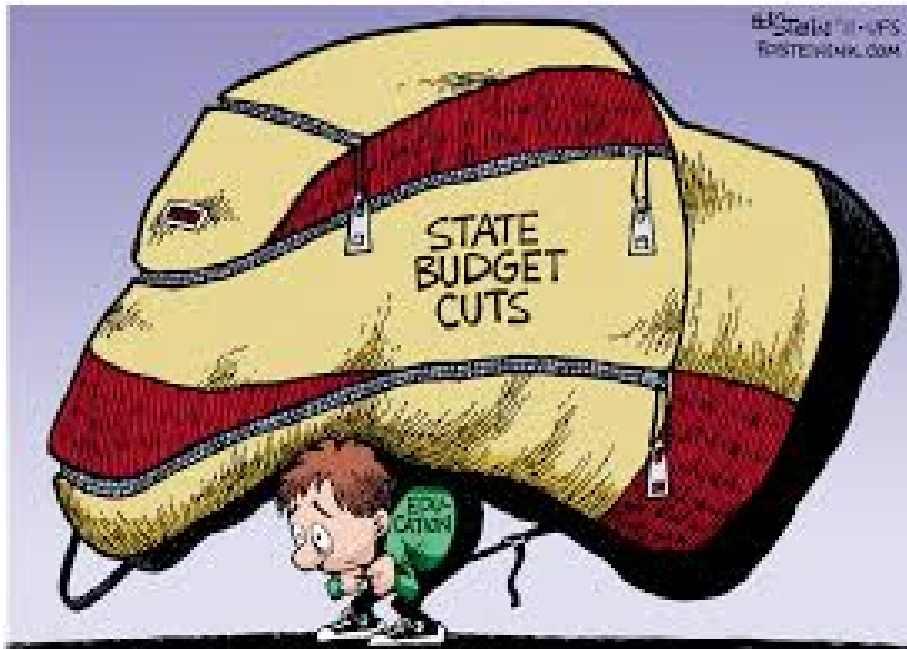


Oklahoma's Budget Crisis: Charting a Path Forward

3rd Annual State Budget Summit #okbudget16
January 28, 2016



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dblatt@okpolicy.org



OKPOLICY.ORG
Oklahoma Policy Institute

Not me!

David Blatt fired as Cavaliers coach, per sources



Not us !!

Kerry Washington + OPI

Introducing our new Creative Ambassador for 2016!



Not her!!!

**Annie Lennox celebrates birthday tweeting '61 is the new 16'
--- The Sun, December 28, 2015**



THIS!!!!



Why this matters

- “The budget is not just a collection of numbers, but an expression of our values and aspirations.”
- Jacob Lew
- “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



Why this matters

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

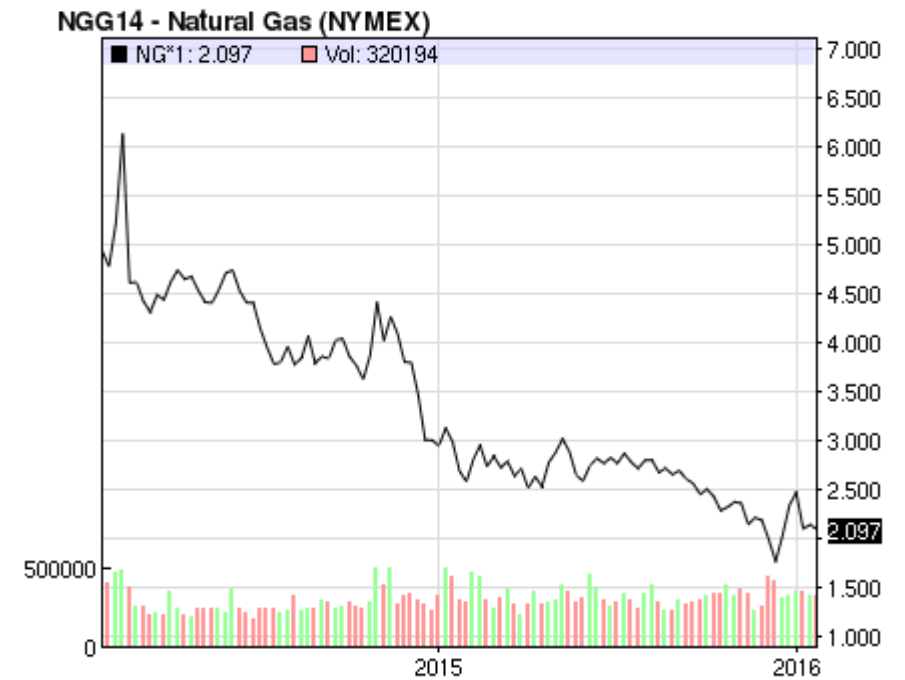
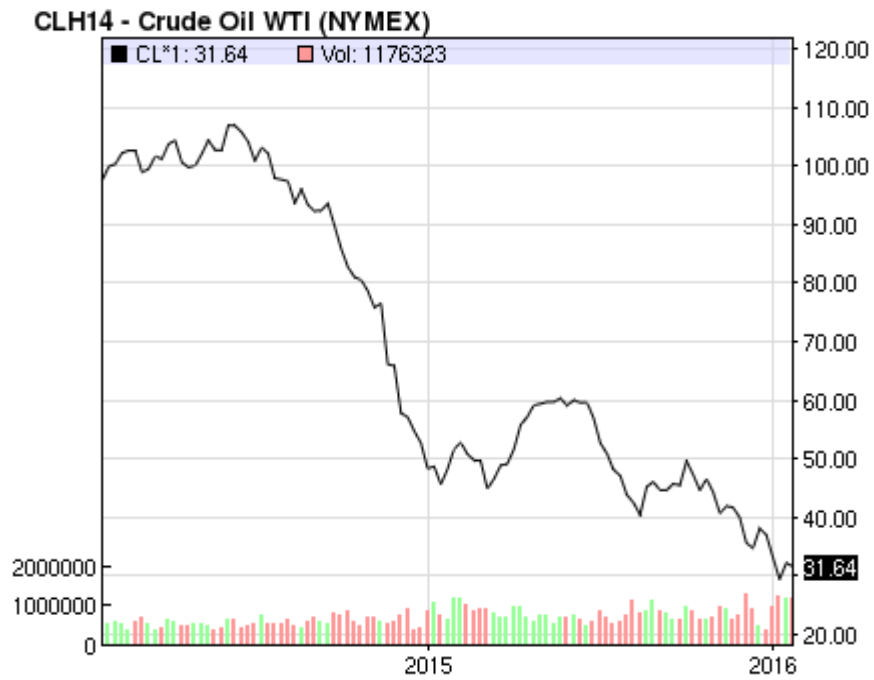
Proper funding of state and local government is critical for us to achieve our common goals as a state



Where We Are: State Economy

Current Price
Oil (per barrel)
\$31.64

Natural Gas (per MCF)
\$2.10

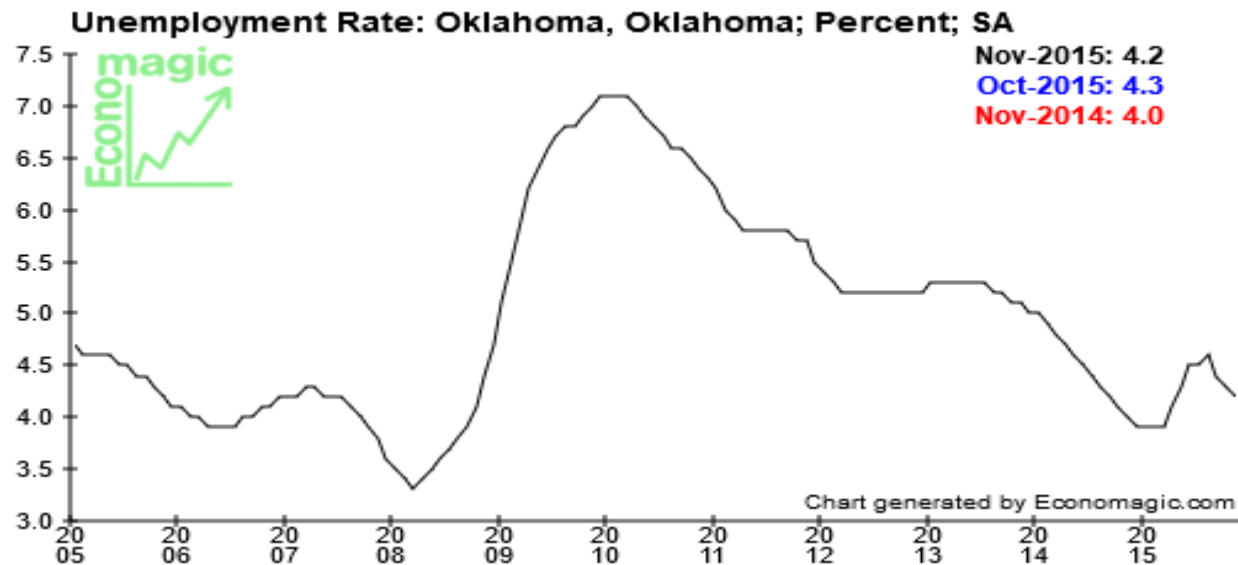


Prices current as of 1/25/16

Where We Are: State Economy

Oklahoma's unemployment rate remains fairly low

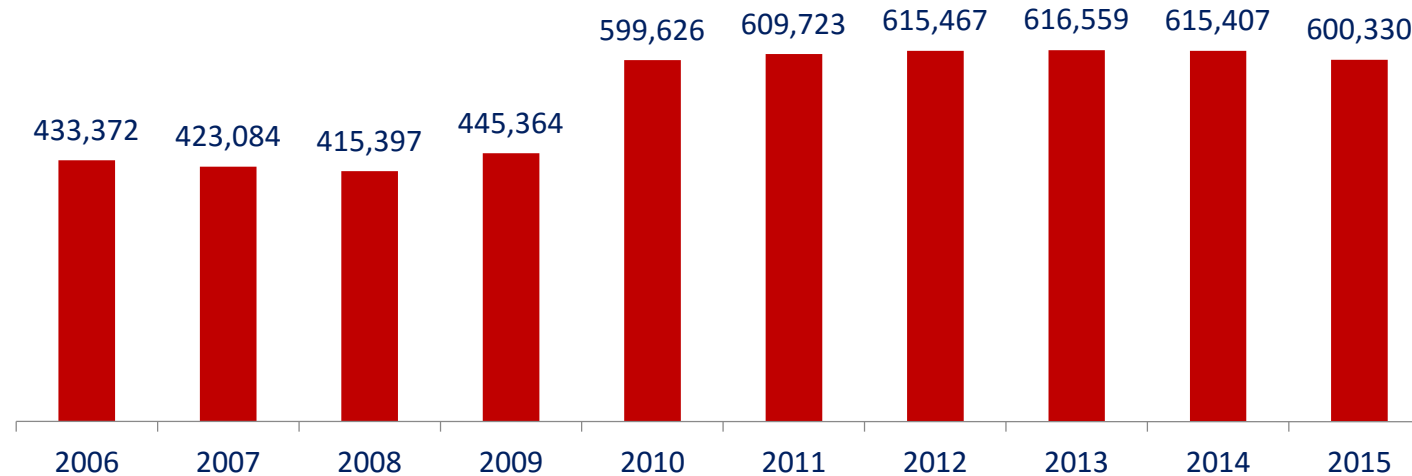
- 4.2 percent in November (5.0 percent national)
- Up 0.2 percent since Nov. 2014 (National rate down 0.8 percent)



Where We Are: State Economy

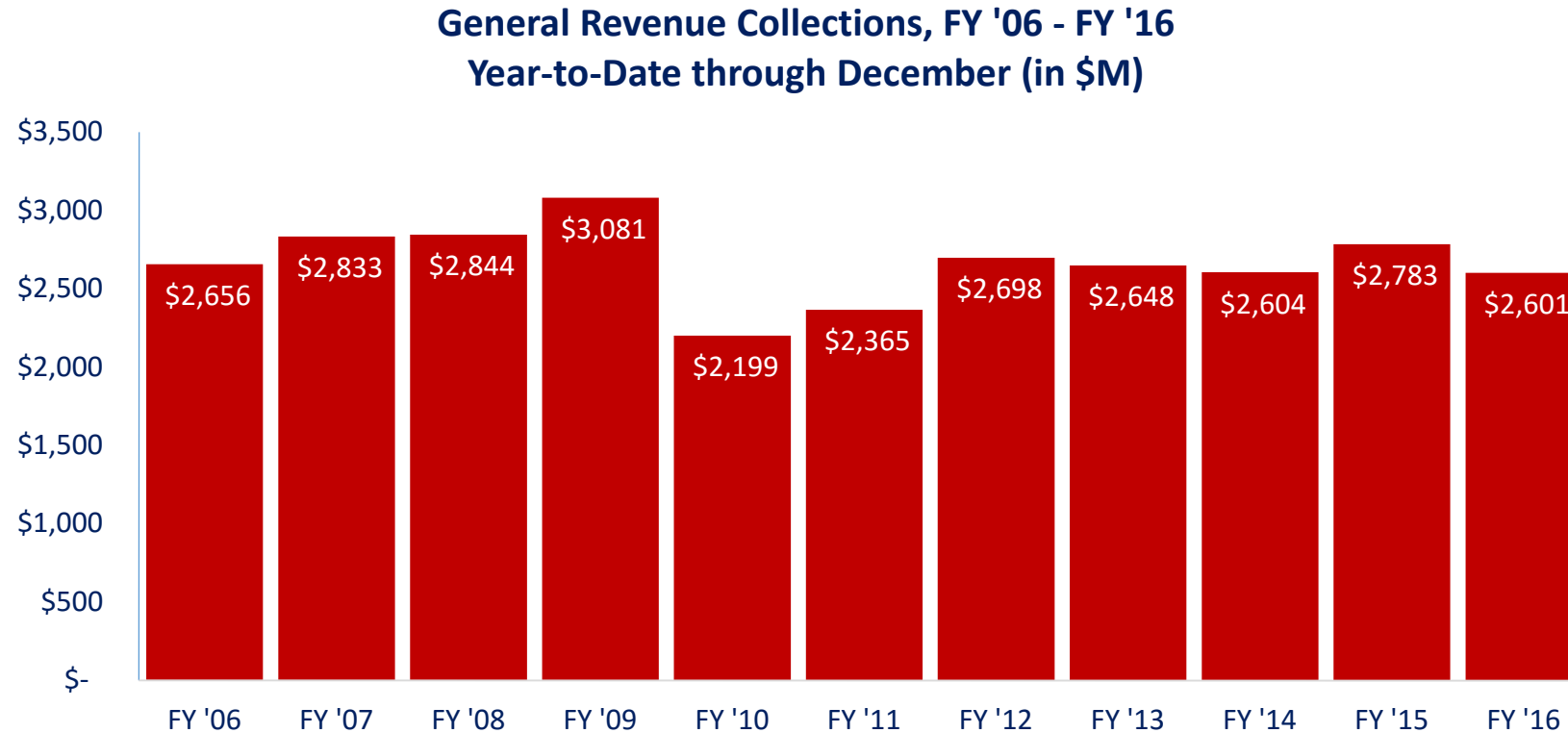
- SNAP program provides monthly food assistance to **one in six** Oklahomans
- Participation declined slightly but has since risen back up (617,250 in Oct. 2015)

