OKLAHOMA SENATE
Overview of State Issues

Report by Senate Staff
November 2004

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INTRODUCTION

Oklahoma Senate Overview of State Issues is designed to provide a convenient summary of budget and taxation issues that face Oklahoma's Legislature. Though full of factual groundwork, this book's goal is also to put issues in context.

Discussion begins with a brief overview of the state's economic conditions and population trends, since these dynamics so often serve as catalysts for change.

The state's tax structure is examined closely, beginning with an analysis of total taxation and how it compares with other states. Each major tax type is then presented in detail – how it is assessed, collected and spent under the law. Regional and national rate analyses are provided for each major tax type.

Overall expenditures are presented in a chapter that details the emergence of broad shifts in spending priorities. Recent bond issues for capital improvements are also highlighted.

Next is a series of chapters, each of which is dedicated to a major policy area that has been the subject of recent legislative deliberation and action. Subjects discussed include the programs and budgets of almost all major state agencies.

Where relevant, descriptions of issues include historical context and state-by-state comparisons. Programs and policies that at first may seem perplexing are more easily understood when viewed in historical context.

The information is by no means comprehensive. More information on a particular topic can be obtained by contacting the Senate staff analysts listed on the dividing page of each chapter.

TABLE OF CONTENTS

Overview
State Economy and Demographics 1
State Expenditures 7
Oklahoma Taxes 11
Agriculture 39
Education
Common Education 45
Career and Technology Education 66
Postsecondary Education 71
Environment
Environmental Agencies 85
Tar Creek 91
Health and Social Services
State Department of Health 97
Medicaid 105
Mental Health and Substance Abuse Services 117
Human Services
Department of Human Services 129
Juvenile Justice 143
State Personnel Issues 153
Public Safety and Corrections 159
Tourism 171
Transportation 179

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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 percent of the state's total economic output, much lower than the 17.5 percent share of the gross state product (GSP) in 1985.

Components of the 2002 Oklahoma Economy

	$Amount in Millions	Percent of Total
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

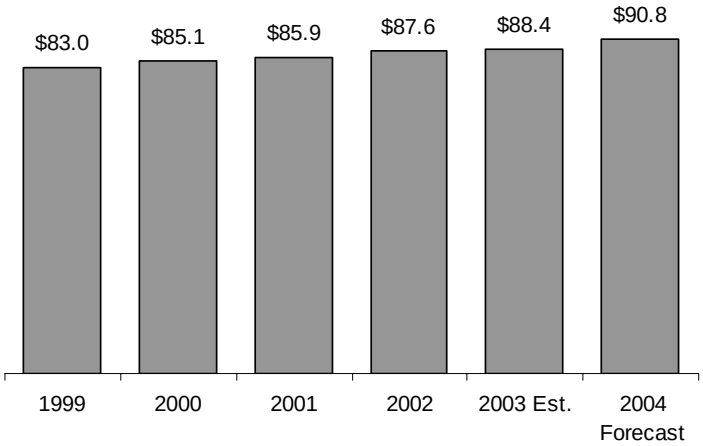
Despite the diversification of the economy, however, mining (which includes oil extraction) and agriculture are more important to Oklahoma's economy than to the average state's economy.

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 percent 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.

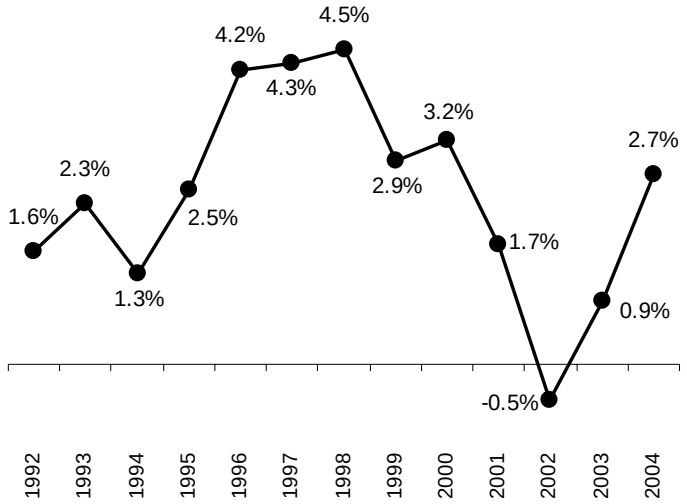
Oklahoma Real Gross State Product
1999 Through Projected 2004 (In Billions)



Source: OSU College of Business Administration, Oklahoma Economic Outlook 2004 Forecast, November 2004 Update

The Real GSP, which is adjusted for price changes and is considered the most appropriate measure of state output, is forecast to increase by 2.7 percent in the year 2004, following an increase of 0.9 percent in 2003. Services including health services will be a strength, manufacturing will decline slower than the national average and construction will weaken.

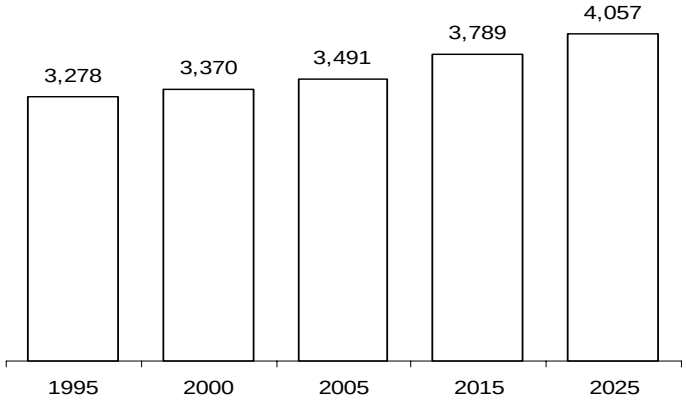
Oklahoma Gross State Product Growth Rate
1992 Through 2004



Source: OSU College of Business Administration, Oklahoma Economic Outlook 2004 Forecast, November 2004 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 percent between 1995 and 2025. This projected increase ranks 25th among states. Internal migration (from other states) comprises about 52.9 percent, natural increases (births minus deaths) account for 25.7 percent, and international migration is 11.8 percent of this growth projection.

Oklahoma's year 2000 population makes up about 1.2 percent 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 percent in 1995 to 55.4 percent in 2025. Oklahoma has a larger percentage of young and elderly than the average state.

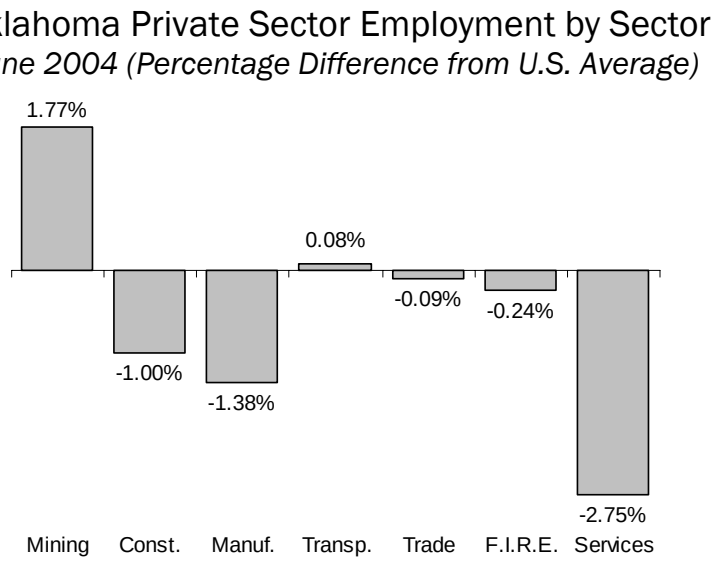
The primary reason for Oklahoma's projected decrease in the working-age proportion is the growth rate of elderly residents. Oklahoma's elderly population is projected to increase at a faster rate than the nation. By 2025, it is projected that Oklahoma will have the nation's eighth highest proportion 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 2002 was $28,253 or 78.1 percent of the national average. This wage represents a 13 percent growth in wages from the 2001 average wage.

The per capita personal income (PCPI) in 2003 for Oklahoma was $26,656, which is 84.3 percent 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 percent of the national average when adjusted for cost-of-living factors. PCPI grew by 2.8 percent between 2002 and 2003 in Oklahoma; the U.S. PCPI grew at a rate of 2.4 percent. Lower wages, in

addition to Oklahoma's relatively high proportion of senior citizens and children explains much of the PCPI difference.



Source: Bureau of Labor Statistics, 2004

Oklahoma's employment growth rate was forecast to grow at a meager 0.8 percent, still slightly below the national forecast of 1.1 percent for 2004.

Oklahoma's unemployment rate of 3.8 percent in 2004 was more than a full percentage point below the national rate of 5.4 percent. This rate was the lowest in the region, with only Kansas having unemployment below 5.0 percent.

