

Oklahoma's Budget:

Where We've Been, Where We Are, and Where We're Going

6th Annual State Budget Summit

January 24, 2019

David Blatt, Executive Director



OKPOLICY.ORG

Oklahoma Policy Institute

Who We Are



- **Advance equitable and fiscally responsible policies to expand opportunity for all Oklahomans through non-partisan research, analysis and advocacy**
- **17-person full-time staff based mostly in Tulsa**
- **501(c)(3) organization funded by national and local foundations, individuals, organizations, and businesses.**



Who I Am

- **Native of Canada, moved to Oklahoma in 1996**
- **Worked 3 years for Senate staff, then Policy Director for CAP Tulsa**
- **Helped found OK Policy in 2008, became Director in 2010**
- **Conduct research, give presentations, write columns on budget and tax, other issues**
- **Son and husband of public school teachers**



Budget Basics

The Oklahoma Constitution Bill of Rights

(Section II-1: Political Power – Purpose of Government)

“All political power is inherent in the people; and **government is instituted for their protection, security, and benefit, and to promote their general welfare;** and they have the right to alter or reform the same whenever the public good may require it”



Budget Basics

WHY THIS MATTERS:

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

- Jacob Lew



Budget Basics

To promote the general welfare and build a thriving, prosperous state, we need adequate and effective investments in Oklahoma's people and communities

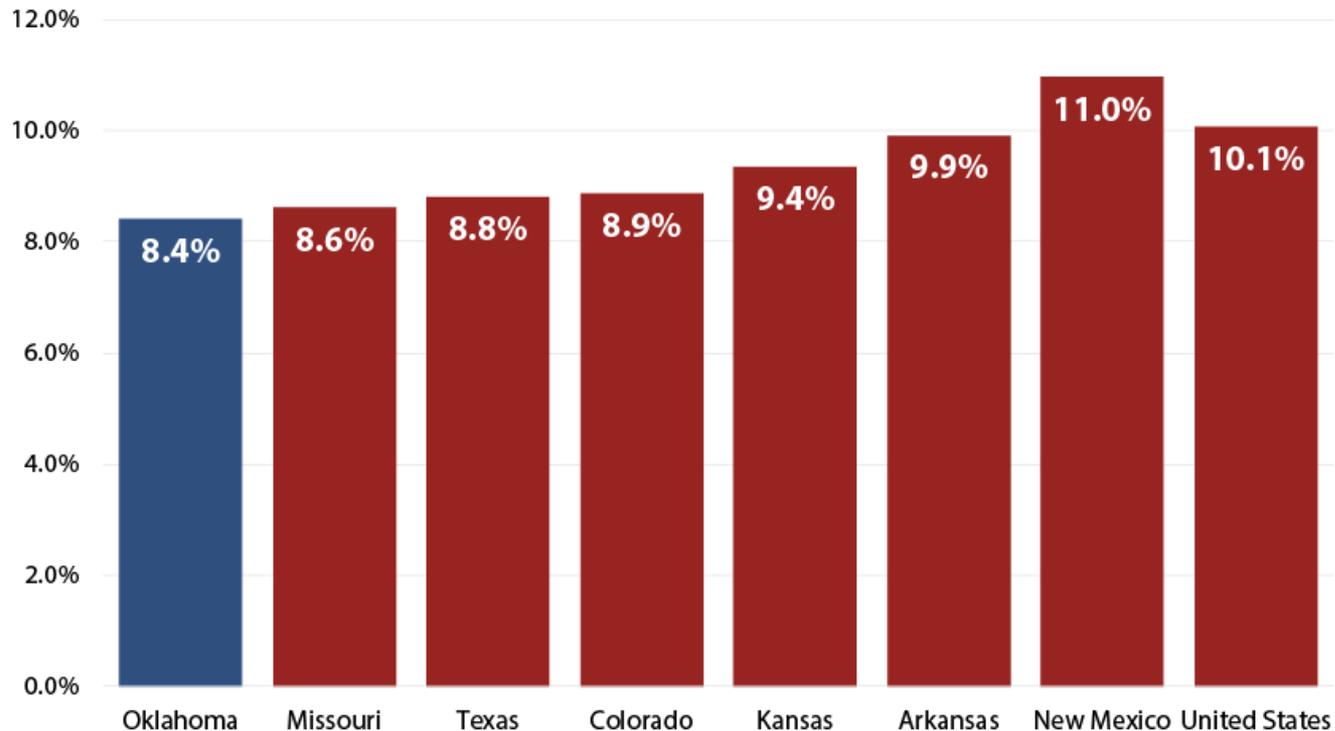
- Well-educated, well-trained workforce
- Well-functioning infrastructure
- Enforcement of economic rules
- Healthy communities
- Safe streets and neighborhoods
- Protected natural resources
- Strong families
- Support for those in need



Budget Basics

Oklahoma is an Overall Low-Tax State

Oklahoma State & Local Taxes as Percentage of Personal Income are Lower than All Surrounding States, 2015



Data Source: U.S. Census

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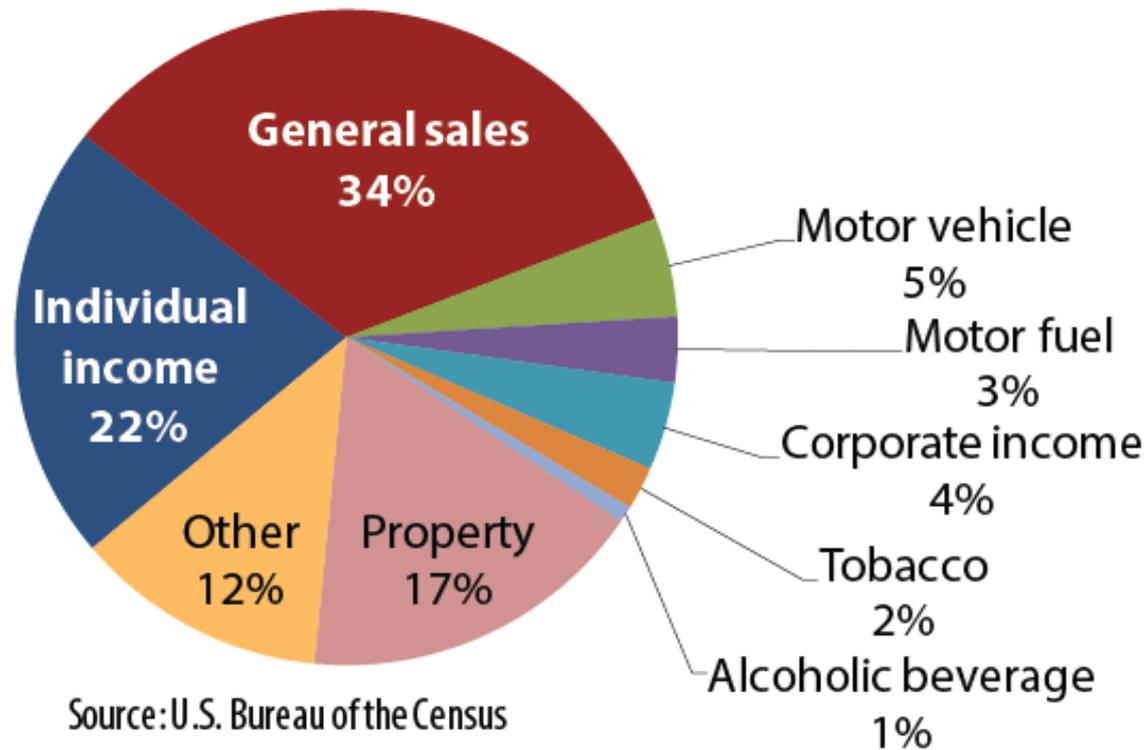


Budget Basics

Oklahoma's tax mix is fairly well-balanced

State and Local Taxes by Source, 2013

Total=\$13.5 billion



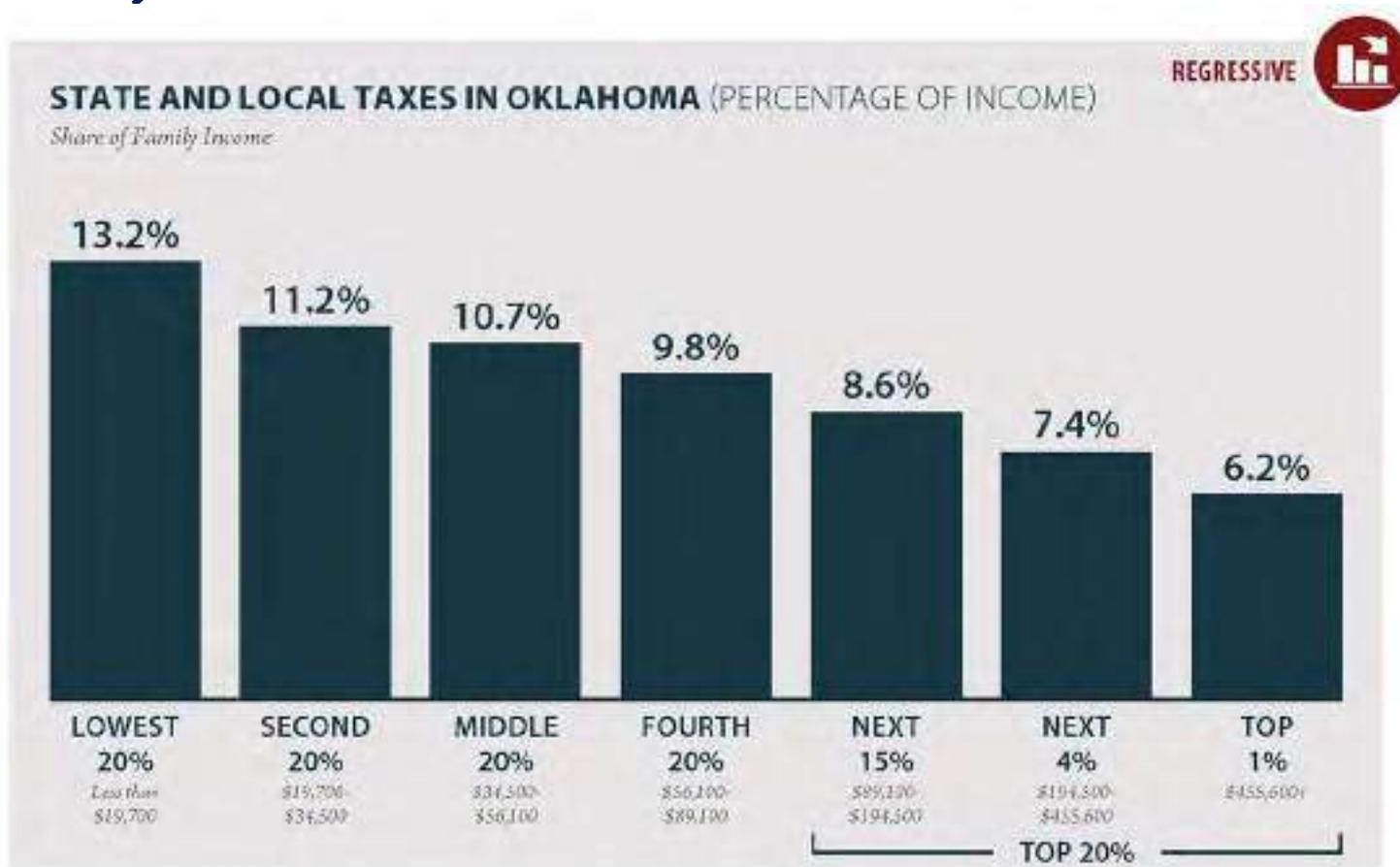
Source: U.S. Bureau of the Census

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Budget Basics

Average Oklahomans pay a greater share than the wealthy



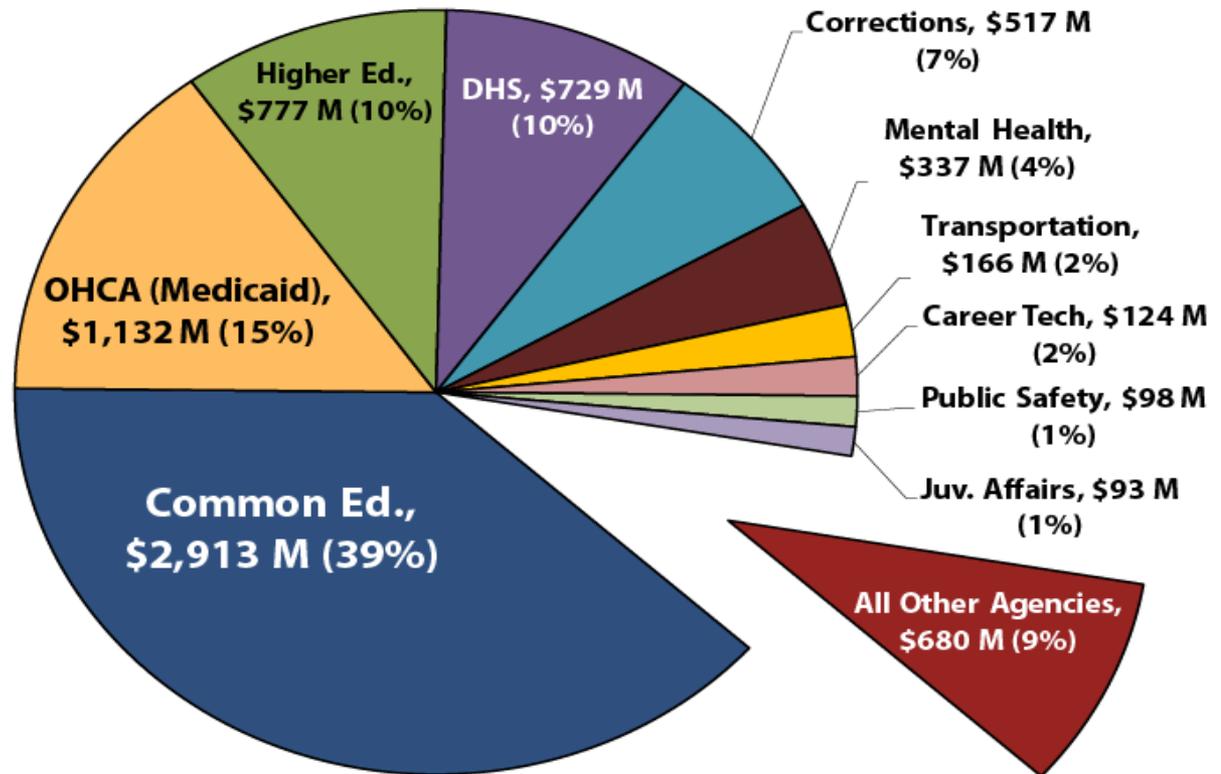
Budget Basics

Most of the budget goes to 10 largest agencies

FY 2019 Appropriations to Ten Largest Agencies

Total Appropriations:
\$7,567 M

Total Ten Largest:
\$6,887 M (91.0%)

