

# *Perspectives on State and Local Fiscal Policy in Oklahoma*

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# State and Local Government Finances in Oklahoma

	2007 Revenues (\$000s)	2007 Expenditures (\$000s)
State	22,202,900	18,051,875
Local	12,051,619	11,981,319
Total state & local	30,228,329	26,062,167

Source: 2007 Census of Governments

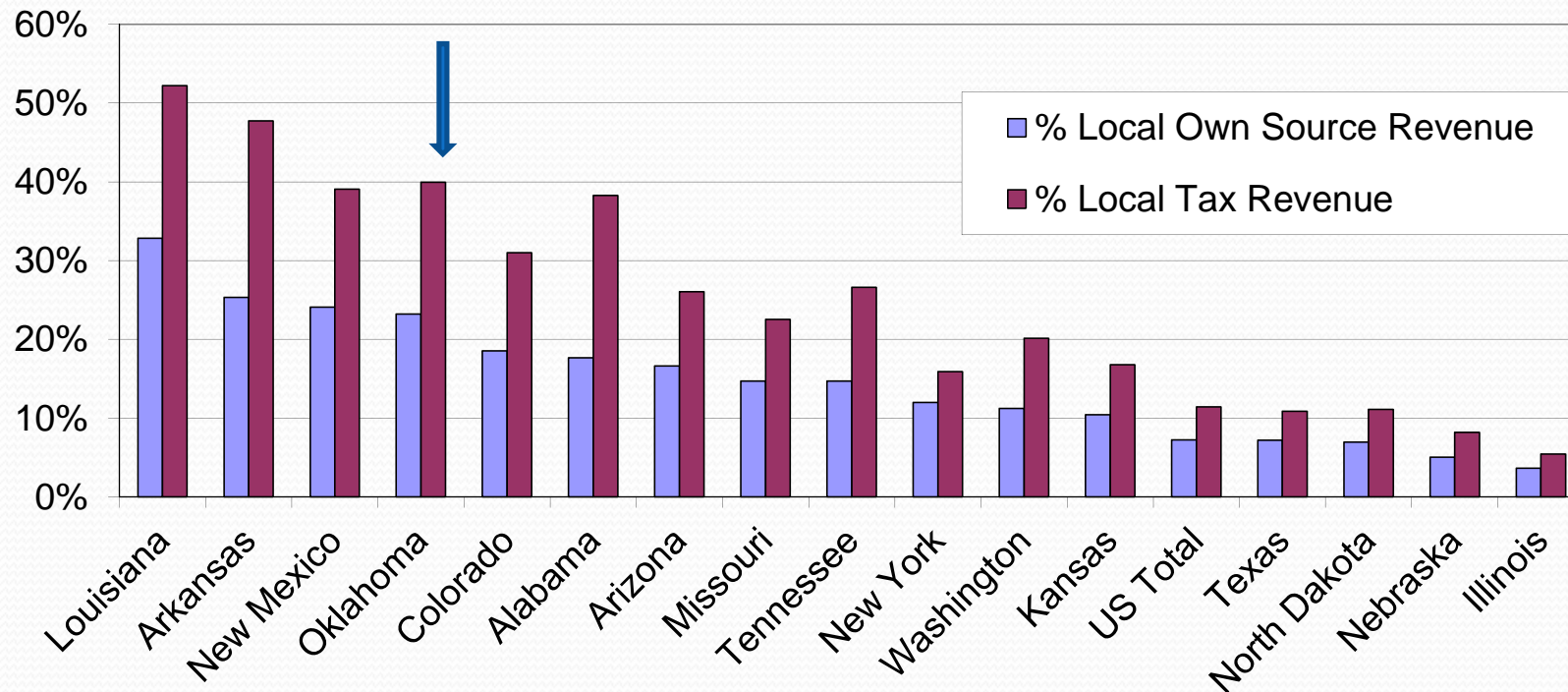
# Oklahoma's Mix of Taxes

Tax	State	County	City	School district	Revenues 2008 (\$000s)	% Total tax revenue	Ave annual growth, 1998-2008
General Sales	x	x	x		\$3,611,685	29%	6%
Individual Income	x				\$2,787,445	23%	5%
Property		x	x	x	\$2,112,601	17%	8%
Severance	x	x		x	\$1,184,765	10%	1%

