



STATE ECONOMY AND DEMOGRAPHICS

Changes in the state marketplace and population are at the root of much of the Legislature's policy discussions. Shifts in these measures are often the catalyst for efforts to change state policies relating to social services, economic development, taxes and other areas.

THE OKLAHOMA ECONOMY

Oklahoma's economy has diversified in the past decade, becoming more like the U.S. economy. In 2002, oil and agriculture – once the backbone of Oklahoma's economy – accounted for 7.6% of the state's total economic output, much lower than the 17.5% share of the gross state product (GSP) in 1985.

Components of the 2002 Oklahoma Economy

	<u>\$Amount in Millions</u>	<u>Percent of Total</u>
Services	\$17,863.4	18.33%
Manufacturing	\$16,020.8	16.44%
Trade	\$15,964.1	16.38%
Government	\$15,571.1	15.98%
F.I.R.E.	\$11,878.8	12.19%
Trans., Comm., & Util.	\$8,573.2	8.80%
Mining	\$5,606.4	5.75%
Construction	\$4,137.5	4.25%
Agriculture	\$1,817.0	1.86%
Total Gross State Product	\$97,432.4	100.00%

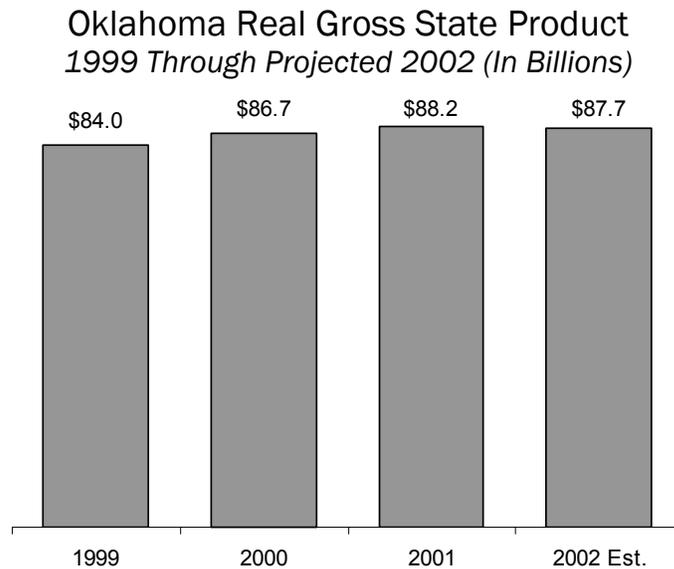
Source: OSU College of Business Administration, Oklahoma Economic Outlook 2002 Forecast, June 2002 Update

Despite the diversification of the economy, however, mining (which includes oil extraction) and agriculture are more important to Oklahoma's economy than to the average state's economy.

The manufacturing sector (which includes the processing/refining of agricultural and oil products) trade and the services sector are the largest components of the Oklahoma economy. Together they comprise 51.1% of total state output. Oklahoma's manufacturing growth has frequently outpaced the nation's over the past several years. While the services sector is often perceived as paying low wages, it includes many of the high wage and new economy jobs such as software consulting, legal and health professionals. The F.I.R.E sector of the economy stands for Finance, Insurance, and Real Estate.

ECONOMIC OUTPUT

The state economy's production – the gross state product or GSP – is the total amount of goods and services produced by all industries within a state. Oklahoma has the 29th largest state economy in the nation.

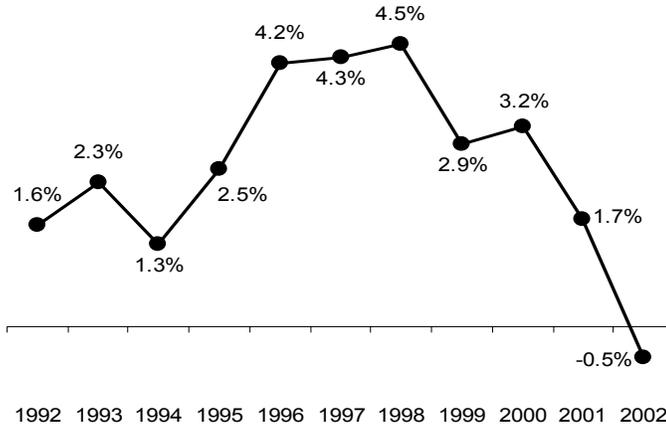


Source: OSU College of Business Administration, Oklahoma Economic Outlook 2002 Forecast, June 2002 Update

The Real GSP, which is adjusted for price changes and is considered the most appropriate measure of state output, is forecast to contract by 0.5% in the year 2002, following an increase of 1.7% in 2001. Services including health services

will be a strength, manufacturing will decline slower than the national average and construction will weaken.

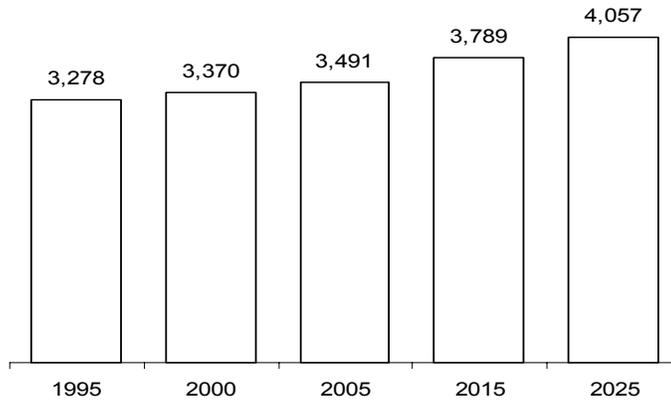
Oklahoma Gross State Product Growth Rate 1992 Through 2002



Source: OSU College of Business Administration, Oklahoma Economic Outlook 2002 Forecast, June 2002 Update

POPULATION

Oklahoma Population Trend and Projections 1995 Through 2025 (In Thousands)



Source: U.S. Census Bureau

Census projections for the year 2001 place Oklahoma as the 28th most populous state in the nation. This compares to 1995, when Oklahoma's 3.27 million residents made it the 27th most populous state. The decline in ranking between 1995 and 2001 is not due to a loss of population, because the state gained over 140,000 residents over the past five years. Instead, the ranking drop is due to the fact that states that were smaller than Oklahoma are growing faster.

Projected Growth in Population

The U.S. Census Bureau projects that Oklahoma's population will increase by 779,000 people or 23.8% between 1995 and 2025. This projected increase ranks 25th among states. Internal migration (from other states) comprises about 52.9%, natural increases (births minus deaths) account for 25.7%, and international migration is 11.8% of this growth projection.

Oklahoma's year 2000 population makes up about 1.2% of the nation's total population.

Working-Age Population

The percentage of Oklahoma's population that is in the prime working ages – between 20 and 64 years of age – is expected to decrease from 59.7% in 1995 to 55.4% in 2025. Oklahoma has a larger percentage of young and elderly than the average state.

The primary reason for Oklahoma's projected decrease in the working-age proportion is the growth rate of elderly residents. Oklahoma's elderly population is projected to increase at a faster rate than the nation. By 2025, it is projected that Oklahoma will have the nation's eighth highest proportion of elderly in its population. If projections hold true, this trend is likely to have a profound impact on long-term tax revenues and social-service demands within the state.

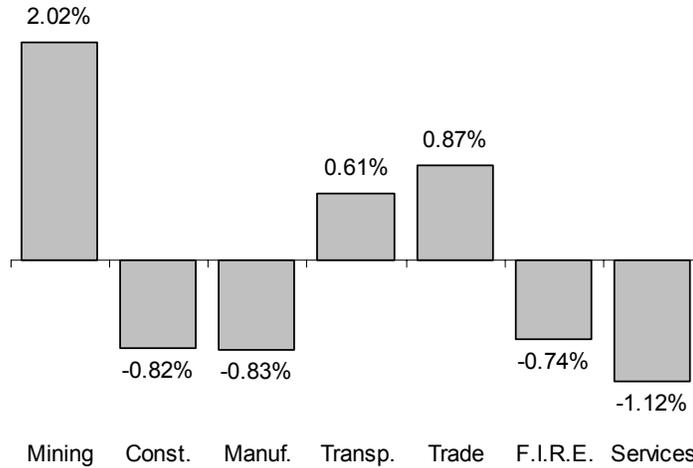
EMPLOYMENT AND INCOME TRENDS

Oklahoma's average wage per job in 2001 was \$25,020 or 77.3% of the national average. This wage represents a 14% growth in wages from the 1998 average wage.

The per capita personal income (PCPI) in 2000 for Oklahoma was \$23,650, which is 80.2% of the national average. Per capita personal income is a broad measure of economic well being that includes wages and salaries, proprietor income, dividends and rents, and government transfer payments. Oklahoma's PCPI increases to 87.9% of the national average when adjusted for cost-of-living factors. PCPI grew by 3.4% between 1998 and 1999 in Oklahoma; the U.S. PCPI grew at a rate of 4.5%. Lower wages, in addition to Oklahoma's relatively

high proportion of senior citizens and children explains much of the PCPI difference.

Oklahoma Private Sector Employment by Sector June 2002 (Percentage Difference from U.S. Average)



Source: Bureau of Labor Statistics, 2002

Oklahoma's employment growth rate was forecast to grow at a meager 0.4%, still slightly above the national forecast of 0.1% for 2002.

