

# Oklahoma's State Budget: Is There A Light at the End of the Tunnel?

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#okbudget18



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**OKPOLICY.ORG**  
Oklahoma Policy Institute

# Who We Are

- OK Policy is an independent, nonpartisan, 501c3 non-profit.
- We research and advocate for fair and responsible public policies.
- We are funded by grants from national and local foundations and contributions from individuals, organizations, businesses, and people like you!





# Why this matters

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

# What Prosperity Looks Like

- Good-paying jobs
- Educated workforce
- Functioning infrastructure
- Access to health care
- Safe streets and neighborhoods
- Stable safety net for those in need

# We're In This Together

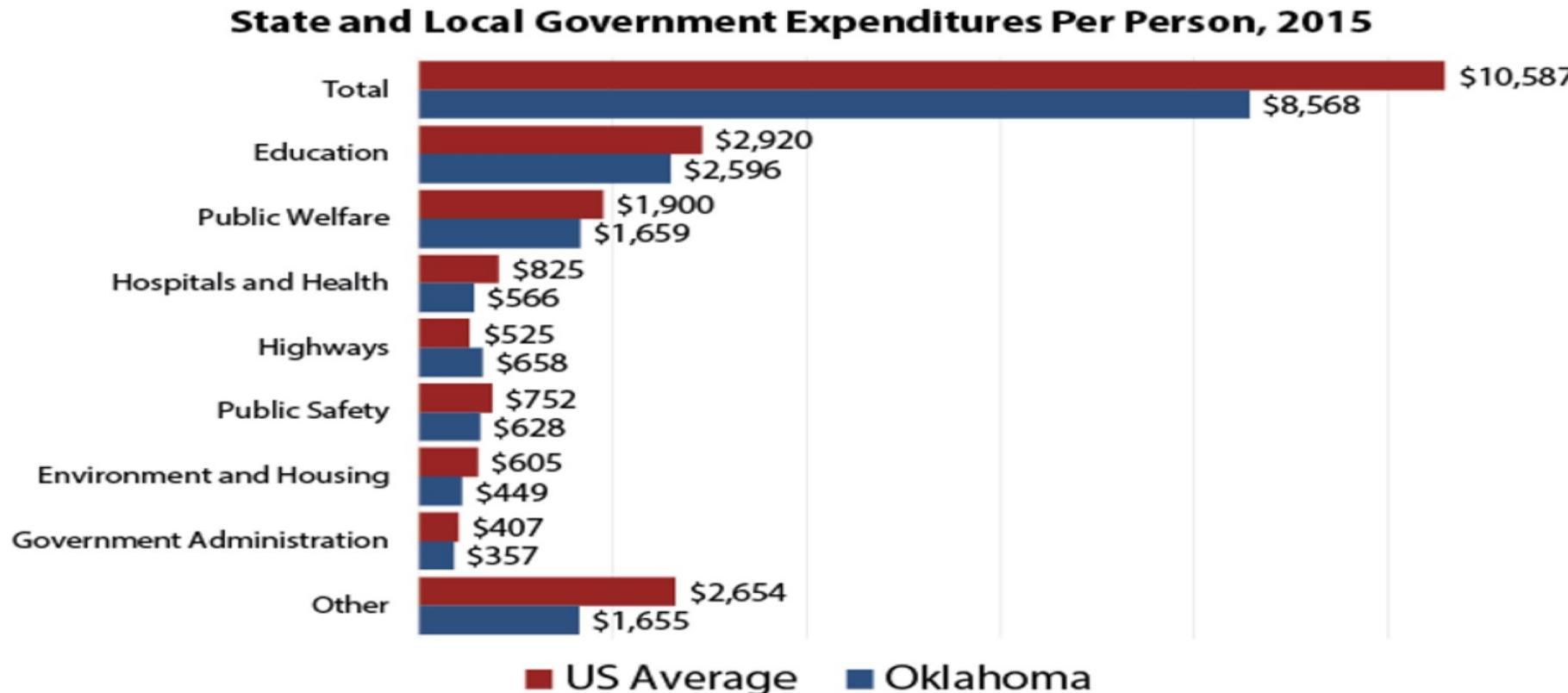
- An effective government is crucial for achieving our common goals as a state – alongside businesses, unions, non-profits, philanthropies, faith and community groups, and families.



# Oklahoma's budget is shrinking

- Oklahoma spends 19 percent less per capita than the national average on state and local public services

## Oklahoma spends less in nearly all core services

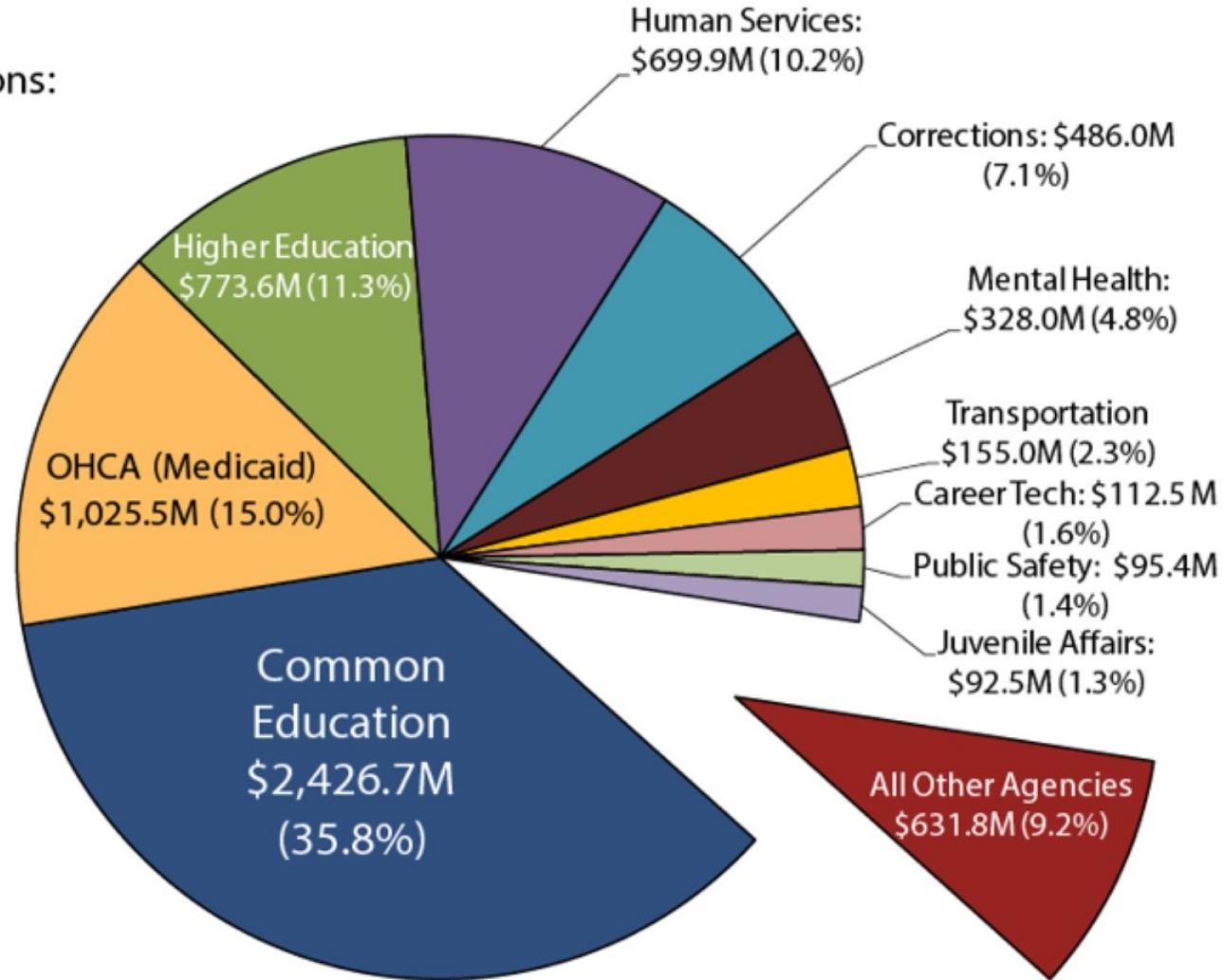


# Nearly all of the budget goes to core services in education, health, human services, public safety, & transportation.

## FY 2018 Appropriations to Ten Largest Agencies

Total Appropriations:  
\$6,848M

Total Ten Largest:  
\$6,216M (90.8%)



