

League of Women Voters of Oklahoma Fiscal Policy Restudy

Foreword

The League of Women Voters of Oklahoma (LWVOK) has an enviable (or unfortunate) record of studying issues at the very time that the public is becoming aware of their importance. The 1973 decision to study the corrections system coincided with a major riot at the prison at McAlester. The 1981-83 study of county government coincided with the county commissioners scandal. This restudy of Oklahoma's ***fiscal policy*** * continues that tradition.

The decision to choose this topic for the 2015-2017 state study stemmed from the 2013-2015 study that focused on a review of all the positions included in Program for Action. As League members know, this document is very important because it contains the positions on governmental and social issues that the LWVOK has taken after a prescribed period of study and consensus. These positions are important because the League can only advocate on issues on which they have taken a position.

By 2013, many sections of the Program for Action were seriously out of date, and local Leagues took time to review the document. After the various local Leagues had submitted their recommendations regarding which positions to retain, revise or restudy, it fell to the LWVOK Program Committee to make the final decision on which of the positions needed attention first.

The three positions that were deemed most in need of restudy were corrections, education and fiscal policy. After considerable discussion, the committee chose fiscal policy for its 2015-2017 study topic. This decision was based, in large part, on the recognition that Oklahoma's fiscal policies had led to chronic ***budget*** shortfalls. And, these shortfalls, in turn, had led to crises in education, corrections and other areas of state government. (Note: The previous position on Oklahoma's fiscal policy was written in 1989. The complete text of that position can be found in Appendix A.)

A study of fiscal policy is not for the faint of heart. It takes most of us out of our comfort zone. Due to its complexity and number of components, it is easy to see why few of our leaders have attempted to reform it. The League undertakes this study, as it undertakes all studies, with the goal of educating its membership and the general public on this vital topic. When consensus is reached on the questions accompanying the study, it will serve as a basis for advocacy in future years.

The Fiscal Policy Restudy Committee

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* Words or phrases in <i>bold italics</i> are defined in the glossary, Appendix B, page 30

League of Women Voters of Oklahoma Fiscal Policy Restudy

Introduction to Restudy

At the June 2015 League of Women Voters of Oklahoma Convention, delegates approved a two-year re-study of the LWVOK position on Fiscal Policy. The process is part of League program, which is the basis for action and advocacy in our organization.

League Program: the Vehicle for Action

League Basics ¹* gives the following definitions and guidance to state and local Leagues:

“What is Program? The League's program consists of those governmental issues that the League has chosen for concerted study and action at the national, state or local level. The program process is specified in both national and state League bylaws.”

“What is a Position Statement? A position is the League stand on a public-policy issue and the basis for action. It is established through the study and consensus process and is subject to regular review and re-adoption at state convention.”

“How can a Position Statement be changed? Since a position is the result of a study and consensus process undertaken by membership, substantive change to the position would have to go through this same process. In other words, an update which substantially changes a position or requires a restudy would result in a consensus-based position restatement or alteration that would then be submitted to the state board for adoption and presented at the next state convention. Changes must be based on member thinking and agreement whether they add to or subtract from the original position.”

Impact on Issues, ² which defines the program positions of our national organization, includes the LWVUS position on fiscal policy in the section on social policy ³. State League positions are formulated in support of national positions. The LWVUS position on Fiscal Policy includes the following:

“The League of Women Voters of the United States believes that federal fiscal policy should provide for: adequate and flexible funding of federal government programs through an equitable tax system that is **progressive** overall and that relies primarily on a broad-based income tax; responsible **deficit** policies; and a federal role in providing mandatory, universal, old-age, survivors, disability and health insurance.”

Tax Policy

“The LWVUS believes that the federal tax system should: be fair and equitable; provide adequate resources for government programs while allowing flexibility for financing future program changes; be understandable to the taxpayer and encourage compliance; accomplish its objectives without creating undue administrative problems.”

* Red numbers indicate citations to be found in the endnotes after each section of this paper.

“The League of Women Voters of the United States believes that the federal tax system, taken as a whole, should be **progressive**, not **proportional**.”

“The League: supports income as the major tax base for federal revenues; believes that the federal income tax should be broad-based with minimal **tax preferences** and a progressive rate structure; opposes a value-added tax or a national sales tax in the federal revenue system.”

Further Guidelines

“Under this position, the League of Women Voters would support tax measures that broaden the base and improve the equity of the income tax while working to incorporate progressivity into the tax system, taken as a whole. In evaluating specific **tax preferences**, the League will use the following criteria: whether the tax preference promotes equity and progressivity; whether the tax preference effectively furthers League of Women Voters program goals; whether the tax preference is the most efficient means of achieving its purpose; whether the revenue loss from the tax preference is justifiable.”

In the historical narrative supporting this position, Impact on Issues states: “Since the state budgeting process occurs under different constitutional arrangements and laws, the conclusions of the federal deficit study do not overrule any current state League positions on state budgeting processes, nor can they be used at the state level without separate state League study and member agreement on the subjects.” ⁴

Fiscal Policy Update (Re-Study)

Scope of the Study, as adopted by the Committee (approved by LWVOK Board, Nov. 14, 2015)

“The scope of the restudy will be to examine the sections of the state constitution, statutes and related materials that govern or affect how state finances are collected and disbursed including taxes, fees, **tax credits**, **tax exemptions** and **tax incentives**. A focus of this study will be to identify fiscal policies and practices the LWVOK would support or oppose.”

Because the last substantial update of the LWVOK position on Fiscal Policy was done in 1989, there is a lot of ground to cover in the following study materials. Serving to compile background information, provide study materials, and provide the basis for consensus questions, this study consists of the following sections:

- Constitutional Framework
- Oklahoma Taxes and Revenue
- Oklahoma State Spending and the Budget Process
- Long Term Planning and the Budget Process

ENDNOTES FOR INTRODUCTION

1. League Basics http://lww.org/files/League_Basics.pdf published by the League of Women Voters of the United States
2. Impact on Issues <http://lww.org/content/impact-issues-2014-2016-online-edition>, published by the League of Women Voters of the United States
3. <http://lww.org/content/social-policy-0>
4. <http://lww.org/content/impact-issues>

Constitutional Framework

The Oklahoma Constitution ¹ sets out the state's powers and duties, including methods of raising revenue, making assessments and passing a budget. The Constitution can be amended only by a vote of the people.

Proposals to amend the Constitution can arise from a vote of the Legislature (legislatively referred constitutional amendment) or by a citizens' petition process (citizen initiated constitutional amendment).

There are two Articles (Article 5 and Article 10) in the Oklahoma Constitution that deal with fiscal policy and the powers of the Legislature to raise revenue and set the budget.

Article 5 of the Oklahoma Constitution is entitled **Legislative Department**. Two of the relevant sections are noted below:

Section 1 sets forth the powers of the Legislature. The state's legislative authority is vested with the legislature. The most important among these powers are the powers to **levy** and collect taxes, and to borrow money.