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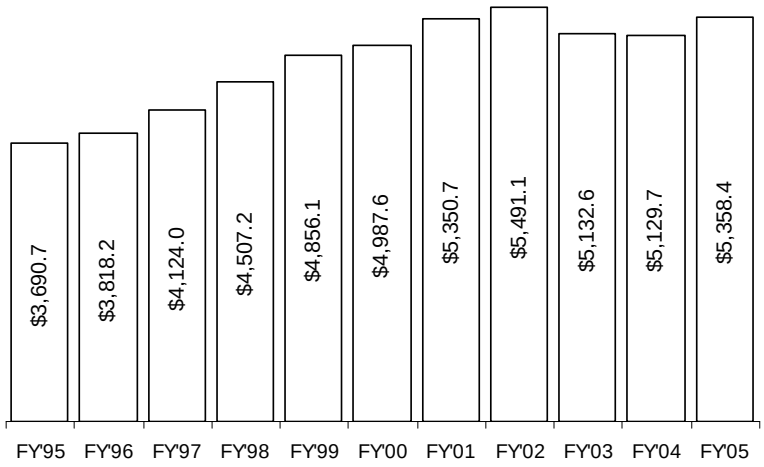
STATE EXPENDITURES

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'95 and FY'05. Total appropriations growth between FY'95 and FY'05 was $1.67 billion or 45 percent, an annual average increase of $166.7 million or 4.5 percent.

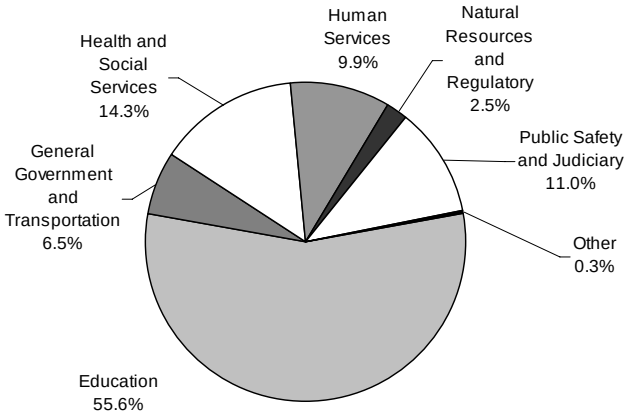
History of State Appropriations
FY'95 Through FY'05



Appropriation by Major Program Area

Of all money appropriated by the Legislature in FY'05, 55.6 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'05 Appropriations by Subcommittee



Between FY'95 and FY'05, 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'05, the main recipient of new appropriations shifted to education, and health and social services.

Shifts in Appropriations to Major Program Areas

- **Education:** The share of appropriations made to education – common education, higher education and career technology – went from 53.7 percent in FY'00 to 54.7 percent in FY'05. 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 7.1 percent to 7.6 percent of total appropriations from FY'00 to FY'05. Increases for the medical care of inmates and continued increases in the prison population contributed to the need for increased funding.

- **Medicaid:** From FY'00 to FY'05, the Oklahoma Health Care Authority's share of total appropriations has increased from 6.86 percent in FY'00 to 7.1 percent in FY'05. The increase in funding is mainly due to an increase in utilization of the Medicaid program and an increase in cost for prescription medications.

During the revenue shortfalls of FY'02 through FY'04, the Legislature had to make many difficult decisions in order to protect important health, education and human services programs from cuts. While total appropriations increased from FY'00 to FY'05 by 7.5 percent, most state agencies faced reductions of 10 percent or more over this same time period. This was necessary to give a larger boost to Common Education, Medicaid, the Department of Human Services and the Department of Mental Health and Substance Abuse Services. The table below illustrates the funding changes over this time period for the top 10 appropriated agencies (excluding the Department of Transportation). These agencies consume 82 percent of the state's annual revenue. The other 70 agencies account for the final 18 percent of the budget.

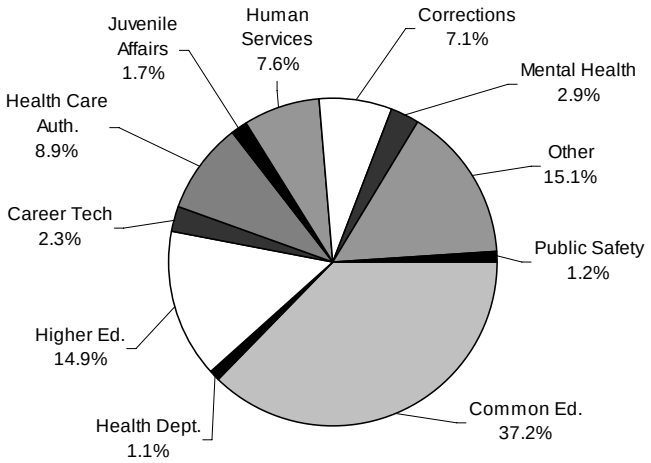
State Appropriations Comparison

FY'00 and FY'05

	FY'00 Appropriation	FY'05 Appropriation	Dollar Change	Percent Change
Common Education	$1,790,456,788	$2,007,663,450	$217,206,662	10.8%
Higher Education	$772,465,329	$802,136,296	$29,670,967	3.7%
Health Care Authority	$343,124,518	$482,256,505	$139,131,987	28.9%
Human Services	$362,713,658	$408,330,849	$45,617,191	11.2%
Corrections	$356,285,342	$384,286,568	$28,001,226	7.3%
Health Department	$65,500,271	$57,563,226	-$7,937,045	-13.8%
Mental Health	$127,852,286	$155,447,428	$27,595,142	17.8%
Career Tech Ed.	$116,516,707	$123,887,358	$7,370,651	5.9%
Juvenile Affairs	$98,610,847	$92,858,160	-$5,752,687	-6.2%
Public Safety	$67,915,246	$65,062,004	-$2,853,242	-4.4%
Subtotal	$4,101,440,992	$4,579,491,844	$478,050,852	10.4%
Other	$886,254,424	$812,046,849	-$74,207,575	-9.1%
Total Appropriations	$4,987,695,416	$5,391,538,693	$403,843,277	7.5%

FY'05 State Appropriations By Major Area

Percent of Total



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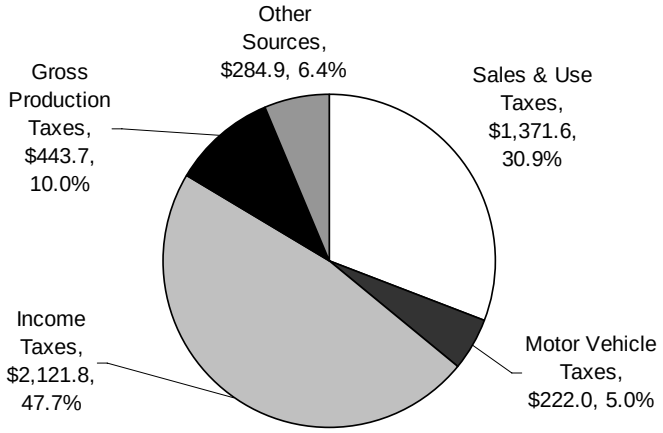
OKLAHOMA TAXES

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'04

(In Millions)



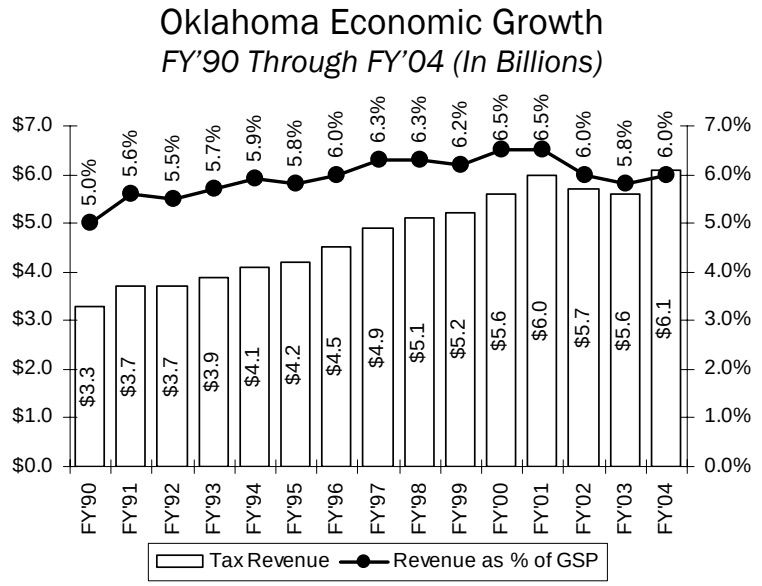
Total = $4.444 Billion

* 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 this chart, these revenues are included as GR revenues.