Oklahoma Average Monthly SNAP enrollment,
FY 2004-FY 2013



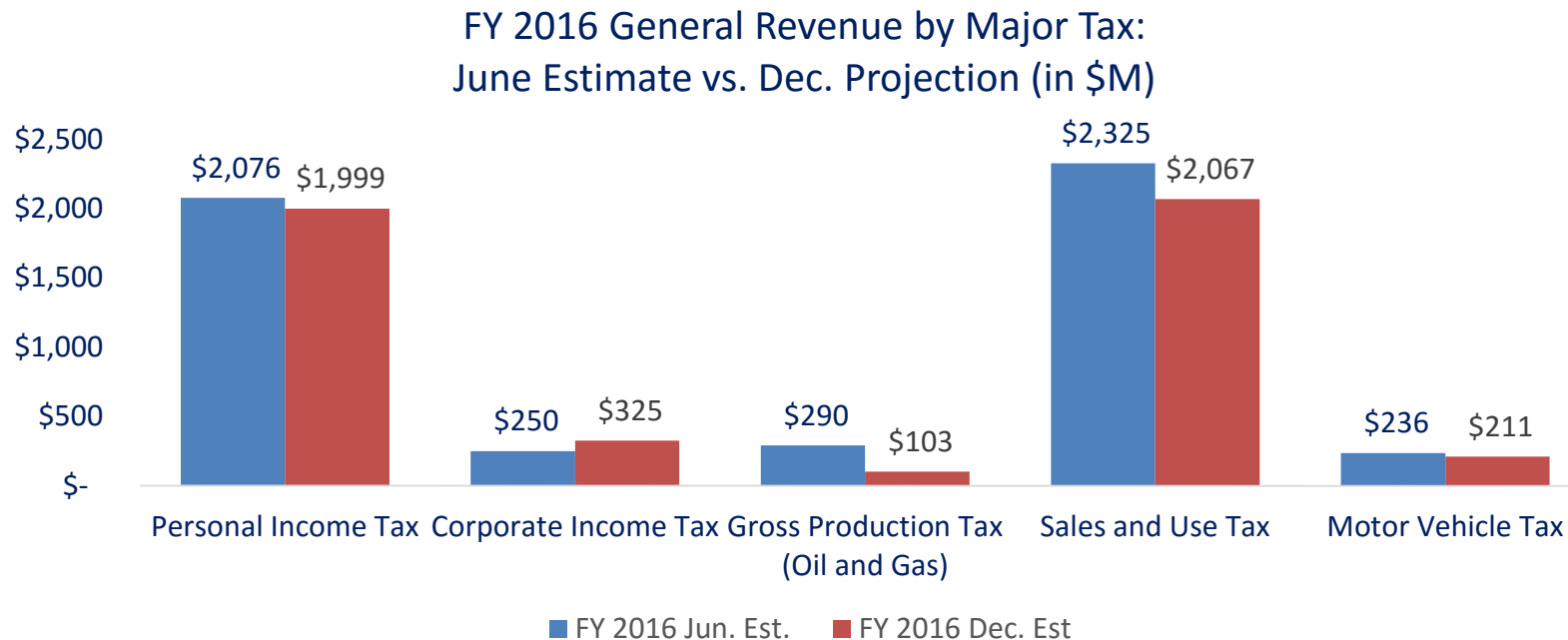
Where We Are: Budget

- GR collections down \$182.5 million (6.6 percent) from last year through December



Where We Are: Budget

- For full year, GR projected to be \$443M (7.7 percent below the certified estimate)
 - Projected shortfall exceeds the 5 percent cushion by \$156M
 - Gross production tax, sales and use tax furthest below projections



Where We Are: Budget

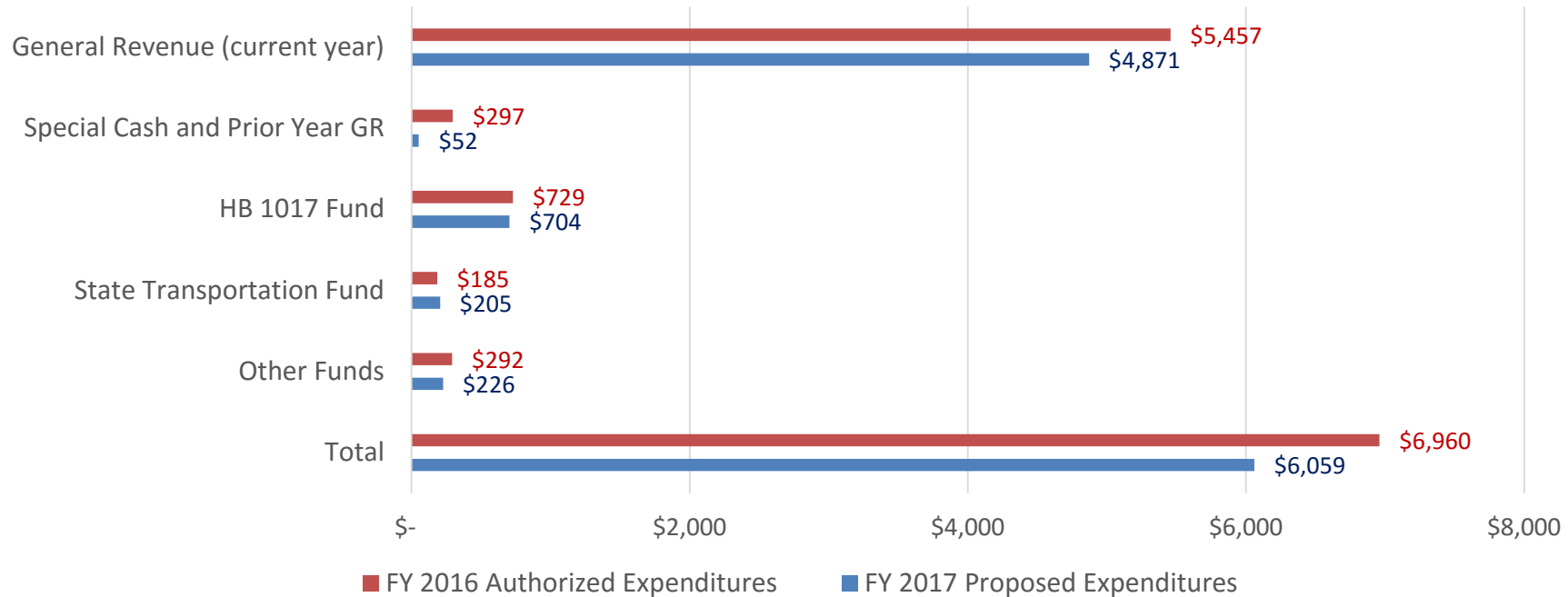
- Revenue failure announced in December
- Cuts of 3 percent of GRF appropriations eff. 1/1/16. Total = \$177 million
- Cut varies based on share of appropriations from Gen. Rev Fund
- Common education looking at additional \$19M cut from 1017 Fund shortfall
- 2nd revenue failure possible

FY 2016 Mid-Year Budget Cuts for 10 Largest Agencies (in \$ Millions)			
	Total	%	
	Appropriations	Gen. Rev Fund	3% Cut
Common Education	\$ 2,484.9	62.8%	\$ 46.8
OHCA (Medicaid)	\$ 971.1	93.9%	\$ 27.4
Higher Education	\$ 963.4	83.3%	\$ 24.1
Human Services	\$ 678.9	92.0%	\$ 18.7
Corrections	\$ 484.9	81.3%	\$ 11.8
Mental Health	\$ 340.7	95.6%	\$ 9.8
Transportation**	\$ 184.9	0.0%	\$ 13.2
Career Tech	\$ 133.9	95.8%	\$ 3.8
Public Safety	\$ 100.3	73.6%	\$ 2.2
Juvenile Affairs	\$ 99.0	100.0%	\$ 3.0
All Other Agencies	\$ 696.9	77.1%	\$ 16.1
Total	\$ 7,138.9	76.4%	\$ 176.9
Note: Transportation gets no Gen Rev Fund money but was cut 3% of its appropriation from the ROADS Fund			

Where We Are

- Initial FY 2017 certification shows \$901 million less available for next year's budget than what was appropriated this year

Comparison of 2015 Authorized Expenditures to 2016 Proposed Expenditures, by Revenue Fund (in \$M)

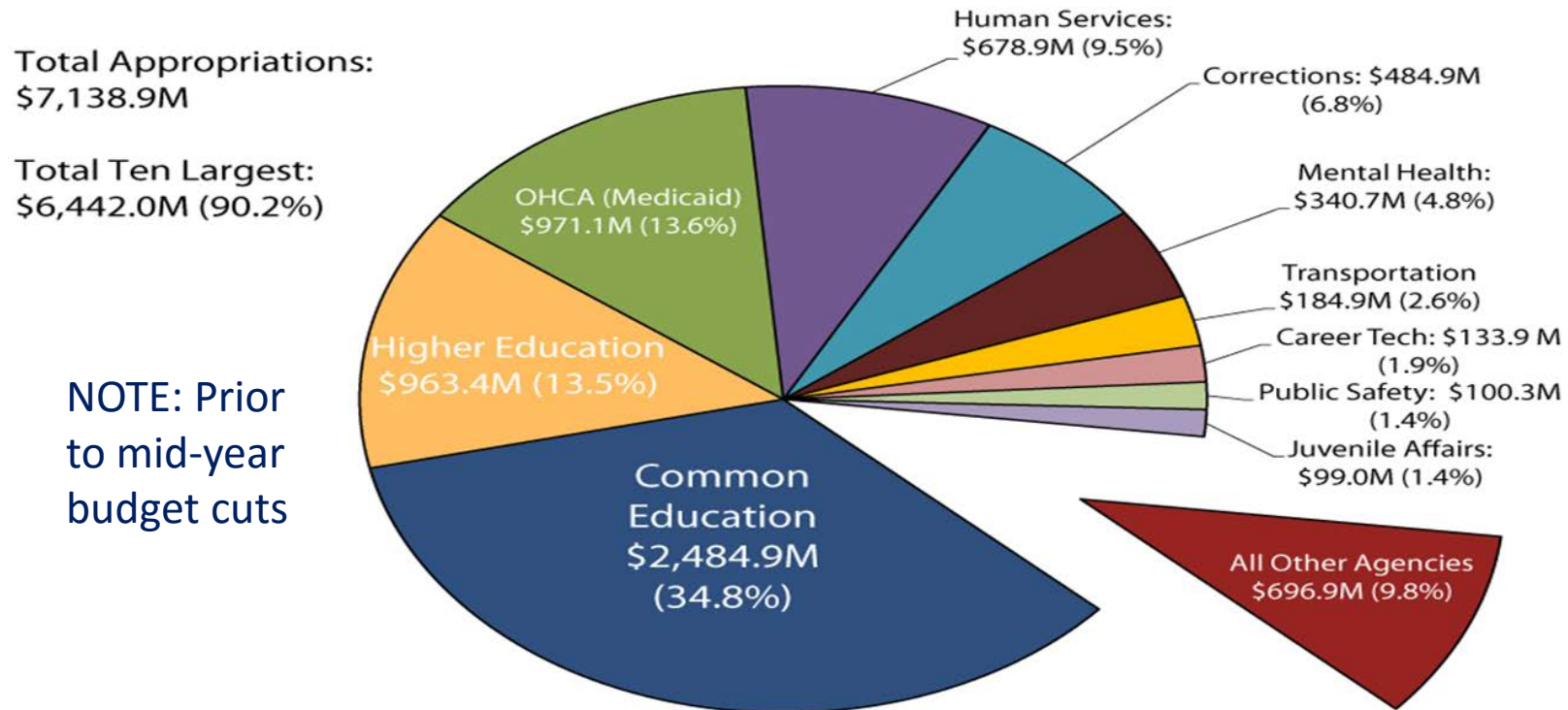


Source: Board of Equalization December 2015 certification

Where We Are

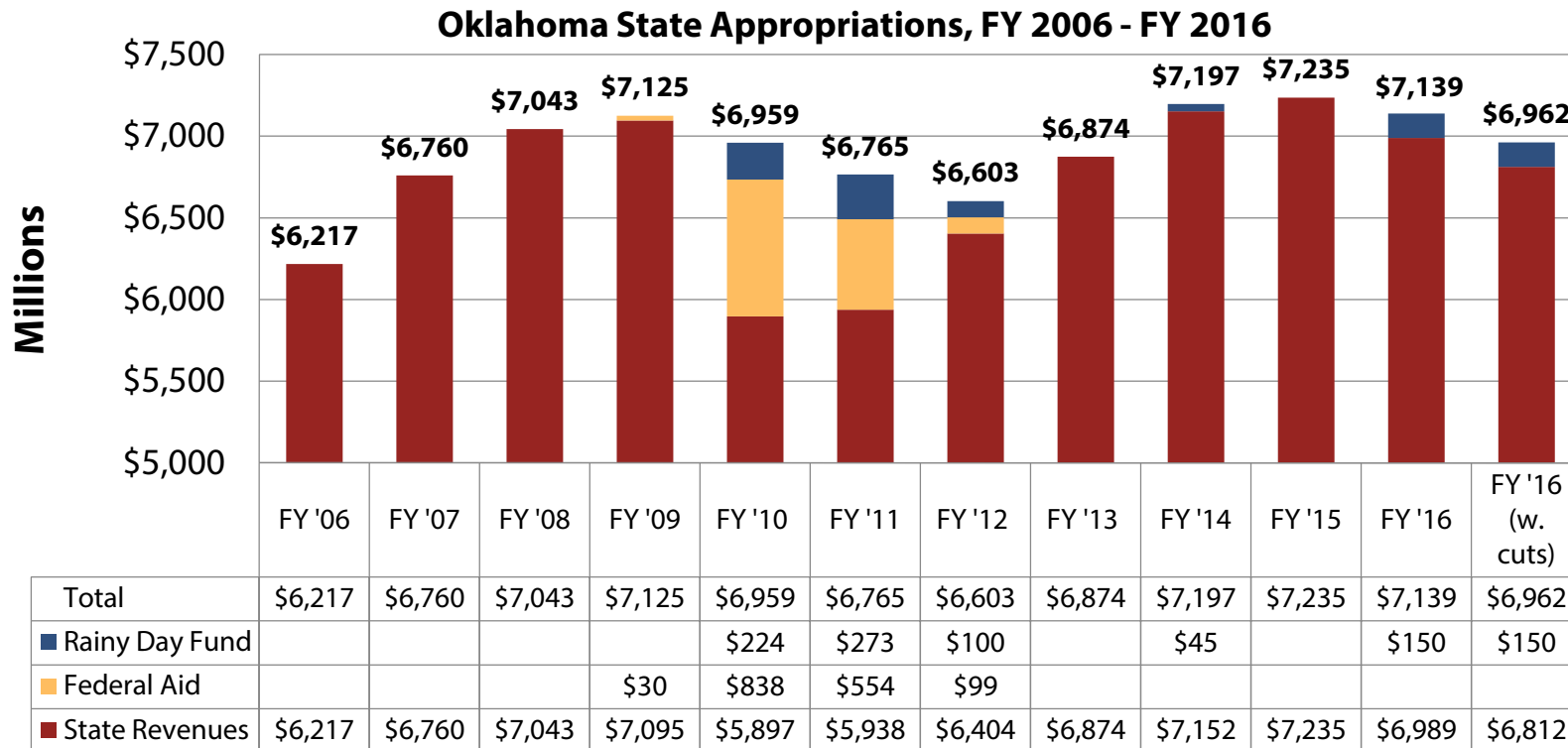
- 90 percent of appropriations go to core services in education, health, human services, public safety & transportation