Source: Oklahoma Policy Institute, <http://www.okpolicy.org/online-budget-guide/revenues/oklahomas-major-taxes>

# Reliance on Local Option Sales Taxes (LOSTs)

## US & States with County + Municipal LOSTs



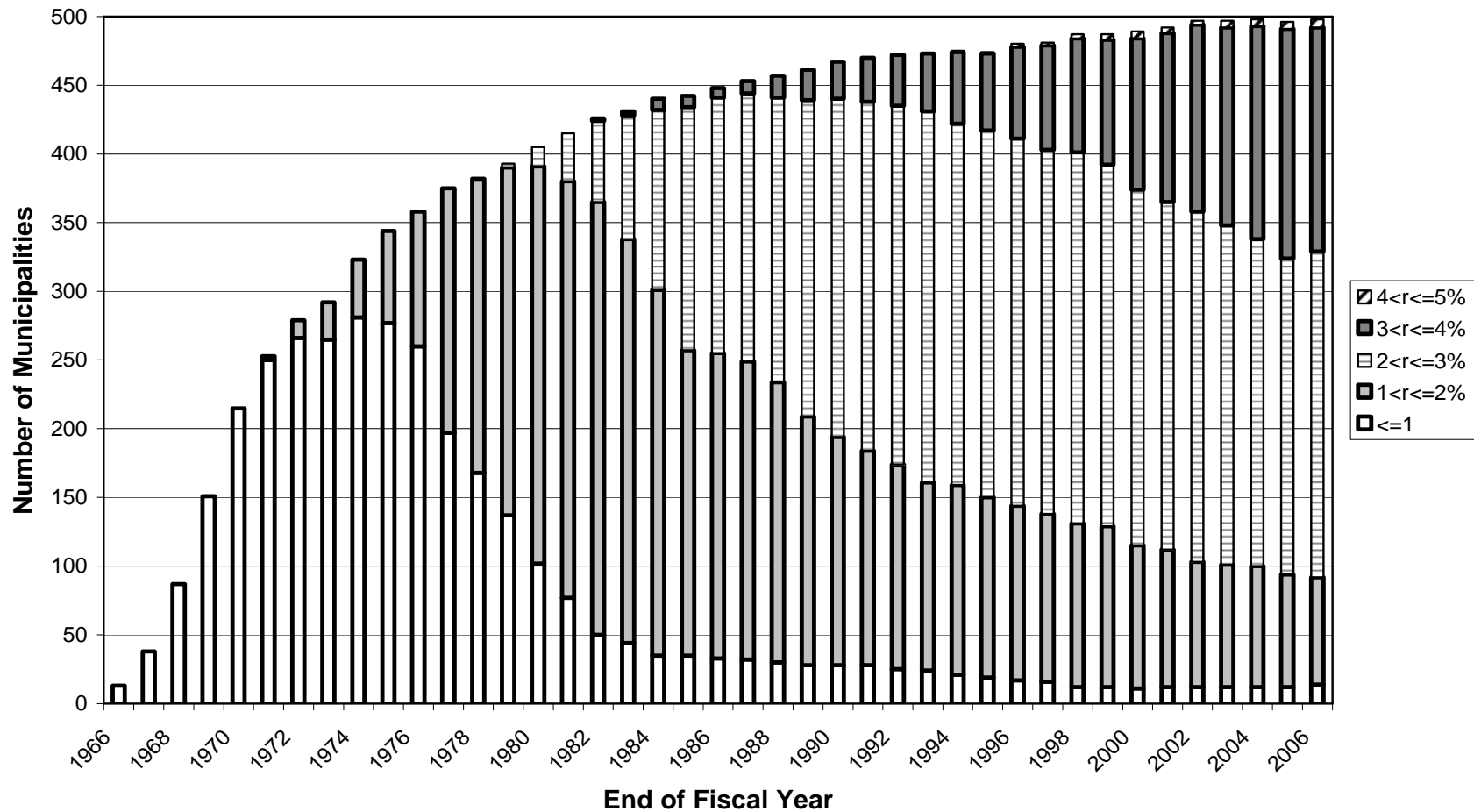
Source: US Census, Division of Governments, "State and Local Government Finances by Level of Government and by State: 2005-06" July 1, 2008 update.

