The image shows the cover of a report. It features two flags: the United States flag on the left and the Oklahoma state flag on the right. The background is a dark, solid color. The title is centered in white, bold, sans-serif font. The author and date are at the bottom in a smaller white font.

OKLAHOMA SENATE

**OVERVIEW
OF
STATE
ISSUES**

REPORT BY SENATE STAFF

SEPTEMBER 2008

OKLAHOMA SENATE

Overview of State Issues

September 2008

State Senate Staff
State Capitol Building
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INTRODUCTION

Oklahoma Senate Overview of State Issues is designed to provide a convenient summary of budget and taxation issues that face Oklahoma's Legislature. Though full of factual groundwork, this book's goal is also to put issues in context.

Discussion begins with a brief overview of the state's economic conditions and population trends, since these dynamics so often serve as catalysts for change.

The state's tax structure is examined closely, beginning with an analysis of total taxation and how it compares with other states. Each major tax type is then presented in detail – how it is assessed, collected and spent under the law. Regional and national rate analyses are provided for each major tax type.

Overall expenditures are presented in a chapter that details the emergence of broad shifts in spending priorities. Recent bond issues for capital improvements are also highlighted.

Next is a series of chapters, each of which is dedicated to a major policy area that has been the subject of recent legislative deliberation and action. Subjects discussed include the programs and budgets of almost all major state agencies.

Where relevant, descriptions of issues include historical context and state-by-state comparisons. Programs and policies that at first may seem perplexing are more easily understood when viewed in historical context.

The information is by no means comprehensive. More information on a particular topic can be obtained by contacting the Senate staff analysts listed on the dividing page of each chapter.



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STATE ECONOMY AND DEMOGRAPHICS

Changes in the state marketplace and population are at the root of much of the Legislature's policy discussions. Shifts in these measures are often the catalyst for efforts to change state policies relating to social services, economic development, taxes and other areas.

THE OKLAHOMA ECONOMY

Unlike the national economic outlook, Oklahoma economic conditions should stay strong. Oklahoma's economy has diversified in the past decade. In 2007, oil and agriculture – once the backbone of Oklahoma's economy – accounted for 16 percent of the state's total economic output, lower than the 17.5 percent share of the gross state product (GSP) in 1985.

Components of the 2007 Oklahoma Economy

	Dollar Amount <u>in Millions</u>	Percent <u>of Total</u>
Services	\$23,198	17.02%
Government	\$21,811	16.01%
Mining	\$19,536	14.34%
F.I.R.E.	\$17,743	13.02%
Trade	\$15,940	11.70%
Manufacturing	\$15,508	11.38%
Trans., Comm., & Util.	\$8,415	6.18%
Information	\$4,705	3.45%
Construction	\$4,450	3.27%
Other	\$2,823	2.07%
Agriculture	<u>\$2,149</u>	<u>1.58%</u>
Total Gross Domestic Product	\$136,275	100.00%

Source: Bureau of Economic Analysis, 2008

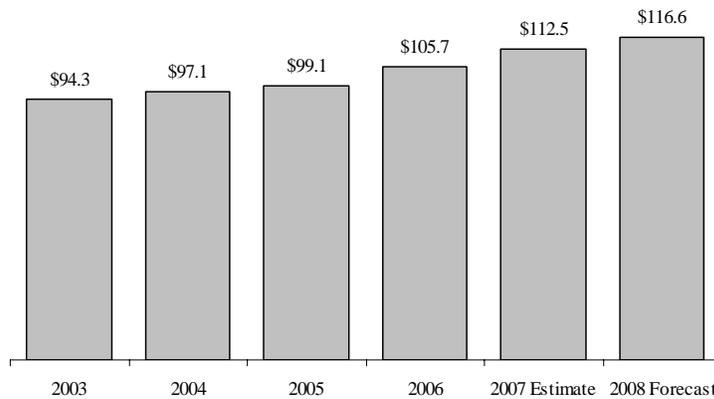
Despite the diversification of the economy, however, mining (which includes oil extraction) is more important to Oklahoma's economy than to the average state's economy.

The Finance, Insurance and Real Estate sector (F.I.R.E.), mining sector, and the services sector are the largest components of the Oklahoma economy. Together they comprise 44.4 percent of total state output. Oklahoma's manufacturing growth has frequently outpaced the nation over the past several years. While the services sector is often perceived as paying low wages, it includes many of the high wage and new economy jobs such as software consulting, management and health professionals.

ECONOMIC OUTPUT

The state economy's production – the gross state product or GSP – is the total amount of goods and services produced by all industries within a state.

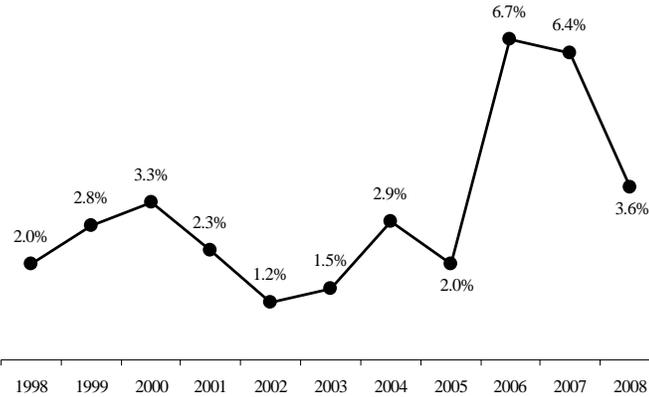
Oklahoma Real Gross State Product
2003 Through Projected 2008 (In Billions)



Source: OSU College of Business Administration, Oklahoma Economic Outlook 2008 Forecast

The Real GSP, which is adjusted for price changes and is considered the most appropriate measure of state output, is forecast to increase by 3.6 percent in the year 2008, following an increase of 6.4 percent in 2007. Industries including health services will be strong and manufacturing will decline slower than the national average, due to a boost from the energy sector.

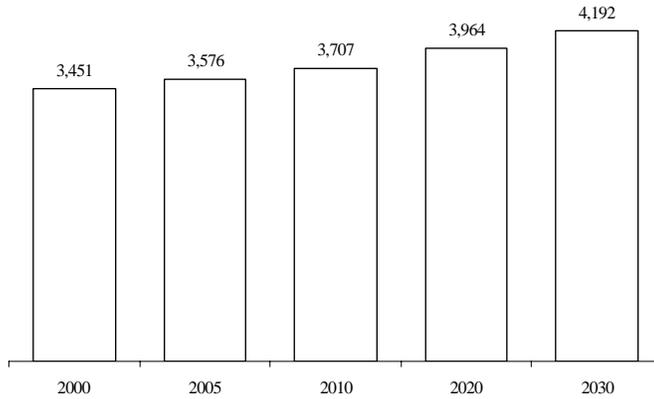
Oklahoma Real Gross State Product Growth Rate 1998 Through 2008



Source: OSU College of Business Administration, Oklahoma Economic Outlook 2008 Forecast

POPULATION

Oklahoma Population Trend and Projections 2000 Through 2030 (In Thousands)



Source: Oklahoma Department of Commerce

Census projections for the year 2005 place Oklahoma as the 28th most populous state in the nation. This compares to 1995, when Oklahoma's 3.27 million residents made it the 27th most populous state. The decline in ranking between

1995 and 2005 is not due to a loss of population, because the state gained over 277,000 residents over the past ten years. Instead, the ranking drop is due to the fact that states that were smaller than Oklahoma are growing faster.

Projected Growth in Population

The U.S. Census Bureau projects that Oklahoma's population will increase by 462,597 people or 13.4 percent between 2000 and 2030. This projected increase ranks 29th among states. Internal migration (from other states) comprises about 52.9 percent, natural increases (births minus deaths) account for 25.7 percent, and international migration is 11.8 percent of this growth projection.

Oklahoma's year 2006 population makes up about 1.2 percent of the nation's total population.

Working-Age Population

The percentage of Oklahoma's population that is in the prime working ages – between 18 and 64 years of age – is expected to decrease from 60.9 percent in 2000 to 58.3 percent in 2020. Oklahoma has a larger percentage of young and elderly compared to the nation.

The primary reason for Oklahoma's projected decrease in the working-age proportion is the growth rate of elderly residents. Oklahoma's elderly population is projected to increase at a faster rate than the nation. By 2010, it is projected that Oklahoma will have the nation's 20th highest proportion of elderly in its population. However, by 2030 Oklahoma's proportion should be lower than the national level. If projections hold true, this trend is likely to have a profound impact on long-term tax revenues and social-service demands within the state.

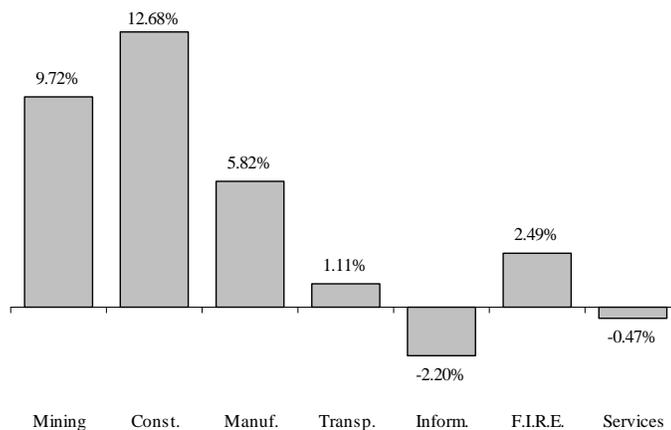
EMPLOYMENT AND INCOME TRENDS

Oklahoma's average wage per job in 2007 was \$33,720 or 83 percent of the national average. This wage represents a 7.2 percent growth in wages from the 2005 average wage.

The per capita personal income (PCPI) in 2007 for Oklahoma was \$34,153 which is 88.5 percent of the national average. Per capita personal income is a broad measure of economic well-being that includes wages and salaries, proprietor income, dividends and rents, and government transfer payments. PCPI grew by 13.4 percent between 2005 and 2007 in Oklahoma; the U.S. PCPI grew at a rate of 11.09 percent. Lower wages, in addition to Oklahoma's relatively high proportion of senior citizens and children explains much of the PCPI difference.

Oklahoma Private Sector Employment Growth Rate, by Sector

June 2008 (Percentage Difference from U.S. Average)



Source: Bureau of Labor Statistics, 2008

Oklahoma's overall employment growth rate from 2006 to 2008 was 3.25 percent, much higher than the national rate of 0.86 percent.

Oklahoma's unemployment rate of 3.9 percent in June of 2008 was below the national rate of 5.5 percent.



STATE BUDGET

Appropriation Checks and Balances

In Oklahoma, projected revenues are certified by the Board of Equalization. This Board is comprised of the Governor, Lt. Governor, State Auditor and Inspector, Treasurer, Attorney General, Superintendent of Instruction and President of the State Board of Agriculture.

The Oklahoma Constitution, Article X, Sec. 23, requires a balanced budget. Appropriations are limited to 95 percent of projected revenues and can not exceed 12 percent in growth.

Any revenue collected that exceeds the certified estimate is deposited into the Constitutional Reserve (Rainy Day) Fund until it reaches a Constitutional cap of 10 percent of the prior year's General Revenue Fund. The Rainy Day Fund can be used under the following conditions:

- 3/8 of the fund can be used if General Revenue fails to meet the estimate in the current fiscal year;
- 3/8 of the fund can be used if General Revenue is projected to decline from one year to the next;
- 1/4 of the fund can be used if there is an emergency declaration by the Governor and a 2/3 vote in both the Senate and House of Representatives, or this same 1/4 can be used without the Governor's declaration if there is a 3/4 vote by Senate and House of Representatives.

The Governor has line item veto authority over all appropriation bills. Vetoes can be overridden by a super-majority vote by both the Senate and House of Representatives.

State Budget Cycle

The state fiscal year begins on July 1 and ends on June 30 of the following year. The following is a breakdown of the budget cycle throughout that year.

- **July 1** - The new fiscal year begins.

- **July through October** – Agencies formulate their budget work program. Budget limits are set by the Legislature in the preceding legislative session. Agencies begin formulating the budget request they will present for the next legislative session. This is a good time for advocacy groups to begin talking with state agencies about funding issues.
- **October 1** – Agencies submit their budget request to the Governor and Legislature for the upcoming fiscal year.
- **November** – Appropriation Subcommittees begin analysis of agency program performance measures and begin filing related reports. No appropriations can be made to an agency until these reports have been filed.
- **December** – The Board of Equalization meets for initial certification of revenues. This is the estimate the Governor uses for his budget. This is the best time for advocacy groups to contact the Governor about programs.
- **February** – The Governor submits his budget recommendations to the Legislature on the first day of Session. The Board of Equalization meets for certification of revenues. This is the estimate the Legislature is bound by constitutionally unless it passes a bill to increase or decrease revenue and that bill is signed by the Governor.
- **February through April** – Supplemental appropriations are considered for the current fiscal year. Subcommittees hold budget hearings for the upcoming fiscal year and move substantive bills with fiscal impacts through the process. This is the best time to talk to the Legislature about budget issues.
- **Late April to May** – The Subcommittees get their budget allocation and convene GCCA. By this time, the Senate and House Appropriation Subcommittees have decided most of what they want to fund, and it is time to work out their differences.
- **May** – The Legislature begins filing appropriation bills. During Session, the Governor has 5 days to sign or veto a bill or it becomes law without his signature. If the bill is passed during the last week of Session, the Governor has 15 days to sign it or it becomes a pocket veto. Session ends on the last Friday in May.
- **June** – The Board of Equalization meets to certify any changes to certification as a result of legislation that was signed into law and to certify that the Legislature did not exceed its appropriation authority.
- **June 30** – The current fiscal year ends. Agencies submit Budget Work Programs to the Office of State Finance and the process starts over.