Oklahoma's unemployment rate of 4.2% in 2002 was more than a full percentage point below the national rate of 5.4%. This rate was the lowest in the region, with only Missouri and Kansas having unemployment below 5.0%.

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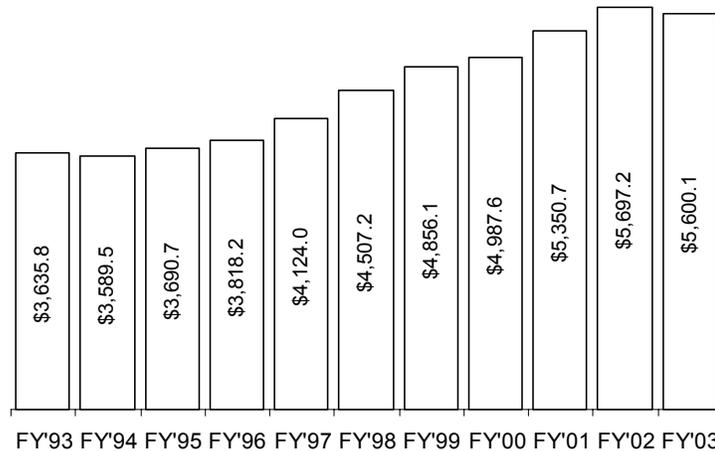
STATE EXPENDITURES

State budget trends reflect the changes experienced in Oklahoma's economic output and the priorities of its citizens. This chapter presents an overview of Oklahoma's state appropriated budget, trends in funding for specific programs, including recent bond-funded capital projects.

STATE APPROPRIATED BUDGET

About one-half of the state budget is subject to annual appropriation by the Legislature. Total appropriations have grown in eight of the ten years between FY'93 and FY'03. Total appropriations growth between FY'93 and FY'03 was \$1.9 billion or 54%, an annual average increase of \$196.4 million or 5.4%.

History of State Appropriations
FY'93 Through FY'03

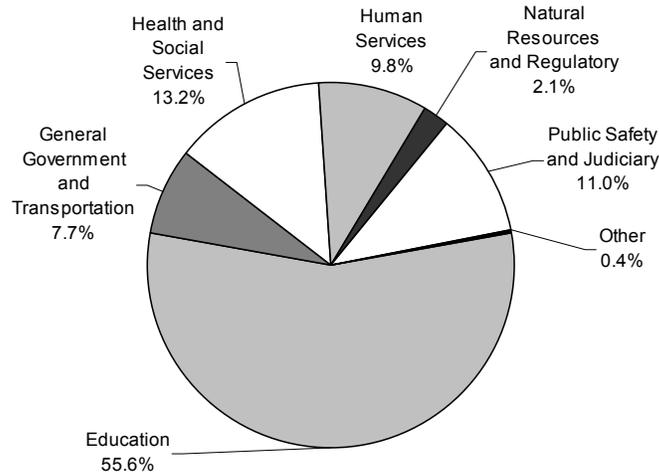


When adjusted for inflation, however, the increase in appropriations during the period was \$1.4 billion or 38.6%.

Appropriation by Major Program Area

Of all money appropriated by the Legislature in FY'03, 55 cents of each dollar went to education agencies such as common education, higher education and career technology. The rest of the pie is split in varying shares to the other major state government areas, each of which is supervised by an appropriations subcommittee.

Share of All FY'03 Appropriations by Subcommittee



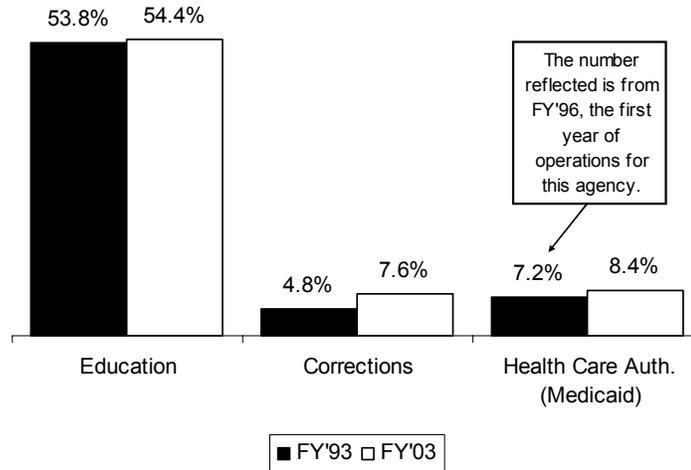
Between FY'93 and FY'03, appropriations have reflected the priorities of the Legislature and the citizens of Oklahoma. In the early 1990s appropriations reflected concern about the quality of education children were receiving in the state. By the mid 1990s, appropriations priorities shifted more toward public safety and transportation. By FY'03, the main recipient of new appropriations shifted to education and Medicaid expenses.

Shifts in Appropriations to Major Program Areas

- **Education:** The share of appropriations made to education – common education, higher education and career technology – went from 53.8% in FY'93 to 54.4% in FY'03. Major funding initiatives in education over the last ten years include teacher and faculty salaries, insurance premiums, textbooks, endowed chairs and capital improvements.
- **Corrections:** The Department of Corrections went from 4.8% to 7.6% of total appropriations from FY'93 to FY'03. Increases for the medical care of inmates and continued increases in the prison population contributed to the need for increased funding.

- Medicaid:** From FY'96 to FY'03, the Oklahoma Health Care Authority's share of total appropriations has increased from 7.2% in FY'96 to 8.4% in FY'03. The increase in funding is mainly due to an increase in utilization of the Medicaid program and an increase in cost for prescription medications.

Share of Total Appropriations by Major Program
FY'93 vs. FY'03



CAPITAL BUDGET AND BOND ISSUES

Aside from a state highway fund, there is no statutory allocation of funds for state government capital needs in Oklahoma. Some states have used the dedicated-revenue concept as a means of addressing deteriorating infrastructures. In Oklahoma, funds for state government capital improvements – new buildings, major equipment purchases, grants for local government capital projects – must be addressed out of the state's appropriated budget each year. During the cash-strapped period created by the oil bust in the early 1980s, capital considerations took a back seat to maintaining essential government services.

To address neglected infrastructure needs, lawmakers have approved several large revenue bond issues since 1997. The Oklahoma Capital Improvement Authority (OCIA) is the official entity responsible for issuing bonds and approximately \$774 million has been invested for capital improvement projects in every county in Oklahoma since 1997.

HB 3306 Bond Issues for State Projects

HB 3306 (1998) authorized a statewide revenue bond issue for capital expenditures throughout the state. Individual agencies that sponsor the projects

are making lease-purchase payments to OCIA to pay principal and interest costs. The total amount authorized was \$325 million, initiated through two phases.

Phase I of 1998 State Bond Issue: Phase I totaled \$158.1 million for 15 specific projects through 14 state agencies. The sale of Phase I bonds began in September 1999.

HB 3360 Phase I Bond Projects

Agency	Project	Amount
Higher Education	Colleges & Universities Infrastructure	\$45,000,000
Historical Society	History Center	\$32,000,000
Central Services	Lincoln Boulevard Renaissance	\$13,800,000
Veterans Affairs	Lawton	\$12,000,000
J.D. McCarty Center	New Facility	\$10,300,000
Supreme Court	Wiley Post Building Remodel	\$10,000,000
Rehabilitative Services	School for the Blind	\$6,750,000
Rehabilitative Services	School for the Deaf	\$6,750,000
Commerce	Native American Cultural Center	\$5,000,000
Career Technology Education	Systemwide Equipment and Technology	\$5,000,000
Tourism and Recreation	Quartz Mountain Lodge	\$3,500,000
Agriculture	Boll Weevil Eradication	\$3,000,000
Central Services	Purchasing Systems Hardware/ Software	\$2,000,000
University Hospital	Technology Incubator Program	\$2,000,000
Office of State Finance	Financial Management Information System	\$2,000,000
Total		\$158,100,000

Phase II of 1998 State Bond Issue: Phase II bonds totaling \$157.5 were authorized in SB 973 (2000 regular session) and SB 2X (2000 special session). The second bond issue is more comprehensive, addressing capital projects throughout the state. The law authorized the sale of Phase II bonds beginning January 1, 2001.

Currently three separate legal actions are pending which may affect the sale of phase II bonds. The case of *John Cassidy, Jr. v. Oklahoma Capitol Improvement Authority* (CIV-L-01-0003) is currently pending in Oklahoma County District Court. The validity of the authorization for the issuance of the phase II bonds is being challenged in this action.

There are two separate legal issues pending with the Oklahoma Supreme Court regarding the phase II bonds: 1) Case No. 97935 a validation proceeding filed by the Oklahoma Capitol Improvement Authority seeking court approval for the issuance of \$5.5 million of the phase II bonds to be used to provide a portion of the financing for the capitol dome; and 2) Case No 97936 a validation proceeding filed by the Oklahoma Capitol Improvement Authority seeking court approval for the issuance of the phase II bonds. Oral arguments have been made to a referee of the Supreme Court in each of these cases.