# Concerns About Sales Taxes

- Sales taxes are regressive
- Sales tax revenues are volatile
- Practical matters
  - Selective exclusions narrow the base
  - Tax avoidance
    - Cross border shopping
    - Electronic sales - share of retail sales via Internet is rising (4.6% 3Q11)

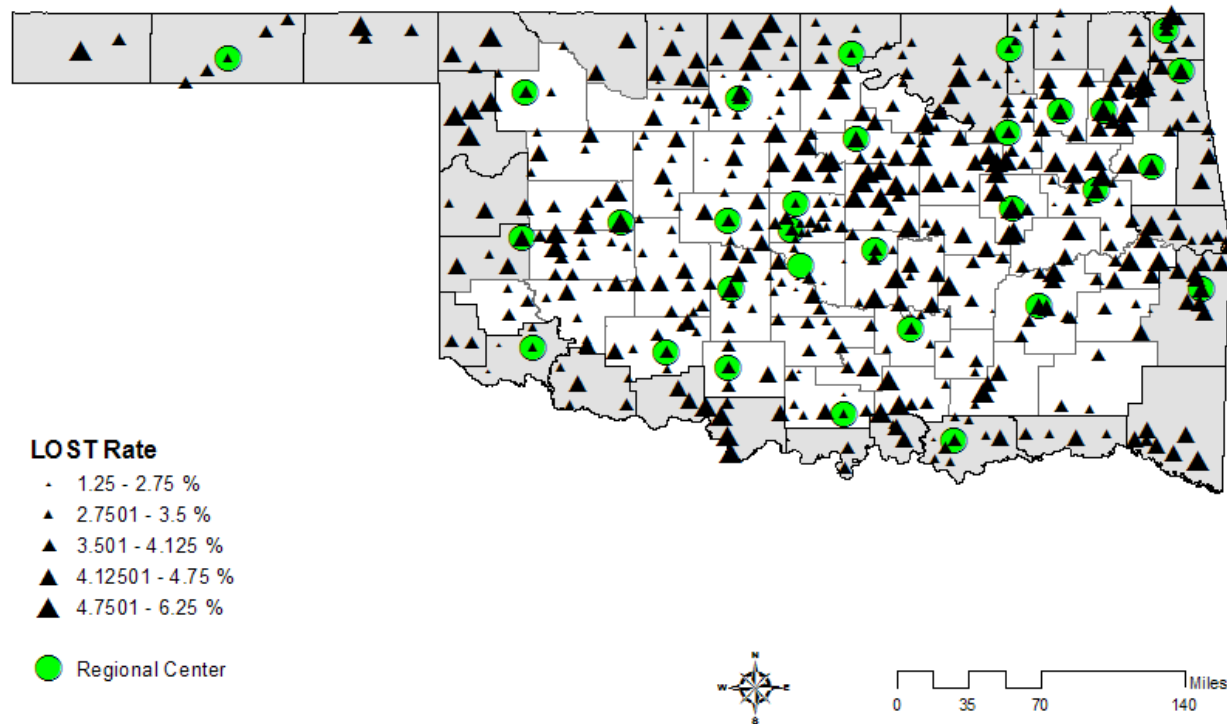
# Extensive Local Autonomy

Local Option Sales Tax Rates: Oklahoma Municipalities 1966-2006



