OKLAHOMA’S FISCAL OUTLOOK

Facing the Challenges to Achieve our Common Goals

---revised March 2009---

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Oklahoma’s Path to Prosperity

OUR STARTING POINT

We invest our tax dollars in our public structures to support our common goals as a state.
Defining Our Common Goals

1) EDUCATION: Ensure that all children receive a quality education and that affordable and accessible higher education is available to all who are eligible.
---schools, colleges, universities

Areas of successful investment:
- Universal four-year old program and full-day kindergarten
- Nationally certified teachers
- OHLAP scholarship program

But we still have a long way to go:
- Student Test Scores below expectations
- Teacher Pay among nation’s lowest
- College Graduation Rates trailing the national average
- Cost of higher education rising more quickly than family incomes
Defining Our Common Goals

2) HEALTH & SOCIAL SERVICES: Ensure that vulnerable individuals and families can meet their basic needs, including food, shelter, medical care, and protection from violence. ---public, non-profit and for-profit agencies and institutions

Areas of Successful Investment:
- Increased child health insurance coverage
- Quality-based child care reimbursement system
- Statewide nurse home visitation program

But we still have a long way to go:
- Overall poverty and child poverty rates
- Health Status of residents
- Drug Abuse & Addiction
- Child Abuse and Neglect, Domestic Violence
Defining Our Common Goals

3) TRANSPORTATION & INFRASTRUCTURE: Ensure that physical infrastructure allows for the safe and well-functioning movement of goods and people.
- roads, bridges, ports, communications grids

Areas of Successful Investment:
- ROADS program for highway maintenance and repairs
- $300 million bond package

But we still have a long way to go:
- Roads deficient
- Bridges crumbling
- Water & Wastewater Systems failing
Defining Our Common Goals

4) PUBLIC SAFETY: Ensure that families, neighborhoods and communities are protected from threats to their physical safety and well-being.

- corrections facilities, law enforcement, emergency responders, courts

Areas of Successful Investment:
- Drug courts
- Decrease in methamphetamine raids

But we still have a long way to go:
- Crime Rates high
- Prisons overcrowded and understaffed
- Juvenile justice system under federal review
- Homeland Security concerns
Defining Our Common Goals

5) **REGULATION & CONSUMER PROTECTION:** Ensure that businesses operate fairly and safely
   - product safety, environmental quality, labor, banking

6) **ECONOMIC DEVELOPMENT:** Ensure that businesses receive opportunities and support needed to operate and compete effectively
   - commerce, tourism, agriculture departments

7) **Public Administration:** Ensure that government operates in a democratic, accountable, and efficient manner
   - legislature, executive, central services, treasurer, auditor, tax commission
Defining Our Common Goals

CONCLUSIONS

In all these vital areas, we have made important progress in recent years, but Oklahoma continues to fall short of its goals.

We need renewed investment in our public structures to meet our common goals as a state.
Funding Public Services

How much do we invest to meet our goals?

Oklahoma ranks 46th in per capita state and local government spending (2006)

- **OKLAHOMA**: $5,841 per capita direct general expenditures
- **NATIONAL AVERAGE**: $7,124 per capita direct general expenditures
Funding Public Services

I don’t want to be the highest taxed state, but I’m not sure I want to be the lowest either. I know that the things that I want will need to be paid for, and probably with taxes... As a Republican, I like lower taxes and smaller government. But I also like my city to be safe, clean and progressive and to have good streets.

-Larry Mocha
-Chairman and CEO, Air Power Systems, former head of State Chamber of Commerce
Tulsa World, October 7, 2007

When I pay my taxes I don’t feel conservative or liberal. I feel patriotic and lucky.

-Wayne Greene
Tulsa World Associate Editor, January 6, 2008

Taxes are the price we pay for civilization

-Justice Oliver Wendell Holmes
Funding Public Services

OKLAHOMA IS A LOW TAX STATE

- Oklahomans pay among the least amount of state and local taxes in the nation;
- A dime (10.1 cents) of every dollar earned by Oklahomans goes to fund state and local services.