On September 24, 2002, while the above legal actions were pending, the Oklahoma Supreme Court, in a validation proceeding initiated by the Oklahoma Department of Transportation for approval of issuance of \$100 million in Grant Anticipation Revenue Vehicles (GARVEE) bonds (see Transportation), found that the Legislative Bond Oversight Commission was unconstitutional and denied the Oklahoma Department of Transportation's application for approval of the GARVEE bonds. In that case the Court noted that the statute provided for a successor entity, the Council of Bond Oversight, to be created in the event the Legislative Bond Oversight Commission is found to be unconstitutional and the Bond Oversight and Reform Act provides that this successor entity must approve issuance of bonds by state agencies.

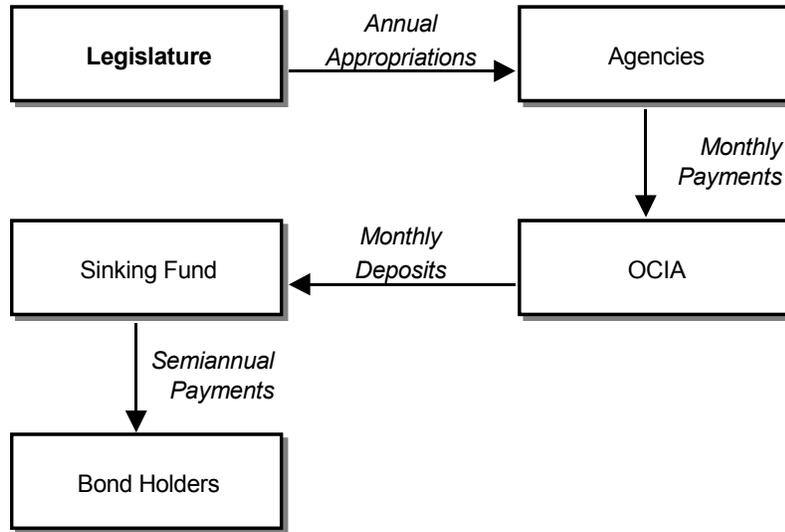
As a result of this court decision, the phase II bonds will have to be approved by the Council of Bond Oversight. The Council of Bond Oversight is composed of five nonlegislative members. One is appointed by the President Pro Tempore of the Senate, one is appointed by the Speaker of the House of Representatives, two are appointed by the Governor and one is the Director of the Office of State Finance. The first meeting of the Council was held on October 3, 2002. As of October 7, 2002, the Council had not considered the phase II bond projects and given the necessary approval for these projects. Until such approval is granted, it is doubtful that the Oklahoma Supreme Court will approve issuance of these bonds.

HB 3360 Phase II Bond Projects

Agency	Amount	Agency	Amount
Aeronautics	\$2,990,000	Higher Education	\$30,617,909
Agriculture	\$5,044,194	Historical	\$10,456,303
Bureau of Investigation	\$300,000	House of Representatives	\$46,434
Career & Technology Ed.	\$13,845,303	Human Services	\$2,010,101
Centennial Commission	\$5,470,101	J.D. McCarty	\$485,101
Central Services	\$975,000	Juvenile Affairs	\$1,227,601
Central Services	\$51,833,333	Mental Health	\$2,075,000
Commerce	\$1,250,000	Military	\$5,700,101
Conservation Comm.	\$100,000	Public Safety	\$1,194,000
Corrections	\$260,101	Tourism	\$10,565,005
Education	\$700,000	Transportation	\$5,241,412
Educational TV Auth.	\$250,000	Veterans Affairs	\$1,450,000
Grand River Dam	\$220,000	Water Resources	\$1,850,000
Health	\$735,000	Wildlife Conservation	\$608,000
		Total	\$157,499,999

Payment Process Under HB 3306: Payments to bond holders follows a specific path outlined in the bill. Agencies will use annual appropriations to make monthly payments to OCIA. The monthly payments by agencies will equal one-twelfth of the annual principal payment and one-sixth of the semiannual interest payment.

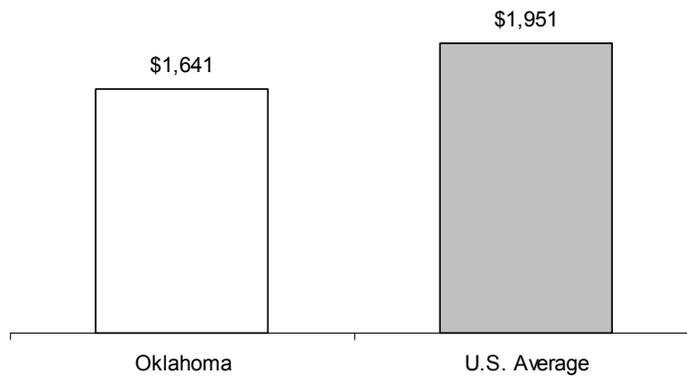
Repayment of Bond Proceeds under HB 3360



STATE GOVERNMENT DEBT COMPARISONS

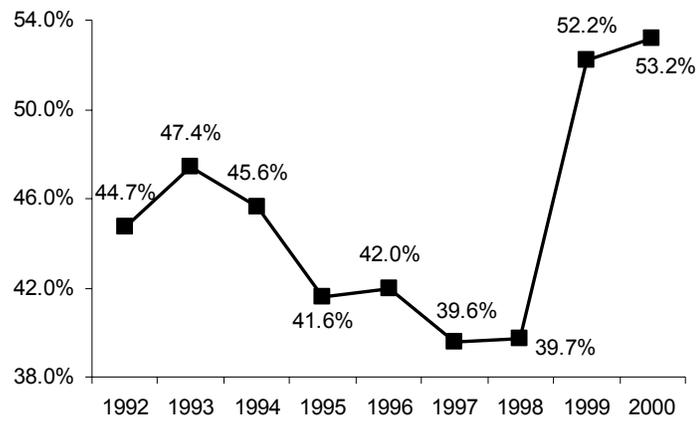
The 2000 U.S. Census data placed Oklahoma as the 32nd lowest state in the nation in per capita state government outstanding debt. Oklahoma's state government debt burden of \$1,641 per person was \$310 or 15.9% lower than the national average rate.

2000 Per Capita State Government Debt Outstanding



Source: U.S. Census Bureau, "2000 State Government Finance Data"

History of State Debt as Percent of Total State Budget



Source: U.S. Census Bureau, "2000 State Government Finance Data"

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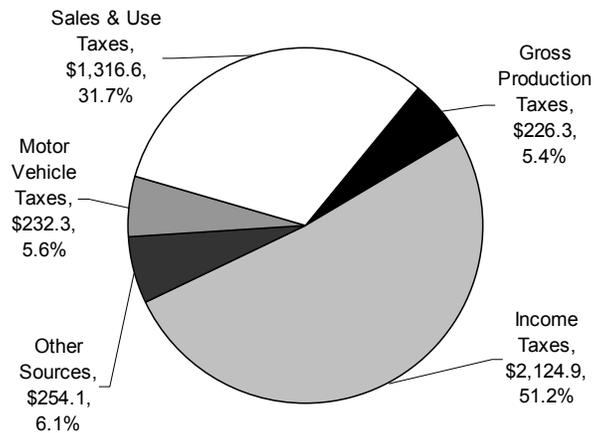


OKLAHOMA TAXES

This chapter focuses on how Oklahoma government imposes taxes to support state, county, municipal and other local government programs. It also provides extensive detail on several major tax sources – how the taxes are assessed, how they are allocated, and how they compare with other taxes in the region and nation. Also, recent tax cuts are highlighted.

STATE REVENUE MIX

Sources of General Revenue* FY'02
(In Millions)



Total = \$4.154 Billion

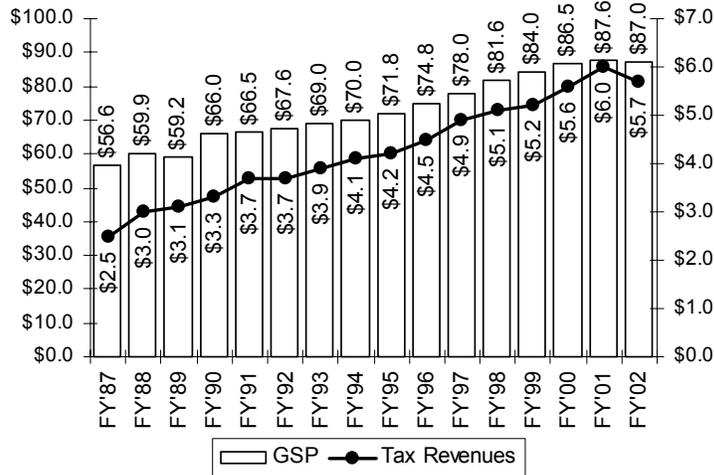
* Prior to FY'98, the income and sales and use tax revenues from the tax increases authorized by the Education Reform Act of 1990 (HB 1017) were deposited in the General Revenue Fund. Beginning in FY'98, these revenues were deposited to a separate fund, the Education Reform Revolving Fund. For purposes of comparisons between fiscal years, these revenues are included as GR revenues.

Source: Oklahoma Tax Commission, Apportionment of Statutory Revenues, Fiscal Year 2002

GROWTH IN STATE REVENUE

State revenue had been steadily growing in each of the past 15 years, mirroring the growth in Oklahoma's gross state product (GSP). Tax revenue declined in FY'02, as did GSP.