FY 2016 Appropriations to Ten Largest Agencies



Where We Are

- After mid-year cuts, this year's budget is \$273 million below last year's
- FY 2016 budget \$81 million less than 8 years ago - without adjusting for inflation

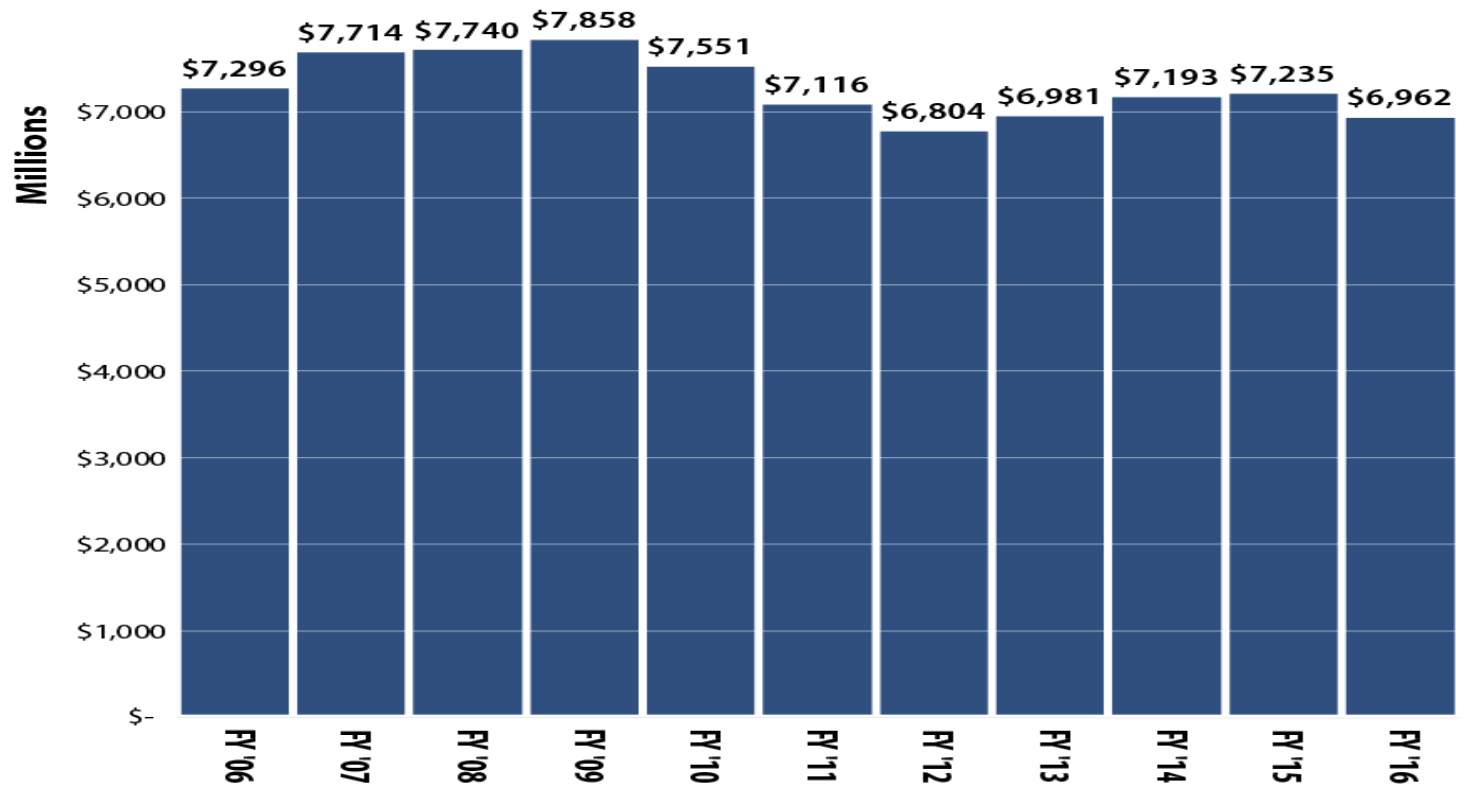


Where We Are

- Adjusted for inflation, this year's initial budget is \$896 million (11.4 percent) less than in FY 2009

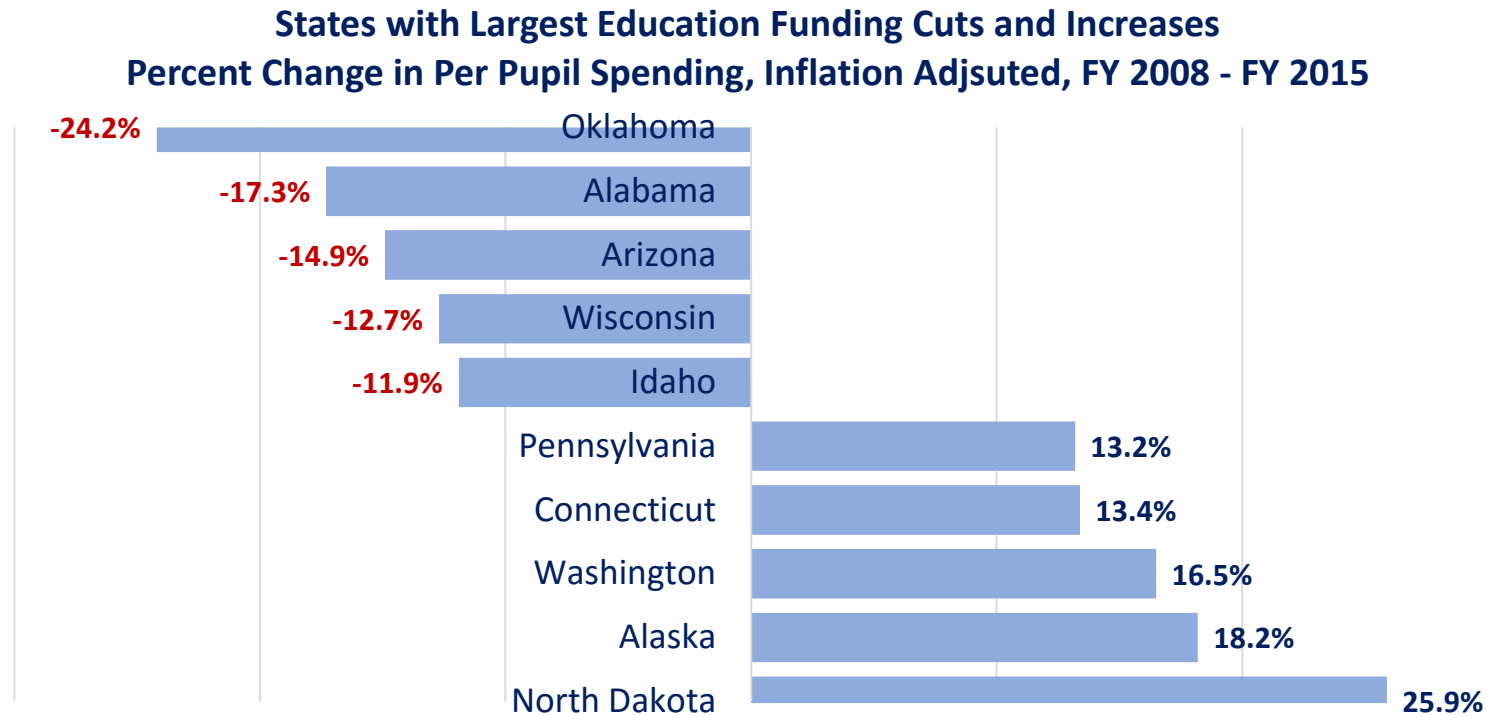
Oklahoma State Appropriations, Inflation Adjusted

(in \$ millions; 2015 dollars adjusted for inflation using the Consumer Price Index)



Where We Are : The Effect of Cuts

- Since 2008, Oklahoma's per pupil state formula funding has declined by 24.2 percent adjusted for inflation – the steepest cuts in the nation

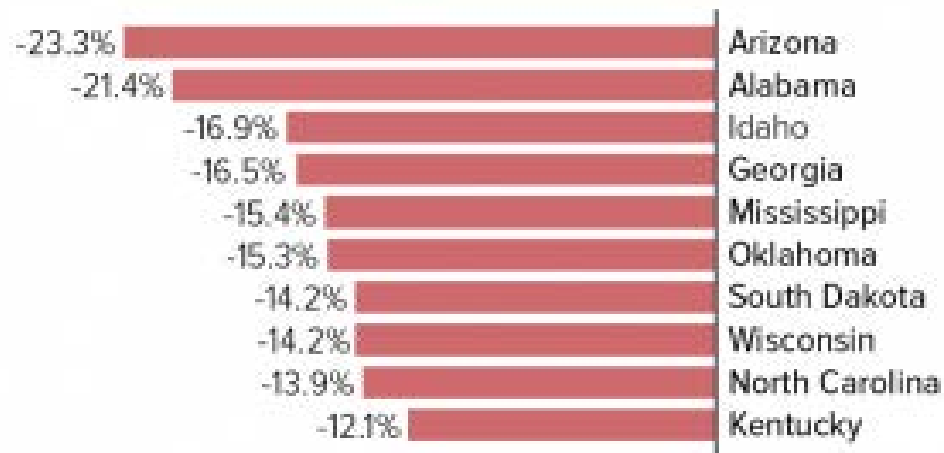


Where We Are : The Effect of Cuts

- If total state funding is considered, Oklahoma has cut education funding by 15.3% per pupil since 2008 adjusted for inflation – the 6th deepest cut in the nation
- If total state and local funding is considered, K-12 funding has been cut 10.1 percent per pupil since 2008 adjusted for inflation – 10th worst in the nation

10 States With Biggest Cuts to K-12 Funding Since 2008

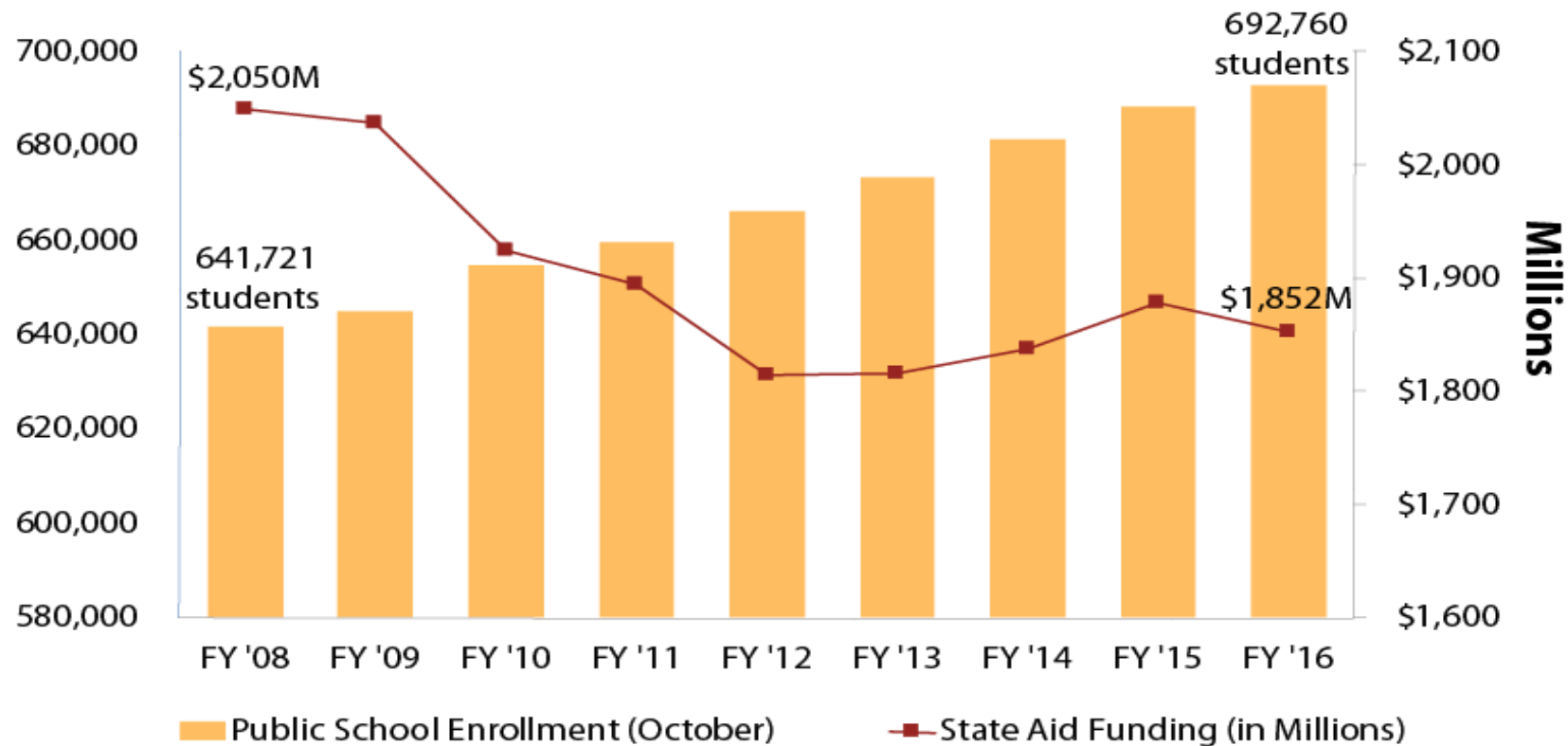
Percent change in total state funding per student, inflation-adjusted, fiscal years 2008-2014