Source: Oklahoma Tax Commission, Apportionment of Statutory Revenues, Fiscal Year 2004

GROWTH IN STATE REVENUE

State revenue grew steadily from FY'90 through FY'01, then declined in FY'02 and FY'03. In FY'04, tax revenue rebounded, reaching it highest level in 15 years. When measured as a percentage of Oklahoma's gross state product (GSP), tax revenue has tracked changes in the state's economy.



Sources: Oklahoma Tax Commission

REVENUE PROJECTIONS

State Question 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. While no major tax rate increases or new taxes have been enacted by the Legislature since adoption of SQ 640, Oklahoma voters did approve an increase in tobacco taxes in November of 2004. Through a combination of tobacco tax increases and income tax cuts, SQ 713 is expected to result in a net revenue increase of over $76 million during the first full year of implementation.

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.

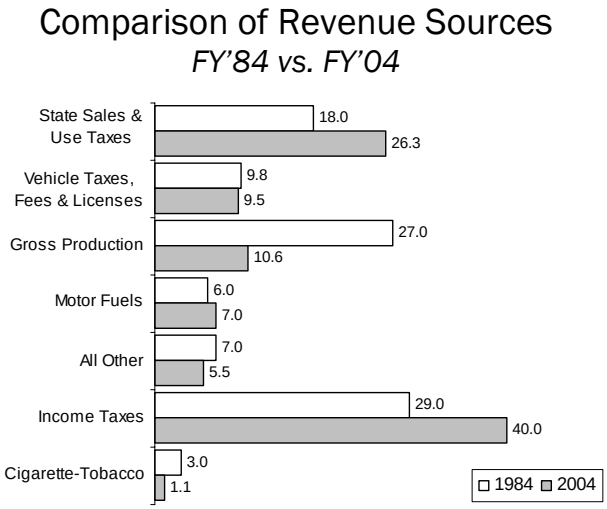
Beginning in FY'02, actual revenues began to fall considerably short of the estimates, requiring significant budget reductions for many agencies for FY'02, FY'03 and some additional reductions during FY'04. However, by the end of FY'04, revenue collections improved enough to permit the first deposit in the state's Rainy Day fund since FY' 01.

COMPARISON OF REVENUE MIX: 1984 VS. 2004

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 20 years has been the decreasing reliance on gross production taxes. In 1984, revenues from oil and gas production accounted for over 27 percent of state tax revenue. For 2004, this source provided 10 percent of revenues.

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



Source: Apportionment Chart for FY'04, 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 and mental health 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 percent 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 versus local responsibility for public services. The following table shows the most recent comparison of per capita state and local taxes.

State and Local Taxes
2002 Per Capita Taxes and 2004 Rankings

State	Taxes Per Capita	Ranking
Arizona	$2,580	36
Arkansas	$2,225	47
Colorado	$3,055	18
Kansas	$2,829	25
Louisiana	$2,436	41
Missouri	$2,554	37
Nebraska	$2,902	23
New Mexico	$2,635	33
Oklahoma	$2,389	43
Texas	$2,492	40
U.S.	$3,091	

Source: State Rankings 2004, A Statistical View of the 50 United States, Morgan Quitno Corporation, p. 289

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. Connecticut was ranked first in the nation with total per capita taxes of $4,587. Alabama is ranked last with $2,115 in total per capita taxes.

The average Oklahoman pays $702 less per year in state and local taxes than the average American.

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 2000.

State and Local Taxes
As Percentage of Personal Income

State	Taxes as % of 2000 Income	Ranking
Arizona	10.2%	28
Arkansas	10.1%	29
Colorado	9.3%	43
Kansas	10.3%	25
Louisiana	10.5%	19
Missouri	9.3%	43
Nebraska	10.5%	19
New Mexico	12.1%	4
Oklahoma	9.9%	36
Texas	8.9%	46
U.S.	10.4%	

Source: Ibid, p. 291

New York is ranked first at 13.1 percent. New Hampshire is ranked last at 7.9 percent. Overall, the amount of state and local taxes as a percentage of personal income declined slightly from 1997 to 2000, from 10.5 percent to 10.4 percent in the U.S. as a whole and from 10.2 percent to 9.9 percent 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. During 2002 and 2003, tax relief legislation was more targeted toward specific industries. Both general and industry-specific tax relief were provided in 2004 - income and property tax relief through the passage of State Questions 713, 714 and 715 and targeted relief through a variety of other measures. Where dollar figures for tax reductions are provided below, the 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 seven percent to 6.75 percent (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 seven percent 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 seven percent.

- ✓ If the price is $14 to $17, the rate drops to four percent.
- ✓ If the price is less than $14 per barrel, the rate drops to one percent.
- ✓ The tax on gas production remained at seven percent.

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 percent to 6.65 percent 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). These measures will result in a tax savings of approximately $46.3 million.

- **2003 Session:** Continued revenue decline limited the amount of, and tax savings associated with, targeted relief provided. That relief included: establishing an income tax credit for certain ethanol production facilities (SB 429), extending the time limit on certain manufacturing investment tax credits (SB 440) and on certain gross production tax exemptions (SB 535) and including certain jobs under the Quality Jobs Act to the benefit of tire manufacturers (HB 1593).

- **2004 Session:** Much of the tax relief proposed during 2004 was approved by Oklahoma voters on November 2, 2004. Taken together, these measures are expected to reduce taxes by nearly $80 million when fully implemented. State questions 713, 714 and 715 resulted in the following types of tax relief:

  - ✓ Reduction in income tax on certain capital gains and retirement income and permanent reduction in the top tax rate (SQ 713/HB 2660).
  - ✓ Modification of the income threshold by which a senior citizen qualifies for a freeze on the value of a homestead for property tax purposes (SQ 714/ SJR 30).
  - ✓ Establishment of a new property tax exemption equal to the value of an individual's homestead for 100 percent disabled veterans (SQ 715/HJR 1044).

In addition to the state questions, the Legislature enacted additional tax relief which: expands tax credits for investments in venture capital (HB 2124) and provides state payments for up to 10 percent of eligible capital costs for qualified tire manufacturers making capital investments (HB 2373).

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 $54 million in FY'03.

INCOME TAXES

Oklahoma received more than $2.4 billion in income tax revenues in FY'04. Income taxes are the largest single source of money for the state General Revenue (GR) Fund, accounting for 40 percent of total revenue and about 48 percent of the deposits to the GR Fund in FY'04. 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 2002, Oklahoma ranked 22nd among the 50 states 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 the two computations.

Individual income tax rates were last changed by the Legislature in 1998, when the top rate for Method I was reduced from seven percent to 6.75 percent. A reduction to 6.65 percent was enacted in 2001, but did not take effect immediately due to a decline in revenues. A 2002 provision changed the rate to seven percent, then in 2004, the reduction back to 6.65 percent finally took effect. As a result of State Question 713 the top rate will be permanently set at 6.65 percent. The measure also provides an exemption for capital gains and for an increased exemption level for retirement benefits.

Individual Income Taxes Comparison

Nationwide		Regional States	
National Ranking (per capita):	22	Regional Ranking:	4
Number of states using tax:	43	States using tax:	9
		States with higher max. rate:	1
		States with lower max. rate:	6

Income Taxes

2004 Rates; 2002 Per Capita Revenue and Rankings

State	Tax Rate	Per Capita Revenue	Ranking
Arizona	2.87 - 5.04%	$384	39
Arkansas	1 - 7%	$550	33
Colorado	4.63%	$772	15
Kansas	3.5 - 6.45%	$684	20
Louisiana	2 - 6%	$398	30
Missouri	1.5 - 6%	$638	24
Nebraska	2.56 - 6.84%	$668	21
New Mexico	1.7 - 6.8%	$531	36
Oklahoma	0.5 - 6.65%	$655	22
Texas	--	--	44
U.S.		$644	

Source: Ibid, p. 317, and State Individual Income Taxes, 2004 Tax Rate Table, web page of Federation of Tax Administrators (www.taxadmin.org)

In 2002, New York had the highest per capita income tax with $1,337 collected per person. Seven states (Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming) have no individual income tax.

The average Oklahoman pays $11 more per year in individual income taxes than the average American citizen.

Corporate Income Tax

Corporate income tax is imposed at a flat six percent 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 $133 million in revenues during FY'04. Corporate income taxes total about one-twentieth of the amount collected through individual income taxes.

Corporate Income Taxes Comparison

Oklahomans pay about 55 percent of the national average per capita in corporate income taxes. All states in the region are below the national average.

Corporate Income Tax
2004 Rates and 2002 Per Capita Revenue and Rankings

State	Tax Rate	Per Capita Revenue	Ranking
Arizona	6.968%	$64	27
Arkansas	1 - 6.5%	$59	31
Colorado	4.63%	$46	40
Kansas	4%	$45	41
Louisiana	4 - 8%	$59	31
Missouri	6.25%	$53	35
Nebraska	5.58 - 7.81%	$62	28
New Mexico	4.8 - 7.6%	$67	23
Oklahoma	6%	$50	38
Texas	--	--	47
U.S.		$90	

Source: Ibid, p. 319 and 2004 web page of Federation of Tax Administrators (www.taxadmin.org)

In per capita corporate income tax revenue, Oklahoma ranks 38th of the 46 states that levy a corporate income tax.