Oklahoma Economic Growth
FY'87 Through FY'02 (In Billions)



Sources: Economic Outlook, Oklahoma State University, 2002 and Oklahoma Tax Commission

REVENUE PROJECTIONS

SQ 640, approved by voters in 1992, amended the Oklahoma Constitution to require revenue bills to be approved by the voters, unless they receive the approval of 3/4 of the members of each house of the Legislature. No major tax rate increases or new taxes have been enacted by the Legislature since adoption of SQ 640.

Economic factors such as the level and rate of growth in jobs and income are translated into estimates of tax revenue to be received by the state. Changes in the forecast for economic activity in the state will often have dramatic effects on projected tax revenues.

Beginning in FY'02, actual revenues began to fall considerably short of the estimates, requiring significant budget reductions for many agencies for both FY'02 and FY'03.

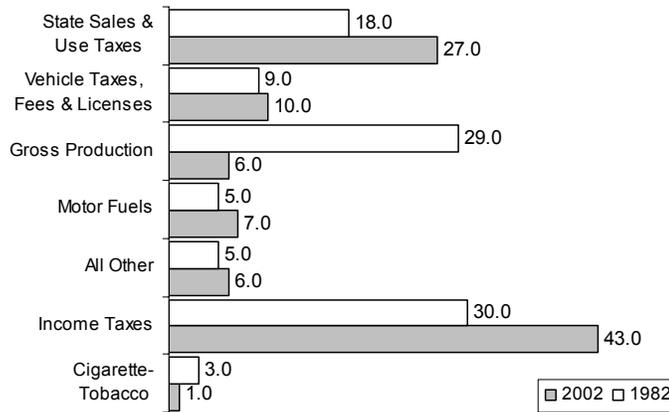
COMPARISON OF REVENUE MIX: 1982 vs. 2001

State revenue, like the Oklahoma economy, is much less dependent on the energy industry than it was during the oil bust of the early 1980s. Diversified economic growth has also brought a significant increase in revenue derived specifically from income taxes.

The most significant change in Oklahoma's revenue structure over the past 18 years has been the decreasing reliance on gross production taxes. In 1982, revenues from oil and gas production accounted for over 28% of state tax revenue. For 2002, this source provided 6.0% of revenues.

Declining gross production revenues have been replaced primarily with increased reliance on revenues from the income tax and sales and use tax.

Comparison of Revenue Sources
1982 vs. 2002



Source: Apportionment Chart for FY'02, Oklahoma Tax Commission

COMPARING STATE-BY-STATE TAX LEVELS

Policymakers often use state-by-state tax comparisons to guide their decisions. However, profound differences in how state and local governments operate in various states can skew comparisons. For example, some states require cities and counties to pay a large part of welfare, mental health and Medicaid costs. In Oklahoma, state government is solely responsible for providing those functions. Also, some states fund schools exclusively with state aid (Hawaii and New Mexico), while others have almost no state-level funding for schools (New Hampshire). Oklahoma state government provides about 60% of school costs.

Comparison of Per Capita State and Local Taxes

Most experts agree the best way to compare taxes among states is to combine state and local tax revenues, which eliminates the differences in state vs. local responsibility for public services. The following table shows the most recent comparison of per capita state and local taxes.

Comparison of Per Capita State and Local Taxes

State	1999 Taxes Per Capita	Ranking
Arizona	\$2,561	37
Arkansas	\$2,382	42
Colorado	\$2,987	17
Kansas	\$2,748	26
Louisiana	\$2,409	41
Missouri	\$2,565	36
Nebraska	\$2,775	24
New Mexico	\$2,569	34
Oklahoma	\$2,313	45
Texas	\$2,456	39
U.S.	\$2,992	

Source: State Rankings 2002, A Statistical View of the 50 United States, Morgan Quitno Corporation, p. 278

Among regional states, Oklahoma is ranked lower in per capita taxes than any state except Arkansas. Only Colorado, Nebraska and Kansas are ranked in the upper half of the states, and all states in the region are below the national average.

The average Oklahoman pays \$679 less per year in state and local taxes than the average American.

Connecticut was ranked first in the nation with total per capita taxes of \$4,536. Alabama is ranked last with \$2,007 in total per capita taxes.

Comparison of Taxes as a Percent of Income

Measuring state and local taxes as a percent of personal income reveals each state's tax burden – the percentage of personal income the average resident pays in taxes. This adjusts for the relative wealth of various states' residents. Oklahoma, with its relatively low per capita income level, ranked 36th of the 50 states in state and local tax revenue as a percentage of personal income in 1999.

Comparison of State and Local Taxes As Percentage of Personal Income

State	Taxes as % of 1999 Income	Ranking
Arizona	10.3%	27
Arkansas	10.8%	14
Colorado	9.5%	44
Kansas	10.3%	27
Louisiana	10.6%	20
Missouri	9.8%	40
Nebraska	10.2%	30
New Mexico	11.8%	5
Oklahoma	10.0%	36
Texas	9.1%	46
U.S.	10.5%	

Source: Ibid, p. 279

New York is ranked first at 13.4%. New Hampshire is ranked last at 8.3%. Overall, the amount of state and local taxes as a percentage of personal income declined from 1996 to 1999, from 11.3% to 10.5% in the U.S. as a whole and from 10.8% to 10.0% in Oklahoma.

TAX CUT INITIATIVES

From 1996 to 2001, the strong state economy produced healthy growth revenues, allowing the Legislature to significantly reduce taxes without cutting essential state services. Over the five-year period between 1996 and 2000, the tax reductions enacted by the Legislature totaled about \$244 million. This total includes only those tax reductions that are determinable and certified by the State Board of Equalization (some laws, such as those that increase sales tax exemptions or income tax credits, result in actual savings to taxpayers but the amount cannot be determined on a statewide basis).

- 1996 and 1997 Sessions:** Legislative measures enacted in 1996 and 1997 session cut taxes for Oklahoma taxpayers by almost \$80 million annually. The most significant tax relief, in total dollars, was contained in HB 1621 (1996). The bill extends the same \$5,500 income tax deduction received by public-sector retirees to retirees in the private sector. The deduction applies to persons aged 65 and older who earn less than \$25,000 annually. Other tax measures during those sessions applied to unemployment taxes (HB 1130, 1997) and targeted Oklahoma industries in the energy (SB 911, 1996) and agriculture (HB 2959, 1996) sectors.

- **1998 Session:** In the 1998 session, tax reductions that will total \$104 million annually (when fully implemented) were enacted in HB 3152. These included:
 - ✓ a reduction in the top income tax rate for Method 1 filers from 7% to 6.75% (cutting revenues by \$41.1 million);
 - ✓ increasing the income threshold to qualify for rebates under the Sales Tax Relief Act (\$41.0 million);
 - ✓ increased estate tax exemptions for lineal heirs (\$18.6 million);
 - ✓ college savings incentives; and
 - ✓ Small Business Administration fee tax credit (\$3.3 million).

Additional tax relief for businesses was provided by reducing employer contribution rates for unemployment insurance. The rate reduction was provided for an 18-month period beginning July 1, 1998. The change was projected to save employers about \$32.5 million in FY'99, and up to \$136 million over five years if the reduced rate is extended.

The income tax rate reductions and Sales Tax Relief Act thresholds included a provision that these tax cuts would be rolled back in the event of a decline in estimated revenues. This occurred in 2002, resulting in a suspension of these tax cuts for the 2002 tax year.

- **1999 Regular Session:** In the 1999 session, measures targeting tax relief for the airline industry were enacted, resulting in tax savings of more than \$5 million annually (SB 523 and HB 1294).
- **1999 Special Session:** In a special session convened in February 1999, HB 1003X was enacted to change the state's 7% gross production tax rate on oil production to a rate tied to the price of oil:
 - ✓ If oil sells for more than \$17 per barrel, the rate remains at 7%.
 - ✓ If the price is \$14 to \$17, the rate drops to 4%.
 - ✓ If the price is less than \$14 per barrel, the rate drops to 1%.
 - ✓ The tax on gas production remained at 7%.

For tax-rate purposes, the price of oil will be determined monthly by the Tax Commission, based upon data submitted by the three largest oil purchasers.

This measure was expected to result in a tax cut of about \$29.2 million annually.

- **2000 Session:** The 2000 Legislature referred to voters a measure reducing motor vehicle registration fees and modifying the basis for the motor vehicle excise tax, which actually resulted in a tax savings of approximately \$50 million annually when fully implemented (HB 2189). Other tax measures enacted in 2000 included extending the insurance premium tax credit to

affiliates (HB 2191) for a tax savings of \$2.1 million, and granting an income tax exemption for federally tax-exempt bonds (HB 2635) for a tax savings of \$1.2 million.