Section 33 sets forth the rules for legislation that would raise revenue (taxes), which must originate in the House of Representative. This Section was amended by **State Question 640** in 1992. This citizen initiated constitutional amendment limits the Legislature's ability to raise taxes. Under SQ 640, a revenue bill can only become law if: (1) it is approved by a 3/4th vote of both legislative chambers and is signed by the Governor; or (2) it is referred by the legislature to a vote of the people at the next general election and receives majority approval.²

Article 10 is entitled **Revenue and Taxation** and sets out the **fiscal year** for the state, the framework for taxes, **assessments**, exemptions and the uses to which state revenues may be applied. The following are sections of interest:

Section 1: Sets the fiscal year, July 1 to June 30.

Section 2: Authorizes the Legislature to set tax to defray state expenses.

Section 3: Authorizes the Legislature to set tax to pay deficiency.

Section 4: Authorizes the Legislature to set levy to pay state debt.

Section 5: States simply that "The power of taxation shall never be surrendered, suspended, or contracted away. Taxes shall be uniform upon the same class of subjects."

Section 6: Exempts, among other items, the property of "free public libraries, free museums, public cemeteries, property used exclusively for nonprofit schools and colleges, and all property used exclusively for religious and charitable purposes" from taxation.

Section 6A(v2): Exempts intangible personal property from **ad valorem** or other property tax (amendment passed in 2012)

Section 6B: Gives new-to-state or expanding-within-state manufacturing facilities a **tax exemption**.

Section 6C: Gives the legislature the power to allow municipalities to create **enterprise areas** or to use other measures to develop the economy.

Section 7: Authorizes local and county entities to levy and collect assessments for local improvements.

Section 8: Sets method of valuation of property for taxation and exemptions for certain individuals; sets limits on annual percentage increase of fair cash value; sets maximum millage rate; limits fair cash value on homestead

Section 9: Sets the amount of the ad valorem (property) tax, and states that “No ad valorem tax shall be levied for State purposes, nor shall any part of the proceeds of any ad valorem tax levy upon any kind of property in this State be used for State purposes.” This section also allows counties to set ad valorem tax levies for department of health, vocational and technical schools, emergency medical services, and solid waste management services

Section 10: Permits an increase in the tax rate for the construction of public buildings or for building fund for school districts; allows tax levy for county or city-county libraries, municipally owned hospitals,

Section 19: States that no tax collected for “one purpose shall ever be devoted to another purpose.”

Section 20: Specifies that the state shall not collect taxes for county, city, town or municipal purposes, but may confer power to collect taxes to those bodies.

Section 21: State Board of Equalization. Sets membership of the State Board of Equalization.

Section 23: Requires a balanced budget and sets methods for achieving it. Also establishes a **Constitutional Reserve Fund (“Rainy Day Fund”)** and specifies how it may be spent.

Section 30: Sets system of accounting.

Sections 31 to 43: Set levels of indebtedness and sources of payment for capital improvements, industrial finance authority and for other state institutions.

Note: The Oklahoma Constitution does not have a provision that would allow municipalities to receive ad valorem levies for operations. A 2010 Task Force on Municipal Finance ³ recommended a constitutional amendment that would give municipalities this right, thus providing them more diversified revenue sources.

END NOTES: CONSTITUTIONAL FRAMEWORK

1. The Oklahoma Constitution may be found at http://www.oklegislature.gov/ok_constitution.html
2. Oklahoma Policy Institute <http://okpolicy.org/state-question-640>
3. Report Task Force on Municipal Finance <http://www.okhouse.gov/Documents/MunicipalFinanceTaskForceReport.pdf>

Oklahoma Taxes and Revenues

Many ancient civilizations levied taxes on their citizens. The earliest recorded go back to 6000 BCE. Many of these taxes were issued only during times of war or famine. As societies evolved, their forms of taxation became more elaborate. ¹

The current tax structure in Oklahoma reflects the complexity of a modern society. Oklahoma state government derives the revenue it needs to function from income taxes (personal and corporate), property taxes, sales taxes, gross production (severance) taxes, **motor vehicle taxes, motor fuel taxes**, tobacco taxes, alcohol taxes, insurance taxes and fees too numerous to mention.

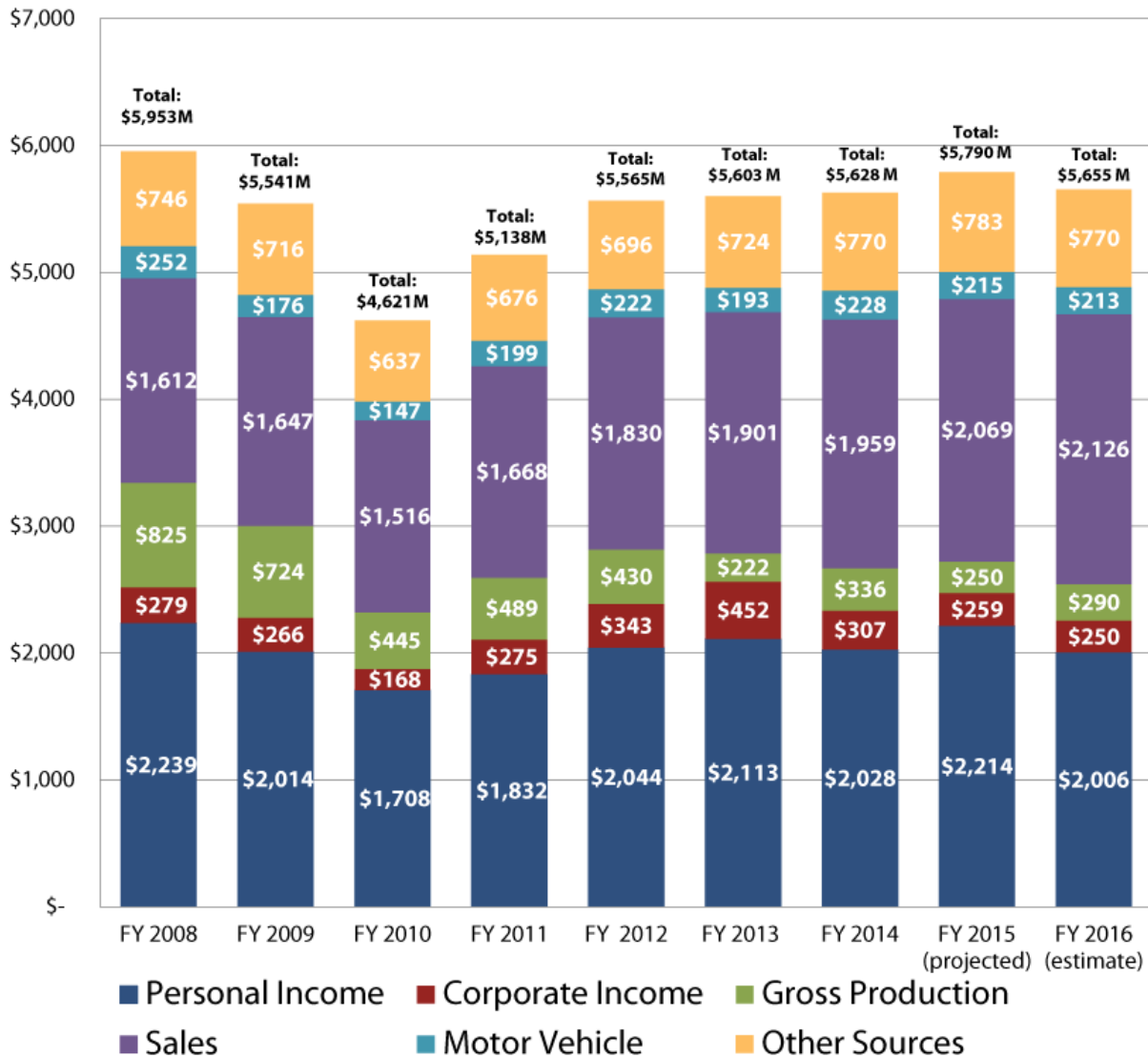
These taxes may be looked at in several ways. They may be compared to similar taxes in other states. They may be examined in terms of how they are used and they may also be considered in the light of the number of tax exemptions, credits and incentives that exist.

