Oklahoma’s Budget Outlook: Confronting the Fiscal Gap

State Budget Summit
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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

NOT ME!!!
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
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
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

- 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
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 has a balanced tax mix

- Personal income tax is the largest state tax, but tax cuts and the recession have dampened collections since 2005

Source: Oklahoma Tax Commission
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)**

Source: OK Tax Commission
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

<table>
<thead>
<tr>
<th></th>
<th>Property taxes per person, 2011</th>
<th>Total state and local taxes per person, 2011</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>$1,130</td>
<td>$3,491</td>
</tr>
<tr>
<td>National Average</td>
<td>$1,423</td>
<td>$4,109</td>
</tr>
</tbody>
</table>

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](image)

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

- 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%)

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
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

State Tax Collections
Tax Collections as % of State Personal Income
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.
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
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)

<table>
<thead>
<tr>
<th></th>
<th>FY '07</th>
<th>FY '08</th>
<th>FY '09</th>
<th>FY '10</th>
<th>FY '11</th>
<th>FY '12</th>
<th>FY '13</th>
<th>FY '14</th>
<th>FY '15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>6,760</td>
<td>7,043</td>
<td>7,125</td>
<td>6,959</td>
<td>6,765</td>
<td>6,603</td>
<td>6,874</td>
<td>7,197</td>
<td>7,193</td>
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<tr>
<td>Rainy Day Fund</td>
<td></td>
<td></td>
<td></td>
<td>$224</td>
<td>$273</td>
<td>$100</td>
<td></td>
<td>$45</td>
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<tr>
<td>Federal Aid</td>
<td>$30</td>
<td>$838</td>
<td>$554</td>
<td>$99</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Revenues</td>
<td>$6,760</td>
<td>$7,043</td>
<td>$7,095</td>
<td>$5,897</td>
<td>$5,938</td>
<td>$6,404</td>
<td>$6,874</td>
<td>$7,152</td>
<td>$7,193</td>
</tr>
</tbody>
</table>
2009-14: Major Collapse, Partial Recovery

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

![Graph showing Public School Enrollment and State Aid Funding, 2008 – 2015](image)

**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
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
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
Short-Term Challenges Ahead

RUH ROH
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

<table>
<thead>
<tr>
<th>Revenue Fund</th>
<th>FY 2015 Actual Expenditures</th>
<th>FY 2016 Proposed Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Revenue (current year)</td>
<td>$5,564</td>
<td>$5,658</td>
</tr>
<tr>
<td>Special Cash and Prior Year GR</td>
<td>$0</td>
<td>$417</td>
</tr>
<tr>
<td>HB 1017 Fund</td>
<td>$197</td>
<td>$746</td>
</tr>
<tr>
<td>State Transportation Fund</td>
<td>$214</td>
<td>$739</td>
</tr>
<tr>
<td>Other Funds</td>
<td>$296</td>
<td>$296</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$7,213</strong></td>
<td><strong>$6,915</strong></td>
</tr>
</tbody>
</table>
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)

Annual Revenue Impact of 2014 Tax Cuts (in $millions; assumes 1/1/2016 & 1/1/2018 effective dates)

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 \( \frac{1}{4} \) 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)
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