

League of Women Voters of Oklahoma Fiscal Policy Restudy

Appendix A

LEAGUE OF WOMEN VOTERS OF OKLAHOMA CURRENT POSITION ON FISCAL POLICY (Excerpted from Program for Action)

FISCAL POLICY

Support of a sound fiscal policy in Oklahoma.

The League of Women Voters of Oklahoma believes a tax system should provide adequate funds for essential government services without creating inequities in assessing taxes according to ability to pay. Oklahoma's tax system would be improved by:

- a reduction of earmarking of state revenues;
- having all property taxes of public service properties in the state collected on a statewide basis, then allocated to the various school districts on a formula basis;
- repealing the sales tax on food and prescription drugs;¹
- raising the corporate income tax;
- providing the statewide distribution of the gross production tax revenue dedicated for common schools.

The League believes trusts and authorities should be more accountable. The League also believes there should be a comprehensive study of the collection, allocation and administration of state revenues by a qualified, impartial committee, financed by the state.

PROPERTY TAX ASSESSMENT PROCEDURES - The League of Women Voters of Oklahoma believes in the need for reforms in assessment procedures including support of appointment of county assessors and of measures that would bring about equalization of tax assessments among and within counties. County assessors should:

- have professional qualifications
- be appointed by a board composed of a combination of local and county officials from a list certified by a state agency;
- be required to take training provided by the state;
- follow prescribed uniform statewide assessment procedures.

The League believes the Oklahoma Tax Commission should have the authority to enforce the above assessment procedures and should conduct sales/ratio studies and make the information public.

¹Sales tax on prescription drugs repealed, effective July 1, 1982

The League recommends periodic re-evaluation either on a statewide or county basis, with provisions to keep appraisals at current market value.

PROPERTY TAX EXEMPTION REFORM - The League of Women Voters of Oklahoma believes that all tax-exempt property should be evaluated regularly and the results should be made public record. The League favors exemptions on real property that afford relief to the low-income family, believes that all tax exemptions on Industrial Trusts should be for a shorter period of time than the present provisions which allow 30 years² and should not be renewable, and believes tax exemptions for charitable, religious and educational institutions should apply only to property used for such purposes. Any other property owned by such institutions should not be tax exempt. The League favors abolishing the personal property tax on household goods; however, as long as the tax in effect, all household property, including that of renters, should be taxed.

MUNICIPAL FINANCE - The League of Women Voters of Oklahoma supports additional means of providing adequate revenues for municipalities. The League favors granting cities additional optional taxing powers and reallocation of existing revenues. The League also favors a municipal representative on county excise boards.

Consensus approved 1975, 1980, 1981, and 1989

Background

League members began a study of Oklahoma fiscal policy in 1959 when "Know Your State: A Study of Fiscal Management" was adopted by League Convention delegates. In 1960, the study centered around the principles of taxation and an analysis of Oklahoma's tax structure as related to a good, basic tax structure. The practice of earmarking funds received particular attention. During 1961 and 1962, emphasis was placed on study of assessment procedures and equalization of ad valorem taxes among counties. In 1963 and 1965, the League successfully supported legislation giving cities additional taxing powers. In 1968 the booklet, Understanding State Finance, was published to update members.

A study of funding for common schools in Oklahoma reemphasized the effect of inequities in the administration of ad valorem taxes. In 1972, the League hired an attorney to test the Oklahoma procedure that causes variation in assessment percentages within and among counties. The suit was never filed because of the impact of the March 1973 U.S. Supreme Court decision in the *Rodriques vs. San Antonio Independent School District* case. The court ruled that, although property tax systems need reform, education is not among the rights guaranteed by the U.S. Constitution and reform is up to the state lawmakers.

In 1973 Convention delegates adopted "A Comparative Study of Ad Valorem Tax Systems" as the study item, so that the League would be able to evaluate proposed changes. In March 1974, the League co-sponsored a statewide workshop, "The Property Tax—Success or Failure in Paying for Education?" The booklet, Ad Valorem Tax: Real or Unreal, was published.