# Complex Landscape of Sales Taxation

## Municipal Plus County LOST Rates, 2006

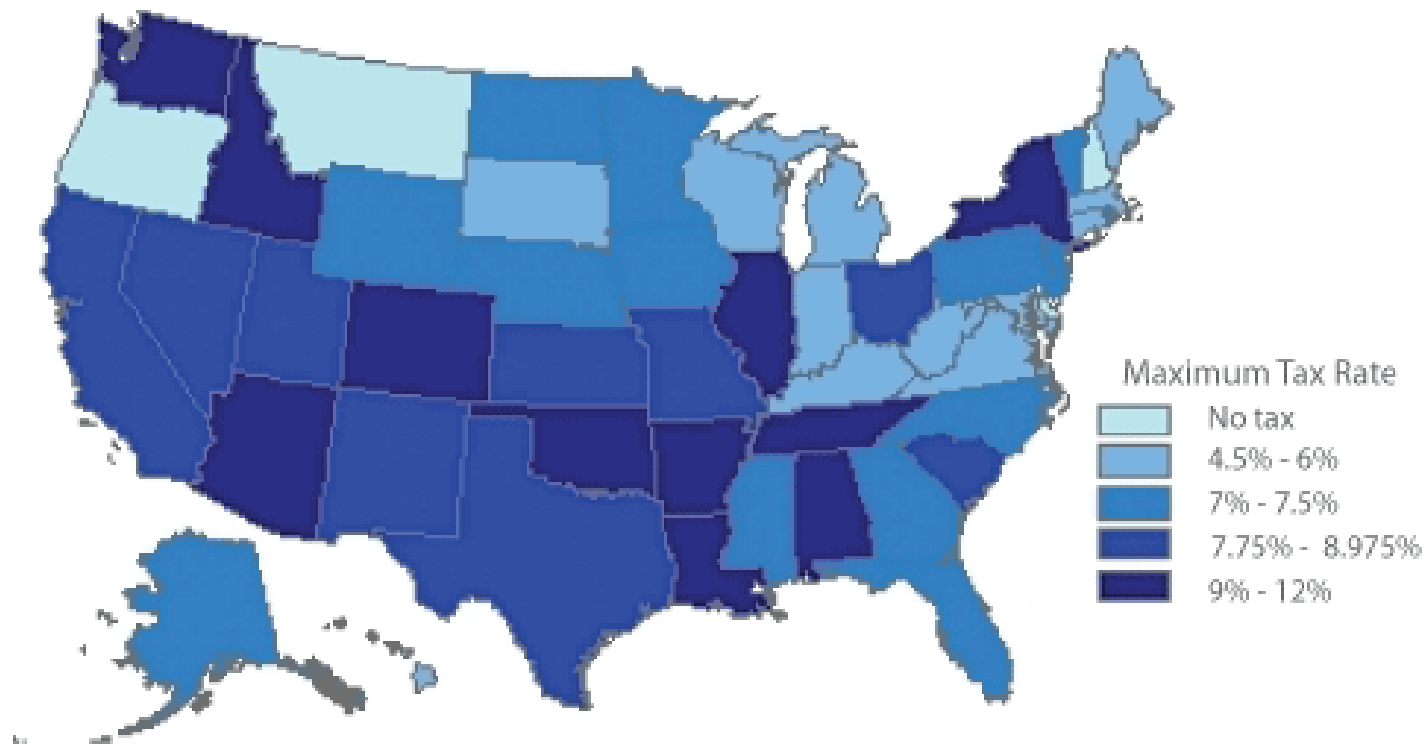


# Fiscal Policy Considerations

- Factors
  - Mix of governments (state-local interdependence)
  - Mix of spending (investments)
  - Mix of tax instruments and rates (incentives)
- Impact of changes on the margin?
  - Are Oklahoma's tax rates too high?