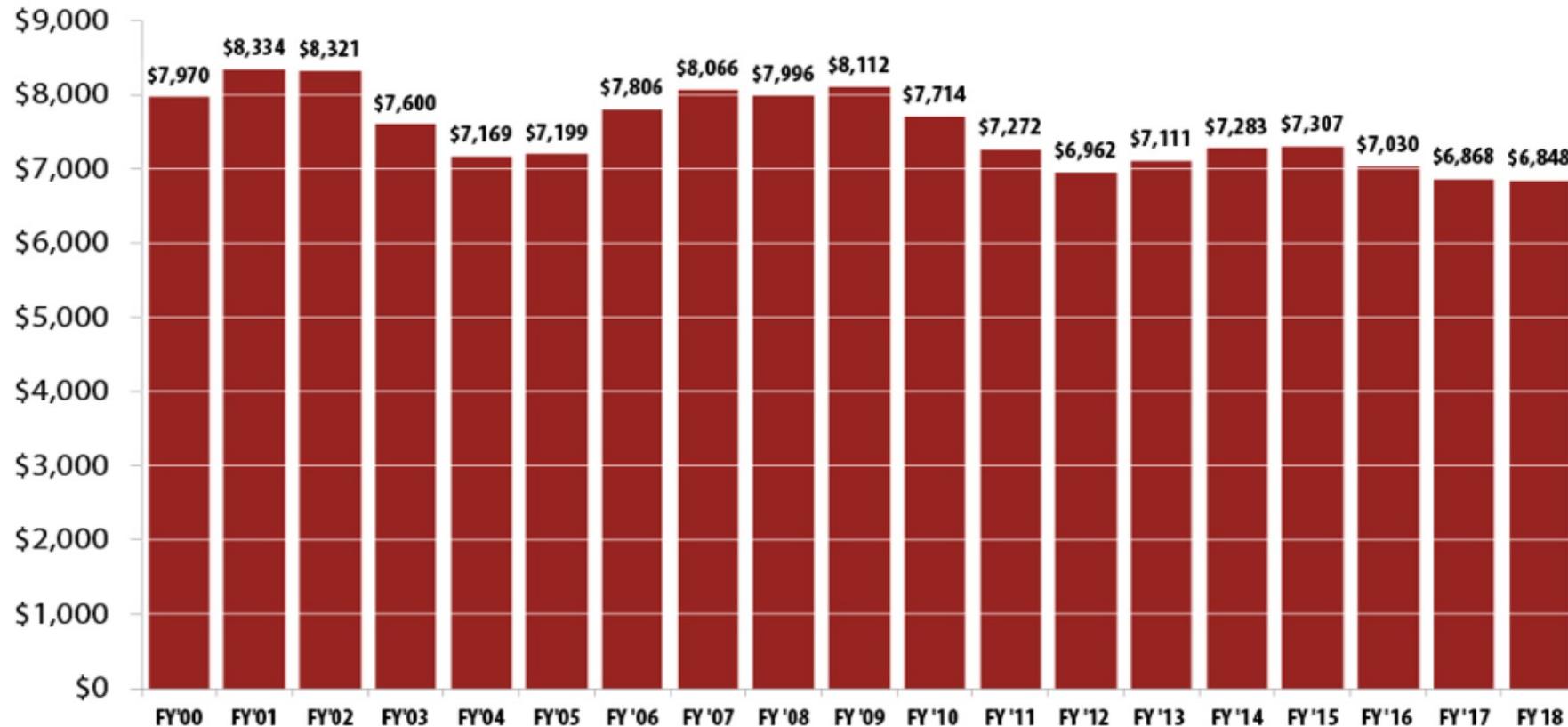
# Oklahoma's budget is shrinking

**Adjusted for inflation, the FY 2018 budget is 15.6% (\$1.26 billion) less than FY 2009.**

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

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

Percentage Change, FY 2009-FY 2018: -15.6%



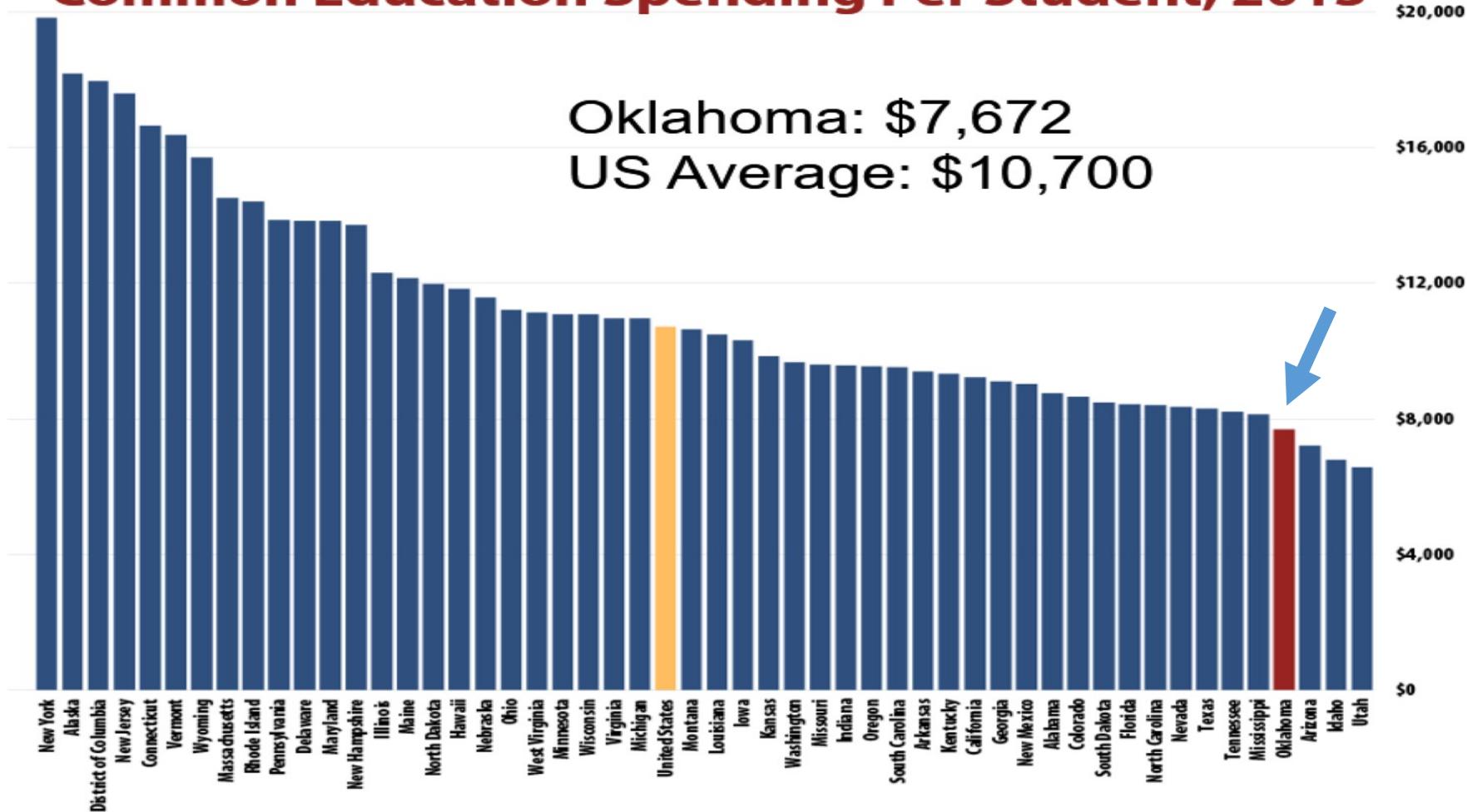
# The Impact of Shrinking Budgets



# Shrinking Budgets: Common Education

- Oklahoma is near the very bottom in per pupil funding

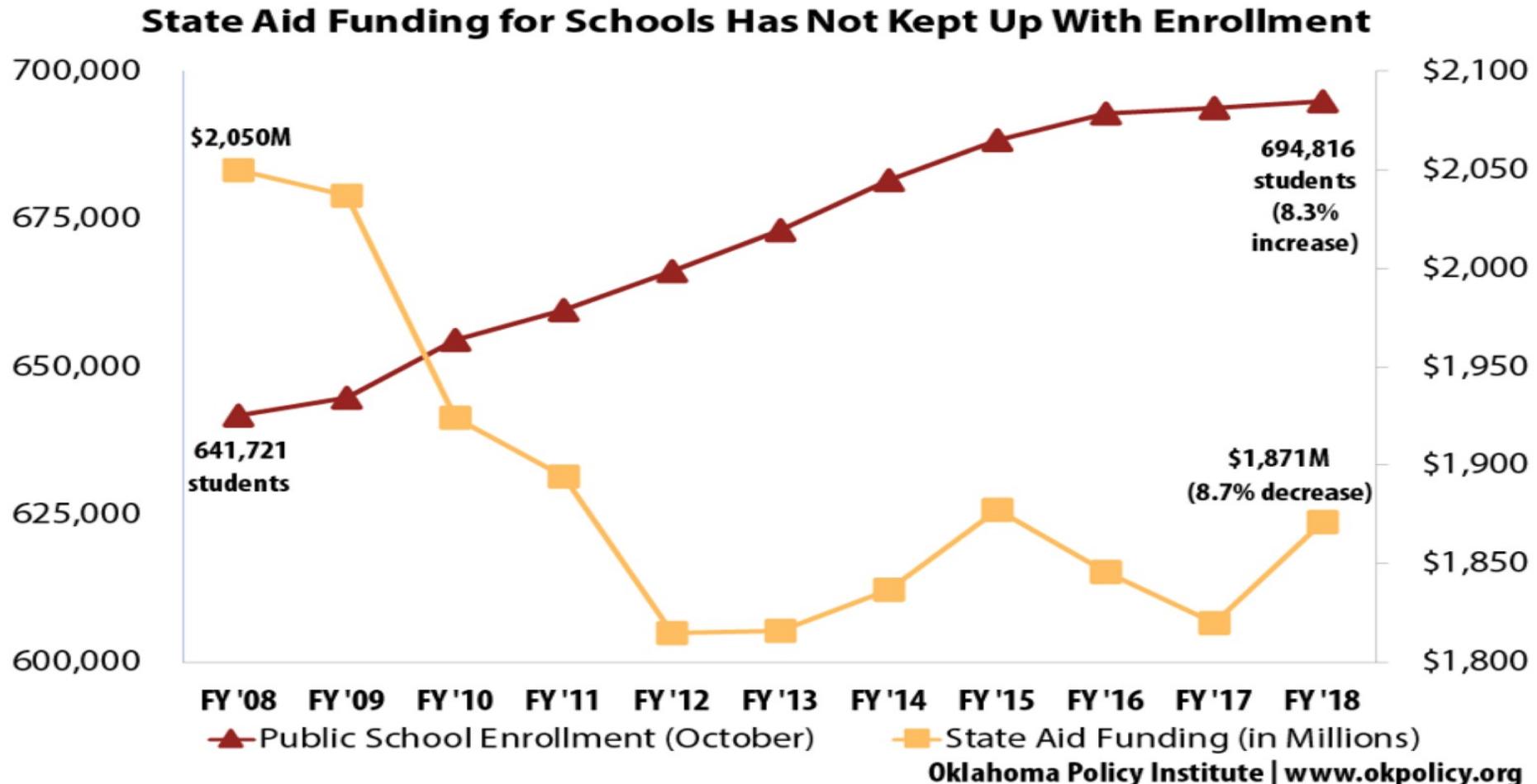
## Common Education Spending Per Student, 2013



Data Source: U.S. Census

# Shrinking Budgets: Common Education

- Enrollment is up over 50,000 students while state aid funding is down \$179M



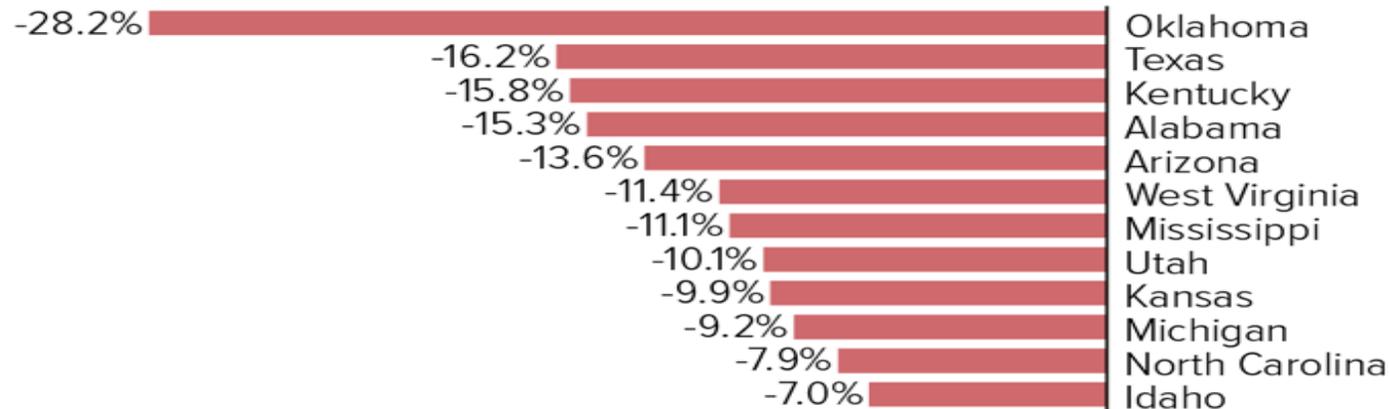
# Shrinking Budgets: Common Education

- Per pupil funding to the state aid formula has been cut more deeply in Oklahoma than in any other state since 2008
- By any measure, education funding is falling behind in Oklahoma

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## State General Funding Per Student Still Far Below 2008 in at Least 12 States