- **2001 Session:** Tax reductions approved in the 2001 session will total approximately \$63 million when fully implemented. These include a reduction in the top income tax rate for Method 1 filers from 6.75% to 6.65% and an earned income tax credit (HB 1933), income tax credits for space transportation vehicle providers (SB 55), increased workers' compensation assessments (HB 1003X) and coal producers (SB 495), expansion of the sales tax exemption for aircraft parts (SB 495) and income tax deductions for contributions to college savings plans (HB 1896). The income tax rate reduction retained the "trigger mechanism" from the 1998 law, which provided for a suspension in the rate reduction in the event of declining revenues, which occurred in 2002, so this reduction has not yet taken effect.
- **2002 Session:** In spite of the first decline in state revenues in several years, the Legislature provided targeted tax relief to selected industries, including an income tax credit for small wind turbine manufacturers (SB 1451), a new Quality Jobs Incentive Leverage Act designed to assist tire manufacturers (HB 2245), and additional income tax credits for certain airlines (HB 2315).

The Oklahoma Quality Jobs Program, originally enacted in 1993, provides incentive payments to targeted industries creating new jobs in Oklahoma. The program has been expanded and extended since that time, and the amounts of payments made are in addition to the tax cuts described above. Quality Jobs incentive payments exceeded \$50 million in FY'01 and \$60 million in FY'02.

INCOME TAXES

Oklahoma received more than \$2.4 billion in income tax revenues in FY'02. Income taxes are the largest single source of money for the state General Revenue (GR) Fund, accounting for 43% of total revenue and over half the deposits to the GR Fund in FY'02. The state income tax is imposed on the Oklahoma taxable income of all individuals and corporations, whether resident or nonresident. Oklahoma taxable income is based on federal adjusted gross income, so income tax changes enacted by Congress can impact state tax levels.

In 1999, Oklahoma ranked 28th among the 50 states and the District of Columbia in per capita revenue collection from individual income taxes.

Individual Income Tax

Oklahoma law provides two methods of computation to determine an individual's income tax. If federal income tax is not deducted, Method I rates are used. If the federal tax is deducted, Method II rates apply. The state income tax liability is the lower of the amount derived from two computations.

Individual income tax rates were last changed in 1998, when the top rate for Method I was reduced from 7% to 6.75%. A reduction to 6.65% was enacted in 2001, but a provision in the law changed the rate back to 7% in 2002 due to a decline in state revenues.

Individual Income Taxes Comparison

Nationwide

National Ranking (per capita): 28
Number of states using tax: 43

Regional States

Regional Ranking: 5
States using tax: 9
States with higher max. rate: 1
States with lower max. rate: 6

Oklahoma ranks 28th of the 43 states levying an individual income tax in per capita individual income tax revenue.

Income Taxes in Regional States 2002 Rates; 2000 Per Capita Revenue & Rankings

<u>State</u>	<u>Tax Rate</u>	<u>Per Capita Revenue</u>	<u>Ranking</u>
Arizona	2.87 - 5.04%	\$444	38
Arkansas	1 - 7%	\$549	34
Colorado	4.63%	\$841	15
Kansas	3.5 - 6.45%	\$692	23
Louisiana	2 - 6%	\$354	39
Missouri	1.5 - 6%	\$634	27
Nebraska	2.51 - 6.68%	\$685	24
New Mexico	1.7 - 8.2%	\$484	36
Oklahoma	0.5 - 7%	\$618	28
Texas	--	--	44
U.S.		\$691	

Source: Ibid, p. 305, and State Individual Income Taxes, 2002 Tax Rate Table, web page of Federation of Tax Administrators (www.taxadmin.org)

In 2000, Massachusetts had the highest per capita income tax with \$1,422 collected per person. Seven states (Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming) have no individual income tax.

The average Oklahoman pays \$73 less per year in individual income taxes than the average American citizen.

Corporate Income Tax

Corporate income tax is imposed at a flat 6% rate of Oklahoma Taxable Income. The corporate income tax rate was last changed in 1990, as part of HB 1017.

Income taxes paid by Oklahoma corporations produced \$235 million in revenues during FY'01. Corporate income taxes total about one-tenth the amount collected through individual income taxes.

Corporate Income Taxes Comparison

Oklahomans pay about half the national average per capita in corporate income taxes. All states in the region are below the national average.

2002 Corporate Income Tax Rates; 2000 Per Capita Revenue and Rankings

State	Tax Rate	Per Capita Revenue	Ranking
Arizona	6.968%	\$101	22
Arkansas	1 - 6.5%	\$88	25
Colorado	4.63%	\$77	33
Kansas	4%	\$101	22
Louisiana	4 - 8%	\$50	45
Missouri	6.25%	\$47	46
Nebraska	5.58 - 7.81%	\$82	28
New Mexico	4.8 - 7.6%	\$87	26
Oklahoma	6%	\$56	41
Texas	--	--	47
U.S.		\$115	

Source: State Rankings 2001, A Statistical View of the 50 United States, Morgan Quitno Corporation, p. 307 and Range of State Corporate Income Tax Rates, 2002, web page of Federation of Tax Administrators (www.taxadmin.org)

Oklahoma ranks 41st of the 46 states that levy a corporate income tax in per capita corporate income tax revenue.

Alaska is the highest with \$699 collected per capita. Four states (Nevada, Texas, Washington and Wyoming) have no corporate income tax.

Oklahomans pay 50% of the national average per capita in corporate income taxes. All states in the region are below or within \$1 of the national average.

The corporate income tax rate is not necessarily related to per capita collections. For example, Kansas collects \$101 per capita under a 4% rate, Oklahoma collects \$56 per capita with a 6% rate, and Missouri collects \$47 per capita with a 6.25% rate.

Statutory Apportionment of Income Taxes

Individual income tax revenues are apportioned by the Oklahoma Tax Commission on a monthly basis according to the following statutory schedule:

- 87.12% to the General Revenue Fund, which is appropriated by the Legislature;
- 8.34% to the Education Reform Revolving Fund;
- 3.54% to the Teachers' Retirement System Dedicated Revenue Revolving Fund; and
- 1% to the Ad Valorem Reimbursement Fund to reimburse local governments for lost revenues related to the exemption from ad valorem taxes of new, expanded or acquired manufacturing facilities.

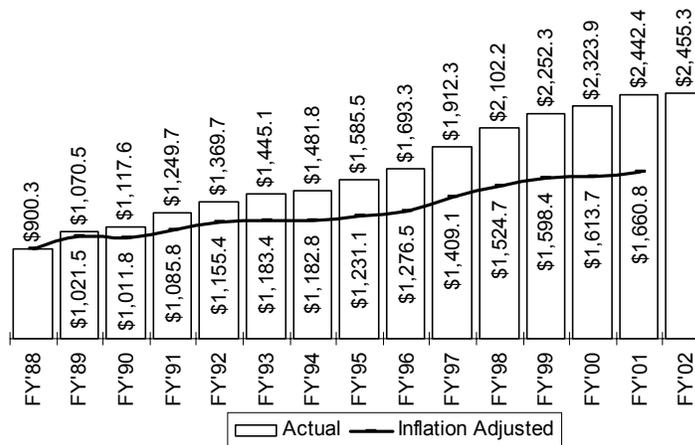
Corporate income tax revenues are apportioned monthly as follows:

- 78.96% to the General Revenue Fund, which is appropriated by the Legislature;
- 16.5% to the Education Reform Revolving Fund;
- 3.54% to the Teachers' Retirement System Dedicated Revenue Revolving Fund; and
- 1% to the Ad Valorem Reimbursement Fund.

History of Revenues from State Income Taxes

Revenues from income taxes in Oklahoma have more than doubled between FY'88 and FY'01.

History of Income Tax Revenue
FY'88 Through FY'02 (In Millions)



Source: Oklahoma Tax Commission

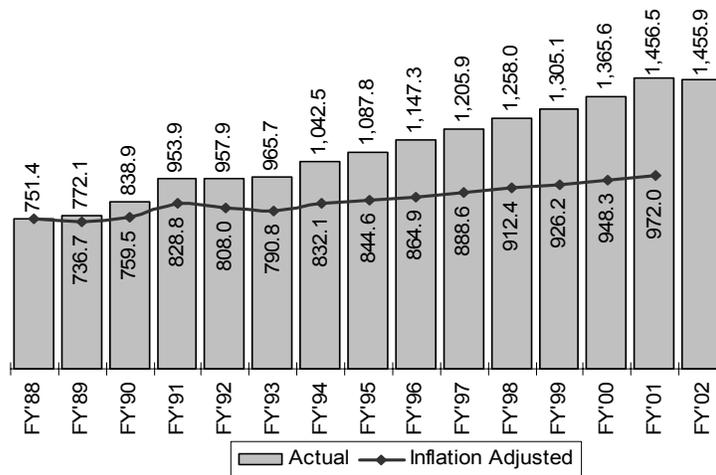
SALES AND USE TAXES

In FY'02, state sales tax revenue totaled almost \$1.456 billion and the use tax produced \$86.5 million. The state rate for both the sales tax and use tax in Oklahoma is 4.5%. The two taxes accounted for 31.7% of actual GR Fund revenues in FY'02. The Legislature has authorized municipalities and counties to levy sales taxes. There is no limit on the amount a municipality may levy, although voter approval is required. Counties may levy up to 2%. The use tax applies the same 4.5% tax on items purchased in other states to be used in Oklahoma.

History of the State Sales Tax

Sales tax collections have grown at an average annual rate of 6.8% between FY'88 and FY'00.

