



# ISSUE BRIEF

## Town Hall Consensus Recommendations and Findings Report



# Oklahoma Priorities:

## The Government & Taxes We Want

THE 2015 OKLAHOMA ACADEMY TOWN HALL  
NCED Conference Center & Hotel, Norman, October 25-28



## **Tips to Take Action**

### **Help the Oklahoma Academy Move Ideas Into Action**

Be sure to check the Oklahoma Academy website for the complete Legislative Tool Kit for Town Hall Participants and Oklahoma Academy Members and our Library for information on all Town Hall Resource Documents, Issues Briefs and Full Reports! The link to the website, Library and Tool Kit is <http://www.okacademy.org/library.html>.

In the Tool Kit, check out the following:

Get to Know the Path of a New Bill – page 4

Take Action with Calls, Letters, Emails to Your Legislators – pages 6 – 7

Know How to Write a Letter to the Editor of Your Newspaper – page 8

Learn More About Legislative Committees and Writing and Presenting Testimony – pages 9 – 10

Tips for a Successful Legislative Meeting – pages 11 – 13

Senate Contact Information – pages 15 – 16

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# INTRODUCTION

## Oklahoma Priorities

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2015 Oklahoma Academy Town Hall Recommendations



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## 2015 Town Hall

We were honored to have been able to Chair the 2015 Oklahoma Academy Town Hall in which participants grappled with the difficult choices our legislators must deal with every year to determine the right balance between taxes and expenditures for the state.

We were gratified by the very diverse group of Oklahomans who committed three days to this task. They had reviewed an excellent resource document that focused on the largest eleven agencies of state government which comprise 91% of state expenditures, as well as information on taxes, best practices and an avalanche of statistics. The discussions were lively and focused. The majority of participants were not from government and they continually put those who were from these agencies to task to examine their value and attempt to judge whether or not they deserved more or less funding.

This was a very challenging Town Hall as the issues of tax and expenditure levels were understood by only a few of the participants before reading the background resource document. Also, we wanted to ensure that any effort by a group to increase taxes to cover their desired spending faced the reality of the difficulty that State Question 640 imposes on that “solution”. In other words, the challenge was to create an environment for the discussions which recognized the realities that the legislature faces every year.

With all that to overcome, we believe that the resulting consensus – and there was clear consensus on most issues – produced a document which can assist legislators in crafting future budgets. The Town Hall process is designed to forge such consensus from a diverse audience and it succeeded admirably in this case.

As you read this Issue Brief, we ask you to keep in mind that these recommendations come from a broad cross section of Oklahomans and they deserve to be heard.

Congratulations to them for a job well done.



Howard G. Barnett, Jr.  
Town Hall Co-Chairman  
President  
OSU—Tulsa



The Honorable Dan Boren  
Town Hall Co-Chairman  
President Corporate Development  
Chickasaw Nation Department of Commerce

## About Town Hall

The Oklahoma Academy defines leadership as the ability to get people moving in a single direction. One of the most effective ways of achieving that goal is utilizing a process like the Town Hall. The Town Hall incorporates all the elements of a successful consensus-driven process by emphasizing collaboration, cooperation, egalitarianism, inclusivity, and participation. Each must be in place to arrive at the destination improving the overall business climate and quality of life for Oklahoma. The Oklahoma Academy’s Town Hall process is successful in implementing recommendations unlike any other because strong group relationships have been developed through the process that results in greater trust amongst the attendees. By “leading” a diverse group of Oklahomans through the Town Hall process, the Oklahoma Academy provides a value-added service unlike any other.



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## CONSENSUS TOWN HALL RECOMMENDATIONS

*Recommendation = Proposal as to the best course of action*

### STATE BUDGET

- In order to increase transparency surrounding the budget development process, the State should increase accessibility to vital budget information to include posting agency budget data, federal matching programs, and potential fiscal impact of proposed and/or pending legislation. Such information should be posted on-line, and made available on a continuous, uniform basis to the public to maximize public accessibility. Furthermore, all legislative deadlines should be followed and should not be open to being waived. (p.15)
- The legislative Appropriations and Budget Committees, and subcommittees, should be fully integrated in the budget-making process, with review and recommendation authority over their specific committee jurisdiction. Furthermore, to promote transparency, accountability, and public feedback, the budget documents should be available to all legislators and the public five legislative days prior to floor vote. (p.17)
- The budgetary process should have a long-term focus, learning from and modeling other states that have already implemented these practices. (p.17)
- The Legislature should alleviate the revenue constraint on counties and municipalities by authorizing county and municipal governments to raise revenue from more diverse sources, including ad valorem, income taxes, and others. The Town Hall understands that this measure would require an amendment to the State's constitution. (p.18).
- The Town Hall supports HB 2182, The Incentive Evaluation Commission, which was created to review incentives every four years to determine their efficiency. As part of this process, the Town Hall recommends that the Legislature needs to carefully review and rescind any and all tax credits and exemptions which are no longer necessary for the economic or social purpose they were original intended. (p.19)
- The Legislature needs to thoroughly review "off-the-top" apportionments and reduce them where appropriate. Further consideration should be given to the on-going capping and/or retiring of certain programs and tax credits, based upon their efficiency and success. (p.20)
- Related to the final budget, the Legislature should ensure that the general public is fully aware of all funding sources and amounts, as well as metrics on performance utilized by all agencies receiving appropriated dollars. (p.20)

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2015 Oklahoma Academy Town Hall **Recommendations**



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## TAXES AND REVENUE

- All tax incentives and rebates should be tied to some measurable metric, from a variety of metrics available such as job creation, revenue growth, infrastructure development, short-and long-term returns on investment, etc. Each tax incentive and rebate should have an identified, specific, and unique purpose or goal, clearly stated. Furthermore, the use of tax incentives and rebates should be very transparent and capped to ensure we know a maximum cost associated, to curb fraud and abuse. (p.23-24)
- All internet-based sales should be taxed accordingly and enforced vigorously. (p.26)
- There is unanimous support for education (Pre-K – 20) and the need for additional funding. However, there is very little support for the sales tax proposal by President David Boren. Instead, the Town Hall recommends Oklahoma should develop a new, dedicated source(s) of revenue for additional funding for education (e.g., statewide ad valorem tax, increased tobacco taxes, repealing of income tax cuts ... all earmarked for education). (No consensus was achieved on the sources(s) of revenue dedicated for education.) (p.27)
- There is substantial support for “comprehensive tax reform,” which would include but not be limited to removing certain sales tax exemptions and income tax credits, broadening the sales tax base, and/or expanding the sales tax base to cover services. (p.27)
- Municipalities must have and be given the ability to access various sources of revenue, including but not limited to, ad valorem funds, sales tax and use fees. Special care should be given to the treatment of agricultural properties in the approval of new ad valorem taxes. (p.28)
- The Legislature should adopt a form of the “Miller Plan” (State Treasurer Ken Miller’s proposal presented in a question to the Town Hall), consisting of annual budgeting and biennial policy sessions. Additionally, the Town Hall supports a more “modernized” tax code, including the need to lower rates and broaden the base, to create a fairer system. (p.31)  
*(Treasurer Miller’s proposal states: Change legislative structure to Annual Budget / Biennial Policy; Modernize the tax code (move to a lower, fairer, and broader tax system); and No tax cuts unless revenue neutral (tax cuts driven by reality, not ideology).*