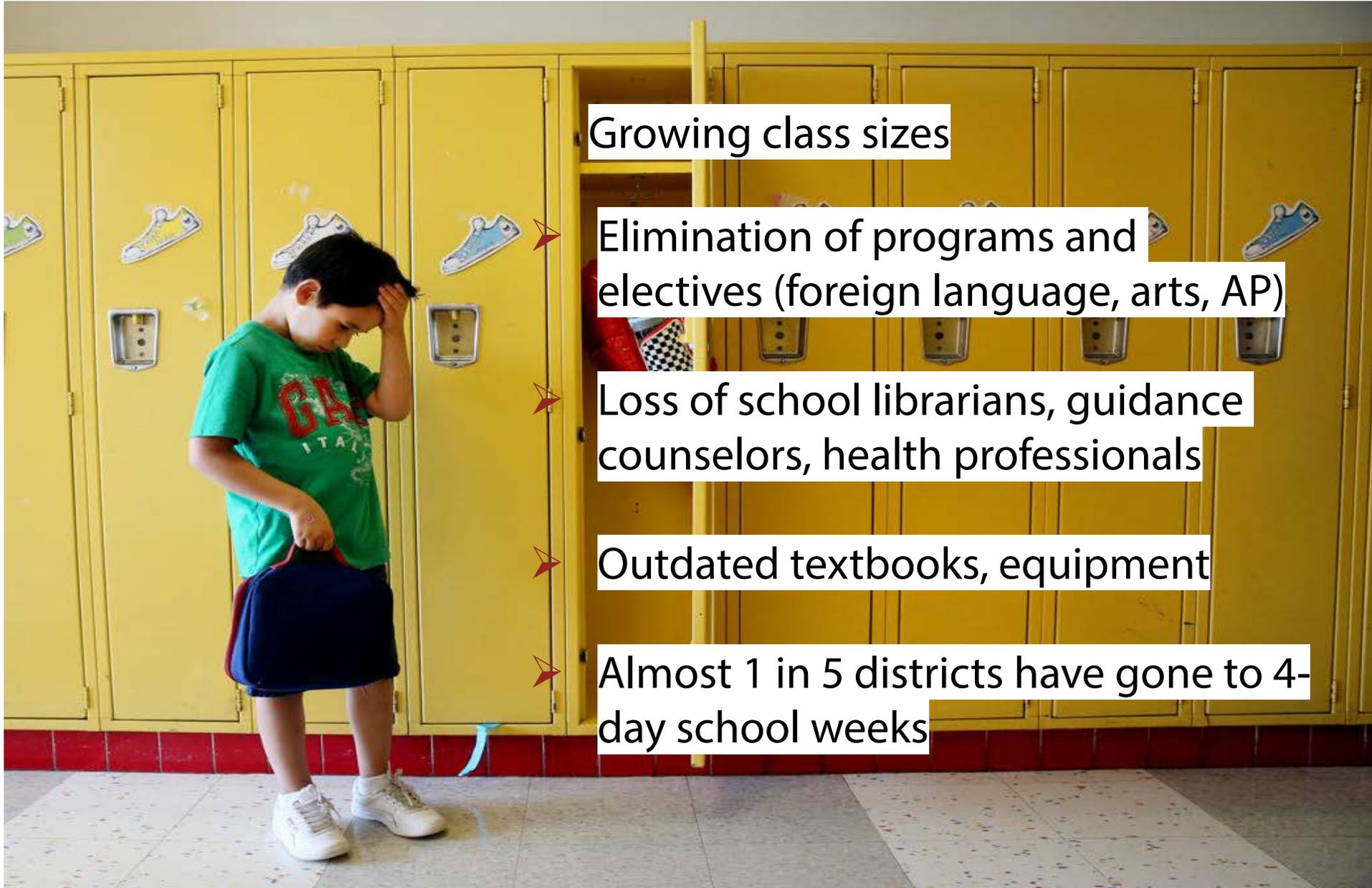
Percent change in state formula funding\* per student, inflation adjusted, fiscal years 2008-2018



\*General or formual funding is the primary form of state K-12 funding. States also typically provide revenue for other, more specific purposes, such as bus transportation and contributions to school employees and pension plans.

Source: CBPP budget and enrollment analysis.

# Shrinking Budgets: Common Education



Growing class sizes

Elimination of programs and electives (foreign language, arts, AP)

Loss of school librarians, guidance counselors, health professionals

Outdated textbooks, equipment

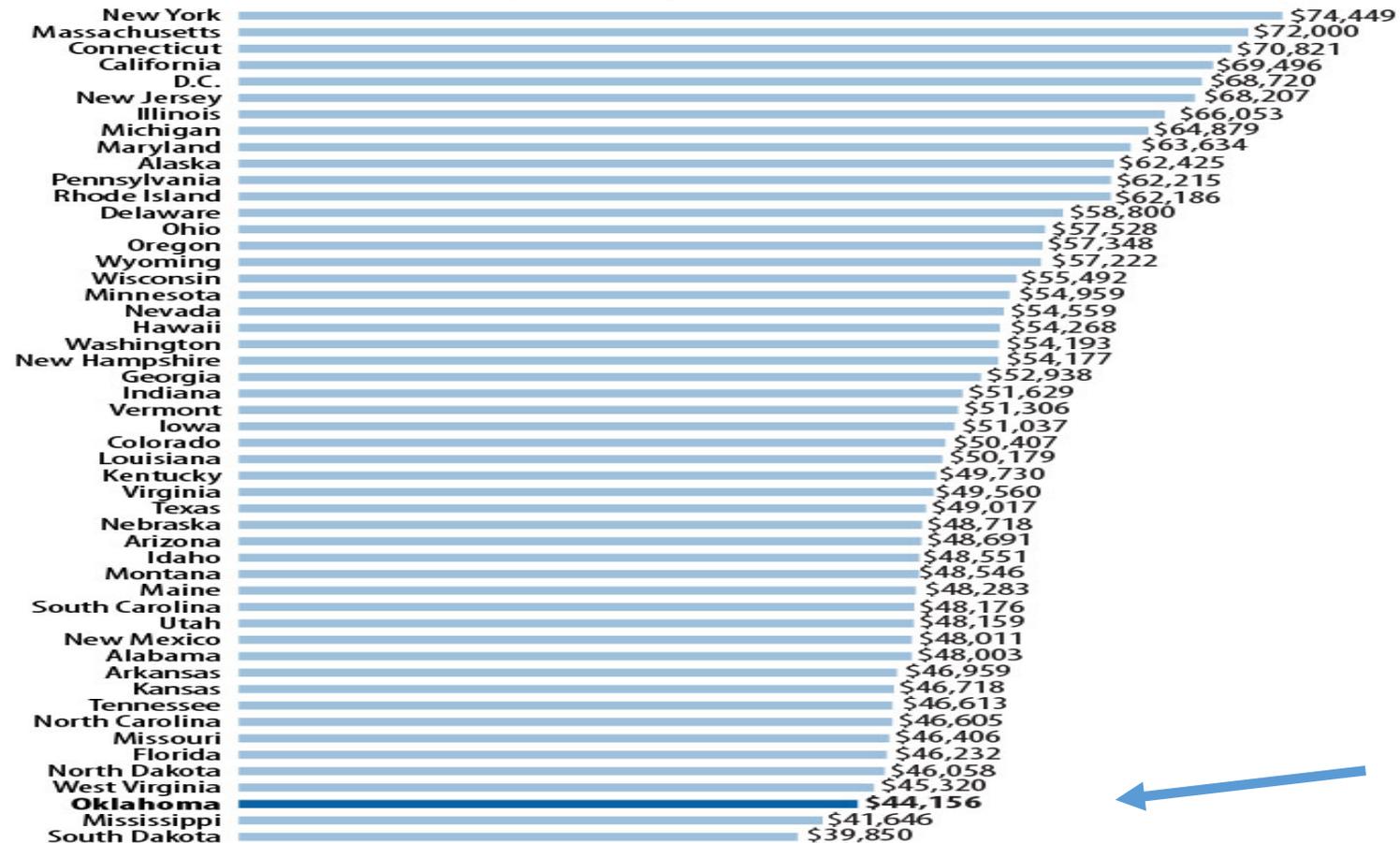
Almost 1 in 5 districts have gone to 4-day school weeks

# Shrinking Budgets: Common Education

- Oklahoma teachers earn the third lowest average annual salary in the nation
- Minimum teacher pay scale has not risen since 2008

## Oklahoma Teachers Are Poorly Paid

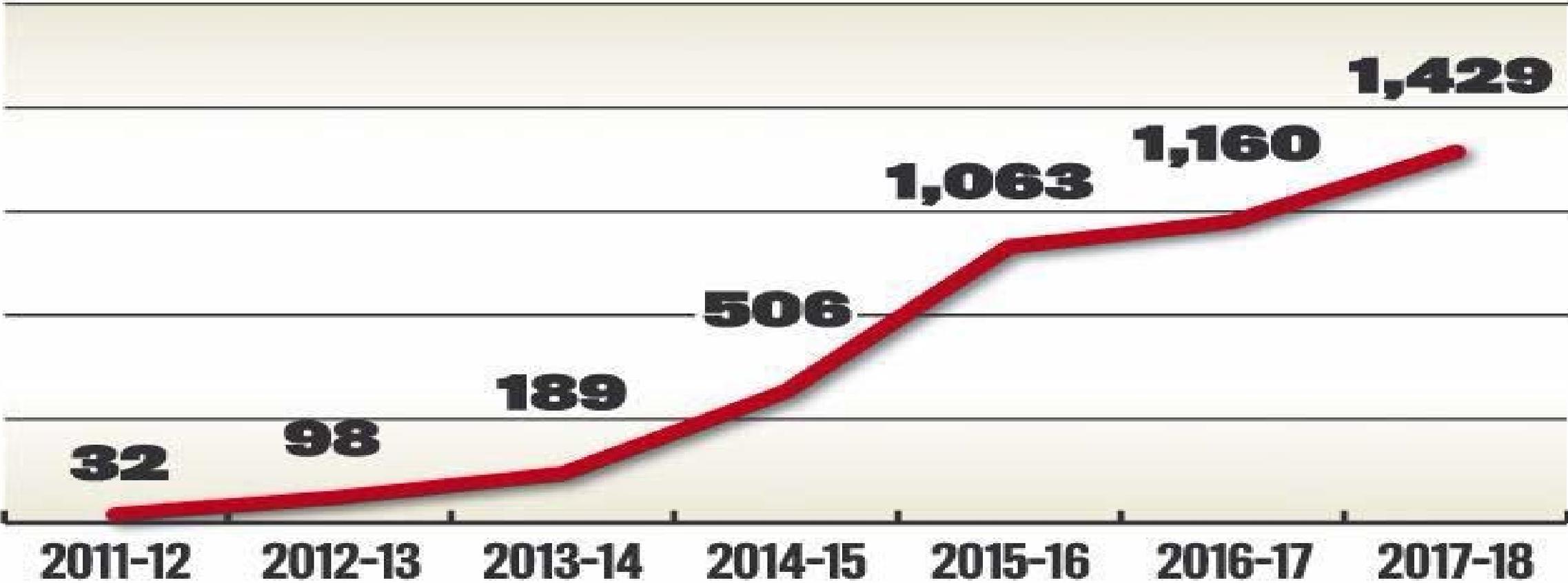
Estimated average annual salary in school year 2011-2012