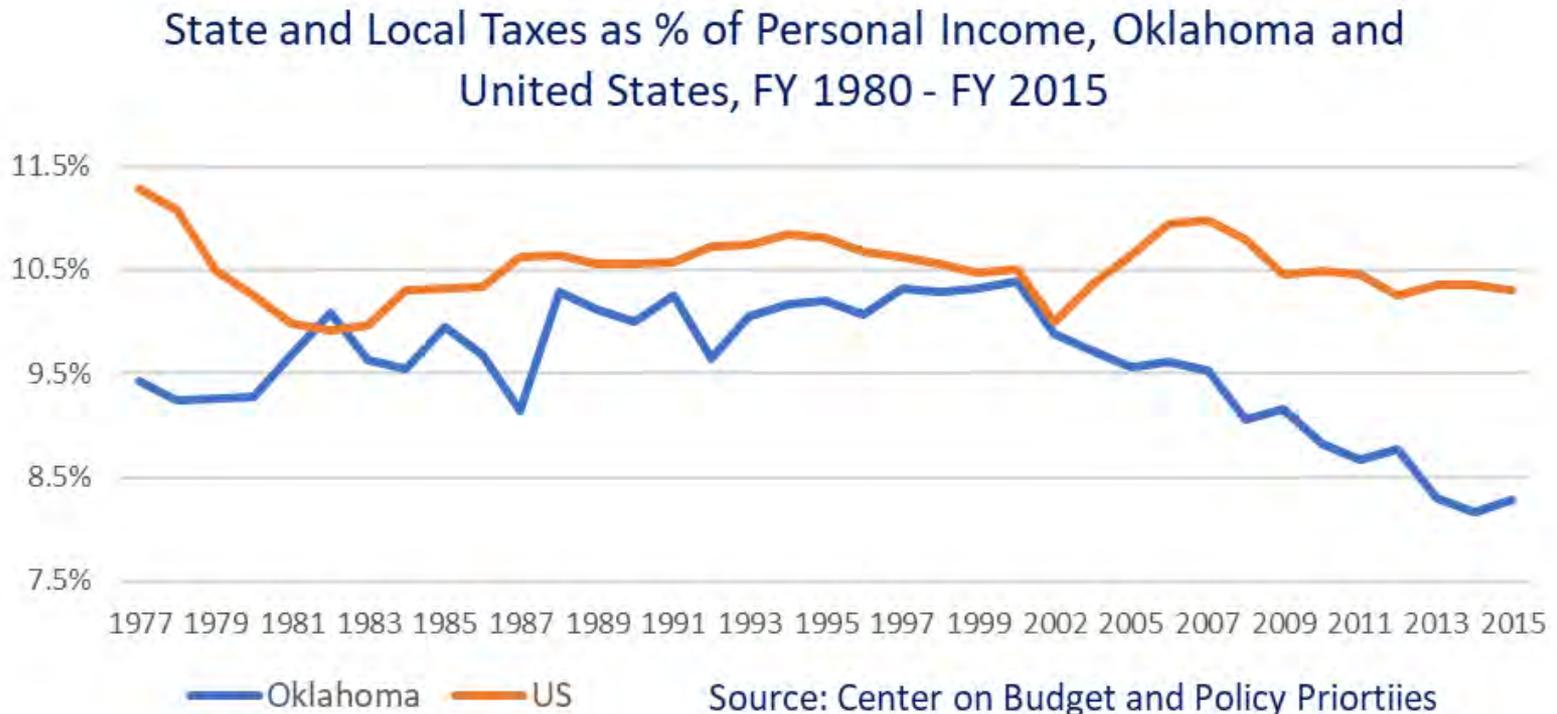


Where We've Been



Where We've Been

Oklahoma's tax collections have not kept pace with a growing economy

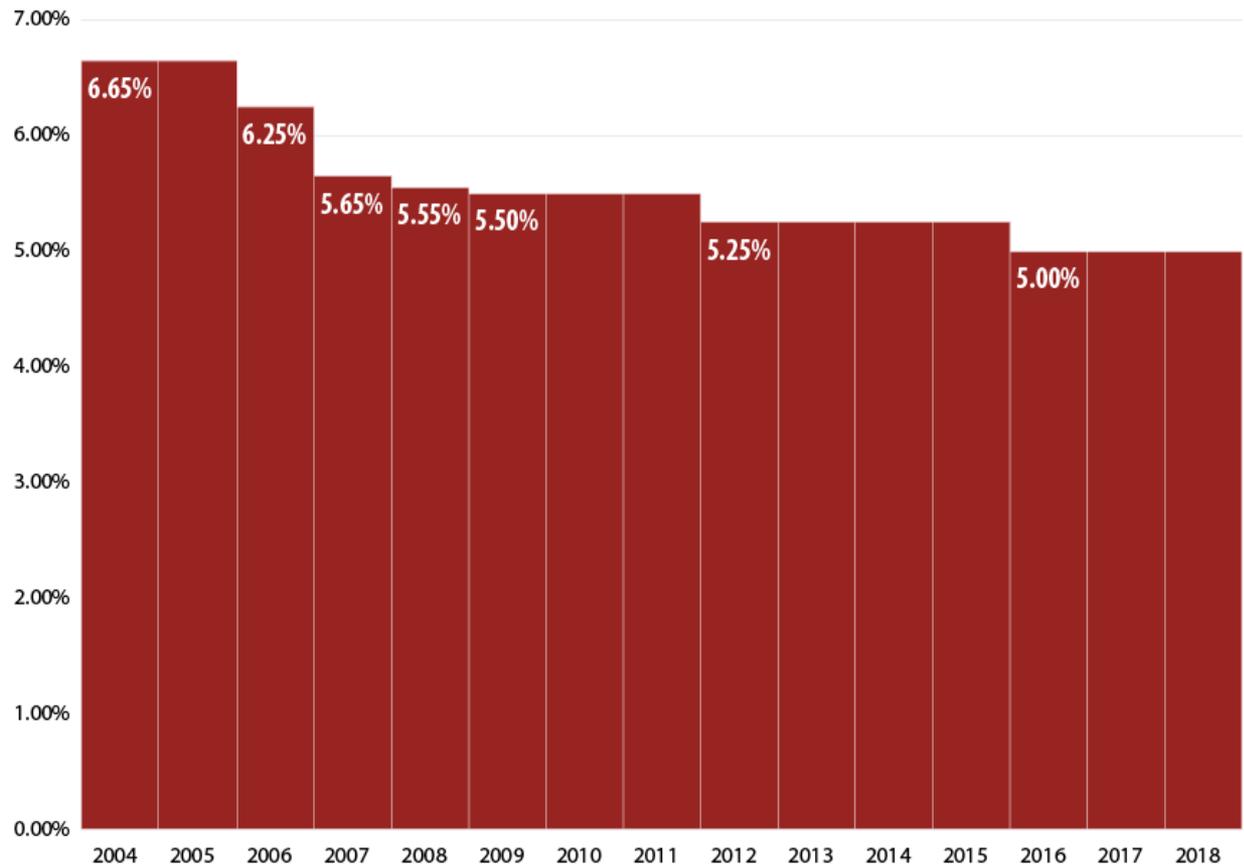


Where We've Been

Taxes have been cut greatly in recent years

- The top income tax rate was cut by 27 percent
- By 2016, the state was collecting \$1.022 billion less each year as a result of cuts to the top tax rate

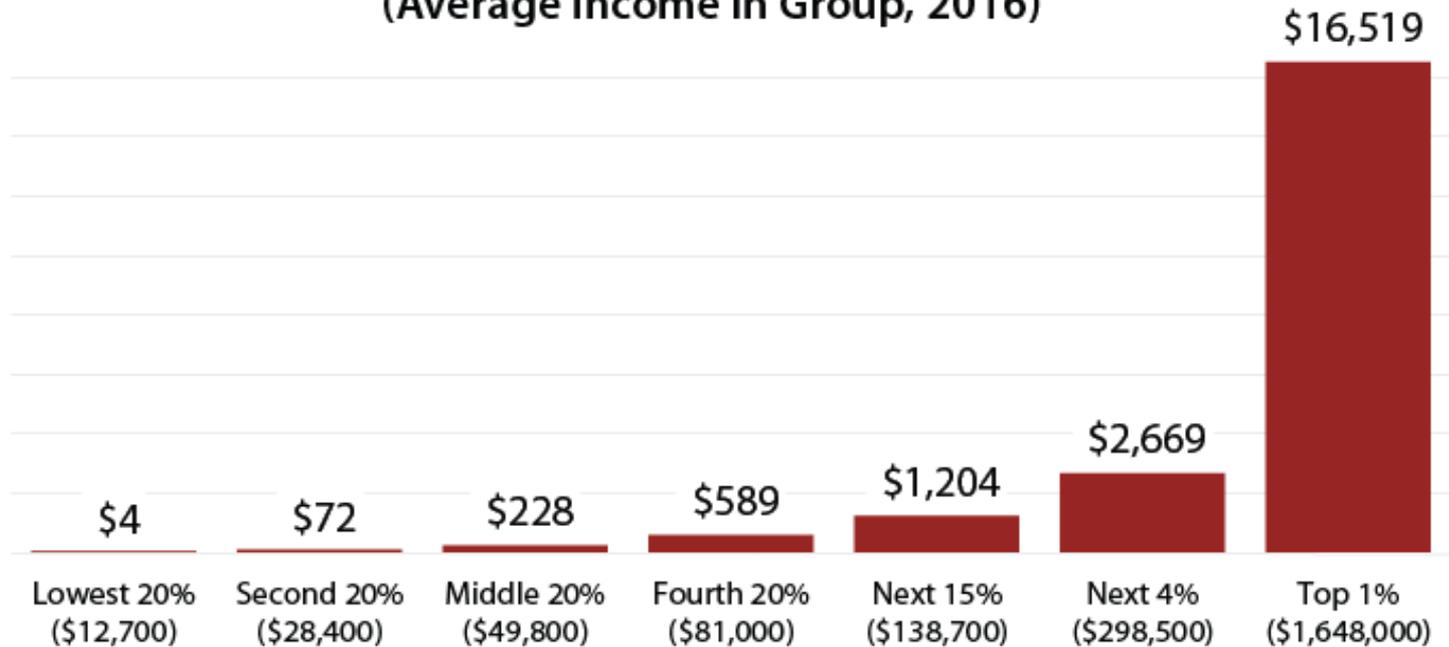
Oklahoma Top Income Tax Rate, 2004-2018



Where We've Been

The benefits from tax cuts have not contributed to broad-based prosperity

Oklahoma Income Tax Rate Reductions Since Mid-2000s
Average Tax Cut for 2016
(Average Income in Group, 2016)