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## CONSENSUS TOWN HALL FINDINGS HIGHLIGHTED FROM FINAL REPORT

*Finding = Conclusion reached after examination and deliberative discussion*

- The core state government functions are public education, public health, public safety and infrastructure.
- State agency consolidation should occur to avoid duplication, pool resources, and facilitate improved efficiencies.
- Government, by effectively managing its core functions, should create the conditions for robust economic development and job creation. Most believe that economic development and job creation are a result of the core government functions working properly.
- The eleven state agencies reviewed (representing 91% of state appropriations) provide core functions that are vital to the welfare of Oklahoma, however given the scarce and limited resources available to the Legislature, three agencies were identified as being of higher priority. Those three agencies are: the State Department of Education (Pre-K through 12<sup>th</sup> grade), the Oklahoma Department of Mental Health & Substance Abuse Services, and the Oklahoma Department of Transportation. In a world of marginal analysis and prioritization, if we cannot have eleven priorities, where should the state spend its next new dollar? Please note: No disparagement is implied or assigned to the remaining eight agencies.
- The current state budget process is not transparent to the public and the majority of legislators, and lacks stakeholder participation, in particular the tax paying public.
- The State of Oklahoma has both a budget problem (not taking in and spending tax dollars sufficiently to meet core state needs) and a budget process problem (taking in and spending sufficient tax dollars, but misallocating across priorities, over an inadequate planning horizon).
- Cutting taxes, without adequately looking down the road for revenue shortfalls, results in budget and budget process problems.
- State agencies should not become more reliant upon federal matching funds to meet their fundamental needs.
- While the majority of Town Hall Panels felt that the legislature should control a larger portion of state revenues, there was a significant minority of Panels disagreeing.

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- Program and performance-based or performance-informed budgeting should be used as applicable to create effective budgets; Oklahoma should implement performance-informed budgeting, provided that transparency is maintained so there is value in quantitative data.
  - Oklahoma needs to develop a more data-driven budgeting process that trends with inflation, population and socio-economic status.
  - Incentives should be back-loaded (claw-back provisions) to encourage real commitment from businesses receiving those incentives; tax credits should not be transferable to out-of-state entities.
  - Diversification efforts should continue in areas like biosciences, aerospace, information and financial services, defense manufacturing, and tribally-held businesses.
  - Addressing the causes of poverty in Oklahoma will alleviate the need for greater revenue collections, while increasing the quality of life, worker productivity, and growth in our communities.
  - There is unanimous support for education by the Town Hall Panels, and alternatives to increase education funding should be explored now.
  - There is strong consensus that, if the “Boren Proposal” passes, the allocation of general revenue for education should not be adjusted downward.
  - Opposition to the use of sales tax to fund the “Boren Proposal” to fund education is predicated on the sales tax being regressive (impact the low/moderate income families and municipalities), and its unintended result of creating competition between the State and municipalities over an already constrained revenue base.
  - Tax reform should be performed across the board with broad citizen input and a watchful eye on undue influence by special interests.
  - All municipalities should be afforded the opportunity to elicit the support of their respective electorates to access ad valorem taxes for on-going operational purposes necessary to meet those ever-increasing demands.
  - While there was no real consensus on whether or not SQ 640 should be revisited, due to the wide recognition of its impact, there is consensus about the asymmetry of SQ 640 -- allowing the Legislature to reduce taxes with a simple majority but requiring 3/4s vote to raise the same taxes.
  - No new tax cuts should be made unless it is truly revenue neutral as State Treasurer Ken Miller suggests.

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## Oklahoma Priorities

The Government & Taxes We Want

2015 Oklahoma Academy Town Hall Research & Planning Committee



The Oklahoma Academy wishes to acknowledge the members of the Town Hall Planning Committee for their work in compiling and producing the resource document. The resource document is a key component in setting the parameters of focus, in encouraging productive discussion and in the development of reputable recommendations and findings at the Town Hall. This committee was also responsible for identifying and securing speakers and sponsors invested in the 2015 Town Hall focus on Oklahoma’s budget priorities.

### Co-Chairs

Howard G. Barnett, Jr.  
President, OSU– Tulsa

The Honorable Dan Boren  
President, Corporate Development, Dept. of Commerce,  
Chickasaw Nation, Oklahoma City

### Committee Members

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Preston Doerflinger  
Office of Management Enterprise Services

Mickey Hepner  
UCO College of Business

Jonathan Small  
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Greater OKC Chamber

Craig Knutson  
Growing Global, LLC

Mike Neal  
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Jill Geiger  
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Governor of Oklahoma

Preston Doerflinger, Secretary of Finance & Revenue,  
Director of the Office of Management Enterprise Services

Wendy Korthuis-Smith, Ed. D.,  
Director of Results Washington  
Office of the Governor, State of Washington

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The Honorable Ken Miller,  
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The Honorable Earl Sears,  
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Tom Daxon,  
former Director of State Finance, Oklahoma City

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# Town Hall Participants

## Oklahoma Priorities

### The Government & Taxes We Want

#### 2015 Oklahoma Academy Town Hall Participants



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Cobb • **Sidney Sperry**, Oklahoma Association of Electric Cooperatives, Oklahoma City • **Craig Stephenson**, City of Ponca City, Ponca City • **Zack Stoycoff**, Tulsa Regional Chamber, Tulsa • **Shane Stuart**, Oklahoma Electric Cooperative, Norman • **Charlie Swinton**, BancFirst, Oklahoma City • **Elizabeth Szkirpan**, University of Oklahoma, Norman • **Clayton Taylor**, The Taylor Group, Oklahoma City • **Jim Thomas**, City of Claremore, Claremore • **Roger Thompson**, Oklahoma Senate, Okemah • **Chuck Thompson**, Republic Bank and Trust, Norman • **Traci Thorpe**, Pioneer Technology Center, Ponca City • **David Tillotson**, City of Catoosa, Catoosa • **Ross Vanhooser**, Garfield County Republican Chairman, Enid • **David Vanhooser**, INTEGRIS Health, Enid • **Emily Virgin**, Oklahoma House of Representatives, Norman • **Amy Walton**, Gateway to Prevention and Recovery, Shawnee • **Darrell Weaver**, Oklahoma Bureau of Narcotics, Oklahoma City • **Greg Winters**, Candian Valley Tech Center, El Reno • **George Young**, Oklahoma House of Representatives, Oklahoma City • **Waldo Zerger**, Public Service Company of Oklahoma (AEP), Edmond •

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Teresa Meinders Burkett

Michael Lapolla

The Oklahoma Academy wishes to acknowledge the following entities for contributing the time of the very talented individuals serving as Panel Leaders, Panel Recorders, and Report Co-Chairs for the 2015 Town Hall:

St. Gregory's University,  
Shawnee

Growing Global, LLC  
Norman

Crowe & Dunlevy  
Oklahoma City

Oklahoma Municipal League,  
Oklahoma City

Lytle, Soule & Curlee, PC  
Oklahoma City

Woodward Middle School,  
Woodward

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Auto Finance Inc.,  
Oklahoma City

Public Policy Committee of Mental Health  
Association Oklahoma

Foreign Trade Zone #106,  
Oklahoma City

Oklahoma Progress, PLLC  
Oklahoma City



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## OKLAHOMA PRIORITIES ~ THE GOVERNMENT & TAXES WE WANT

### FINDINGS AND RECOMMENDATIONS REPORT

#### Introduction

The Oklahoma Academy focused the 2015 Town Hall conference on a very timely, difficult and critically important topic -- the examination of our state budget, spending priorities, and available tax revenue. To make it even more challenging, the State of Oklahoma faced a \$611 million gap/hole this past year, and will likely face a significantly higher gap/hole in the upcoming year. With regard to revenue, we operate under the restrictions of State Question 640, passed in 1992, which mandates either a vote of the people to increase taxes or a vote of 75% of both houses of the legislature – a political improbability. In the face of strained revenue collections, competitive appropriations, and daunting budget holes, the Town Hall participants have a unique opportunity to contemplate the processes to develop our state budget and to collaborate on possible and plausible solutions for the challenges facing our State.