Source: National Center for Education Statistics

# Shrinking Budgets: Common Education

## Emergency teacher certifications issued



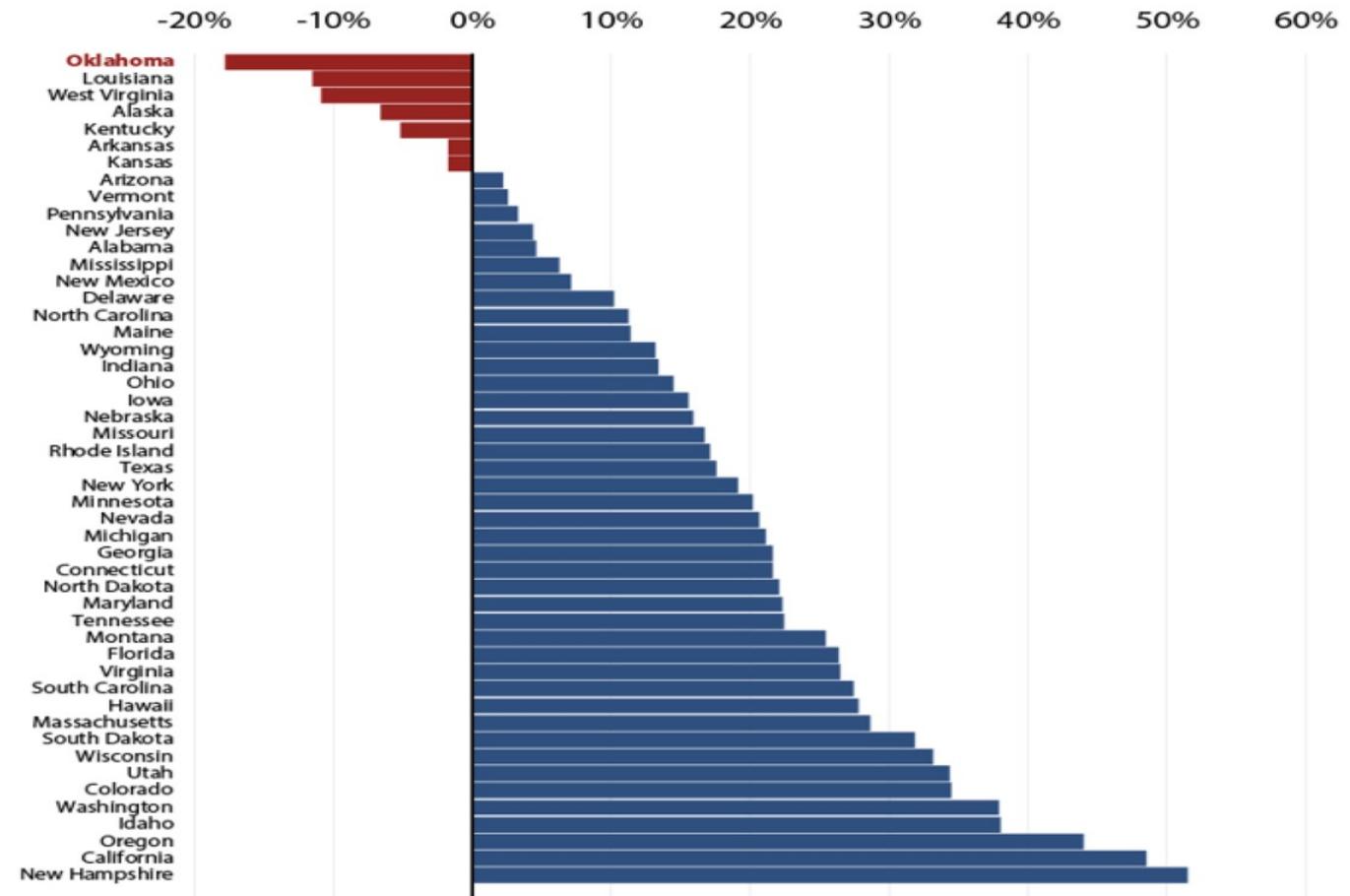
SOURCE: Oklahoma State Department

STEVEN RECKINGER/Tulsa World

# Shrinking Budgets: Higher Education

- Largest cuts to higher education in the nation

Changes in State Funding of Higher Education, FY12-FY17



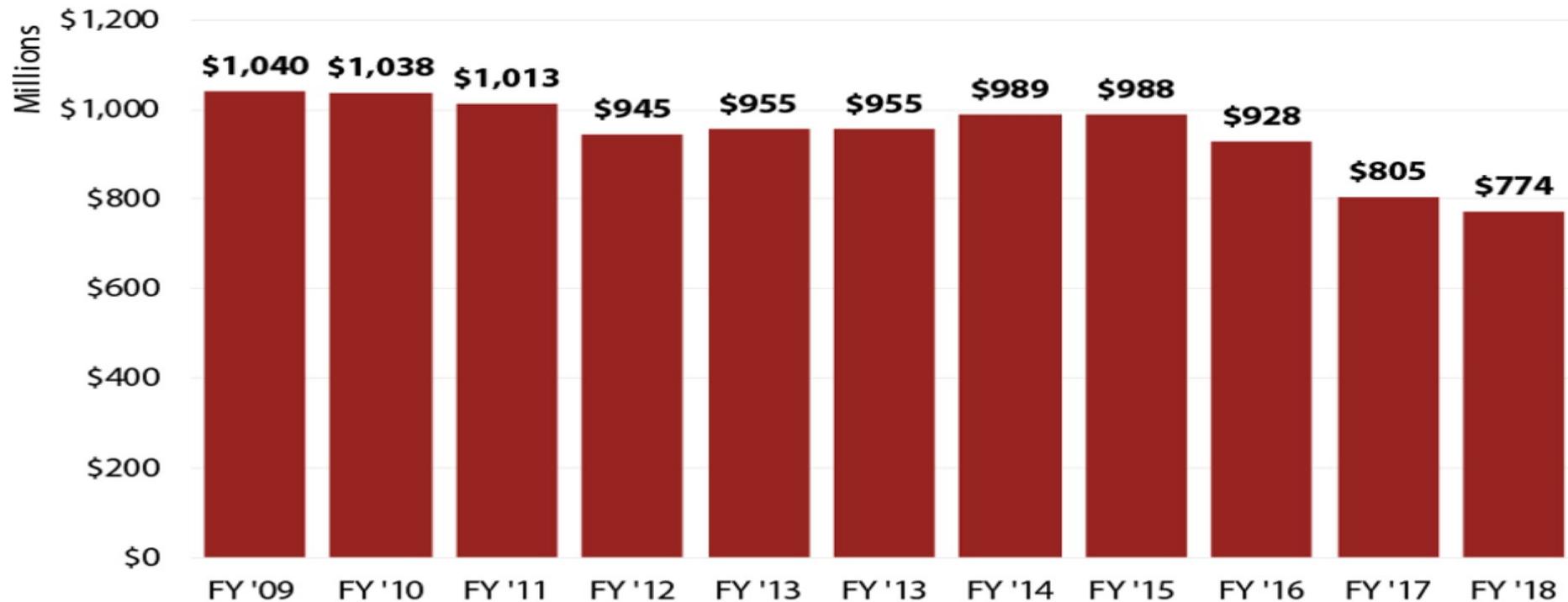
\* FY17 funding for Illinois has not yet been finalized

Data Source: Illinois State University College of Education Grapevine Project

# Shrinking Budgets: Higher Education

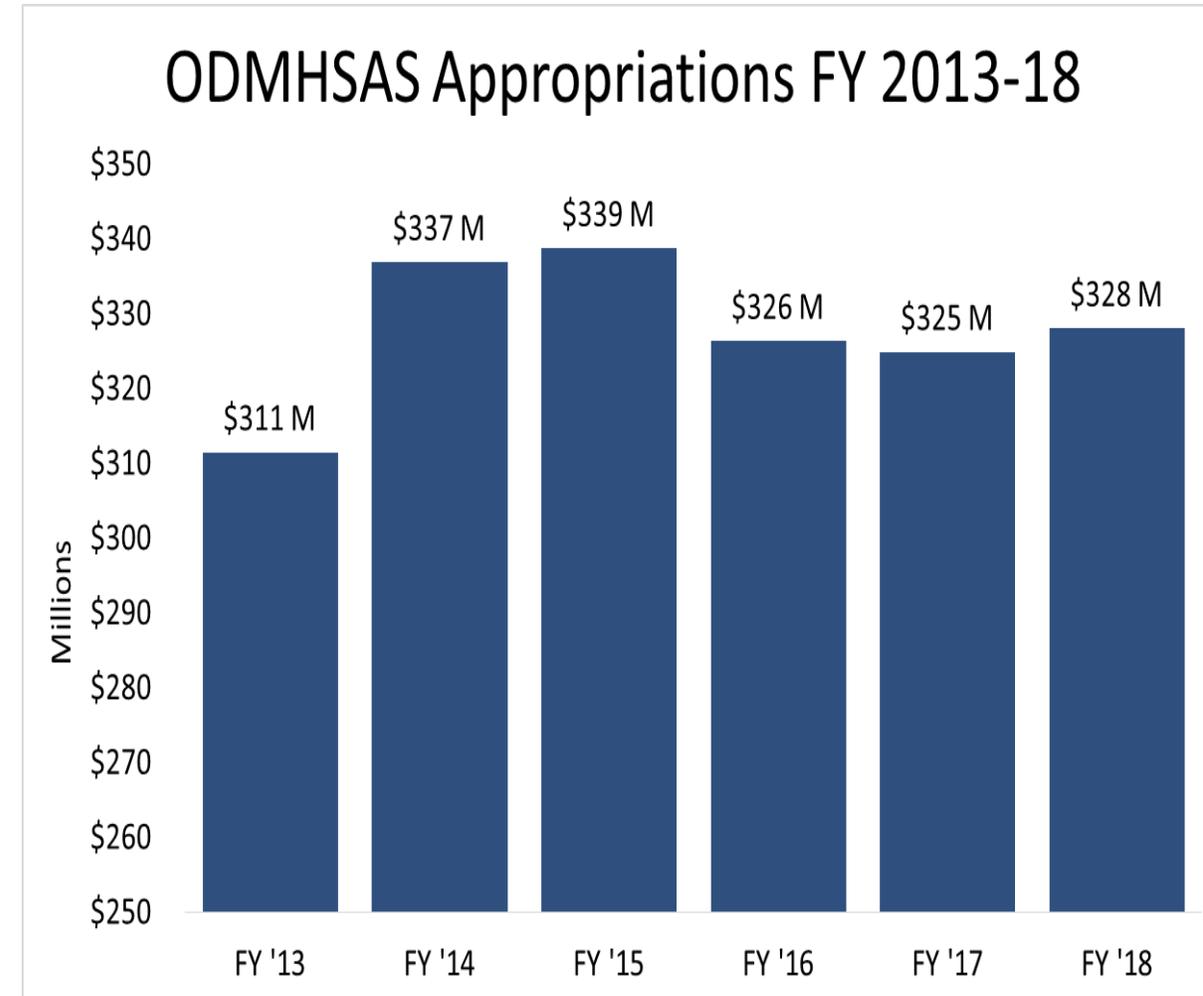
- Positions, programs and courses eliminated
- Annual tuition increases of 5-10 percent

## State appropriations for higher education down 25.6% from 2009



# Shrinking Budgets: Mental Health

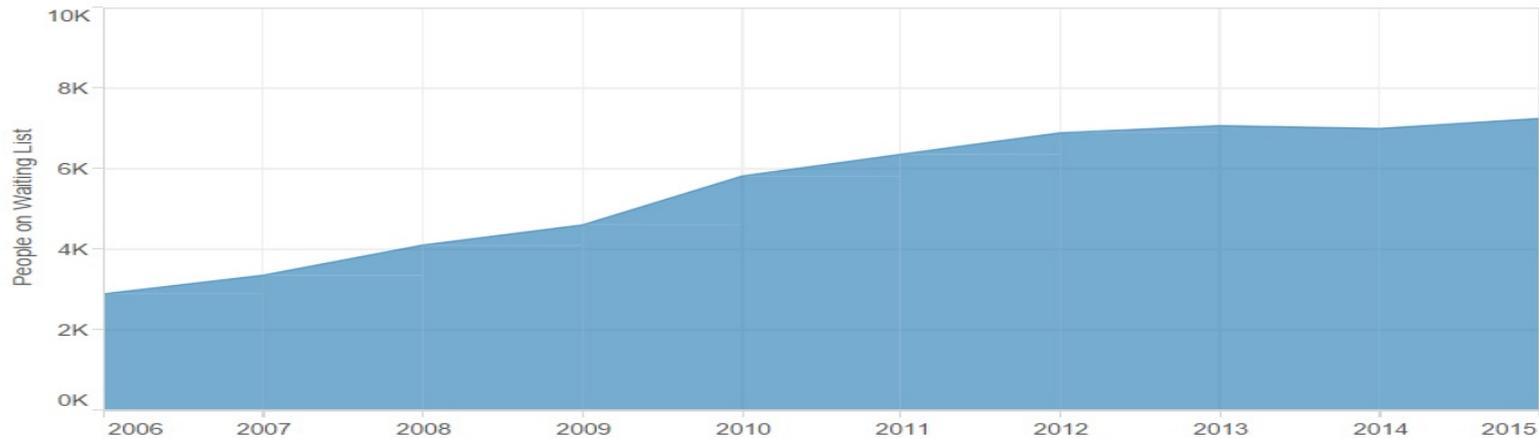
- Oklahoma has the second-highest rate of mental illness in the US
- Oklahoma's per capita mental health funding is among the lowest in the nation
- In FY 2016, provider rates were cut from 3% - 30% and more than 70,000 Oklahomans lost some access to care
- Expansions of effective programs have been derailed by budget cuts



