10 Things You Should Know about Oklahoma Budget and Taxes

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

- Well-educated, well-trained workforce -
  - Quality education system from early childhood to post-secondary
  - More college graduates
- Well-functioning infrastructure
- Healthy communities -
  - Access to timely and affordable care
  - Public health
- Safe streets and neighborhoods
- Stable safety net 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);
- It requires a ¾ 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.
2. Oklahoma is a low-tax state

Top income tax rate: 5.25%
State sales tax: 4.5%
Property tax per capita: $590
Estate tax: None
2. Oklahoma is a low-tax state

- Oklahomans pay 26 percent – or $1,127 - per person less in taxes than the national average*
- Of every $100 in income, Oklahomans pay $8.41 in state and local taxes (U.S. average: $10.34)*
- Oklahomans’ taxes are 45th in the nation per person and 49th as a share of personal income*

* All data for 2011, Tax Policy Center
3. Oklahoma has a balanced tax mix
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- Sales tax is the largest tax source when state and local taxes are combined

### State and Local Taxes by Source, 2011

- **General sales**: 33%
- **Individual income**: 23%
- **Property**: 18%
- **Other**: 11%
- **Motor vehicle**: 5%
- **Motor fuel**: 4%
- **Corporate income**: 3%
- **Tobacco**: 2%
- **Alcoholic beverage**: 1%

Total=$12.0 billion

Source: U.S. Census Bureau
3. Oklahoma has a balanced tax mix

The six largest sources accounted for 86 percent of all state tax revenues in 2012:

- Personal Income Tax – 31.4%
- General Sales Tax – 27.3%
- Gross Production Tax (Severance) – 9.6%
- Motor Vehicle Tax – 7.5%
- Motor Fuels Tax – 5.0%
- Corporate Income Tax – 5.0%
3. 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 2012 (in millions)

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 '12 (in $ millions)**
3. Oklahoma has a balanced tax mix

- Oklahoma’s property taxes are the 4th lowest in the nation (2010)
- Oklahomans pay less than half the national average in per capital property tax

<table>
<thead>
<tr>
<th></th>
<th>Property taxes per person, 2010</th>
<th>Total state and local taxes per person, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oklahoma</td>
<td>$ 642</td>
<td>$3,029</td>
</tr>
<tr>
<td>Average of six neighboring states</td>
<td>$1,123</td>
<td>$3,716</td>
</tr>
<tr>
<td>National Average</td>
<td>$1,434</td>
<td>$4,109</td>
</tr>
</tbody>
</table>

Source: Tax Foundation; Tax Policy Center
4. Low-income Oklahomans pay more
4. Low-income Oklahomans pay more

- Lowest-income households pay more than twice as much of their income in state & local taxes as do the wealthiest 1 percent of households

**Oklahoma State & Local Taxes**

Shares of family income for non-elderly taxpayers

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Share of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest 20%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Second 20%</td>
<td>9.7%</td>
</tr>
<tr>
<td>Middle 20%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Fourth 20%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Next 15%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Next 4%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Top 1%</td>
<td>4.6%</td>
</tr>
</tbody>
</table>

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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- Income tax cuts enacted between 2004-07 were large, permanent and back-loaded
- Top income tax rate lowered from 6.65 to 5.5 percent; dropped to 5.25 percent in 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Lost Revenues (in $ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY'05</td>
<td>$18.7</td>
</tr>
<tr>
<td>FY'06</td>
<td>$144.8</td>
</tr>
<tr>
<td>FY'07</td>
<td>$333.3</td>
</tr>
<tr>
<td>FY'08</td>
<td>$561.8</td>
</tr>
<tr>
<td>FY'09</td>
<td>$651.1</td>
</tr>
<tr>
<td>FY'10</td>
<td>$776.9</td>
</tr>
</tbody>
</table>

Source: Oklahoma Tax Commission
5. Taxes have been cut substantially in recent years

- Over 70 percent of the benefit from income tax cuts of mid-2000s went to the top 20 percent of households

6. Revenues have not recovered to pre-downturn levels
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- 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 recovered to pre-downturn levels