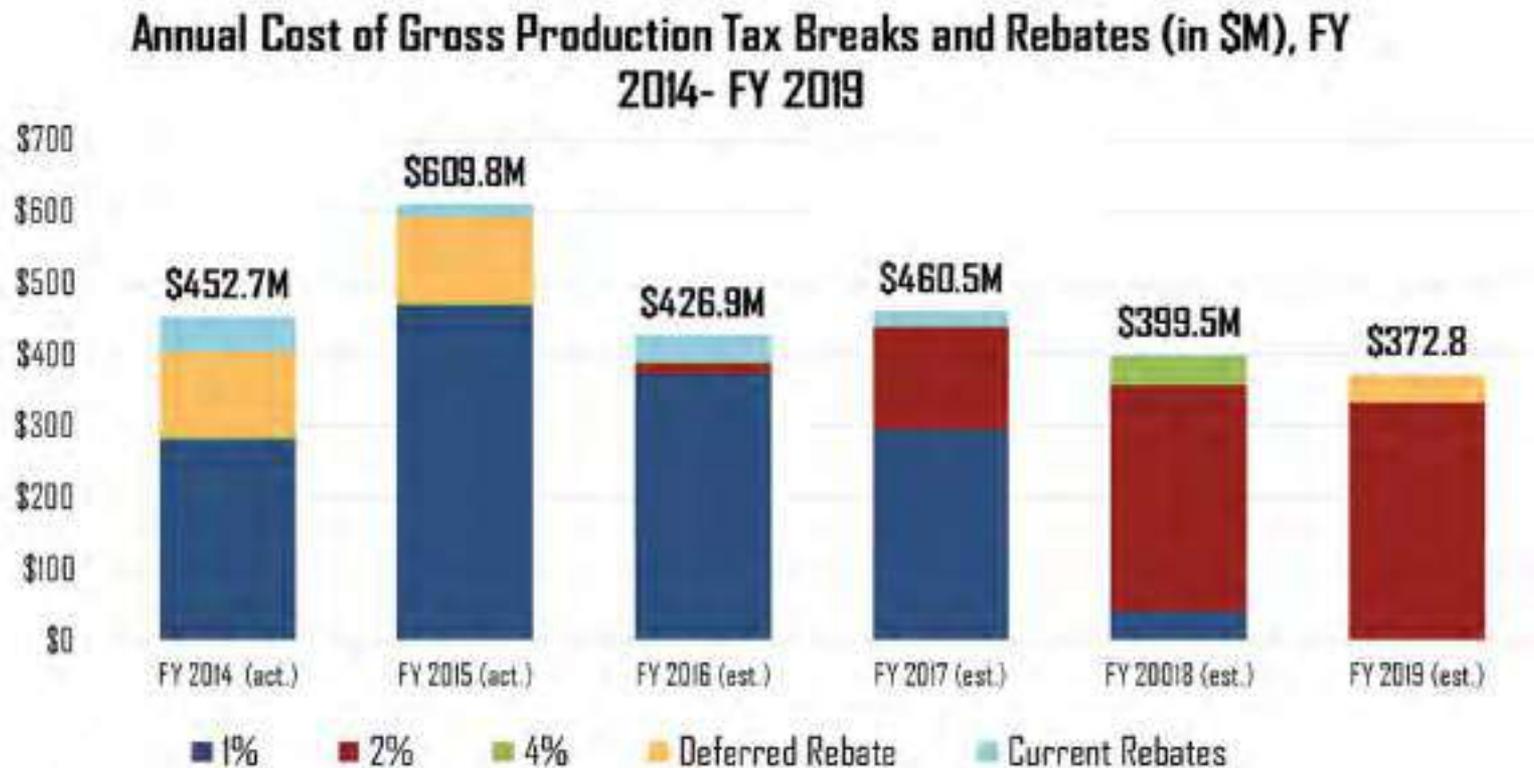


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Where We've Been

Growing cost of tax incentives for oil and gas producers and other tax breaks



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



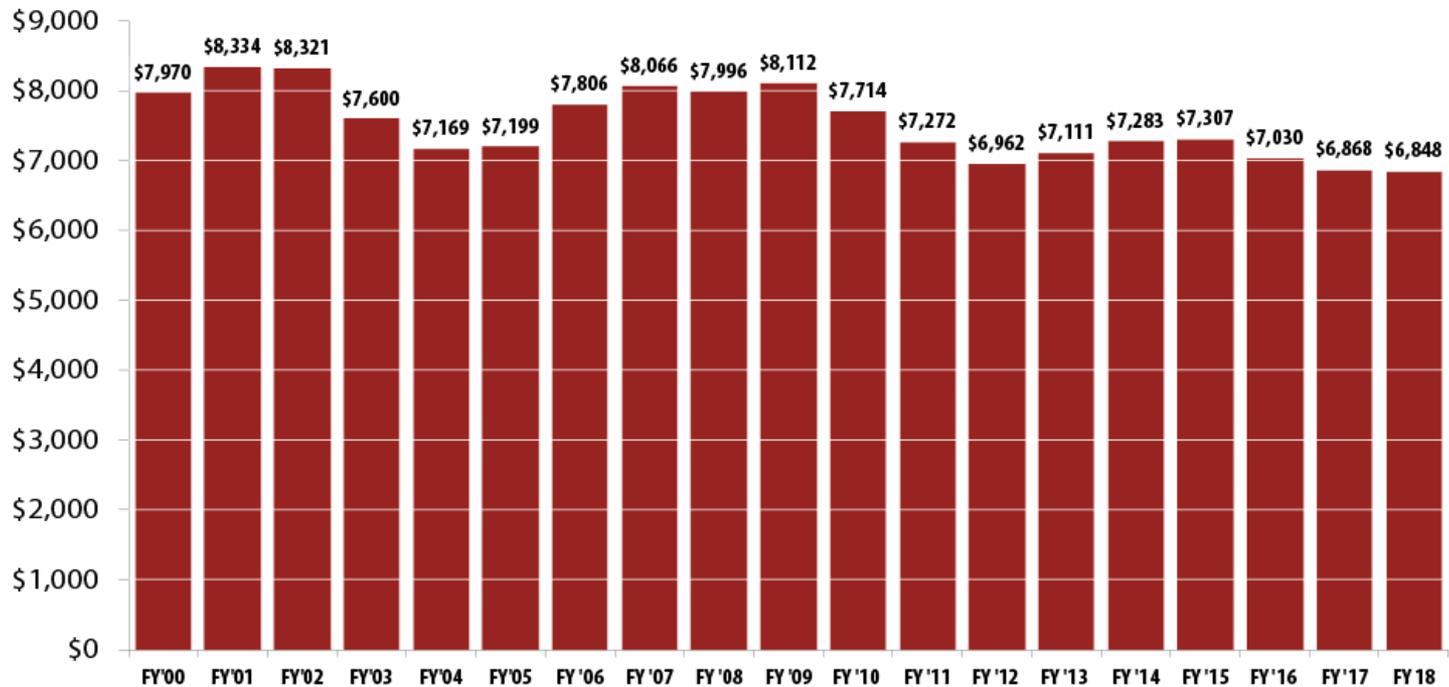
Where We've Been

The FY 2018 budget was shrunk by 15.6 percent compared to a decade ago, adjusted for inflation

Total State Appropriations Adjusted for Inflation

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

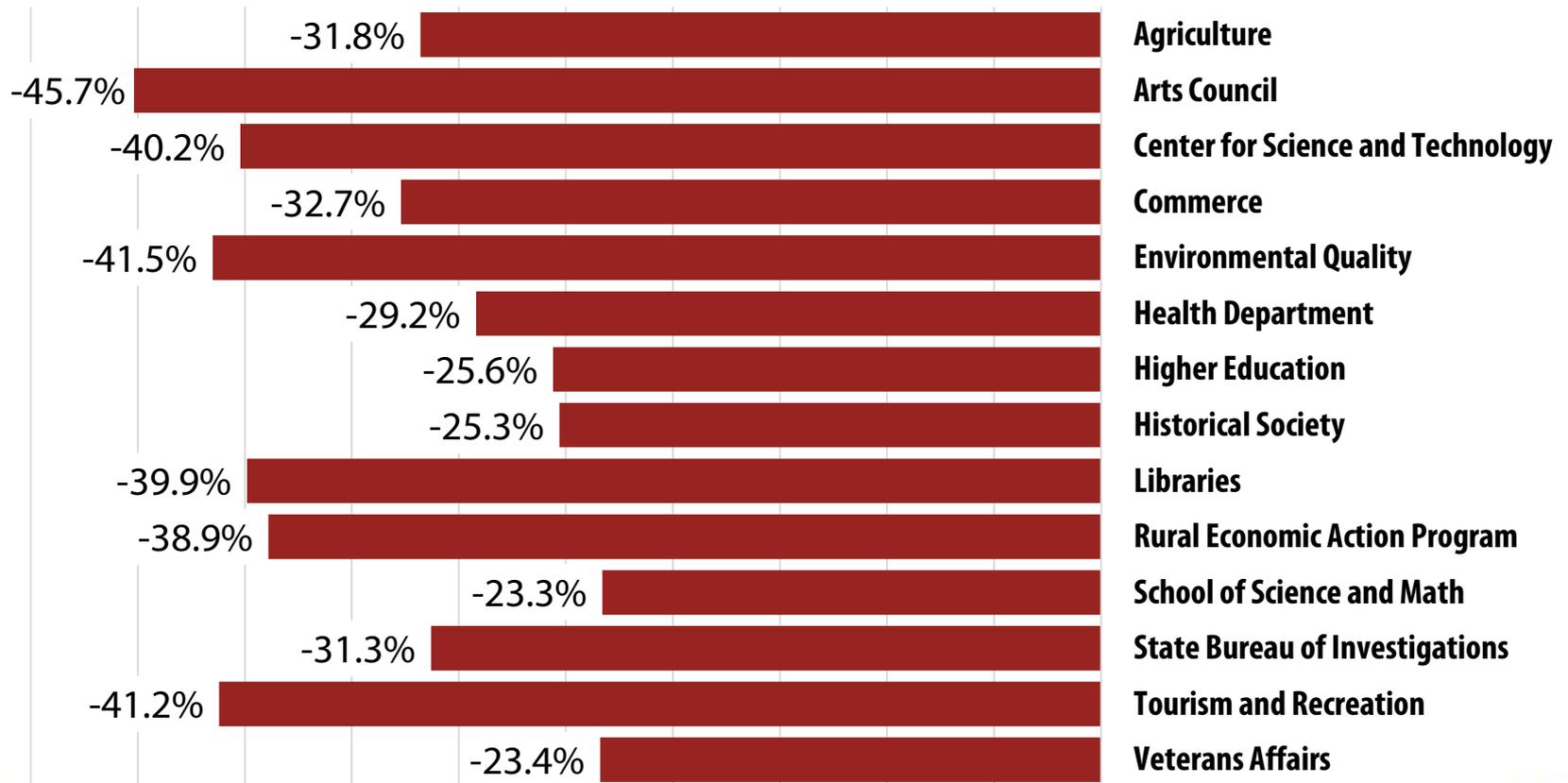
Percentage Change, FY 2009-FY 2018: -15.6%



Where We've Been

Many state agencies lost more than one-quarter of their state funding

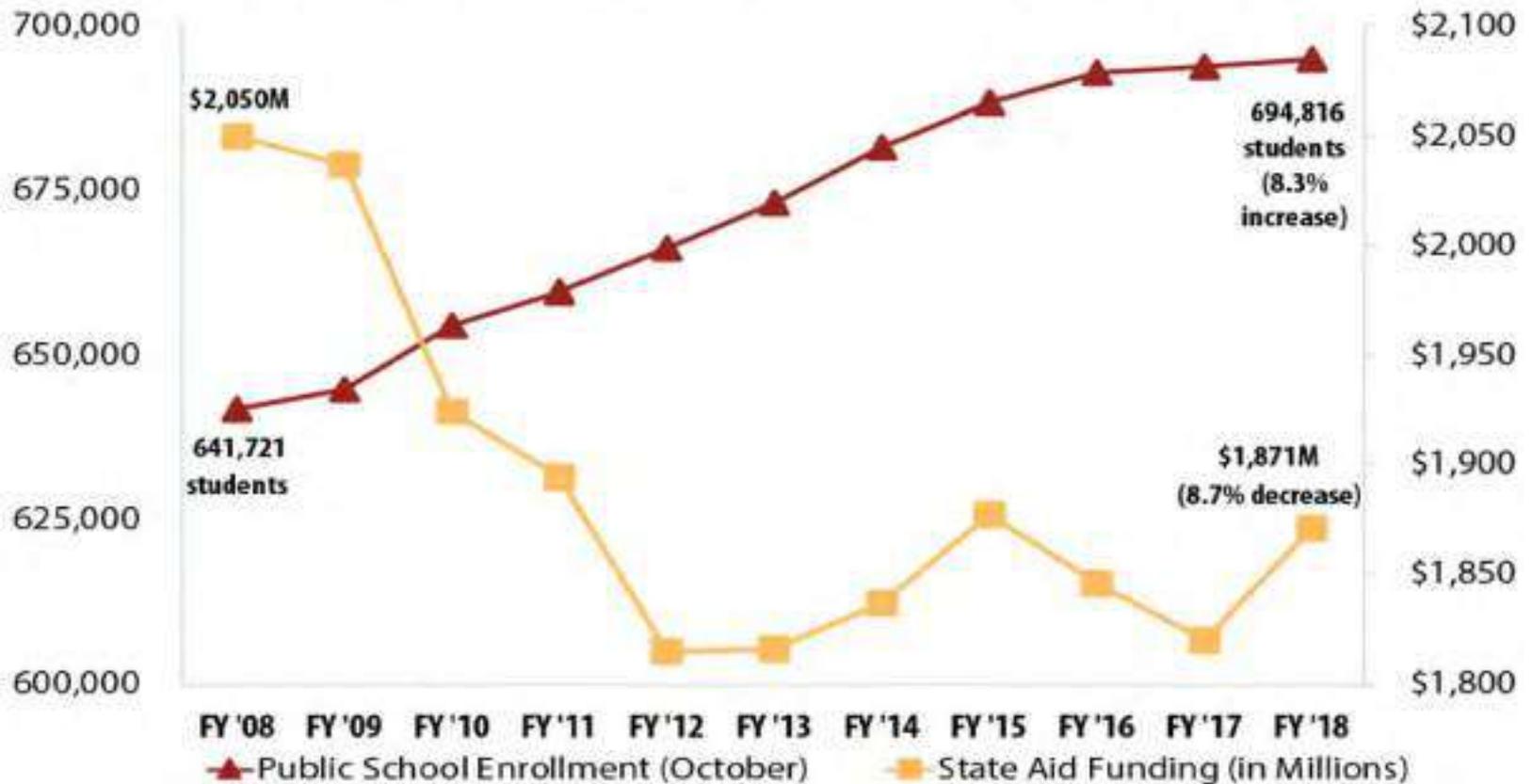
State Funding for Select Agencies, Percent Change, FY 2009 - FY 2018