# Shrinking Budgets: Human Services

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

Over 7,500 families are on the DDSD waiting list



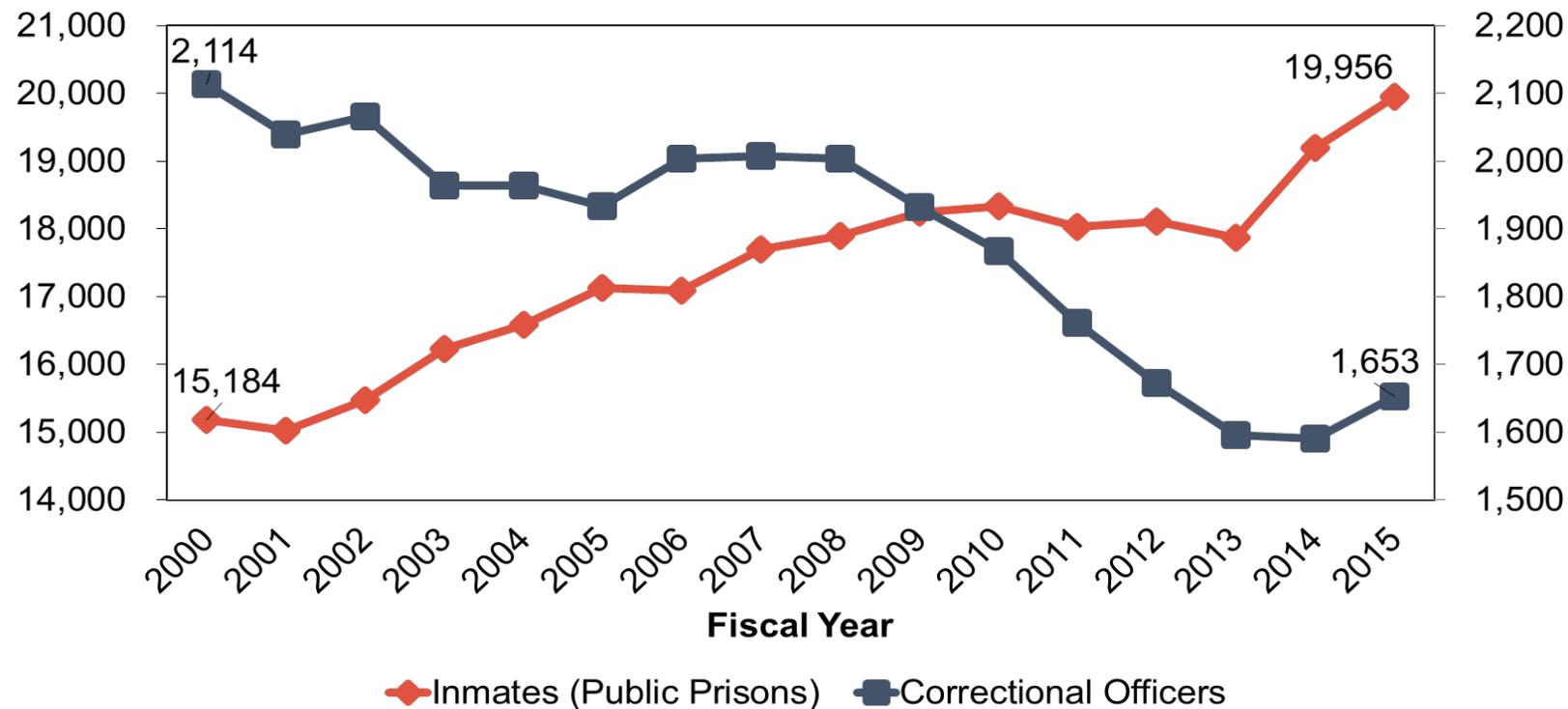
*Developmental Disabilities Services division of Oklahoma Department of Human Services*

Chart by Oklahoma Watch

# Shrinking Budgets: Public Safety

- Oklahoma's correctional facilities are critically overcrowded and understaffed

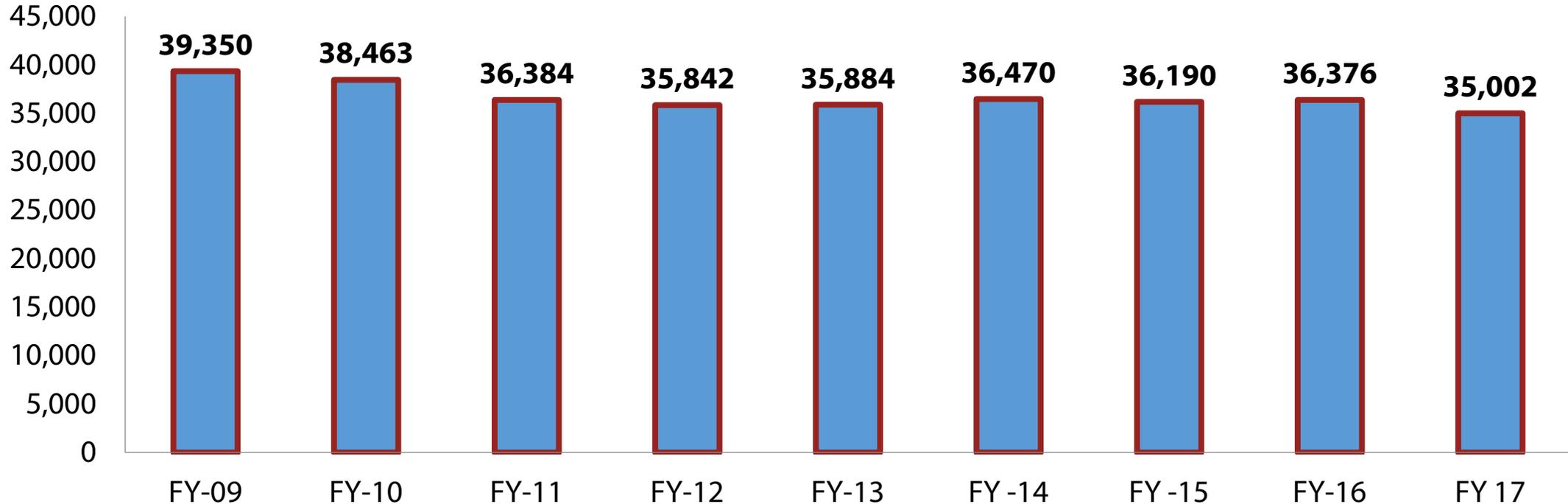
Oklahoma State Prisons Have 4,772 More Inmates and 461 Fewer Correctional Officers Since 2000



# Shrinking Budgets: State Workforce

- State workforce is 11 percent smaller than it was in 2009
- 2,626 fewer employees than in 2001, while state population has grown by 350,000
- Most of these public servants have gone 7-10 years without a raise

## Oklahoma State Government Employs More Than 4,000 Fewer Workers Compared to 2009



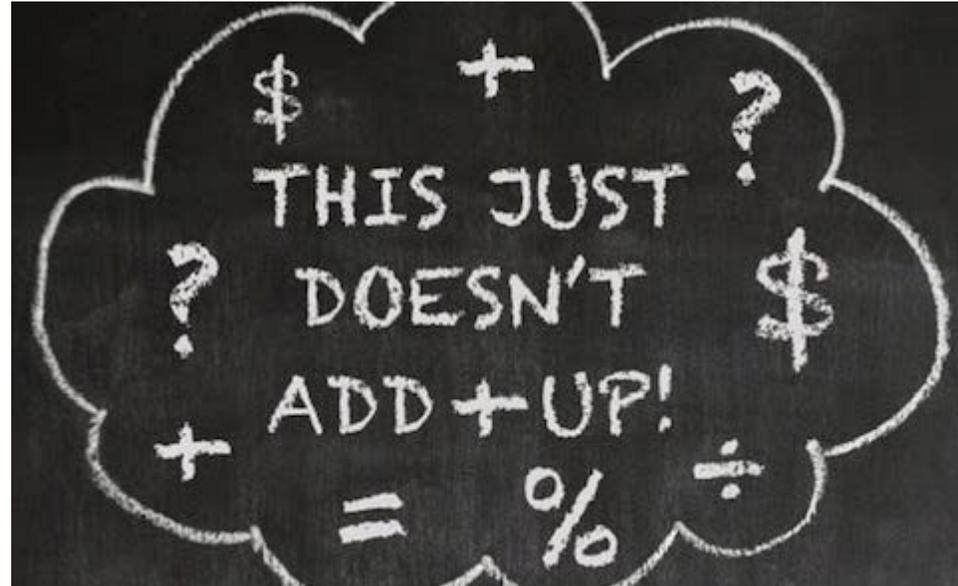
# How Did We Get Here?



# How Did We Get Here?

## Why is Oklahoma experiencing chronic budget shortfalls?

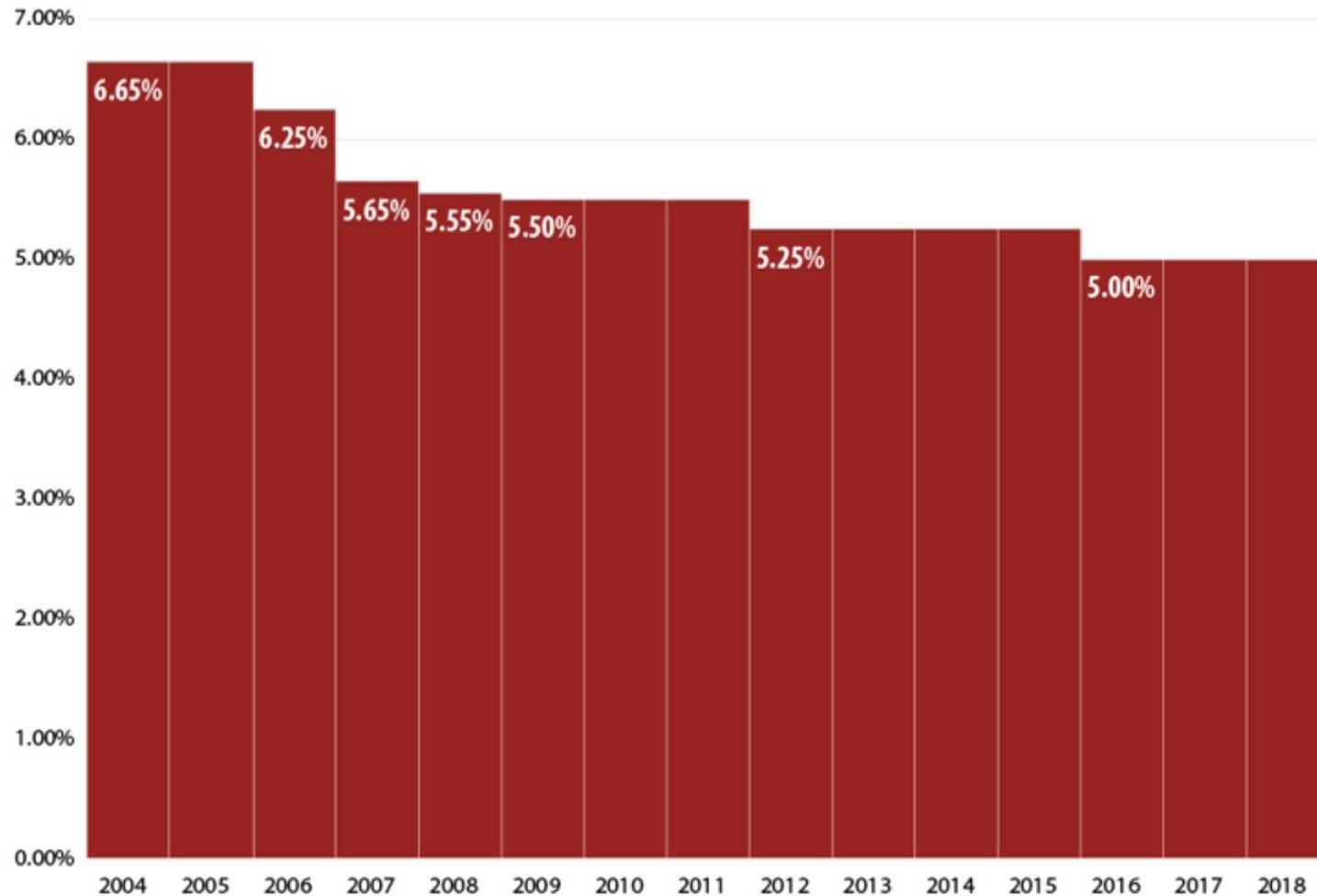
- Low energy prices are only part of the story.
- Even when the economy was strong, we can't pay our bills and take care of critical needs.