Figure 1. Maximum Combined State and Local Sales Tax Rates, 2008

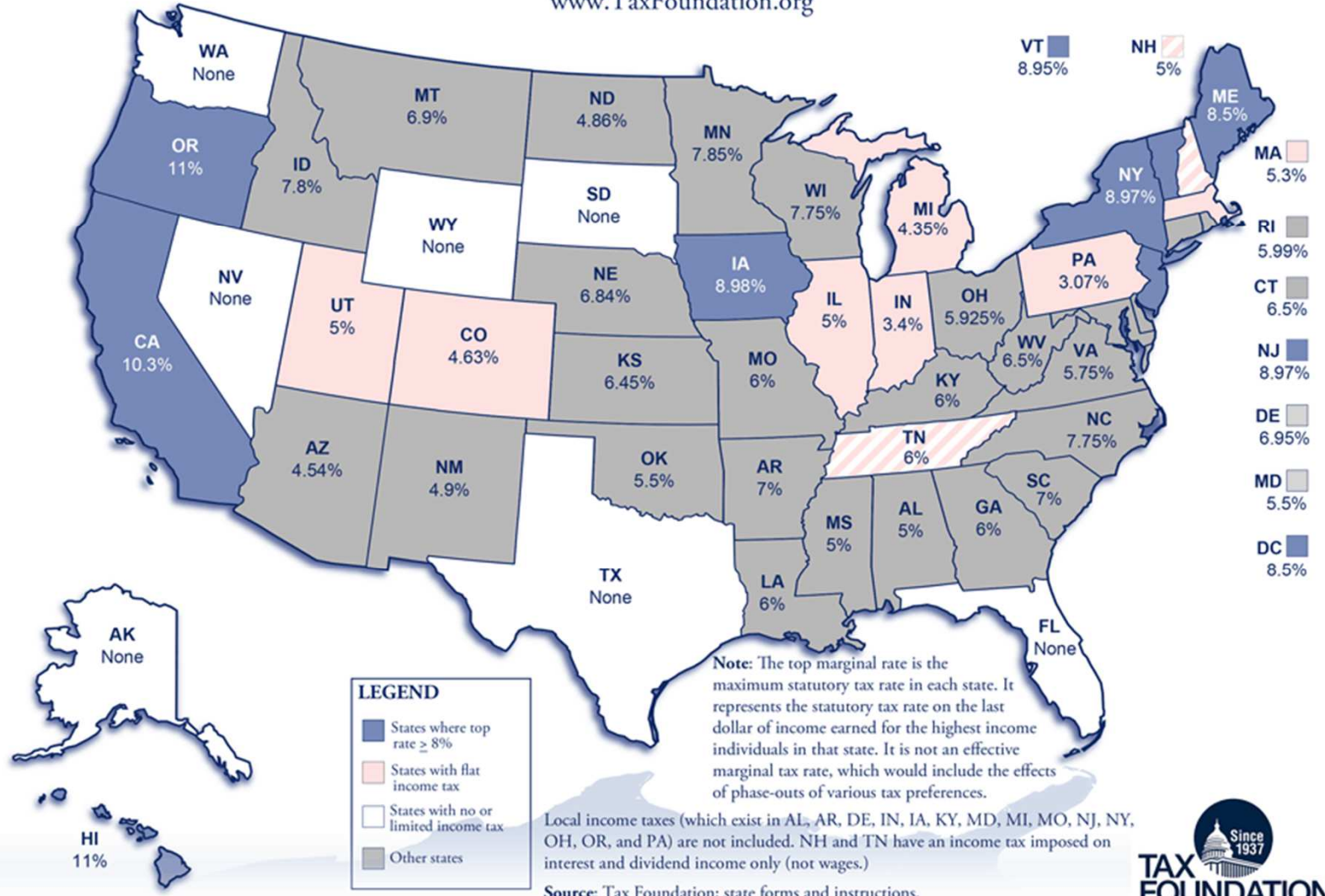


Source: Federation of Tax Administrators, "State Individual Income Taxes, January 1, 2008" (Washington, January 2008); Sales Tax Institute, "Tax Rates, April 1, 2008" (Chicago, 2008).