Alaska is the highest with $420 collected per capita. Four states (Nevada, Texas, Washington and Wyoming) have no corporate income tax.

Oklahomans pay 55 percent of the national average per capita in corporate income taxes. All states in the region are well below the national average.

The corporate income tax rate is not necessarily related to per capita collections. For example, Kansas collects $45 per capita under a four percent rate, Oklahoma collects $50 per capita with a six percent rate, and Missouri collects $53 per capita with a 6.25 percent rate.

Statutory Apportionment of Income Taxes

For FY'04, 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
1.00% 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:

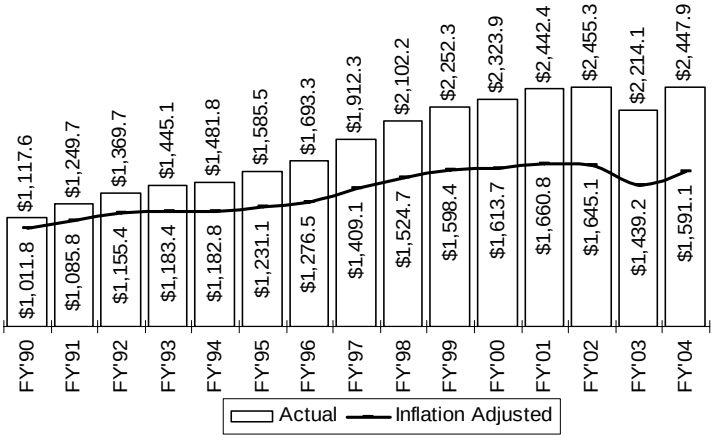
78.96% to the General Revenue Fund, which is appropriated by the Legislature;
16.5% to the Education Reform Revolving Fund;
3.54% to the Teachers' Retirement System Dedicated Revenue Revolving Fund; and
1.00% to the Ad Valorem Reimbursement Fund.

The apportionment will change each year until FY'08, with the percentage allocated to General Revenue decreasing as the percentage for the Teachers Retirement System increases.

History of Revenues from State Income Taxes

Revenues from income taxes in Oklahoma have more than doubled over the last fifteen years.

History of Income Tax Revenue
FY'90 Through FY'04 (In Millions)



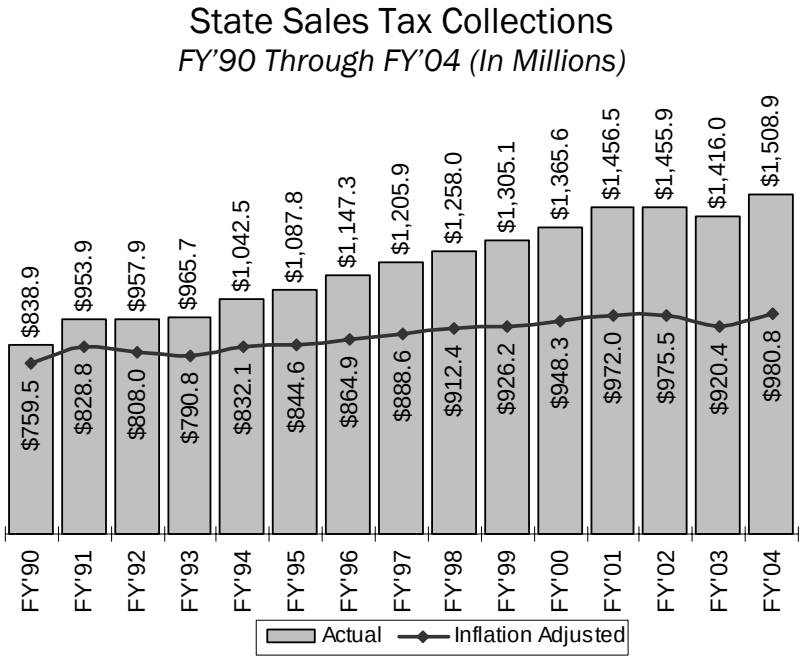
Source: Oklahoma Tax Commission

SALES AND USE TAXES

In FY'04, state sales tax revenue totaled over $1,508 billion and the use tax produced $98.7 million. The state rate for both the sales tax and use tax in Oklahoma is 4.5 percent. The two taxes accounted for 30.9 percent of actual GR Fund revenues in FY'04. 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 two percent. The use tax applies the same 4.5 percent 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 5.9 percent between FY'90 and FY'04.



Source: Oklahoma Tax Commission

Until 1983, all revenue from the state's then two percent 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 percent.

Sales tax changes were again made during the 1987 session. Earmarking of the original two percent 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 percent to 4.0 percent 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 percent to 4.5 percent.

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.

As a result of the passage of SQ 713 in November of 2004, cigarette and tobacco products are no longer subject to sales tax.

State and Local Sales Tax
2004 Rates; 2000 Per Capita Revenue and Rankings

State	State Sales Tax Rate	Per Capita Revenue	Ranking
Arizona	5.6%	$939	9
Arkansas	5.125%	$821	17
Colorado	2.9%	$873	13
Kansas	4.9%	$821	17
Louisiana	4.0%	$967	8
Missouri	4.225%	$733	23
Nebraska	5.0%	$710	24
New Mexico	5.0%	$1,025	9
Oklahoma	4.5%	$696	25
Texas	6.25%	$828	16
U.S.		$762	

Source: Ibid, pg. 293 and Comparison of State and Local Retail Sales Taxes, web page of Federation of Tax Administrators (www.taxadmin.org)

	National Ranking	Regional Ranking
Oklahoma's Per Capita Rank	25	9
Number of states using this tax	46	10
Number with rates higher than OK	34	6
Number with rates same as or lower than OK	11	3

Washington is the highest with $1,509 collected per capita. Four states (Delaware, Montana, New Hampshire and Oregon) have no sales tax.

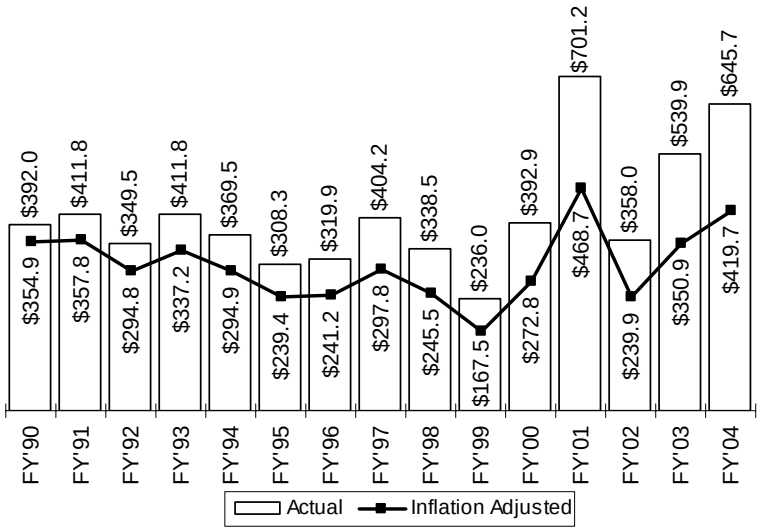
The average Oklahoman pays $66 less per year in sales taxes than the average American citizen.

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 $645 million in FY'04.

History of Gross Production Tax Collections

FY'90 Through FY'04 (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:

Type of Mineral	Tax Rate
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 percent 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 one percent 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). Both tax structures were extended for an additional three years in SB 1253 (2004).

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 seven percent 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 four percent 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;
  12.50% to counties where the oil is produced, for roads; and
  12.50% to school districts.

- If levied at a one percent 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 seven percent 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 four percent tax rate, severance tax revenues from gas are apportioned monthly as follows:

  75.0% 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 one percent 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'97	FY'98	FY'99	FY'00	FY'01	FY'02	FY'03	FY'04
Severance	$398.70	$333.80	$232.47	$387.26	$701.14	$358.98	$539.90	$645.70
Petroleum Excise	$5.50	$4.70	$3.58	$5.63	$9.94	$5.48	$8.01	$9.28
TOTAL	$404.20	$338.50	$236.05	$392.89	$711.08	$364.46	$547.91	$654.98

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 33 percent of the statewide public school budget in FY'03 and 60 percent 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 $377 per person in 2000 was less than half the national average of $883. Oklahoma ranks 47th out of the 50 states in per-capita property taxes.

