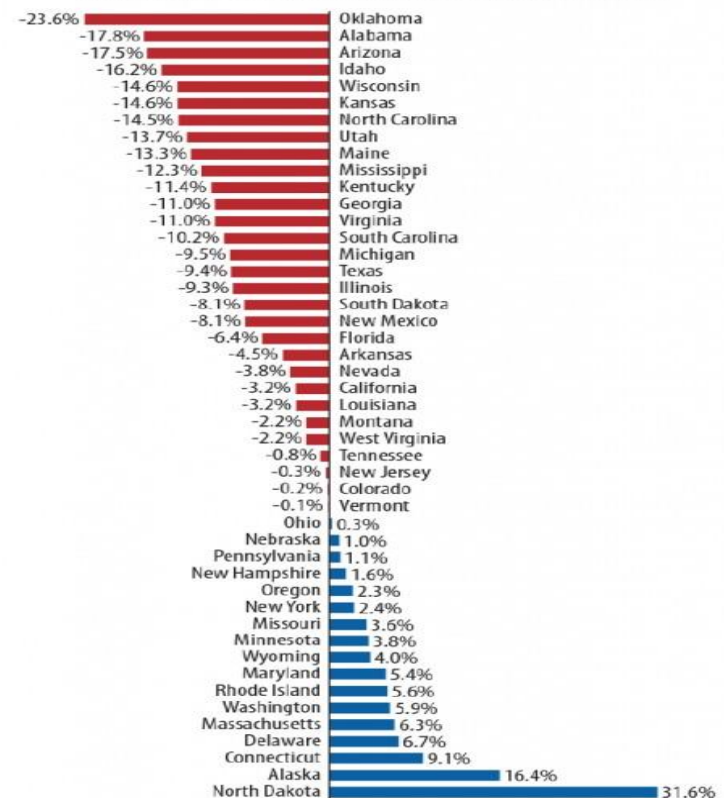
Note: State Funding excludes money allocated for textbooks

# 2009-14: Major Collapse, Partial Recovery

- **Per pupil state support for education** in Oklahoma has been cut by \$857 per student - 22.8 percent - since 2008 (adjusted for inflation)
- Steepest cuts in the nation for two straight years
- Increased funding over past two years hasn't managed to keep up with rising enrollment and inflation

## Oklahoma education cuts still worst in the nation

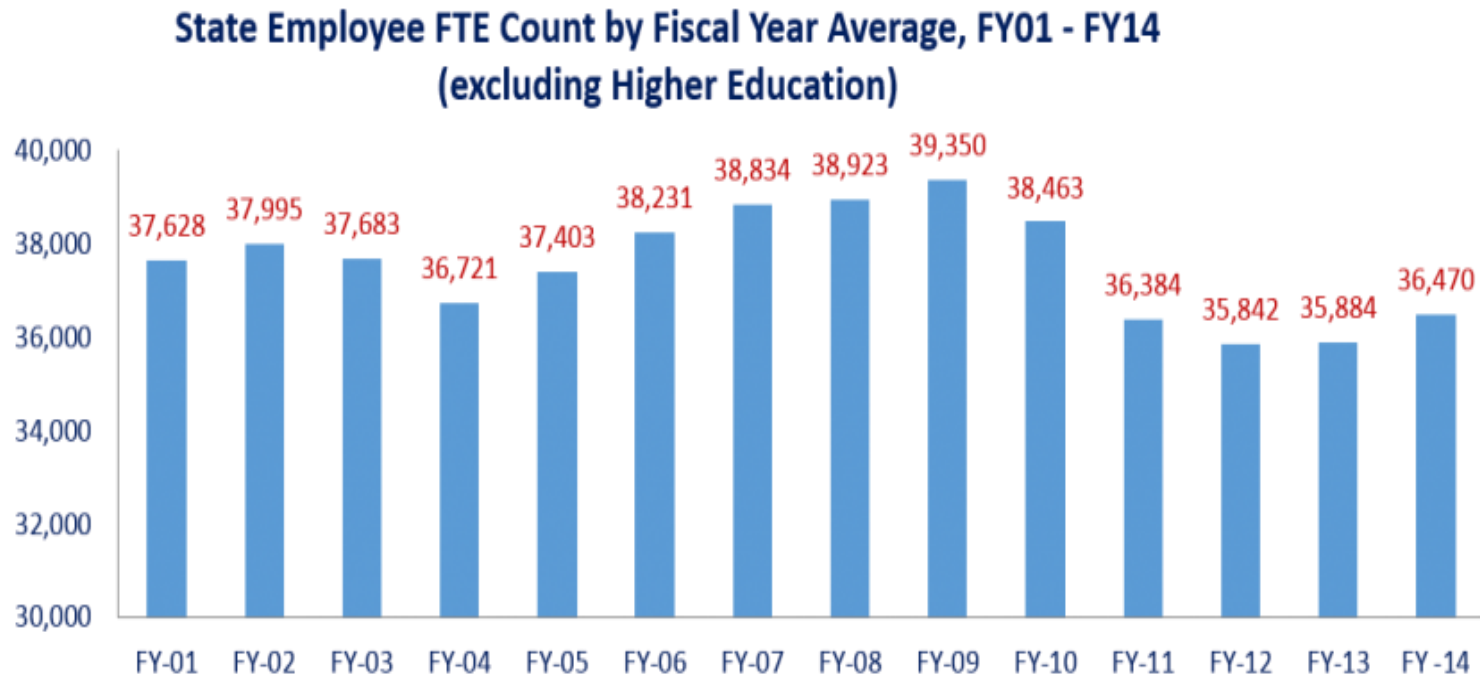
Percent change in spending per student, inflation-adjusted, FY08 to FY15