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>National Average</td>
<td>11.2%</td>
<td>$4,001</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>10.1%</td>
<td>$3,147</td>
</tr>
<tr>
<td>Where Oklahoma RANKS</td>
<td>42nd</td>
<td>42nd</td>
</tr>
</tbody>
</table>

Source: Center on Budget and Policy Priorities analysis of U.S. Census Bureau data
Funding Public Services

Major State Taxes, 1982-2006

Source: U.S. Census Bureau
Funding Public Services

Major Taxes as % of Total State Taxes, 1982-2006

Source: U.S. Census Bureau
Funding Public Services

How much do we invest to meet our goals?

FY ’09 State Appropriations

10 Largest Agencies: $6.3 billion (88%)

All Other Agencies (75 agencies): $829 million (12%)

Total Appropriations: $7,089.3 million
Funding Public Services

FY ’09 Appropriations by Legislative Subcommittee
Total Appropriations: $7,089.3 million

State Appropriations

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount ($ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>$3,793.8</td>
</tr>
<tr>
<td>Health &amp; Social Services</td>
<td>$1,214.7</td>
</tr>
<tr>
<td>Public Safety</td>
<td>$803.1</td>
</tr>
<tr>
<td>Human Services</td>
<td>$7005.4</td>
</tr>
<tr>
<td>Government Operations</td>
<td>$381.8</td>
</tr>
<tr>
<td>Natural Resources</td>
<td>$160.0</td>
</tr>
<tr>
<td>Other</td>
<td>$30.5</td>
</tr>
</tbody>
</table>

Government Operations: 5%
Natural Resources: 2%
Other: 0%

Education: 54%
Human Services: 10%
Public Safety: 11%
Health & Social Services: 17%
Budget Trends & Outlook

State budget suffered steep downturn, deep cuts, ’02 - ’04

Recovery allowed for spending increases, ’06 – ‘08

Annual Appropriations Totals ($ millions), FY ‘00—FY ‘09
(Includes Supplementals through FY ‘08 and Rainy Day spillover Funds for Recurring Agency Expenditures) - in $millions
State spending has been growing less rapidly over time than the state economy

FY ’02 – FY ‘08

- 5.4 percent: Personal Income average annual growth
- 4.1 percent: State Spending average annual growth

State Spending as a Share of Personal Income, 1998 through 2008

25-year average (1982-2007): 5.9%
Budget Trends & Outlook

Where did the growth revenue go?

Increased State Appropriations, Selected Agencies, FY ’06 – FY ’08

Dept. of Education: $453M
- Teacher and support staff pay increases
- Health insurance coverage
- Full-day kindergarten

Health Care Authority: $289M
- Provider reimbursement rate increases
- Replace lost federal match
- Enrollment and utilization increases

Higher Education: $271M
- Operating expenses of institutions
- Scholarships and loans
- Capital improvements

Human Services: $129M
- Child care subsidy payments
- Replace lost federal rate
- Salary increases

Corrections: $80M
- Operating costs
- Salary increases

Transportation: $72.5M*
- Road and bridge maintenance [ROADS fund]

*ODOT received $25 million one-time funding in FY ’06 & 07 for bridge repairs

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Budget Trends & Outlook

Tax Cuts 2004-06

- Most of the cuts were to the personal income tax
- Tax cuts were stretched out over several years; full impact will not be felt until FY ‘11

Lost Revenues from Select Tax Cuts Enacted 2004 - 2006
FY’05 through FY’10 (in $ millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Lost Revenues ($)</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

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Oklahoma Policy Institute
Revenue losses from tax cuts already nearly double the additional revenue from “sin taxes” approved by voters in 2004 (lottery, gaming, tobacco).

New revenues are actual through FY ’08 and projected 10% annual increase FY ’09 - FY ’10
Revenue losses are Oklahoma Tax Commission projections
Budget Trends & Outlook

Revenue Impact of Tax Cuts 2004-06

- Individual income tax collections are normally among the state’s fastest growing revenues sources, growing much faster than sales taxes.

- However, for the two years of FY ‘07 and FY ‘08, while the income tax cuts have taken effect, sales tax collections rose at an annual average rate of 7.2 percent, while individual income tax collections increased by just 0.4 percent annually.

![Average Annual Rate of Growth of Individual Income Tax Collections versus Sales Tax Collections, Oklahoma, FY '92- FY '08](chart)

Source: Executive Budget, Appendix B, except FY ‘08 - Oklahoma Tax Commission

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FY’07 – FY’08: Revenue Slowdown

- Revenue collections slowed considerably
- General Revenue collections were below prior year for first three quarters of FY ’08 before recovering in the 4th quarter.