² The Legislature, in 1977, reduced exemption to 10 years. The Attorney General ruled, in 1979, that property held by public trust is not exempt from ad valorem taxes unless it involved a government entity or an operation that is otherwise exempt from taxation. A constitutional amendment was passed in November 1985 granting exemptions for five years to new or expanding manufacturing plants.

The study examines practices and procedures for correcting inequities in the administration of property tax.

In April 1975, the State Supreme Court ruled that the State Board of Equalization must fulfill its constitutional duties and equalize ad valorem taxes across the state. A special assessment ratio study was made which established three categories for each county - agricultural, residential, and commercial/industrial property. Also, a 1981 Attorney General's opinion prohibited the Tax Commission from measuring equalization through use of a composite ratio. In June 1981, 62 counties were in violation of property tax standards mandated by the State Supreme Court.

Another area of League concern has been the erosion of the property tax base due to the exemption of many properties from the tax rolls. The Attorney General ruled on July 31, 1979, that a tax exemption can not be granted a public trust unless permission for such exemption (charitable, religious, etc.) can be found within the framework of the Oklahoma Constitution. Tax exemptions other than for governmental entities are to be decided on a case-by-case basis. The opinion also held that the option to make payments of "sum in lieu ad valorem taxes" is void. The opinion was upheld by the Oklahoma Supreme Court.

Although the League has many positions relating to ad valorem taxes, it had been unable to act on various other "tax reform" measures considered by the Legislature. Delegates to the 1979 and 1981 Conventions adopted a study of the state tax structure that examined sources and allocation of revenue.

Through 1987, 1988, and 1989 ad valorem legislation continued to be closely monitored by the League of Women Voters. In order to be more effective, the League joined the F.A.I.R. (Fair Ad Valorem Is Reform) Coalition, as a means of having additional impact and influence. In 1988, major legislation was passed, through a bipartisan effort, for comprehensive changes in how the state assesses and taxes property. A part of that effort included a proposed constitutional amendment (S.Q. 614) to assess all property at 100% of its fair market value. A special election date was set but later rescinded by the legislature. The legislature again addressed ad valorem reform during the 1989 session and made a major commitment to the reform measures passed in 1988 by appropriating funds to begin implementing the new legislation.

In 1990 a LWVOK supported amendment passed which allows municipalities to borrow money to purchase, construct, or improve public utilities without levying an additional tax. Also approved was an amendment allowing the legislature to permit cities and counties to grant tax exemptions and other tax relief for certain areas that are in economic decline.

State Question 634 was supported by the League but defeated at the polls on June 26, 1990. It would have established a Common School Fund which would receive monies from gross production taxes, a portion of the vehicle license fees, and ad valorem taxes on public service, commercial/industrial and real property valued above \$500,000.

In 1992, the League opposed SQ 640 that would put all tax increases to a vote of the people. League believed that this violated the basic principle of representative government. Unfortunately, the amendment passed. One negative result of SQ 640 is the increased usage of earmarking which does not give the Legislature flexibility in the appropriation process.

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Appendix B

Glossary

Ad valorem—Property tax, also known as ad valorem tax, is an annual tax paid by property owners to local government. Property tax collections in Oklahoma totaled \$2.2 billion in 2011 and are the single largest source of local government revenue. Oklahoma's per person property taxes are among the lowest in the nation and less than half the national average. Source <http://okpolicy.org/ad-valorem-tax-property-tax>

The American Recovery and Reinvestment Act of 2009 (ARRA) is an economic stimulus package enacted by the 111th United States Congress and signed into law by President Barack Obama on February 17, 2009.

Apportionment—To apportion is to distribute or allocate proportionally; to divide and assign according to some rule of proportional distribution.

