

# Fixing Municipal Finance in Oklahoma: A Call for Reform



**PRESENTATION TO THE NORMAN LEAGUE  
OF WOMEN VOTERS  
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# A little background



- **State of Oklahoma**
  - Population 3.6 million
  - Approximately 175 departments, agencies, commissions, authorities, or other related entities
- **Oklahoma Local Governments**
  - Approximately 1,880 local governmental entities
  - Counties – 77
  - Cities and towns – 585
  - School districts – 567
  - Other special districts and trust authorities - 651

# The Importance of Cities and Towns



## Engines of the Economy

- 77% of all Oklahomans live in municipalities
- 91% of STATE sales tax is generated from sales within municipalities
- 80% of Oklahoma citizens & businesses receive water from municipal sources
- 54% of miles driven in Oklahoma are driven on municipal streets
- Virtually all commerce, government, education & healthcare occur inside a city.

Bottom-line: A healthy economy is not possible without healthy cities.

# What is the fundamental problem?

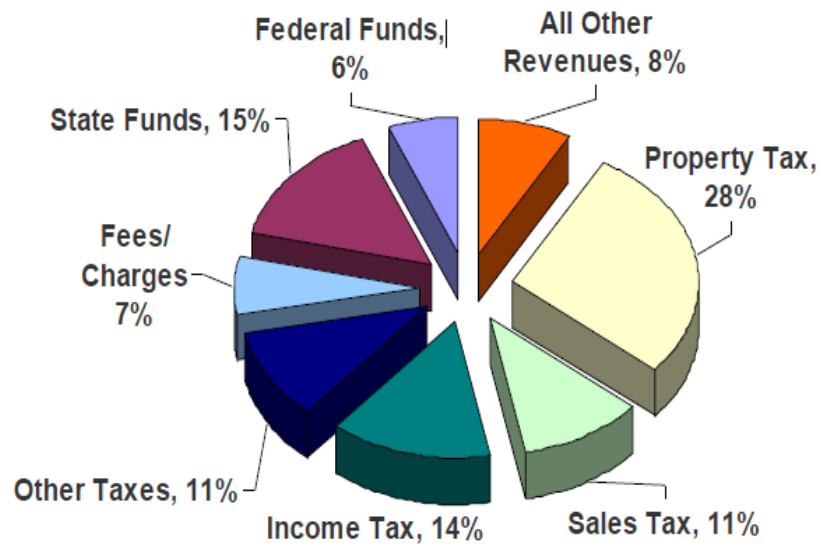


## Major Sources of Operating Revenue

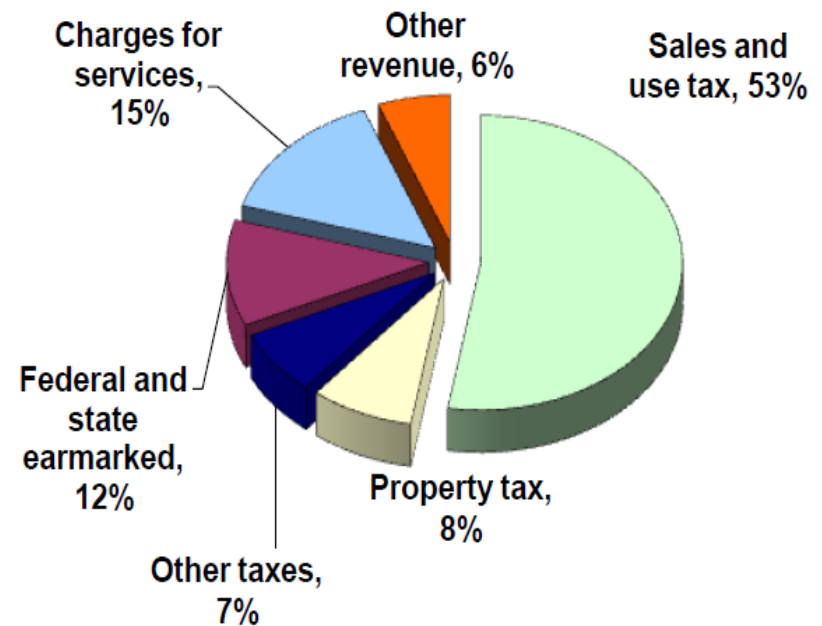
<b>STATE - 5</b>	<b>COUNTY - 3</b>
<b>Income Tax</b>	<b>Ad Valorem</b>
<b>Sales Taxes</b>	<b>State Apportionment</b>
<b>Gross Production Taxes</b>	<b>Sales Tax</b>
<b>Motor Vehicle Taxes</b>	
<b>Misc. Taxes</b>	
<b>SCHOOL DISTRICT - 3</b>	<b>MUNICIPALITY - 1</b>
<b>Ad Valorem</b>	<b>Sales Tax</b>
<b>State Appropriation</b>	
<b>Federal Appropriation</b>	