The Tax Foundation provides an annual survey entitled Facts and Figures ² that compares the tax rates of the 50 states and the District of Columbia. The 2015 survey reveals that Oklahoma ranks 39th in the nation in terms of the state and local per capita tax burden as a percentage of state income (only 11 states have a lighter tax burden than Oklahomans). We are ranked 32nd in terms of our business climate (we are in the bottom half of states in this category), 36th in state tax collections per capita (only 14 states are worse), but 17th in the federal aid as a percentage of state income we receive (only 16 states get more federal aid as a percentage of state income).

The graph on the following page shows the dollar amounts received from each revenue source from 2008 to 2016. ³

General Revenue by Tax, FY 2008 to FY 2016

(in \$ millions; FY 2015 and FY 2016 based on Feb. 2015 Board of Equalization estimates)



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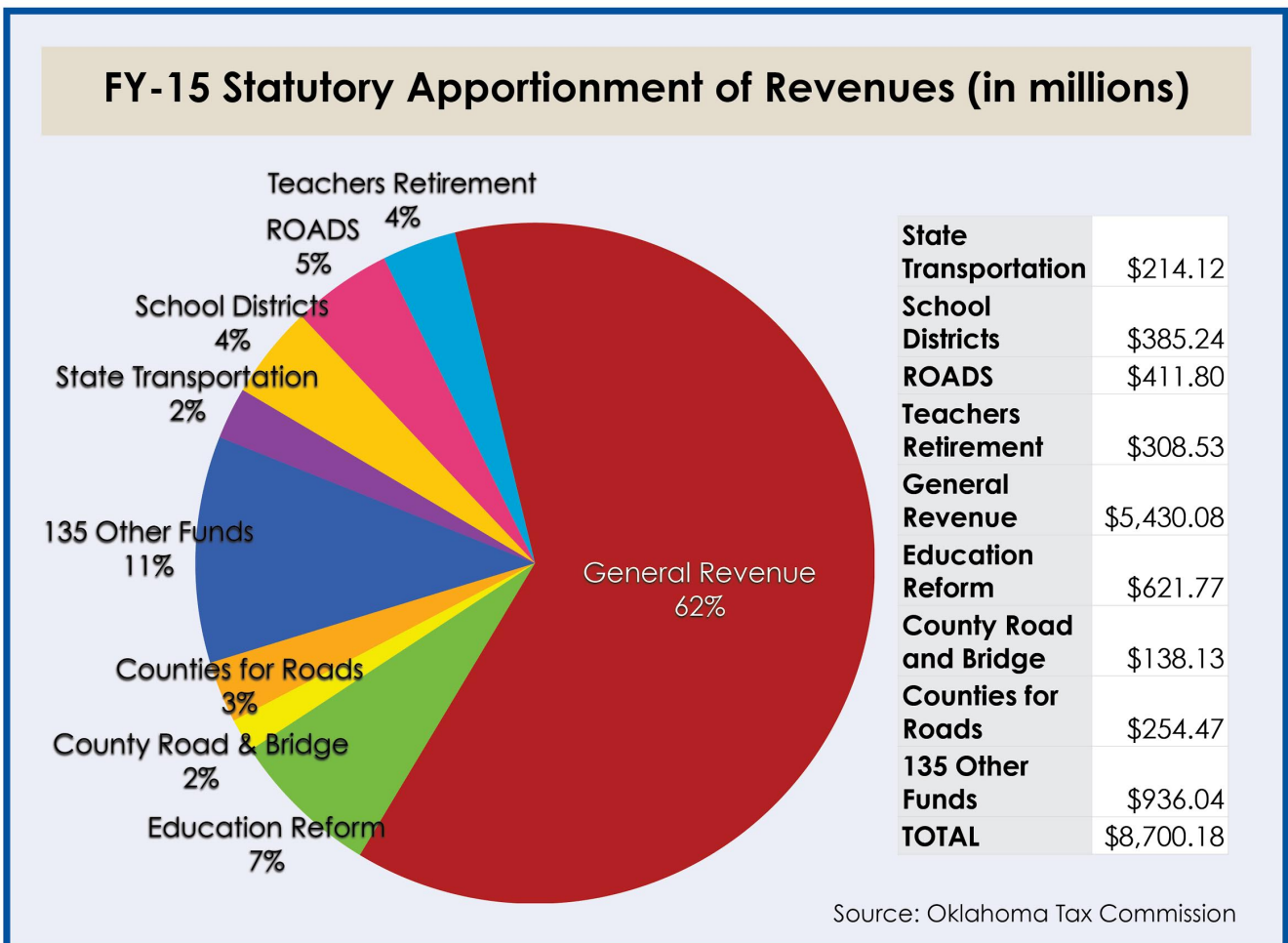
In 2016 Oklahoma derived more of its income from sales tax than from either property or individual income taxes. ⁴ Our 8.77% combined state and average local rate puts us at 6th place in the nation. We rank 47th in state gasoline taxes and 31st in cigarette taxes. And, we rank almost at the very bottom (49th place) in state and local property tax collections per capita. Oklahoma is one of only 7 states that imposes a sales tax on food. ⁵

The Tax Foundation provides little information on how Oklahoma compares to other states in the number of fees assessed by its various divisions. Indeed, it is difficult to find a comprehensive list of such fees. Many such fees are for activities such as hunting and fishing licenses. ⁶ Motor vehicle licenses are considered fees. The Secretary of State’s website lists 100 different fees related to businesses alone. ⁷ Of late, the fees that have drawn most attention in the state are those charged by the corrections system to people who have either been convicted or are awaiting trial. ⁸ It has been said that these fees represent, in many

cases, a passing on of expenses to alleged criminals because of the underfunding of the corrections system by the state.