Quarterly Change in Oklahoma General Revenue Collections Compared to Same Quarter, Prior Year, FY ’05 - FY ’08

[Chart showing quarterly change in revenue collections from FY ’05 to FY ’08]
Budget Trends & Outlook

FY’07 – FY’08: Revenue Slowdown

- General Revenue collections were almost flat in FY ’08 compared to FY ’07 (+0.9 percent, $54 million).

- Increased gross production tax (+$205.7 million) and sales tax (+$80.6 million) revenues helped make up for falling personal and corporate income tax collections (-$254.6 million).

Annual % Change in General Revenue Collections, FY ’03 - FY ’09

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY ’02</td>
<td>-6.6%</td>
</tr>
<tr>
<td>FY ’03</td>
<td>-5.3%</td>
</tr>
<tr>
<td>FY ’04</td>
<td>10.6%</td>
</tr>
<tr>
<td>FY ’05</td>
<td>7.6%</td>
</tr>
<tr>
<td>FY ’06</td>
<td>14.8%</td>
</tr>
<tr>
<td>FY ’07</td>
<td>4.0%</td>
</tr>
<tr>
<td>FY ’08</td>
<td>0.9%</td>
</tr>
<tr>
<td>FY ’09</td>
<td>-4.5%</td>
</tr>
</tbody>
</table>

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FY ’09 Budget: Tightening the Screws

- FY ’09 appropriations of $7.068 billion – increase of $47 million (0.7%)

State Appropriations History, FY '00 - FY '09, in $ millions
(includes supplementals, excludes one-times from Rainy Day spillover funds)

- FY’00: $4,981
- FY’01: $5,389
- FY’02: $5,491
- FY’03: $5,191
- FY’04: $5,145
- FY’05: $5,459
- FY’06: $6,217
- FY’07: $6,760
- FY’08: $7,043
- FY’09: $7,089

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FY ’09 Budget: Tightening the Screws

- FY ’09 appropriations of $7.089 billion – increase of $47 million (0.7 percent)
  - $281 million in additional revenues was made available through various means
  - Most agency appropriations frozen from FY ’08
  - Additional dollars to ensure maintenance-of-effort in Medicaid program, teacher retirement system increases
  - $475 million bond package for roads and bridges ($300 million), university endowed chairs ($100 million), capital projects
  - No funding for teacher salary increases, state employee raises
  - No funding to agencies for rising fixed costs or mandated retirement and health care benefit increases

See “FY ’09 Budget Review” and “FY ’09 Budget Basics” at:
http://okpolicy.org/fy-09-budget-review-may-2008

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Budget Trends & Outlook

FY ’09 Budget: Feeling the Crunch

- Impacts of Flat Funding:
  - Spending-down of carryover and reserves
  - Deferred maintenance, travel freezes and other “belt-tightening”
  - Hiring freezes and unfilled vacancies
  - Cutbacks in services
  - Tuition increases and increased user fees
Budget Trends & Outlook
Budget Trends & Outlook

Things Are Tough All Over

Combined state budget gaps for FY ‘09, FY ‘10 and FY ‘11 estimated to total more than $350 billion

Budget Trends & Outlook

Rough Patch Ahead

General Revenue Collections, FY '06 Actual - FY '10 Estimated (in $million)

- $240 million drop in FY ‘09 projections compared to initial estimate
- FY ‘10 revenues estimated to come in >$600 million below FY ’08
Budget Trends & Outlook

Rough Patch Ahead

The forecast is bad, but it’s far from a worst-case scenario.