Per Capita State and Local Property Tax Revenue
2000

State	Per Capita Revenue	Ranking
Arizona	$756	32
Arkansas	$361	48
Colorado	$850	23
Kansas	$807	30
Louisiana	$390	46
Missouri	$607	37
Nebraska	$904	20
New Mexico	$341	49
Oklahoma	$377	47
Texas	$946	15
U.S.	$883	

Source: Ibid, p. 295

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 percent 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

Real property is valued at its "fair cash value" – the price a willing buyer would pay a willing seller in an "arm's-length" transaction. Real property may also be 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 and in 2004, the Legislature proposed, and the voters approved, 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 five percent 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.

- Another 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. State Question 714 replaced the $25,000 income threshold with a county- or metropolitan area-specific amount determined by the U.S. Department of Housing and Urban Development. For calendar year 2004, county median incomes ranged from $32,600 in Pushmataha County to $54,500 in the Tulsa metropolitan area.

- Another amendment enacted in 2004 provided those with 100 percent military disability with a property tax exemption for the full fair cash value of their homestead. The benefit is also extended to a surviving spouse.

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 one percent 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 percent and 15 percent of its fair cash value; real property must be assessed at an amount between 11 percent and 13.5 percent 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 percent for public service corporation property and 12.08 percent for railroads and airlines).

Prior to the 1996 amendments, the Constitution limited the assessment ratio for all property to a maximum of 35 percent of its fair cash value. However, the State Board of Equalization had ordered counties to set ratios between 11 percent and 14 percent for real property and between 10 percent and 20 percent 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 address 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 percent 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 percent = $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 percent assessment ratio = $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 percent 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 percent. 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 percent on the remainder. The value of used vehicles must be within 20 percent 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

Date	Gasoline	Diesel	Date	Gasoline	Diesel
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 $385 million in motor fuel tax revenues in FY'04.

Per Capita Motor Fuel Tax Comparison

Among the 50 states, Oklahoma ranked 30th in per capita state revenue collections in 2002. The average Oklahoman pays $7 more per year in motor fuel taxes than the average American citizen.

Motor Fuel Tax
2002 Rates, Revenues and Rankings

State	Gasoline Tax Rate	Per Capita Revenue	Ranking
Arizona	18.0¢	$115	33
Arkansas	21.5¢	$153	8
Colorado	22.0¢	$126	21
Kansas	20.0¢	$139	17
Louisiana	20.0¢	$125	22
Missouri	17.03¢	$122	26
Nebraska	25.5¢	$178	2
New Mexico	18.9¢	$108	39
Oklahoma	17.0¢	$118	30
Texas	20.0¢	$130	19
U.S.	20.1¢	$111	

Source: Ibid, pp. 323-324

Montana is the highest with $210 collected per capita. New York is the lowest with $26 collected per capita. Sparsely populated and Western states tend to have higher per capita motor fuel tax payments.

Gasoline Tax

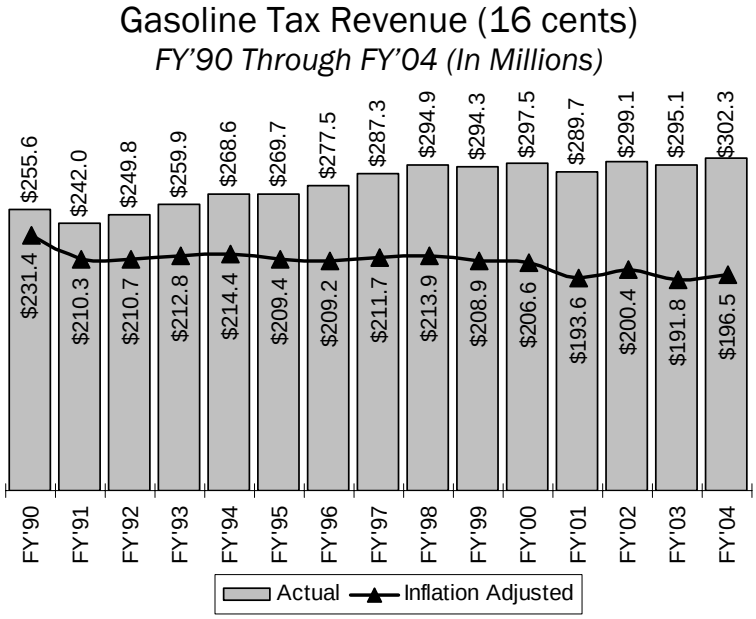
The 17¢ per gallon gasoline tax is a combination of: (1) a 16¢ per gallon excise tax levied on every gallon of gasoline that is either sold, stored and distributed, or withdrawn from storage in Oklahoma; and (2) a 1¢ per gallon assessment which is separately levied and apportioned.

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.



Source: Oklahoma Tax Commission

Gasoline Tax Comparison With Other States

National Ranking:	30	(revenues per capita)
	41	(gas tax rate)
Number of States using tax:	50	
Number of States with higher rate:	40	
Number of States with lower rate:	9	
Regional Ranking:	9	
Number of States using tax:	10	
Number of States with higher rate:	9	
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.

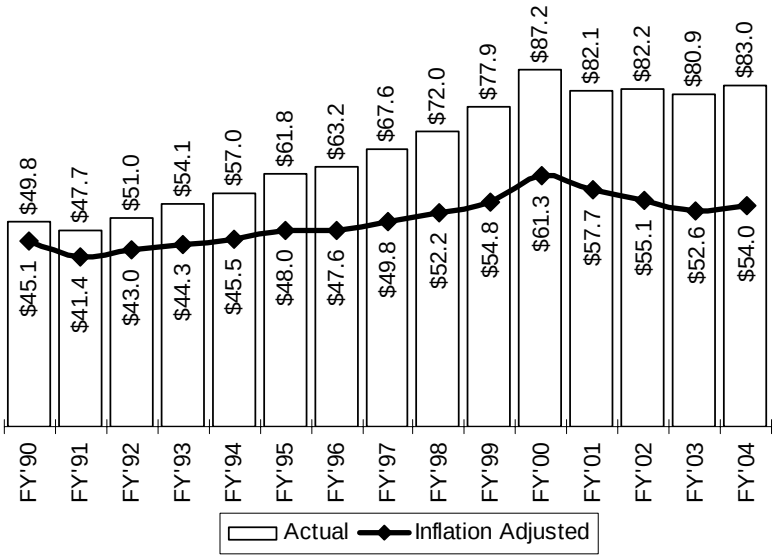
The remaining 13¢ of diesel fuel tax revenue is distributed as follows:

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'90 Through FY'04 (In Millions)



Source: Oklahoma Tax Commission

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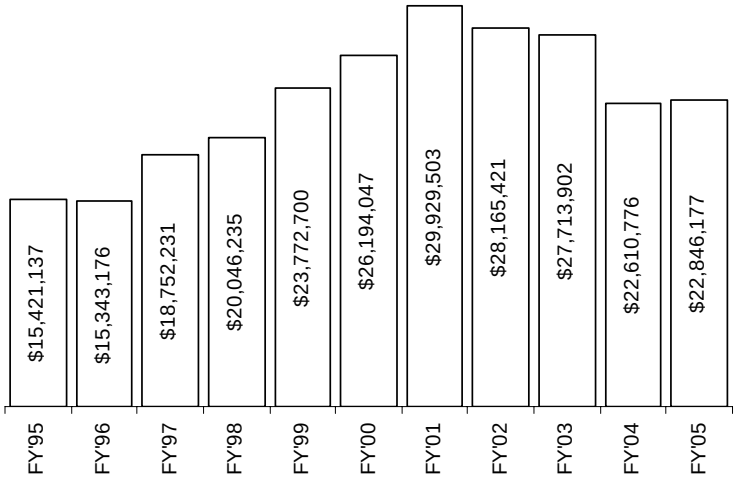
AGRICULTURE

Although it is perceived as strictly a rural concern, agricultural production touches every legislative district. As a product of its geography and topography, Oklahoma maintains a diverse agricultural sector: from the heavily irrigated southwest section mostly devoted to cotton, wheat, and cattle, to the semi-arid high plains of the Panhandle with its heavy concentration of cattle feedlots and large-scale hog farms. The central section of the state is dominated by wheat and dairy farming, as well as diversified crops such as peanuts, pecans and hay. The wetter eastern region adds timber and poultry operations to the state's agricultural sector.

Oklahoma ranks third in the U.S. in the production of winter wheat, fifth in cattle and calf production, fifth in pecans, seventh in peanuts, eighth in hog production, and fourteenth in poultry production..

Appropriations Budget History
FY'95 Through FY'05



For all of the diversity and agricultural bounty in the state, the agricultural economic sector is in transition. Drastic price fluctuations and the structure of agricultural production have changed the face of Oklahoma's farming economy. Agriculture comprises 2.3 percent of Oklahoma's Gross State Product.