State Revenues

For the fiscal year ending June 30, 2008, the total amount of funds processed by the state of Oklahoma was nearly \$26.5 billion. Not all of these funds are under the control of the Legislature. In fact, legislative appropriations only account for about 25 percent of this total, having just recently surpassed the \$7 billion mark. In general, money processed by the state comes from four basic sources:

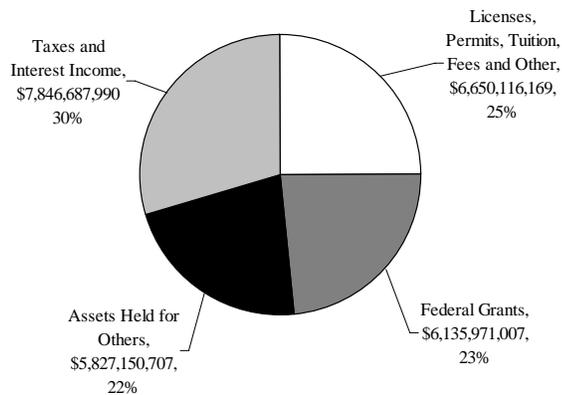
State Taxes: This is the primary category from which the Legislature appropriates funds to state agencies. State taxes include things such as personal and corporate income taxes, sales and use taxes, oil and natural gas gross production taxes, motor vehicle and gasoline taxes, etc. More detailed descriptions of these revenue sources can be found in the section of this book titled “Oklahoma Taxes.”

Licenses, Permits, Tuition, Fees and Other: These revenue sources are often deposited directly into agency revolving funds. The major component of this funding source is the tuition and fees collected by colleges and universities. Occupational license fees are included here, as are things such as driver license fees and hunting and fishing license fees.

Federal Grants: State agencies administer funds from federal agencies such as the U.S. Department of Education, U.S. Department of Health and Human Services, and U.S. Department of Transportation. Some examples of the programs they administer include Medicaid, Food Stamps and WIC.

Assets Held for Others: These are funds which are processed on behalf of other governmental entities and employees. They consist of local sales tax revenues collected by the state and disbursed back to cities and towns as well as funds for state employee retirement systems and employee benefit systems.

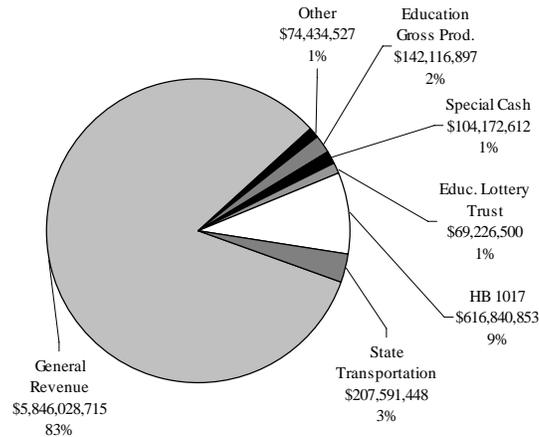
Total Funds Processed
Fiscal Year Ending June 30, 2008



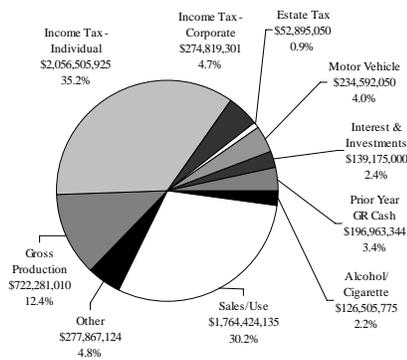
Legislative Appropriation Authority

The Board of Equalization certifies funds for the Legislature to appropriate and also provides estimates for some of the major agency revolving funds such as the Common Education 1017 Fund. It does not provide estimates for every revolving fund that the Legislature uses for appropriation. Revenues that were included in the Board's FY'09 certification packet totaled just over \$7 billion. Summaries of the major revenue categories are detailed below.

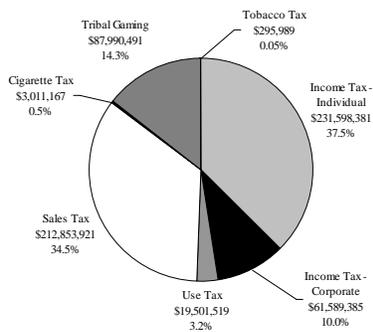
State Revenues by Major Category, FY'09



General Revenue Fund by Major Category, FY'09



HB 1017 Fund by Major Category, FY'09

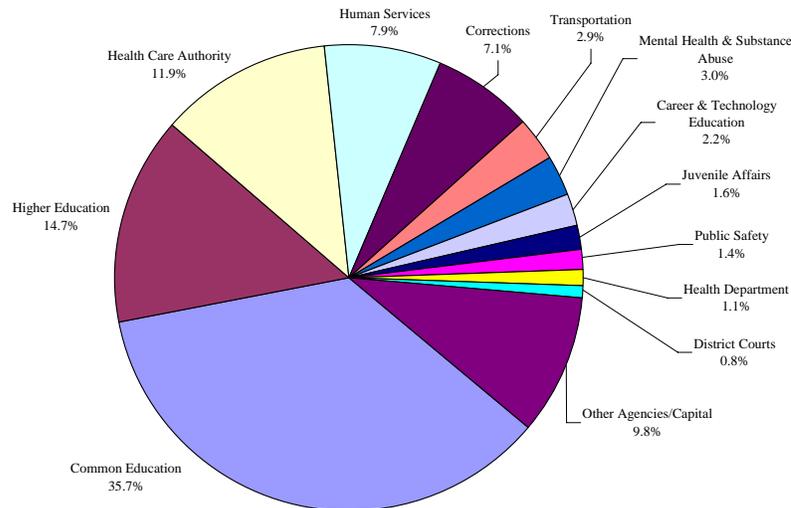


State Expenditures

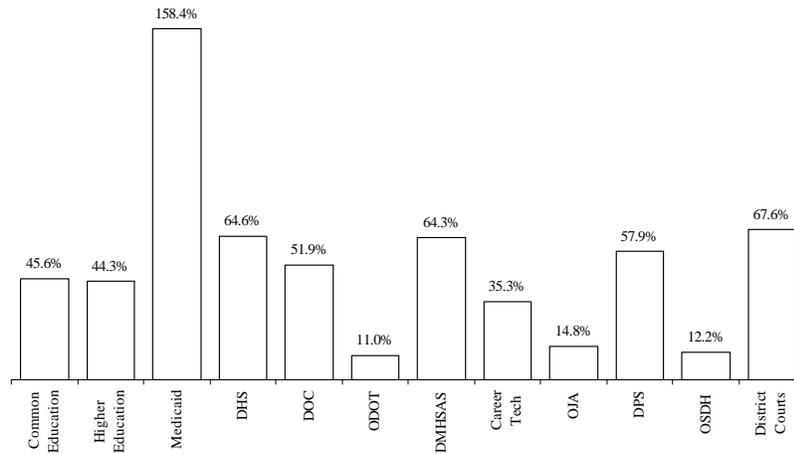
State appropriations should reflect the priorities of taxpayers. In Oklahoma, those priorities have consistently included education, health care, public safety and transportation. Seventy-eight state agencies received appropriated dollars in FY'09 totaling \$7,089,139,923. Approximately 90.4 percent of state appropriations were allocated to ten state agencies. This left 9.6 percent of the budget to split among the remaining 68 state agencies.

	FY'99	FY'09	Dollar	Percent
	<u>Appropriation</u>	<u>Appropriation</u>	<u>Change</u>	<u>Change</u>
Common Education	\$1,738,531,635	\$2,531,702,553	\$793,170,918	45.6%
Higher Education	\$757,862,120	\$1,039,886,280	\$282,024,160	37.2%
Health Care Authority	\$325,846,050	\$842,122,261	\$516,276,211	158.4%
Human Services	\$339,685,593	\$559,107,190	\$219,421,597	64.6%
Corrections	\$331,165,993	\$503,000,000	\$171,834,007	51.9%
Transportation	\$331,375,377	\$207,691,448	-\$123,683,929	-37.3%
Mental Health & Substance Abuse	\$127,593,452	\$209,579,129	\$81,985,677	64.3%
Career & Technology Education	\$116,939,996	\$158,269,736	\$41,329,740	35.3%
Juvenile Affairs	\$97,824,095	\$112,254,258	\$14,430,163	14.8%
Public Safety	\$61,544,635	\$97,170,391	\$35,625,756	57.9%
Health Department	\$66,858,510	\$75,028,113	\$8,169,603	12.2%
District Courts	\$34,647,308	\$58,067,785	\$23,420,477	67.6%
FY'09 Subtotal (90.4% of Total)	\$4,329,874,764	\$6,393,879,144	\$2,064,004,380	47.7%
Other Agencies/Capital	\$547,359,543	\$695,260,779	\$147,901,236	27.0%
Total Appropriations	\$4,877,234,307	\$7,089,139,923	\$2,211,905,616	45.4%

Share of All FY'09 Appropriations by Agency



Top Ten Agency Appropriations Percent Change FY'99 to FY'09



The largest budget increase in the last decade has been at the Oklahoma Health Care Authority, which administers the Medicaid Program. The 158% increase reflected here can be split into almost equal thirds between federal matching fund reductions, provider rate increases and growth in enrollment and utilization.

Many of the expenditure increases at DHS and ODMHSAS were actually implemented to save money in other areas. A significant investment in Drug Courts, PACT Teams, Systems of Care and other outcome based programs at ODMHSAS are expected to save money at DOC, DHS, OJA, Common Education and ODMHSAS itself. DHS has made a significant investment in the Advantage Waiver Program, which reduces nursing home costs in the budget for OHCA.

Common Education and Higher Education budgets have increased about 45% each over the last decade. The figures for Higher Education include OHLAP Scholarship funds which are apportioned by the Board of Equalization.

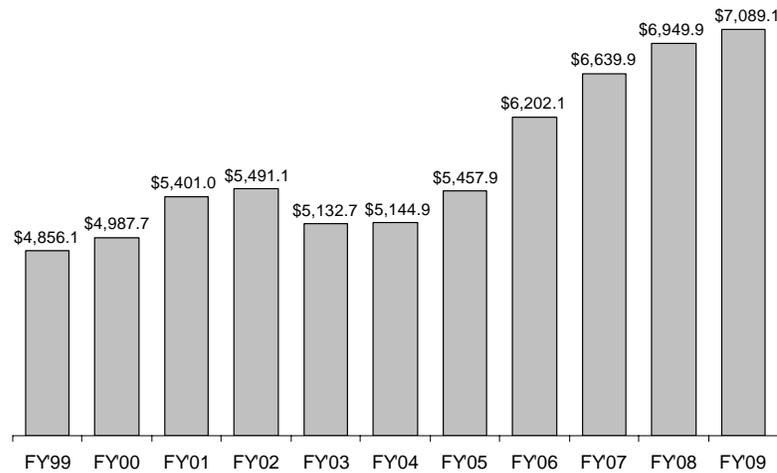
Significant investments have been made in the area of public safety with substantial increases at DOC, DPS and the District Courts.

Recent legislation will greatly increase funding for Oklahoma's transportation infrastructure. ODOT will receive \$30 million annually until the ROADS Fund reaches a balance of \$360 million. This means that State funding for ODOT will more than double over the next decade.

Appropriation History FY'99 to FY'09

State expenditures were relatively constant in the early half of the decade. Revenues were affected in FY'03 and FY'04 by the terrorist attacks of 2001. They began to rebound in 2004, and significant gains were made in FY'05 and FY'06. The implementation of major tax reductions beginning in FY'07 and a slow down in the national economy in FY'08 and FY'09 have contributed to more moderate expenditure growth in recent years.

10-Year Appropriation History



FY'09 Appropriation Overview

The General Appropriation (GA) Bill for the 2008 legislative session was HB 2276. That bill, in conjunction with several single agency appropriation bills passed in the final week of the session, appropriated a total amount of \$7,089,139,923. There are several ways to calculate the difference in this appropriation from the amount appropriated for FY'08. For the purposes of this document, the FY'08 figure used will be \$6,949,972,276. This is the amount appropriated in FY'08 including \$30.6 million in supplemental appropriations. Another \$73 million in supplemental appropriations were provided to Common Education. Those funds are not included in this total because they did not increase the total budget of the agency. They simply made up for revenue failures in the HB 1017 Fund. Approximately \$152.5 million of items considered to be "one-times" have also been removed from this FY'08 total. The resulting comparison reflects the actual differences in the operating budgets of the agencies for FY'08 versus FY'09. As the charts that follow indicate, agencies will have \$139,167,647 more state dollars to spend for general operations in FY'09 than in FY'08. This is a 2.0 percent increase.

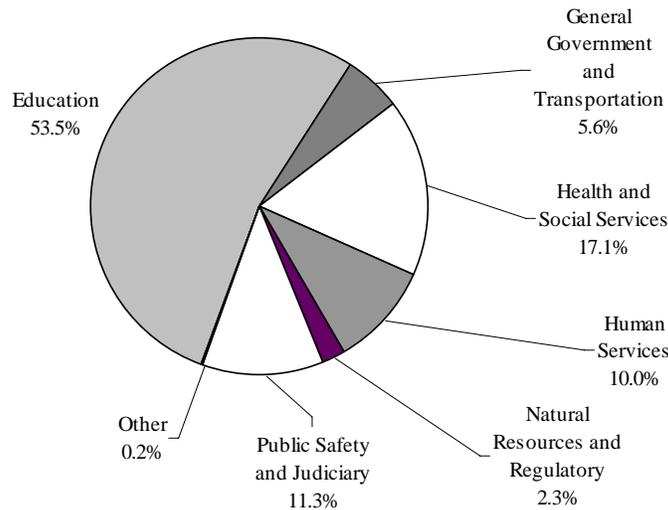
FY'09 Appropriation by Major Program Area

Of all money appropriated by the Legislature in FY'09, 53.5 cents of each dollar went to education agencies such as common education, higher education and career technology. The rest of the pie is split in varying shares to the other major state government areas, each of which is supervised by a corresponding appropriation subcommittee.

Comparison of Funding by Subcommittee FY'08 and FY'09 (In Millions)

	FY'08 Approp.	FY'09 Approp.	Change	
			Dollar	Percent
Education	\$3,756.0	\$3,793.6	\$37.6	1.0%
General Government & Transportation	\$377.4	\$396.9	\$19.5	5.2%
Health and Social Services	\$1,139.5	\$1,214.7	\$75.2	6.6%
Human Services	\$702.4	\$705.4	\$3.0	0.4%
Natural Resources and Regulatory Services	\$157.0	\$160.0	\$3.0	1.9%
Public Safety and Judiciary	\$802.1	\$803.0	\$0.9	0.1%
REAP	\$15.5	\$15.5	\$0.0	0.0%
Total	\$6,949.9	\$7,089.1	\$139.2	2.0%

Share of All FY'09 Appropriations by Subcommittee



FY'09 Budget Issues

The sections that follow are a very brief synopsis of the budget issues that faced the 2008 Legislature. A more detailed breakdown of the budget is provided in a separate publication, the **FY'09 APPROPRIATIONS REPORT**.