Dedicated funds are another major concern with taxes and fees. Such monies are sometimes referred to as **off-the-top** funds or **earmarks**. Since the major objective of taxation is to provide the government with the revenue it needs to fulfill its core mission (services it provides its citizens), anything that prevents revenue from reaching the state coffers should be examined. In an essay prepared for the 2015 Oklahoma Academy Town Hall, the Director of the Oklahoma Office of Management and Enterprise Services Preston Doerflinger states that “of the \$24 billion at its disposal for the Fiscal Year 2016 budget, just \$7 billion of those dollars are appropriated.”⁹ Some of the remaining \$17 billion comes from federal funds and other monies that have been collected by specific agencies for their own purposes. However, a significant portion of the unappropriated funds comes from monies that have been set aside or dedicated by legislators in previous years. In a conversation with a LWVOK delegation, Oklahoma Treasurer Ken Miller offered a somewhat different view. Although he would prefer that all monies received go into the **general revenue fund**, he admitted that a large percentage of these funds would need to go to the agencies (education and infrastructure) that currently receive them through dedicated funding.

The **Oklahoma Tax Commission** provides exhaustive information on how various taxes and fees are allocated.¹⁰ The following chart shows **statutory apportionment** of revenue (in millions) from FY 2015.¹¹



The charts below show the distribution of the the state income tax and the gross production tax.

2016 Distribution of Income Tax

General Revenue Fund	85.66%
Teachers' Retirement Fund	5.0%
Education Reform <i>Revolving Fund</i>	8.34%
Ad Valorem Reimbursement Fund	1.0%

One-hundred percent of motor vehicle tax stamps go into the general fund, but none of the **gross production tax** on oil and natural gas (7%) ¹² goes to the general fund.

2016 Distribution of Gross Production Tax on Oil and Natural Gas (7%)

Common Education Technology Fund	25.72%
Higher Education Capital Fund	25.72%
Oklahoma Student Aid Revolving Fund	25.72%
To Counties for Highways	7.14%
School Districts	7.14%
To Counties for Bridges and Road Repair	3.745%
Oklahoma Tourism and Recreation Department Revolving Fund	1.43%
Oklahoma Conservation Commission Infrastructure Fund	1.43%
Community Water Infrastructure Development Revolving Fund	1.43%
Statewide Circuit Engineering District Revolving Fund	0.535%

One concern with dedicated or off-the-top funds is that they reduce the amount of money that the Legislature can appropriate each year. An additional concern is with transparency. When average citizens see that state funding in a given area is reduced, they may not be aware of the funding that is being supplied to that agency through dedicated funds. The budget process is not easy in any case; it becomes much more complex when it lacks transparency. ¹³ Several specialists in the area of taxation advocate eliminating dedicated funds altogether.

The use of property (ad valorem) taxes is determined by the state constitution. ¹⁴ Many people assume that, because property tax is assessed at the local level, these taxes support local government. They do not. They go to education (65% for common schools and 13% for career tech) and to various county offices as well as general obligation bonds and city/county libraries. ¹⁵

To have a reasonably satisfactory grasp of how taxes affect the state's fiscal policy, it is also necessary to understand how individuals and corporations can be exempt from paying certain taxes. This can be done through tax credits, tax exemptions and **tax incentives**. A quick glance at the table of contents of the Oklahoma Tax Commission's 122-page document on income taxes provides an insight into the number of tax exemptions and credits just in the area of income.¹⁶ Not all of these exemptions and credits are suspect. The earned income tax credit (EITC) is widely believed to be essential to the support of low-income individuals.¹⁷

However, it is hard to ignore that, over time, the number of tax incentives, credits and exemptions has grown to the point that they constitute a substantial strain on the state's budget. The Oklahoma Department of Commerce publishes an 83-page document that describes business incentives and provides a guide to taxes, Oklahoma Business Incentives and Tax Guide.¹⁸ This same document contains information on tax credits and exemptions. There are also personal exemptions on both income and property taxes.¹⁹

ENDNOTES ON OKLAHOMA TAXES AND REVENUES

1. World Taxation: History of Taxation <http://www.worldtaxation.com/uncategorized/history-of-taxation.html>
2. Tax Foundation: http://taxfoundation.org/sites/taxfoundation.org/files/docs/Fact%26Figures_15_web_9_2.pdf
3. Oklahoma Policy Institute, www.okpolicy.org; graph reprinted with permission. For further information see OK Policy's analysis of the FY 2016 Budget at http://okpolicy.org/wp-content/uploads/2016_Budget_Highlights.pdf?b0f37e
4. Tax Foundation, Facts and Figures p. 16. See also Oklahoma Policy Institute: <http://okpolicy.org/resources/online-budget-guide/revenues>
5. Center for Budget and Policy Priorities: <http://www.cbpp.org/research/which-states-tax-the-sale-of-food-for-home-consumption-in-2009>
6. Oklahoma Wildlife Department: <https://www.wildlifedepartment.com/forget1/LicenseDescription.aspx>
7. Oklahoma Secretary of State Filing Fees: <https://www.sos.ok.gov/business/fees.aspx>
8. Oklahoma Watch: <http://oklahomawatch.org/2015/01/31/justice-system-steeps-many-offenders-in-debt/>
9. Oklahoma Academy Town Hall: <http://www.okacademy.org/PDFs/2015Research.pdf>, p. 24
10. Oklahoma Tax Commission: https://www.ok.gov/tax/Forms_&_Publications/Reports_&_Statistics/Appportionment_Charts_&_Formulas/index.html 2016 Apportionment of Statutory Revenues by Percentage
11. Oklahoma Economic Report, Feb. 2016 https://www.ok.gov/treasurer/documents/OER_2-29-16.pdf
12. Gross production taxes for 2016 are divided according to percentages (1%, 2%, 4% and 7%) and these percentages depend on the year that the well was first dug.