Where We Are : The Effect of Cuts

- Since 2008, state aid funding has decreased by \$198 million – including mid-year budget cut (\$25.0M)
- During this time, enrollment has grown by over 50,000 students

State Aid Funding for Schools Has Not Kept Up With Enrollment



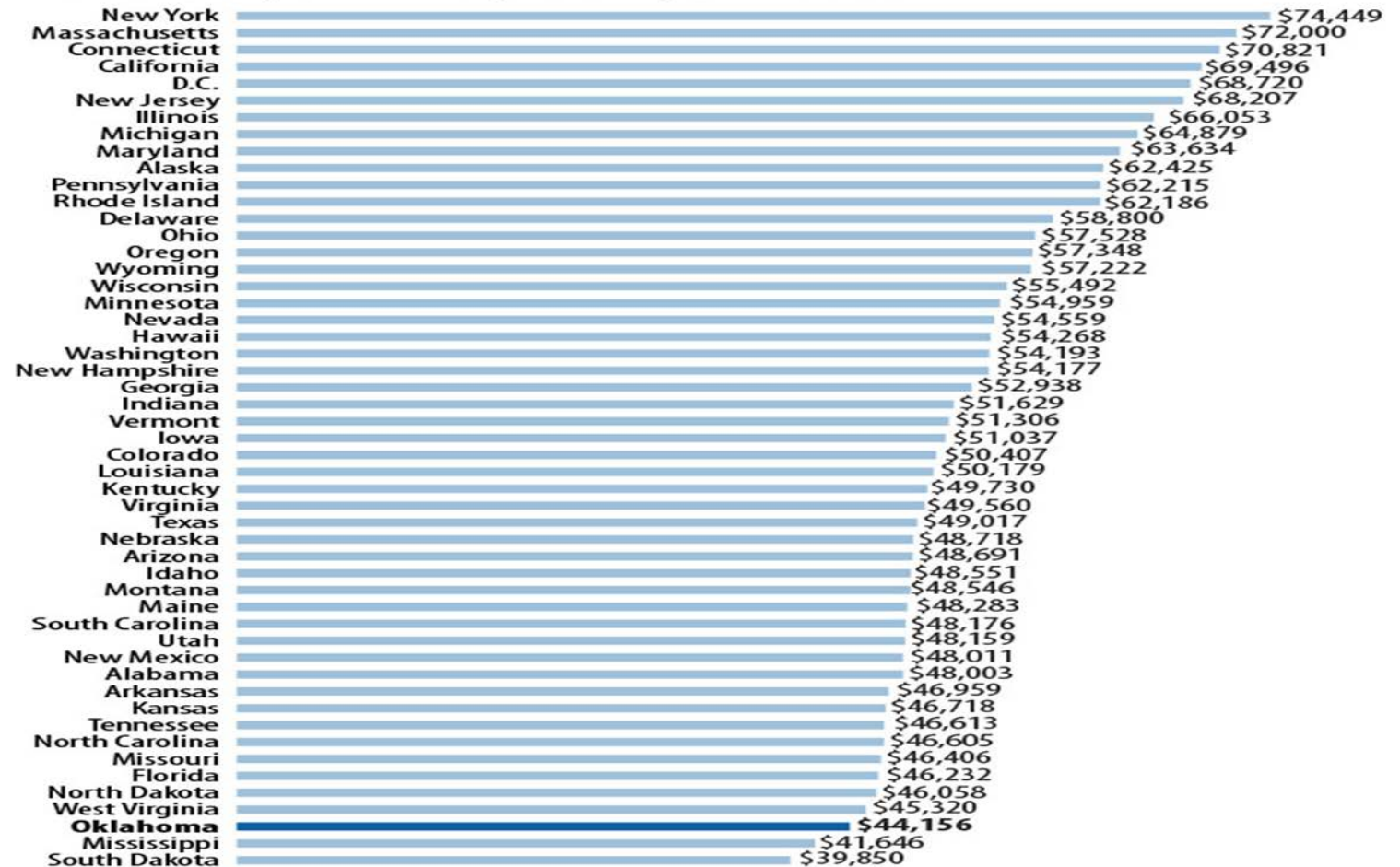
Note: State Funding excludes money allocated for textbooks

Where We Are : The Effect of Cuts

- Oklahoma's teachers are the 3rd-lowest paid in the nation
- Oklahoma is 49th in per pupil expenditures on instruction and salaries
- The state has issued nearly 1,000 emergency certifications this year

Oklahoma Teachers Are Poorly Paid

Estimated average annual salary in school year 2011-2012



Source: National Center for Education Statistics

Where We Are : The Effect of Cuts

Even to fast food.

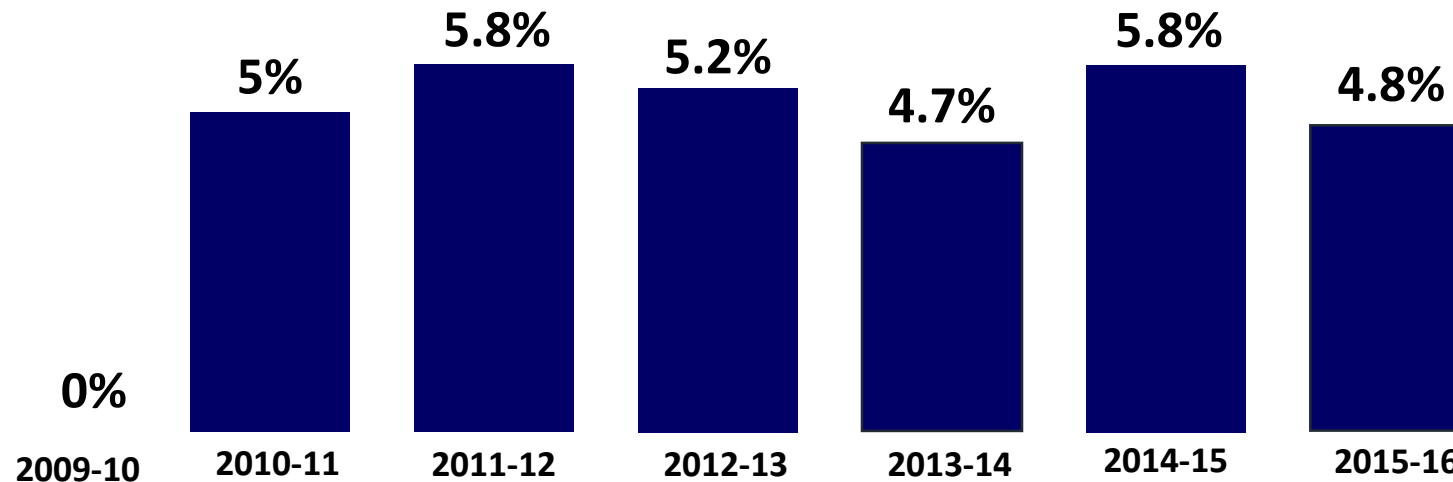
A third-level apprentice at
Chipotle can earn \$50,000
annually – **\$4,000** more
than a 25-year Oklahoma
teacher with a Ph.D.



Where We Are : The Effect of Cuts

- Over the past six year, Oklahoma colleges and universities have hiked tuition and fees by an average of 5.2 percent per year

Tuition and Mandatory Fee Increases from 2009 – 2015

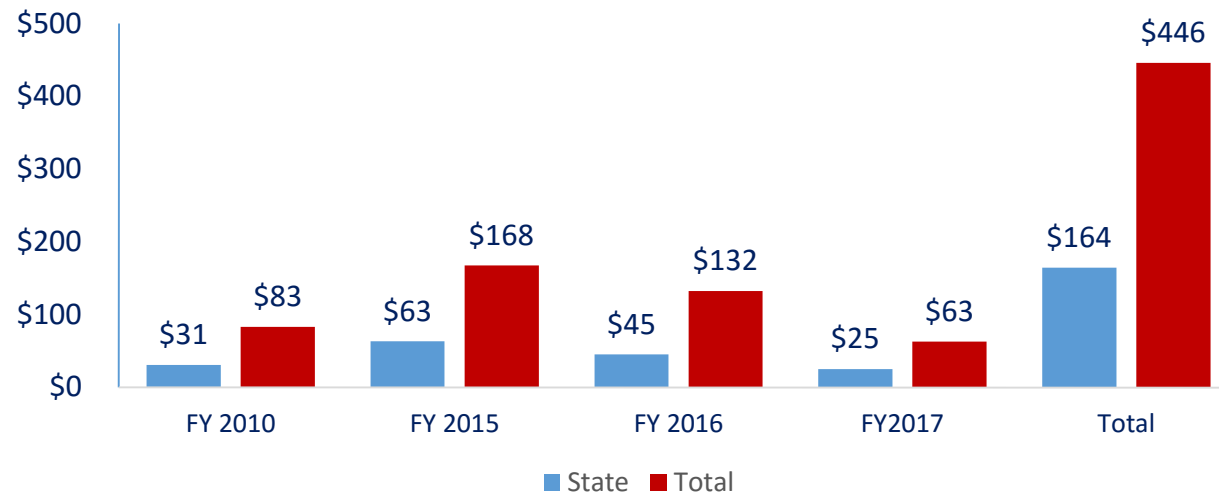


Source: Oklahoma State Regents for Higher Education

Where We Are : The Effect of Cuts

- Oklahoma Health Care Authority has implemented \$446 million in cuts to Medicaid services since FY 2010
 - Every \$1 in state cuts means a loss of an additional \$1.70 in federal matching funds
- Medicaid cut provider rates 7.75% in FY 2015 and another 3% on 1/1/2016
- The program has also reduced and eliminated benefits and hiked co-payments

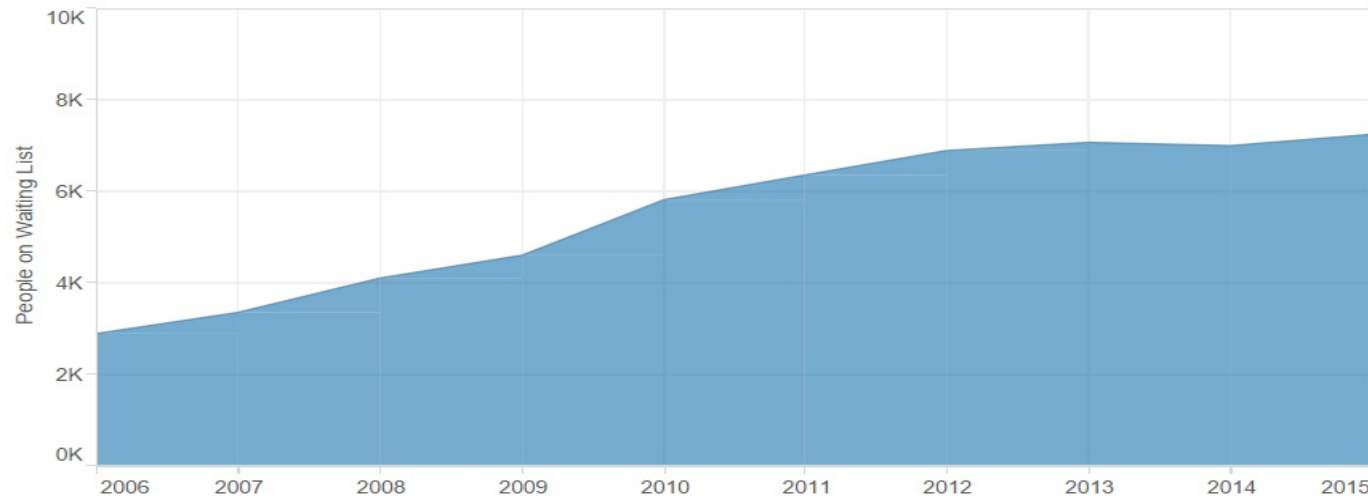
Medicaid Cuts Enacted by Oklahoma Health Care Authority, FY '10 - FY '17, State and Total Dollars (\$M)



Where We Are : The Effect of Cuts

- Over 7,000 Oklahomans with developmental disabilities waiting to receive home- and community-based waiver services
- Some families have been on the waiting list for over 9 years

Over 7,200 families are on the DDSD waiting list



Developmental Disabilities Services division of Oklahoma Department of Human Services

Chart by Oklahoma Watch

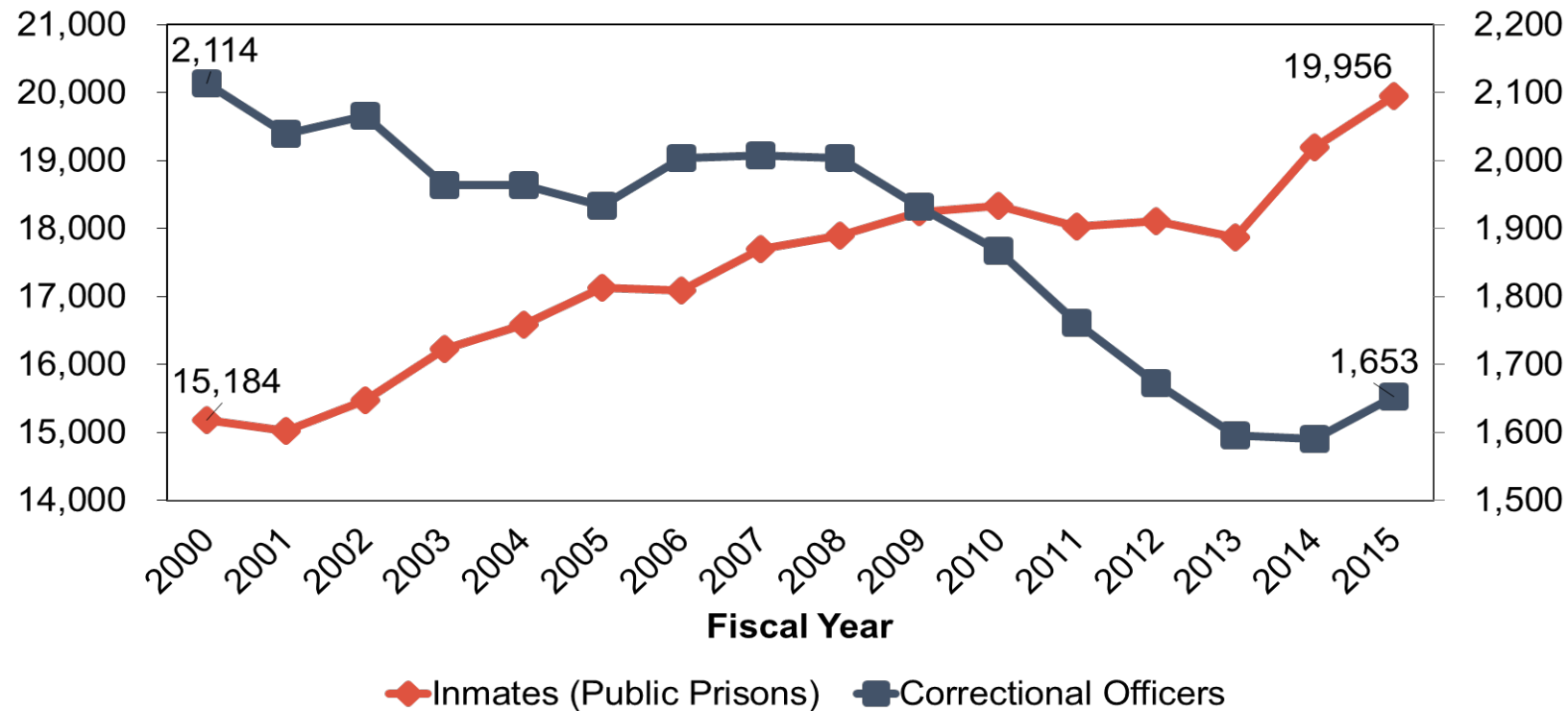


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Where We Are : The Effect of Cuts