We need a comprehensive vision for Oklahoma that shapes state revenue and expenditures. This vision will provide the framework for agencies to develop the programming and services that meet the needs of stakeholders. Additionally, the Governor and the Legislature would use this vision to establish and evaluate funding priorities. Over the course of two and a half days, citizens from every corner of Oklahoma, representing a broad cultural, socio-economic, and ideological spectrum, gathered to delve into state budget and tax issues. The focus within the state budget was on the eleven state agencies that receive 91% of the state budget allocations. The eleven agencies are the State Department of Education, State Department of Health, State Department of Mental Health and Substance Abuse Services, Oklahoma Health Care Authority, Oklahoma State Regents for Higher Education, State Department of Career and Technology Education, State Department of Transportation, Department of Corrections, Juvenile Affairs, Department of Public Safety, and the Department of Human Services. Focus on the eleven seemed somewhat manageable, since there are an additional 62 agencies that share the remaining 9% of appropriated dollars.

In the pages that follow, these dedicated Town Hall participants came up with ideas to improve our budgeting process without the constraints of perceived political feasibility. Operating through six discussion panels, each led by a panel facilitator and discussions captured by a panel reporter, all six panels followed the same discussion questions outline. This findings and recommendations report includes the deliberative discussions of the Town Hall participants in answer to the discussion question outline.

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Day 1, Question 1

“Core governing principles” and ultimately the core functions of government have been covered in many articles. What would your definition for “core government functions” be and what specific agencies—existing, modified, or in collaboration with the private or nonprofit sectors—should be responsible for the efficient delivery of those functions? Be specific.

A strong consensus exists that the core government functions are *public education*, *public health*, *public safety*, and *infrastructure*. The four core functions of state government are defined very broadly. *Public education* covers pre-kindergarten through 12<sup>th</sup> grade, career technology education/workforce development, and higher education. *Public safety* includes emergency management, corrections, highway patrol, judiciary, regulatory bodies aimed at safety standards in industries, environmental protections and conservation. *Infrastructure* includes transportation, water, and utilities.

The agencies that should be responsible for *public safety* are: the Department of Corrections, the Department of Public Safety, the District Attorney’s Council, the Bureau of Narcotics, the Judiciary, Juvenile Affairs, and local government (EMS/Emergency Management/Fire Protection, Sheriff, and Police).

The agencies that should be responsible for *public health* are: the Department of Mental Health and Substance Abuse Services, the State Department of Health, the Department of Human Services, and the Oklahoma Health Care Authority.

The agencies that should be responsible for *public education* are: the State Department of Career and Technology Education, the Oklahoma State Regents for Higher Education, and the State Department of Education.

The agencies that should be responsible for *infrastructure* are: the Department of Transportation, the Department of Environmental Quality, the Oklahoma Water Resources Board, the State Office of Energy, the Department of Agriculture, and the Department of Commerce.

A common theme throughout the Town Hall discussions was that Oklahoma should consolidate agencies where logical to avoid duplication, pool resources, and facilitate improved efficiency. For example, the Oklahoma State Bureau of Investigation, the Oklahoma Highway Patrol and the Oklahoma Bureau of Narcotics could be consolidated under a single entity. In areas where consolidation does not make sense, it is suggested that communication be improved among and between the agencies and insist on shared data resources between the agencies to more seamlessly serve the public. Most panels also believe that cooperation between public and private entities would be beneficial.

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There was solid consensus that economic development and job creation are not core government values. Government should create the conditions for economic development and job creation. Most believe that economic development and job creation are a result of the core government functions working properly.

Day 1, Question 2

This past summer, The Oklahoma Academy conducted 19 “listening sessions” across the state in an attempt to have Oklahoma taxpayers answer, among other questions: Is the State, through its current budgeting process, reflecting the desires and needs of its citizens? *A summary handout of the macro results of the Listening Sessions was prepared and distributed to each attendee as a resource piece for this conversation.*

In the Background Resource Document, there were several views of how a state budget should be prepared, including the new approach using priority-driven budgeting introduced by Governor Fallin’s administration. There were also papers describing various views of the core functions of government. What all of these have in common is an emphasis on prioritizing what state government does.

Talking only about the eleven state agencies under focus in this Town Hall (*State Department of Education, Career Technology Education, Higher Education, Department of Health, Department of Mental Health & Substance Abuse Services, Health Care Authority, Department of Public Safety, Department of Human Services, Department of Corrections, Department of Transportation, Office of Juvenile Affairs*):

What agencies would you include in your top three priorities? What criteria would you cite and rationale would you provide to justify their placement?

What agencies would you include in your bottom three priorities? What criteria would you cite and rationale would you provide to justify their placement?

Would you consider the bottom three to not be core functions of our state government? If yes, should their budgets be reduced to increase funding to the top three?

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#### 2015 Oklahoma Academy Town Hall Final Report



Most Town Hall participants found this question to be very difficult. Again, recognizing that we have very limited resources, identifying the agencies as “top three” or “bottom three” does not indicate that those in the bottom are “not as important.” The focus here was, with the scarce and limited resources, what agencies must be considered “priority.” There was a clear consensus that pre-kindergarten through 12<sup>th</sup> grade education would be in the top three agency priorities. Following close behind were the Department of Mental Health and Substance Abuse Services and the Department of Transportation. Other agencies that received mention as being in the top three priorities were Public Health, Public Safety and Corrections. Education is the single most agreed upon priority agency. Reasons mentioned included that Education is the foundation to solve a plethora of other issues. A well-educated populace makes for a healthier, happier and more productive workforce. An educated populace drives economic growth and tends to reduce crime and substance abuse, consequently reducing incarceration. Education and Mental Health are viewed as “investments” in Oklahoma’s future that will pay great dividends. Transportation makes the top three list because it is integral to commerce, and a foundation element for most other functions.

Mental Health is included as a high priority because the problems it seeks to solve are root causes of several of Oklahoma’s problems. Specifically, addressing mental health and substance abuse issues reduces the amount of funds required to address public safety and corrections issues.

The most commonly cited agency to fall into the bottom three agency priorities was Juvenile Affairs. Corrections and Higher Education followed close behind. The other agencies listed in the bottom three were the Department of Transportation, the State Department of Career and Technology Education, the Department of Health, and the Oklahoma Health Care Authority. The rationale for placing Juvenile Affairs in the bottom three list was that their function, while very important, could be incorporated into another existing agency. While higher education made the bottom three priorities list, each panel group that placed higher education on this list made it very clear that it was not because higher education had less importance. The rationale for placing corrections in the bottom three priorities was that less emphasis should be placed on incarceration and more emphasis on education and prevention. Further, it was deliberated that Oklahoma should re-evaluate whether non-violent offenders should be incarcerated. While listed in the bottom three priorities, it was clearly stated by panels that Career Technology Education, like Higher Education, provides a very important role and services in education and training.

There was strong consensus that all of the eleven agencies provide core functions that are vital to the welfare of Oklahoma. The six panels agreed that the focus should not be on the elimination of the lowest rated three agencies, but rather, that each agency (all eleven) needs to be evaluated to see how efficiently they are providing the core services they are responsible for. A strong suggestion was made to look at how best to increase efficiency, possibly through consolidations. Increased collaboration should occur between related agencies prior to the beginning of the budget process. Budgeting priorities should be given to the agencies who have no ability to generate offsetting revenues. We need to scrutinize each dollar spent by each agency to ensure it advances our goals, and ensure that agencies are not duplicating efforts. One panel very clearly advised that the possibility of raising taxes should be on the table.