13. The Oklahoman: <http://newsok.com/earmarking-strains-oklahoma-state-budgeting-process/article/4987957>
14. Oklahoma Constitution, Article 10, Section 9
15. Oklahoma Property Taxes, p. 17: <https://www.ok.gov/tax/documents/TES-14.pdf>
16. Oklahoma Tax Commission, pp. 4-6: <https://www.ok.gov/tax/documents/Chapter%2050%20Income.pdf>
17. Center for Budget and Policy Priorities: <http://www.cbpp.org/research/state-budget-and-tax/policy-basics-state-earned-income-tax-credits?fa=view&id=2506>
18. Oklahoma Department of Commerce: http://okcommerce.gov/wp-content/uploads/2015/06/Oklahoma_Business_Incentives_and_Tax_Guide.pdf
19. <https://www.ok.gov/tax/documents/TES-14.pdf> and <https://www.ok.gov/tax/documents/Chapter%2050%20Income.pdf>

Oklahoma State Spending and the Budget Process

In December 2015, the **Office of Management and Enterprise Services** (OMES) declared a **revenue failure** for FY 2016. In February 2016, a second revenue failure was declared. Although the first revenue failure resulted in across-the-board cuts of 3% to state agencies and the second resulted in 7% cuts, the fact that the cuts came so late in the fiscal year, meant that state agencies were actually left with 18% fewer dollars to work with through the end of June 2016.¹

What is revenue failure and what causes this serious problem? In order to answer these questions, the process of developing the state budget must be unraveled. This section of the study will describe how the Oklahoma state budget is developed each year and what the expenditures are.

How the Budget is Determined:

The budget for the state of Oklahoma is prepared by the Governor, then submitted to the Legislature for consideration, returned to the governor for approval, veto or line-item veto, and finally enacted. Many groups and individuals contribute to the final document at various stages each year. The budget is prepared for one fiscal year from July 1-June 30.

The Oklahoma Tax Commission (OTC) and OMES collect and report data to help the governor prepare the Executive Budget. Before the governor can prepare the Executive Budget, the OMES solicits budget requests from all state agencies. OMES also collects the revenue forecast data from all agencies that collect revenue. OMES presents this information to the **Board of Equalization** (BOE) which is the group that must certify the amount of revenue available each year for **appropriation**. The constitution mandates that the budget be balanced, so a vital piece of information is an accurate estimate of the revenue that will be collected each year. The state constitution specifies how this independent **revenue estimate** will be established. This revenue forecast is not a multi-year forecast. In-house and outside economists, analysts, and research firms evaluate and prepare the data used in the forecast. Resources at Oklahoma State University are involved in the process.

The BOE will certify an amount of revenue available that is 95% of the total revenue collection that is forecast for the year in order to ensure a balanced budget. The BOE certifies the amount based on information available in December. This is the figure the governor uses to prepare the Executive Budget. The BOE re-certifies the amount of revenue in February after the Governor presents the Executive Budget to the Legislature. The February figure reflects actual collections and updated forecasts. The Legislature and Governor work together towards enacting a budget that does not exceed the February certified revenue figure. The BOE will re-certify this amount again in June to reflect any changes in law. Sen. Clark Jolley called the Executive Budget “irrelevant” because it is not based on the most accurate estimate of revenue from the BOE which comes three weeks after the Governor presents the Executive Budget.² Jolley proposed that a possible solution to this problem is unifying the certification dates used for both the Legislative and Executive Budget.

Some important factors that can affect the accuracy of the forecast are off-the-top funds and volatility in sources of revenue. A report prepared by the OTC in 2014, Report to the State Board of Equalization on Revenue Forecasting³ includes an example of how off-the-top funds

can affect the accuracy of the revenue forecast. Dedicated funds are not appropriated by the Legislature from the General Revenue Fund (GRF). Problems occur when these dedicated funds are subtracted from the total revenue collection leaving the GRF, which is then apportioned by the Governor and Legislature. Agencies that receive funding from the GRF are the only ones affected by mandated spending cuts when revenue falls short of the forecast. In addition, there will always be some revenue volatility related to the changing price of our oil and natural gas resources because Oklahoma is an energy producing state. Other states have to work with these fluctuations as well.

When revenues have not met the forecast in the past, the shortfalls have been addressed in part with non-recurring revenue sources like the *rainy-day fund* and federal stimulus funds such as the *American Recovery and Reinvestment Act* of 2009 (ARRA) which ended in 2013. Continuing to build budgets based on previous agency funding levels that have been dependent on these non-recurring sources also leads to unrealistic estimates of funding needs.

Where Does the Revenue Go?

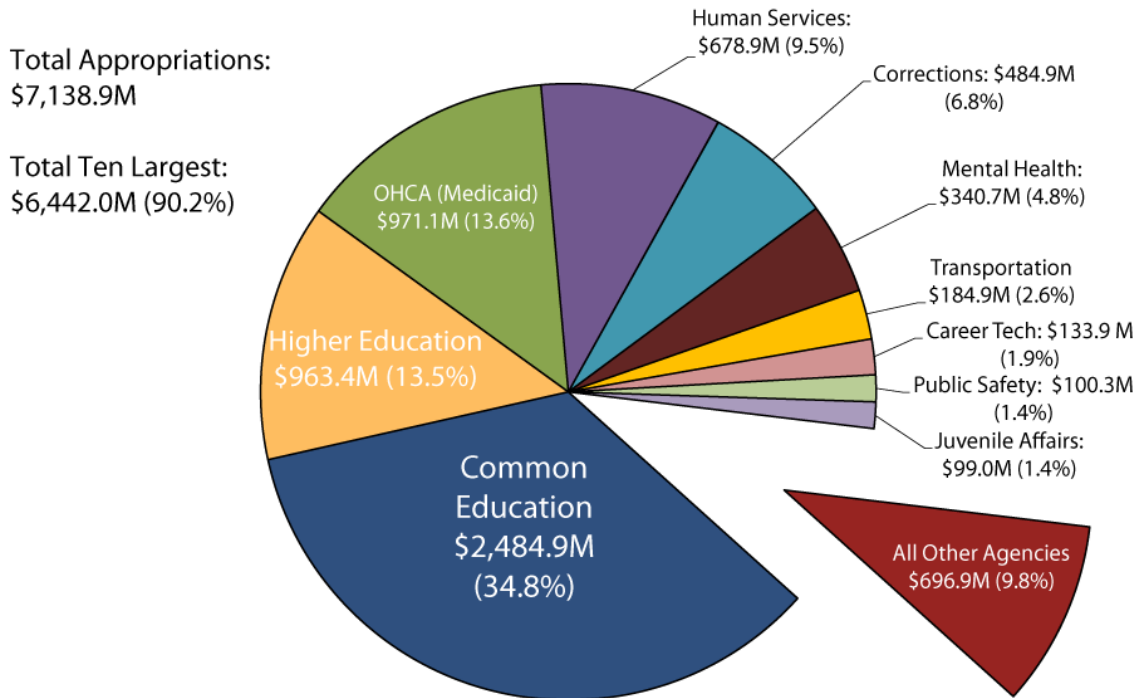
State revenue is spent by legislative appropriation from the GRF, by tax expenditures, and by dedicated revenue sources.