Change in General Revenue Collections by Major Tax, FY '08 Actual to FY '10 Estimate

(in $millions)

-37.6% 10.2% 8.8% -10.5%
-30.0% -10.0% -50.0% -40.0%
-20.0% -10.0% -30.0% -20.0%
-10.0% -10.0% -10.0% -10.0%
0.0% 10.2% 8.8% 10.0%
10.0% 20.0% 30.0% 40.0%
20.0% 30.0% 40.0% 50.0%
30.0% 40.0% 50.0% 60.0%

Gross Production Tax-Gas Income Tax-Personal Income Tax-Corporate Motor Vehicle Tax Sales Tax Total General Revenue
Budget Trends & Outlook

Rough Patch Ahead

$612.5 million ($612.5 million) less available in FY ‘10 than FY ‘09

Appropriations Authority, FY '09 vs. FY '10 (in $millions)

<table>
<thead>
<tr>
<th></th>
<th>FY '09</th>
<th>FY '10 December</th>
<th>FY '10 February</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriations</td>
<td>7,068.8</td>
<td>6,759.2</td>
<td>6,456.3</td>
</tr>
<tr>
<td>FY '09</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY '10 Dec.</td>
<td>-$309.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY '10 Feb.</td>
<td></td>
<td></td>
<td>-$612.5</td>
</tr>
</tbody>
</table>
Budget Trends & Outlook

How to Deal with Budget Shortfalls?

- Last budget downturn: cumulative budget shortfall of $1.2 billion
  - Significant and painful cuts to education, Medicaid, social services, state parks, etc.
- A budget downturn comparable in magnitude to the last one would create a shortfall of over $2 billion in the years ahead.

See: “Options for Addressing Budget Shortfalls”
Budget Trends & Outlook

How to Deal with Budget Shortfalls?

1. Do we cut budgets?

- Governor Henry’s FY ‘10 Executive Budget proposed $37.6 million in budget cuts
  - Budget cuts to 51 agencies totaling $28.7 million
    - From 1 percent to 10 percent, most 5 percent
  - 24 agencies exempted from budget cuts
    - Represent 93 percent of total state appropriations
  - 10 percent travel budget cut to most agencies totaling $8.9 million

How to Deal with Budget Shortfalls?

1. Do we cut budgets?

- Vital state services and programs are chronically underfunded;
- Agencies are already struggling to absorb rising costs, new mandates and the effects of the last budget cuts;
- It is difficult to protect key agencies and services, such as education, health care, and public safety, when there are serious and extended budget shortfalls;
- Cutting budgets is economically harmful in a downturn, even compared to raising taxes; and
- Economic downturns create increased demands for health and social services to assist vulnerable Oklahomans.
Budget Trends & Outlook

How to Deal with Budget Shortfalls?

State employee health care costs have tripled since FY ’01.

Cost of State Employee Health Coverage, in $ millions, FY ’01 - FY ’08 (projected)
Budget Trends & Outlook

How to Deal with Budget Shortfalls?

Pension contributions for state employees have increased over $90 million in five years.

Contributions to Oklahoma Public Employees Retirement System, FY '04 - FY '09 (in $ million)

FY '04 FY '05 FY '06 FY '07 FY '08 (projected) FY '09 (estimated)

$105.6 $114.3 $141.2 $162.4 $180.2 $198.5
### Budget Trends & Outlook

#### How to Deal with Budget Shortfalls?

**Appropriations for Selected Agencies, FY ’01 vs FY ’09**

<table>
<thead>
<tr>
<th>Agency</th>
<th>FY ’01</th>
<th>FY ’09</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Resources Board</td>
<td>$9,418,598</td>
<td>$6,801,524</td>
<td>-27.8%</td>
</tr>
<tr>
<td>Insurance Commissioner</td>
<td>$2,965,978</td>
<td>$2,515,943</td>
<td>-15.2%</td>
</tr>
<tr>
<td>Treasurer</td>
<td>$5,482,722</td>
<td>$4,668,763</td>
<td>-14.8%</td>
</tr>
<tr>
<td>Consumer Credit</td>
<td>$774,670</td>
<td>$669,042</td>
<td>-13.6%</td>
</tr>
<tr>
<td>Human Rights Commission</td>
<td>$816,753</td>
<td>$710,226</td>
<td>-13.0%</td>
</tr>
<tr>
<td>Personnel Management</td>
<td>$5,617,759</td>
<td>$4,891,745</td>
<td>-12.9%</td>
</tr>
<tr>
<td>Tourism and Recreation</td>
<td>$31,827,145</td>
<td>$28,041,991</td>
<td>-11.9%</td>
</tr>
<tr>
<td>Teacher Preparation, Commission on</td>
<td>$2,330,425</td>
<td>$2,059,982</td>
<td>-11.6%</td>
</tr>
<tr>
<td>Indian Affairs Commission</td>
<td>$287,843</td>
<td>$258,466</td>
<td>-10.2%</td>
</tr>
<tr>
<td>Council on Judicial Complaints</td>
<td>$300,504</td>
<td>$283,729</td>
<td>-5.6%</td>
</tr>
<tr>
<td>Governor</td>
<td>$2,772,408</td>
<td>$2,661,981</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Alcoholic Beverage Laws Enforcement</td>
<td>$4,084,576</td>
<td>$3,925,266</td>
<td>-3.9%</td>
</tr>
<tr>
<td>Labor</td>
<td>$3,882,940</td>
<td>$3,760,284</td>
<td>-3.2%</td>
</tr>
</tbody>
</table>
Budget Trends & Outlook