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Day 1, Question 3

From their publication *Recommended Budget Practices*, the Government Finance Officers Association states that “a company is not likely to remain in business if it does not stay in touch with its customers. While governments that are not in touch and do not have involved citizens may remain in business, the results are often not pleasant for the citizens or the government. It is in the best interest of government to have involved stakeholders.” Does the current state budget process effectively engage its stakeholders? What actions can the Town Hall recommend to make the budgeting process more open and transparent?

While Oklahoma government has become increasingly transparent over time with ever-expanding abilities to interact, monitor, and influence policymaking, the budget making process requires much more of an open dialogue for all stakeholders.

The majority of the participants view the current state budgeting process as a conclave that does not encourage extensive transparency or stakeholder participation, as evidenced by the limited participants in the actual budget negotiations. Historically, the budget development process has been determined by representatives of the Governor’s office, agency personnel, and a select few legislators, resulting in a closed process to taxpayers and even to the remaining legislators.

A deficiency in citizen, stakeholder and even legislative understanding of the complex budget-development process, has, conversely, also discouraged engagement in the process.

In order to increase transparency surrounding the budget development process, the State should increase accessibility to vital budget information, including posting agency budget data, federal matching programs, and potential fiscal impact of proposed and/or pending legislation. Such information should be posted online and made available on a continuous, uniform basis to the public to maximize public accessibility. Posting of this information needs to be done in a manner that is easily comprehended by the general public, which provides details of the rationale for the budget prioritization. The template/formalized budget communication medium must be the consistent reference point when communicating with stakeholders. Additionally, all legislative deadlines should be followed and should not be open to being waived.

Legislators and agency personnel have a critical role, actually a duty, to communicate the complexities of the budget and translate this into relevant information for their constituents. Better and more consistent communication is required from both legislators and agency officials regarding the budget process, specifically in a more comprehensive rather than ad hoc manner.

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Oklahoma legislators conduct budgetary hearings annually towards the beginning of the legislative session. The practice needs to ensure that adequate stakeholder awareness and diligence in budgetary decision-making occurs. In addition, retaining and expanding the requirement for a fiscal impact statement for each legislative proposal is key to this process, as well as, confirming said forecasted fiscal impact with agency staff.

Furthermore, the legislative Appropriations and Budget Committees, and Subcommittees, should be fully integrated in the budget making process with review and recommendation authority over their specific committee jurisdiction. To promote transparency, accountability and encourage public feedback, the budget proposal should be available to all legislators and the public five legislative days prior to a floor vote.

Finally, even if a yearly budget process is retained, the budgetary process should have a long-term focus, learning from other states that have already implemented these practices.

#### Day 1, Question 4

Given the information in the Resource Document on total state direct expenditures versus appropriations, as well as the data on inflation-adjusted spending per person over time, do you conclude that the state has a *budget problem* (it is not taking in and spending tax dollars sufficient to meet core state needs) or a *budget process problem* (it does take in and spend sufficient tax dollars, but dollars are misallocated across priorities, planning horizon is too short, uses incremental vs. priority based budgeting, etc.) or *both a budget problem and a budget process problem*?

Discuss and rate the following as potential explanatory causes of Oklahoma's current budget woes:

Not spending money on the right thing or spending too much money on the wrong things?

Failure to prioritize spending so those core functions of government are adequately funded?

Taxes being cut without offsetting new taxes or plans for meeting the resulting shortfalls?

Political infighting that results in money being diverted to pet programs at the expense of more vital ones?

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Each year, Oklahoma faces both a budget problem and a budget process problem. Unfortunately, many states struggle with funding, as there will always be a budget hole because of systematic errors, increases in cost, and ever-changing programs and priorities. The question to consider is what do we want versus what do we need, and what can we afford?

Given the information provided in the background Resource Document on total state direct expenditures versus appropriations, as well as the data on inflation-adjusted spending per person over time, the State of Oklahoma has both a budget problem (not taking in and spending tax dollars sufficiently to meet core state needs) and a budget process problem (taking in and spending sufficient tax dollars, but misallocating across priorities, inadequate planning horizon).

Several factors contribute to the budget and the budget process problem in Oklahoma, which are intertwined in many ways, most notably by the inadequacy of long-term strategic planning in setting the budget, as well as, cutting taxes and authorizing tax exemptions/credits without due regard to the ability to adequately fund government's core functions.

While income tax cuts are an attractive concept for encouraging investment and alleviating tax burdens, often the tax cuts are implemented without a realistic examination of their long-term consequences on the ability of government to fund its core functions. As illustrated by the deficit projections contained in the article in the background Resource Document entitled *Oklahoma's Structural Budget: Deficits Ahead*, by Kent Olson, PhD, the income tax cuts will produce aggregate income tax losses of \$1.078 Billion in 2015, growing each year thereafter, reaching \$2.754 Billion in 2030. Dr. Olson recognizes that this pattern is very likely and supports the point that large unmet needs are likely, even if spread across government agencies, resulting in harm to the state's prospects for economic growth. Across the board, however, the Town Hall recognizes that cutting taxes without adequately looking down the road for revenue shortfalls directly results in budget and budget process problems.

Furthermore, tax cuts like these are often felt at the local and county level, where there are limited opportunities to raise revenue. With municipalities nearly dependent upon sales tax revenue, the competition for funds is severe, especially when the state is forced to increase collections from a source other than income taxes. The Legislature should alleviate this constraint by authorizing municipal and county governments to raise revenue from more diverse sources, including ad valorem, income taxes, and others. This would, however, require a constitutional amendment.

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Just as problematic are the numerous tax credits and exemptions available through the state government. In general, such tax incentives are intended to support a burgeoning industry, development in a specific geographical region or population, and enhance development where it otherwise may not have occurred. The Legislature needs to carefully review and rescind the tax credits and exemptions which are no longer necessary for the economic or social purposes they were originally intended. Tax credit reviews have been conducted in the recent past, but substantive changes to the most budget-negative programs need to be implemented. HB 2182, the Incentive Evaluation Commission, was created to review incentives every 4 years and determine their efficiency. The majority of the Town Hall Panels were very much in support of this practice.

Oklahoma should likewise review those funds that are more volatile and unpredictable, like the sales tax on groceries, which could shift the tax burden away from those who cannot afford to bear such a burden. Oklahoma is one of eleven states in the country that apply such a tax.

Inadequate long-term budget planning creates another budget process problem, which should be rectified by identifying the budget priorities at the outset of the process and assessing growth rates in the state to determine the needs of each area of government and its various entities. Even though Oklahoma has recently experienced record-breaking revenue levels, there continues to be a budget crisis. This indicates that money is not being allocated appropriately, thereby forcing agencies to hoard one-time funds or adopt the mindset of “use it or lose it” to retain their current levels of funding. Additionally, agencies should not become more reliant upon federal matching funds to meet their fundamental needs. Such funds are predicated on federal availability and political trends, which do not provide stability in long-term agency planning. These contrasting agency approaches to saving and spending are symptomatic of the uncertainty of future funding from the Oklahoma Legislature. Regardless, budgeting processes utilized in Oklahoma should account for variations in costs, populations, services and inflation, all of which impact budget requests and bottom line operating costs. One of the Town Hall Panels recommended that agencies continually evaluate and revise the metrics approach within each agency, requiring more specificity and transparency with the allocation of their budget. Another panel specifically recommended that the Legislature add sunset provisions requiring a review of the “off the top” provisions, which would help achieve the goal of more closely aligning agency goals and priorities with government spending.