For example, the budget enacted for FY2016 appropriated more than \$7 billion from the GRF. Most of the funds, 90.2%, were directed to these top ten agencies:

Common Education	34.8%
Higher Education	13.5%
Medicaid	13.6%
Human Services	9.5%
Corrections	6.8%
Mental Health	4.8%
Transportation	2.6%
Career Tech	1.9%
Public Safety	1.4%
Juvenile Affairs	1.4%
Other	9.8%

Figure 1 below illustrates appropriations to the ten largest agencies in Oklahoma. ⁴

FY 2016 Appropriations to Ten Largest Agencies



Tax expenditures, a collective term for tax credits, incentives, exemptions, subsidies, and deduction, are another kind of expense. “There are more than 400 tax credits, deductions, and exemptions on the books in Oklahoma, with costs ranging from zero to hundreds of millions of dollars every year. Some of these benefit large swaths of the state — such as the personal exemption that all Oklahoma households can claim on their tax return. Others subsidize very specific activities or industries.” ⁵ The Tax Expenditure Report for 2013-14, for example, reported on 54 **tax credits**, 34 **exemptions** and **deductions**, 18 tax exempt entities, 4 miscellaneous income tax expenditures and 27 exemptions on interest and other income earned on certain bonds, notes, and obligations. The report stated that this was only an incomplete list of tax expenditures for that year. ⁶ There can be good reasons for these tax expenditures, but they divert funds from the total revenue collected by the state. They are not appropriated like incoming funds, and they seem to be an almost invisible state expenditure. Many continue indefinitely without any planned review or cap. Whether they accomplish their objectives is not often evaluated.

Figure 2 below shows 15 of the major tax expenditures in Oklahoma

Name	Annual Cost	Type
Investment/New Jobs Tax Credit	\$94,792,000	Income tax credit
Quality Jobs Program	\$83,241,878	Tax refund or rebate
Insurance Premium Tax	\$39,007,824	Insurance company credits
Five Year Ad Valorem Tax Exemption	\$35,422,118	Reimbursement to local governments
Electricity Generated by Zero Emission Facilities	\$18,181,000	Income tax credit
Economic Development Pooled Finance	\$12,567,178	Other
Clean Burning Fuel Vehicle Credit	\$10,674,000	Income tax credit
Oklahoma Film Enhancement Rebate Act	\$8,909,205	Tax refund or rebate
Quality Jobs Leverage Program	\$7,102,141	Other
Farm Vehicle Registration Benefits	\$3,978,000	Other
Historic Rehabilitation Tax Credit	\$3,869,000	Income tax credit
Energy Efficient Residential Construction	\$3,714,000	Income tax credit
Aerospace Engineer Tax Credit	\$2,497,000	Income tax credit
Aircraft Repairs and Modifications	\$2,425,000	Sales tax exemption
Training for Industry Program	\$2,195,180	Other
Total	\$334,575,524	

Note: Annual cost figures above are based on the most recent available data from fiscal year 2014 or fiscal year 2015. ⁷.

The fifteen largest business incentives (shown in Figure 2 above) are among those slated for review by a new state commission. This commission, the Incentive Evaluation Commission, was established by a new law, HB2182. The IEC is an 8-member group that is supposed to provide information to the legislature. Speaker of the House, Jeff Hickman, reported that HB2182 is "a law requiring all tax credits to be reviewed every four years, starting with the costliest ones this year, to determine whether the benefit to the state is greater than the cost."⁸ In 2016, the commission is planning to review at least 17 incentives and make recommendations to the legislature about which should be reconsidered. The effect of any action by the legislature based on the work of this commission won't be felt until 2017. Nevertheless, this legislation, which was proposed by Rep. David Dank, is one step towards tackling Oklahoma's chronic budget difficulties.

Finally, other expenditures are off-the-top funds, or dedicated revenue sources. These expenditures have been established over time by more than 15 legislative statutes.⁹ Speaker Hickman asserted that “more than \$3 billion is automatically taken out of the pot of revenue due to earmarks for ‘off-the-top’ funding passed by previous Legislatures. That ‘off-the-top’ amount grows annually leaving lawmakers with less money each year to appropriate – even as revenues have reached record levels in recent years. Just eight years ago, 55% of revenue went to the General Revenue Fund for the Legislature to appropriate. Today, just 45% of state revenue makes it to the Legislature for use in the annual budget.”¹⁰ Some of the large off-the-top funds are the Education Reform Fund (HB1017), Education Technology, **Oklahoma Higher Learning Access Program (OHLAP)**, **Rebuilding Oklahoma Access and Driver Safety (ROADS)**, **County Improvement for Roads and Bridges (CIRB)**, retirement funds, and the Tobacco Settlement Fund. State Treasurer Ken Miller stated that eliminating off-the-top funds is not a “silver bullet” because “close to 90%” of these off-the-top funds would have to be spent anyway.¹¹

ENDNOTES ON OKLAHOMA STATE SPENDING AND THE BUDGET PROCESS

1. <http://www.koco.com/news/oklahoma-officials-order-235-million-cut-to-state-agencies-after-2nd-revenue-failure/38320388>
2. Panel discussion at the Jan. 28, 2016 Oklahoma Policy Institute Budget Summit.
3. http://lwvok.org/files/OTC_Revenue_Forecast_Commission_Review_2014.pdf
4. <http://okpolicy.org/issues/responsible-budget-taxes> graph reprinted with permission
5. <http://www.okacademy.org/PDFs/2015Research.pdf>
6. <https://www.ok.gov/tax/documents/Tax%20Expenditure%20Report%202013-2014.pdf>
7. Oklahoma Tax Commission, Oklahoma Insurance Department, Oklahoma Watch research. <http://oklahomawatch.org/2015/11/10/up-for-scrutiny-335m-a-year-in-business-incentives/>
8. https://www.ok.gov/treasurer/documents/OER_12-31-15.pdf p. 2.
9. https://www.ok.gov/tax/Forms_&_Publications/Reports_&_Statistics/Apportionment_Charts_&_Formulas/index.html
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Long Term Planning and the Budget Process

Overview of Oklahoma's State Budget Process

The budget cycle for state operations starts with state agencies developing a detailed outline of financial needs for the next fiscal year. Each year, on October 1, state agencies are required by law to submit a "Budget Request" detailing their funding needs for the next fiscal year. This "Budget Request" is then reviewed and analyzed by the Office of Management and Enterprise Services (OMES) in light of overall state responsibilities, goals, objectives and total funds available. Legislative staff also review the budget requests. There is no formal process for budget request revisions, but agencies can relay needed changes to their requests by contacting OMES Budget Staff and members of the legislative staff.

Not more than 45 days nor less than 35 days prior to the convening of each regular session of the Legislature, the State Board of Equalization certifies amounts available for appropriation.

