Perspectives on State and Local Fiscal Policy in Oklahoma

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State and Local Government Finances in Oklahoma

<table>
<thead>
<tr>
<th></th>
<th>2007 Revenues ($000s)</th>
<th>2007 Expenditures ($000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>22,202,900</td>
<td>18,051,875</td>
</tr>
<tr>
<td>Local</td>
<td>12,051,619</td>
<td>11,981,319</td>
</tr>
<tr>
<td>Total state &amp; local</td>
<td>30,228,329</td>
<td>26,062,167</td>
</tr>
</tbody>
</table>

Source: 2007 Census of Governments
## Oklahoma’s Mix of Taxes

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

Reliance on Local Option Sales Taxes (LOSTs)

US & States with County + Municipal LOSTs


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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

Number of Municipalities

End of Fiscal Year

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Complex Landscape of Sales Taxation

Municipal Plus County LOST Rates, 2006

LOST Rate
- 1.25 - 2.75 %
- 2.7501 - 3.5 %
- 3.501 - 4.125 %
- 4.12501 - 4.75 %
- 4.7501 - 6.25 %

Regional Center
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

Top State Income Tax Rates
Highest Statutory Marginal Income Rate By State, Tax Year 2011
www.TaxFoundation.org

Note: The top marginal rate is the maximum statutory tax rate in each state. It represents the statutory tax rate on the last dollar of income earned for the highest income individuals in that state. It is not an effective marginal tax rate, which would include the effects of phase-outs of various tax preferences.

Local income taxes (which exist in AL, AR, DE, IN, IA, KY, MD, MI, MO, NJ, NY, OH, OR, and PA) are not included. NH and TN have an income tax imposed on interest and dividend income only (not wages.)

Source: Tax Foundation; state forms and instructions.

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Directions for the Future?

- Lower taxes
- Reduced government spending
- Tax and expenditure limits
- Targeted economic development incentives
There’s no free lunch

- Cutting taxes $\rightarrow$ expenditures
- Incentives $\rightarrow$ 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.

Are Oklahoman’s getting their money’s worth?

Oklahoma’s rankings among US states

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


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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

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