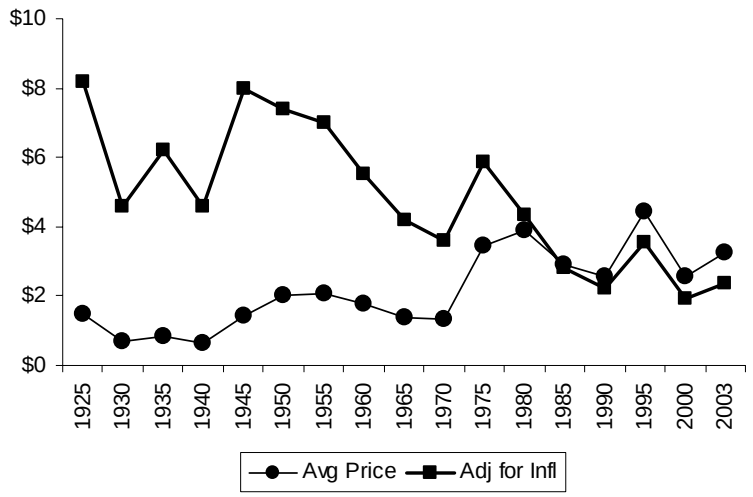
AGRICULTURAL PRICES

A review of agricultural prices provides some historical trends for Oklahoma's major agricultural commodities.

Wheat

The price of wheat has generally seen an upward trend since the Great Depression; however, adjusted for inflation, there has been a dramatic decrease in the real value of wheat during the same period. Of all Oklahoma commodities, wheat has faired the worst in terms of economic retention of value.

Average Annual Price of Wheat
1925 Through 2003 (Dollars per Bushel)



Source: Oklahoma Agricultural Statistics Service (inflationary adjustments calculated using PPI from U.S. Department of Labor)

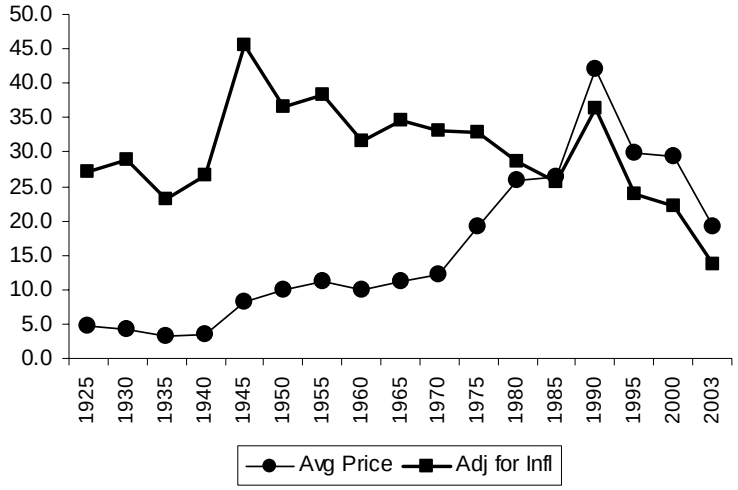
Although the price of wheat has increased from $1.45 per bushel in 1945 to $3.25 per bushel in 2003 (a 124 percent increase in actual price), adjusted for inflation, the value of wheat per bushel has actually declined 71 percent.

Peanuts

The price of peanuts has generally seen an upward trend since the Great Depression. However, adjusted for inflation, there has been a significant decrease in the real value of peanuts during the same period.

The price of peanuts has increased from 8.3 cents per pound in 1945 to 19.1 cents per pound in 2003 (a 130 percent increase in actual price). Adjusted for inflation, however, the value of peanuts per pound has declined 70 percent – from 45.6 cents per pound in 1945 to 13.8 cents per pound in 2003. The price of peanuts in 2003 was lower than it was 10 years ago (about 27 percent lower in actual dollars and about 37 percent lower adjusted for inflation).

Average Price of Peanuts
1925 Through 2003 (Cents per Pound)



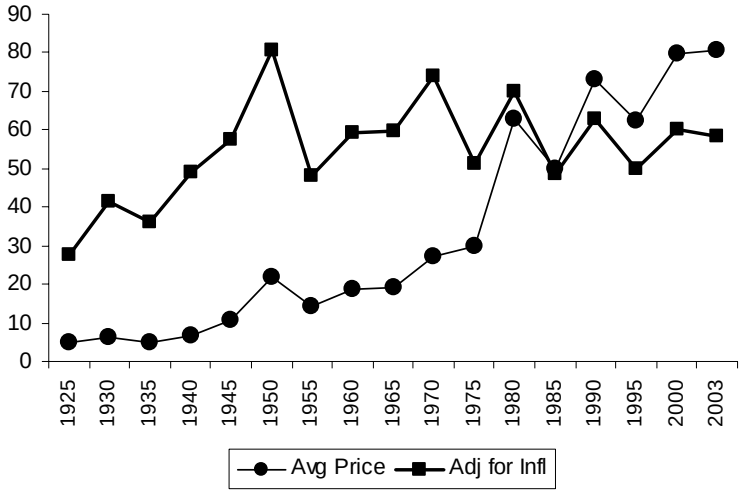
Source: Oklahoma Agricultural Statistics Service (inflationary adjustments calculated using PPI from U.S. Department of Labor)

Cattle

The price of cattle has generally seen an upward trend since the Great Depression. Adjusted for inflation, there has also been an increase in the real value of cattle during the same period.

Cattle is one of the few commodities in Oklahoma that has retained its value since the Great Depression.

Average Price Received for Cattle
1925 Through 2003 (Dollars per Hundred Weight)



Source: Oklahoma Agricultural Statistics Service (inflationary adjustments calculated using PPI from U.S. Department of Labor)

RURAL OKLAHOMA

U.S. Census data confirms that fewer Oklahomans are living in rural communities than ever before. The dominant occupation for rural Oklahomans continues to be related to agriculture. However, the data suggests that one-half of Oklahoma farmers can afford to work full-time on their farms. Almost half of Oklahoma farmers seek additional work throughout the year to supplement their income. Finally, the census data suggests that more rural Oklahomans are leaving their farms and moving to larger cities and towns. This trend is particularly high among the 18-35 age group.

Age of Farmers

The average age of farmers has been rising. According to the 2002 Census of Agriculture, the average age of farm operators in Oklahoma was 56 years of age. Twenty-four years ago, the average age for the Oklahoma farmer was 51. Fewer Oklahomans under 35 years of age are choosing to engage in agricultural activities – a 50 percent decrease over the past 20 years.

Farming as an Occupation

Only 55 percent of Oklahoma's farmers consider farming their principal occupation. Forty-four percent of the total number of farmers work 200 days or more per year off the farm in other jobs.

The average farmer needs about $250,000 in loans per year to meet expenses. The average net income of an Oklahoma farmer in 2001 was $10,727. Because commercial banks no longer can afford to loan money to farmers at low interest rates, the United States Department of Agriculture, Farm Service Agency (USDA FSA) has become the lender of last resort. According to FSA there were 1,478 loans worth $162 million made to Oklahoma farmers and ranchers during FY'01.

LEGISLATIVE INITIATIVES RELATING TO AGRICULTURE

The Legislature addresses agricultural issues mainly through the Oklahoma Department of Agriculture (ODA) and the Oklahoma Conservation Commission. Recent legislative spending initiatives include:

- programs that assist farmers in developing best management practices;
- rural fire suppression expansions to save farm structures and land;
- international marketing efforts that assist foreign sales of Oklahoma commodities and products;
- agricultural diversification and value-added program that allocates grants and loans to individuals, cooperatives, and other agricultural groups;
- efforts to create a safe, competitive environment for producers in agriculture
- working with the USDA and United States Environmental Protection Agency to encourage sustainable growth; and
- programs that educate minority youth about possible careers in the field of agriculture.

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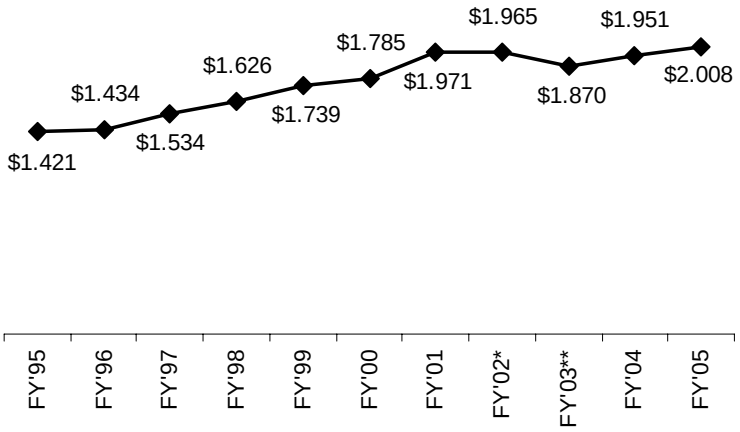
COMMON EDUCATION

National studies have consistently concluded that a quality educational system is strongly associated with positive economic and social outcomes for children and families. Over the past twelve years, the Legislature has implemented a number of reforms in education to improve student achievement and educational outcomes in Oklahoma. These initiatives involve every aspect of education – from early childhood education to strong reading skills to rigorous high school standards. This chapter provides an overview of the Oklahoma common education system, and highlights reform initiatives implemented to improve student outcomes across the pre-kindergarten through twelfth-grade years.