A second meeting of the Board is held within five days of the monthly apportionment in February. At these two constitutionally-mandated meetings estimates of revenue to each annually appropriated fund are based on a determination of the revenues to be received by the State under the laws in effect at the time such determination is made. These estimates are based on predictable changes in the economy as well as current law. Should the Legislature enact laws that provide additional revenues or a reduction in revenues to these certified funds, the Board meets to determine the changes in revenue. Only those changes in revenue resulting from changes in law can be considered at the third meeting.

The Governor prepares and submits to the Legislature at the beginning of each annual session a balanced budget based on OMES review of budget requests prepared by state agencies and subsequent recommendations by OMES, cabinet members and policy advisors. Budgeted expenditures cannot exceed the amount available for appropriation as certified by the State Equalization Board unless revenue raising measures are proposed to balance the spending recommendation. The Governor's recommended budget is considered by the State Legislature which makes the final appropriation of funds to the agencies.

A state agency, based upon funds appropriated by the Legislature and other funds available to the agency, then develops a Budget Work Program which outlines in detail planned expenditures for the ensuing fiscal year. Work programs are reviewed by the budget Division of the OMES and the approved work program will serve as a basis for the subsequent allotment of funds. Budget Work Programs can be revised at any time during the fiscal year if justified and if the revision can be accomplished within the various expenditure, full-time-equivalent employee and program expenditure limits.

During the fiscal year, it is possible that actual revenues are less than the estimates made when agency budgets are prepared. If revenues are not sufficient to cover appropriations, the Director of OMES is required to reduce the budget by the amount of the deficiency.

Budgetary Controls: The legal level of budgetary control is maintained at the line-item level (General Operations, Duties, etc.) identified in appropriation acts. Agency budgets may be modified subject to statutory limits on transfers using the Budget Work Program. The Director of OMES can approve transfers between line-items up to 25%. The Contingency Review

Board (a three-member board comprised of the Governor, the President Pro Tempore of the Senate and the Speaker of the House of Representatives) can approve transfers between line-items up to 40%. All transfers are subject to review by the Joint Legislative Committee on Budget and Program Oversight to determine if the transfer tends to effectuate or subvert the intention and objectives of the Legislature. ¹

The Constitutional Reserve Fund (or Rainy Day Fund) may be used to make up for shortfalls in the current budget, used in the budget for the coming year if revenues are forecast to fail, or spent for an emergency. Money flows in to the Rainy Day Fund when revenue is more than estimated. Any General Revenue Fund collections beyond 100% of the estimated amount must be deposited into the Rainy Day Fund (unless it already has the maximum amount specified by the Constitution, 15% of the current revenue estimate for the General Revenue Fund). ²

The Budget Process section of the Oklahoma Policy Institute (OPI) [Online Budget Guide](#) describes the process used to create, implement, and monitor Oklahoma's state budget each fiscal year. The process is a complex combination of politics, laws, and management. Its goal is to create a budget that satisfies the participants in the process, complies with legal limits, and spends no more than the available resources. ³

Issues with OK Budgeting Process

David Blatt, Executive Director of the Oklahoma Policy Institute, states, "Our state tax system is no longer generating the revenue needed to pay for basic public services. There are numerous indicators of a chronic and deepening budget gap, also known as a structural budget deficit. The state's structural budget deficit has multiple causes. Some have to do with economic and demographic [factors] over which state policymakers have little control, but others have been caused or aggravated by policy choices made by state leaders in recent years. While there are specific measures and strategies the state can and should adopt to address each of these components of the structural budget deficit, the broader message is that we need a long-term strategy for getting our revenues back in alignment with what it costs to provide core services for Oklahomans." ⁴

Preston Doerflinger, Director, Office of Management and Enterprise Services (OMES) observes, "However, the figure that the board provides in February is not the only revenue at budget writers' disposal. The Governor and Legislature almost every year use longstanding legal authority granted to them to bring additional revenues into the budget beyond the certified revenue estimate made by the board. As a result, almost every appropriated budget contains additional funds not considered by the board but accessible via actions of the governor and Legislature. . . .The most significant budgeting occurs in private negotiations between the governor's budget staff and a small handful of legislators and legislative budget staff." ⁵

David Blatt suggests three budgeting reforms to help address flaws in Oklahoma's budget process:

- Develop enhanced revenue forecasts for a three-to-ten year period.
- Develop a current services budget - a baseline projection that measures how much it will cost to deliver the same quantity and quality of services to residents it is delivering in the current period budget - rather than assume that agencies can operate with flat funding year after year.
- Adopt PAYGO "pay-as-you-go" policy requiring any program increases or tax cuts be fully offset to achieve budget neutrality.⁶

Former State Treasurer Scott Meacham states, "The budget problems in Oklahoma seem more structural than reflective of the state of our economy The core problem appears to be neither a revenue nor a spending problem but lack of systems that provide for strategic allocation of state resources and structural budget problems that keep state budget makers in constant crisis mode."⁷

Ken Miller, Oklahoma State Treasurer, agrees. "Outside of government, it is well accepted that non-recurring revenues should not be used for ongoing expenditures and that recurring revenue streams should not be cut when current costs exceed them. Yet under the capitol dome, budget drafters are doing just that. . . . Going forward, tax cuts should be revenue neutral."⁸

Tribal contributions to the state budget are collected and distributed in accordance with the "State-Tribal Gaming Act". The Gaming Compliance Unit of the OMES carries out the oversight responsibilities granted to the state under the compact. For the first time ever, in FY 2014, the fees paid to the state by Native American tribes for exclusive gaming rights declined from the previous year.⁹

Governor Mary Fallin reports that "The OMES is implementing a new and improved budgeting system called performance informed budgeting. Performance informed budgeting bases spending on actual outcomes and needs rather than arbitrary, unproven wants. It's done through strategic measurement, metrics and data on program outcomes, rather than our current process which is driven largely by gut feeling, anecdotes and political winds."¹⁰

Gary Jones, State Auditor, has indicated that there is waste in many areas of state government, but that it is not the main cause of the current budget disaster. Jones identified at least two issues that could be examined as they present a problem. One was the issue of lack of equity between and among the salaries being paid by various branches or departments of state government. Another area where he sees inefficiencies is in the preparation of the state budget. The Governor's budget is required by the constitution to be presented before the official information is available for a realistic budget. For example, in 2016, the Governor presented a budget based on a \$900 million shortfall; before the Legislators began their work, this shortfall had grown to \$1.3 billion.

Federal Fund Transparency (2015 interim study H15-061 by Rep Newell)¹¹ examined how federal funds play a role in the overall budget because they usually have actions required or prohibited as a condition of the receipt of the funds. State agencies might depend on such funds for carrying out the core mission of the agency. They could have possible maintenance of effort costs associated with the receipt of these funds.