State Sales Tax Collections
FY'88 Through FY'02 (In Millions)



Source: Oklahoma Tax Commission

Until 1983, all revenue from the state's then 2% sales tax was dedicated to the Department of Human Services (DHS) for fulfilling the Oklahoma Social Security Act. These funds were spent at the discretion of the Public Welfare Commission and were not subject to legislative appropriation. Effective July 1983, statutes were amended to provide more legislative control. Though the funds remained separate from the GR Fund, they could be expended only through direct appropriation by the Legislature.

During the 1984 legislative session, a temporary third cent was added to the sales tax rate, with the new revenue allocated to the GR Fund. Because of revenue

shortfalls during the next fiscal year, the 1985 Legislature made permanent the third-cent tax and added another 0.25¢, making the total tax rate 3.25%.

Sales tax changes were again made during the 1987 session. Earmarking of the original 2% sales tax to DHS was discontinued and the funds were allocated to the GR Fund for annual appropriation by lawmakers. Also that year, the Legislature confronted severe budget shortfalls by raising the sales tax from 3.25% to 4.0% effective June 1, 1987.

Most recent changes in the sales tax were made by the 1990 Legislature as part of HB 1017, the Education Reform Act. Effective May 1, 1990, the sales tax increased from 4.0% to 4.5%.

Sales Tax Exemptions

Items exempt from the state sales tax by statute include most advertising, natural gas and electricity sold for residential use, prescription drugs, and groceries purchased with food stamps and sales for resale. Many other sales to or by certain organizations are also exempt. Most services are not taxed.

Sales Tax Comparisons With Other States (2000)

	<u>National Ranking</u>	<u>Regional Ranking</u>
Oklahoma's Per Capita Rank	24	9
Number of states using this tax	46	10
Number with rates higher than OK	33	6
Number with rates lower than OK	11	3

<u>State</u>	<u>2001 State Sales Tax Rate (%)</u>
Texas	6.25
Arizona	5.6
Nebraska	5.0
New Mexico	5.0
Kansas	4.9
Arkansas	5.125
Oklahoma	4.5
Missouri	4.225
Louisiana	4.0
Colorado	2.9

Source: Comparison of State and Local Retail Sales Taxes, web page of Federation of Tax Administrators (www.taxadmin.org)

Per Capita State and Local Sales Tax Revenue (1999)

Oklahoma ranks 25th of the 46 states levying sales taxes in per capita state and local sales tax revenue.

1999 Per Capita Sales Tax Revenue and Rankings

State	Per Capita Revenue	Ranking
Arizona	\$899	11
Arkansas	\$791	19
Colorado	\$834	14
Kansas	\$812	16
Louisiana	\$934	8
Missouri	\$718	23
Nebraska	\$617	32
New Mexico	\$1,042	4
Oklahoma	\$689	24
Texas	\$803	18
U.S.	\$736	

Source: State Rankings..., p. 281

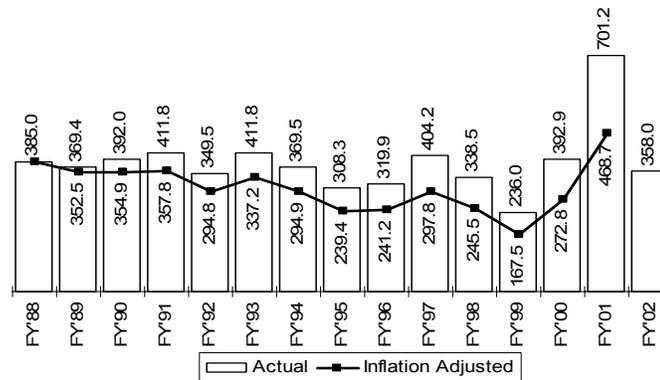
Washington is the highest with \$1,446 collected per capita. Four states (Delaware, Montana, New Hampshire and Oregon) have no sales tax.

The average Oklahoman pays \$47 less per year in sales taxes than the average American citizen.

GROSS PRODUCTION TAXES

Significant revenues are generated for a number of state and local services through taxes levied on extraction and production of certain raw materials. Gross production taxes provided \$358 million in FY'02.

History of Gross Production Tax Collections FY'88 Through FY'02 (In Millions)



Source: Oklahoma Tax Commission

There are two types of gross production taxes: the severance tax and petroleum excise tax.

Severance Tax

A severance tax is a tax levied upon the production or mining of minerals when they are "severed" from the earth. A severance tax is levied upon the production of the following minerals:

<u>Type of Mineral</u>	<u>Tax Rate</u>
Oil (price > \$17 per barrel)	7.00%
Oil (price \$14 to \$17 per barrel)	4.00%
Oil (price < \$14 per barrel)	1.00%
Uranium	5.00%
Mineral ores and asphalt	0.75%
Gas (price > \$2.10 per mcf)	7.00%
Gas (price \$1.75-\$2.10 per mcf)	4.00%
Gas (price < \$1.75 per mcf)	1.00%

Petroleum Excise Tax

A petroleum excise tax is levied, in addition to the severance tax, on oil and gas at a rate of 0.095 of 1% of gross value.

Gross Production Tax History

Gross production taxes on oil were last changed by HB 1003X in a 1999 special session. The bill renewed exemptions from all but a 1% tax levy for various types of wells and enacted a three-tiered rate structure depending upon the price of oil (see Tax Cut Initiatives). In 2002, a similar tax structure was enacted for gas production (SB 947).

Apportionment of Gross Production Taxes

Severance Taxes on Oil: Pursuant to 68 O.S. 1001, the apportionment of severance tax revenues varies depending on the tax rate imposed (see Tax Cut Initiatives).

- If levied at a 7% tax rate, severance tax revenues from oil are apportioned monthly as follows:

25.72%	to the Common Education Technology Fund;
25.72%	to the Higher Education Capital Fund;
25.72%	to the Oklahoma Tuition Scholarship Fund;
4.28%	to the County Bridge and Road Improvement Fund;
4.28%	to the REAP Water Projects Fund;
7.14%	to counties where the oil is produced, for roads; and
7.14%	to school districts.

- If levied at a 4% tax rate, severance tax revenues from oil are apportioned monthly as follows:

- 22.50% to the Common Education Technology Fund;
- 22.50% to the Higher Education Capital Fund;
- 22.50% to the Oklahoma Tuition Scholarship Fund;
- 3.75% to the County Bridge and Road Improvement Fund;
- 3.75% to the REAP Water Projects Fund;
- 12.5% to counties where the oil is produced, for roads; and
- 12.5% to school districts.

- If levied at a 1% tax rate, severance tax revenues from oil are apportioned monthly as follows:

- 50.0% to counties where the oil is produced, for roads; and
- 50.0% to school districts.

Severance Taxes on Gas: Like revenues from severance taxes on oil production, the apportionment of severance taxes on gas production varies depending on the tax rate imposed.

- If levied at a 7% tax rate, severance tax revenues from gas are apportioned monthly as follows:

- 85.72% to the General Revenue Fund;
- 7.14% to counties where the gas is produced, for roads; and
- 7.14% to school districts.

- If levied at a 4% tax rate, severance tax revenues from gas are apportioned monthly as follows:

- 75% to the General Revenue Fund;
- 12.5% to counties where the gas is produced, for roads; and
- 12.5% to school districts.

- If levied at a 1% tax rate, severance tax revenues from gas are apportioned monthly as follows:

- 50% to counties where the gas is produced, for roads; and
- 50% to school districts.

Severance Taxes on Other Minerals: Severance tax revenues from other minerals are apportioned monthly as follows:

- 85.72% to the General Revenue Fund;
- 7.14% to counties where the other mineral is produced for roads; and
- 7.14% to school districts.

Petroleum Excise Taxes: Until July 1, 2006, petroleum excise tax revenues from oil are apportioned monthly as follows:

- 84.553% to the General Revenue Fund;
- 10.526% to the Corporation Commission Plugging Fund; and
- 4.921% to the Interstate Oil Compact Fund.

After July 1, 2006, petroleum excise tax revenues from gas will be apportioned monthly as follows:

- 85.4066% to the General Revenue Fund;
- 10.5555% to the Corporation Commission Plugging Fund; and
- 4.0379% to the Interstate Oil Compact Fund.

Gross Production Tax Collections by Type
(In Millions)

	FY'95	FY'96	FY'97	FY'98	FY'99	FY'00	FY'01	FY'02
Severance	\$303.60	\$315.50	\$398.70	\$333.80	\$232.47	\$387.26	\$701.14	\$358.98
Petroleum Excise	\$4.10	\$4.30	\$5.50	\$4.70	\$3.58	\$5.63	\$9.94	\$5.48
TOTAL	\$307.70	\$319.80	\$404.20	\$338.50	\$236.05	\$392.89	\$711.08	\$364.46

PROPERTY TAXES IN OKLAHOMA

Property taxes, also known as ad valorem taxes, are the primary source of funding for county government operations. This revenue source also provided 31.8% of the statewide public school budget in FY'01 and 63% of career technology (vo-tech) center funding.

