

FISCAL POLICY

Support for a sound fiscal policy in Oklahoma

The League of Women Voters of Oklahoma (LWVOK) believes a sound fiscal policy should be based on a budget process that includes both revenue and spending projections and priorities over a multi-year period. Such a budget process will ensure that sufficient revenue will be raised for the projected costs of essential government services and ensure fulfillment of the constitutional requirement for a balanced budget.

The LWVOK supports:

- requiring the Board of Equalization to provide one unified revenue estimate to be used for both executive and legislative budgeting,
- providing more diverse revenue sources for municipalities in the state constitution,
- stabilizing revenue, including:
 - statutory definition of the purposes of the Constitutional Reserve Fund (Rainy Day Fund),
 - setting savings targets in accord with the purpose of the fund and projected tax volatility, and
 - providing flexibility in setting the cap on the percentage of revenues to be deposited in the fund.

The LWVOK opposes any constitutional impediments to raising revenue as needed.

The LWVOK believes:

- Taxes should be progressive and not regressive. The burden of taxation should not fall unnecessarily on those least able to pay.
- Income and property taxes should be the primary sources of revenue with sales taxes, fees and charges playing a lesser role.
- No sales tax should be charged on food or on prescription drugs. If after careful consideration of other options, expanding sales taxes could be applied to more diverse revenue sources.
- Earmarks (dedicated funds) should be regularly reviewed by an impartial state commission with the results publicly reported.
- Corporate income tax should be maintained as an important revenue source. Combined corporate reporting should be mandated to avoid underreporting of Oklahoma revenue by multi-state corporations.
- There should be a regular review of the benefits and impacts of tax credits, exemptions and exclusions to be carried out by the Incentive Evaluation Commission, or similar state commission, working with the State Treasurer to report and make recommendations to the legislature and the public.

- Municipalities should not be limited to using only the revenue from sales taxes to support their activities.
- Core government services should be sufficiently funded in order to fulfill their mission. These services include:
 - public education,
 - public safety including corrections,
 - state courts,
 - public health including mental health,
 - child welfare,
 - transportation and highways,
 - elections, and
 - environmental protection.
- Property taxes on public service properties should be allocated to all school districts on an equitable basis, using a formula such as Average Daily Membership (ADM).
- There should be statewide distribution of gross production tax revenue with a requirement that the percentage dedicated to common schools be regularly evaluated.

As stated in the 1989 Fiscal Policy Study:

The LWVOK believes trusts and authorities should be more accountable.

The LWVOK also believes there should be a comprehensive study of the collection, allocation and administration of state revenues by a qualified, impartial committee financed by the state.

Property Tax Assessment Procedures: The LWVOK believes in the need for reforms in assessment procedures including support of appointment of county assessors and of measures that would bring about equalization of tax assessments among and within counties. County assessors should:

- have professional qualifications,
- be appointed by a board composed of a combination of local and county officials from a list certified by a state agency,
- be required to take training provided by the state, and
- follow prescribed uniform statewide assessment procedures.

The LWVOK believes the Oklahoma Tax Commission should have the authority to enforce the above assessment procedures and should conduct sales/ratio studies and make the information public. The LWVOK recommends periodic re-evaluation either on a statewide or county basis, with provisions to keep appraisals at current market value.

Property Tax Exemption Reform: The LWVOK believes that all tax-exempt property should be evaluated regularly and the results should be made public record. The LWVOK favors exemptions on real property that afford relief to low-income families. The LWVOK believes that all tax exemptions on industrial trusts should be for a shorter period of time and should not be renewable. The LWVOK believes tax exemptions for charitable, religious, and educational institutions should apply only to property used for such purposes. Any other property owned by such institutions should not be tax exempt. The LWVOK favors abolishing the personal property tax on household goods; however, as long as the tax is in effect, all household property, including that of renters, should be taxed.

Consensus approved 2017

BACKGROUND

LWVOK members began a study of Oklahoma fiscal policy in 1959 when it was adopted by Convention delegates. The 1960 study centered around the principles of taxation and an analysis of Oklahoma's tax structure as related to a good, basic tax structure. The practice of earmarking funds received particular attention. During 1961 and 1962, emphasis was placed on the study of assessment procedures and equalization of ad valorem taxes among counties. In 1963 and 1965, the LWVOK successfully supported legislation giving cities additional taxing powers. The 1968 booklet, *Understanding State Finance*, was published to update members.

A study of funding for common schools in Oklahoma reemphasized the effect of inequities in the administration of ad valorem taxes. In 1972, the LWVOK hired an attorney to test the Oklahoma procedure that causes variation in assessment percentages within and among counties. The suit was never filed because of the impact of the March 1973 U.S. Supreme Court decision in the *Rodriguez vs. San Antonio Independent School District* case. The court ruled that, although property tax systems need reform, education is not among the rights guaranteed by the U.S. Constitution and reform is up to the state lawmakers.