Appropriation—Legal authorization granted by the Legislature to make expenditures or incur obligations that may be limited by fund, agency, department, program, object, character, time period or amount. Unexpended appropriations lapse back to the original fund after the lapse (expiration) date. Source <https://www.ok.gov/OSF/documents/bud16.pdf>

Assessment—The process of setting a value on real or personal property, usually for the purpose of taxation.

Board of Equalization—The Equalization Board (**BOE**) is the constitutional body responsible for setting revenue and expenditure authority for the Governor and Legislature (Section 23 Article 10 of the Oklahoma Constitution). The Board consists of seven public officials (Governor, Lieutenant Governor, Attorney General, Treasurer, Auditor and Inspector, Superintendent of Public Instruction, and Agriculture Commissioner.) Source <http://okpolicy.org/resources/online-budget-guide/budget-process/essentials-of-public-budgeting/revenue-certification>

Budget —A statement of the financial position of an administration for a definite period of time based on estimates of expenditures during the period and proposals for financing them.

Corporate Income Tax—Oklahoma's corporate income tax is set at a flat rate of 6% of taxable income, based on a three-part formula that looks at the portions of a company's sales, property and payroll that is based in Oklahoma.

CIRB (County Improvement for Roads and Bridges) Fund—This fund receives 5% of motor vehicle revenue collections in FY '08, 10% in FY '09, and 15% in FY '10 and years thereafter. These funds were previously apportioned to GR. Source <http://okpolicy.org/wp-content/uploads/2012/08/ROADS-June08.pdf?b0f37e>

Comprehensive Annual Financial Report—A complete financial report on all state financial operations, including sources and amounts of revenue, spending by function and agency, assets owned by the state and amounts the state owes to others. The report is prepared under national standards created by the Government Accounting Standards Board, so Oklahoma's results can be compared fairly to those of any other government that uses these standards. The annual financial reports and the transactions leading to it are audited each year by the State Auditor and Inspector (SAI). Source <http://okpolicy.org/resources/online-budget-guide/budget-process/budget-process/audit-and-evaluation>

Constitutional Reserve Fund –see Rainy Day Fund

Dedicated Funds—A fund in the State Treasury, or a separate account or fund in the General Fund in the State Treasury, that by law is dedicated, appropriated or set aside for a defined object or purpose.

Earmarks— see Dedicated Funds

Enterprise Areas—A specific geographical area that has been designated by a governmental authority (usually federal). Businesses within the enterprise zone are entitled to receive various types of financial aid. These include tax benefits, special financing and other incentives designed to encourage businesses to establish and maintain a presence within the specified zone.

Exemptions— (see Tax Exemptions)

Franchise Tax—A tax on all corporations or associations doing business in the state, based on the amount of capital invested or otherwise used in the state.

Fiscal Policy—The policy of a government in controlling its own expenditures and taxation, which together make up the budget

Fiscal Year—The 12-month period beginning July 1 and ending June 30 used by the state government for accounting purposes. Fiscal year designation depends on the year in which it ends [e.g., fiscal year 2011 (FY-2011) runs from July 1, 2010 to June 30, 2011]. Source <https://www.ok.gov/OSF/documents/bud16.pdf>

General Appropriations—The General Appropriations (GA) bill is an annual bill approved by the legislature that funds the ongoing operations of state agencies for the next budget year.

General Revenue Fund—Established by Article 10, Section 2 of the State Constitution, this fund is the principal funding source for state government operations. State taxes, fees and charges, and proceeds from investments make up the revenue to the General Revenue Fund. The fund's resources can be used for any purpose specified by Legislative appropriation. All monies collected that are not dedicated to another fund are deposited in the General Revenue Fund. Source <https://www.ok.gov/OSF/documents/bud16.pdf>

Gross Production Tax—Oklahoma assesses a gross production tax, or **severance** tax, on the extraction of oil, natural gas and other minerals. The tax is assessed as a percentage of gross market value based on the average monthly price for each product as determined by the Oklahoma Tax Commission. Source: Oklahoma Policy Institute Factsheet April 2009