One panel identified the restraints on revenue generation resulting from Oklahoma’s passage of SQ 640, which required any new tax to be put before a vote of the people, as a major impediment to providing budget stability and consistently providing for the core functions of government. Without being able to implement new tax programs, and being handcuffed by tax cuts, generating sufficient revenue to meet the current priorities of our government is attempted through raising fees and relying upon sales taxes, both of which are regressive systems that inordinately impact lower income Oklahomans.

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One panel warned against continually tapping the revolving loan funds and the rainy day fund to meet the general needs of the government and also recommended specifically pursuing more aggressive bond financing for infrastructure needs.

Clearly, spending too much on the wrong things and not spending enough on the right things can be a major problem, and is quite a subjective debate. However, there were very few panels that viewed this as a major budget problem. While potentially an issue impacting budget and budget processes, pet projects are largely viewed as less malignant threats to Oklahoma's ability to budget for and appropriate funds to meet its citizens' needs.

#### Day 1, Question 5

Several articles in the resource document discuss structural deficit and off-the-top apportionment realities that allow the Governor and Legislature to control less than half of the revenue the state collects. Should the legislature annually control the use of a bigger percentage of state revenues to better meet the needs of the day, should we apportion more revenue to state government priorities to ensure they are funded despite political trends, or should we continue to dedicate pieces as the need or will arises? Be specific.

The majority of panels believes that the legislature should control a larger portion of state revenues. However, a strong minority believe that the legislature should not be given control over any larger portion of state revenues.

It was noted that off-the-top apportionments may be necessary to avoid legislative neglect of some basic core government functions, and to ensure that funding remains for programs that make future promises such as OHLAP. Although panels were in disagreement about how much off-the-top apportionments are needed, clear consensus exists that we need to thoroughly review off-the-top apportionments and reduce them where appropriate. We should consider capping and/or retiring certain programs and tax credits based on their efficiency or success. These reviews should be ongoing.

Each agency receiving any funding should be accountable to show they are achieving the agency's goals in an efficient manner. The complete budgets, whether appropriations, or otherwise, should be completely transparent. A strong consensus believes that making the public aware of the funding sources and amounts, along with metrics on performance would make agencies much more efficient.

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Day 1, Question 6

Despite long-existing statutes requiring zero-based budgeting practices, wherein an agency justifies the funding of their programs every year for the legislature to make decisions about each dollar appropriated, in practice Oklahoma uses *incremental budgeting* each year: last year's funding levels adjusted for next year's needs (balanced with next year's available resources, of course). Efficacy or modernity of programs funded is not considered. Performance-informed budgeting aims to change that, but is still in its infancy. What other approaches to budgeting might exist to meet the ends of the citizens of this state?

While considering budget history, zero-based, line-item, program and performance-based or performance-informed budgeting should be used as applicable to create effective budgets.

At first glance, zero-based budgeting is synonymous to performance-based budgeting; however, the newly proposed performance-informed budgeting with its 160 standardized metrics is promising and promotes better "mountain-view" budgeting. Going forward, if performance-informed budgeting is going to gain traction, Oklahoma needs adequate resources to develop and implement a budget plan. As one panel stated, "It's a fabulous idea, but its success will require significant resources and costs. Nevertheless, the difficulty of implementation should not deter its application. One slice of ham at a time, but you don't have to buy the whole hog." The adoption of performance-informed budgeting should not jeopardize agency services in the event that the agency does not meet the stated goal due to unexpected setbacks. As such, a performance-informed evaluation should be balanced with some discretion. Oklahoma should implement performance-informed budgeting, provided that transparency is maintained so there is value in quantitative data.

Additionally, the metrics system is still in its infancy. No particular group has assessed the implementation of metrics within an agency and its resulting impacts. Metrics contains attractive outcomes-based system assessments that determine the problematic and successful/effective portions of an agency and its budget. Qualitative metrics and prioritization provide a good blueprint for long-term and more effective budgeting.

Most agencies have 30 months to spend appropriated dollars, which allows carryover for 2.5 fiscal years. Several Panels recommended that this practice should continue. In addition it was suggested that agencies be allowed to transfer funding between themselves for specific projects.

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Day 1, Question 7

How can Oklahoma develop a budget process that takes into account inflation, population changes, and social and economic trends that often require additional funding priorities just to keep providing the same levels of services?

Two Panels suggested using a “Current Services Budget.” This model is most sensitive to the needs and resources of the state from year to year. This computer-based model would be used as a tool to inform legislators and the public about what services are provided and the costs. Further, the program could show how changes in inflation, population, etc. would change those costs. They suggested we look at a per capita funding structure.

One Panel proposed a budget process based on a clear, fact-based assessment of the needs of Oklahoma. They envision a budget process that begins with the gathering of information from non-profit, non-partisan groups that collect input from various communities. The information, considered with the effects of inflation and population change, would be used to determine needs and identify proper priorities. These priorities would be translated into budgetary policy. The entire process must be transparent to ensure that the legislature satisfies the priorities of Oklahoma based on these assessments.

Another Panel stated clearly that the old system of trying to provide the same level of services year after year is broken. Some services need to decrease, or be abolished altogether, while other services need to be added or expanded. This process, for each proposed service, should start with asking whether that specific service is how Oklahoma wants to spend its tax dollars and determine whether the specific service forwards the agency’s key goals. This panel argued for a “Pay As You Go” method. They contend that the PAYGO method creates greater transparency because the source of funds for all services needs to be identified, and all tax cuts have to identify specifically where the funds will be taken. As part of their PAYGO model, they contend we should utilize models and understand how the budget would be allocated based on best-case, most-likely case, and worst-case scenarios. Further, they contend we should utilize Current Service Baselines to know the actual cost of continuing the services at the same level.

One Panel expressed disdain for any budget policy like the Taxpayer Bill of Rights (TABOR). This panel stated that a formula is not capable of predicting the annual ebb and flow of an agency’s budget. They further contend that TABOR does not take into consideration certain aspects of inflation. They stated that Oklahoma’s economy that is heavily oil and gas reliant would fluctuate too much for a formula-based budget process to be effective.

There was lively discussion that Oklahoma needs to develop a more data-driven budgeting process that trends with inflation, population and socioeconomics. In conjunction with this data driven budget process, a system would need to be developed to gather real-time data to develop our annual budget.

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One Panel made a recommendation to annually create a five-year budget forecast. They also suggested that a budget-based legislative session every two years would allow the legislature to have more in-depth analysis. An additional suggestion was made for Oklahoma to maximize its flexibility in budgeting by not appropriating all funds during prosperous years.

One Panel proposed that Oklahoma create a forward-thinking budget committee comprised of private and public sector players to help the legislature identify innovative programs that would be beneficial.

#### Day 2, Question 1

The role of state funded tax incentives targeted at economic development remains a source of intense debate in the state. The costs of incentives are mostly known, with the debate instead centered on the benefits received in return for the incentives. To what degree can specific expectations be set for use in evaluating state-funded tax incentives? What should these expectations include- e.g. employment and income goals, capital spending effects, targeted industry outcomes, tax revenue effects, etc....? Can specific expectations be established for tax incentives that have a mostly social focus?

The discussions disclose a grudging acceptance of the proposition that Oklahoma will have to continue giving some degree of tax incentives to businesses to remain competitive with other states. It appears by some to be a weary acceptance that Oklahoma must continue to provide tax incentives to get businesses to locate in Oklahoma and to expand economic development.

There is strong consensus that all tax incentives and tax rebates should be tied to some measurable metric. A variety of possible metrics are available. Some examples are job creation, revenue growth, infrastructure development, short-term and/or long-term return on investment, etc. Equally important, each tax incentive and rebate should have an identified specific and unique purpose or goal. The metrics applied should specifically ensure that the tax incentive is meeting or exceeding its specific, unique goal. The tax incentives and rebates should not be exclusively tied to financial metrics. Incentives should be available to effect social change and such incentives would properly be measured with social metrics. The incentives should be back-loaded to encourage real commitment from businesses receiving these incentives.