Common Education

Common Education was appropriated a total of \$2,531,702,553. This is an increase of \$21,289,991 (0.8 percent) over the FY'08 appropriation of \$2,510,412,567. Funding changes are as follows:

- \$130,590 in obsolete funding for the Small School Incentive Grant Program was removed from the agency's budget;
- \$1,073,604 in one-time funding for the Science and Mathematics Advanced Recruiting Technique Program was removed from the agency's budget;
- \$968,328 was removed from the agency's budget in order to account for the certified adjustment of the lottery revenue allocation for the School Consolidation Assistance Fund;
- \$968,328 was removed from the agency's budget in order to account for the certified adjustment of the lottery revenue allocation for the Teachers' Retirement System Dedicated Revenue Revolving Fund;
- \$16,811,125 in additional funding was appropriated to the agency in order to fund employer contribution rate increases for Teachers' Retirement;
- \$1,850,000 in additional funding was provided for National Certification Bonuses for school psychologists, speech-language pathologists, and audiologists;
- \$128,866 was provided for the Federal School Lunch Program Match;
- \$3,000,000 in additional funding was provided for required remediation for students who do not score at least at the satisfactory level on the eighth-grade criterion-referenced tests in reading and mathematics beginning with the 2007-08 school year;
- \$450,000 in additional funding was provided for the Rural Infant Stimulation Environment (RISE) Program; and
- \$200,000 in additional funding was provided for legal services for a district that meets certain requirements.

Postsecondary Education

Higher Education was appropriated a total of \$1,039,886,280. This is an increase of \$13,420,611 (1.3 percent) from the FY'08 appropriation of \$1,026,465,669. Funding Changes are as follows:

- \$48,105,000 in OHLAP (Oklahoma's Promise) funding was removed from the agency's budget, as OHLAP will now be funded through dedicated revenue from the General Revenue Fund pursuant to SB 820 from the 2007 Legislative Session (\$54 million was apportioned for this purpose);

- \$1,000,000 in one-time funding for capital improvements at the University of Oklahoma was removed from the agency's budget;
- \$1,200,000 in one-time funding for capital improvements at Oklahoma State University in Tulsa was removed from the agency's budget;
- \$16,500,000 in one-time funding for capital improvements at higher education institutions was removed from the agency's budget;
- \$4,000,000 in one-time funding for a Forensics Center at the University of Central Oklahoma was removed from the agency's budget;
- \$300,000 in one-time funding for Langston University was removed from the agency's budget;
- The agency received an additional amount of \$5,796,146 in order to fund employer contribution rate increases for Teachers' Retirement;
- \$4,899,465 in additional funding was provided to the agency for debt service on the bond authorized in SB 1373 for the Endowed Chairs Program; and
- The agency received \$725,000 for the NWOSU Woodward Campus as well as \$500,000 for the Redlands Community College.

Career and Technology Education

CareerTech was appropriated a total of \$158,269,736. This is an increase of \$2,720,294 (1.7 percent) over the FY'08 appropriation of \$155,549,442. Funding changes are as follows:

- \$1,200,000 in one-time funding for Metro Tech was removed from the agency's budget;
- \$692,543 was removed from the agency's budget in order to adjust for the lottery revenue certification amount for FY'09;
- The agency received an additional amount of \$1,350,294 in order to fund employer contribution rate increases for Teachers' Retirement;
- \$250,000 in additional funding was provided for the ProStart and Lodging Management Programs;
- \$70,000 in additional funding was provided for the Oklahoma Horizon Program;
- The agency received an additional amount of \$300,000 for Oilfield Training Programs;
- \$150,000 in additional funding was provided for the Great Plains Regional Public Safety Facility;
- The agency received an additional amount of \$500,000 for operational expenditures at the Inmate Skill Centers; and
- \$100,000 in additional funding was provided for the Pontotoc County Career Tech.

Dept of Transportation

The Department of Transportation received an FY'09 appropriation in the amount of \$207,691,488. In addition to its appropriation, ODOT was authorized to sell

\$300 million in bonds. The legislature removed the three percent trigger that currently governs deposits to the ROADS fund and set the yearly apportionment increase at \$30 million. The cap on the ROADS fund was increased from \$270 million to \$370 million. By FY'16 ODOT will have received a total of \$2.3 billion in appropriations to the fund.

Health Care Authority

The Oklahoma Health Care Authority (OHCA), charged with administering the state's Medicaid program, received \$842,122,261. This is a 9.1 percent increase over the agency's FY'08 appropriation. This budget assumes the Health Care Authority using \$20 million in carryover for FY'09. Major funding items include:

- \$31,000,000 for FMAP decrease. These funds will be used to replace lost Medicaid revenue due to the downward shift in the federal match Oklahoma will receive in FY'09;
- \$35,000,000 to replace FY'07 carryover that was used for operations during FY'08;
- \$13,900,000 for growth in enrollment/utilization. The agency historically trends a 9 percent to 10 percent annual growth/utilization rate. This budget includes money for a growth/utilization rate of 1.5 percent;
- \$6,900,000 for Medicare Part D;
- \$2,100,000 for Federal FY'09 Medicare A & B premiums; and
- \$1,300,000 for an annualization of the FY'08 anesthesiologist rate increase.

Public Health

The appropriation for the Department of Health will be \$75,028,113. This is 1.7 percent more than the agency received in FY'08. The Department's budget includes \$806,970 to be used for matching funds (5 percent) for a federal Pandemic Preparedness Grant. The Department also received \$125,000 to increase the number of dentists in the Dental Loan Repayment Program. These new funds will allow another five dentists to join the program. Finally, the Department received \$310,000 for newborn hearing screening machines.

Department of Human Services

The Department of Human Services (DHS) was appropriated \$559,107,190 for FY'09. This amount represents a \$2 million increase from the FY'08 appropriation. These funds were added for DDS and AdVantage Waiver Services.

Office of Juvenile Affairs

The Office of Juvenile Affairs (OJA) was appropriated \$112,254,258 for FY'09, a 0.2 percent increase from the FY'08 appropriation. The agency received an additional \$2,068,446 for the L.E. Rader Center, as well as operational expenses.

Commerce

HB 2276 appropriates \$28,328,894 to the Department of Commerce and SB 1292 appropriates \$1.5 million. This amounts to a \$3,079,878 increase over the agency's FY'08 appropriation. Changes of appropriation are due to cutting one-time funds associated with the 2nd Century Entrepreneurship bill and transferring the Capitol Dome Debt service of \$474,000 from the Centennial Commission to Commerce. The \$1.5 million appropriation will be used for the Bio-Diesel Fuel Center. Also, SB 1289 appropriates \$1,105,872 to the agency to be used as debt service payment for the \$25 million bond issued for the Native American Cultural Center. Finally, SB 1288 transferred \$10 million to the agency from Unclaimed Property Fund. This money will be used for various needs across the state such as the GM plant and purchasing a hangar to be used as classroom for a technology center. Funds from SB 1288 are not included in the total appropriation figures.

Corrections

For FY'09, the Department of Corrections (DOC) received \$503,000,000 in state appropriations. The appropriation included annualization of the FY'08 supplemental, as well as funding for bed expansion at several facilities.

Law Enforcement

The Legislature appropriated to the District Attorneys' Council an additional \$2.9 million, for operations.

The Attorney General received additional funding for the expiring federal VINE (Victim Information Notification Everyday) Grant, in the amount of \$550,000. This Grant funded the establishment of a computer system which tracks criminal offenders state-wide in compliance with the Oklahoma Victims Bill of Rights and the funding represents the annual cost to maintain the system. The Office also received \$100,000 additional for the Domestic Violence Unit.

The Oklahoma Indigent Defense System received an additional \$330,000 in state appropriations to cover the cost to increase private attorney contracts in FY'08 and FY'09 and \$100,000 to open a new office in Guymon.

The Council on Law Enforcement Education and Training was appropriated an additional \$204,000, which represents the 2nd year costs to implement SB 920. This bill, among other things, increased the number of hours required to complete the basic academy training for police officers.

Summary of Appropriations FY'08 – FY'09

Agency	FY'08 Appropriation	FY'09 Appropriation	Dollar Change	Percent Change
Subcommittee on Education				
Arts Council	\$5,150,967	\$5,150,967	\$0	0.0%
Career and Technology Education	\$155,549,442	\$158,269,736	\$2,720,294	1.7%
Education, State Department of	\$2,510,412,562	\$2,531,702,553	\$21,289,991	0.8%
Educational Television Authority	\$8,394,383	\$8,394,383	\$0	0.0%
Higher Education, Regents for	\$1,026,465,669	\$1,039,886,280	\$13,420,611	1.3%
Land Office, Commissioners of	\$4,864,881	\$4,864,881	\$0	0.0%
Libraries, Department of	\$7,294,856	\$7,294,856	\$0	0.0%
Physician Manpower Training Commission	\$5,523,502	\$5,523,502	\$0	0.0%
Private Vocational Schools, Board of	\$193,304	\$0	(\$193,304)	-100.0%
Science & Math, School of	\$7,597,512	\$7,985,737	\$388,225	5.1%
Science & Technology, Center for	\$22,456,507	\$22,456,507	\$0	0.0%
Teacher Preparation, Commission on	\$2,059,982	\$2,059,982	\$0	0.0%
Subtotal	\$3,755,963,567	\$3,793,589,384	\$37,625,817	1.0%
Subcommittee on General Government and Transportation				
Auditor and Inspector	\$6,315,269	\$6,315,269	\$0	0.0%
Bond Advisor	\$186,419	\$186,419	\$0	0.0%
Central Services, Department of	\$17,457,297	\$18,713,175	\$1,255,878	7.2%
Election Board	\$6,805,988	\$6,805,988	\$0	0.0%
Emergency Management Department	\$806,604	\$1,156,604	\$350,000	43.4%
Ethics Commission	\$517,960	\$667,960	\$150,000	29.0%
Finance, Office of State	\$23,081,434	\$23,081,434	\$0	0.0%
Governor	\$2,661,981	\$17,661,981	\$15,000,000	563.5%
House of Representatives	\$19,176,434	\$19,176,434	\$0	0.0%
Legislative Service Bureau	\$4,887,349	\$5,537,349	\$650,000	13.3%
Lt. Governor	\$659,597	\$659,597	\$0	0.0%
Merit Protection Commission	\$613,684	\$613,684	\$0	0.0%
Military, Department of	\$13,132,301	\$13,132,301	\$0	0.0%
Personnel Management	\$4,891,745	\$4,891,745	\$0	0.0%
Secretary of State	\$530,517	\$530,517	\$0	0.0%
Senate	\$14,699,125	\$14,699,125	\$0	0.0%
Space Industry Development Authority	\$530,340	\$530,340	\$0	0.0%
Tax Commission	\$48,201,340	\$50,201,340	\$2,000,000	4.1%
Transportation, Department of	\$207,591,448	\$207,691,448	\$100,000	0.0%
Treasurer	\$4,668,763	\$4,668,763	\$0	0.0%
Subtotal	\$377,415,595	\$396,921,473	\$19,505,878	5.2%
Subcommittee on Health and Social Services				
Health, Department of	\$73,786,143	\$75,028,113	\$1,241,970	1.7%
Health Care Authority	\$771,709,298	\$842,122,261	\$70,412,963	9.1%
J.D. McCarty Center	\$4,452,961	\$4,452,961	\$0	0.0%
Mental Health & Substance Abuse Services	\$207,429,129	\$209,579,129	\$2,150,000	1.0%
University Hospitals Authority	\$41,865,342	\$43,250,342	\$1,385,000	3.3%
Veterans Affairs, Department of	\$40,282,600	\$40,282,600	\$0	0.0%
Subtotal	\$1,139,525,473	\$1,214,715,406	\$75,189,933	6.6%