The gross production tax, or severance tax, is a value-based tax levied at a basic rate of 7% upon the production of oil and gas in Oklahoma. Under legislation approved in 2014 (**HB 2562**), effective July 1, 2015, oil and gas from newly-spudded wells will be taxed at 2% for the first 36 months of production. One percent of gross production tax revenues is divided between counties and school districts, with the remainder going to the state. Source <http://okpolicy.org/gross-production-tax>

House Bill 1017, 1017 Fund—The Education Reform Act of 1990, was landmark legislation that funded a broad range of education initiatives through increased taxes. The Legislature appropriated more than \$560 million over five years to implement a wide range of reform policies, including reduced class sizes, minimum teacher salaries, alternative teacher certification, funding equity, early childhood programs, school consolidation, new statewide curriculum standards, and statewide testing.

HB 1017 was passed by the Legislature and signed by Governor Henry Bellmon in 1990. State Question 639, a referendum petition aimed at repealing HB 1017, was defeated in 1991 by a 46-54% vote.

The new taxes raised by HB 1017 are allocated directly to the 1017 Fund and can be appropriated only to the Department of Education. Source <http://okpolicy.org/house-bill-1017>

Levy—The imposition or collection of an assessment

Mill—One mill is 1/1000 of \$1. One mill generates \$1 for every \$1000 of assessed taxable valuation.

Motor Fuels Tax—This tax is collected by wholesale fuel vendors and paid to the Oklahoma Tax Commission. The tax then is included in the price paid at the pump.

Motor Vehicle Taxes—Oklahoma's motor vehicle taxes are a combination of an excise (sales) tax on the purchase of a vehicle and an annual registration fee in lieu of ad valorem taxes.

Non-Appropriated Funds—See Revolving Funds

Office of Management and Enterprise Services (formerly OFS)—The Office of Management and Enterprise Services provides financial, property, purchasing, human resources and information technology services to all state agencies, and assists the Governor's Office on budgetary policy matters. Source <http://content.govdelivery.com/accounts/OKOMES/bulletins/12cb22b>

Off-the-top—See Dedicated Funds

OHLAP (Oklahoma Higher Learning Access Program)—Created in 1992 by the Legislature to help more Oklahoma families send their children to college, Oklahoma's Promise was originally designated as the Oklahoma Higher Learning Access Program. The program is administered by the Oklahoma State Regents for Higher Education. Source <http://www.okhighered.org/okpromise/about.shtml>

Oklahoma Tax Commission—Since 1931, the Oklahoma Tax Commission has held the responsibility of the collection and administration of taxes, licenses and fees that impact every Oklahoman. The collected revenues fuel such state projects as education, transportation, recreation, social welfare and a myriad of other services.

Each of the three members of the Commission is appointed, to a six-year term, by the Governor and confirmed by the State Senate.

Under the direction of the state legislature, the Tax Commission manages not only the collection of taxes and fees, but also the distribution and apportionment of revenues to various state funds. Additionally, the Tax Commission distributes certain ear-marked funds to counties, school districts and municipalities throughout the state. Some of these ear-marked funds include collections from sales and **use taxes** as well as county lodging taxes. Source https://www.ok.gov/tax/About_the_Agency/

Progressive Tax—A form of taxation in which the rate increases with certain increases in taxable income

Proportional Tax—A tax system that requires the same percentage of income from all taxpayers, regardless of their earnings. A proportional tax applies the same tax rate across low-, middle- and high-income taxpayers.

Rainy Day Fund—Created in 1985 in response to a dramatic revenue downturn. It is designed to collect extra funds when times are good and to spend those funds when revenues cannot support ongoing state operations.