- Oklahoma's correctional facilities are critically overcrowded and understaffed

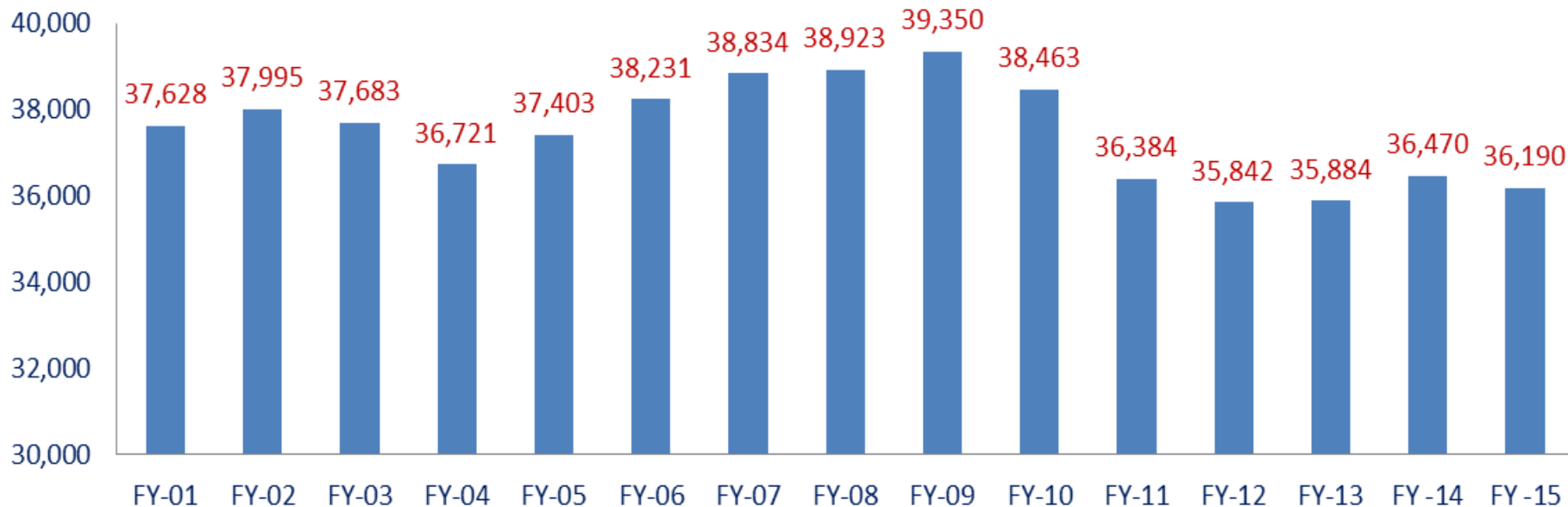
Oklahoma State Prisons Have 4,772 More Inmates and 461 Fewer Correctional Officers Since 2000



Where We Are : The Effect of Cuts

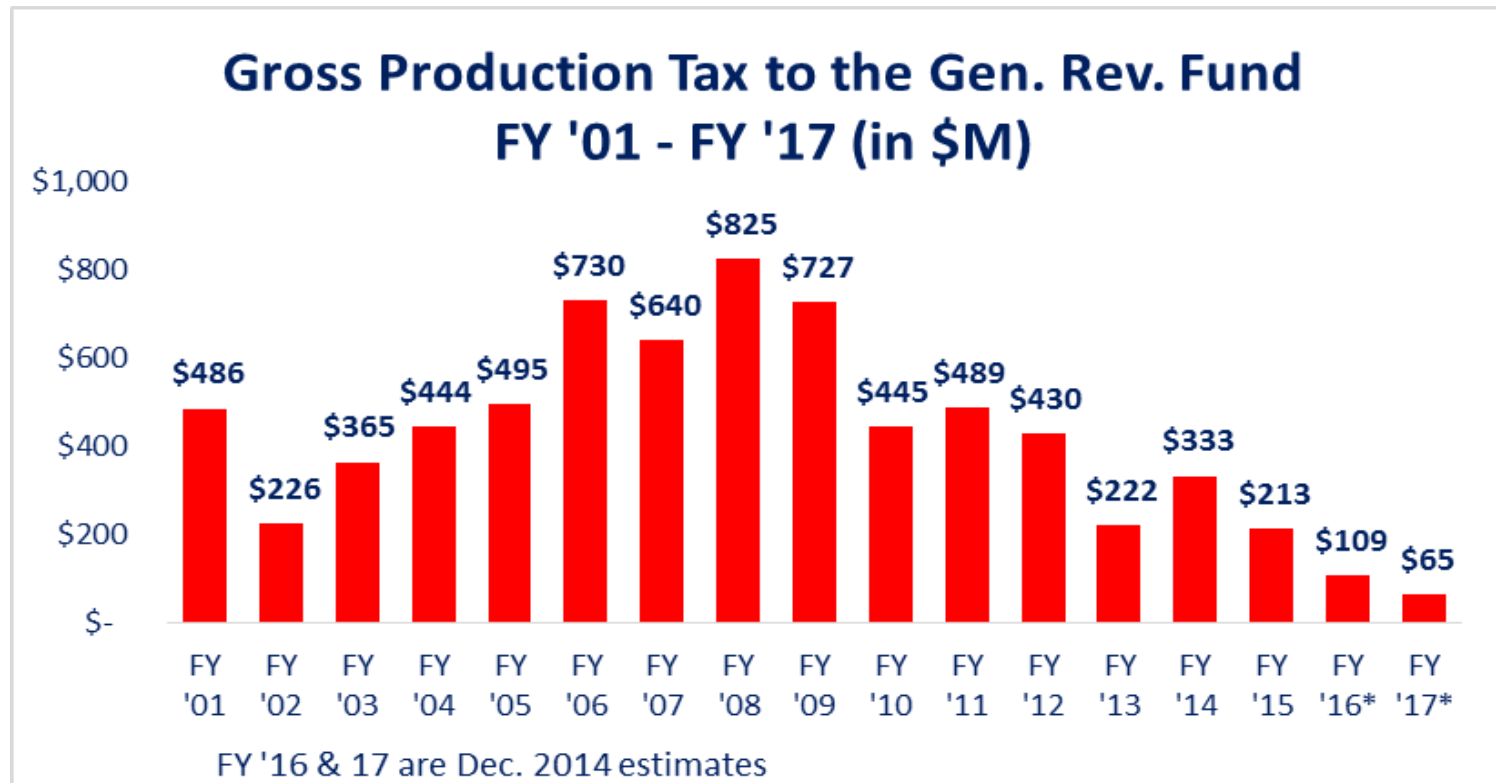
- Compared to 2001, state government has 1,438 fewer employees, while Oklahoma population's has grown by 350,000.
- 8 percent reduction in state workforce since 2009

State Employee FTE Count by Fiscal Year Average, FY01 - FY15
(excluding Higher Education)



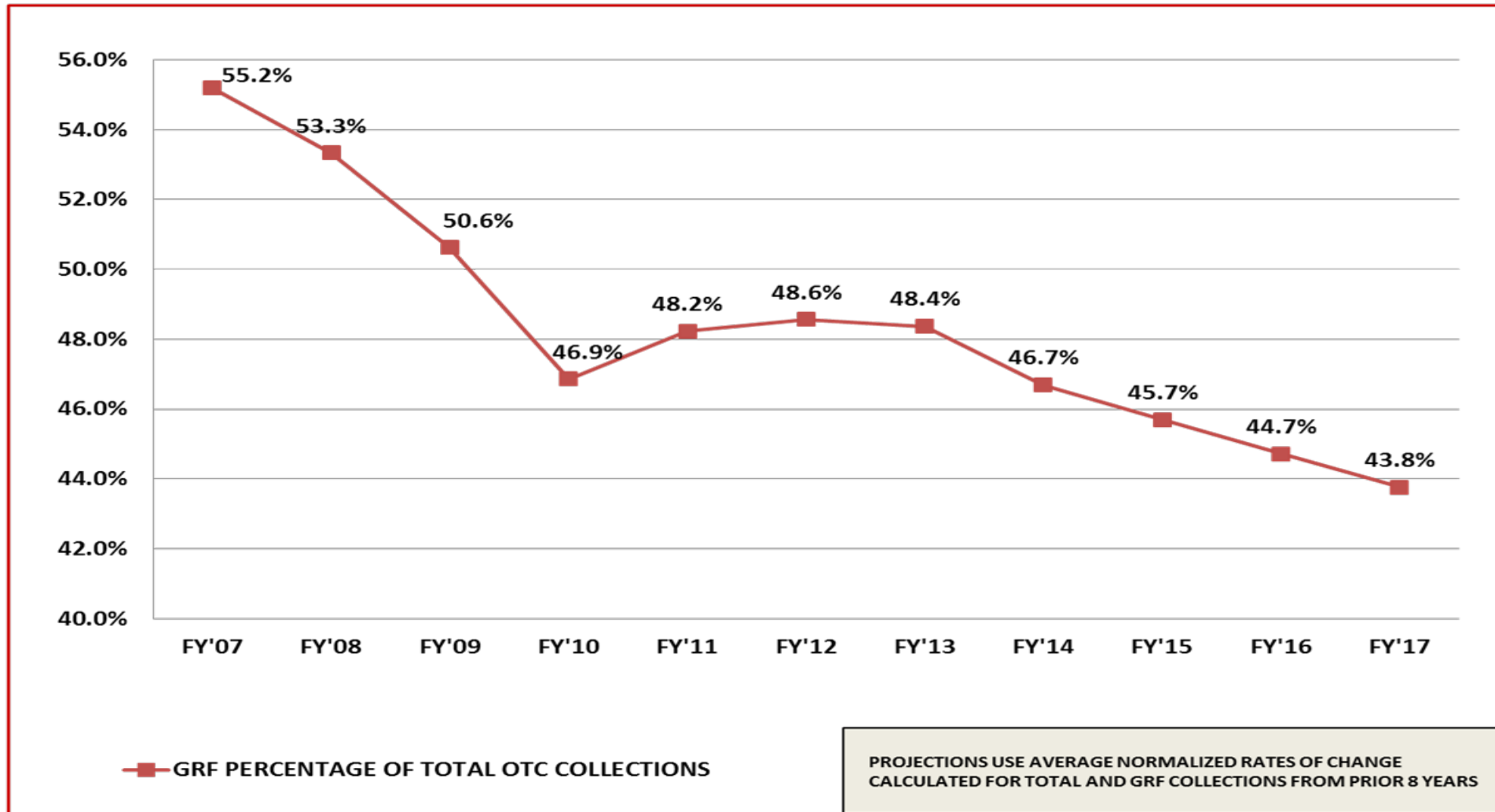
How We Got Here: Energy Bust

- Declining oil and gas revenues are part of the story



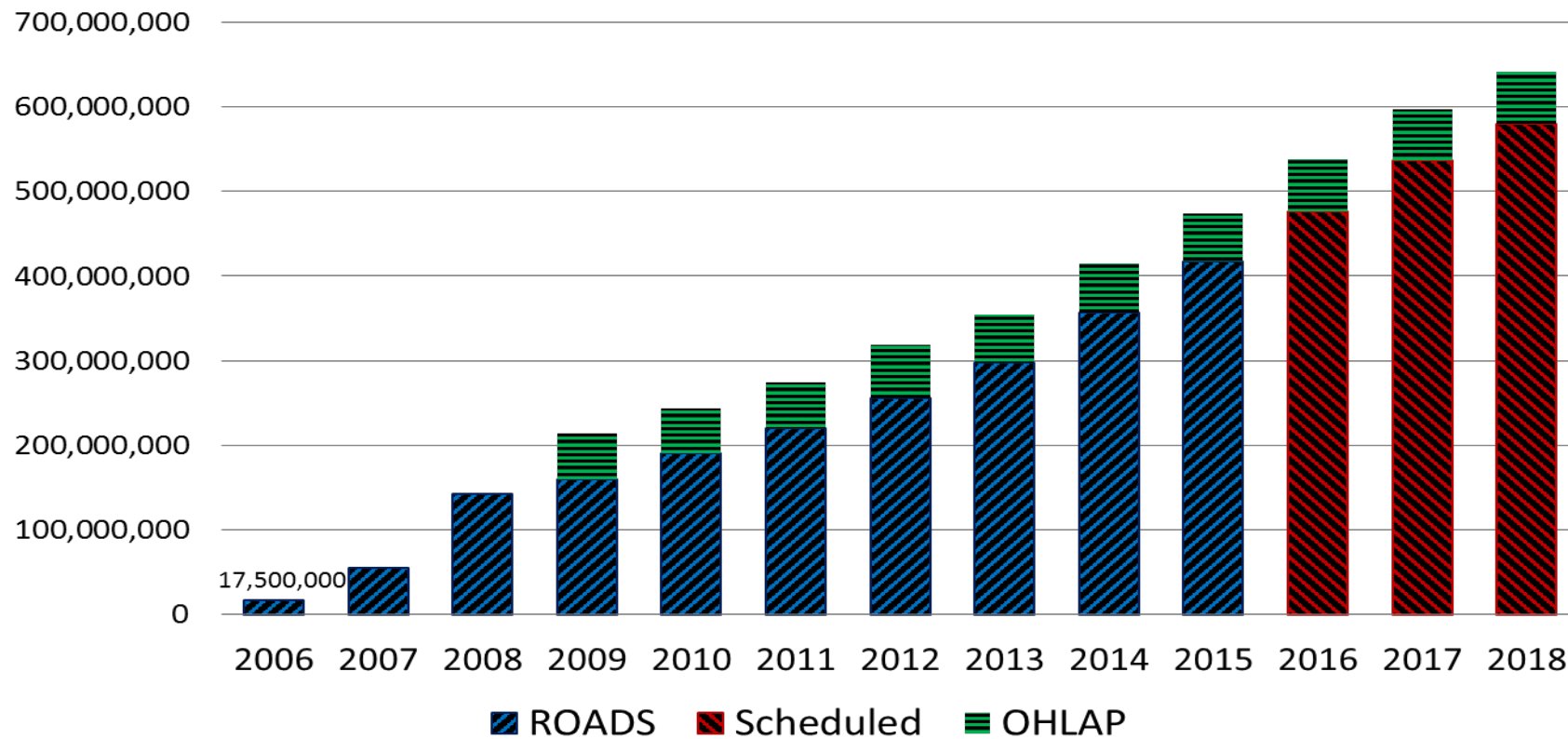
How We Got Here: Off-the-Top Allocations