Decisions about property taxes in Oklahoma are made at three levels: (1) the Oklahoma Constitution authorizes property taxes to be imposed; (2) the Legislature has enacted statutes to implement constitutional provisions; and (3) the State Board of Equalization and the courts have interpreted these constitutional and statutory provisions. Property taxes can only be imposed if the people vote for them, a provision that has been in place since statehood and is not related to SQ 640. Property tax levies are based on the value of a taxpayer's property.

Property Tax Comparison with Other States

Oklahoma's per capita property tax average of \$369 per person in 1999 was less than half the national average of \$881. Oklahoma ranks 48th out of the 50 states in per-capita property taxes.

Per Capita State and Local Property Tax Revenue 1999

State	Per Capita Revenue	Ranking
Arizona	\$750	32
Arkansas	\$549	40
Colorado	\$842	22
Kansas	\$797	28
Louisiana	\$371	47
Missouri	\$604	37
Nebraska	\$941	15
New Mexico	\$338	49
Oklahoma	\$369	48
Texas	\$938	16
U.S.	\$881	

Source: State Rankings 2001..., p. 283

The Oklahoma Constitution provides that property tax revenue may not be used by state government. In many other states, a state property tax is charged in addition to local property taxes.

Valuation of Property for Tax Purposes

Property taxes are paid based on the value of a taxpayer's property. The county assessor, a locally-elected officeholder, determines the value of most property in the county for tax purposes.

Real Property: The value of real property (land and structures) is determined by computer-assisted calculation (see Computerization Appraisals) but are subject to certain constitutional limits (see Limits on Property Valuations).

Personal Property: The value of personal property – furnishings, equipment, clothes, etc. – is assessed separately from real property. Motor vehicles are subject to registration fees in lieu of property taxes. The county assessor by law may use one of two methods to assess the value of personal property: (1) assume that a taxpayer's personal property is valued at 10% of the value of his/her real property, or (2) have a taxpayer file a list of his/her personal property for assessment of value. Most calculations are based on the assumed value.

Centrally Assessed Property: Property of certain companies (public service corporations, railroads and airlines) is centrally assessed – its value is determined by the State Board of Equalization rather than the local assessors.

Computerizing Appraisals

A system called "computer-assisted mass appraisal" (CAMA) was implemented in Oklahoma to allow counties to systematically update property values based on recent sales of comparable properties. The goals of this program are (1) to have

property values more accurately reflect fair market value for tax purposes, and (2) to make property valuation more uniform throughout the county.

Limits on Property Valuations

Prior to 1997, all real property was valued at its "fair cash value" – the price a willing buyer would pay a willing seller in an "arm's-length" transaction. Real property is valued at its "use value" – its fair cash value for the highest and best use for which the property was actually used (or classified for use) during the previous calendar year. This "use value" provision is most often applied to agricultural land.

In 1996, the Legislature proposed, and the voters approved, two constitutional amendments that affected the valuation process.

- One amendment provided that the fair cash value of locally-assessed real property (i.e., all real property except that of public service corporations, airlines and railroads) cannot be increased by more than 5% in any year, unless title to the property is transferred or improvements are made to the property. This provision became effective in 1997 for counties that were in compliance with state laws and rules on property valuation on the January 1, 1997, effective date. For other counties, the cap became effective on January 1 of the year following the date of compliance. The cap now applies in all counties.
- The second amendment provided that valuation would be frozen, beginning January 1, 1997, for taxpayers with gross household income of \$25,000 or less if the head of household is 65 years of age or older.

Homestead Exemptions

A taxpayer may apply for a homestead exemption that reduces by \$1,000 the assessed value of a taxpayer's actual residence. Taxpayers whose gross household income from all sources does not exceed \$20,000 may receive an additional homestead exemption of \$1,000 (this is known as the "double homestead exemption"). A taxpayer who is at least 65 years old, or who is totally disabled, and whose gross household income from all sources does not exceed \$12,000, may file a claim for property tax relief for the amount of property taxes paid over 1% of his/her income, up to a maximum of \$200.

Assessment Ratios

Once a property's value is computed by the county assessor, the "assessment ratio" or "assessment percentage" is applied. For locally-assessed property, the county assessor sets the ratio, but any increase must be approved by local voters. Recent (November 1996) amendments to the Oklahoma Constitution provide that personal property must be assessed at an amount between 10% and 15% of its fair cash value; real property must be assessed at an amount between 11% and 13.5% of its fair cash value; and other property (public service corporation,

airline and railroad property) must be assessed at the ratio it was assessed on January 1, 1997 (22.85% for public service corporation property and 12.08% for railroads and airlines).

Prior to the 1996 amendments, the Constitution limited the assessment ratio for all property to a maximum of 35% of its fair cash value. However, the State Board of Equalization had ordered counties to set ratios between 11% and 14% for real property and between 10% and 20% for personal property.

The value of the property is multiplied by the assessment ratio to get the "assessed valuation". The assessed valuation is then multiplied by the number of mills which local voters have approved in their area to compute the amount of tax due.

Millages Allowed under the State Constitution

Votes on property tax levies concern the number of mills to be assessed (a mill is \$0.001 or one-tenth of a cent). The Oklahoma Constitution allows the following maximum levies:

- 10 mills for counties;
- 39 mills for schools;
- 2.5 mills for county health departments;
- 10 mills for vo-tech schools;
- 3 mills for ambulance service districts;
- 3 mills for solid waste management services;
- 5 mills for county building fund;
- 5 mills for city building fund;
- 5 mills for school building fund; and
- 4 mills for libraries.

The Constitution allows counties to abolish taxes on household personal property and livestock upon a vote of the people. If these taxes are abolished, the millage rates are automatically adjusted upward by an amount necessary to offset the lost revenue.

Millage Elections

Boards of county commissioners or local boards of education generally are the entities that call millage elections. Those bodies also determine how many mills will be voted on, although in some cases an initiative petition can propose a millage amount. Some of these levies must be voted on each year, such as 15 of the 39 mills allowed for schools. Other levies, once approved by voters, remain in effect until changed or repealed.

The Constitution also allows counties, cities, school districts, career technology (vo-tech) districts, ambulance service districts, and solid waste districts to issue bonds if approved by the voters. If approved, the additional millage levy is

imposed in an amount necessary to repay the bonds each year. This millage level is not necessarily the same each year. The revenue from these levies is deposited into a "sinking fund", which disperses principal and interest payments to bondholders.

Examples of Tax Computation

The complex process for computing a taxpayer's ad valorem tax is confusing to many. The following step-by-step illustration shows how the final property tax amount is computed on a specific taxpayer:

A taxpayer lives in a home valued at \$50,000 in the city of Moore, in the Moore school district, in Cleveland County. The sum of all mills that have been approved by voters in that county was 104.84 in 1997. Comprising the total are 10.28 mills for the county, 0.28 mills for the county sinking fund, 13.73 mills for the city sinking fund, 2.57 mills for the county health department, 4.11 mills for county libraries, 40.18 mills for public schools, 5.15 mills for the school building fund, 15.18 mills for the school sinking fund, 9.25 mills for the vo-tech school and 4.11 mills for the vo-tech building fund.

Real Property: The assessor would compute the real property tax on that home as follows:

- a. \$50,000 gross home valuation x 12% assessment ratio = \$6,000 assessed valuation
- b. \$6,000 assessed valuation - \$1,000 homestead exemption = \$5,000 net assessed valuation
- c. \$5,000 net assessed valuation x 104.84 mills = \$524.20 annual real property taxes

Personal Property: Household personal property taxes for this taxpayer would be computed as follows (note, however, that Cleveland County has abolished personal property taxes):

- a. \$50,000 gross home valuation x 10% = \$5,000 assumed personal property value (this amount could be changed if the taxpayer chose to file a list of his/her personal property)
- b. \$5,000 personal property value x 12% assessment percentage = \$600 assessed valuation
- c. \$600 assessed valuation x 104.84 mills = \$62.90 annual personal property taxes

Total Tax Due: \$62.90 for personal property + \$524.20 for real property = \$587.10.

MOTOR VEHICLE TAXES

The State of Oklahoma levies an annual tax for the registration of motor vehicles, and also levies excise taxes upon the transfer of title or possession of motor vehicles. Until 2001, the annual registration fee was based upon the value of the vehicle, and the excise tax was based on the factory delivered price, depreciated 35% per year for used vehicles. This resulted in a situation in which annual registration fees were increasing as factory delivered prices increased from year to year, and in which the value upon which excise taxes were paid was unequal to the sales price of a vehicle. (Typically, the value upon which excise taxes were paid was higher for new vehicles and considerably lower for used vehicles.) The fees to register vehicles in Oklahoma, other than commercial and farm vehicles, were among the highest in the nation, resulting in various forms of tax evasion and avoidance, such as increased use of out-of-state tags, Indian tags and commercial vehicle tags.

In 2000, the Legislature referred to the voters a question which imposed flat registration fees based upon the age of the vehicle (\$85 for vehicles 1-4 years old, \$75 for 5-8 years old, \$55 for 9-12 years old, \$35 for 13-16 years old and \$15 for 17+ years old, all with an additional \$5 in other fees added on). The question also based excise taxes on the actual sales price of new vehicles, at a rate of 3.25%. For used vehicles, the excise tax is based on the actual sales price also, at a rate of \$20 for the first \$1,500 and 3.25% on the remainder. The value of used vehicles must be within 20% of the “blue book” value.