The Town Hall believes the use of tax incentives and tax rebates should be very transparent. We need to develop a public tracking system that compares the performance of each entity receiving incentives and rebates to the metrics associated each.

The legislature should communicate with municipal leaders to include the Oklahoma Municipal League, before implementing any new tax incentives to ensure the proposed tax incentive is not detrimental at the local level.

Job creation should be focused on creating high paying jobs. We should target small businesses for tax incentives as well as large businesses. Tax credits should not be transferrable out of state.

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Tax incentives should have claw-back provisions to ensure the State is able to recover incentives that are not earned (i.e. where companies do not satisfy their metrics, or close or move their operations out of state prematurely). Tax incentives should also be required to have a sunset provision. These sunset provisions will ensure regular reviews and require the legislature to periodically make a determination whether it is worth renewing.

Tax incentives should be capped to ensure we know a maximum cost associated with the incentive and to curb fraud and abuse.

#### Day 2, Question 2

The changing structure of the Oklahoma economy plays a fundamental role in determining the amount and types of tax revenue received by the state, as well as the amount and structure of expenditures made by state government. Significant structural changes have taken place in the state's economy in just the past decade. These changes include rising state per capita income relative to the nation, revitalization of the state's oil and gas industry, acceleration in state population growth and in-migration, emergence of tribal governments and industries, and a rebound in economic activity in many rural regions of the state. Strategic state budget planning must include recognition of these ongoing and expected future changes in the state economy. What changes in the structure of the state economy are most likely to influence state taxation and spending in coming years? In what ways will these expected changes influence the state budget?

As the Oklahoma oil and gas economy fluctuates, and gross production/severance revenues decline, the continued growth of the biosciences industry, aerospace sector, information and financial services sector, defense manufacturing, and tribally-held businesses is essential to enhancing revenue streams for the State of Oklahoma. Depending upon the continued impact of changing weather patterns and water availability, the agricultural sector will need to continue diversifying in order to remain one of the most positive influences on state revenue in the coming years. Diversification is not limited to the agriculture sector. Recruitment and retention strategies must be implemented by the aforementioned sectors to ensure that they grow and continue to play a major role in Oklahoma's economy. We must strive to develop new markets. The Department of Commerce has identified five economic ecosystems that are useful in identifying sectors that have a competitive advantage.

Along with these diversification efforts remains a need to train a qualified workforce and pay a living wage that is nationally competitive. Regional and localized development of STEM (Science, Technology, Engineering, Math) through the collaboration of colleges, universities, career technology centers, and trade associations facilitated by OCAST (Oklahoma Center for Advancement of Science and Technology) and CASMEO (Coalition for the Advancement of Science and Math Education in Oklahoma) should be a focus of workforce training, education and development.

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From healthcare delivery and natural resource management to defense manufacturing and gaming facilities, tribal governments are increasingly playing one of the largest roles in Oklahoma employment and economic development. For example, The Cherokee Nation alone has a \$1.5 billion economic impact in Oklahoma and is the largest employer and healthcare delivery system in northeastern Oklahoma. Recognizing the tremendous role the tribal nations play, Oklahoma should work more harmoniously with these governments to maximize our available resources, programs, and efforts. One panel recommends that the State work in collaboration with the tribal governments to establish a strategic plan that advances common goals, including but not limited to, health care, infrastructure, education, water, and economic activities.

With the aging of our population, the health care/services sector continues to evolve into a major part of our economy. From biomedical research to home hospice services, this industry becomes ever more important each year with a healthy economic impact in both rural and urban areas. Conversely, the aging population of Oklahoma places an increased burden on healthcare delivery, social services, and other revenue drains.

Recognizing the need to attract and retain more individuals and businesses, Oklahoma must address its quality of life issues to be more attractive and competitive nationally. Attracting and retaining young professionals is especially contingent on improvements in the quality of life in our communities. While retention of Oklahoma's young professionals and youth is important to every sector, it has a particular impact upon the agricultural industry with many farms being dependent upon family succession to remain in operation.

Quality of life improvements include greater investment and performance by our education systems, affordable and effective health care delivery and coverage, modern public transportation systems, and transportation infrastructure. Oftentimes, companies and individuals do not think of Oklahoma when considering re-location because of its national reputation as a regressive state on numerous social issues and policies. This needs to be addressed to consistently and successfully attract more investment in Oklahoma.

The poor "quality of life" status in our state is reflected by the disproportionate number of families living in poverty. The unacceptable levels of poverty are the antithesis of ripe conditions for recruiting and retaining individuals and industry. Addressing the causes of poverty in Oklahoma will alleviate the need for greater revenue collections, while increasing the quality of life, worker productivity, and growth in our communities.

Often accompanied by impoverished socio-economic conditions, poor health decisions should continue to be addressed as an effort to improve the quality of life in Oklahoma. It was recommended that steps be taken by the State to address this grave issue, including encouraging healthy food accessibility by removing the sales tax on these items and supporting initiatives like the "Double-Up Food Bucks" program which doubles the amount available to SNAP (Supplemental Nutrition Access Program) recipients for healthy purchases.

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Another option is for the State to accept all available funds for the health and mental health of Oklahomans, including expanding Insure Oklahoma benefits by utilizing a second Supplemental Hospital Offset Payment Program (SHOPP) where hospitals effectively pay for the State's share of any matching requirement. This plan would include value or outcome based measures to curb healthcare costs and improve outcomes for individual Medicaid recipients. Another suggestion to combat poor health decisions and increase revenue is to increase the tobacco tax to a much higher amount and compact with the tribal governments accordingly. It should be noted that the 2014 Oklahoma Academy Town Hall addressing the health of the Oklahoma people made many proactive recommendations in these areas, and will continue to address these recommendations in 2016 (all of the 2014 Health Town Hall recommendations can be found on the Academy website [www.okacademy.org](http://www.okacademy.org) under the Library tab).

Finally, multiple panels recommended that the internet sales be taxed appropriately and enforced vigorously.

#### Day 2, Question 3

Former Governor and now President of the University of Oklahoma has proposed that the people be given the opportunity to vote an additional one cent in state sales tax to be allocated exclusively to education. Specifically, his plan would raise \$615 million annually, which would be allocated as follows:

\$378 million to fund a \$5,000 raise for all K-12 teachers.

\$50 million for grants to K-12 districts for innovative reform such as incentive pay for teachers.

\$125 million to higher education to keep down tuition and fees.

\$50 million for early childhood programs.

\$12.5 million for Career Tech.

Since this proposal would go to a vote of the people, this would bypass the prohibition of SQ640. With respect to this proposal:

Do you favor this? If so, why and if not, why?

If enacted, the intent would be for education to continue to get its current share of general revenues. Is that appropriate or should some be diverted to other priorities? If so, which priorities?

If we were to vote on new taxes, would you like to see the money spread to other uses than just education? Why or why not?

Are there other taxes you think should be increased? Are there taxes that should be decreased? What effect on spending should occur in either case?

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There is unanimous support for education by the Town Hall Panels. There is a strong consensus that education needs additional funding and that Oklahoma should develop a new dedicated source of revenue for additional funding to education. However, there is very little support for the sales tax proposal by President David Boren. Most view it as a short-term solution to a long-term problem. This proposal would increase the amount of off-the-top allocations that the Town Hall expressed distrust of earlier in the Town Hall deliberations.