Rebate – A return of a part of payment

Regressive tax—A tax is regressive if those with low incomes pay a larger share of income in taxes than those with higher incomes. Almost any tax on necessities is regressive because lower income people must spend a larger share of their income on these necessities and thus in taxes. Oklahoma’s sales tax is one example; lower-income residents pay a much larger share of their incomes for groceries and other necessities than higher income ones, so the sales tax takes more of their income. Source <http://okpolicy.org/resources/online-budget-guide/revenues/an-overview-of-our-tax-system/characteristics-of-an-effective-tax-system>

Revenue Estimate—An official estimate that determines how much the Legislature is allowed to appropriate in its annual budget for state agencies.

Revenue failure—By law, if GRF collections are projected to fall more than five percent below the estimate for the remainder of the fiscal year, the OMES director must declare a revenue failure and initiate mandatory appropriation reductions to end the shortfall and maintain a balanced budget. Source <http://content.govdelivery.com/accounts/OKOMES/bulletins/12cb22b>

Revolving Fund—Some agencies have at their disposal funds that are generated by the agency, normally deposited in a revolving fund, funds that are appropriated under special circumstances, such as the ‘Rainy Day Fund’, block grants or other federal funds, or funds generated by the issuance of bonds. . . Revolving funds generally are created by law as agency programs are established. These funds are sometimes called non-appropriated funds or continuing appropriations. Source: http://www.okhouse.gov/Fiscal/Approop%20Process_NM_11.15.pdf

ROADS Fund—The Rebuilding Oklahoma Access and Driver Safety (ROADS) Fund is a fund of the Oklahoma Department of Transportation that was created by the Legislature in 2005 to ensure dedicated revenue for the maintenance and repair of state highway and bridges. Money is apportioned directly to the ROADS Fund from personal income tax collections.

The ROADS Fund is guaranteed an annual apportionment equal to the amount apportioned for the previous year plus an additional \$59.7 million until it reaches a cap of \$575 million. In FY 2015 the Fund received \$416.8 million. Source <http://okpolicy.org/roads-fund>

Sales Tax Relief Credit—An income tax credit that provides a **rebate** to offset the sales tax on groceries for low-income households

Severance Tax—See Gross Production Tax

State Question—A measure to change Oklahoma laws or the state constitution that appears on the ballot for all voters.

Statutory Apportionment—A system by which revenue is allocated by law for a specific purpose. This system results in dedicated funds, also known as off-the-top funds or earmarks.

Subsidy—A grant by a government to a private person or company to assist an enterprise deemed advantageous to the public.

Tax Credit—Tax credits directly reduce tax liability and, in some cases, are fully refundable, transferable, or can be carried forward to a subsequent tax year. (Credits are not refundable, not transferable and have no carryover unless otherwise indicated.) Source OKLAHOMA TAX COMMISSION STATE OF OKLAHOMA Tax Expenditure Report 2013-2014

Tax Deduction—A tax deduction is a reduction of a taxpayer's total income that decreases the amount of taxable income used in calculating the income tax. Source OKLAHOMA TAX COMMISSION STATE OF OKLAHOMA Tax Expenditure Report 2013-2014

Tax Exemption—Exemptions generally refer to a personal allowance or specific monetary exemption which may be claimed by an individual to reduce Oklahoma taxable income. Source OKLAHOMA TAX COMMISSION STATE OF OKLAHOMA Tax Expenditure Report 2013-2014

Tax Expenditures—Tax expenditures are the exemptions, deductions, incentives, credits and the like that allow taxes not to be paid when they otherwise would. Source http://okpolicy.org/files/taxexpend_summ.pdf?b0f37e

Tax incentive – exemption from tax in order to encourage a variety of actions within the state.

Tax Preference – an exemption, exclusion, or deduction from the base of a state tax ; a credit against a state tax ; a deferral of a state tax ; or a preferential state tax rate.

Use Tax—A levy on the purchase of tangible personal property purchases outside the state and stored, used or otherwise consumed within the state.

Zero-Based Budgeting—Having each item justified on the basis of cost or need.

Resources for further reading:

Read what your representatives learn about the appropriations process in their first year of service:

http://www.okhouse.gov/Fiscal/Approp%20Process_NM_11.15.pdf