Where We've Been

Schools have had less money while serving more students

State Aid Funding for Schools Has Not Kept Up With Enrollment



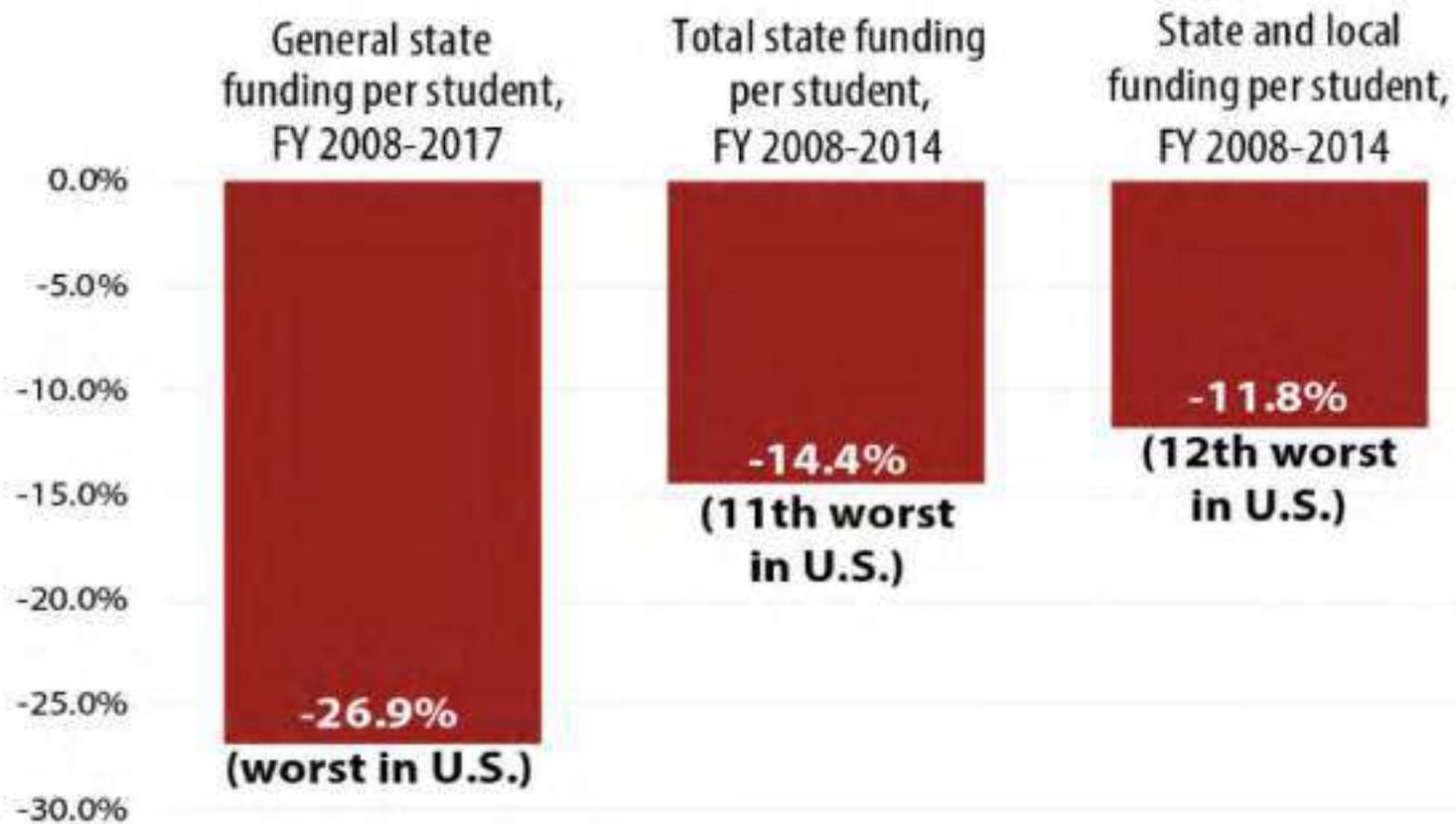
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Where We've Been

Among the deepest cuts to public education in the nation

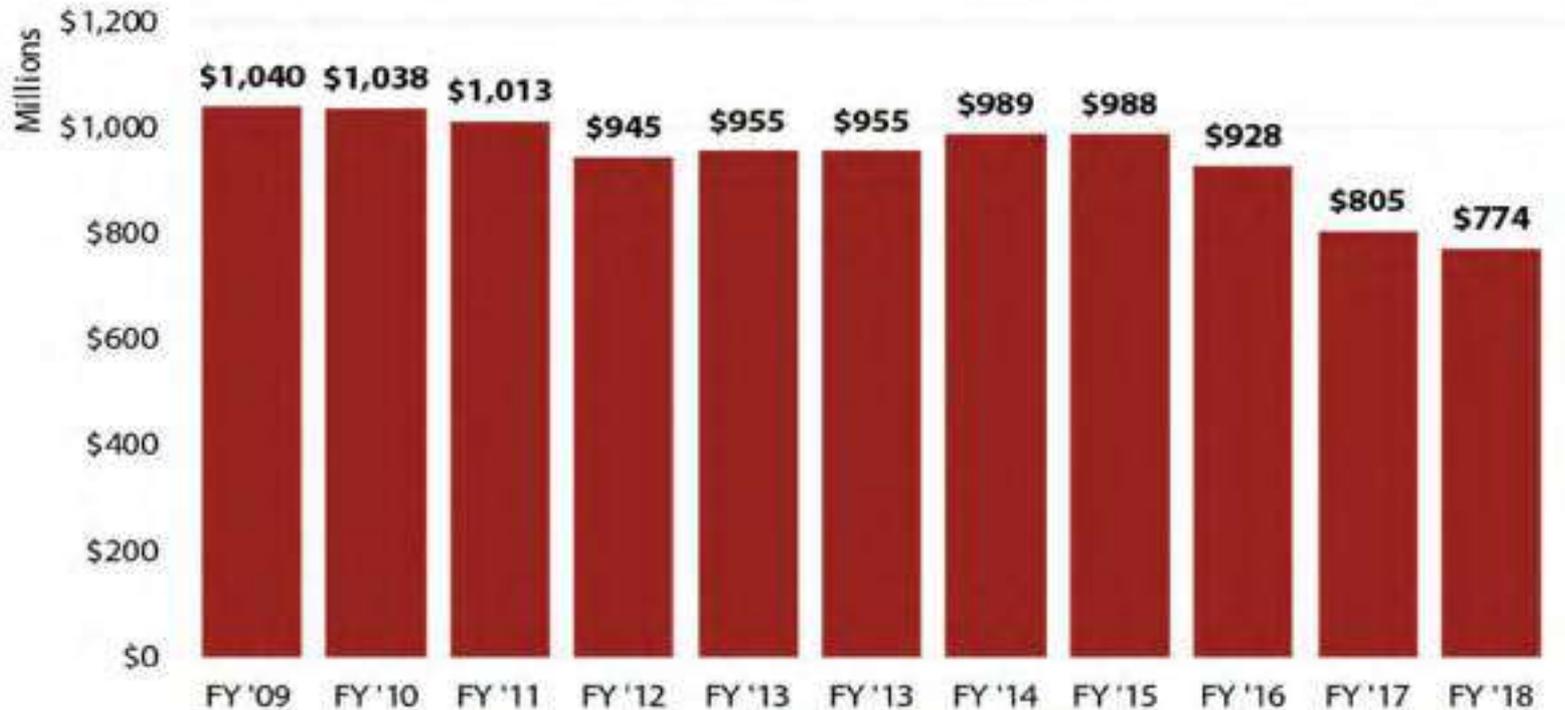
Percent change in per pupil spending in Oklahoma, inflation adjusted



Where We've Been

Oklahoma made deepest higher education funding cuts

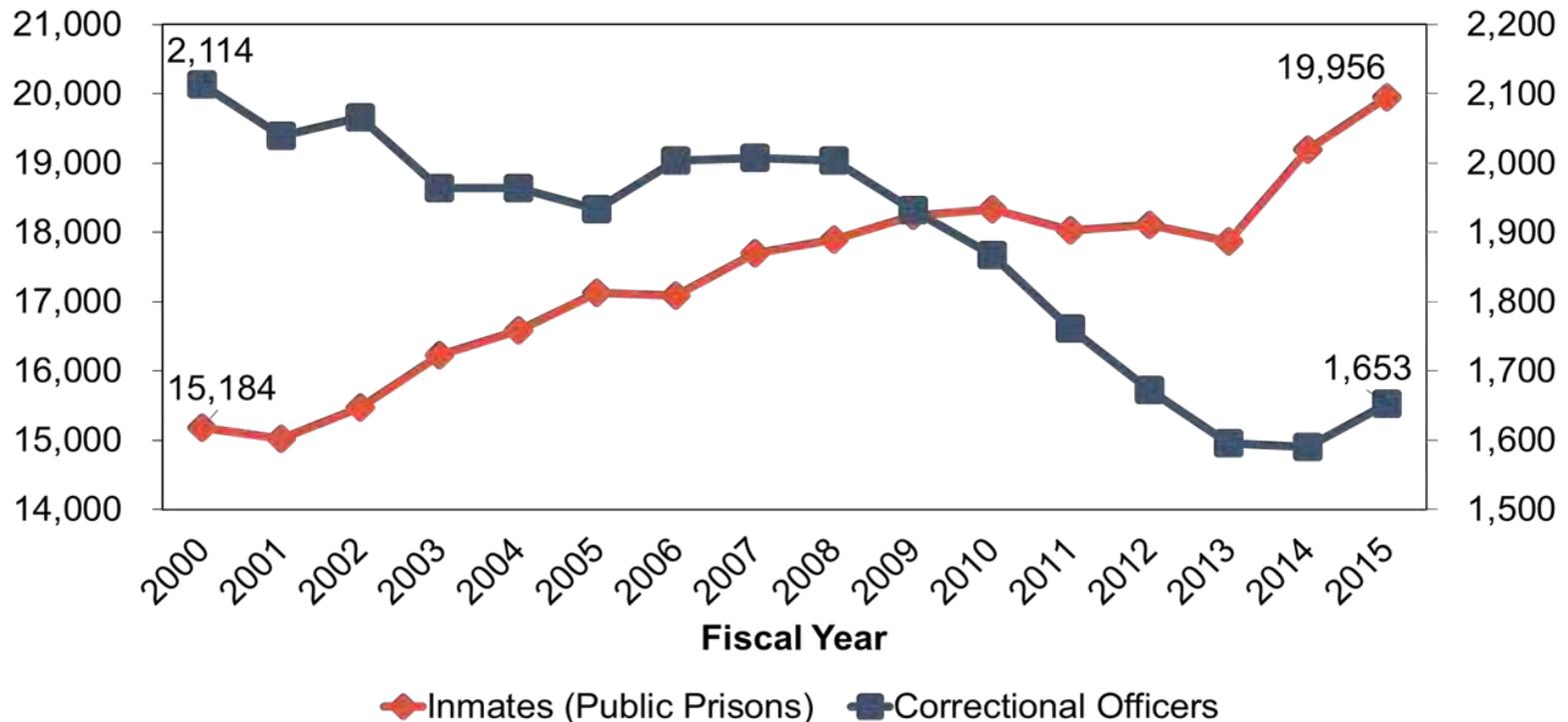
State appropriations for higher education down 25.6% from 2009



