

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?

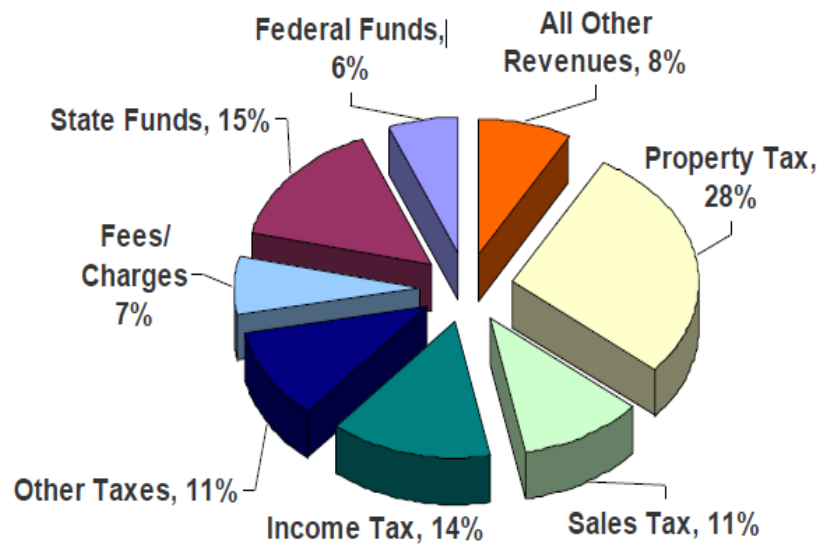


Major Sources of Operating Revenue

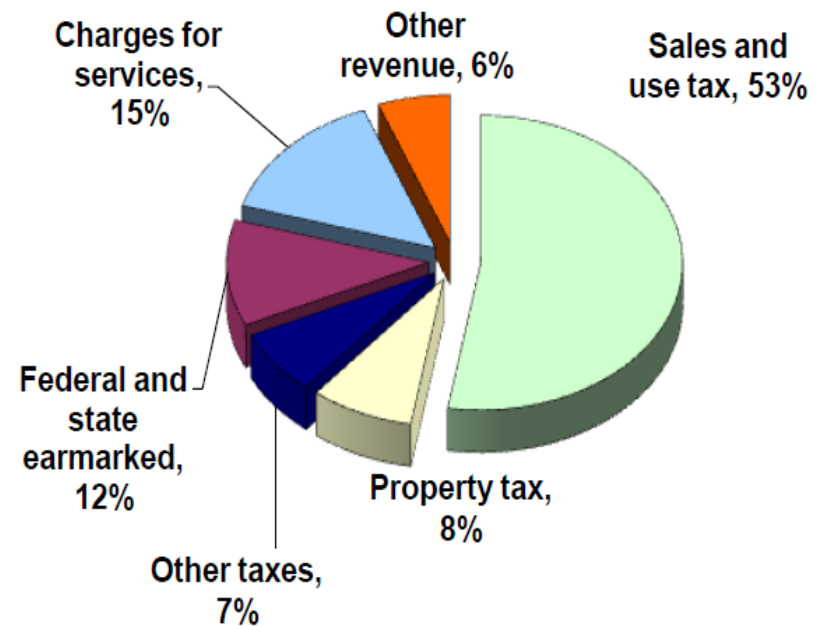
STATE - 5	COUNTY - 3
Income Tax	Ad Valorem
Sales Taxes	State Apportionment
Gross Production Taxes	Sales Tax
Motor Vehicle Taxes	
Misc. Taxes	
SCHOOL DISTRICT - 3	MUNICIPALITY - 1
Ad Valorem	Sales Tax
State Appropriation	
Federal Appropriation	