Note: Hawaii, Indiana, and Iowa are excluded because the necessary data to make a valid comparison are not available.  
Sources: CBPP budget analysis and National Center for Education Statistics enrollment estimates.

# 2009-14: Major Collapse, Partial Recovery

- Compared to 2001, 1,158 fewer state employees, while Oklahoma population's has grown by 350,000.

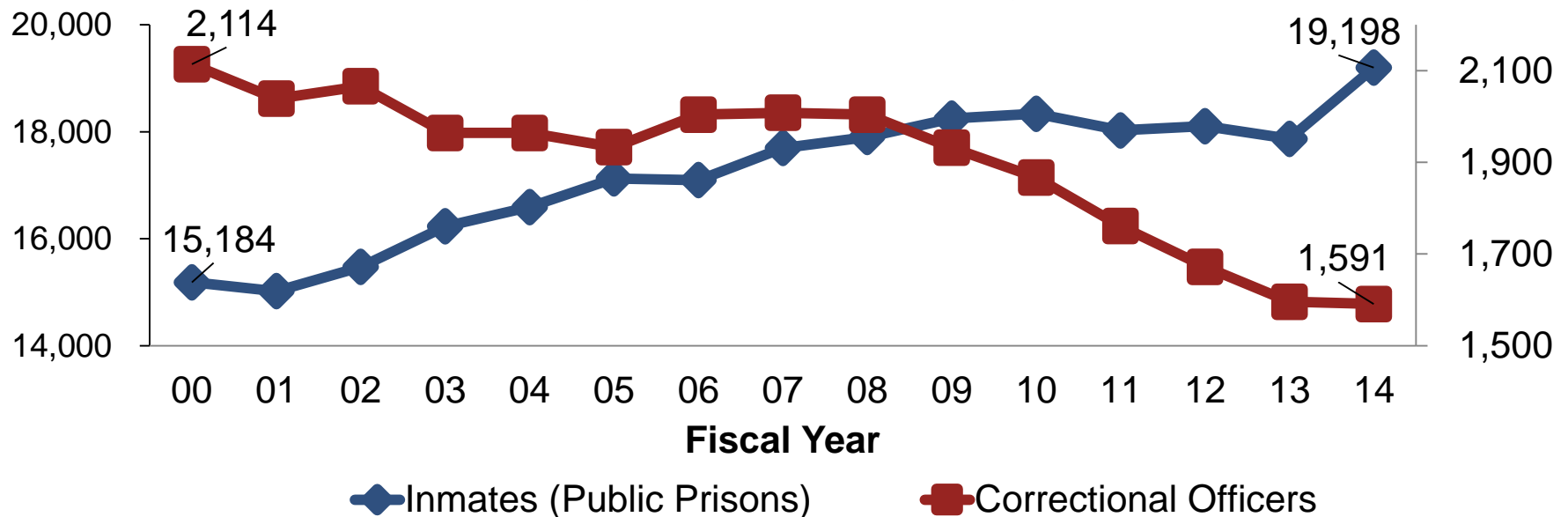




# 2009-14: Major Collapse, Partial Recovery

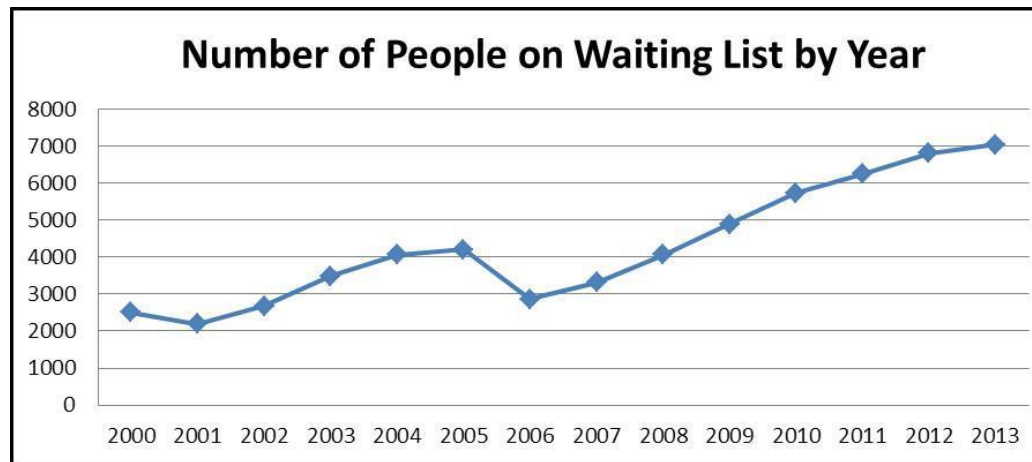
- Since 2008, the number of inmates per correctional officer has jumped from 7.2 to 12.1
- Oklahoma has the lowest staffing ratio in the nation

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



# 2009-14: Major Collapse, Partial Recovery

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



Graph via [www.okwaitinglist.org](http://www.okwaitinglist.org)