Where We've Been

Oklahoma has the **lowest correctional staffing ratio in the nation**

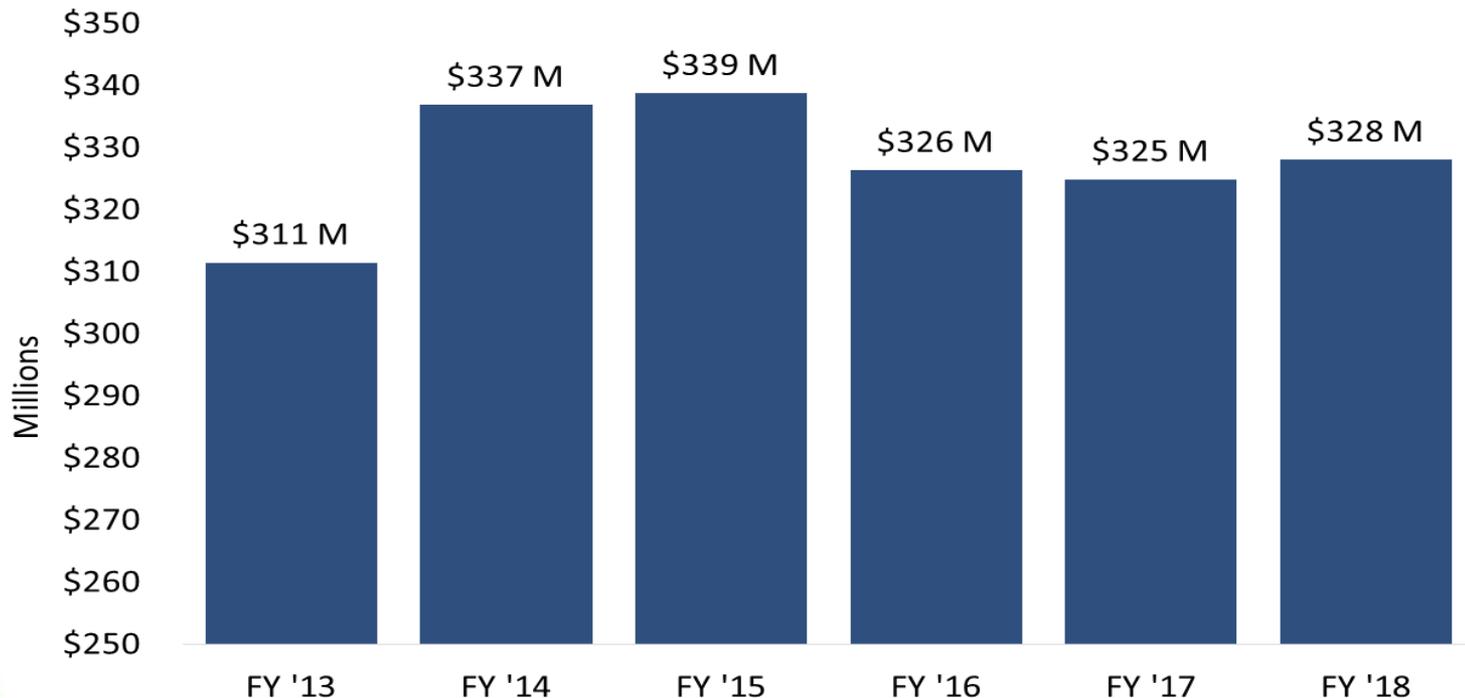
Oklahoma State Prisons Have 4,772 More Inmates and 461 Fewer Correctional Officers Since 2000



Where We've Been

- Oklahoma has among the highest rate of individuals suffering frequent mental distress and highest rate of children with multiple Adverse Childhood Experiences
- Per capita mental health funding is among the lowest in the nation

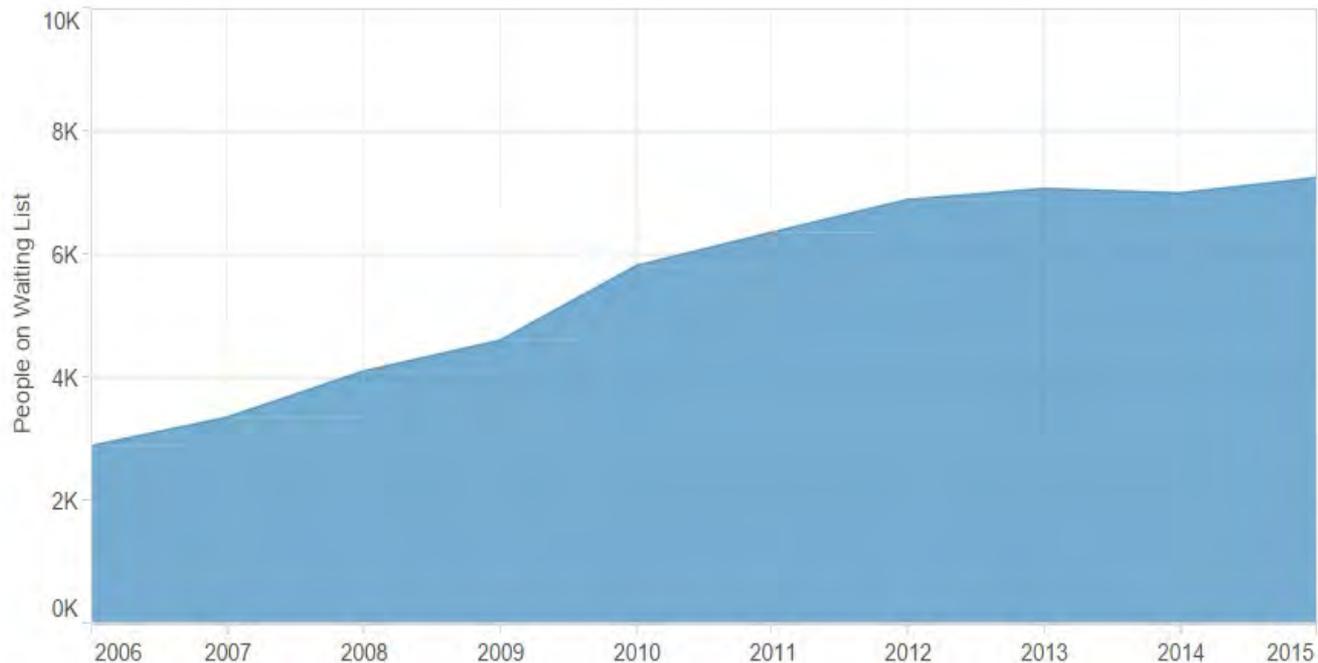
ODMHSAS Appropriations FY 2013-18



Where We've Been

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

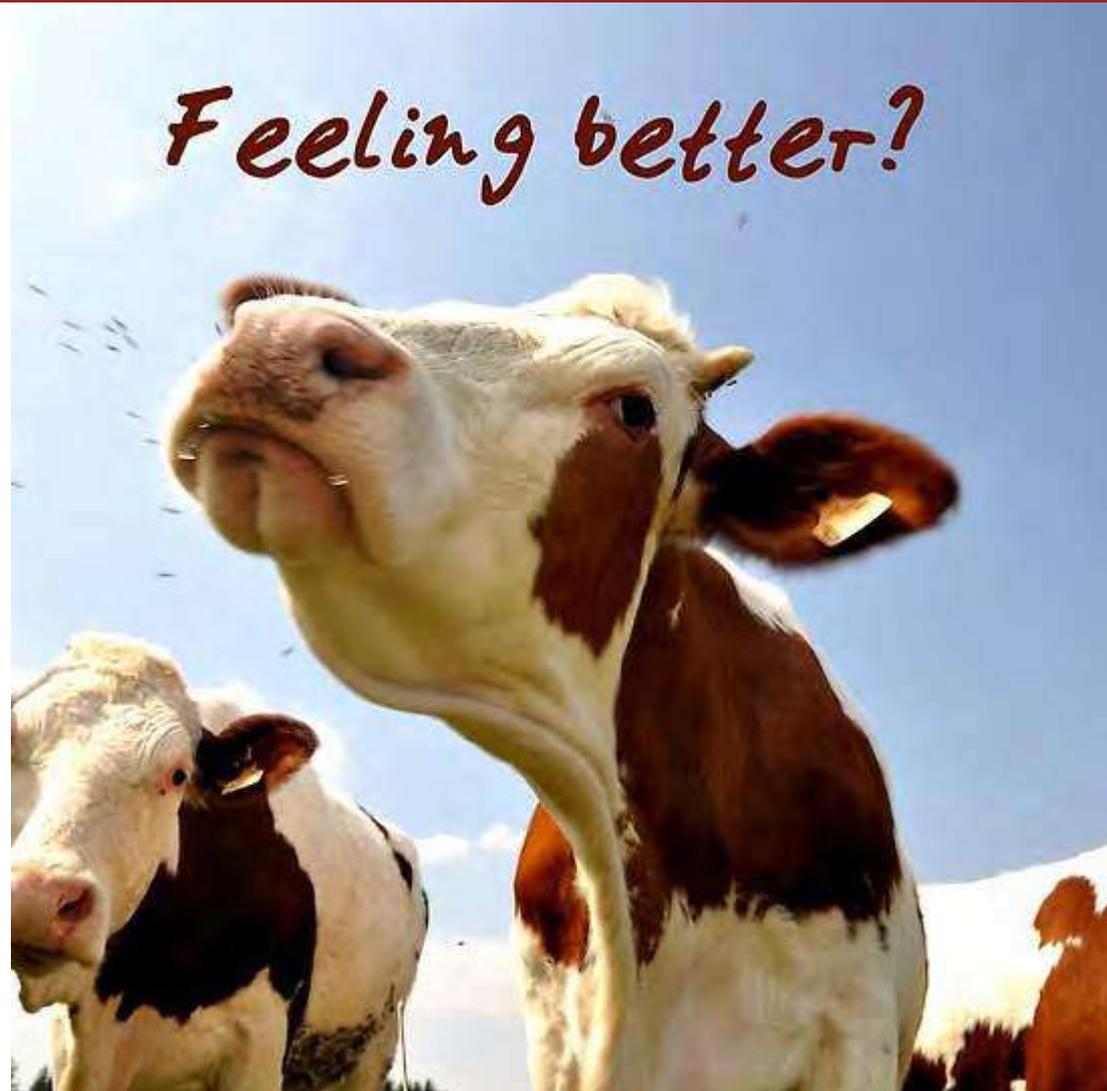
Over 7,600 families are on the DDSD waiting list (March 2018)



Developmental Disabilities Services division of Oklahoma Department of Human Services



Where We Are



Where We Are

- Lawmakers approved >\$500M in new tax revenue in 2018
- HB 1010xx passed with greater than $\frac{3}{4}$ support – first outright tax increase since passage of SQ 640 in 1992

Special Session Revenue Increases	
Gross Production Tax - 5% Initial Rate (HB 1010xx)	\$158,510,872
Cigarette tax increase - \$1 per package (HB 1010xx)	\$144,470,300
Taxing little cigars as cigarettes (HB 1010xx)	\$906,300
Gas tax increase - \$0.03 per gallon (HB 1010xx)	\$49,380,169
Diesel tax increase - \$0.06 per gallon (HB 1010xx)	\$50,353,325
Itemized deductions cap (HB 1011xx)	\$83,347,438
Online commerce sales tax extension (HB 1019xx)	\$19,600,000
Total New Revenue	\$507,568,404

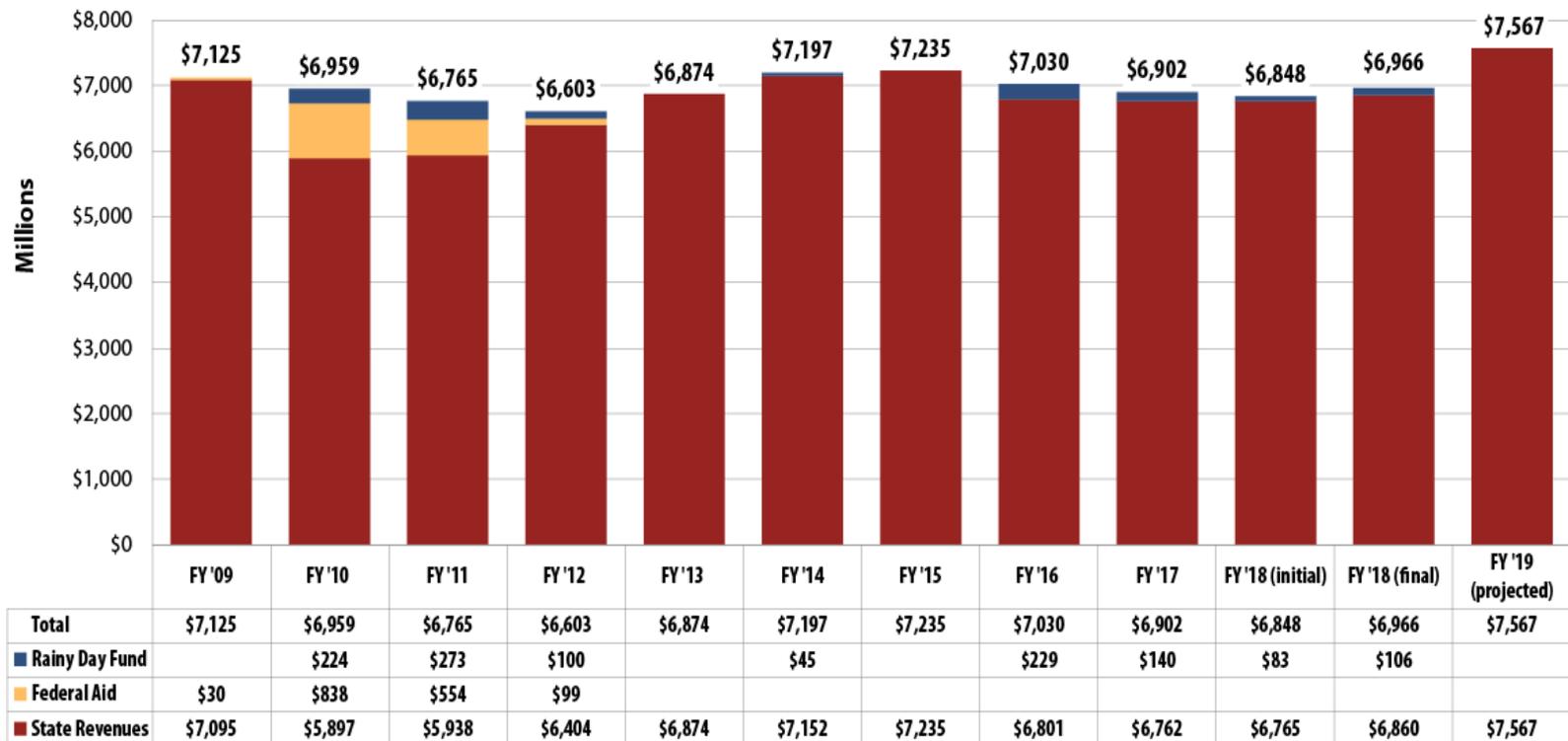


Where We Are

Overall state appropriations increased by \$601 million (8.6 percent) for FY 2019