# Comparison of U.S. to Oklahoma

## *US Municipal Revenue Sources*



## *Okla. Municipal Revenue Sources*

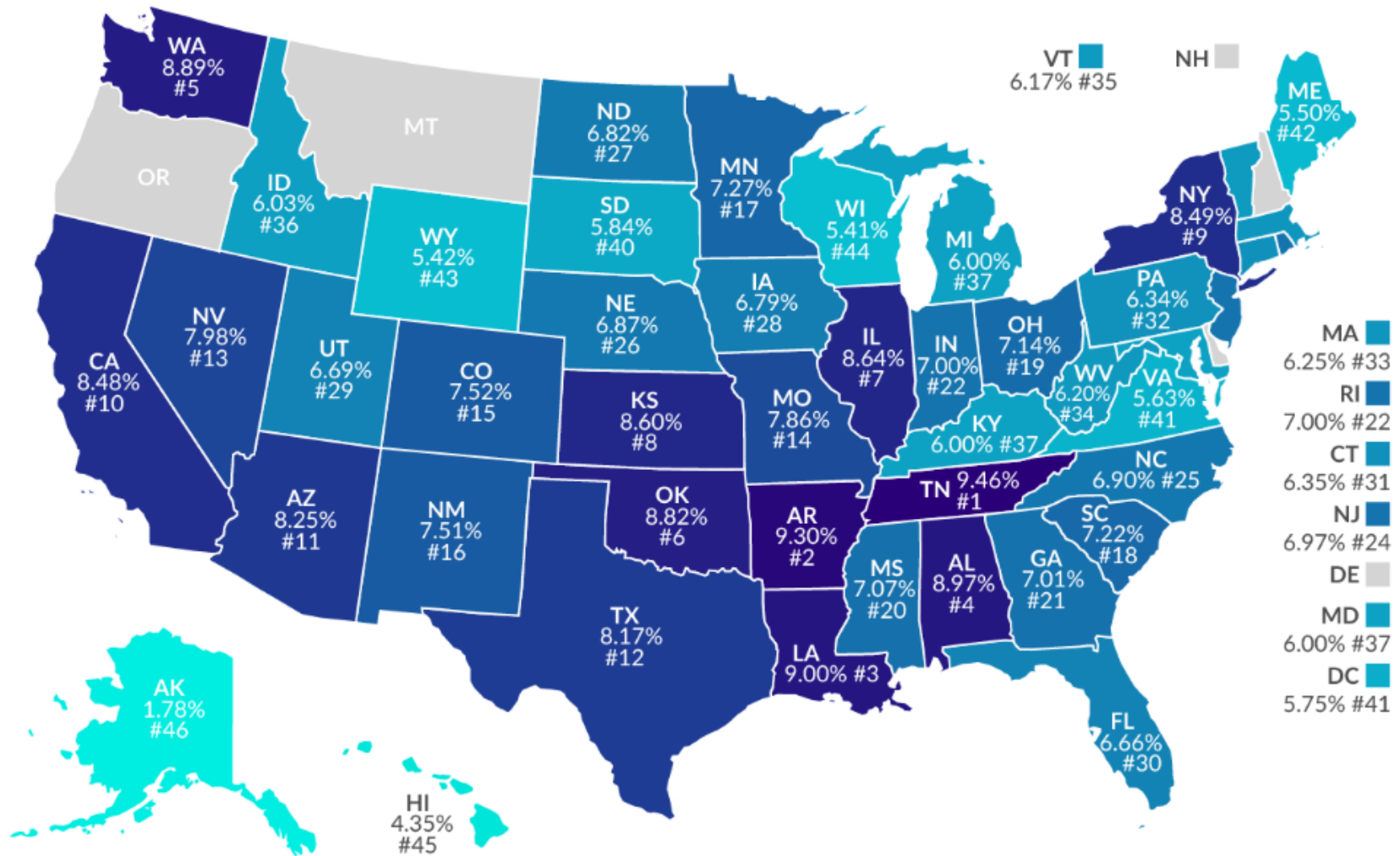


Only Oklahoma cities are solely dependent on sales tax for operations.