# How We Got Here: Tax Cuts

The top income tax rate has been cut by 27 percent, costing \$1.02 billion in FY 2016.

## Oklahoma Top Income Tax Rate, 2004-2018



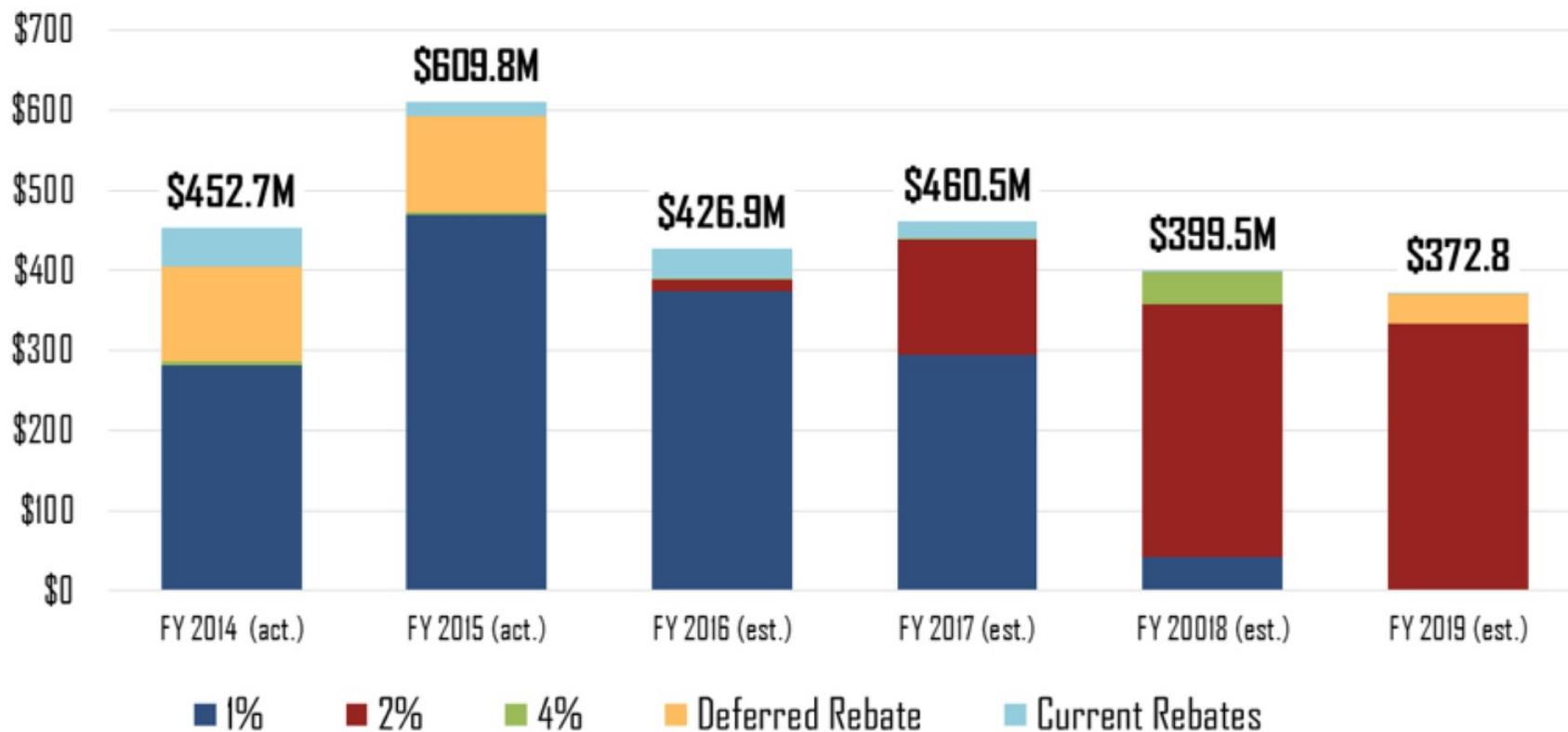
# How We Got Here: Tax Cuts

When all tax cuts since 2004 are included, annual revenue loss reaches \$1.5 billion.

- Estate tax abolished
- Capital gains exemption for sale of Oklahoma property
- Standard deduction raised and indexed
- Greater exemptions for retirement income
- Tax preferences for veterans

# How We Got Here: Tax Cuts

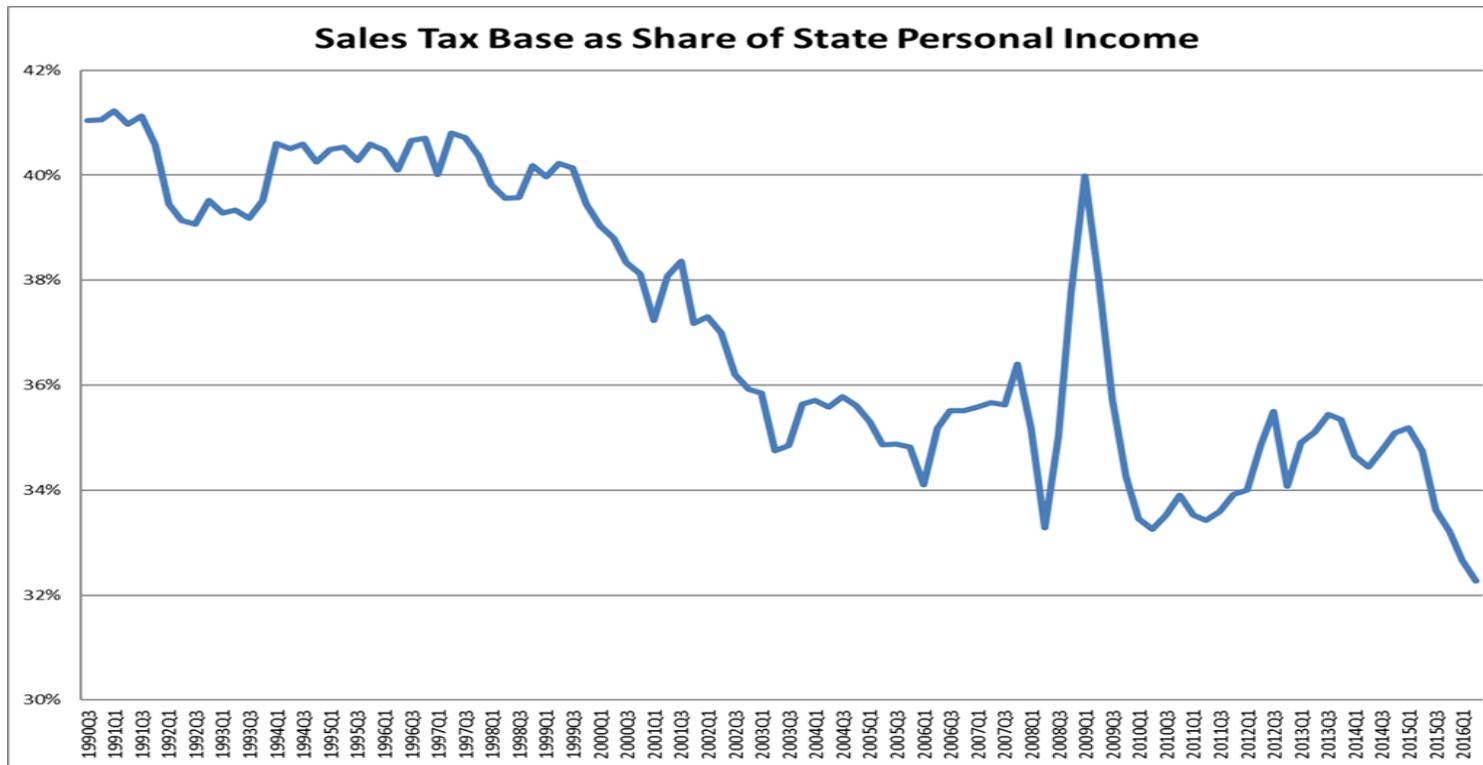
Annual Cost of Gross Production Tax Breaks and Rebates (in \$M), FY 2014- FY 2019



Source: Oklahoma Policy Institute calculations based on Oklahoma Tax Commission data

# How We Got Here: Economic Changes

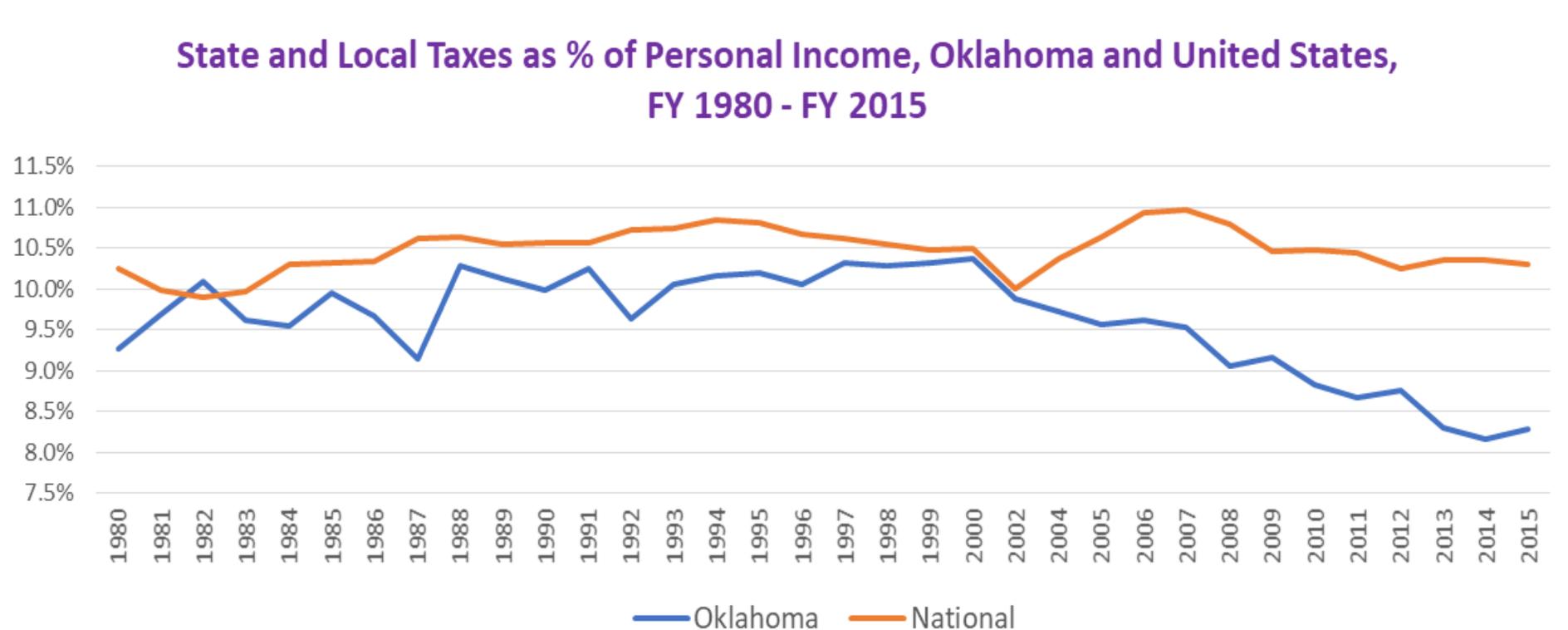
In 1990, the sales tax base was equal to 40 percent of state personal income; now it's 32 percent