Oklahoma State Appropriations, FY 2009 to FY 2019

(in \$ millions, includes mid-year cuts & supplementals)

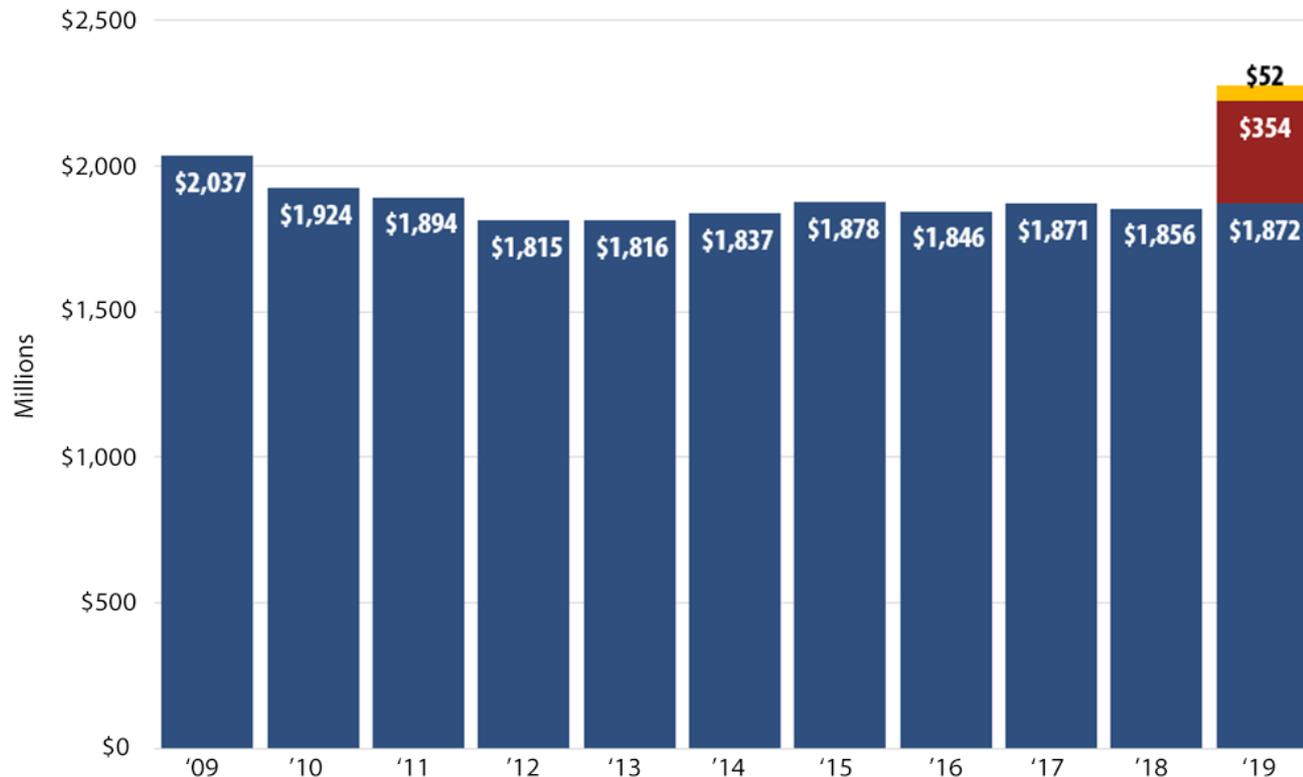


Where We Are

Public education was the major beneficiary (\$480M)

- \$353 million for teacher pay raise (average raise of \$6,100, about 18 percent);
- Increases for support staff raises (\$52M), health benefits (\$24M), textbooks (\$33M)
- Small increase for state aid formula - \$17 million

Oklahoma Common Education State Aid Formula



■ Base Formula ■ Teacher Raise ■ Support Staff Raise
Source: Oklahoma State Department of Education



Where We Are

The FY 2019 budget also included additional funding for:

- State employee raises (\$500 - \$2,000);
- Rate increases for Medicaid, mental health, substance abuse, foster care, adoption providers;
- \$2 million to OKDHS to serve families on the developmental disabilities waiting list
- \$4.8 million to Corrections for electronic offender management system;
- \$7.8 million to higher education for concurrent enrollment.

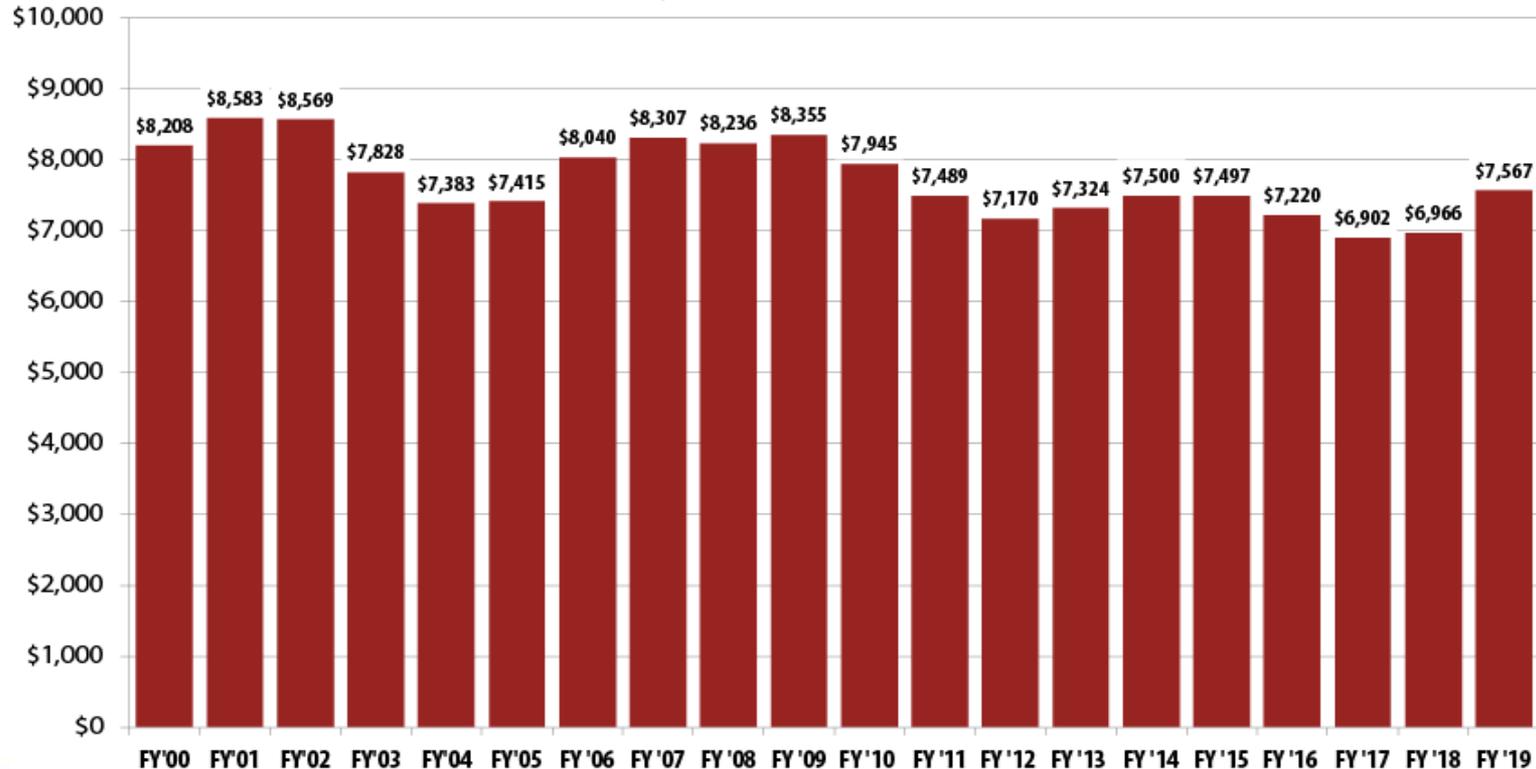


Where We Are

The state's budget is still 9.4 percent (\$788 million) below the budget of a decade ago (FY 2009) adjusted for inflation

Oklahoma State Appropriations, Adjusted for Inflation

In 2017 dollars, adjusted by State & Local Government Implicit Price Deflator

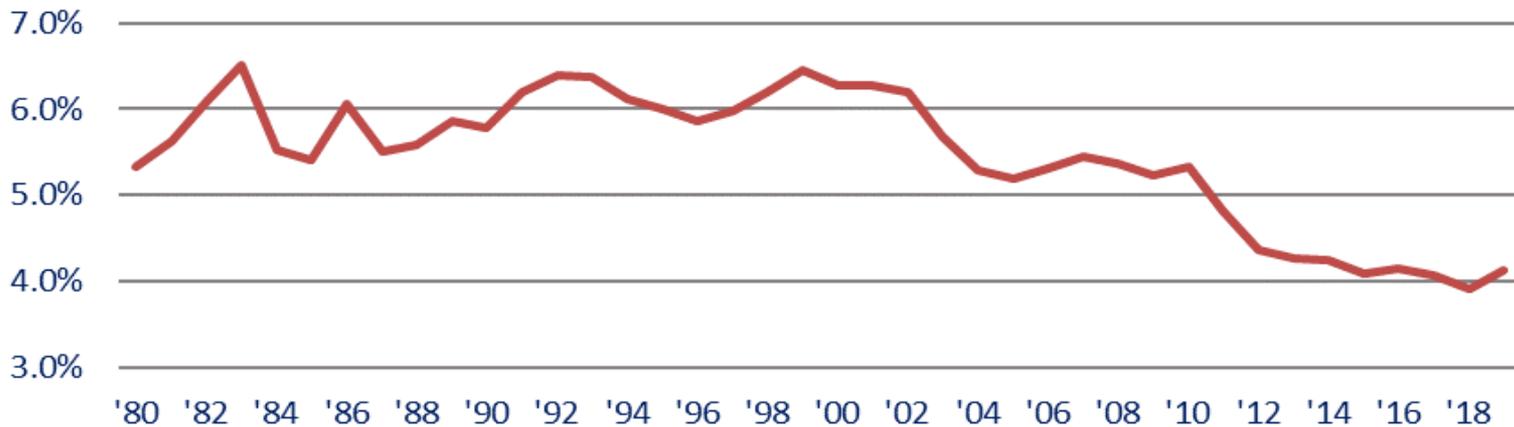


Where We Are

- State spending has fallen from 5.4 percent of state personal income in 2008 to 4.1 percent today

State spending has shrunk over time

State Appropriations as Share of State Personal Income, FY '80 - FY '19

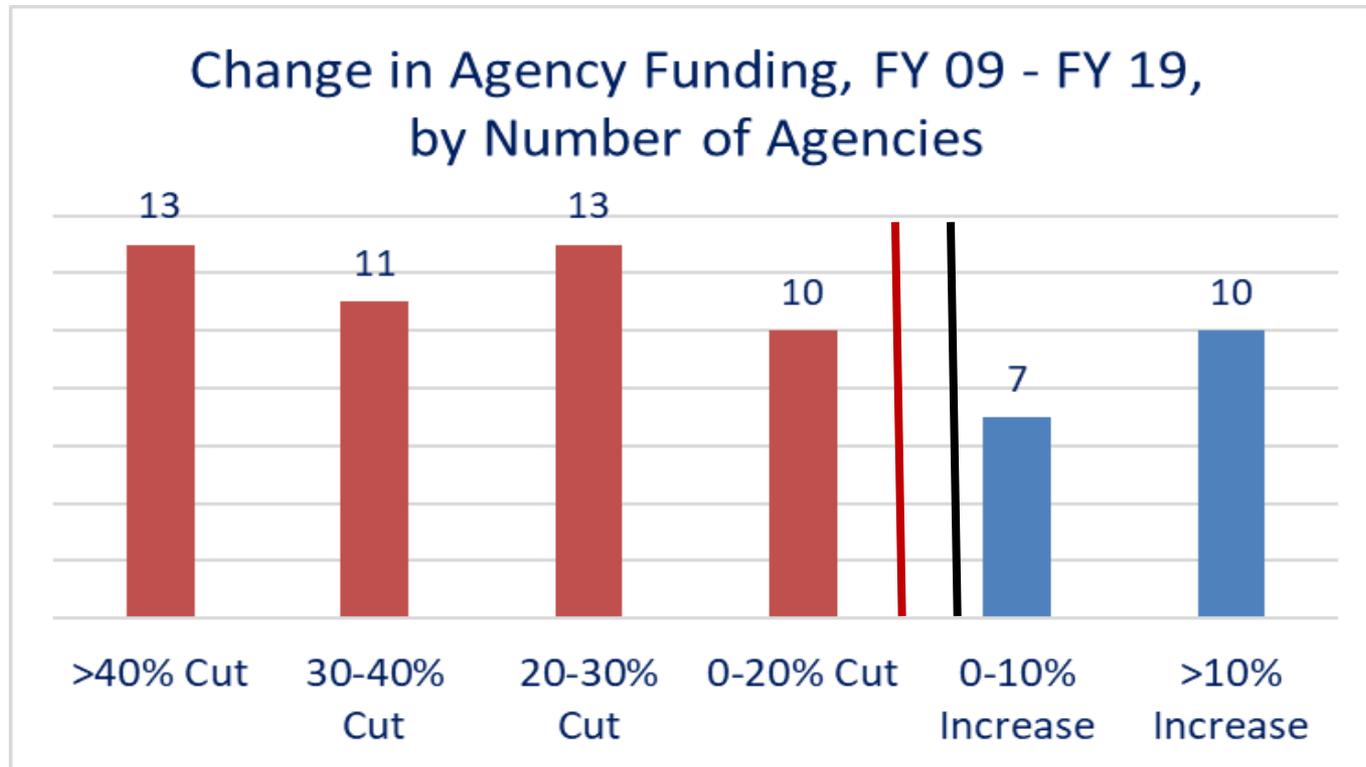


Source: OK Policy analysis of Bureau of Economic Analysis quarterly state personal income data and annual state appropriations, various sources. Assumes 3% growth of state personal income from July 2018 - June 2019