**OKPOLICY.ORG**  
Oklahoma Policy Institute

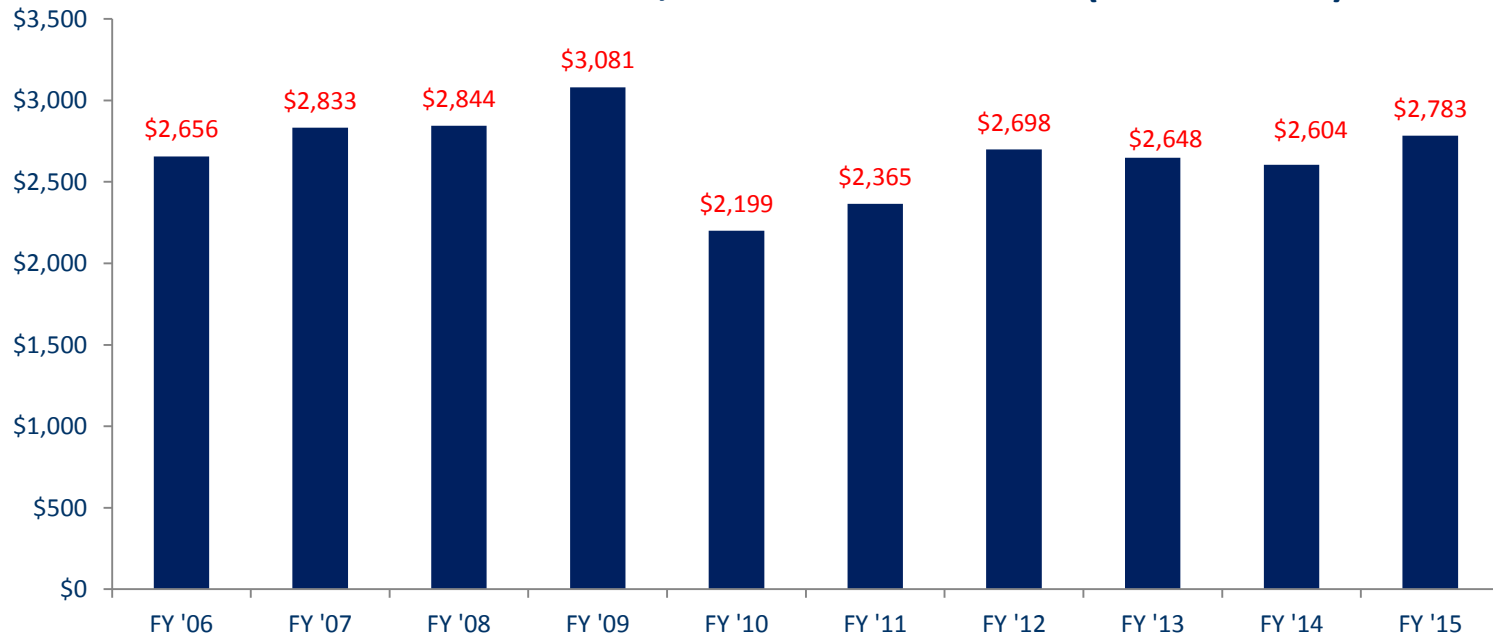
# Short-Term Challenges Ahead



# Short-Term Challenges Ahead

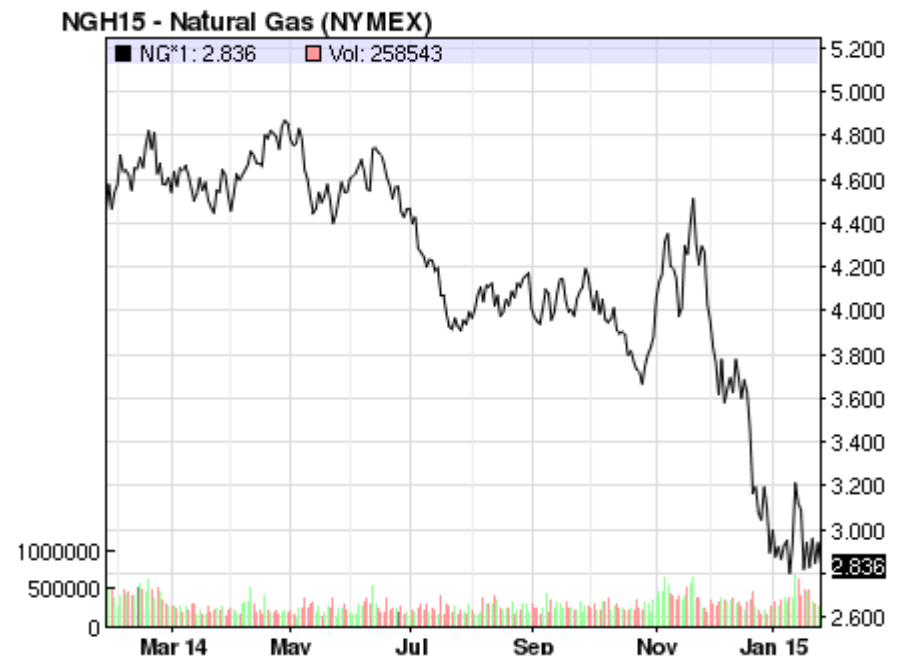
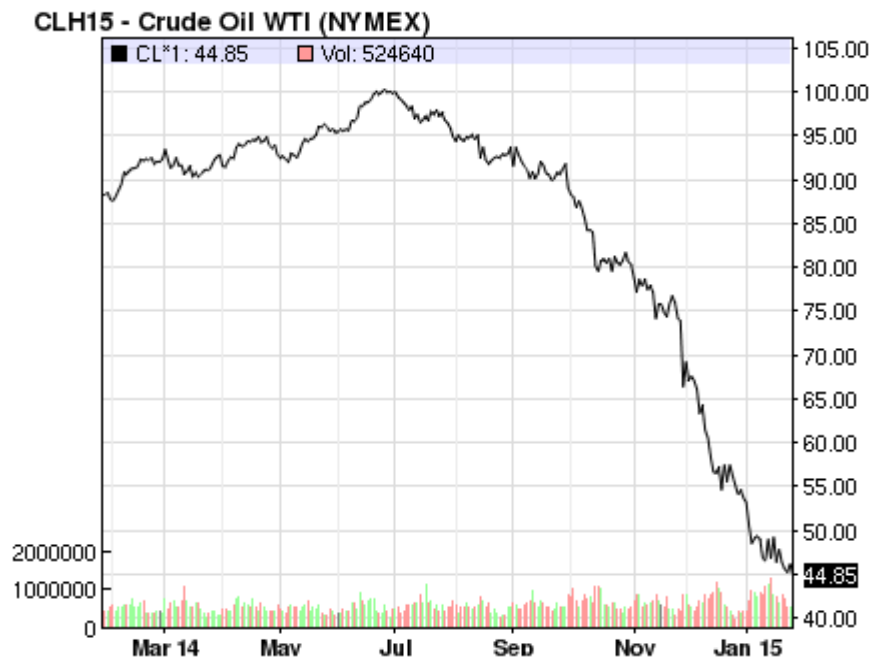
- Revenue collections off to a good start in FY 2015
  - Up 6.9 percent from last year through December
  - Up 3.7 percent compared to the estimate
  - Highest post-recession levels
- But - still below 8 years ago