Tax Cuts and Triggers

In an effort to encourage economic development and growth, Oklahoma's elected leaders have promoted tax cuts as a means of creating a "business friendly" climate in the state.¹² The rationale for such cuts is that when revenue is more than sufficient to fund state needs, a provision to lower tax rates or provide credits for taxpayers or businesses should automatically be triggered on the ground that "government shouldn't hoard their money if it has sufficient revenue to run the state"¹³

While the Oklahoma Legislature had passed laws enabling tax cuts in 2007, it was only in 2014 that the tax trigger was added. At that time both the state Auditor and state Treasurer expressed concerns about the way in which the trigger legislation was written, because of a requirement that the state Board of Equalization compare estimates of revenue rather than actual revenue.

At the 2016 Oklahoma Policy Institute Budget Summit, Mr. Chuck Hoskin, Jr., the Cherokee Nation Secretary of State, made an interesting and emphatic point regarding the understanding of the term "sufficient revenue." He noted that, because of the revenue that the state receives from the Native American entities in the state, we should be the envy of the nation in terms of the quality of our schools and roads. However, these funds have gone instead to pay for a tax cut.¹⁴

This same point has been made with regard to the money received from the state lottery. This money was to be set aside for education. Instead, lottery money has been used as an excuse to cut other revenue streams dedicated to education. Thus far, legislators have not been successful in diverting funds from the Tobacco Settlement Endowment Trust to compensate for budget deficits.¹⁵

An article in Tax Vox notes, "According to the fiscal impact summary prepared by the Oklahoma Tax Commission, the state only has to certify that its estimate of 2016 revenue is greater than its estimate of FY2014 revenue. It is not required to say anything about whether the state can afford the tax cut – or even how big the difference is."¹⁶

How to Increase Revenue

In Oklahoma and in many other states, one of the primary untapped sources of revenue comes from online purchases which are not taxed if the business does not have a brick and mortar store in the state. Online purchases damage Oklahoma's economy in other ways when local stores cannot sell enough to keep open, causing loss of income tax, sales tax and ad valorem tax from them and their former employees. Closely related to this loss of revenue is the fact that software that is downloaded from the Internet is tax free.¹⁷

Although some states attempt to collect taxes on Internet sales, there is some consensus that truly effective Internet sales collection will only come about after federal legislation is passed. Few, if any, states have been successful in recouping the taxes lost because of online sales. This would be an area interested individuals might be able to exercise influence to change the federal legislation.

Other states have managed to maximize or at least reduce the amount of **corporate income tax** lost by insisting on combined corporate income tax reporting, which requires a multi-state

corporation to add together the profits of all its subsidiaries, regardless of their location, into one report. Although it is impossible to close all the loopholes, combined corporate income tax reporting makes it less possible for corporations to shirk their public responsibility.¹⁸

Oklahoma and several other states allow taxpayers to keep the state income **tax deduction** claimed on their federal returns when they pay their state income tax. This could be corrected by adding that amount back into their adjusted state income before calculating the state income tax.

Two other means of increasing Oklahoma state revenue have been the source of great controversy:

- Oklahoma is one of the states that has failed to expand Medicaid to include the Affordable Care Act (ACA). A change in this policy would bring millions of dollars into the state's economy and allow many people who are currently uninsured to get insurance. There has been some concern that accepting ACA funds could cost the state money when the federal government no longer reimburses the state for the entire cost of the program. However, proponents of the ACA believe that adopting it would bring in nine dollars for every dollar spent.¹⁹
- Oklahoma recently reduced the personal income tax rate with the belief that this would stimulate the economy and bring greater prosperity. The existence of an ever-increasing budgetary shortfall would cast some doubt on that theory. Legislators from both parties have suggested that the decrease in tax rates should be halted until such time as Oklahoma can actually pay for the support of basic, essential services.

How Other States Budget

The Center on Budget and Policy Priorities report, Policy Futures,²⁰ outlines improved procedures that can help states plan more effectively. This report includes the following information:

- Projecting how much revenue the state can expect to collect beyond the next couple of years enables policymakers to anticipate and respond to predictable changes in revenue. Only 11 states forecast revenue at least four years into the future. Oklahoma is not one of those states.
- A revenue estimate produced by the governor and legislature in partnership – rather than competing revenue estimates – reduces the likelihood of a political fight over the correct revenue number that can derail a more productive policy debate. About half (28) of the states use a consensus revenue estimating process. Oklahoma is not one of those states.
- Knowing the cost of maintaining the current level of services beyond a single year gives policymakers a heads up when major cost increases are coming before it's too late to avoid a fiscal emergency. This information (called a current services budget) also shows if states are in danger of chronically taking in less revenue than needed to meet obligations (called a structural deficit). Only 5 states and the District of Columbia

regularly prepare current services budgets extending beyond one budget year. Oklahoma is not one of those states.

- Any of the above practices would by itself help a state. Even more effective is putting them together and preparing high-quality multi-year revenue forecasts and multi-year expenditure forecasts on a current services basis. This gives the best possible information to set up productive debate on potential policies. Three states – Alaska, New York, and Washington – use both multi-year revenue and multi-year current services budget forecasting, at least for broad categories of spending and revenue. ²¹

The National Association of State Budget Officers (NASBO) provides alternatives to the traditional approach to budgeting. These budget reforms aim to integrate more information into the resource allocation decisions. The emergence of program budgeting reflects a desire to shift the focus of the budget process away from inputs and toward the expected results of government services. Another alternative is known as **zero-based budgeting** (ZBB) where the budget is created without any consideration of past budgets, with all spending requiring justification for each budget cycle. A variety of terms are employed in reference to the use of performance data in budgeting where performance information is incorporated into resource allocation decisions. ²²

NASBO supplies a table showing how each state uses a combination of approaches to develop their budget. In addition to the approaches described above, incremental budgeting (generally requires an explanation or justification only for additions or deletions to current budgeted or base expenditures) and line-item budgeting (focuses on objects or lines of expenditures) are shown on the table. Oklahoma uses incremental budgeting as its primary budget approach. ²³

The Pew Charitable Trusts examined the statutory or constitutional language governing the states' rainy day funds and found that out of the 46 states with rainy day funds, 27 do not clearly express in state law what they are seeking to achieve with them. Only 5 states – Connecticut, Minnesota, Nebraska, Oregon, and Utah – currently require by law regular, periodic evaluations of revenue volatility patterns in order to determine a sufficient maximum or targeted balance for their funds. Pew divided state statutes defining the purpose of rainy day funds into two sets of categories: explicit or implied purposes, and narrow or broad definitions. Oklahoma's Constitutional Reserve Fund is listed as having implied purpose and broad definitions. For states seeking to improve their savings targets for rainy day funds, Pew recommends three best practices to better align targets with goals.

- Explicitly define, in law, the purpose of a rainy day fund.
- Align savings targets with the fund's purpose as well as with the state's tax volatility.
- Determine and clearly express the level of budgetary risk the state seeks to offset. ²⁴

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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.

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

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

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 is 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 Rodriguez 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. 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

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.

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.

5/12/99

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