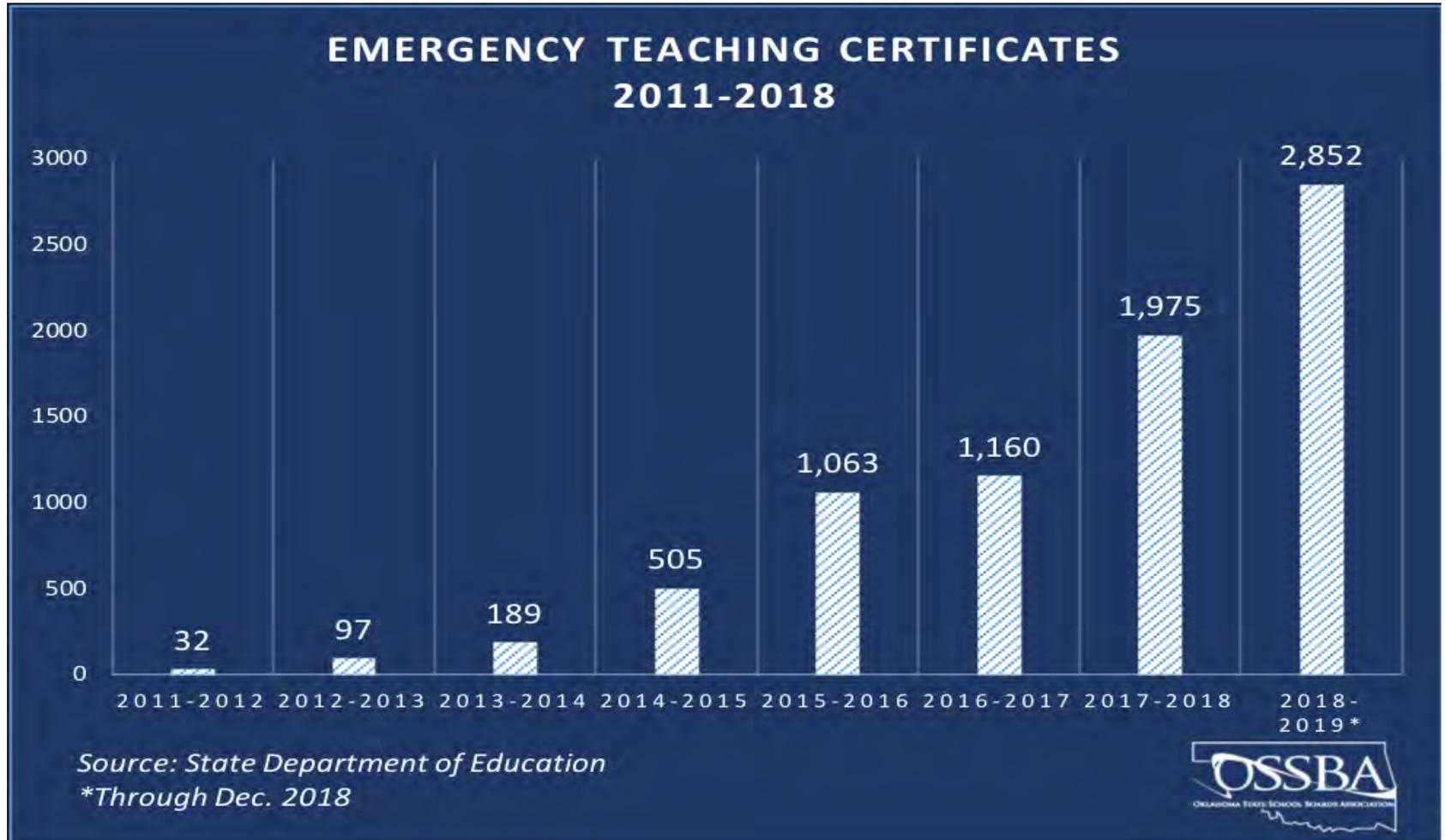
Where We Are

Most state agencies funded far below a decade ago



Where We Are

Teacher pay is just one part of the school funding crisis



Where We Are

Even with last year's increases, Oklahoma per-pupil spending is at least \$1,669 below regional average

REGIONAL PER PUPIL SPENDING



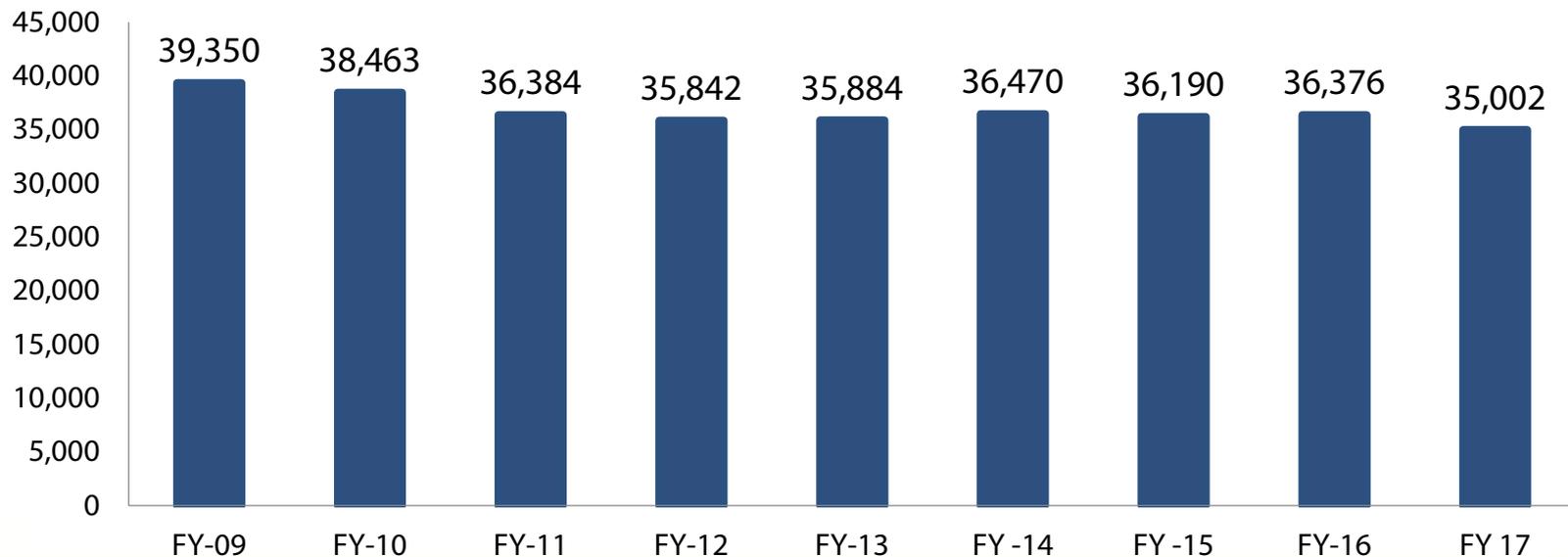
Source: National Center for Education Statistics



Where We Are

- Most state agencies received flat funding this year except for modest employee pay raises
- Most of these public servants went 7-10 yrs. without a raise
- State workforce is 11 percent smaller than in 2009

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



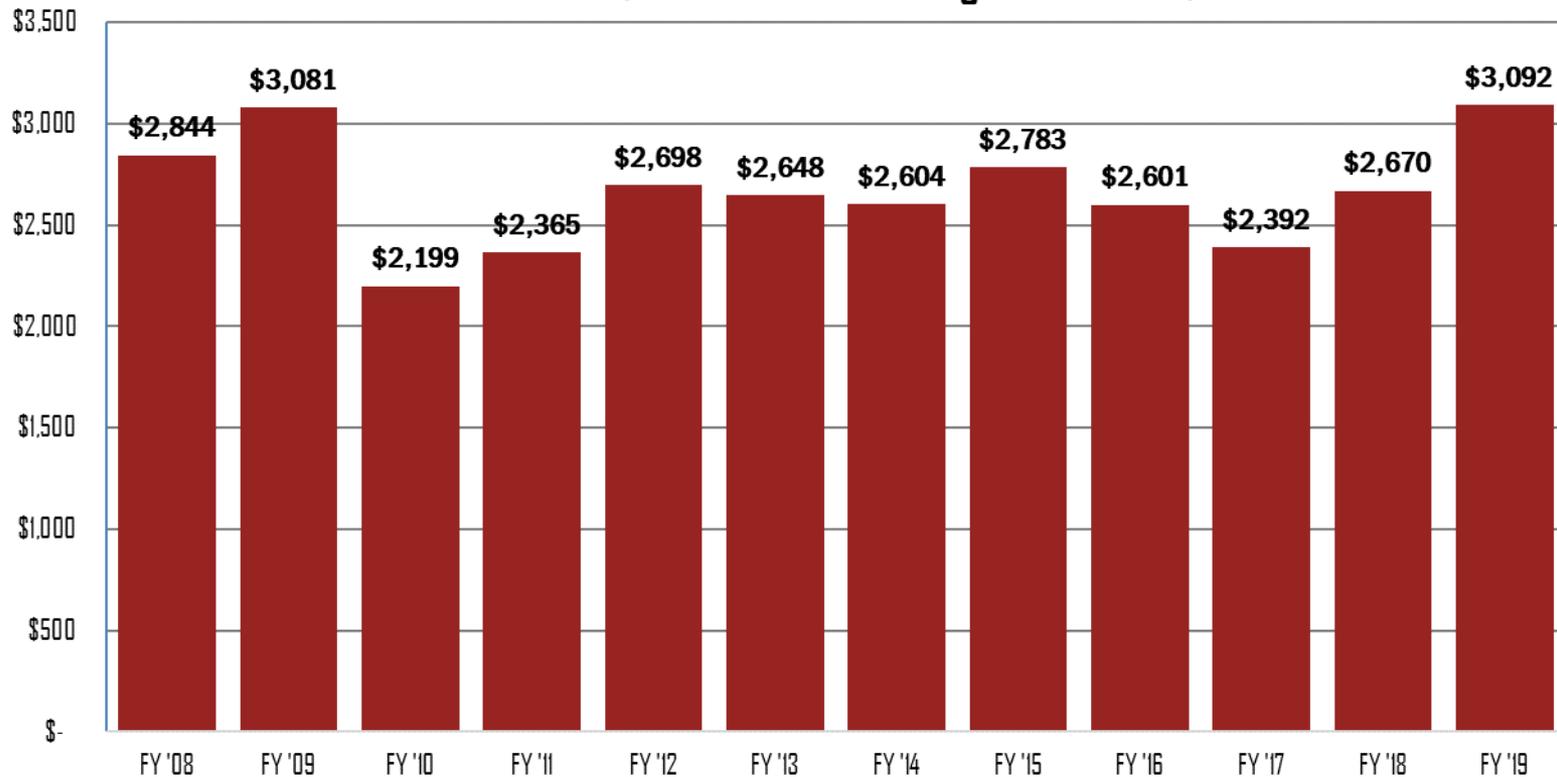
Where Are We Going?



Where Are We Going?