General Revenue Collections,  
FY '06 - FY '15, YTD thru December (in \$Millions)



# Short-Term Challenges Ahead

- FY 2016 budget projections based on forecasted avg. oil price of \$59.97/barrel and avg. gas price of \$3.97 mcf

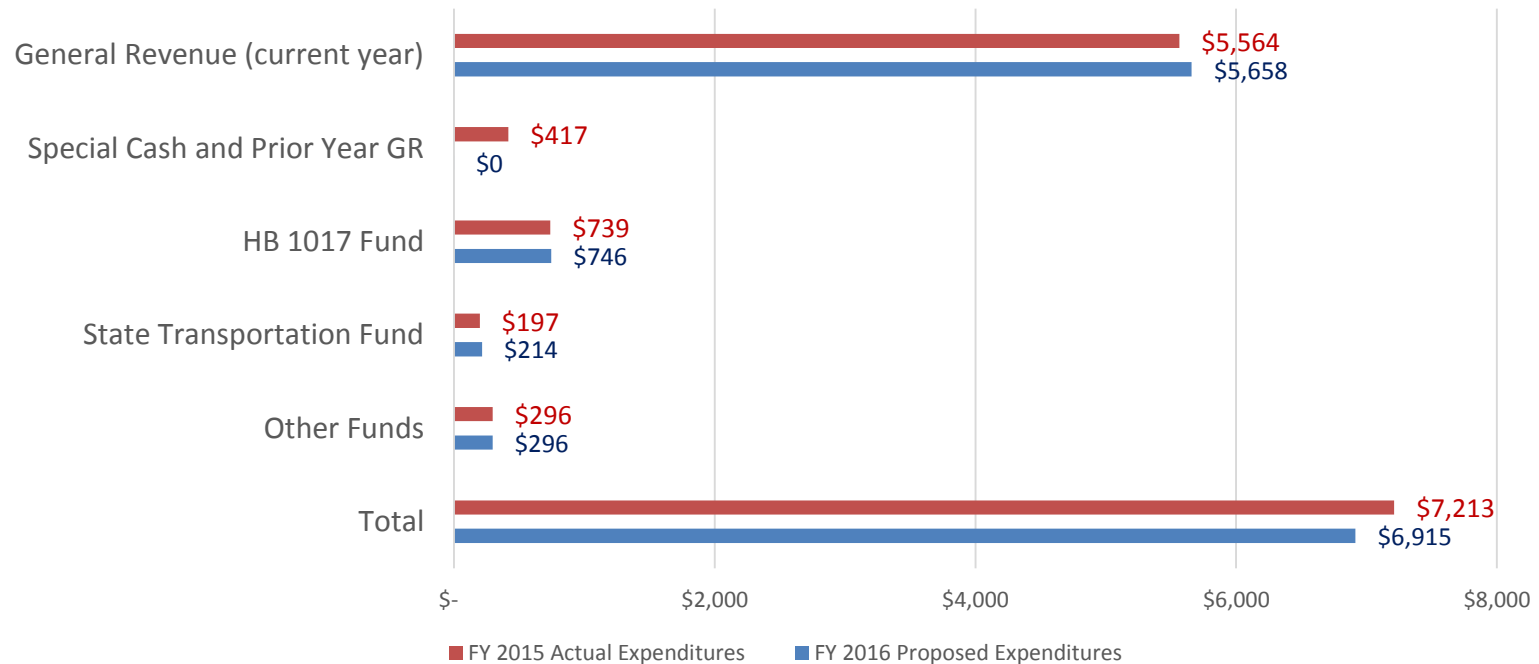


Prices current as of 1/27/15