How to Deal with Budget Shortfalls?

2. Can we raise new revenues?

- SQ 640 requires a ¾ vote of both legislative chambers or vote of the people at time of next general election
- States have devised various one-time and ongoing revenue “gimmicks” to help make it through crises
- Governor’s budget includes $20 million in fee increases as well as other revenue-enhancing measures
Budget Trends & Outlook

How to Deal with Budget Shortfalls?

3. Tap into Rainy Day Fund?

RDF revenues can be appropriated as follows:

- Up to 1/4 of Fund upon declaration of emergency and legislative approval;
- Up to 3/8 for a shortfall in current year GR collections; and
- Up to 3/8 if projected GR for upcoming year are below current year collections.

Rainy Day Balances, FY'01 to FY'08
(opening balances in $ millions)
How to Deal with Budget Shortfalls?

4. Federal Assistance

- $2.6 billion to Oklahoma, according to FFIS estimates
  - Enhanced Federal Medicaid matching rate: $838 million
  - State fiscal stabilization fund: $578 million
  - Highway and bridge construction: $465 million
  - IDEA Special education: $157 million
  - Title I education: $147 million
  - Additional amounts for education, health, human services, energy, environment, law enforcement, employment, housing, transportation.

See OK Policy's summaries of the American Recovery and Reinvestment Act at:
4. Federal Assistance

Lots of Outstanding Questions about ARRA:

- Allocation of funds between state and local governments
- Increased spending vs. filling in shortfalls
- Use of one-time spending for ongoing obligations
- Timing of spending
- Public input, accountability and oversight
Budget Trends & Outlook

How to Deal with Budget Shortfalls?

The relentless underfunding of public structures leads to:

- threats to public safety and well-being;
- decline in performance;
- decline in public confidence and growing cynicism; and
- “you’re on your own” attitude among advocates.
Long-Term Fiscal Outlook

Oklahoma – like most states and the federal government – faces a looming 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”

*(CBPP, “Faulty Foundations: State Structural Budget Problems”)*

What GAO Found

Over the long term we face a large and growing structural deficit due primarily to known demographic trends and rising health care costs. Continuing on this imprudent and unsustainable fiscal path will gradually erode, if not suddenly damage, our economy, our standard of living, and ultimately our national security. Our current path will also increasingly constrain our ability to address emerging and unexpected budgetary needs and increase the burdens that will be faced by our children, grandchildren, and future generations.

The budget process itself cannot solve this problem, but it can help policymakers make tough but necessary choices. If citizens and government officials come to better understand various fiscal exposures and their implications for the future, they are more likely to insist on prudent policy choices today and sensible levels of fiscal risk in the future.
Long-Term Fiscal Outlook

Contributors to Oklahoma’s Structural Deficit

OKLAHOMA’S POPULATION IS RAPIDLY AGING

- A slowly increasing working-age population will need to support a rapidly-expanding senior population
- Enormous implications for state budgets in the areas of health care, social services, corrections


- 0-17: 8%
- 18-64: 5%
- 65+: 76%
Long-Term Fiscal Outlook

Contributors to Oklahoma’s Structural Deficit

**UNFUNDED PENSION OBLIGATIONS**

- Oklahoma’s retirement systems currently have over $10 billion in unfunded liabilities.
- OTRS is the third **worst** funded retirement system in the nation.