- A declining share of tax revenues go to the General Revenue Fund



How We Got Here: Off-the-Top Allocations

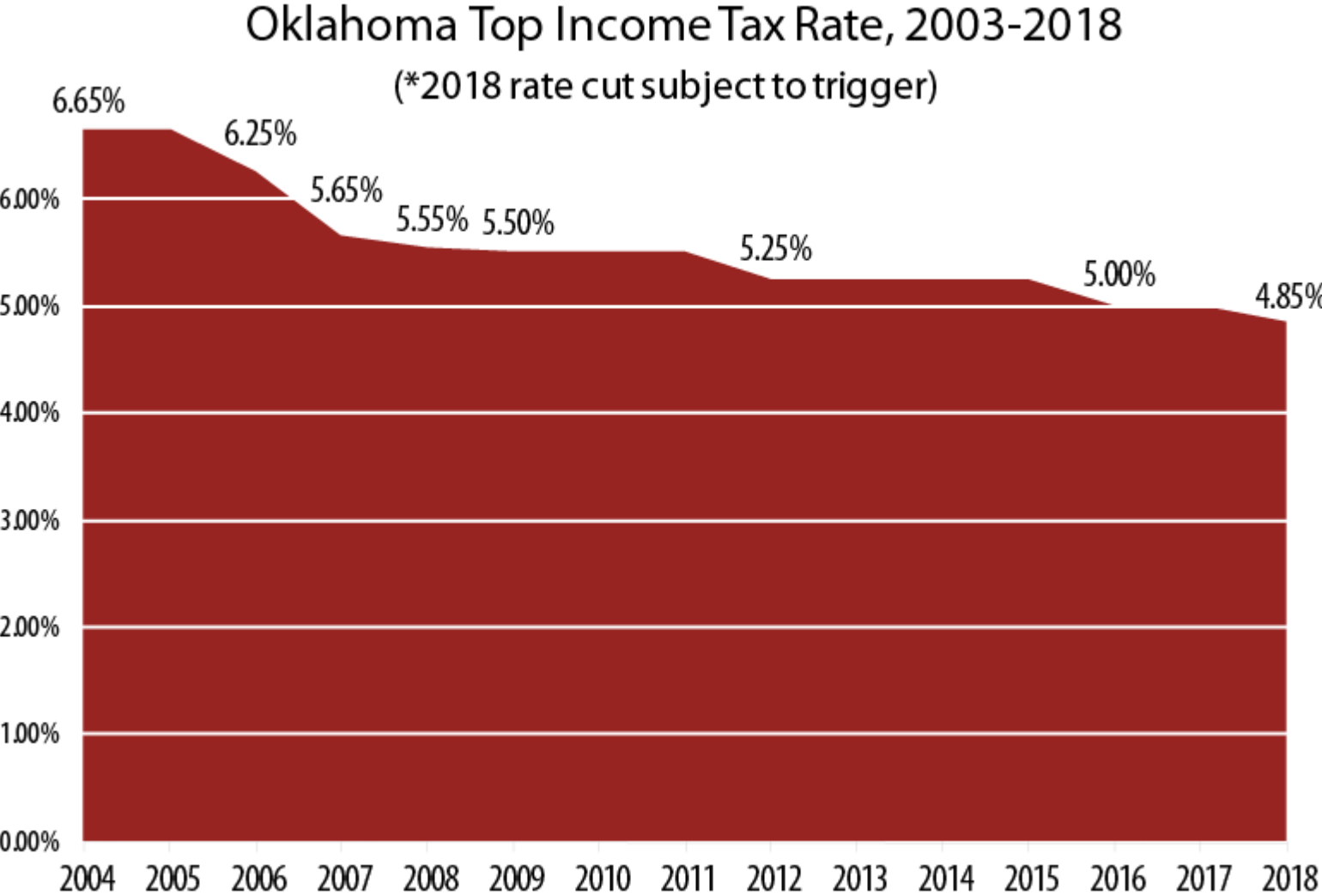
- Large annual increases to the ROADS Fund for transportation projects



Source: Board of Equalization certification documents

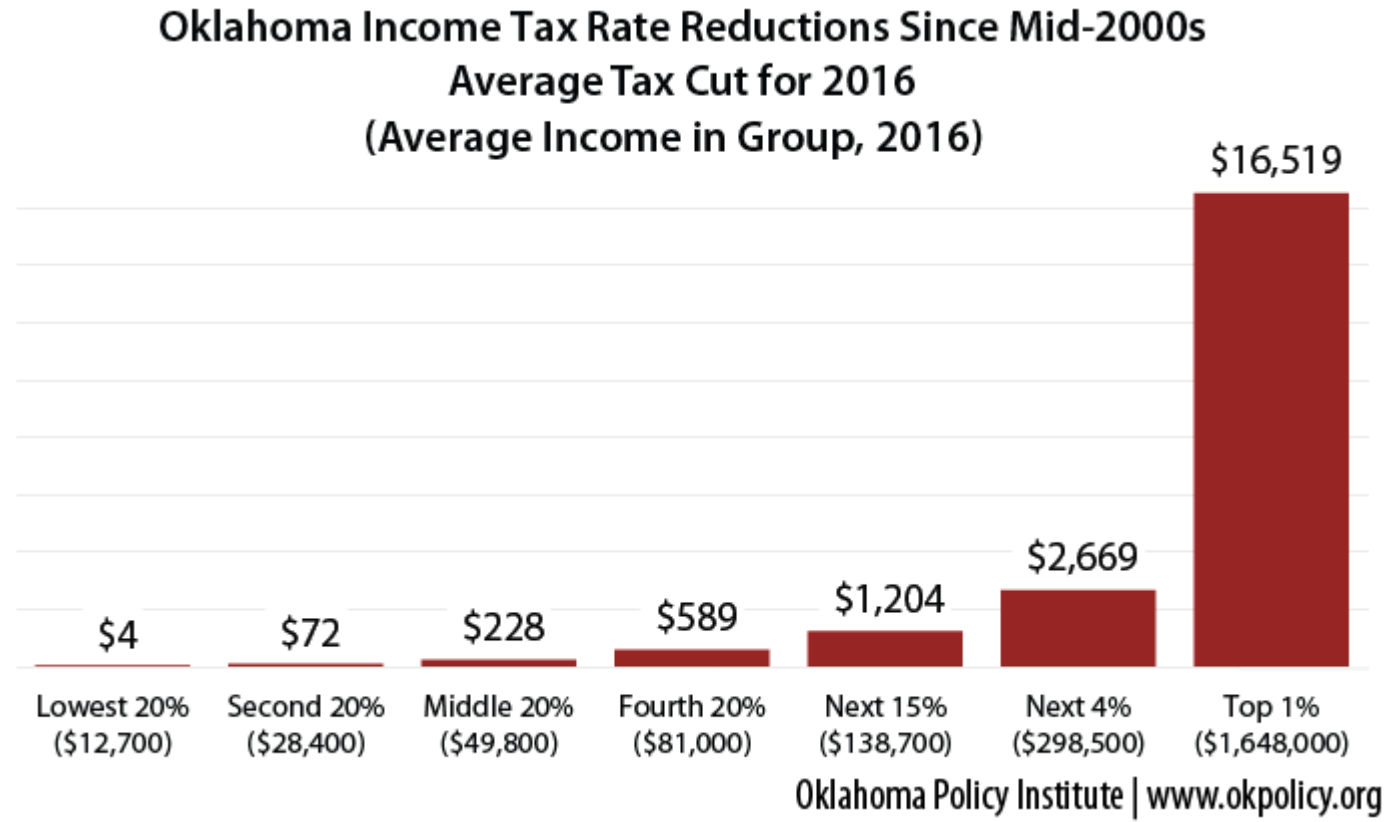
How We Got Here: Tax Cuts

- **The top income tax rate has been cut by 27 percent**



How We Got Here: Tax Cuts

- **72 percent of total benefit of income tax cuts has gone to top 20 percent of households; just 10% to the bottom 60%**



How We Got Here: Tax Cuts

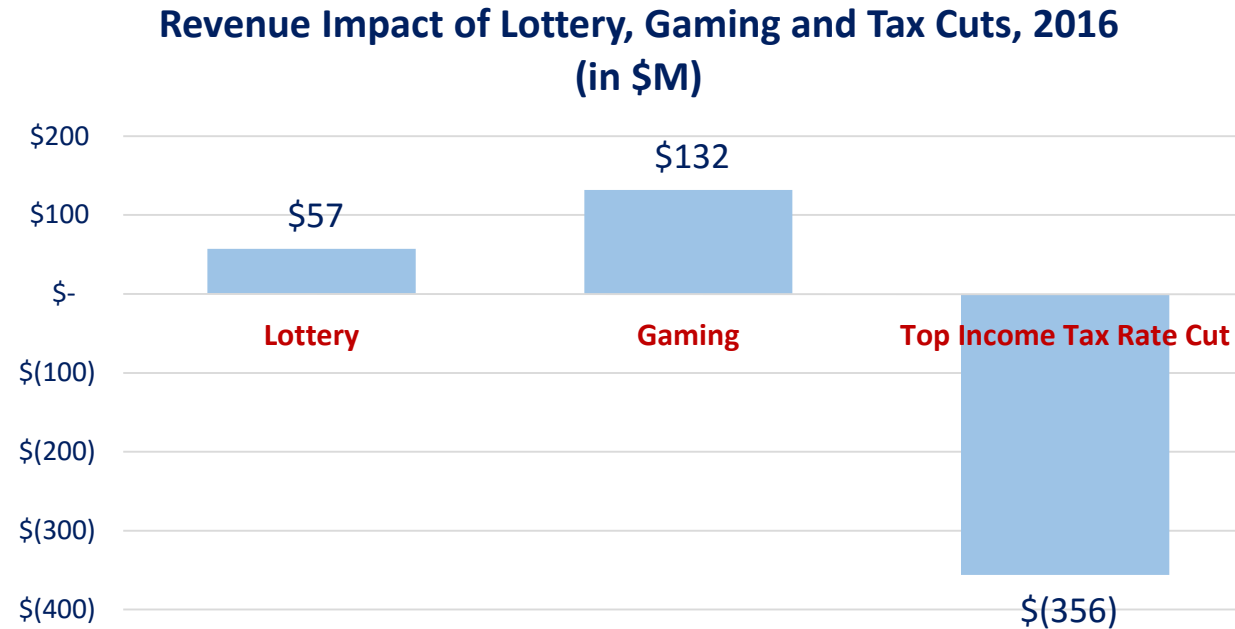
- Without the tax cuts, state government would have entered this current downturn without having already endured years of budget cuts and flat funding

**Table 1: Share of Revenue Lost to Tax Cuts
by Largest State Agencies Based on
Current Budget Proportions**

Agency	Revenue Lost to Tax Cuts
Education	\$356 M
State Regents for Higher Education	\$138 M
Health Care Authority	\$139 M
Human Services	\$97.2 M
Corrections	\$69.4 M
Mental Health & Substance Abuse Services	\$48.4 M
All Agencies	\$1.022 B