- FY '19 GR thru December +15.8 percent from last year
- Slightly above pre-Great Recession levels

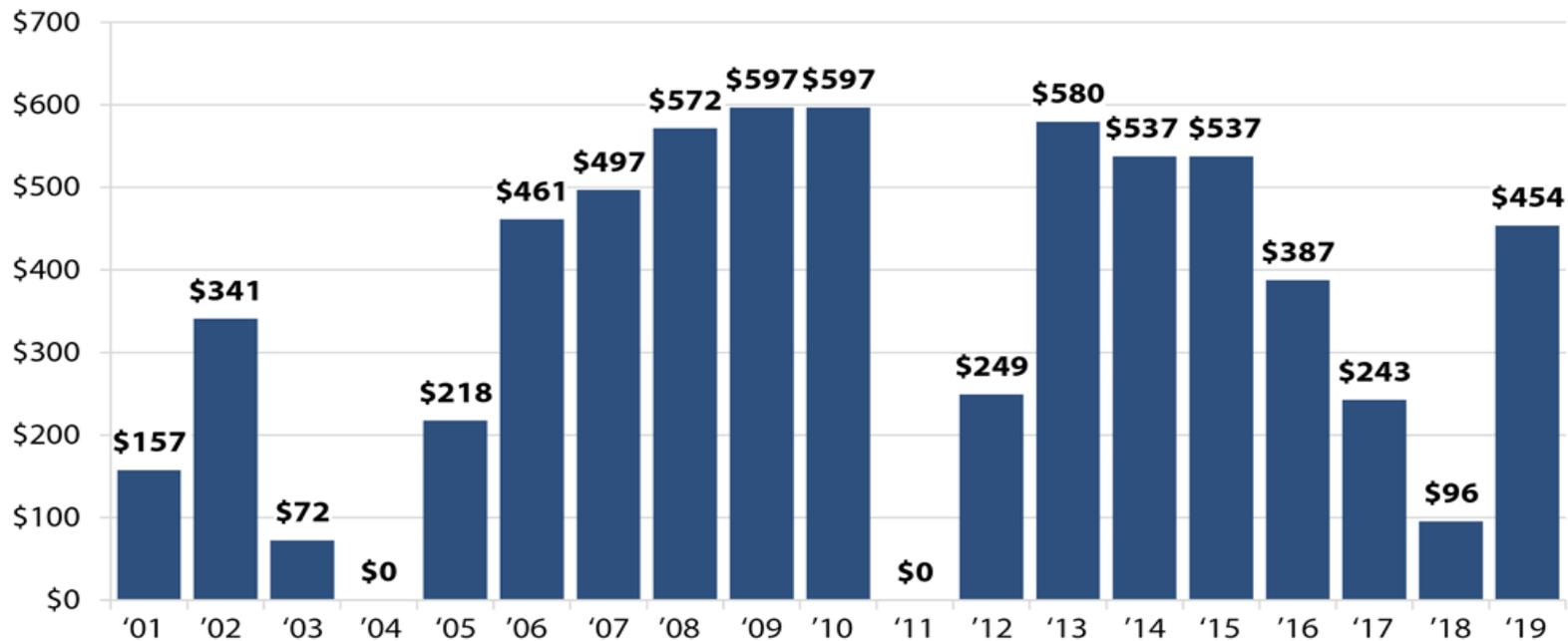
Gen. Rev. Collections, Year-to-Date through December , FY '08 - FY '19



Where Are We Going?

- GR collections currently \$146M (4.9%) above estimate
- Full-year surplus projected to be \$422.7M (6.5%)
- Surplus will be deposited in Rainy Day Fund

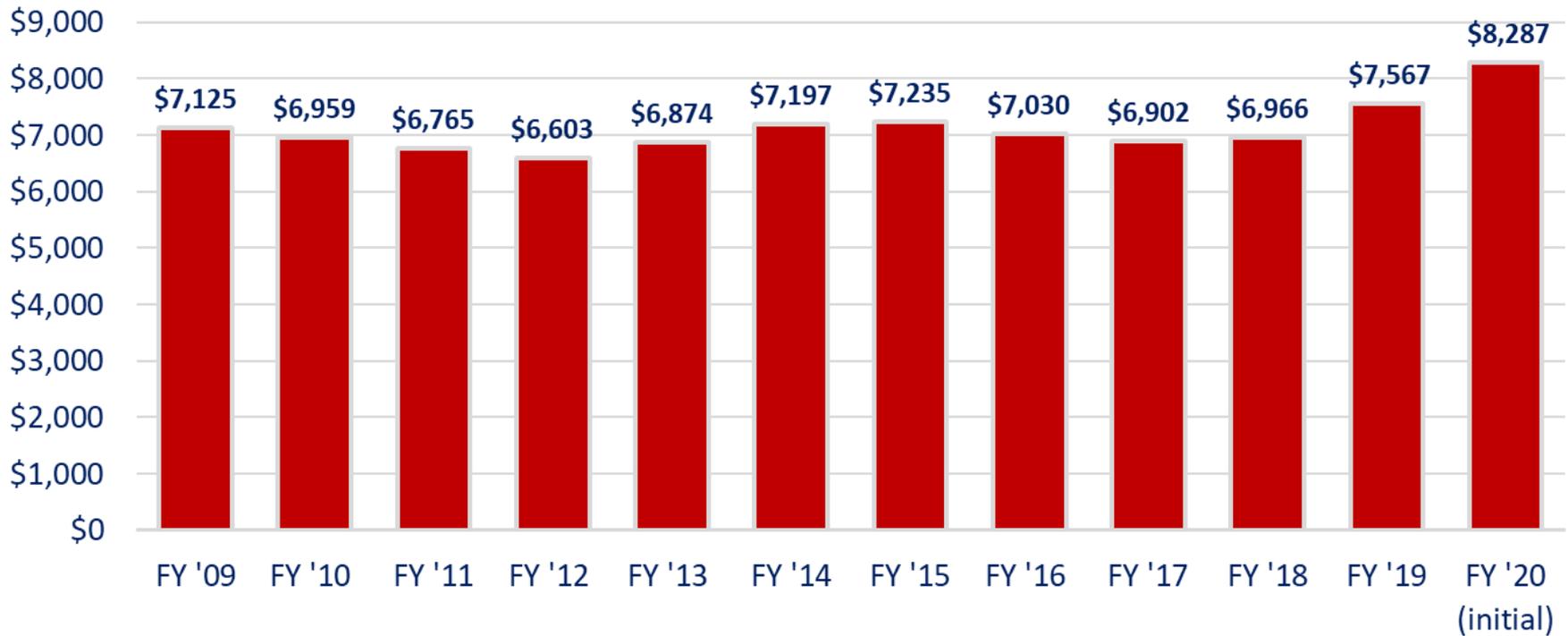
Rainy Day Fund Balances, FY '01 - FY '18 in \$ Millions; all Balances as of Start of Fiscal Year



Where Are We Going?

- Initial FY 2020 certification: \$8.287 million
- \$720 million increase (+9.5%) from FY '19 appropriations

Oklahoma State Appropriations, FY 2009-FY 2020
(in \$Millions, all years include supplementals and mid-year cuts)



Where Are We Going?

Before everyone gets their hopes up too high...

- Revised economic forecast
 - Initial projections based on \$55 oil, \$3.03 gas
- Spending obligations
 - Ad Valorem Reimbursement Fund
 - Bond payments
 - Loss of federal Graduate Medical Education and CHIP dollars
 - Flexible Benefit Allowance



Where Are We Going?

Intense competition for available dollars:

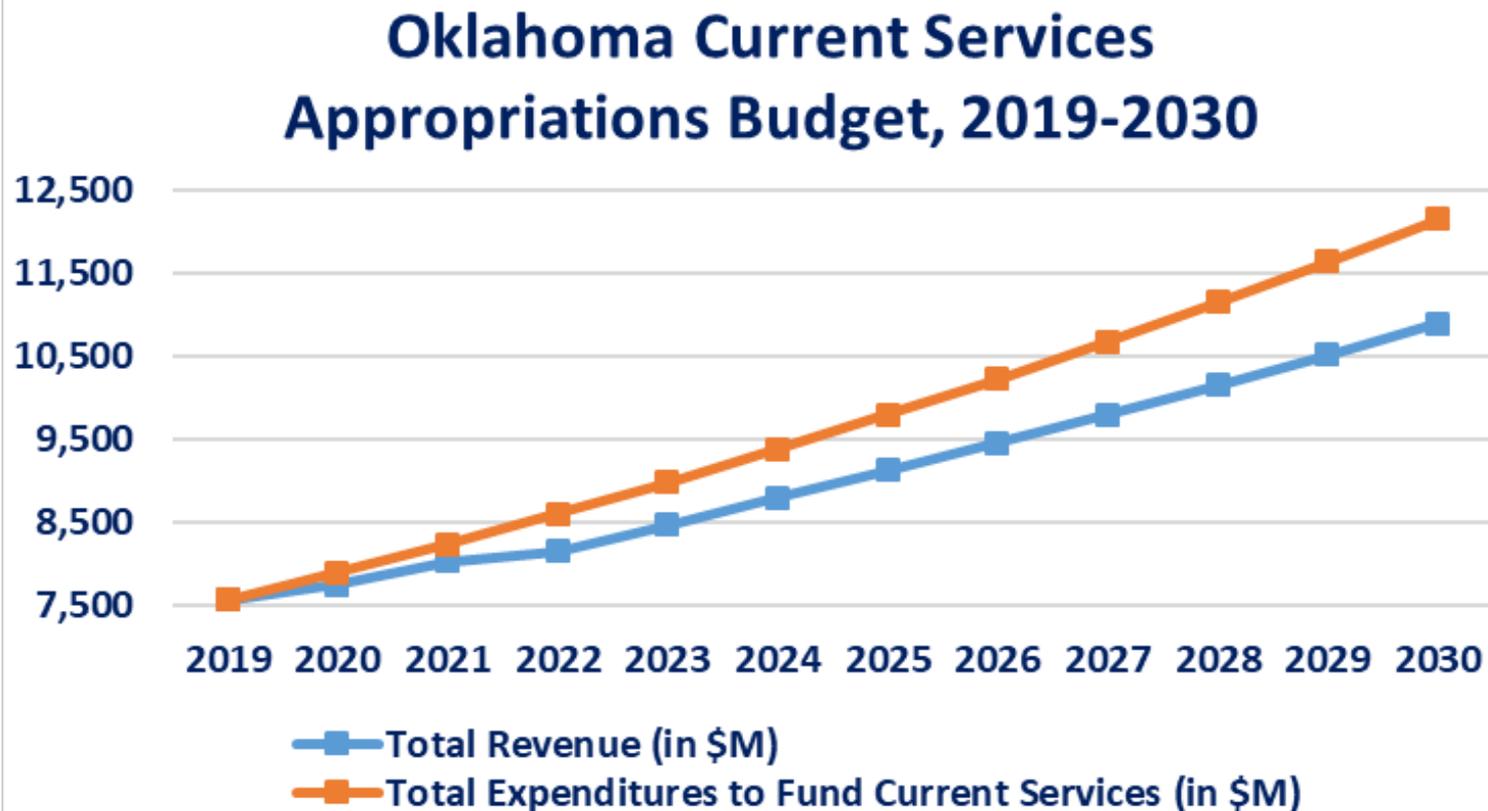
- Common Education - \$440M
 - \$273 million to enforce class size limits
- Higher Education - \$101.3M
- DOC - \$1.57B
- Mental Health - \$161M
 - \$91.6M for Smart on Crime
- State Employees & Retirees - \$185M
- many, many others



Where Are We Going?

Beyond next year, Oklahoma faces a growing structural budget deficit

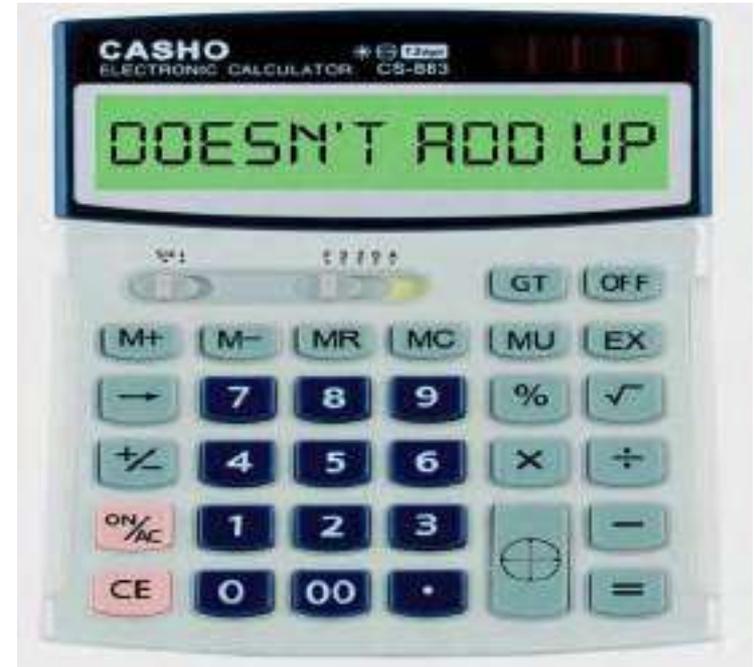
- *Structural deficit: "A situation that occurs when a state's "normal growth of revenues is insufficient to finance the normal growth of expenditures year after year"*



Where Are We Going?

Contributors to the structural budget deficit:

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



Where Are We Going?

What Should We Do?

- 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
 - HB 1010xx

Better Days
are coming



Where Are We Going?

What Should We Do?

- An agenda for a sustainable budget
 1. Protect the revenue base
 2. Prioritize key investments
 3. Restore and expand the state Earned Income Tax Credit
 4. End unnecessary tax breaks and loopholes
 5. Reverse income tax cuts on high earners
 6. Adopt better budgeting practices
 7. Repeal or revise SQ 640

Better Days
are coming





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

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Sabine Brown, Outreach & Advocacy Coordinator, sbrown@togetherok.org

Kyle Lawson, Southeast Oklahoma, klawson@togetherok.org

Jacobi Crowley, Southwest Oklahoma, jcrowley@togetherok.org



For More Information

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P.O. Box 14347

Tulsa, OK 74159-1347



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