Agency	FY'08 Appropriation	FY'09 Appropriation	Dollar Change	Percent Change
Subcommittee on Human Services				
Children and Youth, Commission on	\$2,334,473	\$2,608,473	\$274,000	11.7%
Disability Concerns, Office of	\$412,769	\$412,769	\$0	0.0%
Human Rights Commission	\$710,226	\$710,226	\$0	0.0%
Human Services, Department of	\$557,107,190	\$559,107,190	\$2,000,000	0.4%
Indian Affairs, Commission of	\$258,466	\$258,466	\$0	0.0%
Juvenile Affairs	\$112,060,812	\$112,254,258	\$193,446	0.2%
Rehabilitation Services, Department of	\$29,539,374	\$30,053,770	\$514,396	1.7%
Subtotal	\$702,423,310	\$705,405,152	\$2,981,842	0.4%
Subcommittee on Natural Resources and Regulatory Services				
Agriculture, Food and Forestry, Dept. of	\$33,435,185	\$34,540,185	\$1,105,000	3.3%
Centennial Commission	\$0	\$0	\$0	0.0%
Commerce, Department of	\$27,854,894	\$30,934,772	\$3,079,878	11.1%
Conservation Commission	\$9,187,084	\$10,292,962	\$1,105,878	12.0%
Consumer Credit, Department of	\$669,042	\$669,042	\$0	0.0%
Corporation Commission	\$15,310,417	\$12,415,417	(\$2,895,000)	-18.9%
Environmental Quality, Department of	\$9,728,096	\$9,728,096	\$0	0.0%
Historical Society	\$14,587,451	\$14,967,451	\$380,000	2.6%
Horse Racing Commission	\$2,669,568	\$2,669,568	\$0	0.0%
Insurance Commissioner	\$2,515,943	\$2,515,943	\$0	0.0%
J.M. Davis Memorial Commission	\$385,403	\$385,403	\$0	0.0%
Labor, Department of	\$3,760,284	\$3,760,284	\$0	0.0%
Mines, Department of	\$1,013,586	\$1,013,586	\$0	0.0%
Scenic Rivers Commission	\$345,322	\$345,322	\$0	0.0%
Tourism and Recreation, Department of	\$27,821,991	\$28,041,991	\$220,000	0.8%
Water Resources Board	\$6,801,524	\$6,801,524	\$0	0.0%
Will Rogers Memorial Commission	\$933,702	\$933,702	\$0	0.0%
Subtotal	\$157,019,492	\$160,015,248	\$2,995,756	1.9%
Subcommittee on Public Safety and Judiciary				
Alcoholic Beverage Laws Enforcement	\$3,925,266	\$3,925,266	\$0	0.0%
Attorney General	\$13,924,449	\$14,631,704	\$707,255	5.1%
Corrections, Department of	\$506,619,998	\$503,000,000	(\$3,619,998)	-0.7%
Court of Criminal Appeals	\$3,464,631	\$3,474,527	\$9,896	0.3%
District Attorneys and DAC	\$39,920,210	\$42,820,210	\$2,900,000	7.3%
District Courts	\$57,674,778	\$58,067,785	\$393,007	0.7%
Fire Marshal	\$2,270,855	\$2,270,855	\$0	0.0%
Indigent Defense System	\$16,304,008	\$16,734,008	\$430,000	2.6%
Investigation, State Bureau of	\$17,316,450	\$17,316,450	\$0	0.0%
Judicial Complaints, Council on	\$283,729	\$283,729	\$0	0.0%
Law Enforcement Education and Training	\$4,410,370	\$4,614,370	\$204,000	4.6%
Medicolegal Investigations, Board of	\$4,825,625	\$4,825,625	\$0	0.0%
Narcotics and Dangerous Drugs, Bureau of	\$6,773,895	\$6,773,895	\$0	0.0%
Pardon and Parole Board	\$2,577,581	\$2,577,581	\$0	0.0%
Public Safety, Department of	\$97,170,391	\$97,170,391	\$0	0.0%
Supreme Court	\$19,420,570	\$19,247,063	(\$173,507)	-0.9%
Workers' Compensation Court	\$5,242,033	\$5,259,801	\$17,768	0.3%
Subtotal	\$802,124,839	\$802,993,260	\$868,421	0.1%
Rural Economic Action Plan	\$15,500,000	\$15,500,000	\$0	0.0%
GRAND TOTAL	\$6,949,972,276	\$7,089,139,923	\$139,167,647	2.0%

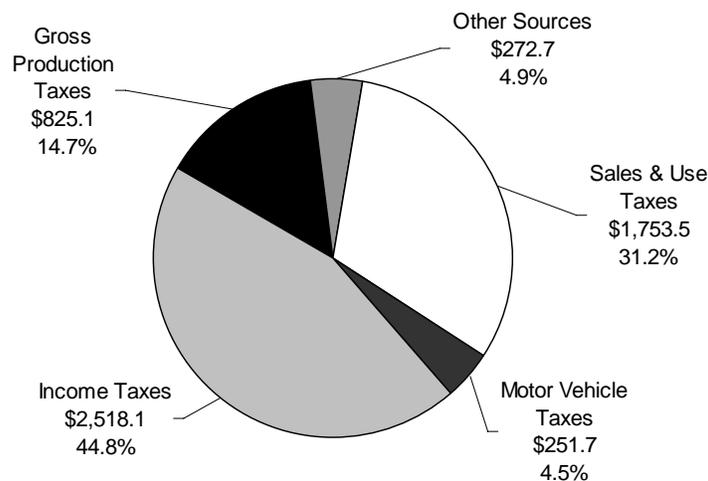


OKLAHOMA TAXES

This chapter focuses on how Oklahoma government imposes taxes to support state, county, municipal and other local government programs. It also provides extensive detail on several major tax sources – how the taxes are assessed, how they are allocated, and how they compare with other taxes in the region and nation. Also, tax cuts enacted since the mid-1990s are highlighted.

STATE REVENUE MIX

Sources of General Revenue FY'08
(In Millions)



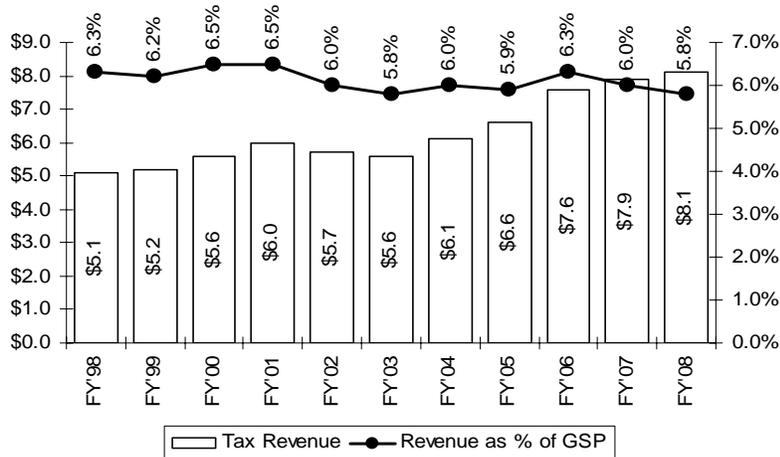
Total = \$5.621 Billion

Source: Oklahoma Tax Commission, Apportionment of Statutory Revenues, Fiscal Year 2008

GROWTH IN STATE REVENUE

State revenue grew steadily from FY'98 through FY'01, then after a decline in FY'02 and FY'03, has risen to record levels. When measured as a percentage of Oklahoma's gross state product (GSP), tax revenue has closely tracked changes in the state's economy, averaging between 5.8 percent and 6.5 percent.

Oklahoma Economic Growth
FY'96 Through FY'06 (In Billions)



Source: Oklahoma Tax Commission and U.S. Department of Commerce Bureau of Economic Analysis

REVENUE PROJECTIONS

State Question 640, approved by voters in 1992, amended the Oklahoma Constitution to require revenue bills to be approved by the voters, unless they receive the approval of 3/4 of the members of each house of the Legislature. While no major tax rate increases or new taxes have been enacted by the Legislature since adoption of SQ 640, Oklahoma voters did approve an increase in tobacco taxes in November of 2004. When phased-in income and estate tax cuts were enacted during 2005 and 2006 it was estimated that such actions would ultimately reduce certified revenue by about \$627 million by FY'11. Since these changes are still being phased-in, no determination has yet been made as to the impact on income tax revenue.

Economic factors such as the level and rate of growth in jobs and income are translated into estimates of tax revenue to be received by the state. Changes in the forecast for economic activity in the state will often have dramatic effects on projected tax revenues.

Beginning in FY'02, actual revenues began to fall considerably short of the estimates, requiring significant budget reductions for many agencies for FY'02, FY'03 and some additional reductions during FY'04. However, by the end of FY'04, revenue collections improved enough to permit the first deposit in the state's "Rainy Day" fund since FY'01. The "Rainy Day" Fund, formally known as the Constitutional Reserve Fund, was created to hold the portion of state revenue collections which exceeds 100 percent of the official estimate for that year. The fund is capped at 10 percent of the General Revenue Fund estimate for the prior year. Between FY'05 and FY'08, deposits to the fund have been to the constitutional limit. The following amounts were deposited to the "Rainy Day" Fund during the past five years.

<u>Fiscal Year</u>	<u>Amount (in millions)</u>
FY'04	\$217
FY'05	\$243
FY'06	\$34
FY'07	\$75
FY'08	\$25

COMPARING STATE-BY-STATE TAX LEVELS

Policymakers often use state-by-state tax comparisons to guide their decisions. However, profound differences in how state and local governments operate in various states can skew comparisons. For example, some states require cities and counties to pay a large part of welfare and mental health costs. In Oklahoma, state government is solely responsible for providing those functions. Also, some states fund schools exclusively with state aid (Hawaii and New Mexico), while others have almost no state-level funding for schools (New Hampshire). Oklahoma state government provides about 56 percent of school costs.

Comparison of Per Capita State and Local Taxes

Most experts agree the best way to compare taxes among states is to combine state and local tax revenues, which eliminates the differences in state versus local responsibility for public services. The following table shows the most recent comparison of per capita state and local taxes.

State and Local Taxes 2004 Per Capita Taxes

<u>State</u>	<u>Taxes Per Capita</u>	<u>Ranking</u>
Arizona	\$2,868	36
Arkansas	\$2,539	48
Colorado	\$3,471	25
Kansas	\$3,375	22
Louisiana	\$2,906	33
Missouri	\$2,826	38
Nebraska	\$3,611	16
New Mexico	\$2,864	37
Oklahoma	\$2,678	43
Texas	\$2,875	34
U.S.	\$3,441	

Source: State Rankings 2007, A Statistical View of the 50 United States, Morgan Quitno Corporation, p. 290

Among regional states, Oklahoma is ranked lower in per capita taxes than any state except Arkansas. Only Colorado, Nebraska and Kansas are ranked in the upper half of the states, and all states in the region, except Nebraska, are below the national average. New York was ranked first in the nation with total per capita taxes of \$5,258. Alabama is ranked last with \$2,332 in total per capita taxes.

The average Oklahoman pays \$763 less per year in state and local taxes than the average American.

Comparison of Taxes as a Percent of Income

Measuring state and local taxes as a percent of personal income reveals each state's tax burden – the percentage of personal income the average resident pays in taxes. This adjusts for the relative wealth of various states' residents. Oklahoma, with its relatively low per capita income level, ranked 42nd (along with three other states) of the 50 states in state and local tax revenue as a percentage of personal income in 2004.

State and Local Taxes As Percentage of Personal Income

State	Taxes as % of 2004 Income	Ranking
Arizona	10.0%	29
Arkansas	9.8%	36
Colorado	8.9%	46
Kansas	10.8%	12
Louisiana	10.7%	14
Missouri	9.4%	42
Nebraska	11.3%	8
New Mexico	10.7%	14
Oklahoma	9.4%	42
Texas	9.4%	42
U.S.	10.4%	

Source: Ibid, p. 292

New York is ranked first at 13.7 percent. South Dakota is ranked last at 8.3 percent. Overall, the amount of state and local taxes as a percentage of personal income in the U.S. increased slightly from 2002 to 2004, from 10.2 percent to 10.4 percent in. Oklahoma data show the opposite trend, with a slight decrease from 9.7 percent in 2002 to 9.4 percent in 2004.

TAX CUT INITIATIVES

From 1996 to 2001, the strong state economy produced healthy growth revenues, allowing the Legislature to significantly reduce taxes without cutting essential state services. During 2002 and 2003, tax relief legislation was more targeted toward specific industries. Both general and industry-specific tax relief were provided in 2004 - income and property tax relief through the passage of State Questions 713, 714 and 715 and targeted relief through a variety of other measures. Additional growth in revenue during 2005 and 2006 permitted further broad tax reductions, several of which will be phased-in through 2010. Where dollar figures for tax reductions are provided below, the total includes only those tax reductions that are determinable and certified by the State Board of Equalization (some laws, such as those that increase sales tax exemptions or income tax credits, result in actual savings to taxpayers but the amount cannot be determined on a statewide basis).

- 1996 and 1997 Sessions:** Legislative measures enacted in 1996 and 1997 session cut taxes for Oklahoma taxpayers by almost \$80 million annually. The most significant tax relief, in total dollars, was contained in HB 1621

(1996). The bill extends the same \$5,500 income tax deduction received by public-sector retirees to retirees in the private sector. The deduction applies to persons aged 65 and older who earn less than \$25,000 annually. Other tax measures during those sessions applied to unemployment taxes (HB 1130, 1997) and targeted Oklahoma industries in the energy (SB 911, 1996) and agriculture (HB 2959, 1996) sectors.

- **1998 Session:** In the 1998 session, tax reductions that will total \$104 million annually (when fully implemented) were enacted in HB 3152. These included:
 - ✓ a reduction in the top income tax rate for Method 1 filers from seven percent to 6.75 percent (cutting revenues by \$41.1 million);
 - ✓ increasing the income threshold to qualify for rebates under the Sales Tax Relief Act (\$41.0 million);
 - ✓ increased estate tax exemptions for lineal heirs (\$18.6 million);
 - ✓ college savings incentives; and
 - ✓ Small Business Administration fee tax credit (\$3.3 million).

Additional tax relief for businesses was provided by reducing employer contribution rates for unemployment insurance. The rate reduction was provided for an 18-month period beginning July 1, 1998. The change was projected to save employers about \$32.5 million in FY'99, and up to \$136 million over five years if the reduced rate is extended.

The income tax rate reductions and Sales Tax Relief Act thresholds included a provision that these tax cuts would be rolled back in the event of a decline in estimated revenues. This occurred in 2002, resulting in a suspension of these tax cuts for the 2002 tax year.

- **1999 Regular Session:** In the 1999 session, measures targeting tax relief for the airline industry were enacted, resulting in tax savings of more than \$5 million annually (SB 523 and HB 1294).
- **1999 Special Session:** In a special session convened in February 1999, HB 1003X was enacted to change the state's seven percent gross production tax rate on oil production to a rate tied to the price of oil:
 - ✓ If oil sells for more than \$17 per barrel, the rate remains at seven percent.
 - ✓ If the price is \$14 to \$17, the rate drops to four percent.
 - ✓ If the price is less than \$14 per barrel, the rate drops to one percent.
 - ✓ The tax on gas production remained at seven percent.

For tax-rate purposes, the price of oil will be determined monthly by the Tax Commission, based upon data submitted by the three largest oil purchasers.

This measure was expected to result in a tax cut of about \$29.2 million annually.