In 1973, the LWVOK Convention delegates adopted "A Comparative Study of Ad Valorem Tax Systems" as the study item so that the LWVOK would be able to evaluate proposed changes. In March 1974, the LWVOK cosponsored a statewide workshop, "The Property Tax—Success or Failure in Paying for Education?" The booklet, *Ad Valorem Tax: Real or Unreal*, was published. The study examined practices and procedures for correcting inequities in the administration of property tax.

In April 1975, the State Supreme Court ruled that the State Board of Equalization must fulfill its constitutional duties and equalize ad valorem taxes across the state. A special assessment ratio study was made which established three categories for each county: agricultural, residential, and commercial/industrial property. Also, a 1981 Attorney General's opinion prohibited the Oklahoma Tax Commission from measuring

equalization through use of a composite ratio. In June 1981, 62 counties were in violation of property tax standards mandated by the Oklahoma Supreme Court.

Another area of LWVOK concern has been the erosion of the property tax base due to the exemption of many properties from the tax rolls. The Attorney General ruled in 1979 that a tax exemption cannot be granted a public trust unless permission for such exemption (charitable, religious, etc.) can be found within the framework of the Oklahoma Constitution. Tax exemptions other than for governmental entities are to be decided on a case-by-case basis. The opinion also held that the option to make payments of "sum in lieu of ad valorem taxes" is void. The opinion was upheld by the Oklahoma Supreme Court.

Although LWVOK has many positions relating to ad valorem taxes, it had been unable to act on various other "tax reform" measures considered by the legislature. Delegates to the 1979 and 1981 conventions adopted a study of the state tax structure that examined sources and allocation of revenue.

Through 1987, 1988, and 1989 ad valorem legislation continued to be closely monitored by the LWVOK. In order to be more effective, the LWVOK joined the Fair Ad Valorem Is Reform (FAIR) coalition as a means of having additional impact and influence. In 1988, major legislation was passed through a bipartisan effort for comprehensive changes in how the state assesses and taxes property. A part of that effort included a proposed constitutional amendment (SQ 614) to assess all property at 100% of its fair market value. A special election date was set but later rescinded by the legislature. The legislature again addressed ad valorem reform during the 1989 session and made a major commitment to the reform measures passed in 1988 by appropriating funds to begin implementing the new legislation.

The LWVOK position on Oklahoma's Fiscal Policy adopted in 1989 reflected the concerns with ad valorem taxes. The position emphasized the need for county assessors to be appointed and trained. The need for uniform procedures across the state was also emphasized. The position placed the responsibility for overseeing and reporting assessments with the Oklahoma Tax Commission.

In 1990, a LWVOK-supported amendment passed which allows municipalities to borrow money to purchase, construct, or improve public utilities without levying an additional tax. Also approved was an amendment allowing the legislature to permit cities and counties to grant tax exemptions and other tax relief for certain areas that are in economic decline. State Question 634 was supported by the LWVOK but defeated at the polls in 1990. It would have established a Common School Fund which would receive monies from gross production taxes, a portion of the vehicle license fees, and ad valorem taxes on public service, commercial/industrial and real property valued above \$500,000.

In 1992, the LWVOK opposed SQ 640 that would require that all revenue increases be approved by three-fourths of both houses of the legislature or a vote of the people. The

LWVOK believed that this violated the basic principle of representative government. Unfortunately, the amendment passed.

From 2004 through 2007 the legislature passed several bills that reduced Oklahoma's top income tax rate from 6.65% to 5.25%. Later, in 2014, the legislature reduced the top tax rate to 5.00% with possible further reductions to take place in the future because of a trigger mechanism based on revenue projections and estimates.

The impact of these tax cuts was reflected in the declining resources available to all state agencies. Corrections, Human Services and Education felt these reductions most deeply. The 2017 budget (\$6.8 billion) is significantly less than the 2007 budget (\$7.9 billion) even when the figures are adjusted for inflation. This loss of resources becomes more serious when one considers that over this 10-year period more individuals were being served and services were more expensive.

After years of forcing state agencies to economize to the point of eliminating core services, there is a growing realization that Oklahoma has a revenue problem. Unfortunately, the limitations placed on the Legislature as a result of SQ 640 and the language it added to the constitution have made it difficult to increase revenue. Instead of looking at increases in income and gross production tax rates, the two areas where increases would actually solve the budget crisis, the legislature has resorted to short-term measures that only prolong the problem.

In 2018, a strike by Oklahoma teachers forced the legislature to take actions that many had deemed impossible: both the House and the Senate voted, by more than a two-thirds margin, to increase funding to education. Although the decision to increase teachers' pay did not make up for years of ignoring the needs of education at all levels in Oklahoma, it proved that the legislature could rise to the occasion when forced to do so. An increase in gross production taxes provided some of the necessary funding for the improvement in education funding. No increase in income taxes has been suggested as a way to address the many under-funded areas in Oklahoma.

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