# Short-Term Challenges Ahead

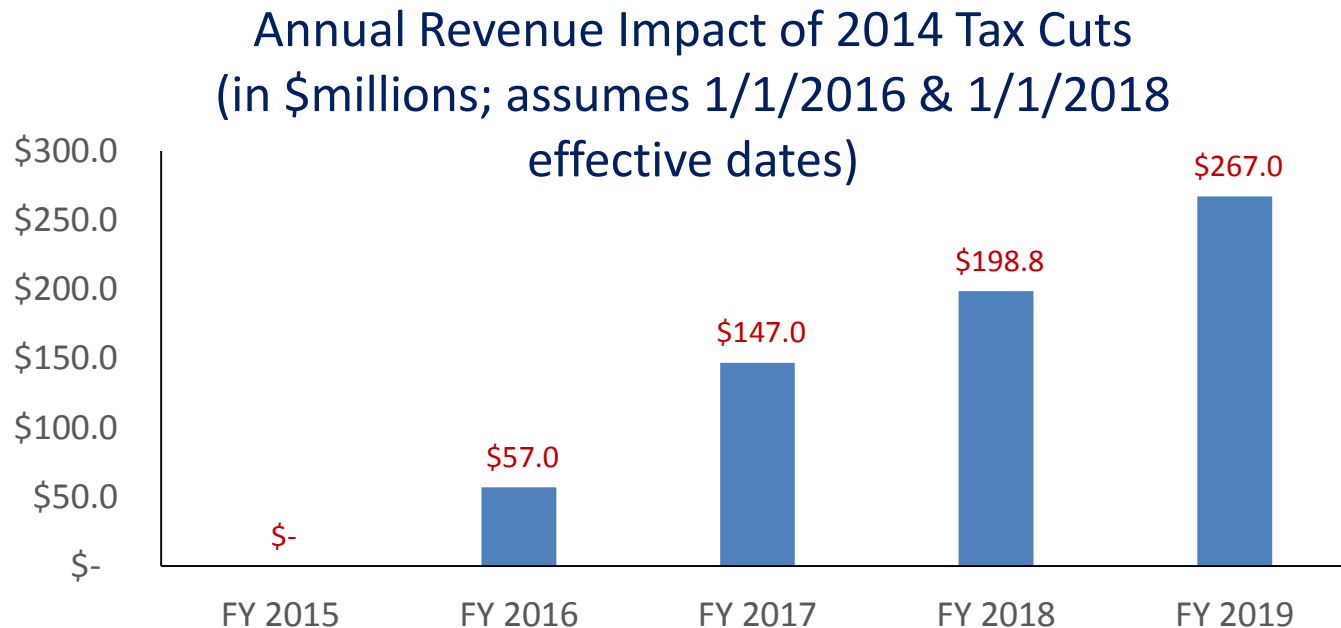
- Initial FY 2016 certification shows \$298 million less available for next year's budget than what was appropriated this year

Comparison of 2014 Authorized Expenditures to 2015 Proposed Expenditures,  
by Revenue Fund