Comparison of U.S. to Oklahoma

US Municipal Revenue Sources



Okla. Municipal Revenue Sources

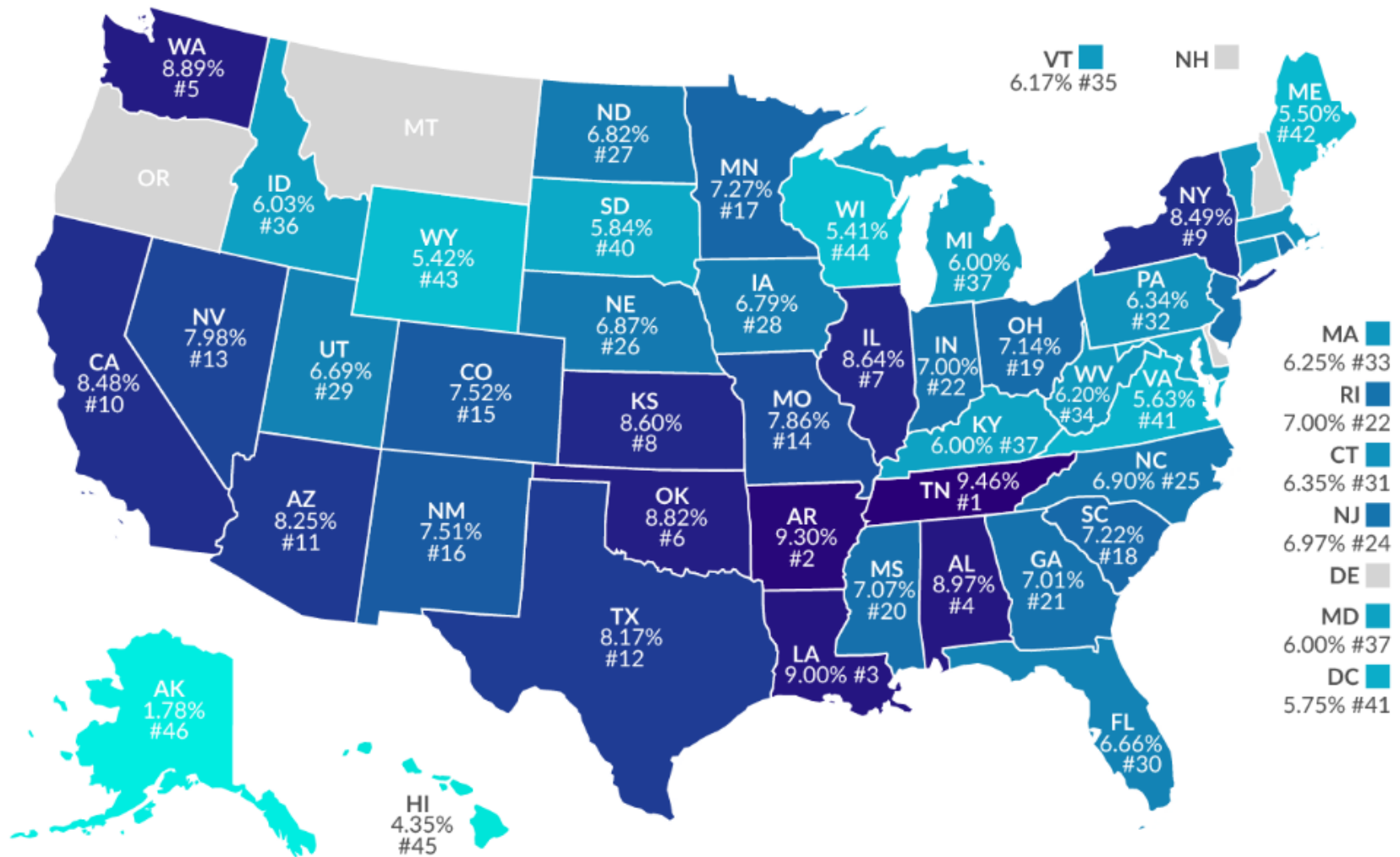


Only Oklahoma cities are solely dependent on sales tax for operations.



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.