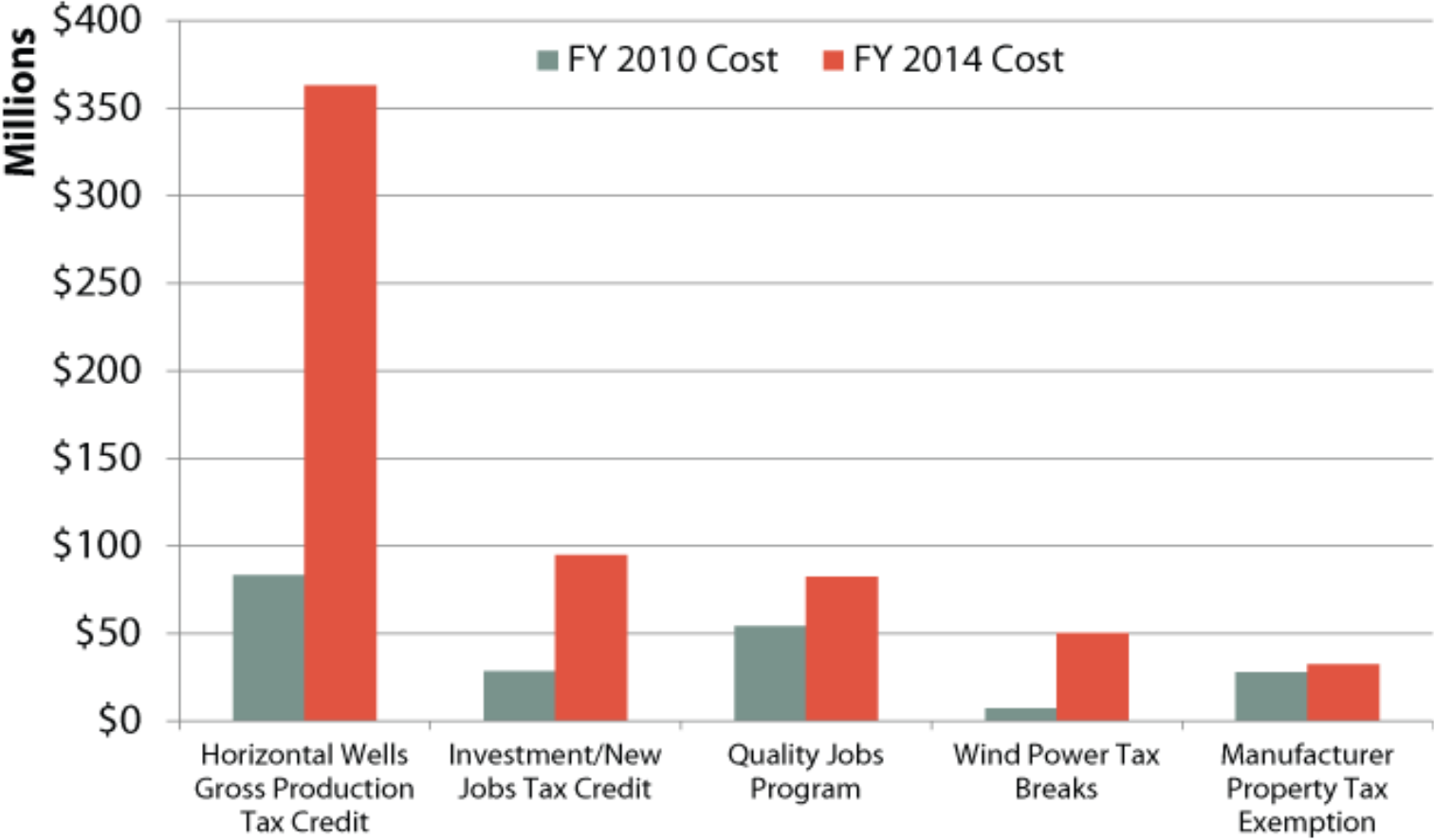
How We Got Here: Tax Cuts

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



How We Got Here: Tax Breaks

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



Data Source: Oklahoma Watch

How We Got Here: Supermajority Straightjacket

State Question 640 makes raising taxes extremely difficult

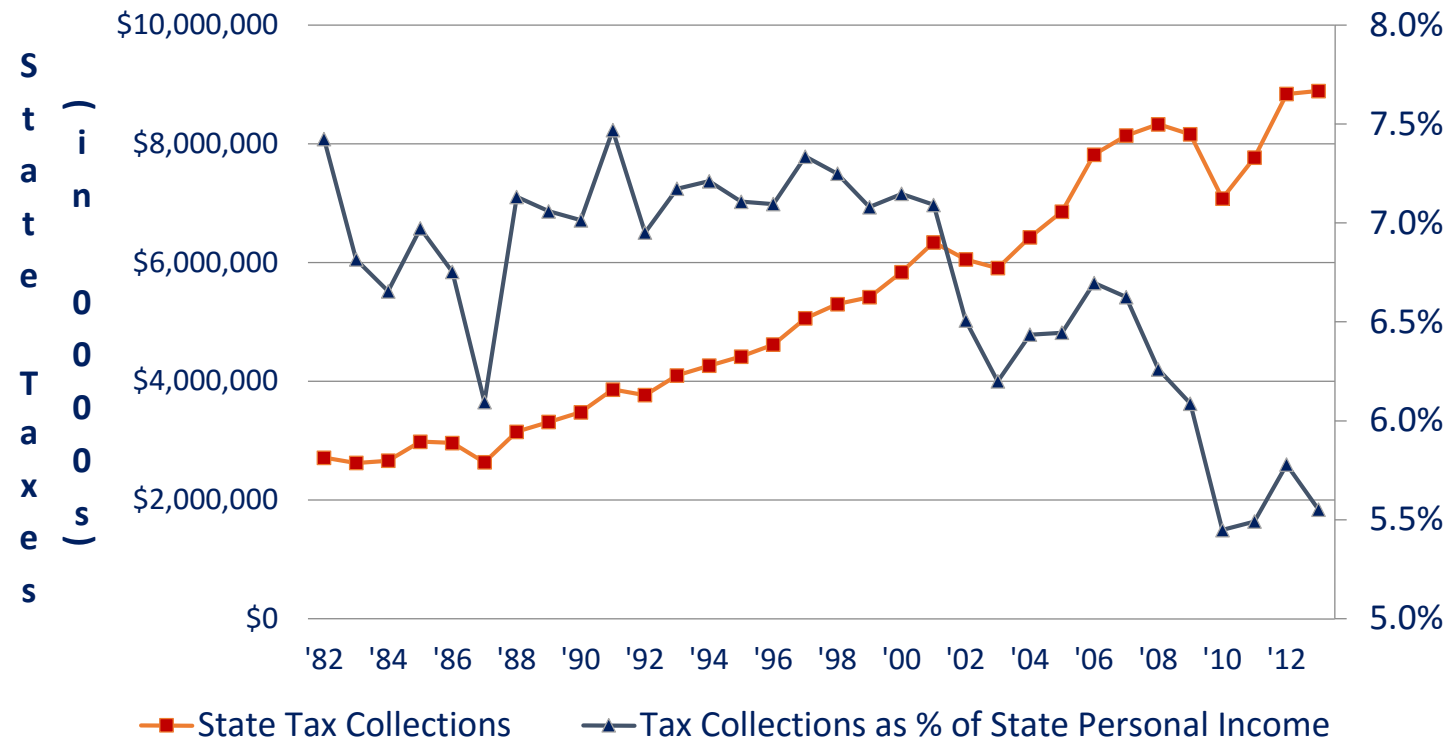
- $\frac{3}{4}$ vote of both legislative chambers, or
- Vote of the people at the time of next general election
- Only 1 tax increase sent by Legislature to voters for approval (SQ 713, Tobacco Tax 2004)



Where We Are : A Chronic Budget Deficit

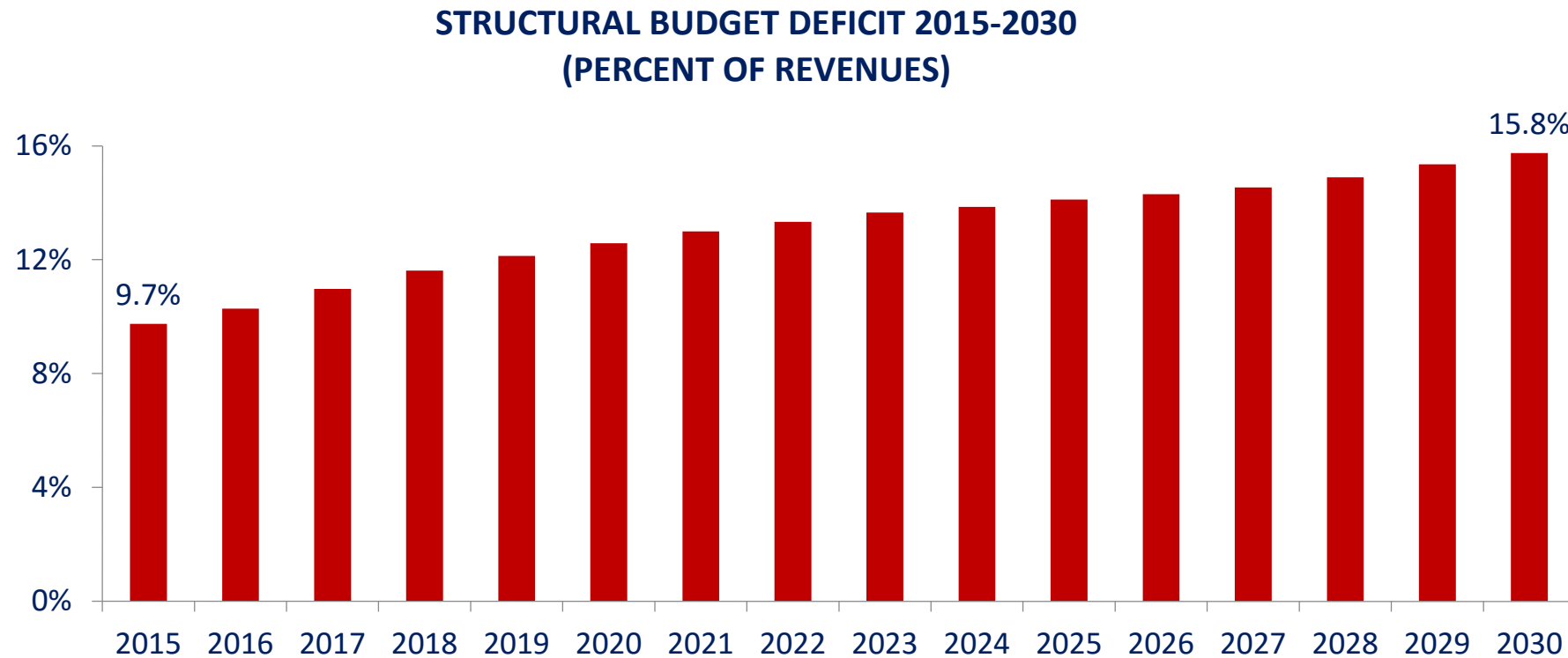
- Over the past decade, state tax collections are no longer keeping pace with a growing state economy

Oklahoma State Taxes, Total and as Share of Personal Income, FY '82 - FY '13



Where We Are : A Chronic Budget Deficit

- Structural deficit already at \$678 million in 2015, projected to grow to \$2 billion by 2030



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

What We Can Do

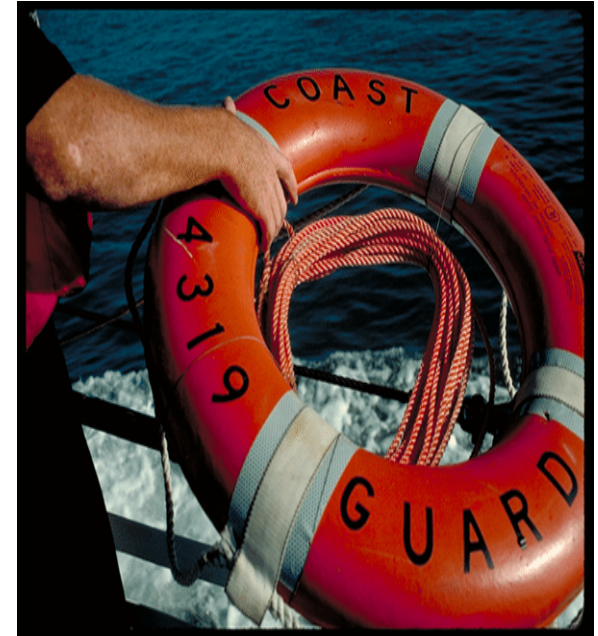


What We Can Do

There are responsible & feasible solutions

Recurring revenue

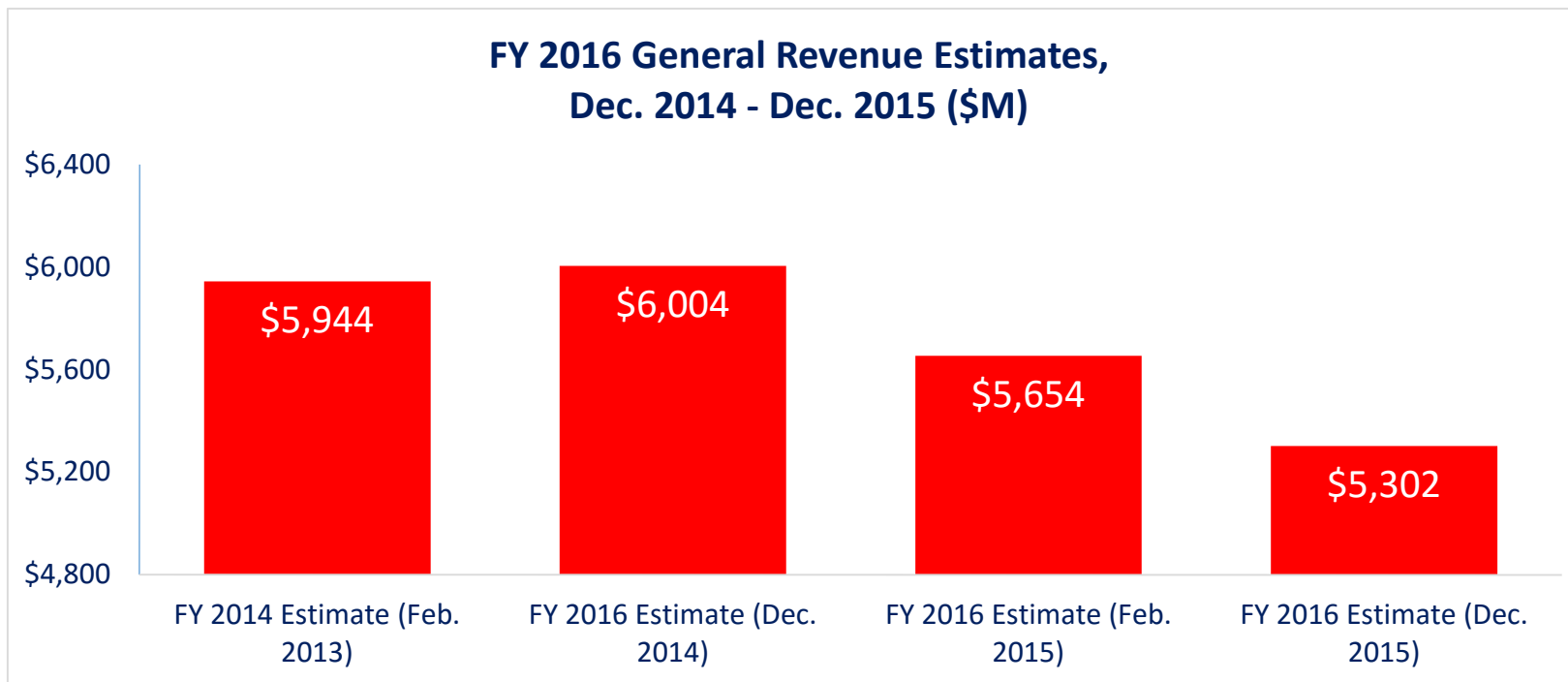
- Repeal the income tax cuts
- Adopt combined corporate reporting
- Eliminate the double deduction of state income taxes
- Modernize the sales tax
- Accept federal funds for expanded health insurance
- Curtail off-the-top allocations