# How High Are Sales Taxes in Your State?

Combined State & Average Local Sales Tax Rates, 2016



Source: Tax Foundation

# Tax System and Policy Consequences



## Tax Considerations

- The sales tax is regressive, requiring lower income persons to pay a higher percentage of their income.
- As a revenue source, the sales tax is volatile and not stable, like property taxes.
- Shifts in the economy from goods to services have left a decreasing share of sales in Oklahoma subject to the sales tax – just 35.7 % in 2003 vs. 52.0% in 1990
- The state legislature has granted tax exemptions over time, from 6 in 1980 to 143 in 2010.

## Economic development

- Sales tax dependence distorts economic development efforts.
- Municipalities pursue retail growth over quality jobs and rooftops.
- Pursuit of retail sales provides little benefit for the state as a whole, unlike pursuit of manufacturing and industrial development.
- New retail often merely shifts revenue from one retailer to another within the same locality and pits municipalities against one another, undermining regionalism and collaborative efforts.



# Other Concerns with Sales Tax



- Emergence and growth of Tribal Commerce in our state has resulted in further leakage in sales thru vending machines (pay State permit in lieu of sales tax).
- Consumer switch to Internet sales is resulting in significant loss of sales tax.
  - The estimate of U.S. retail e-commerce sales for the second quarter of 2016 alone was \$97.3 billion, growing at a pace of 15% a year. E-commerce sales in the period accounted for 8.1 percent of total sales.
  - Sales tax loss to Oklahoma state and local governments projected to be \$106 million annually by 2010 and \$125 million by 2011
  - According to a study by Civic Economics, Oklahoma ranked No. 5 in the country in “sales tax loss.”
  - Forrester Research predicted early on that online sales for November and December 2016 would be more than \$110 billion, a 13% rise over 2015. The five-day period between Thanksgiving and CyberMonday was actually up 15%.

# Taxing by other Jurisdictions



- From inception in 1930's until the oil bust in 1982, the State sales tax rate remained at only 2.0 %
  - Increased multiple times in 1980's, now at 4.5 %
  - Counties began accessing sales tax in 1983. Legally, counties can levy as much as 2 %, and statewide, averages 1.25 cents
  - Even schools have begun to gain access to the sales tax, in partnership with municipalities (e.g. Oklahoma City Maps 3, Lawton, Pottawatomie County).
- **Result: cumulative sales tax rates are approaching (and exceeding) 10.0% - among the highest in the nation.**

# Norman's Budget Assets & Challenges



## Assets

- A rainy day fund that is fully funded.
- Highly professional budget, finance and management staff.
- A cautious approach by City Council to economic development incentives.
- An economy that is diversified and, because of the university, somewhat insulated from economic fluctuations.

## Challenges

- The charter provision requiring a citizen vote on utility rates.
- A lean but aging workforce which means higher health care costs and workers compensation risks.
- Many unmet service demands which are popular with the public but not feasible within revenues.

# Where do we go from here?



## Help from the State? No

- State Tax Apportionments for Streets and Transportation Purposes
  - Counties \$325 million statewide
  - Municipalities only \$24 million statewide
- In one typical municipality, annual allocation of state tax apportionments is \$16,000, while cost to just light the streets is \$45,000.

## Budget balancing jujitsu?

- Utility customers are funding general government activities because policymakers rob utilities of enterprise revenue.
  - Systems go without needed maintenance.
  - Threat of fines: 218 or 37% of Oklahoma municipalities' water treatment facilities are under DEQ Consent Order; and another 216 or 37% are under DEQ Notice of Violation.
  - EPA estimates \$5.4 billion to bring municipal water and sewer up to standard statewide.
- Higher utility rates for customers

# Solutions?



- First do no harm at the State Legislature.
- Implement the recommendations of the Oklahoma Municipal League's Municipal Liaison Board to the Oklahoma Tax Commission.
- Beef up Oklahoma Tax Commission for sales and use tax compliance.
- Support legislation allowing municipalities to diversify their sources of revenue to fund essential governmental services. – Tulsa Regional One Voice Agenda and Oklahoma Academy for State Goals.
- Advocate for congressional action to end the exclusion of internet sales tax collections by states and localities.

# More Solutions



- **Expand the base on which sales tax is collected and thereby allow for rates to be reduced:**
  - Services, e.g. dry cleaning, pet grooming, legal services, etc.
- **Stop the reduction in state income tax rates.**
  - The income tax is the most efficiently collected and progressive of any of the general revenue taxes (i.e. income, property or sales taxes).
- **End credits and exemptions which erode the fairness and the revenue capacity of the sales tax.**
  - Oklahoma has approximately 149 sales tax exemptions which have been granted often in the name of economic development.