Although this change was projected to result in a tax savings of approximately \$23 million to taxpayers, the actual tax savings was considerably higher. The Oklahoma Tax Commission has estimated that the tax savings has actually amounted to approximately \$50 million annually.

Making comparisons with other states in this area is difficult. Unlike most other states, in Oklahoma the annual registration fees are in lieu of property taxes on motor vehicles. Many other states impose sales taxes instead of special motor vehicle excise taxes, so these revenues are not considered as motor vehicle revenue. For these reasons, as well as for the previously high fees, Oklahoma has ranked very high in this area in the past. Interstate comparisons using Oklahoma’s new structure are not yet available.

MOTOR FUELS TAXES

The State of Oklahoma generates revenues for state highways and county roads through an excise tax levied on motor fuels. The taxes are apportioned according

to formulas established by the Legislature. The two major taxes levied are the gasoline tax and the diesel fuel tax.

The gasoline tax of 17¢ per gallon is used to fund the majority of all work on roads and bridges. The diesel fuel tax of 14¢ per gallon adds additional funds for the same purpose.

History of Motor Fuels Taxes

The fuel tax was first enacted in 1923 at a rate of 1¢ per gallon. The tax on diesel fuel was initiated in 1939. Throughout the state's history, motor fuel taxes have been increased 19 times, most recently in 1990.

Oklahoma's Motor Fuel Tax Rate History

<u>Date</u>	<u>Gasoline</u>	<u>Diesel</u>	<u>Date</u>	<u>Gasoline</u>	<u>Diesel</u>
March 1923	\$.01		January 1947	\$.0558	\$.055
March 1924	.025		June 1949	.0658	.065
March 1925	.03		June 1953	.0658	.065
June 1929	.04		June 1957	.0758	.065
February 1931	.05		December 1957	.0658	.065
December 1931	.04		April 1984	.09	.09
April 1939	.04	\$.04	July 1985	.10	.10
July 1939	.0408	.04	May 1987	.16	.13
June 1941	.0558	.055	July 1990	.17	.14
April 1945	.0758	.055			

In 1996, the Legislature revised the motor fuel tax code in response to a U.S. Supreme Court ruling that affected the state's ability to tax sales made in Indian country. Although the tax rate was not changed, the point of taxation was moved "upstream" to the terminal rack. Also, provisions were made for apportionment of some motor fuel tax revenue to Indian tribes that enter into agreements with the state on fuel tax issues.

Revenues from Fuel Taxes

Each additional 1¢ tax on gasoline yields about \$18 million annually, based on 1999 consumption levels, and each additional 1¢ tax on diesel fuel consumption yields \$6.3 million annually.

Oklahoma state and local governments received approximately \$380 million in motor fuel tax revenues in FY'02.

Per Capita Motor Fuel Tax Comparison

Among the 50 states, Oklahoma ranked 33rd in per capita state revenue collections in 1998. The average Oklahoman pays \$7 more per year in motor fuel taxes than the average American citizen.

Motor Fuel Tax Comparison 2001 Rates; 2000 Revenues and Rankings

State	Gas Tax Rate	Per Capita Revenue	National Ranking
Arizona	18.00	\$115	32
Arkansas	20.00	\$145	12
Colorado	22.00	\$126	23
Kansas	20.00	\$132	18
Louisiana	20.00	\$123	27
Missouri	17.05	\$124	25
Nebraska	24.80	\$163	6
New Mexico	18.00	\$128	21
Oklahoma	17.00	\$117	31
Texas	20.00	\$128	21
U.S.	19.85	\$107	

Source: State Rankings 2002..., pp. 311-312

Montana is the highest with \$209 collected per capita. New York is the lowest with \$27 collected per capita. Sparsely populated and Western states tend to have higher per capita motor fuel tax payments.

Gasoline Tax

The 17¢ per gallon gasoline tax is a combination of: (1) a 16¢ per gallon excise tax levied on every gallon of gasoline that is either sold, stored and distributed, or withdrawn from storage in Oklahoma; and (2) a 1¢ per gallon assessment which is separately levied and apportioned.

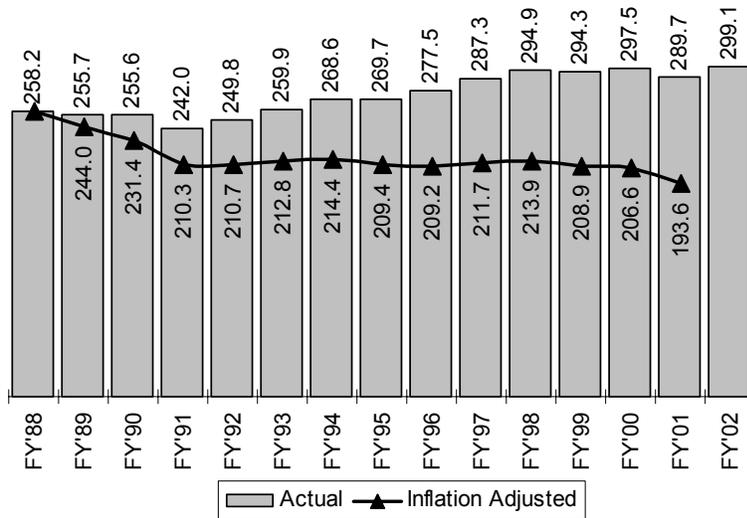
The 1¢ is apportioned to the Petroleum Storage Tank Release Environmental Cleanup Indemnity Fund for cleaning up leaking underground storage tanks or to the State Transportation Fund.

The other 16¢ of gasoline tax revenue is distributed as follows:

- 63.75% to the State Transportation Fund;
- 27.0% to the counties for county roads and highways;
- 3.125% to the counties for construction, maintenance and repair of county roads as provided in the County Bridge and Road Improvement Act;
- 2.625% to the County Bridge and Road Improvement Fund for construction, maintenance and repair of county roads and bridges;
- 1.875% to cities and towns for maintenance of streets; and
- 1.625% to the General Revenue Fund.

Gasoline tax exemptions are allowed for the federal government, political subdivisions of the state, school districts, FFA or 4-H.

Gasoline Tax Revenue (16 cents)
 FY'88 Through FY'01 (In Millions)



Source: Oklahoma Tax Commission

Gasoline Tax Comparison With Other States

National Ranking: 31 (revenues per capita)
 40 (gas tax rate)
 Number of States using tax: 50
 Number of States with higher rate: 39
 Number of States with lower rate: 10

Regional Ranking: 9
 Number of States using tax: 10
 Number of States with higher rate: 10
 Number of States with lower rate: 0

Diesel Fuel Tax

The 14¢ per gallon diesel fuel tax is a combination of: (1) a 13¢ per gallon excise tax levied on every gallon of diesel fuel that is either sold, stored and distributed, or withdrawn from storage in Oklahoma; and (2) a 1¢ per gallon assessment which is separately levied and apportioned.

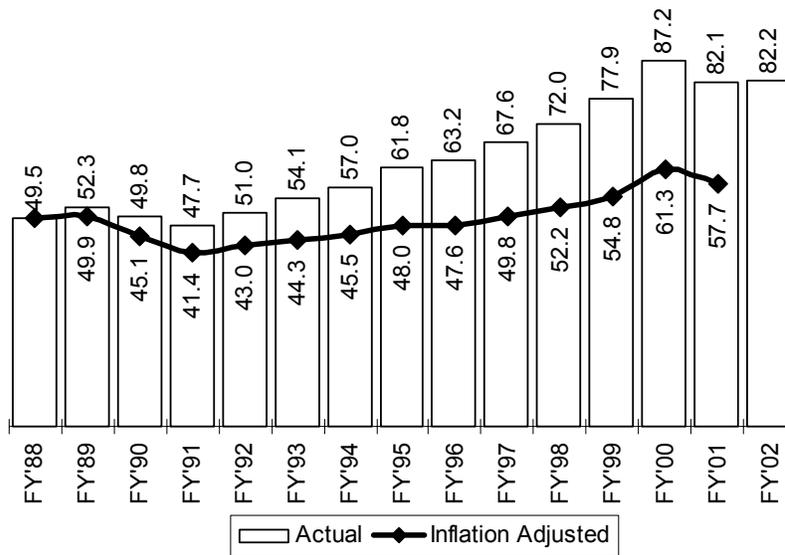
The 1¢ assessment is apportioned to the Petroleum Storage Tank Release Environmental Cleanup Indemnity Fund for cleaning up leaking underground storage tanks or to the State Transportation Fund.

The remaining 13¢ of diesel fuel tax revenue is distributed as follows:

- 64.34% to the State Transportation Fund;
- 26.58% to counties for county roads and highways;
- 3.85% to the counties for construction, maintenance and repair of county roads as provided for in the County Bridge and Road Improvement Act;
- 3.84% to the County Bridge and Road Improvement Fund for construction, maintenance and repair of county roads and bridges; and
- 1.39% to the General Revenue Fund.

Diesel tax exemptions are allowed for the federal government, political subdivisions of the state, school districts, limited agriculture uses, FFA or 4-H.

Diesel Fuel Tax Revenue
FY'88 Through FY'02 (In Millions)



Source: Oklahoma Tax Commission