Oklahoma has many good options to resolve the teacher walkout

by David Blatt | March 14th, 2018 | Posted in Education, Taxes | Comments (0)

The Oklahoma Education Association last week called on the Legislature to support an ambitious proposal to increase funding for public education and state services. The association, which represents nearly 40,000 teachers and school employees across the state, warned that "If the Legislature cannot fund education and core state services by the legal deadline of April 1, we are prepared to close schools and stay at the Capitol until it gets done." The Oklahoma Public Employees Association, which is the largest group representing state employees, has announced that their members would join the teachers' walkout on April 2nd unless lawmakers pass a significant state employee pay raise.

Oklahoma's tax and budget policies have led to the current crisis

The threatened actions by the two associations follow years of budget cuts that have left teachers and state employees severely underpaid and the schools and agencies they work for desperately ill-equipped to do their jobs. To cite just a few examples, Oklahoma teachers have not seen an increase in the minimum salary schedule in a decade and our teachers are now the third-lowest paid in the nation. State funding for school operations is $180 million less than a decade ago, and Oklahoma schools have absorbed by far the deepest cuts in per pupil general state funding in the nation. Most state employees have gone eight to ten years without a raise; during this time, average salaries for state employees have fallen to 24 percent below the competitive labor market. State employee turnover has reached 20.5 percent, which is a nearly 40 percent increase from a decade earlier.

The state's severe and chronic budget shortfalls are closely tied to policies that lawmakers have approved over the past ten to fifteen years to cut taxes and shrink Oklahoma's revenue base. Since the mid-2000s, tax cuts have cost the state an estimated $1.5 billion in recurring revenue, with lost revenue from cuts to the top income tax rate alone costing more than $1 billion a year. Meanwhile, the cost of tax breaks granted to an assortment of businesses and individuals have ballooned by hundreds of millions. Over this period, state and local taxes as a share of personal income have fallen by 24 percent, leaving Oklahoma near the very bottom of all states in taxes collected relative to the state economy.

The OEA plan and how to pay for it

To help address the state's funding crisis, the OEA budget plan includes five components:

- An immediate $6,000 raise for teachers in FY 2019, followed by additional $2,000 raises in FY 2020 and FY 2021;
- An immediate $2,500 raise for school support staff in FY 2019, followed by additional $1,250 raises in FY 2020 and 2021;
- An additional $75 million for the next two years and $50 million in FY 20201 to undo cuts to public school funding;
- An additional $71 million each year for three years to provide raises to state employees;
- An additional $235 million in FY 2019 and $21 million more in FY 2020 to fund health care services.