What We Can Do: Recurring Revenues

Repeal the 2016/2018 Tax Cuts

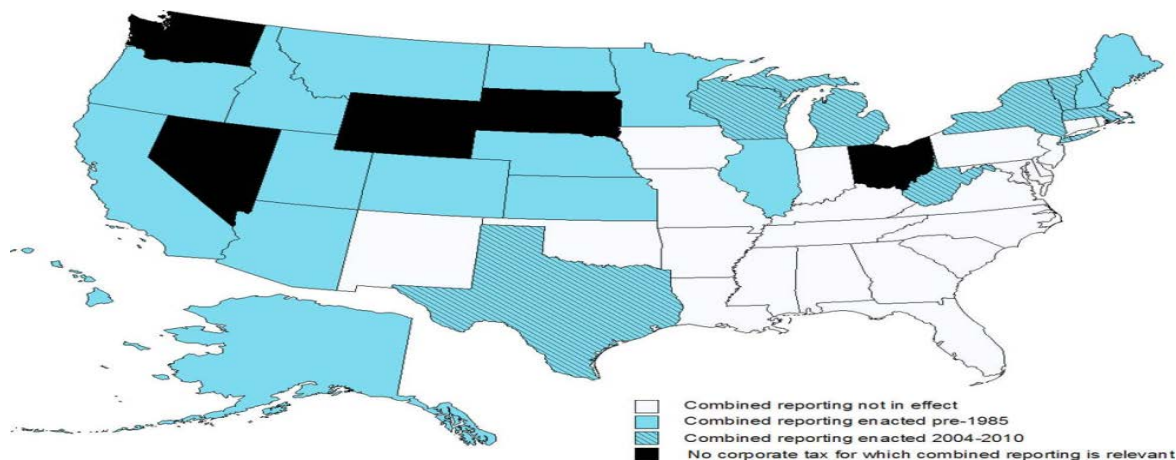
- **2016 tax cut never intended to take effect in these conditions**
- **Next tax cut could kick in next year even if revenues recover only slightly**



What We Can Do: Recurring Revenues

Adopt Combined Corporate Reporting

- Combines all profit of parent and subsidiary companies within a single corporation
- Combats tax dodging strategies by multi-state corporations that shift profits to subsidiaries in states where they are untaxed
- 23 states, including all Western states except New Mexico, have adopted combined reporting
- Recommended by the 2011 Tax Reform Task Force



What We Can Do: Recurring Revenues

Limit Itemized Income Tax Deductions

- Itemized deductions mostly benefit upper-income households
- Several options could be considered:
 - Repeal itemized deductions while increasing the standard deduction available to all families, OR
 - Cap the total value of itemized deductions, OR
 - Convert deductions to a credit as a set amount of selected federal deductions, OR
 - **Do away with the deduction for state income tax payments**
- Could generate \$100 million to \$115 million in new revenue
- Additional state tax liability would be partly offset by reduced federal tax liability

What We Can Do: Recurring Revenues

Modernize the Sales Tax

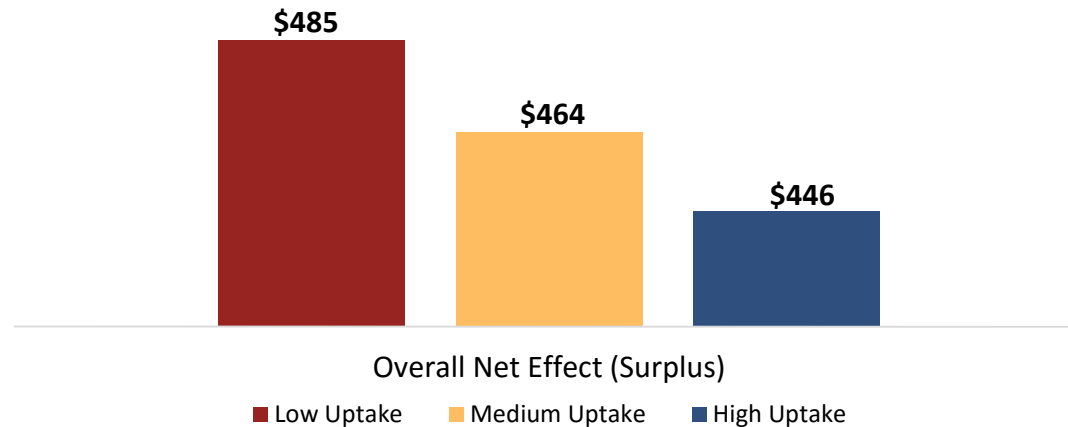
- **Pursue collection of online sales through “click-through”/affiliate programs (“Amazon Laws”)**
- End the exemption for sale of digital downloads
- Expand the sales tax base to cover selected services
 - Oklahoma currently taxes only 32 of 168 potentially taxable services
 - Taxing services is needed to maintain the long-term adequacy of the sales tax and make the sales tax more economically fair and rational
 - Should be careful to exclude services consumed primarily by businesses to avoid pyramiding
- Do away with sales tax exemptions benefitting favored industries
- Combine these measures with ending the sales tax on groceries

What We Can Do: Recurring Revenues

Accept Federal Funds for Expanding Health Insurance

- Additional state cost would be more than offset by shifting current state spending to Medicaid, higher federal match rate and higher tax revenues from increased health care spending
- Total \$15.6B economic impact, over 13,000 new jobs

Overall Effect on Net State Tax Revenue of Expanding Coverage, 2014-2023 (in \$M)



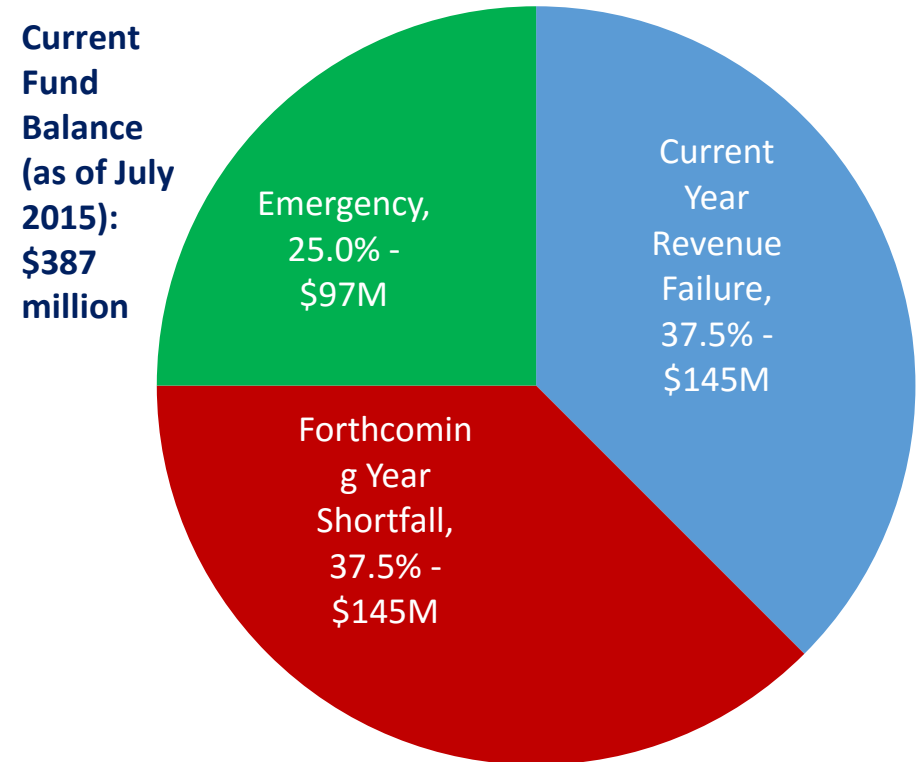
Source: Leavitt Partners Report, June 2014

What We Can Do: One-Time Revenues

All of the Rainy Day Fund could be used this year:

- **3/8ths for current year revenue failure (\$145 million)**
- **3/8ths for next year's shortfall (\$145 million)**
- **1/4 upon declaration of an emergency (\$97 million)**

Uses of Rainy Day Fund



What We Can Do: One-Time Revenues

Other One-time Revenue Options:

- **Moratorium on tax credits**
- **Defer increases to the ROADS fund**
- **Increase bonding**
- **Use of Unclaimed Property Fund**
- **Careful use of agency revolving funds**

What We Can Do: Better Budgeting

Better Budgeting Practices

- **PAY-GO Requirement**
 - Ensure that fiscal balance is maintained by requiring that tax cuts be fully offset with:
 - New revenues
 - Elimination of tax breaks
 - Identified spending cuts
 - New spending obligations would have to be paid for with additional revenues or cuts to other services
- Current services budget
- Long-term budget forecasting
- Require five days before budget can be adopted



What We Can Do

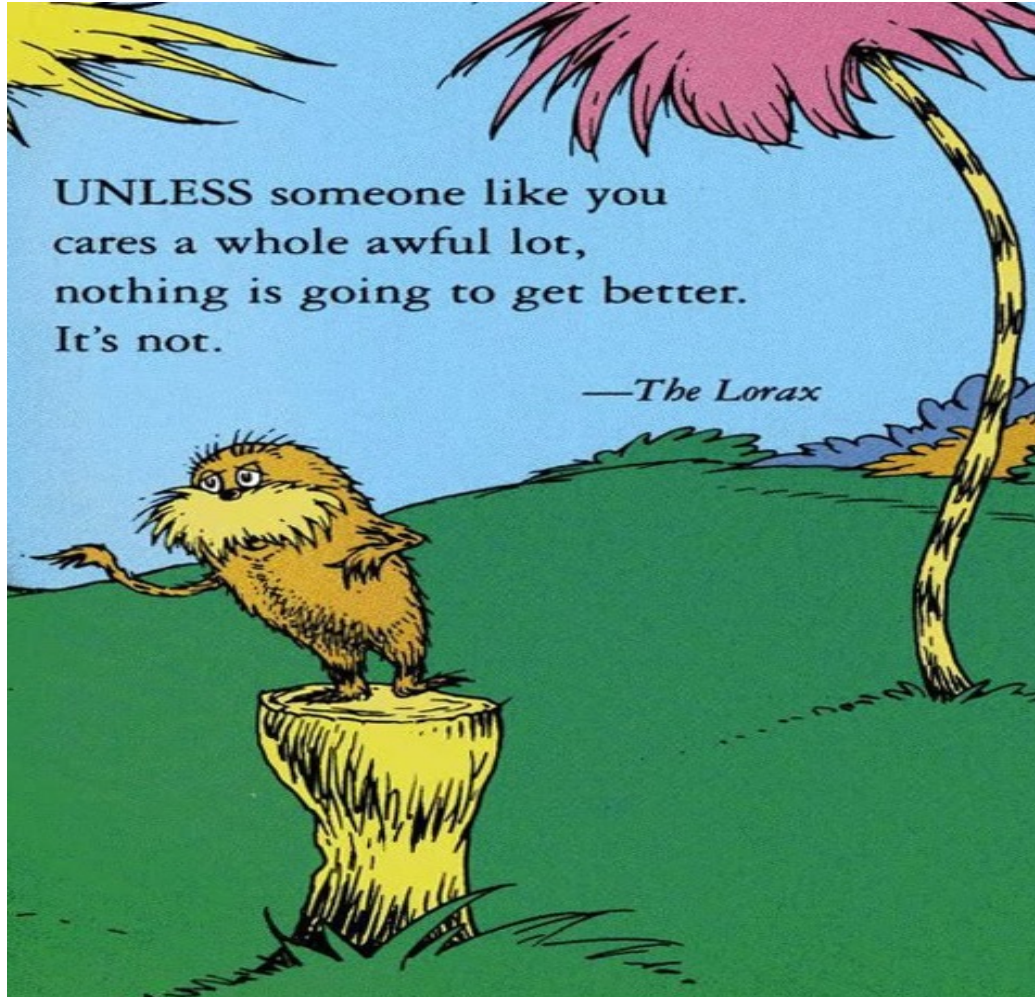
“The odds of our elected officials doing the right thing are zero unless YOU tell them what needs to be done.”



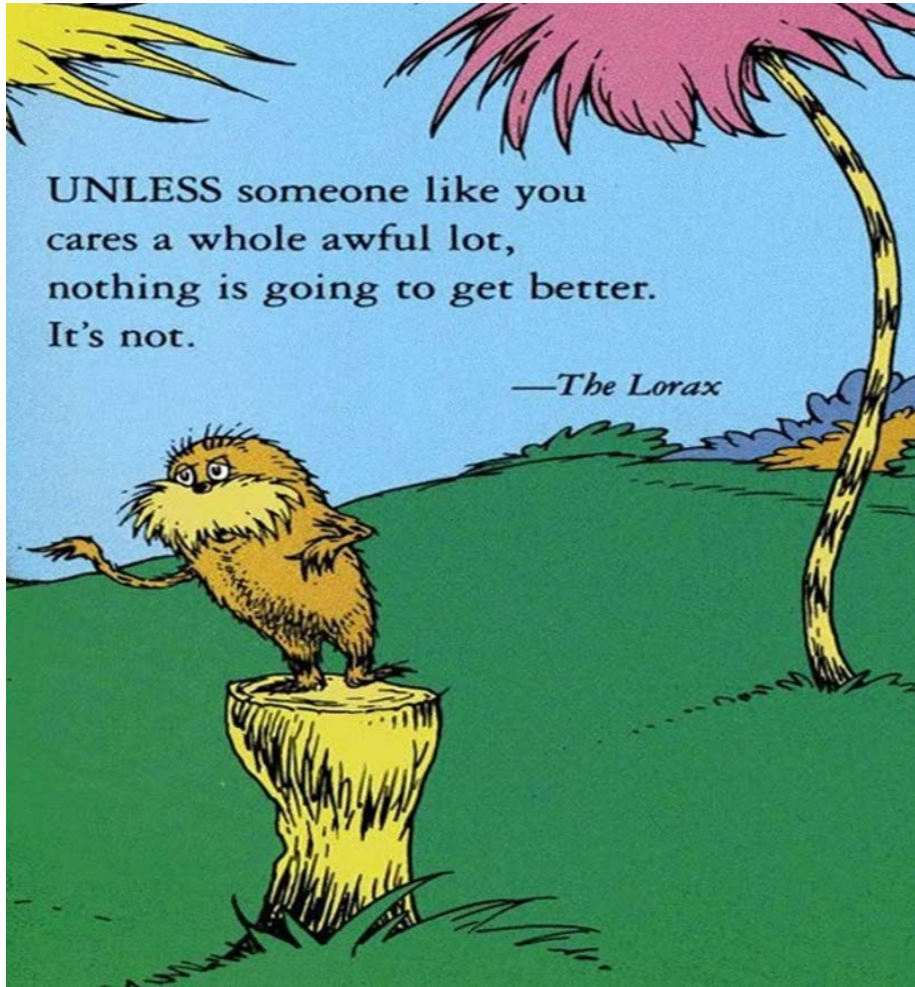
- Get engaged with the Together Oklahoma coalition
<http://togetherok.org>
- Email, phone and visit your legislators
- Write an op-ed or letter to the editor
- Register people to vote



What We Can Do



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For More Information

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