- **2000 Session:** The 2000 Legislature referred to voters a measure reducing motor vehicle registration fees and modifying the basis for the motor vehicle excise tax, which actually resulted in a tax savings of approximately \$50 million annually when fully implemented (HB 2189). Other tax measures enacted in 2000 included extending the insurance premium tax credit to affiliates (HB 2191) for a tax savings of \$2.1 million, and granting an income tax exemption for federally tax-exempt bonds (HB 2635) for a tax savings of \$1.2 million.
- **2001 Session:** Tax reductions approved in the 2001 session will total approximately \$63 million when fully implemented. These include a reduction in the top income tax rate for Method 1 filers from 6.75 percent to 6.65 percent and an earned income tax credit (HB 1933), income tax credits for space transportation vehicle providers (SB 55), increased workers' compensation assessments (HB 1003X) and coal producers (SB 495), expansion of the sales tax exemption for aircraft parts (SB 495) and income tax deductions for contributions to college savings plans (HB 1896). The income tax rate reduction retained the "trigger mechanism" from the 1998 law, which provided for a suspension in the rate reduction in the event of declining revenues, which occurred in 2002, so this reduction has not yet taken effect.
- **2002 Session:** In spite of the first decline in state revenues in several years, the Legislature provided targeted tax relief to selected industries, including an income tax credit for small wind turbine manufacturers (SB 1451), a new Quality Jobs Incentive Leverage Act designed to assist tire manufacturers (HB 2245), and additional income tax credits for certain airlines (HB 2315). These measures will result in a tax savings of approximately \$46.3 million.
- **2003 Session:** Continued revenue decline limited the amount of, and tax savings associated with, targeted relief provided. That relief included: establishing an income tax credit for certain ethanol production facilities (SB 429), extending the time limit on certain manufacturing investment tax credits (SB 440) and on certain gross production tax exemptions (SB 535) and including certain jobs under the Quality Jobs Act to the benefit of tire manufacturers (HB 1593).

- **2004 Session:** Much of the tax relief proposed during 2004 was approved by Oklahoma voters on November 2, 2004. Taken together, these measures are expected to reduce taxes by nearly \$80 million when fully implemented. State questions 713, 714 and 715 resulted in the following types of tax relief:
 - ✓ Reduction in income tax on certain capital gains and retirement income and permanent reduction in the top tax rate (SQ 713/HB 2660).
 - ✓ Modification of the income threshold by which a senior citizen qualifies for a freeze on the value of a homestead for property tax purposes (SQ 714/ SJR 30).
 - ✓ Establishment of a new property tax exemption equal to the value of an individual's homestead for 100 percent disabled veterans (SQ 715/HJR 1044).

In addition to the state questions, the Legislature enacted additional tax relief which: expands tax credits for investments in venture capital (HB 2124) and provides state payments for up to 10 percent of eligible capital costs for qualified tire manufacturers making capital investments (HB 2373).

The Oklahoma Quality Jobs Program, originally enacted in 1993, provides incentive payments to targeted industries creating new jobs in Oklahoma. The program has been expanded and extended since that time, and the amounts of payments made are in addition to the tax cuts described above. Quality Jobs incentive payments exceeded \$54 million in FY'03.

- **2005 Session:** An improving revenue picture provided the 2005 Legislature with the ability to enact a \$60 million tax relief package focused on income tax relief for both individuals and businesses and targeted sales tax relief. Together, SB 435 and HB 1547 increased the standard deduction and reduced the top income tax rate. In tax year 2006, the standard deduction amount for those filing as "married filing jointly", head of household or qualifying widow, increased to \$3,000. For tax year 2007 and subsequent years, that amount will increase to \$4,000. The top income tax rate decreased from 6.65 percent to 6.25 percent beginning with tax year 2006.

Retired individuals gained an even greater benefit from additional tax measures enacted. SB 435 increased the amount of retirement income exempt from income taxes from \$7,500 to \$10,000. HB 1476 increased the military retirement income exemption to an amount equal to 50 percent of military retirement benefits or \$10,000, whichever is greater. In addition, under HB 1193 Oklahoma taxpayers received a one-time payment from a portion of surplus state revenue deposited in the "Rainy Day Fund".

Businesses and corporate taxpayers also benefited from both broad and industry-targeted tax relief. Under HB 1547, all corporations were given an exemption for certain capital gains (parallel to an exemption enacted for individuals in 2004). The franchise tax was simplified by eliminating the

filing requirement for certain taxpayers in HB 1738. Bills enacted to provide targeted tax relief included measures to assist a variety of industries including: oil and gas, film and music, agriculture and alternative fuels. Sales tax relief was provided to organizations ranging from those providing support for homeless persons to those which focus on conservation and wildlife.

- **2006 Regular and Special Sessions:** Legislation enacted during these sessions will result in the largest tax cut in state history, including: decreases in the top income tax rate, increases in the standard deduction, expansion of retiree exemptions and elimination of the estate tax. In 2010 when all the changes are fully phased-in, over \$600 million in tax relief will be provided to Oklahomans. As in previous years, other legislation provided specific tax relief to businesses and nonprofit organizations. New economic development initiatives were also funded with surplus tax revenue.

Following last session's income tax rate decrease, HB 1172XX contained further reductions in the top marginal income tax rate. The rate will drop a full percentage point between 2007 and 2010. Specifically, the top rate will go to 5.65 percent in 2007, 5.55 percent in 2008 and 5.50 percent in 2009. Then, if state revenue continues to grow by at least 4 percent plus the cost of the additional scheduled tax reduction, the top marginal rate will drop to 5.25 percent in 2010.

Like the income tax rate, Oklahoma's standard deduction was modified both last and this session. HB 1172XX will also phase-in over a four-year period increases to the standard deduction until 2010 when it becomes tied to the federal standard deduction amount. From 2007 to 2009, the amounts will more than double. For example, those who are married, file jointly and do not itemize their deductions will be able to claim exemptions of \$5,500 in 2007, \$6,500 in 2008 and \$8,500 in 2009. That means the deduction will rise from the current 2006 level of \$3,000 to an estimated federal level of \$11,200 in 2010.

Private sector retirees will also benefit from a provision in HB 1172XX which will increase the income thresholds each year from 2007 to 2010 until they are completely eliminated in 2011. This means all retirees will ultimately be eligible to claim the \$10,000 deduction. Tax relief was also provided to military retirees. The amount of military retirement exempt from income tax increased to \$10,000 or 75 percent of benefits, whichever is greater.

The issue of estate tax was also addressed through the modification of provisions which currently apply to collateral heirs and the phase-out of the estate tax. For deaths which occur on or after January 1, 2007, lineal and collateral heirs will be subject to the same tax rate and exemption amount.

That exemption will rise from \$1 million to \$2 million in 2008 and to \$3 million in 2009. For 2010 and beyond, the estate tax will be repealed.

In an effort to provide sales tax relief to certain nonprofit organizations, the 2006 Legislature approved sales tax relief measures which apply to a variety of nonprofit organizations ranging from community mental health centers to patriotic women's organizations to YMCAs. Sales tax exemptions or other tax credit programs were also enacted to benefit industries including: quarrying, coal-mining, zero-emission power generation and railroads.

Two funds were created during the 2006 Special Session for the purpose of utilizing certain surplus tax revenue for economic development purposes. SB 99XX created a \$150 million trust fund known as the Economic Development Generating Excellence (EDGE) Fund. Expenditures from the fund, limited to 5 percent of its assets, may be used as matching funds for applied research, for technology transfer and seed capital and for a variety of other specific uses. Two separate boards were also created to govern investment and expenditure of the fund. In HB 1169XX, the Oklahoma Department of Commerce and the Contingency Review Board were given the authority to propose and review expenditures of up to \$45 million by the Governor from a newly-created Oklahoma Opportunity Fund. Expenditures can be made for economic development purposes if they are expected to result in the creation of new jobs, maintenance of existing jobs, and/or investment in new property or ventures that will increase the state's tax base. In 2007, the Oklahoma supreme Court struck down the mechanism for using the Opportunity Fund. The law required expenditures from the fund to be approved unanimously by the Governor and two legislative leaders who serve on the Contingency Review Board. The court ruled that this arrangement violated the constitutional separation of powers between branches of government. Since the ruling, no additional appropriations have been made to the Opportunity Fund.

- **2007 Session:** Just one year after the largest tax cut in state history, the 2007 tax relief package is estimated to result in an additional tax savings of about \$13 million in FY-08 and \$75 million in FY-09. This will be accomplished through an acceleration of the phased-in reduction of the top income tax rate, the establishment of a new income tax credit for parents of minor children and a franchise tax exemption for companies with liability of \$250 or less.

The four-year income tax rate reduction put into place during the 2006 legislative session would have reduced the top marginal income tax rate each year until 2010, when the rate was set to drop to 5.25 percent. Under the 2007 session tax agreement, the reduction is accelerated with the potential for the 5.25 percent top rate beginning during tax year 2009 if revenue targets are met.

Oklahoma parents who do not claim child care expenses will also benefit by being able to claim a new income tax credit. Under SB 861, a taxpayer with minor children may claim the greater of an existing child care expense tax credit or a new credit equal to 5 percent of the federal income tax child credit.

Most companies doing business in this state are subject to a franchise tax of \$1.25 on every \$1,000 of capital. During the 2006 session, companies with franchise tax liability of \$10 or less were exempted from the tax. Under this year's tax relief proposal in SB 861, those with a tax liability of \$250 or less would be exempt, relieving an additional 24,000 companies of the requirement to pay the franchise tax.

- **2008 Session:** Limited resources required the Legislature to enact only targeted tax relief initiatives during the 2008 session. That included: extending the expiration date for income tax credits for "clean-burning" motor vehicles (SB 1558), gross production tax exemptions for certain deep wells (SB 1658); modifying provisions relating to a tax credit for railroad reconstruction (SB 1799); and enacting new tax credit provisions for both employers and employees in the aerospace industry (HB 3239).

INCOME TAXES

Oklahoma received more than \$3.14 billion in income tax revenues in FY'08. Income taxes are the largest single source of money for the state General Revenue (GR) Fund, accounting for 39 percent of total revenue and about 44.8 percent of the deposits to the GR Fund in FY'08. The state income tax is imposed on the Oklahoma taxable income of all individuals and corporations, whether resident or nonresident. Oklahoma taxable income is based on federal adjusted gross income, so income tax changes enacted by Congress can impact state tax levels.

According to Morgan Quito's *State Rankings 2007*, in 2005 Oklahoma ranked 27th among the 50 states in per capita revenue collection from individual income taxes.

Individual Income Tax

Oklahoma's graduated income tax rate ranges from ½ percent to 5.5 percent, depending upon the amount of taxable income. For the 2008 tax year, the schedule for a single individual is as follows:

- ½ percent on the first \$1,000
- 1 percent on the next \$1,500
- 2 percent on the next \$1,250

- 3 percent on the next \$1,150
- 4 percent on the next \$2,300
- 5 percent on the next \$1,500
- 5.5 percent on the remainder

Since 2000, the Legislature has enacted a number of income tax changes, ratcheting down the top marginal rate from 7 percent and 5.5 percent. During the 2006 Special Legislation Session, a multi-year, phased-in rate reduction was enacted. As a result, the top marginal income tax rate has changed as follows:

<u>Year</u>	<u>Top Marginal Rate</u>
2004	6.65%
2005	6.25%
2006	5.65%
2007	5.50%
2008	5.50%

In the first year after 2008 when state revenue grows by at least 4 percent plus the cost of the scheduled change in the standard deduction, the top marginal rate will drop to 5.25 percent.

Individual Income Taxes Comparison

<u>Nationwide</u>		<u>Regional States</u>	
National Ranking (per capita):	27	Regional Ranking:	4
Number of states imposing tax:	44	States using tax:	9
		States with higher max. rate:	5
		States with lower max. rate:	3

In 2005, Massachusetts had the highest per capita income tax collections with \$1,506 collected per person. Seven states (Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming) have no individual income tax.

The average Oklahoman pays \$46 less per year in individual income taxes than the average American citizen.

Income Taxes

2008 Rates; 2005 Per Capita Revenue and Rankings

State	Tax Rate	Per Capita Revenue	Ranking
Arizona	2.59 - 4.54%	\$478	39
Arkansas	1 - 7%	\$676	29
Colorado	4.63%	\$809	17
Kansas	3.5 - 6.45%	\$746	24
Louisiana	2 - 6%	\$531	38
Missouri	1.5 - 6%	\$692	28
Nebraska	2.56 - 6.84%	\$793	20
New Mexico	1.7 - 5.3%	\$564	36
Oklahoma	0.5 - 6.25%	\$697	27
Texas	--	--	44
U.S.		\$743	

Source: Ibid, p. 323, and State Individual Income Taxes, 2008 Tax Rate Table, web page of Federation of Tax Administrators (www.taxadmin.org)

Corporate Income Tax

Corporate income tax is imposed at a flat six percent rate of Oklahoma taxable income. The corporate income tax rate was last changed in 1990, as part of HB 1017. Income taxes paid by Oklahoma corporations produced \$360 million in revenues during FY'08. Corporate income taxes total just over one-tenth of the amount collected through individual income taxes.

Corporate Income Taxes Comparison

Oklahomans pay about 37 percent of the national average per capita in corporate income taxes. All states in the region are below the national average.

In per capita corporate income tax revenue, Oklahoma ranks 45th of the 46 states that levy a corporate income tax.

Alaska is the highest with \$888 collected per capita. Four states (Nevada, Texas, Washington and Wyoming) have no corporate income tax.

The corporate income tax rate is not necessarily related to per capita collections. For example, Kansas collects \$90 per capita under a four percent rate, but Oklahoma collects \$48 per capita with a six percent rate.

Corporate Income Tax
2008 Rates and 2005 Per Capita Revenue and Rankings

<u>State</u>	<u>Tax Rate</u>	<u>Per Capita Revenue</u>	<u>Ranking</u>
Arizona	6.968%	\$118	21
Arkansas	1 - 6.5%	\$100	29
Colorado	4.63%	\$68	41
Kansas	4%	\$90	35
Louisiana	4 - 8%	\$78	38
Missouri	6.25%	\$38	46
Nebraska	5.58 - 7.81%	\$113	24
New Mexico	4.8 - 7.6%	\$126	19
Oklahoma	6%	\$48	45
Texas	--	--	47
U.S.		\$130	

Source: Ibid, p. 325 and 2008 web page of Federation of Tax Administrators (www.taxadmin.org)

Statutory Apportionment of Income Taxes

For FY'08, individual income tax revenues are apportioned by the Oklahoma Tax Commission on a monthly basis according to the following statutory schedule:

- 85.66% to the General Revenue Fund, which is appropriated by the Legislature;
- 8.34% to the Education Reform Revolving Fund;
- 5.00% to the Teachers' Retirement System Dedicated Revenue Revolving Fund; and
- 1.00% to the Ad Valorem Reimbursement Fund to reimburse local governments for lost revenues related to the exemption from ad valorem taxes of new, expanded or acquired manufacturing facilities.