There is significant concern that the legislature would undercut the dedicated sales tax funding by reducing education's share of the general fund. There is a solid consensus that if the plan is passed, education's allocation of general revenue should not be adjusted downward. There is also a strong belief that funding education through a sales tax increase creates competition between the state and municipalities over an already constrained revenue base. Sales tax is the revenue source that municipalities rely on, and an increase could cause more on-line shopping to avoid the high sales tax.

A significant basis for opposition to the sales tax proposal is that sales taxes are regressive. The sales tax proposal would create a greater burden on the citizens that can least afford it. Additionally, there is concern that additional sales tax could cause people to make less healthy life style choices.

Although not in favor of the Boren proposal, there is consensus that we need to find some solution to the funding problem in education. The importance of a great educational system is recognized by everyone. Unfortunately, we have dug ourselves into a hole over many years. We have difficulties filling teacher positions, in large part, because the teacher pay is embarrassingly low compared to neighboring states. Statutes currently require 5% more pay for teachers in the math, science and special education fields. In addition, we should adopt market-driven incentives for teachers that are in high demand. Several Panels offered consolidation of administration as a way to potentially reduce the cost of education.

Alternatives to increase education funding should be explored now, including repealing the income tax cuts made since 2014 and increasing the tax per gallon on gasoline and diesel. Further, one panel suggested that we could increase tobacco taxes by \$1.00 to \$1.50 (which would have the dual benefit of improving health and reducing health costs). Another idea mentioned was implementing a state ad valorem tax dedicated to funding education that would be more consistent than income tax or sales tax. There was discussion that increased funding should be tied to the quality of education being produced. The difficulty in this approach is that the effects of the increased funding may not be observable for many years.

There is substantial support for comprehensive tax reform including, but not limited to, removing certain sales tax exemptions and income tax credits, broadening the tax base, and/or expanding sales taxes to cover services.

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Day 2, Questions 4 and 6

(Q4 )Unlike neighboring Texas, Oklahoma state government does not spend any property taxes; county and local governments do. In addition, many services are not subject to sales or use tax. The responsibility and presentation of the use of our tax dollars is disjointed. The \$24 billion that state government spends does not include property taxes or other local revenue, used by varying levels of government but funded by the same citizenry. Furthermore, (Q6) Oklahoma is the only state where cities and towns do not receive ad valorem for general operations, thus making our cities and towns “overly dependent on local (voter approved) sales taxes to fund all general operations including police, fire, recreation, water, roads and the list goes on. What other options do you think would be a viable source to help diversify the municipal revenue stream and reduce the over-dependence on the very volatile source of sales tax? Do you think the options should be determined by the state legislature or leave it to local control where each municipality can determine what best fits or works for their respective cities/towns?

Oklahoma enjoys a relatively low tax burden and a diverse tax structure; however, there are options for modifying the tax system to provide relief to the state, counties and local governments. Flexibility and diversity in the tax structure at each level of government is necessary to ensure that funds can be spent where most essential; however, the State must thoroughly research the unforeseen consequences of imposing new taxes or restructuring the tax system.

At the State level, tax reform should be pursued across the board with broad citizen input and a watchful eye on undue influence by special interests. One recommendation is for the six living former governors and the current governor of Oklahoma to convene a tax reform convention for the purpose of revamping the taxation and funding structure at every level of government. Several options exist to broaden the tax system with equitable results to each level of government. One recommendation is to institute a tax on services while lowering the rate, which may be limited to “luxury” services to avoid an inequitable impact upon lower income Oklahomans. With the importance of sales tax to local government finance, it is imperative that Congress adopt a local version of the Marketplace Fairness Act and the state should implement legislation requiring collection of sales tax for online purchases. Another modification includes reallocation of fee-generated revenue, such as the motor vehicle fee of which municipalities only receive 3 percent. Forty-one percent of state highway miles being driven within cities and towns is an indicator of the level of wear and tear on all roads within municipal boundaries. Municipalities should be allowed to retain fees collected for the State if the State does not provide direct services associated with those fees.

Broad support exists for municipalities to have the ability to access various sources of revenue, including, but not limited to, ad valorem funds, sales tax, and use fees. Special care should be given to treatment of agricultural properties in the approval of new ad valorem taxes to ensure their ability to succeed.

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Accordingly, since counties are so dependent upon ad valorem taxes, the State should be very careful in offering 5 year ad valorem exemptions as incentives for economic development, especially without guaranteeing reimbursement of such funds. Another recommendation is for the Legislature to authorize municipalities to vote a millage on property for their general fund.

Much like interstate competition for jobs and development, in implementing local control principles, we must be careful to avoid competition between cities within Oklahoma. Also, as local governments are empowered to implement diverse revenue generating strategies, statewide programs intended to spur development, such as the Rural Economic Action Program, should not be discarded. Every option should be on the table.

In lieu of new authorizations for revenue generation by tax and fee, allow municipalities to have the ability to use new “ad valorem assessments” as approved by local municipal voters where they can identify a specific project that needs to be constructed or improved. Individuals often look at ad valorem as an option for municipalities, but as it is today it is not a viable option for municipalities. (Current law allows municipal citizens to vote General Obligation bonds using ad valorem taxes to retire the debt.) Another option is to collaborate with non-profits and community groups to reduce the costs to municipalities for providing certain services that may be achieved by these partnerships. Municipalities can enter into public-private partnerships for the development of their assets, such as sports facilities. As some municipalities currently do, others may opt to sell their natural resources, like water, to other cities or entities. Development impact fees can also be implemented to offset the burden of expanded infrastructure to service new development, however to do this the Legislature needs to amend its restrictions on local control.

While support for such reforms and authorizations of local control will face opposition and may not be popular politically, with appropriate outreach and support from citizens and the business community, we believe the electorate will support such a transformation to enable the state, counties and municipalities to fully fund their needs in an equitable manner. Furthermore, we strongly believe, given the ever-increasing fiscal demands and unfunded mandates facing municipalities in our state, that all municipalities should be afforded the opportunity to elicit the support of their respective electorates to access ad valorem taxes for the on-going operational purposes necessary to meet those ever-increasing demands.

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Day 2, Question 5

SQ640 (Resource Document p. 120) was passed overwhelmingly by the citizens of Oklahoma in 1992 to increase the degree of difficulty to pass new tax increases in Oklahoma. Given the rankings relative to other states (comparative metrics) on mental health and corrections, to health and educational outcomes what conclusions do you reach in regards to SQ640? Has it served Oklahoma well or not; Should it be revisited?

There was no real consensus on whether SQ640 should be revisited or not. The division of Panels in favor and against SQ640 was relatively even, with a slight advantage leaning to those against SQ640. Those for SQ640 point out that companies looking to re-locate in Oklahoma like the stability of the tax structure because it cannot easily be changed by the legislature. They argue that fees are a better source of revenue. The proponents claim that it challenges the legislature to better and more efficiently manage existing revenues.

Those against SQ640 argue that the restriction is based on two false premises: The first being that the cost of living will not increase over time, and the second being that legislators are not already subject to political pressures. They contend that SQ640 ties the hands of the legislature and prevents legislators from being flexible in making very difficult policy decisions. These legislators remain accountable to the people through elections. They are judged by how they govern, but are not given the power they need to govern effectively. The anti-SQ640 camp further states that it forces more funding through sources hidden from public scrutiny; that the poor metrics we see in relation to surrounding states are, in part, caused by SQ640. They argue that Oklahoma's lack of an educated, engaged electorate makes the idea of requiring a vote of the people to increase taxes problematic, at best.

There does seem to be consensus that the asymmetry of SQ640, which allows the legislature to reduce taxes with a simple majority but requires a three-fourths vote to raise the same taxes, should be addressed.