# Short-Term Challenges Ahead

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



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

# Short-Term Challenges Ahead

## Significant FY 2016 budget needs:

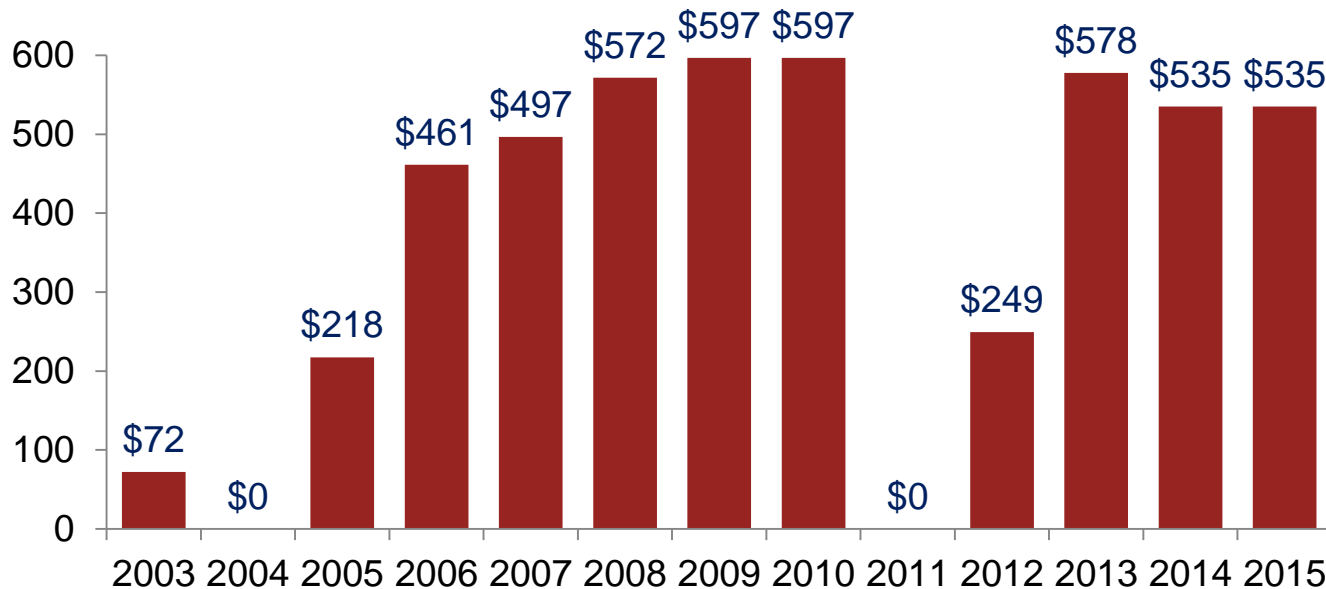
- Common Ed: \$297 million requested budget increase
  - \$213M for teacher pay raise
  - \$52M for state aid formula
  - \$15M for health benefits allowance
- Medicaid (OHCA) : \$160 million additional state dollars
- Mental Health and Substance Abuse Services: \$10.2 million additional state dollars
- Corrections: \$85 million requested budget increase
- DHS: \$15.9 million for Pinnacle Plan Year IV



# Short-Term Challenges Ahead

- Up to ¼ of the Rainy Day Fund (\$134 million) could be appropriated for FY 2016 upon declaration of an emergency

**Rainy Day Fund Opening Balance (in \$ millions),  
FY 2003 – FY 2015**



# Oklahoma needs sensible fiscal policy

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;
- Adopt combined corporate reporting;
- 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>

# Oklahoma needs sensible fiscal policy



## Together Oklahoma 2105 Priorities for Oklahoma

- Restore Education Funding
- Expand Health Coverage
- Curb Unnecessary Tax Breaks
- Get Smart on Crime
- Oppose a Constitutional Convention
- Boost Electoral Participation

# For More Information

- Updates on Oklahoma budget, tax, and education policy at [www.okpolicy.org](http://www.okpolicy.org)
- Subscribe to In The Know, daily news e-mail
- Join Together OK (<http://togetherok.org>)
- Follow @okpolicy on Twitter
- Like Oklahoma Policy Institute on Facebook



**OKPOLICY.ORG**  
Oklahoma Policy Institute