APPROPRIATIONS FOR PUBLIC SCHOOLS

Common Education Appropriation History

FY'95 Through FY'05 (In Billions)



* Due to a statewide revenue shortfall the agency's appropriations were reduced by 3 percent.

** Due to a statewide revenue shortfall the agency's appropriations were reduced by 8.3 percent.

The largest single appropriation made by the Legislature supports the state's public school systems. For FY'05, 37.5 percent of all appropriations were for common education. If funding for higher education and career and technology education is added, the education share increases to 54.75 percent.

Funding Sources for Local School Districts

Public funding for Oklahoma's public schools comes from four sources:

- state appropriated revenue;
- local and county revenue;
- state dedicated revenue; and
- federal funds.

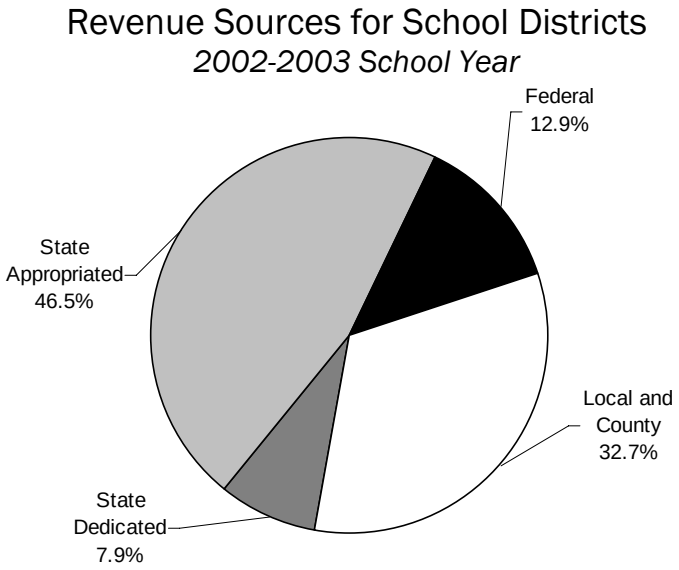
State Appropriations: Annual legislative appropriations rose steadily from FY'89 to FY'01, when they comprised more than 59.5 percent of all common school funding. Since FY'01, this percentage has fallen to 47 percent, mostly due to an increase in federal funds. Additional state funding comes from dedicated sources outlined below.

Local and County Funds: Local governments assess ad valorem taxes on property owners to support schools. The Oklahoma Constitution provides parameters for local millage assessments. For general fund use, each district is allowed to charge a maximum of 35 mills (a mill is 1/1000 of a dollar) on the assessed value of the district's real, personal and public service property**.** For the 2002-2003 school year, all 541 districts levied the maximum millage. There is also an automatic four-mill county levy for each district. In addition to these operational funds, all districts make some use of the five-mill building-fund levy, and 74 of the districts utilize a sinking-fund levy. The sinking-fund levy is used to pay for local bond issues for capital improvements and maintenance. Bond issues must be approved by a 60 percent majority of a district's voters.

State Dedicated Revenue: Statutory and constitutional dedication of state revenue accounts for 8 percent of total common school revenue and comes from the following sources:

- Gross Production Tax – 10 percent of gross production taxes on extraction and production of certain raw materials from each county is allocated back to that county for the support of schools.
- Vehicle License and Registration – 35 percent of tag and registration fees are apportioned to local schools.
- Rural Electric Association Cooperative Tax – An assessment on rural electric cooperatives, paid in lieu of property taxes, generates revenues for schools.

- School Land Earnings – Rental earnings from state-held school lands and interest from investments are distributed to school districts statewide based on average daily attendance. These funds are managed and distributed by the Commissioners of the Land Office



Federal Funds: Until recently federal funds comprised the smallest share of total revenue, ranging from 6 percent to a little over 10 percent between FY'89 and FY'01. Federal funding has increased since FY'01 to allow states to implement requirements of the No Child Left Behind Act. All federal funds are dedicated to specific programs for target populations (e.g., school lunch programs, special education, economically disadvantaged, etc.).

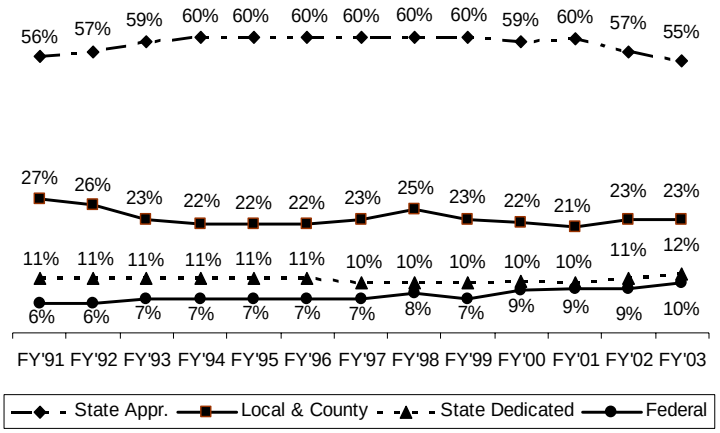
Distribution of Appropriated Funds

For FY'05, over 76 percent of the annual appropriation for common education will be distributed to local districts based on the statutory State Aid Funding Formula, which is designed to equalize funding among districts. Twenty-four percent of the funds are for special funding items such as textbooks, alternative education programs, advanced placement programs, etc. Less than 1 percent is for operations of the State Department of Education. In FY'99, 89 percent of state common education funds were distributed through the State Aid Funding Formula, 10 percent of the funds were targeted for specific items such as textbooks and alternative education, and 1 percent was appropriated to the State Department of Education for administration.

Historical Changes in Funding Sources for Schools

General funding which comprises 82 percent of all expenditures for schools has changed radically during the state's history. Local revenues from property taxes, which in 1976 accounted for 40 percent of general school funding, now contribute less than one-fourth of revenue. Legislative appropriations from state revenue sources are the principal source of total general funding growth, currently comprising 55 percent of the funding mix.

Funding for Common Schools
by Source Using General Funds
(Percentage of Total Funding)



Source: State Department of Education reports

State Aid Funding Formula (Section 18-200.1 of O.S. 70)

The State Aid Funding Formula is set in statute and distributes funds through three categories: Foundation Aid, Incentive Aid, and Transportation Aid.

- **Foundation Aid** is calculated on the basis of the highest average daily membership (ADM) of students in each district for the preceding two years or the first nine weeks of the current school year. To this figure, weights are applied to determine the "weighted ADM". Weighting recognizes that educational costs vary by district and by student. Students with special educational needs (impaired vision, learning disabilities, physical handicaps, etc.) are given additional weighting because additional costs will be incurred in providing these students an opportunity to learn. Grade-level weightings are used to account for variations in the cost of teaching different grade levels. To compensate for higher costs associated with smaller schools, weighting is also granted to isolated districts or districts with fewer than 529 students. Weighting is also provided for economically disadvantaged students.

The weighted ADM for a district is then multiplied by the Statutory Foundation Support Level ($1362 per weighted ADM for the 2004-2005 school year). From this figure, a portion of a district's local revenues and all of its state-dedicated revenues are subtracted to arrive at the Foundation Aid amount.

- **Incentive Aid**, also called Salary Incentive Aid, guarantees each district a minimum amount of funding per weighted student for each mill up to 20 mills of local ad valorem taxes levied above 15 mills. For the 2004-2005 school year, the amount is $1,256.

  To calculate Incentive Aid, the weighted ADM is multiplied by the Incentive Aid Guarantee. A factored amount of local support is then subtracted. The number of mills the district levies over 15 is then multiplied by the resulting figure. The product is the district's Incentive Aid.

- **Transportation Aid** is provided to districts for transporting all students who live more than 1.5 miles from school. These students, the "average daily haul", are multiplied by the per capita transportation allowance and the transportation factor (set by statute). The per capita transportation allowance is based on the district's population and provides greater weight to sparsely populated areas.

In 1997, the State Aid Funding Formula was changed to allow school districts to receive additional funding for current year student growth. This eliminated the need for a mid-term supplemental appropriation due to student increases.