Corporate income tax revenues are apportioned monthly as follows:

- 77.50% to the General Revenue Fund, which is appropriated by the Legislature;
- 16.5% to the Education Reform Revolving Fund;
- 5.00% to the Teachers' Retirement System Dedicated Revenue Revolving Fund; and
- 1.00% to the Ad Valorem Reimbursement Fund.

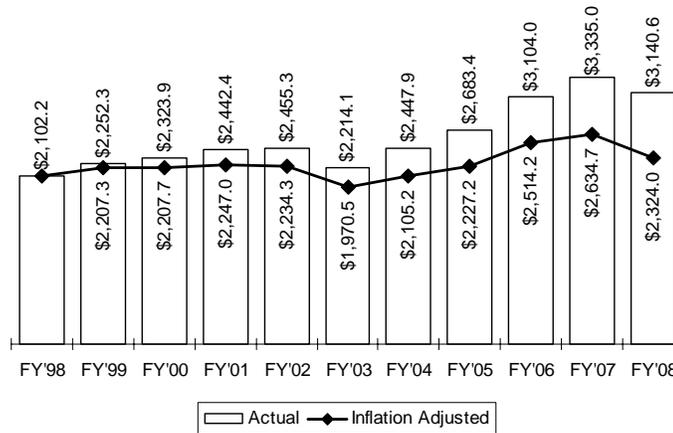
In FY'06 under HB 1078, a portion of income tax revenue was directed, prior to apportionment, to a newly-created road and bridge rebuilding fund, the Rebuilding Oklahoma Assess and Driver Safety Fund, also known as the

ROADS Fund. In FY'08, the ROADS Fund received \$137.5 million in income tax revenue.

History of Revenues from State Income Taxes

Revenues from income taxes in Oklahoma have increased by over 49 percent over the last 10 years in real dollar terms. When adjusted for inflation, the increase is 11 percent.

History of Income Tax Revenue
FY'98 Through FY'08 (In Millions)



Source: Oklahoma Tax Commission and U.S. Bureau of Labor Statistics Inflation Calculator

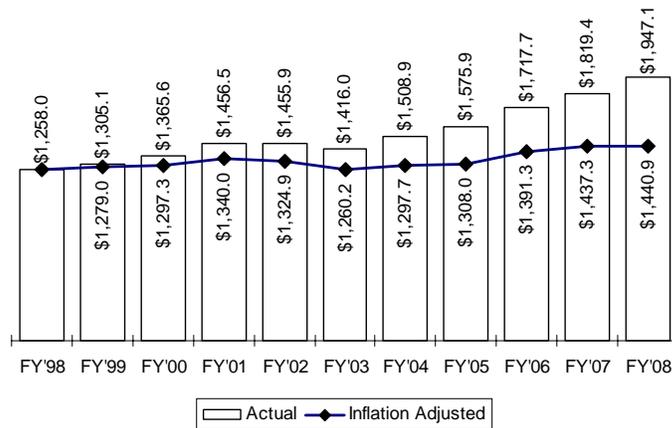
SALES AND USE TAXES

In FY'08, state sales tax revenue totaled over \$1.95 billion and the use tax produced \$166.4 million. The state rate for both the sales tax and use tax in Oklahoma is 4.5 percent. The two taxes accounted for 31.2 percent of actual GR Fund revenues in FY'08. The Legislature has authorized municipalities and counties to levy sales taxes. There is no limit on the amount a municipality may levy, although voter approval is required. Counties may levy up to two percent. The use tax applies the same 4.5 percent tax on items purchased in other states to be used in Oklahoma.

History of the State Sales Tax

Sales tax collections have grown at an average annual rate of 4.52 percent between FY'98 and FY'08. When actual dollars collected are adjusted for inflation, the average annual rate of growth drops to 1.41 percent.

State Sales Tax Collections FY'98 Through FY'08 (In Millions)



Source: Oklahoma Tax Commission, U.S. Bureau of Labor Statistics Inflation Calculator

Until 1983, all revenue from the state's then two percent sales tax was dedicated to the Department of Human Services (DHS) for fulfilling the Oklahoma Social Security Act. These funds were spent at the discretion of the Public Welfare Commission and were not subject to legislative appropriation. Effective July 1983, statutes were amended to provide more legislative control. Though the funds remained separate from the GR Fund, they could be expended only through direct appropriation by the Legislature.

During the 1984 legislative session, a temporary third cent was added to the sales tax rate, with the new revenue allocated to the GR Fund. Because of revenue shortfalls during the next fiscal year, the 1985 Legislature made permanent the third-cent tax and added another 0.25¢, making the total tax rate 3.25 percent.

Sales tax changes were again made during the 1987 session. Earmarking of the original two percent sales tax to DHS was discontinued and the funds were allocated to the GR Fund for annual appropriation by lawmakers. Also that year, the Legislature confronted severe budget shortfalls by raising the sales tax from 3.25 percent to 4.0 percent effective June 1, 1987.

Most recent changes in the sales tax were made by the 1990 Legislature as part of HB 1017, the Education Reform Act. Effective May 1, 1990, the sales tax increased from 4.0 percent to 4.5 percent.

Sales Tax Exemptions

Items exempt from the state sales tax by statute include most advertising, natural gas and electricity sold for residential use, prescription drugs, and groceries

purchased with food stamps and sales for resale. Many other sales to or by certain organizations are also exempt. Most services are not taxed.

As a result of the passage of SQ 713 in November of 2004, cigarette and tobacco products are no longer subject to sales tax.

State and Local Sales Tax 2008 Rates; 2004 Per Capita Revenue and Rankings

State	State Sales Tax Rate	State & Local Per Capita Revenue	Ranking
Arizona	5.6%	\$1,110	6
Arkansas	6.000%	\$1,031	9
Colorado	2.9%	\$906	16
Kansas	5.3%	\$907	15
Louisiana	4.0%	\$1,186	5
Missouri	4.225%	\$808	22
Nebraska	5.5%	\$1,008	12
New Mexico	5.0%	\$1,029	10
Oklahoma	4.5%	\$790	25
Texas	6.25%	\$851	19
U.S.		\$834	

Source: Ibid, pg. 294 and 2008 web page of Federation of Tax Administrators (www.taxadmin.org)

	<u>National Ranking</u>	<u>Regional Ranking</u>
Oklahoma's Per Capita Rank	25	10
Number of states imposing this tax	47	10
Number with rates higher than OK	34	6
Number with rates same as or lower than OK	11	3

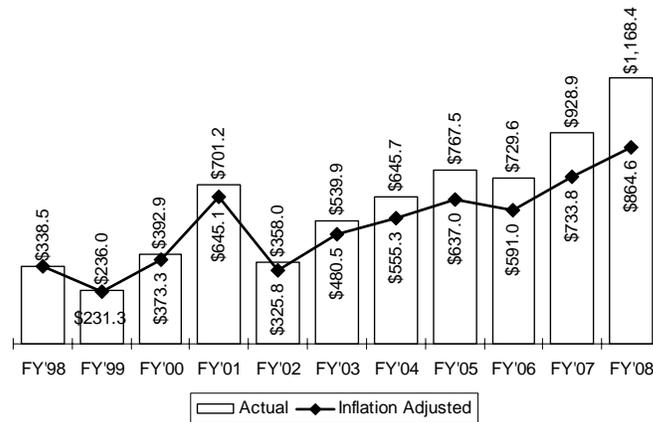
Washington is the highest with \$1,577 collected per capita. Four states (Delaware, Montana, New Hampshire and Oregon) have no sales tax.

The average Oklahoman pays \$44 less per year in sales taxes than the average American citizen.

GROSS PRODUCTION TAXES

Significant revenues are generated for a number of state and local services through taxes levied on extraction and production of certain raw materials. Gross production taxes provided \$1.168 billion in FY'08.

History of Gross Production Tax Collections FY'98 Through FY'08 (In Millions)



Source: Oklahoma Tax Commission and U.S. Bureau of Labor Statistics Inflation Calculator

There are two types of gross production taxes: the severance tax and petroleum excise tax.

Severance Tax

A severance tax is a tax levied upon the production or mining of minerals when they are "severed" from the earth. A severance tax is levied upon the production of the following minerals:

Type of Mineral	Tax Rate
Oil (price > \$17 per barrel)	7.00%
Oil (price \$14 to \$17 per barrel)	4.00%
Oil (price < \$14 per barrel)	1.00%
Uranium	5.00%
Mineral ores and asphalt	0.75%
Gas (price > \$2.10 per mcf)	7.00%
Gas (price \$1.75-\$2.10 per mcf)	4.00%
Gas (price < \$1.75 per mcf)	1.00%

Petroleum Excise Tax

A petroleum excise tax is levied, in addition to the severance tax, on oil and gas at a rate of 0.095 of 1 percent of gross value.

Gross Production Tax History

Gross production taxes on oil were last changed by HB 1003X in a 1999 special session. The bill renewed exemptions from all but a one percent tax levy for various types of wells and enacted a three-tiered rate structure depending upon

the price of oil (see Tax Cut Initiatives). In 2002, a similar tax structure was enacted for gas production (SB 947). Both tax structures were extended for an additional three years in SB 1253 (2004). During the 2005 and subsequent legislative sessions, the gross production tax exemptions for certain deep-drilled wells have been extended beyond the original expiration dates.

Apportionment of Gross Production Taxes

Severance Taxes on Oil: Pursuant to 68 O.S. 1001, the apportionment of severance tax revenues varies depending on the tax rate imposed (see Tax Cut Initiatives).

- If levied at a seven percent tax rate, severance tax revenues from oil are apportioned monthly as follows:

25.72%	to the Common Education Technology Fund;
25.72%	to the Higher Education Capital Fund;
25.72%	to the Oklahoma Tuition Scholarship Fund;
4.28%	to the County Bridge and Road Improvement Fund;
7.14%	to counties where the oil is produced, for roads;
7.14%	to school districts; and
4.28% *	to three funds – the Oklahoma tourism and Recreation Capital Expenditure Revolving Fund, the Oklahoma Conservation Commission Infrastructure Revolving Fund and the Community Water Infrastructure Development Revolving Fund – at one-third each from FY'07 to FY'11.

- If levied at a four percent tax rate, severance tax revenues from oil are apportioned monthly as follows:

22.50%	to the Common Education Technology Fund;
22.50%	to the Higher Education Capital Fund;
22.50%	to the Oklahoma Tuition Scholarship Fund;
3.75%	to the County Bridge and Road Improvement Fund;
12.50%	to counties where the oil is produced, for roads;
12.50%	to school districts; and
3.75% *	to three funds – the Oklahoma tourism and Recreation Capital Expenditure Revolving Fund, the Oklahoma Conservation Commission Infrastructure Revolving Fund and the Community Water Infrastructure Development Revolving Fund – at one-third each from FY'07 to FY'11.

- * Beginning FY'12, the percentage divided between three funds will revert back to the REAP Water Projects Fund.

- If levied at a one percent tax rate, severance tax revenues from oil are apportioned monthly as follows:

50.0% to counties where the oil is produced, for roads; and
50.0% to school districts.

Severance Taxes on Gas: Like revenues from severance taxes on oil production, the apportionment of severance taxes on gas production varies depending on the tax rate imposed.

- If levied at a seven percent tax rate, severance tax revenues from gas are apportioned monthly as follows:

85.72% to the General Revenue Fund;
7.14% to counties where the gas is produced, for roads; and
7.14% to school districts.

- If levied at a four percent tax rate, severance tax revenues from gas are apportioned monthly as follows:

75.0% to the General Revenue Fund;
12.5% to counties where the gas is produced, for roads; and
12.5% to school districts.

- If levied at a one percent tax rate, severance tax revenues from gas are apportioned monthly as follows:

50.0% to counties where the gas is produced, for roads; and
50.0% to school districts.

Severance Taxes on Other Minerals: Severance tax revenues from other minerals are apportioned monthly as follows:

85.72% to the General Revenue Fund;
7.14% to counties where the mineral is produced for roads; and
7.14% to school districts.

Petroleum Excise Taxes: Until July 1, 2011, petroleum excise tax revenues from oil are apportioned monthly as follows:

82.634% to the General Revenue Fund;
10.526% to the Corporation Commission Plugging Fund; and
6.84% to the Interstate Oil Compact Fund.

Excise tax revenue from natural gas is apportioned monthly as follows:

82.6045% to the General Revenue Fund;
 10.5555% to the Corporation Commission Plugging Fund; and
 6.84% to the Interstate Oil Compact Fund.

After July 1, 2011, petroleum excise tax revenues from oil and gas will be apportioned monthly as follows:

92.35% to the General Revenue Fund; and
 7.65% to the Interstate Oil Compact Fund.

Gross Production Tax Collections by Type (In Millions)

	FY'01	FY'02	FY'03	FY'04	FY'05	FY'06	FY'07	FY'08
Severance	\$701.14	\$358.98	\$539.90	\$645.70	\$767.55	\$1,043.80	\$928.97	\$1,116.84
Petroleum Excise	\$9.94	\$5.48	\$8.01	\$9.28	\$11.63	\$15.54	\$13.18	\$16.32
TOTAL	\$711.08	\$364.46	\$547.91	\$654.98	\$779.18	\$1,059.34	\$942.15	\$1,133.16

PROPERTY TAXES IN OKLAHOMA

Property taxes, also known as ad valorem taxes, are the primary source of funding for county government operations. This revenue source also provided 23 percent of the statewide public school budget in FY'07 and 70.5 percent of career technology (vo-tech) center funding.

Decisions about property taxes in Oklahoma are made at three levels: (1) the Oklahoma Constitution authorizes property taxes to be imposed; (2) the Legislature has enacted statutes to implement constitutional provisions; and (3) the State Board of Equalization and the courts have interpreted these constitutional and statutory provisions. Property taxes can only be imposed if the people vote for them, a provision that has been in place since statehood and is not related to SQ 640. Property tax levies are based on the value of a taxpayer's property.

Property Tax Comparison with Other States

Oklahoma's per capita property tax average of \$465 per person in 2004 was less than half the national average of \$1,084. Oklahoma ranks 47th out of the 50 states in per-capita property taxes.

The Oklahoma Constitution provides that property tax revenue may not be used by state government. In many other states, a state property tax is charged in addition to local property taxes.