- Gen. Rev. collections in FY 2014 were 5.8 percent below FY 2008
- Collections have grown less than 1 percent in past 2 years
7. Most of the state budget funds 10 agencies
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- 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%)

- Common Ed.: $2,486.8M (34.6%)
- Higher Ed.: $988.5M (13.8%)
- OHCA [Medicaid]: $954.1M (13.3%)
- DHS: $587M (8.3%)
- Corrections: $471.5M (6.6%)
- Mental Health: $339.0M (4.7%)
- Transportation: $197.0 M (2.7%)
- Career Tech: $138.9M (1.9%)
- Juv. Affairs: $96.6M (1.3%)
- Public Safety: $95.8M (1.3%)
- All Other Agencies: $749.6M (10.4%)
7. Most of the state budget funds 10 agencies

- Common education is the largest agency but its share of the budget has declined in recent years
8. State budgets have been cut sharply in recent years
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- State appropriated spending has fallen far below historical averages and is at its lowest level in at least 30 years

![Graph: State spending has shrunk over time]

State Appropriations as Share of State Personal Income, FY '80 - FY '13

Source: OK Policy analysis of Bureau of Economic Analysis state personal income data and annual state appropriations, various sources
8. State budgets have been cut sharply in recent years

- This year’s budget is just 0.1 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)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total</th>
<th>Rainy Day Fund</th>
<th>Federal Aid</th>
<th>State Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY ‘07</td>
<td>$6,760</td>
<td></td>
<td>$224</td>
<td>$6,760</td>
</tr>
<tr>
<td>FY ‘08</td>
<td>$7,043</td>
<td></td>
<td>$273</td>
<td>$7,043</td>
</tr>
<tr>
<td>FY ‘09</td>
<td>$7,125</td>
<td></td>
<td>$554</td>
<td>$7,125</td>
</tr>
<tr>
<td>FY ‘10</td>
<td>$6,959</td>
<td>$224</td>
<td>$838</td>
<td>$5,897</td>
</tr>
<tr>
<td>FY ‘11</td>
<td>$6,765</td>
<td></td>
<td>$100</td>
<td>$5,938</td>
</tr>
<tr>
<td>FY ‘12</td>
<td>$6,603</td>
<td></td>
<td>$99</td>
<td>$6,404</td>
</tr>
<tr>
<td>FY ‘13</td>
<td>$6,874</td>
<td></td>
<td></td>
<td>$6,874</td>
</tr>
<tr>
<td>FY ‘14</td>
<td>$7,197</td>
<td></td>
<td></td>
<td>$7,152</td>
</tr>
<tr>
<td>FY ‘15</td>
<td>$7,193</td>
<td></td>
<td></td>
<td>$7,193</td>
</tr>
</tbody>
</table>
8. State budgets have been cut sharply in recent years

- Funding for common education remains down by over $170 million while enrollment has increased by over 40,000 students.
8. State budgets have been cut sharply in recent years

- **Per pupil funding** in Oklahoma has been cut by $810 per student - 22.8 percent - since 2008 (adjusted for inflation)
- Steepest cuts in the nation
8. State budgets have been cut sharply in recent years

- Per pupil higher education funding in Oklahoma has been cut by 26.3 percent since 2008 (adjusted for inflation)
8. State budgets have been cut sharply in recent years

- Since 2008, the number of inmates per correctional officer has jumped from 7.2 to 11.2
- Oklahoma has the lowest staffing ratio in the nation
8. State budgets have been cut sharply in recent years

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

Graph via www.okwaitinglist.org
9. Oklahoma faces serious long-term budget challenges
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- 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: Projections conducted in 2007 by Dr. Kent Olson, Professor of Economics, Oklahoma State University
9. 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
9. Oklahoma faces serious long-term budget challenges

- Growing cost of tax incentives for horizontal drilling and other forms of production are a major cause of stagnant revenues
10. Oklahoma needs sensible tax reform
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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;
- 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
11. You have the power to make change happen

UNLESS someone like you cares a whole awful lot, nothing is going to get better. It’s not.

—The Lorax

Get engaged with the Together Oklahoma coalition
http://togetherok.org
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