**Oklahoma Pension System Asset to Liability Ratio**

<table>
<thead>
<tr>
<th></th>
<th>Funded Liability</th>
<th>Unfunded Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>OTRS (Education)</td>
<td>51%</td>
<td>49%</td>
</tr>
<tr>
<td>OPERS (Public Workers)</td>
<td>72%</td>
<td>28%</td>
</tr>
<tr>
<td>Other Pension</td>
<td>74%</td>
<td>26%</td>
</tr>
</tbody>
</table>

[Graph showing the asset to liability ratio for OTRS, OPERS, and Other Pension systems]
Long-Term Fiscal Outlook

Contributors to Oklahoma’s Structural Deficit

FEDERAL GOVERNMENT PUTTING PRESSURE ON STATES

- The impact is already being felt in states:
  - Unfunded mandates (NCLB, IDEA, Real ID)
  - Declining Medicaid assistance
  - Frozen block grant allocations

- Is the stimulus bill an aberration or the start of a new era?

See “Passing the Buck: How Federal Policies are Worsening the State Budget Situation”, at http://okpolicy.org/passing-the-buck
Long-Term Fiscal Outlook

Contributors to Oklahoma’s Structural Deficit

State and local tax systems are not well designed to keep pace with economic and social change.

- Goods are taxed, services are not
- E-commerce
- Internet tax moratorium
- Corporate income tax avoidance

<table>
<thead>
<tr>
<th></th>
<th>1960</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>26%</td>
<td>45%</td>
</tr>
<tr>
<td>Goods</td>
<td>34%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: Center on Budget and Policy Priorities

- Services *usually exempt from sales tax*
- Goods *usually subject to sales tax*
Long-Term Fiscal Outlook

Oklahoma’s Structural Deficit

Projected Annual Budget Surpluses and Deficits
Before and After 2004-2006 Tax Cuts (2007 to 2035)

Source: Projections conducted in 2007 by Dr. Kent Olson, Professor of Economics, Oklahoma State University

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Principles for Revenue Decisions

1. Take a breather from further tax cuts

"I think we ought to have a *moratorium* on tax reductions right now. We’re *bumping the limits* and I think we certainly don’t need to proceed down that path…. I think what people really want is *excellence*.

-David Boren
President, University of Oklahoma, Sept. 17, 2007

"We are not advocating any more tax cuts right now. We believe we should wait and see what impact the already passed tax cuts have.

-Roy Williams
President and CEO, Greater OKC Chamber of Commerce
House Economic Development Committee, Nov 1, 2007

*** Final phases of income tax cuts are set to be implemented in 2009 and 2010. Should these be re-examined?
Principles for Revenue Decisions

2. Align Revenues and Expenditures
   - SB 368 - long-term forecasting legislation
   - Pay-go legislation?
   - Keep focused on the long-term picture
Principles for Revenue Decisions

3. Modernize the Tax System
   - Broaden the sales tax base
   - Shut down corporate tax avoidance strategies (combined reporting)
   - Review incentives and exemptions
   - Revisit SQ 640?

4. Preserve a Balanced Tax Structure
   - Prevents over-reliance on any single revenue stream
   - Income tax is most vibrant tax source - keeps pace with economic growth
   - Non-income tax states face even worse immediate challenges and structural deficits
Principles for Revenue Decisions

5. Make the Tax System Fairer

- Low- and moderate-income Oklahomans pay a greater share than upper-income Oklahomans.
- Progressive effects of the income tax are more than offset by the regressive effect of sales and property taxes.

Percentage of household income paid in state and local taxes

By Income Group, Oklahoma 2003 [source: Institute for Taxation and Economic Policy]

![Graph showing the percentage of household income paid in state and local taxes by income group.](Graphic)
Principles for Revenue Decisions

5. Make the tax system fairer

- Increase/index the grocery tax credit (Sales Tax Relief credit)
- Increase state EITC
- Increase personal exemptions
- Stretch the income tax brackets
- Add a new top bracket

People want just taxes more than they want lower taxes. They want to know that every man is paying his proportionate share according to his wealth.

-Will Rogers
Contact Information

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OUR MISSION
Oklahoma Policy Institute (OK Policy) is committed to advancing policies aimed at alleviating poverty, expanding economic opportunity and promoting fiscal responsibility. To that end, OK Policy conducts objective analysis of state policy issues in order to better position Oklahoma to become a more prosperous, better educated, healthier, and increasingly equitable state.

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