Per Capita State and Local Property Tax Revenue
2004

<u>State</u>	<u>Per Capita Revenue</u>	<u>Ranking</u>
Arizona	\$847	35
Arkansas	\$401	49
Colorado	\$1,027	23
Kansas	\$1,186	15
Louisiana	\$503	46
Missouri	\$748	37
Nebraska	\$1,149	16
New Mexico	\$442	48
Oklahoma	\$465	47
Texas	\$1,251	13
U.S.	\$1,084	

Source: Ibid, p. 296

Valuation of Property for Tax Purposes

Property taxes are paid based on the value of a taxpayer's property. The county assessor, a locally-elected officeholder, determines the value of most property in the county for tax purposes.

Real Property: The value of real property (land and structures) is determined by computer-assisted calculation (see Computerization Appraisals) but are subject to certain constitutional limits (see Limits on Property Valuations).

Personal Property: The value of personal property – furnishings, equipment, clothes, etc. – is assessed separately from real property. Motor vehicles are subject to registration fees in lieu of property taxes. The county assessor by law may use one of two methods to assess the value of personal property: (1) assume that a taxpayer's personal property is valued at 10 percent of the value of his/her real property, or (2) have a taxpayer file a list of his/her personal property for assessment of value. Most calculations are based on the assumed value.

Centrally Assessed Property: Property of certain companies (public service corporations, railroads and airlines) is centrally assessed – its value is determined by the State Board of Equalization rather than the local assessors.

Computerizing Appraisals

A system called "computer-assisted mass appraisal" (CAMA) was implemented in Oklahoma to allow counties to systematically update property values based on recent sales of comparable properties. The goals of this program are (1) to have property values more accurately reflect fair market value for tax purposes, and (2) to make property valuation more uniform throughout the county.

Limits on Property Valuations

Real property is valued at its "fair cash value" – the price a willing buyer would pay a willing seller in an "arm's-length" transaction. Real property may also be valued at its "use value" – its fair cash value for the highest and best use for which the property was actually used (or classified for use) during the previous calendar year. This "use value" provision is most often applied to agricultural land.

In 1996 and in 2004, the Legislature proposed, and the voters approved, Constitutional amendments that affected the valuation process.

- One amendment provided that the fair cash value of locally-assessed real property (i.e., all real property except that of public service corporations, airlines and railroads) cannot be increased by more than five percent in any year, unless title to the property is transferred or improvements are made to the property.
- Another amendment provided that valuation would be frozen, beginning January 1, 1997, for taxpayers with gross household income of \$25,000 or less if the head of household is 65 years of age or older. State Question 714 (2004) replaced the \$25,000 income threshold with a county- or metropolitan area-specific amount determined by the U.S. Department of Housing and Urban Development. For calendar year 2008, county median incomes ranged from \$33,100 in Pushmataha County to \$53,600 in the Oklahoma City metropolitan area.
- Another amendment enacted in 2004 provided those with 100 percent military disability with a property tax exemption for the full fair cash value of their homestead. The benefit is also extended to a surviving spouse.

Homestead Exemptions

A taxpayer may apply for a homestead exemption that reduces by \$1,000 the assessed value of a taxpayer's actual residence. Taxpayers whose gross household income from all sources does not exceed \$20,000 may receive an additional homestead exemption of \$1,000 (this is known as the "double homestead exemption"). A taxpayer who is at least 65 years old, or who is totally disabled, and whose gross household income from all sources does not exceed \$12,000, may file a claim for property tax relief for the amount of

property taxes paid over one percent of his/her income, up to a maximum of \$200.

Assessment Ratios

Once a property's value is computed by the county assessor, the "assessment ratio" or "assessment percentage" is applied. For locally-assessed property, the county assessor sets the ratio, but any increase must be approved by local voters. Personal property must be assessed at an amount between 10 percent and 15 percent of its fair cash value; real property must be assessed at an amount between 11 percent and 13.5 percent of its fair cash value; and other property (public service corporation, airline and railroad property) must be assessed at the ratio it was assessed on January 1, 1997 (22.85 percent for public service corporation property and 12.08 percent for railroads and airlines).

The value of the property is multiplied by the assessment ratio to get the "assessed valuation". The assessed valuation is then multiplied by the number of mills which local voters have approved in their area to compute the amount of tax due.

Millages Allowed under the State Constitution

Votes on property tax levies address the number of mills to be assessed (a mill is \$0.001 or one-tenth of a cent). The Oklahoma Constitution allows the following maximum levies:

- 10 mills for counties;
- 39 mills for schools;
- 2.5 mills for county health departments;
- 10 mills for vo-tech schools;
- 3 mills for ambulance service districts;
- 3 mills for solid waste management services;
- 5 mills for county building fund;
- 5 mills for city building fund;
- 5 mills for school building fund; and
- 4 mills for libraries.

The Constitution allows counties to abolish taxes on household personal property and livestock upon a vote of the people. If these taxes are abolished, the millage rates are automatically adjusted upward by an amount necessary to offset the lost revenue.

Millage Elections

Boards of county commissioners or local boards of education generally are the entities that call millage elections. Those bodies also determine how many mills will be voted on, although in some cases an initiative petition can propose a millage amount. Some of these levies must be voted on each year, such as 15 of the 39 mills allowed for schools. Other levies, once approved by voters, remain in effect until changed or repealed.

The Constitution also allows counties, cities, school districts, career technology (vo-tech) districts, ambulance service districts, and solid waste districts to issue bonds if approved by the voters. If approved, the additional millage levy is imposed in an amount necessary to repay the bonds each year. This millage level is not necessarily the same each year. The revenue from these levies is deposited into a "sinking fund", which disperses principal and interest payments to bondholders.

Examples of Tax Computation

The complex process for computing a taxpayer's ad valorem tax is confusing to many. The following step-by-step illustration shows how the final property tax amount is computed on a specific taxpayer:

A taxpayer lives in a home valued at \$50,000 in the city of Moore, in the Moore school district, in Cleveland County. The sum of all mills that have been approved by voters in that county was 104.84 in 1997. Comprising the total are 10.28 mills for the county, 0.28 mills for the county sinking fund, 13.73 mills for the city sinking fund, 2.57 mills for the county health department, 4.11 mills for county libraries, 40.18 mills for public schools, 5.15 mills for the school building fund, 15.18 mills for the school sinking fund, 9.25 mills for the vo-tech school and 4.11 mills for the vo-tech building fund.

Real Property: The assessor would compute the real property tax on that home as follows:

- a. \$50,000 gross home valuation x 12 percent assessment ratio = \$6,000 assessed valuation
- b. \$6,000 assessed valuation - \$1,000 homestead exemption = \$5,000 net assessed valuation
- c. \$5,000 net assessed valuation x 104.84 mills = \$524.20 annual real property taxes

Personal Property: Household personal property taxes for this taxpayer would be computed as follows (note, however, that Cleveland County has abolished personal property taxes):

- a. \$50,000 gross home valuation x 10 percent = \$5,000 assumed personal property value (this amount could be changed if the taxpayer chose to file a list of his/her personal property)
- b. \$5,000 personal property value x 12 percent assessment ratio = \$600 assessed valuation
- c. \$600 assessed valuation x 104.84 mills = \$62.90 annual personal property taxes

Total Tax Due: \$62.90 for personal property + \$524.20 for real property = \$587.10.

MOTOR VEHICLE TAXES

The State of Oklahoma levies an annual tax for the registration of motor vehicles, and also levies excise taxes upon the transfer of title or possession of motor vehicles. Until 2001, the annual registration fee was based upon the value of the vehicle, and the excise tax was based on the factory delivered price, depreciated 35 percent per year for used vehicles. This resulted in a situation in which annual registration fees were increasing as factory delivered prices increased from year to year, and in which the value upon which excise taxes were paid was unequal to the sales price of a vehicle. (Typically, the value upon which excise taxes were paid was higher for new vehicles and considerably lower for used vehicles.) The fees to register vehicles in Oklahoma, other than commercial and farm vehicles, were among the highest in the nation, resulting in various forms of tax evasion and avoidance, such as increased use of out-of-state tags, Indian tags and commercial vehicle tags.

In 2000, the Legislature referred to the voters a question which imposed flat registration fees based upon the age of the vehicle (\$85 for vehicles 1-4 years old, \$75 for 5-8 years old, \$55 for 9-12 years old, \$35 for 13-16 years old and \$15 for 17+ years old, all with an additional \$5 in other fees added on). The question also based excise taxes on the actual sales price of new vehicles, at a rate of 3.25 percent. For used vehicles, the excise tax is based on the actual sales price also, at a rate of \$20 for the first \$1,500 and 3.25 percent on the remainder. The value of used vehicles must be within 20 percent of the "blue book" value.

Although this change was projected to result in a tax savings of approximately \$23 million to taxpayers, the actual tax savings was considerably higher. The Oklahoma Tax Commission has estimated that the tax savings has actually amounted to approximately \$50 million annually.

During FY'08, motor vehicle taxes and fees were apportioned monthly as follows:

- 36.20% to school districts;
- 39.84% to the General Revenue Fund; *
- 0.31% to the State Transportation Fund;
- 7.24% to counties;
- 2.59% to counties for county roads;
- 3.62% to county highway funds;
- 0.83% to county general funds;
- 3.10% to cities and towns;
- 1.24% to the Oklahoma Law Enforcement Retirement Fund;
- 0.034% to the Wildlife Conservation Fund; and
- 5.00% to the County Improvements for Roads and Bridges Fund.*

* During FY'08 and FY'09, an additional 5 percent each year will be redirected from the General Revenue Fund to the County Improvements for Roads and Bridges Fund. From July 1, 2009 on, 29.84 percent will be apportioned to General Revenue and 15 percent will be apportioned to the County Roads and Bridges Fund.

Making comparisons with other states in this area is difficult. Unlike most other states, in Oklahoma the annual registration fees are in lieu of property taxes on motor vehicles. Many other states impose sales taxes instead of special motor vehicle excise taxes, so these revenues are not considered as motor vehicle revenue. For these reasons, interstate comparisons are not always reliable.

MOTOR FUELS TAXES

The State of Oklahoma generates revenues for state highways and county roads through an excise tax levied on motor fuels. The taxes are apportioned according to formulas established by the Legislature. The two major taxes levied are the gasoline tax and the diesel fuel tax.

The gasoline tax of 17¢ per gallon is used to fund the majority of all work on roads and bridges. The diesel fuel tax of 14¢ per gallon adds additional funds for the same purpose.

History of Motor Fuels Taxes

The fuel tax was first enacted in 1923 at a rate of 1¢ per gallon. The tax on diesel fuel was initiated in 1939. Throughout the state's history, motor fuel taxes have been increased 19 times, most recently in 1990.

Oklahoma's Motor Fuel Tax Rate History

<u>Date</u>	<u>Gasoline</u>	<u>Diesel</u>	<u>Date</u>	<u>Gasoline</u>	<u>Diesel</u>
March 1923	\$.01		January 1947	\$.0558	\$.055
March 1924	.025		June 1949	.0658	.065
March 1925	.03		June 1953	.0658	.065
June 1929	.04		June 1957	.0758	.065
February 1931	.05		December 1957	.0658	.065
December 1931	.04		April 1984	.09	.09
April 1939	.04	\$.04	July 1985	.10	.10
July 1939	.0408	.04	May 1987	.16	.13
June 1941	.0558	.055	July 1990	.17	.14
April 1945	.0758	.055			

In 1996, the Legislature revised the motor fuel tax code in response to a U.S. Supreme Court ruling that affected the state's ability to tax sales made in Indian country. Although the tax rate was not changed, the point of taxation was moved "upstream" to the terminal rack. Also, provisions were made for apportionment of some motor fuel tax revenue to Indian tribes that enter into agreements with the state on fuel tax issues.

Revenues from Fuel Taxes

Oklahoma state and local governments received approximately \$377 million in motor fuel tax revenues in FY'08. Among the 50 states, Oklahoma ranked 37th in per capita state revenue collections in 2005. The average Oklahoman pays about the same amount annually in motor fuel taxes as the average American citizen.

Montana is the highest with \$205 collected per capita. New York is the lowest with \$28 collected per capita. Sparsely populated and Western states tend to have higher per capita motor fuel tax payments.

Motor Fuel Tax 2008 Rates, Revenues and Rankings

State	Gasoline Tax Rate	Per Capita Revenue	Ranking
Arizona	18.0¢	\$119	34
Arkansas	21.5¢	\$157	8
Colorado	22.0¢	\$126	30
Kansas	24.0¢	\$155	9
Louisiana	20.0¢	\$134	23
Missouri	17.55¢	\$128	26
Nebraska	23.9¢	\$174	4
New Mexico	18.9¢	\$116	38
Oklahoma	17.0¢	\$117	37
Texas	20.0¢	\$128	26
U.S. Median	21.0¢	\$117	

Source: Ibid, pp. 329 and 2008 web page of Federation of Tax Administrators (www.taxadmin.org).

Gasoline Tax

The 17¢ per gallon gasoline tax is a combination of: (1) a 16¢ per gallon excise tax levied on every gallon of gasoline that is either sold, stored and distributed, or withdrawn from storage in Oklahoma; and (2) a 1¢ per gallon assessment which is separately levied and apportioned.

The 1¢ is apportioned to the Petroleum Storage Tank Release Environmental Cleanup Indemnity Fund for cleaning up leaking underground storage tanks or to the State Transportation Fund.

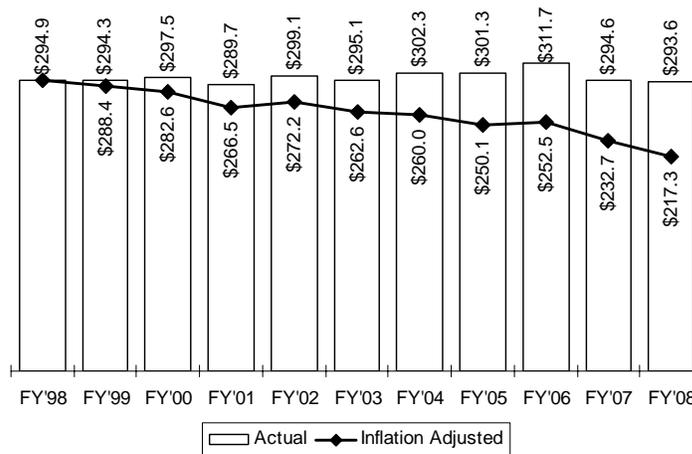
The other 16¢ of gasoline tax revenue is distributed as follows:

63.75%	to the State Transportation Fund;*
27.0%	to the counties for county roads and highways;
3.125%	to the counties for construction, maintenance and repair of county roads as provided in the County Bridge and Road Improvement Act;
2.625%	to the County Bridge and Road Improvement Fund for construction, maintenance and repair of county roads and bridges;
1.875%	to cities and towns for maintenance of streets; and
1.625%	to the High Priority State Bridge Revolving Fund.