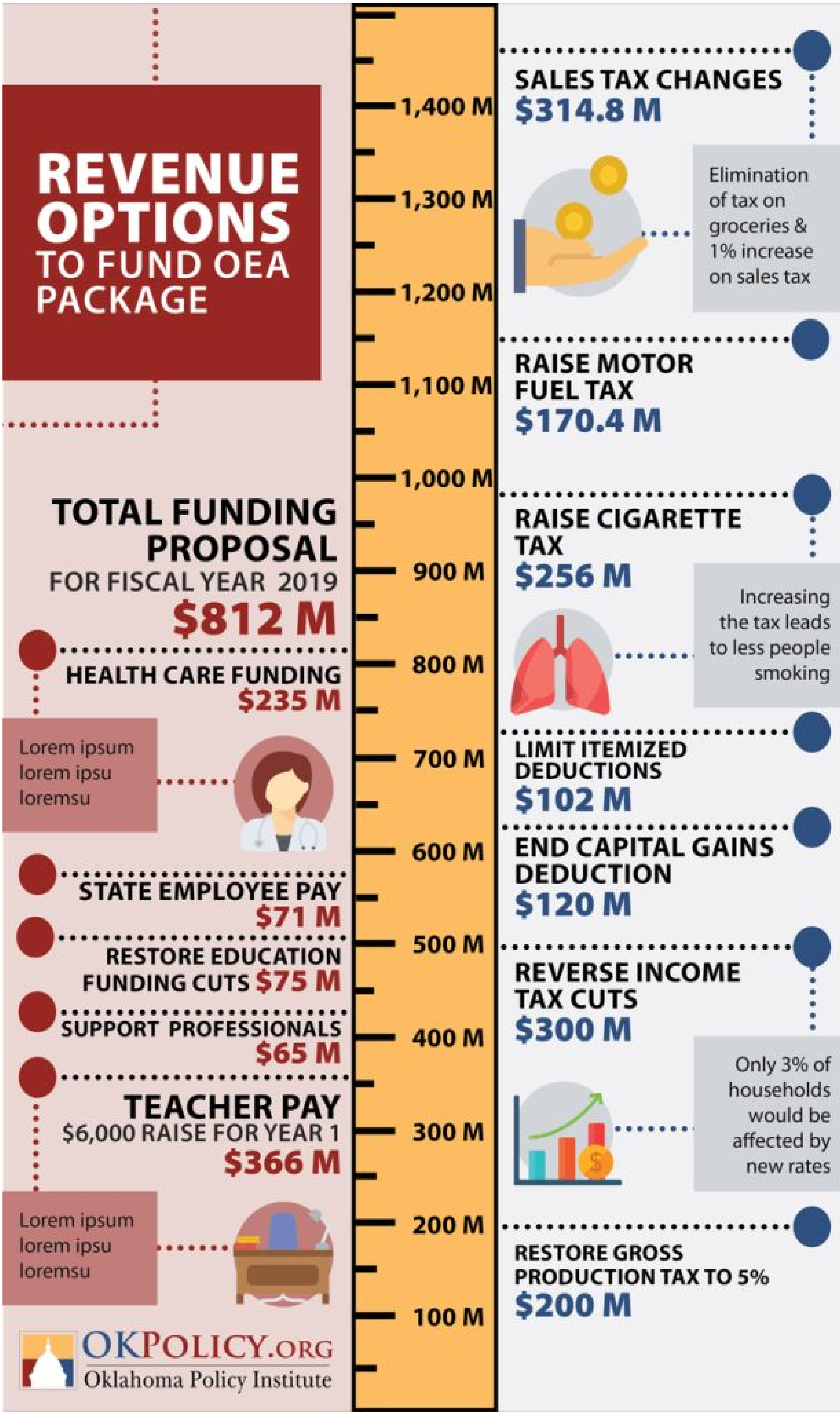
Together, the plan would require $812 million in additional funding in FY 2019 and $1.409 billion by FY 2021.

Paying for OEA's funding package would require substantial new recurring revenue. The association did not endorse a specific set of revenue measures, noting that "the legislature has seen several plans over the last two years that have included dozens of options." Indeed, just in the past fifteen months, comprehensive revenue packages have been proposed by the Save Our State coalition and the Step Up coalition, with additional measures supported by Governor Fallin, the House Democratic caucus, and others. All of these proposals have been rooted in a recognition that the state needs more revenues to pay for the basic services that Oklahomans expect.

The following are among the most substantial revenue measures that lawmakers should consider:

- **Restore the gross production tax**: Oklahoma's reduced 2 percent gross production tax rate for new oil and gas wells is well below taxes in peer energy-producing states. Compared to Oklahoma's traditional 7 percent rate, this tax break is projected to cost the state $333 million in FY 2019. If the initial tax rate was set at 5 percent, it would generate an additional $200 million, while a 4.5 percent rate would generate $166 million;
- **Reverse income tax cuts**: Oklahoma has cut its top income tax rate from 6.65 percent in 2004 to 5.0 percent, which has reduced annual revenues by more than $1 billion. Oklahoma could generate an additional $200 million by restoring a rate of 6 percent on income over $200,000 ($100,000 for single individuals) and 7 percent on income over $400,000 ($200,000 on singles). Only 3 percent of households would be affected by new rates. If the former 5.25 percent bracket was restored along with the preceding high-income surcharge, it could generate $300 million, according to estimates from the Institute for Taxation and Economic Policy.
- **End the capital gains deduction**: Oklahoma allows residents to pay no income tax on capital gains from the sale of investment property or stock of a company located in Oklahoma. In 2014, nearly two-thirds (64 percent) of the benefit went just 824 households with incomes of more than $1 million. Taxing capital gains the same as other income would generate $120 million, according to an Oklahoma Tax Commission fiscal estimate.
- **Limiting itemized deductions**: Less than 30 percent of Oklahoma households itemize deductions on their state tax return, and most of these households are high-income. Capping itemized deductions at $17,000 while excluding charitable contributions from the cap would generate $102 million, according to an Oklahoma Tax Commission fiscal estimate.
- **Raising the cigarette tax**: Increasing the cigarette tax by $1.50-per-package would lead to fewer people smoking and would provide significant funding to support health services. The $257 million in added health care funding that is part of the OEA plan is based on the Tax Commission's revenue estimate for a $1.50-per-package cigarette tax.
- **Raise the motor fuel tax**: Oklahoma has the second lowest fuel taxes in the nation, and our fuel tax has lost nearly half its value to inflation since 1987. Over 40 percent of the revenue from the fuel tax would be paid by out-of-state drivers. A $0.06-per-gallon increase in the tax on gas and diesel would generate $170.4 million, according to the Step Up plan.

In addition, there are many other revenue options that have been proposed as part of the Step Up plan, Save our State plan, and in other discussions. These include taxing little cigars and chewing tobacco ($13 million), gaming modernization ($22 million), taxing services that are routinely taxed by other states ($120 million) or taxing luxury services ($48 million), ending the net operating loss carryback provision ($19 million), eliminating the wind manufacturer sales tax exemption ($20 million), and adopting combined corporate reporting ($71 million). Most recently, Senate Republicans have proposed a 1-cent increase in the sales tax combined with the elimination of the sales tax on groceries, which together could raise some $314.8 million, according to projections by the Institute on Taxation and Economic Policy.


REVENUE OPTIONS
TO FUND OEA PACKAGE
TOTAL FUNDING PROPOSAL
FOR FISCAL YEAR 2019
$812 M
HEALTH CARE FUNDING
$235 M
Lorem ipsum lorem ipsu loremsu
STATE EMPLOYEE PAY
$71 M
RESTORE EDUCATION FUNDING CUTS $75 M
SUPPORT PROFESSIONALS
$65 M
TEACHER PAY
$6,000 RAISE FOR YEAR 1
$366 M
Lorem ipsum lorem ipsu loremsu
OKPOLICY.ORG
Oklahoma Policy Institute
1,400 M
1,300 M
1,200 M
1,100 M
1,000 M
900 M
800 M
700 M
600 M
500 M
400 M
300 M
200 M
100 M
SALES TAX CHANGES
$314.8 M
Elimination of tax on groceries & 1% increase on sales tax
RAISE MOTOR FUEL TAX
$170.4 M
RAISE CIGARETTE TAX
$256 M
Increasing the tax leads to less people smoking
LIMIT ITEMIZED DEDUCTIONS
$102 M
END CAPITAL GAINS DEDUCTION
$120 M
REVERSE INCOME TAX CUTS
$300 M
Only 3% of households would be affected by new rates
RESTORE GROSS PRODUCTION TAX TO 5%
$200 M

Altogether, these revenue increases could generate some $1.9 billion in new recurring revenue, which is substantially more than the cost of the OEA package. Clearly, not all these revenue options can be expected to pass the Legislature, and it will be important to ensure that revenue package does not tilt heavily towards taxes that hit low- and middle-income taxpayers hardest. It's also important to keep in mind that, as long as the economy is doing well, regular growth in revenue collections will cover some or all of the added cost of the three-year funding plan past the first year.

The bottom line

The fact is that the OEA plan can be fully paid for through a balanced and sustainable mix of new, ongoing revenues. Together these options would ask all Oklahoma households and businesses to contribute their fair share with putting too much of the cost on any one group, and they would be a huge step towards solving the crisis Oklahoma faces as a result of years of budget cuts and underfunding.