Source: OMES Dec. 2017, Used with permission from Professor Robert C. Dauffenbach, 2017 OKC Economic Roundtable

# Oklahoma is a low tax state

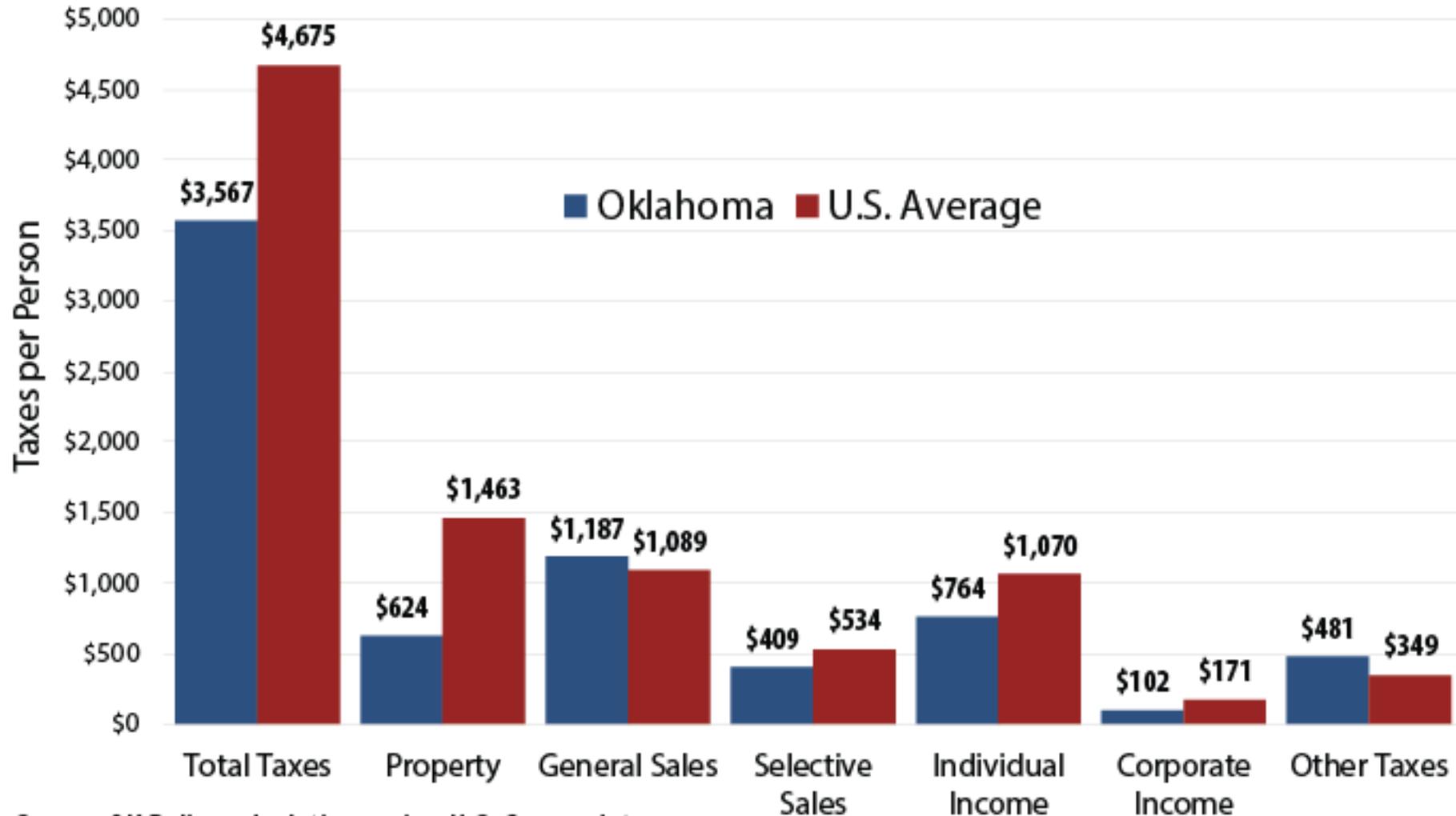
- State and local taxes as a share of income are now 20 percent below the national average and almost 25 percent below levels of late 1990's



Source: Center on Budget and Policy Priorities. Data unavailable for 2001, 2003

# Oklahoma is a low tax state

## State and Local Taxes Per Person, 2014



Source: OK Policy calculations using U.S. Census data

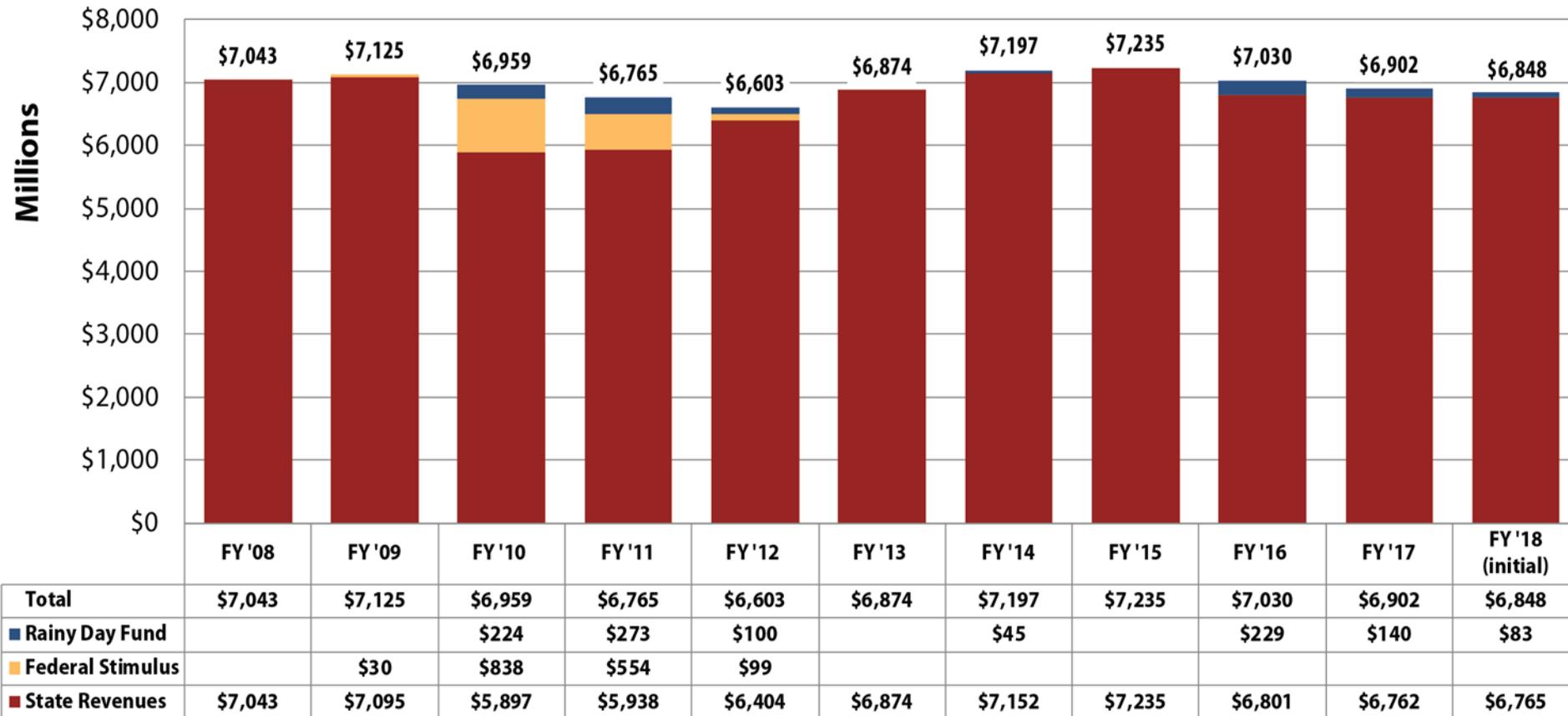
# Oklahoma faces serious budget challenges



# Oklahoma faces serious budget challenges

- Lawmakers reached an (almost) flat budget last year after entering session facing a massive budget hole

**Oklahoma State Appropriations, FY 2008 - FY 2018**  
(in \$ millions, includes mid-year cuts & supplementals)



# Oklahoma faces serious budget challenges

<b>Recurring Revenue</b>	
Cigarette Smoking Cessation Fee (\$1.50 per pack)	\$214,000,000
Vehicle Use Tax 1.25%	\$110,908,950
Increase GPT on horizontal wells to 4%	\$94,989,966
Real ID drivers licenses	\$17,860,182
Non-compliant business initiative	\$15,510,757
End sales tax vendor rebate	\$12,659,138
Long lateral drilling	\$9,001,275
Freeze standard deduction	\$3,950,239
Fee for professional sports tickets	\$2,527,000
Other measures	\$4,370,050
<b>Total Recurring Revenue</b>	<b>\$485,777,557</b>
<b>One-Time Revenue</b>	
Transfer ROADS Funds	\$100,000,000
Rainy Day Fund	\$83,000,000
Agency revolving fund transfers	\$60,299,818
Transfer County Improvement Roads & Bridges	\$50,000,000
Gross production tax rebate moratorium	\$43,054,286
Taxpayer voluntary disclosure initiative	\$13,116,277
Change franchise tax filing fee	\$12,027,000
Unclaimed property fund	\$7,203,502
<b>Total One-Time Revenue</b>	<b>\$368,700,883</b>

**Lawmakers passed \$854 million in additional revenues to close this year's budget hole.**

**Use of one-time funds and increasing non-discretionary spending creates at least \$400 million budget hole for next year.**

# Oklahoma faces serious budget challenges

- Supreme Court struck down the \$1.50-per-pack smoking cessation fee
  - Created a \$214 million hole in the budget of three agencies
    - Mental Health and Substance Abuse Services (\$75M)
    - Health Care Authority (\$70 million)
    - Human Services (\$69 million)
- Massive cuts were set to take effect December 1<sup>st</sup>
- Governor announced Special Session for September