SQ640 has effectively made any discussion of any policy that requires increasing taxes a non-starter for the most part. Any proposal that contemplates raising taxes is off the table before the legislative session even begins. This is problematic. It creates a culture where nothing gets funded properly until it reaches crisis status.

There were a few alternative recommendations made. The first recommendation was to seek to repeal SQ640 via a state question ballot. The alternative proposal was to seek to modify SQ640 to require a two-thirds vote of the legislature to raise taxes as opposed to the three-fourths supermajority.

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Day 2, Question 7

State Treasurer Ken Miller recently addressed the OKC Economic Roundtable, providing an economic update and reminded the audience that the State Board of Equalization will certify a preliminary FY 17 revenue estimate on December 17. Regardless the estimate, FY17 looks to be a difficult year at best. In one of his concluding slides, Treasurer Miller made three suggestions:

*“Going Forward:*

- *Annual Budget/Biennial Policy (changing structure);*
- *Modernize the tax code (move to a lower, fairer, and broader tax system); and*

*No tax cuts unless revenue neutral (tax cuts driven by reality, not ideology).”*

Discuss the merits of each. As a group, should the Town Hall endorse them and encourage the Legislature to consider adopting them as core governing principles? Yes or No. Please elaborate. Are there additional suggestions you would add to the list above?

The Oklahoma Legislature should adopt a form of “The Miller Plan”, consisting of annual budgeting and biennial policy sessions. This allows the Legislature to have a much greater focus on the budget, the most important duty of the Legislature.

The Town Hall found strong consensus in agreement with Treasurer Miller that Oklahoma needs to modernize its tax code. Very widespread support exists for lowering the rates, and broadening the base to create a fairer system. A serious push is being made to eliminate the sales tax on food. However, there is support for an even more widespread change to the budget structure. We need to continue to evaluate current sales tax exemptions and income tax credits. We need to find a way to collect taxes from internet sales and downloads, whether through a state means, or through a federal internet taxation policy. We should increase transparency and provide greater public access to the budget information.

The Town Hall also found strong consensus in support of Treasurer Miller’s assertion that no tax cuts should be made unless it is truly revenue neutral.

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Final Panel Discussion Thoughts: Is there something important to add that was not originally stated in the past two dates of deliberative discussion – a critical element that was missed, a re-emphasis of an idea, goal or recommendation made?

Throughout the two days of Panel discussions and deliberations, numerous ideas and issues have been discussed which require serious contemplation and coordinated effort to accomplish. When given an opportunity to review discussions held during the Town Hall and restate and/or add to ideas, the following points were emphasized:

To ensure a state budget responds to a research based state strategic plan, the Legislature is encouraged to create a Policy Analysis Bureau. This non-partisan office should employ technocratic public policy analysis to recommend to the Legislature the optimal actions through review of proposed agency budgets. A function also would be to provide comprehensive and transparent fiscal impact notes on all Legislation.

Oklahoma should review accepting the federal funding offered through the Affordable Care Act to expand health services in Oklahoma and increase access, affordable and quality services, and an adequate workforce. (A 2014 Health Town Hall priority recommendation still a part of the Academy’s Action Focus.) Additionally, Oklahoma should increase its tobacco tax, between \$1.00 and \$1.50 per product, in order to combat negative health behaviors and generate additional revenue.

Currently scheduled tax cuts should be repealed. One recommendation was made that states when the trigger is reached for Oklahoma’s income tax rate to drop from 5% to 4.85%, instead of dropping, the difference should be applied to the education budget in the same distribution as the “One cent education tax” proposed by David Boren.

One panel proposed charging a fee to out of state recreational vehicles operating in the state. Several groups proposed eliminating double deductions on state income taxes.

Off-the-top agency funding should be carefully examined to ensure that funds are allocated as they are intended. One-time funds should not be used for recurring programs, with the exception of Rainy Day Funds for emergency situations.

Oklahoma should reduce its incarceration rates to alleviate the burden of funding over-crowded prisons by allowing alternative sentencing for non-threatening criminals and to provide programs for them to become contributing members to society. (A 2009, 2012 and 2014 Oklahoma Academy Town Hall recommendation still a part of the Academy’s Action Focus.)

The State should engage in the comprehensive development, implementation and execution of a data, research, and performance-informed strategic plan to better compliment the budget process.

## Oklahoma Academy Town Halls 2001 through 2015



### **2001 - COMPETING IN AN INNOVATIVE WORLD**

Town Hall Chair: Cliff Hudson, SONIC, America's Drive-In

### **2002 - OKLAHOMA'S HEALTH**

Town Hall Chair: Cliff Hudson, SONIC, America's Drive-In

### **2003 - OKLAHOMA RESOURCES: WATER & ENERGY**

Town Hall CoChairs: John Feaver, University of Science and Arts of Oklahoma, Howard Barnett, TSF Capital; and Larry Nichols, Devon Energy Corp.

### **2004 - OKLAHOMA ENVIRONMENT: PURSUING A RESPONSIBLE BALANCE**

Town Hall Chair: William R. McKamey, AEP Public Service Company of Oklahoma

### **2005 - DRUGS: LEGAL AND ILLEGAL**

Town Hall Chair: Howard G. Barnett, Jr., TSF Capital LLC

### **2006 - OKLAHOMA'S SECOND CENTURY**

Town Hall CoChairs: Larry Rice, Tulsa University and John Feaver, University of Science and Arts of Oklahoma

### **2007 - BUILDING ALLIANCES: TRIBAL GOVERNMENTS, STATE & LOCAL GOVERNMENTS & THE PRIVATE SECTOR**

Town Hall Chair: Douglas Branch, Phillips McFall

### **2008 - OKLAHOMA'S CRIMINAL JUSTICE SYSTEM: CAN WE BE JUST AS TOUGH BUT TWICE AS SMART**

Town Hall Chair: Steve Turnbo, Schnake Turnbo Frank PR

### **2009 - OKLAHOMA'S EDUCATION AND WORKFORCE**

Town Hall Chair: Howard Barnett, OSU-Tulsa

### **2010 MAY - OKLAHOMA WATER ~ A SPECIAL TOWN HALL ON OKLAHOMA'S 50 YEAR WATER PLAN**

Town Hall Chair: John Feaver, University of Science and Arts of Oklahoma

### **2010 - NOV—MUNI.OK.GOV ~ ADDRESSING MUNICIPAL GOVERNANCE**

Town Hall Chair: Tom McKeon, Tulsa Community College

### **2011 - DEVELOPING OKLAHOMA'S ECONOMY**

Town Hall Chair: Susan Winchester, The Winchester Group

### **2012 - IT'S 2032 ~ WHERE IN THE WORLD IS OKLAHOMA?**

Town Hall Chair: Steve Kreidler, University of Central Oklahoma

### **2013 - MOVING OKLAHOMA: IMPROVING OUR TRANSPORTATION INFRASTRUCTURE**

Town Hall Chair: Darryl Schmidt, Executive Vice President and Chief Credit Officer of BANCFirst

### **2014 - WE CAN DO BETTER: IMPROVING THE HEALTH OF THE OKLAHOMA PEOPLE**

Town Hall CoChairs: Kay Goebel, PhD, Psychologist, Gerry Clancy, MD, President, OU-Tulsa, and Steve Prescott, MD, President of the Oklahoma Medical Research Foundation

**2015 - OKLAHOMA PRIORITIES: THE GOVERNMENT & TAXES WE WANT** Town Hall CoChairs: Howard Barnett Jr., President OSU-Tulsa, and Dan Boren, Vice President of Corporate Development for the Chickasaw Nation Department of Commerce

For recommendation highlights from Town Halls 2005-2015, visit the Oklahoma Academy's Website's Library at the following link:  
<http://www.okacademy.org/library.html>



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