* In addition, the first \$250,000 collected each month goes to the credit of the State Transportation Fund prior to apportionment.

Gasoline tax exemptions are allowed for the federal government, political subdivisions of the state, school districts, FFA or 4-H.

Gasoline Tax Revenue (16 cents)
FY'98 Through FY'08 (In Millions)



Source: Oklahoma Tax Commission and U.S. Bureau of Labor Statistics Inflation Calculator

Gasoline Tax Comparison With Other States

National Ranking: 37 of 50 (revenues per capita)
 45 of 50 (gas tax rate)

Diesel Fuel Tax

The 14¢ per gallon diesel fuel tax is a combination of: (1) a 13¢ per gallon excise tax levied on every gallon of diesel fuel that is either sold, stored and distributed, or withdrawn from storage in Oklahoma; and (2) a 1¢ per gallon assessment which is separately levied and apportioned.

The 1¢ assessment is apportioned to the Petroleum Storage Tank Release Environmental Cleanup Indemnity Fund for cleaning up leaking underground storage tanks or to the State Transportation Fund.

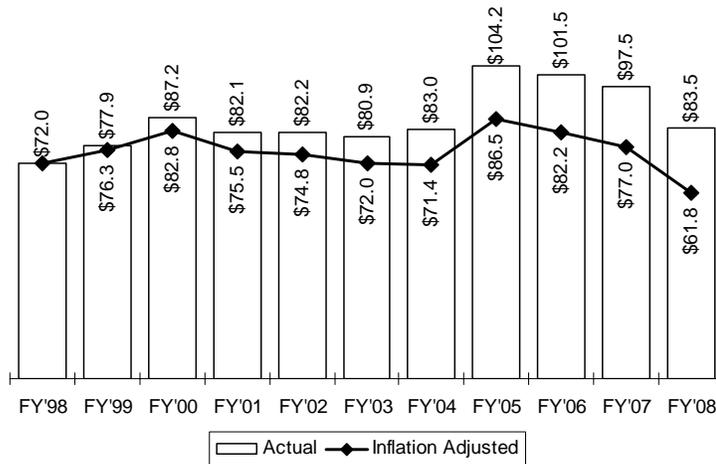
The remaining 13¢ of diesel fuel tax revenue is distributed as follows:

- 64.34% to the State Transportation Fund;
- 26.58% to counties for county roads and highways;
- 3.85% to the counties for construction, maintenance and repair of county roads as provided for in the County Bridge and Road Improvement Act;

- 3.84% to the County Bridge and Road Improvement Fund for construction, maintenance and repair of county roads and bridges; and
- 1.39% to the High Priority State Bridge Revolving Fund.

Diesel tax exemptions are allowed for the federal government, political subdivisions of the state, school districts, limited agriculture uses, FFA or 4-H.

Diesel Fuel Tax Revenue
FY'98 Through FY'08 (In Millions)



Source: Oklahoma Tax Commission and U.S. Bureau of Labor Statistics Inflation Calculator

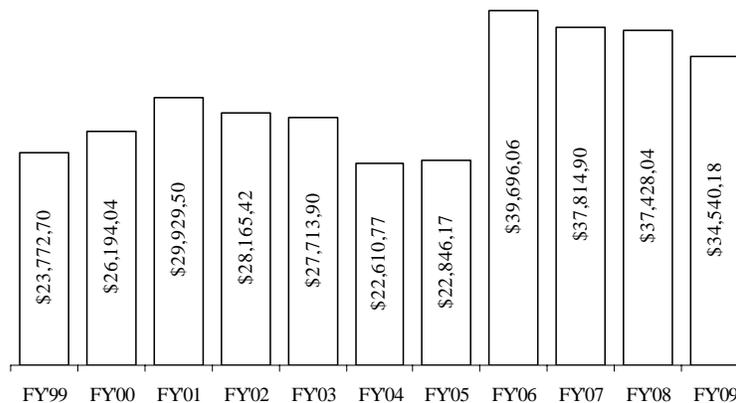


AGRICULTURE

Although it is sometimes perceived as strictly a rural concern, agricultural production touches every legislative district. As a product of its geography and topography, Oklahoma maintains a diverse agricultural sector: from the heavily irrigated southwest section mostly devoted to cotton, wheat, and cattle, to the semi-arid high plains of the Panhandle with its heavy concentration of cattle feedlots and large-scale hog farms. The central section of the state is dominated by wheat and dairy farming, as well as diversified crops such as peanuts, pecans and hay. The wetter eastern region adds timber and poultry operations to the state's agricultural sector.

Oklahoma ranks fourth in the U.S. in the production of winter wheat, fifth in cattle and calf production, fifth in pecans, seventh in peanuts, eighth in hog production, and tenth in poultry production..

Department of Agriculture
Appropriations Budget History
FY'99 Through FY'09



* During FY'06, Oklahoma suffered an extreme drought which caused large wildfires throughout the state. Most of the burden of fighting those fires was put on rural fire departments which are mostly funded by the Oklahoma Department of Agriculture, Food, and Forestry (ODAFF). ODAFF is also responsible for coordinating resources statewide in order to fight widespread wildfires by setting up, staffing, and managing an Incident Command Post. The high appropriation amount to the agency during FY'06 was due to one-time supplementals to cover costs associated with the wildfires and to increase funding to rural fire departments, almost doubling their yearly operational grants.

For all of the diversity and agricultural bounty in the state, the agricultural economic sector is in transition. Drastic price fluctuations and the structure of agricultural production have changed the face of Oklahoma's farming economy. Agriculture comprises 1.58 percent of Oklahoma's Gross State Product.

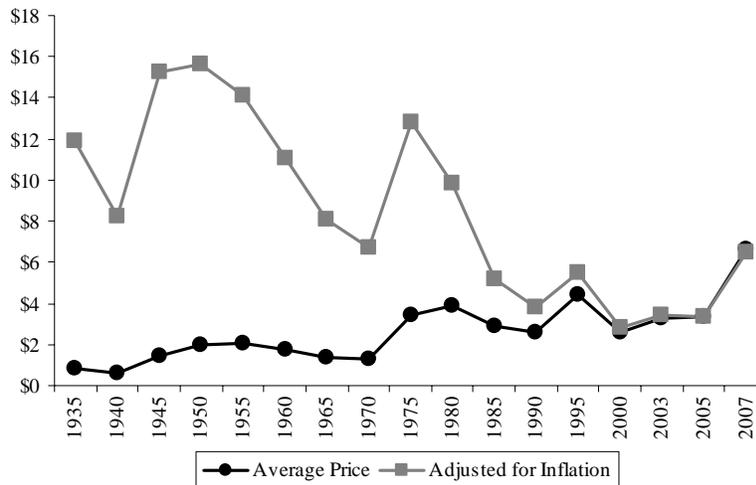
AGRICULTURAL PRICES

A review of agricultural prices provides some historical trends for Oklahoma's major agricultural commodities.

Wheat

The price of wheat has generally seen an upward trend since the Great Depression; however, adjusted for inflation, there has been a dramatic decrease in the real value of wheat during the same period. Of all Oklahoma commodities, wheat has fared the worst in terms of economic retention of value; however, price jumps in the past couple of years have helped rebuild value.

Average Annual Price of Wheat
1935 Through 2007 (Dollars per Bushel)



Source: Oklahoma Agricultural Statistics Service

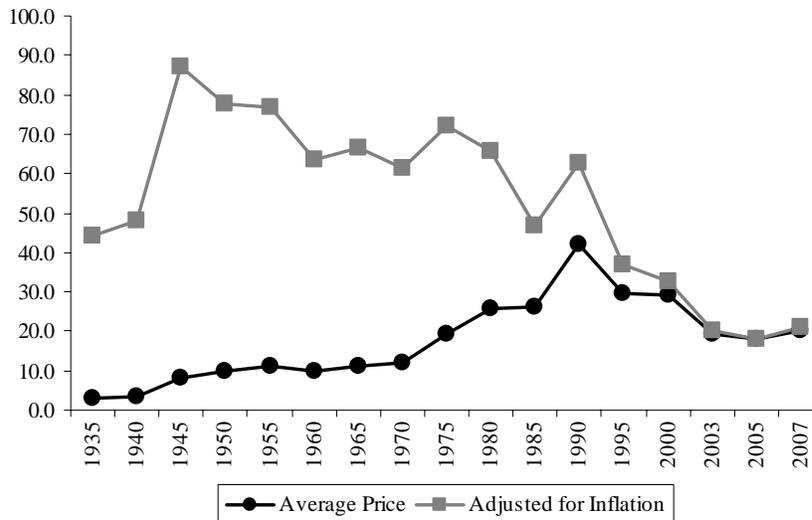
Although the price of wheat has increased from \$1.45 per bushel in 1945 to \$6.65 per bushel in 2007 (a 359 percent increase in actual price), adjusted for inflation, the value of wheat per bushel has actually declined 60 percent.

Peanuts

The price of peanuts has generally seen an upward trend since the Great Depression. However, adjusted for inflation, there has been a significant decrease in the real value of peanuts during the same period.

The price of peanuts has increased from 8.3 cents per pound in 1945 to 20 cents per pound in 2007 (a 141 percent increase in actual price). Adjusted for inflation, however, the value of peanuts per pound has declined. The price of peanuts in 2005 was lower than it was 10 years ago (about 27 percent lower in actual dollars and about 37 percent lower adjusted for inflation).

Average Price of Peanuts
1935 Through 2007 (Cents per Pound)



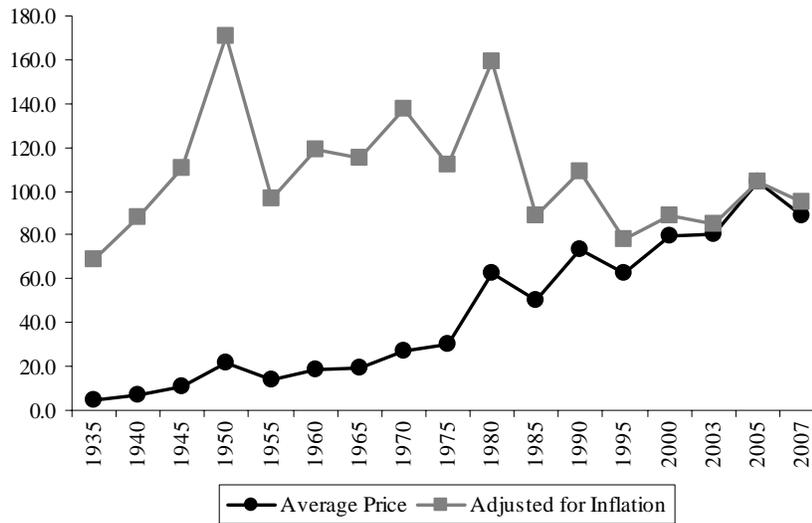
Source: Oklahoma Agricultural Statistics Service

Cattle

The price of cattle has generally seen an upward trend since the Great Depression. Adjusted for inflation, there has also been an increase in the real value of cattle during the same period.

Cattle is one of the few commodities in Oklahoma that has retained its value since the Great Depression. In 2007, the average price received for cattle was \$89 dollars per hundred weight.

Average Price Received for Cattle
 1935 Through 2007 (Dollars per Hundred Weight)



Source: Oklahoma Agricultural Statistics Service

RURAL OKLAHOMA

U.S. Census data confirms that fewer Oklahomans are living in rural communities than ever before. The dominant occupation for rural Oklahomans continues to be related to agriculture. However, the data suggests that only one-half of Oklahoma farmers can afford to work full-time on their farms. The other half of Oklahoma farmers seek additional work throughout the year to supplement their income. Finally, the census data suggests that more rural Oklahomans are leaving their farms and moving to larger cities and towns. This trend is particularly high among the 18-35 age group.

Age of Farmers

The average age of farmers has been rising. According to the 2002 Census of Agriculture, the average age of farm operators in Oklahoma was 56 years of age. Twenty-eight years ago, the average age for the Oklahoma farmer was 51. Fewer Oklahomans under 35 years of age are choosing to engage in agricultural activities – a 50 percent decrease over the past 20 years.

Farming as an Occupation

Only 55 percent of Oklahoma’s farmers consider farming their principal occupation. Forty-four percent of the total number of farmers work 200 days or more per year off the farm in other jobs.

The average farmer needs about \$250,000 in loans per year to meet expenses. The average net income of an Oklahoma farmer in 2002 was \$8,220. Because commercial banks no longer can afford to loan money to farmers at low interest rates, the United States Department of Agriculture, Farm Service Agency (USDA FSA) has become the lender of last resort. According to FSA there were 1,085 loans worth \$134 million made to Oklahoma farmers and ranchers during FY'07. Oklahoma's total loan liability exceeds \$808 million.

LEGISLATIVE INITIATIVES RELATING TO AGRICULTURE

The Legislature addresses agricultural issues mainly through the Oklahoma Department of Agriculture, Food, and Forestry (ODAFF) and the Oklahoma Conservation Commission. Recent legislative spending initiatives include:

- programs that assist farmers in developing best management practices;
- rural fire suppression expansions to save farm structures and land;
- international marketing efforts that assist foreign sales of Oklahoma commodities and products;
- agricultural diversification and a value-added program that allocates grants and loans to individuals, cooperatives, and other agricultural groups;
- efforts to create a safe, competitive environment for producers in agriculture;
- working with the USDA and United States Environmental Protection Agency to encourage sustainable growth;
- programs that educate minority youth about possible careers in the field of agriculture;
- the Farm-to-School Program that links Oklahoma agricultural producers to Oklahoma school cafeterias;
- bonds and lease agreements in order to build a new agriculture laboratory and replace aging or outdated equipment; and
- an AgriTourism program to support agricultural businesses who also contribute to tourism.