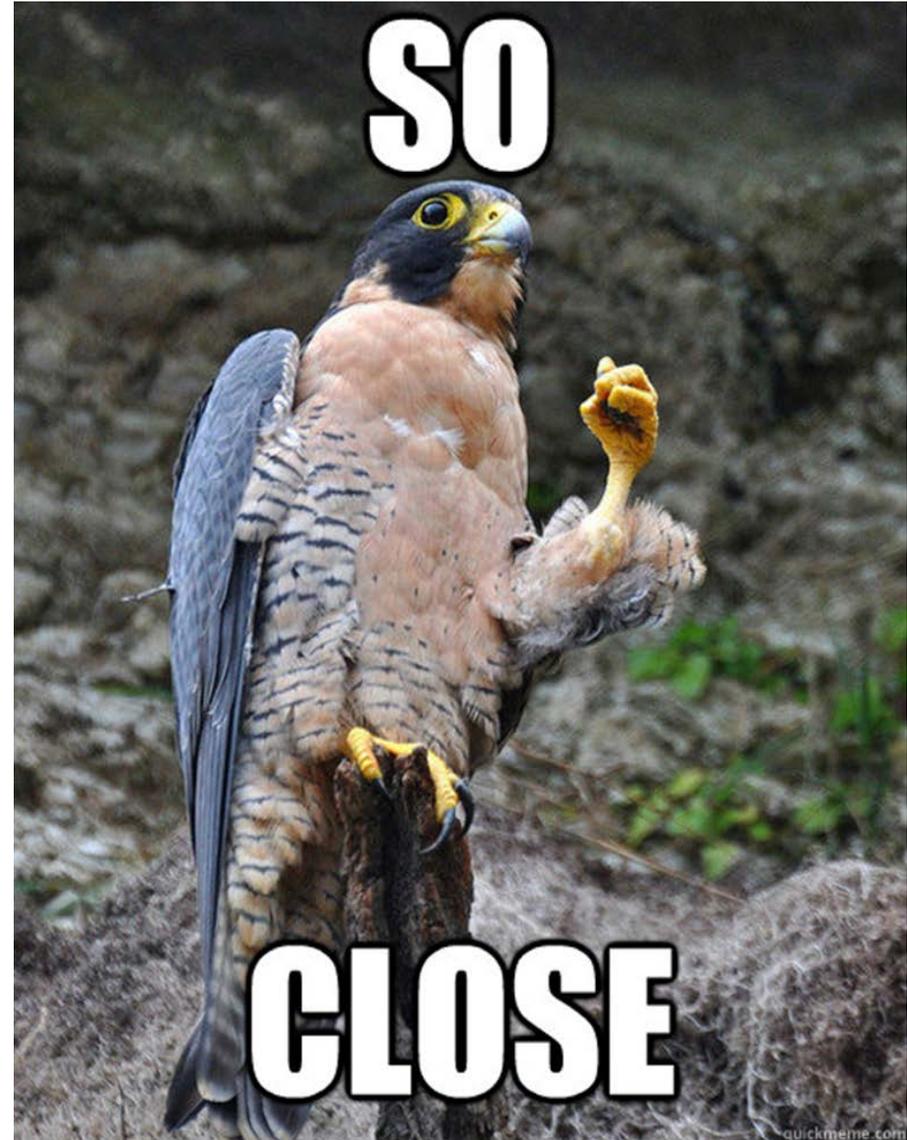
# Oklahoma faces serious budget challenges

**Comprehensive budget plan proposed in special session (HB 1054):**

- **\$1.50-per-pack tobacco tax; \$ 0.06 motor fuel tax, 4% initial rate on gross production**
- **\$3,000 teacher pay raise, \$1,000 state employee pay raise**
- **Restored the EITC**
  
- **37-5 vote in the Senate**
- **71-28 vote in the House - 5 votes short of  $\frac{3}{4}$**

**Won support of 77% of legislators**

- **80 of 107 Republicans (75%)**
- **28 of 33 Democrats (85%)**



# Oklahoma faces serious budget challenges

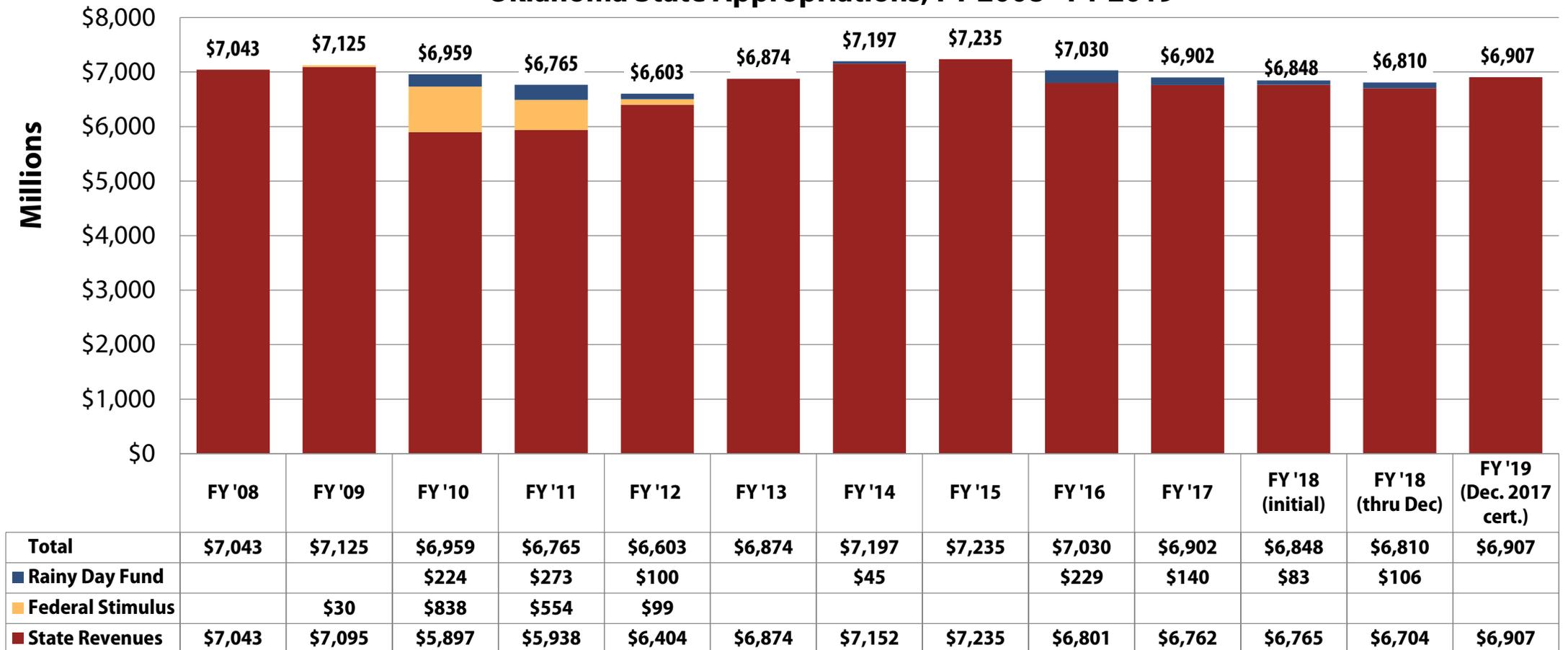


- Cash-and-cuts budget approved on last day of special session (HB 2019)
- Governor line-item vetoed most of the new budget bill
  - Left \$80 million in funding for Mental Health, Medicaid, DHS to fill part of their budget hole
  - \$30 million supplemental for the Health Department
- Second Special Session (December): Supplemental funds to DHS, OHCA to avert cuts through April
- DMHAS, DHS, OHCA still \$67 million below their initial FY 2018 appropriation

# Oklahoma faces serious budget challenges

- Initial FY 2019 estimates show enough revenue growth to allow for modest budget increase for next year – but a lot remains uncertain

Oklahoma State Appropriations, FY 2008 - FY 2019



# There are some reasons for hope!

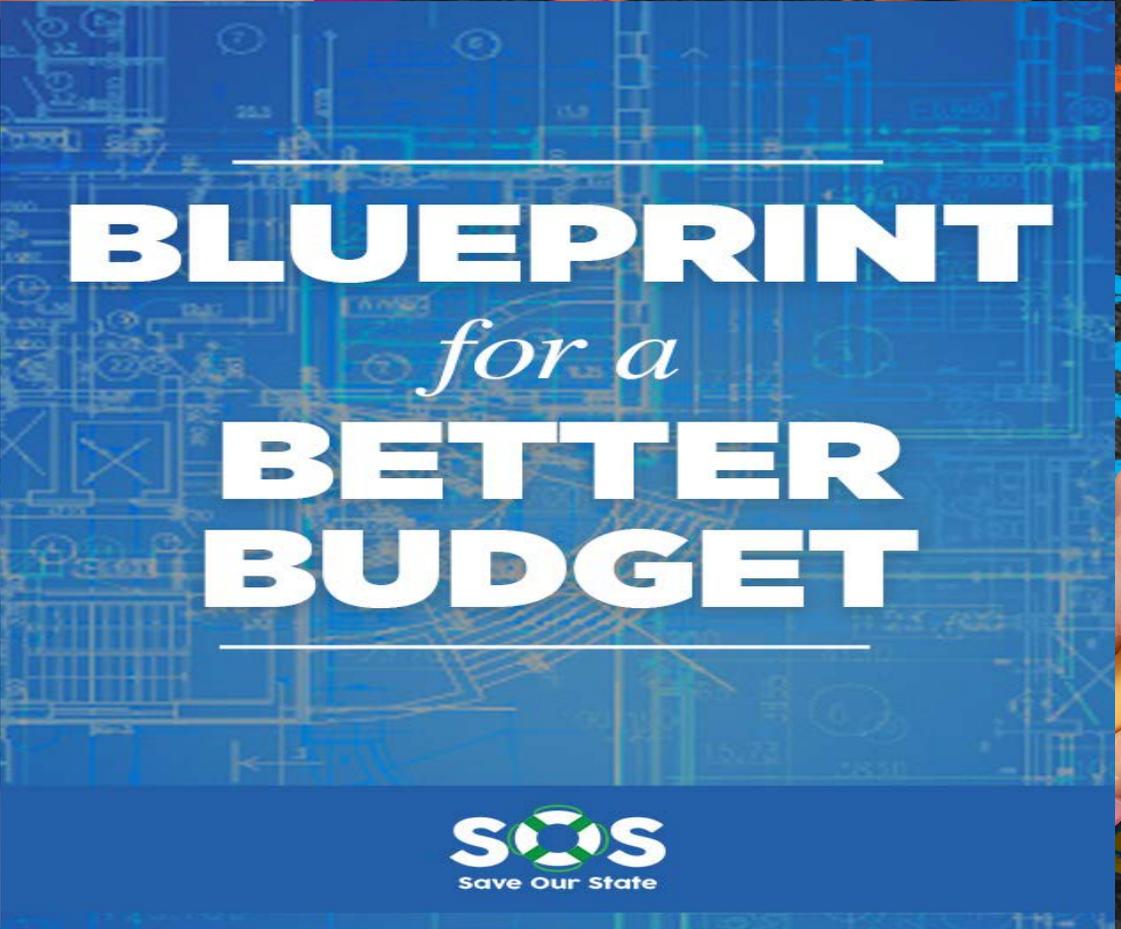


## Positive steps in recent sessions

- Tobacco trust fund protected
- Stronger pension systems
- Greater scrutiny of tax credits
- New budget reserve fund
- Stopped the movement for income tax repeal
- Recognition of structural deficit and need for new revenues
- Openness to new taxes

# What can be done?

**We have responsible & feasible solutions**



**BLUEPRINT**  
*for a*  
**BETTER  
BUDGET**

**SOS**  
save Our State

# What can be done?

## We have responsible & feasible solutions

- Increase the cigarette tax
- Increase the fuel tax
- Curtail tax breaks and off-the-top spending
- Modernize/extend the sales tax
- Restore top rate for high incomes
- Restore 7% gross production tax rate
- Reverse cuts to the state Earned Income Tax Credit
- Reform State Question 640

# What can be done?



- **Cigarette Tax** - \$243.9mm - *Increased by \$1.50 per pack*
  - **Gross Production Tax** - \$133.5mm - *All wells currently at 2% will be increased to 4% and all future wells will begin at 4% for first 36 months and move to 7% after*
  - **Little Cigars and Chewing Tobacco & E- Cigarettes** - \$12.9mm
  - **Motor Fuel Tax** - \$170.4mm - *Increase rate on diesel and gasoline by \$0.06 per gallon*
  - **Wind Generation Tax** - \$15.0mm –
  - **Transferable / Refundable Income Tax Credits** - \$18.0mm - *Cap transferability / cash refundability for coal, wind, and railroad credits effective 2018 tax year*
  - **Gaming Modernization** - \$22.0mm
  - **Individual Income Tax Reform** - \$175.0mm
- Total New Revenue** - \$790.7mm –
- Teacher & Principal pay raise** - (\$285.0mm)
- Revenue for Essential Services and Budget Stabilization** - \$405.7.0mm

# 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)

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