# Top State Income Tax Rates

Highest Statutory Marginal Income Rate By State, Tax Year 2011

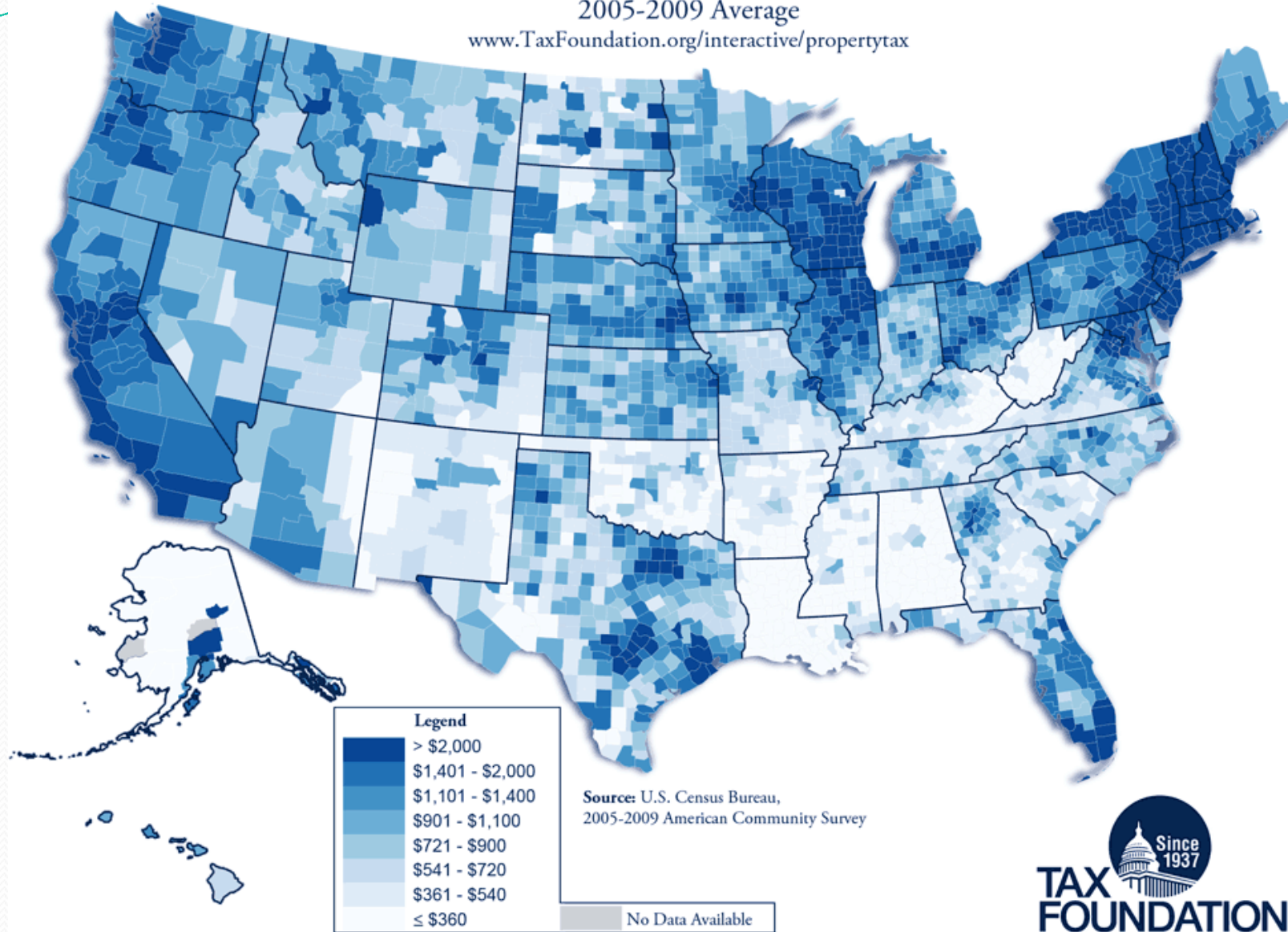
www.TaxFoundation.org



# Median Property Taxes Paid By County

2005-2009 Average

[www.TaxFoundation.org/interactive/propertytax](http://www.TaxFoundation.org/interactive/propertytax)





# Directions for the Future?

- Lower taxes
- Reduced government spending
- Tax and expenditure limits
- Targeted economic development incentives

# There's no free lunch



- Cutting taxes → expenditures
- Incentives → revenues (taxes)
- Research evidence
  - Evidence regarding impacts of tax cuts, incentives, and tax and expenditure limits is inconclusive.
  - Tax cuts funded via spending cuts (education, roads, etc.) have negative growth consequences.

See Deller, S. and J. Stallman, "Tax and Expenditure Limitations and Economic Growth," *Marquette Law Review* (2007) 90: 497-554, for an excellent review of the literature.

# Are Oklahoman's getting their money's worth?

## Oklahoma's rankings among US states

- 28<sup>th</sup> in population
- 28<sup>th</sup> total state and local taxes collected
- 28<sup>th</sup> state and local expenditures on education
- 37<sup>th</sup> ACT average composite score
- 37.2% first-time college freshman needed remedial work in fall 2010.

Source: "Exploring the Intricate Layers of State and Local Governments: Oklahoma" US Dept. of Census Bureau," 2007 *Census of Governments*, issued February 2011. ACT average composite scores for 2007 are available at <http://www.act.org/>. Remediation rate is from FY-2012 Governor's Executive Budget, B-51.

# Cadillac or Chevy Economy?

- Businesses do thrive in high tax, high spending locations
- Businesses also thrive in low tax, low spending locations
- Bottom line: you can't have Cadillac services on a Chevy budget



<http://oldcarandtruckpictures.com/JohnEvansAutoArtwork>