History of Oklahoma State Aid Factor Per Weighted ADM

FY'90 Through FY'05

Fiscal Year	Foundation Aid	Incentive Aid Factor	Total Amount/ WADM	Dollar Change	% Change in total Amount
FY'92	$1,064.00	$51.08	$2,085.60		
FY'93	$1,098.00	$53.14	$2,160.80	$75.20	3.5%
FY'94	$1,139.00	$55.12	$2,241.40	$80.60	3.6%
FY'95	$1,149.00	$56.01	$2,269.20	$27.80	1.2%
FY'96	$1,165.00	$56.51	$2,295.20	$26.00	1.1%
FY'97	$1,195.00	$58.17	$2,358.40	$63.20	2.7%
FY'98	$1,216.00	$58.47	$2,385.40	$27.00	1.1%
FY'99	$1,239.00	$59.93	$2,437.60	$52.20	2.1%
FY'00	$1,271.00	$61.69	$2,504.80	$67.20	2.7%
FY'01	$1,320.00	$62.92	$2,578.40	$73.60	2.9%
FY'02*	$1,377.00	$64.81	$2,673.20	$94.80	3.5%
FY'03	$1,359.00	$64.02	$2,639.40	-$33.80	-1.3%
FY'04	$1,354.00	$63.42	$2,622.40	-$17.00	-0.6%
FY'05	$1,362.00	$62.80	$2,618.00	-$4.40	-0.2%

* Due to a revenue shortfall in FY'02, each district's total state aid was reduced by 3.8 percent.

Much of the state's focus on common education funding is aimed at reducing inequities in general funding available to various school districts. This number is reflected in the average per pupil expenditures per weighted average daily membership. For FY'03, the Oklahoma average per pupil expenditure per weighted average daily membership including all funds was $6,533/student.

2004 FUNDING INITIATIVES

Two significant sources of revenue were approved by Oklahoma voters in November 2004. The first was the Oklahoma Education Lottery Act; the second was the State-Tribal Gaming Act. The Oklahoma Education Lottery Act was approved as a ballot measure by the 2003 Legislature for the 2004 general election. The State-Tribal Gaming Act was referred to a vote of the people by the 2004 Legislature.

Oklahoma Education Lottery (SQ 705, SQ 706)

HB 1278, which provides an outline for the Education Lottery, was approved in the 2003 legislative session. According to the rules of distribution set forth in the bill, 45 percent would serve as prize money, 20 percent would be used for administrative costs, and 35 percent would go to education. In the first two years of its existence only 30 percent of the net proceeds would benefit education because money is needed to pay off the $10 million bond issue needed for start-up costs. Of the portion allocated for education, 45 percent would fund common education and early childhood programs, teacher pay and benefits; 45 percent would fund higher education tuition assistance programs, capital projects, endowed chairs, technology improvements, and the Schools for the Deaf and Blind; 5 percent would be deposited in the School Consolidation Fund; and 5 percent would be deposited into the Teachers' Retirement Fund. The Oklahoma Education Lottery Commission, also authorized by HB 1278, would oversee all lottery operations.

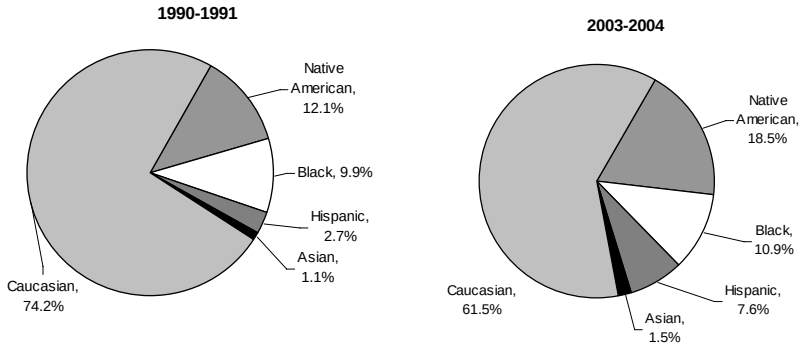
State-Tribal Gaming Act (SQ 712)

One of the main Legislative initiatives for FY'05 was the passage of SB 1252, also known as the State-Tribal Gaming Act. This Act provides revenue for two very important sources of education funding. The first is the Education Reform Revolving Fund, which provides for financial support for public schools (State-Aid). The second beneficiary is the Oklahoma Higher Learning Access Program (OHLAP) Trust Fund, which funds scholarships for students who would like to attend an in-state public college or university. It is estimated that the Education Reform Revolving Fund will receive $30.6 million and the OHLAP Trust Fund will receive over $4 million from this Act in FY'05.

STUDENT DEMOGRAPHICS

Over the past decade Oklahoma's student population has experienced a number of changes. While the total number of students enrolling in school has only increased by 3.6 percent from FY'94 through FY'04 from 604,155 to 625,826, the number of children enrolled in four-year-old programs has increased dramatically. From FY'94 to FY'04 the number of children enrolled in four-year-old programs increased by over 641 percent from 4,073 to 30,180. There have also been some small but significant changes in student enrollment by race and ethnicity. The percentage of Hispanic children enrolled in Oklahoma schools increased over 150 percent from FY'91 to FY'04, going from 2.7 percent to 7.6 percent.

Public School Enrollment by Race/Ethnicity
1990-1991 and 2003-2004



The most significant enrollment increases by race and ethnicity occurred in the Hispanic population. Oklahoma City's Hispanic population increased by over 218 percent, from 15,000 Hispanic students in FY'90 to 47,797 in FY'04. For this time period, Hispanic students as a percent of total student population increased from 2.6 percent to 7.6 percent.

The number of children identified in need of special education services increased by 29.7percent (21,288) from 71,760 children in FY'94 to 93,048 in FY'04. Of this number, over 46,670 children were identified in the Specific Learning Disability category. This category includes children diagnosed with Attention Deficit Disorder (ADD) and Attention Deficit Hyperactivity Disorder (ADHD).

One aspect of the state's student population that has not changed significantly is the number of students residing in urban or rural school districts. Twenty-four percent of the students in Oklahoma are enrolled in 76.6 percent of our smallest school districts.

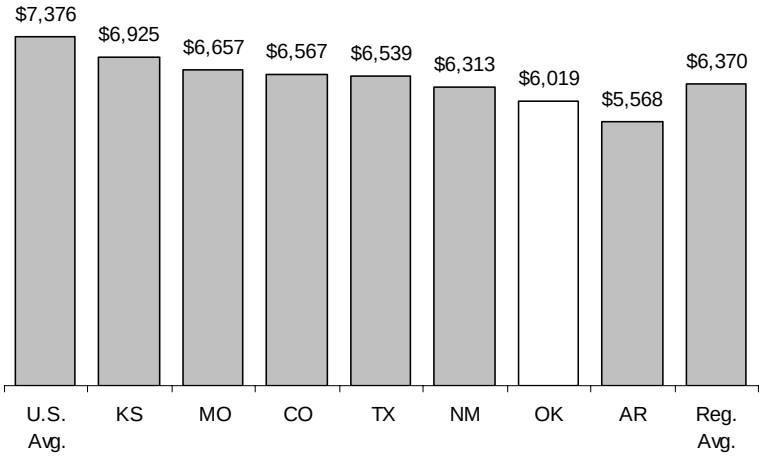
Oklahoma has 541 school districts with 1,027 elementary schools, 306 middle schools and 467 senior highs. When compared nationally, Oklahoma ranks 9 out of the 50 states with the largest number of school districts.

EXPENDITURES

Per-Pupil Expenditures

The National Center for Education Statistics (NCES) provides per-pupil expenditure comparisons for all states. Per-pupil expenditure statistics from the NCES are considered the most consistent and accurate source of information comparing state funding efforts for common education. Each state's number is calculated by dividing the total amount of funds expended for education by the average daily attendance of public school students in the state. The analysis includes all funding sources – local, state and federal. Historically, Oklahoma has spent below the national and regional averages on education.

Per-Pupil Spending for Oklahoma and the Region
FY'01



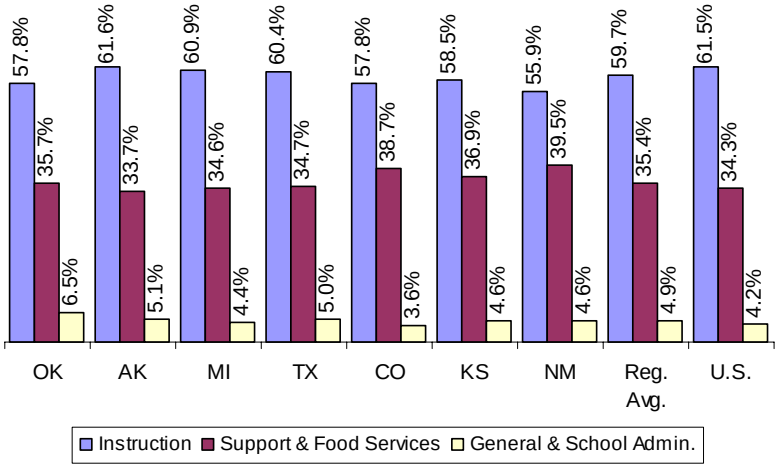
Source: National Center on Education Statistics 2004, National Public Education Financial Survey 2000-01

Oklahoma is at 94 percent of the regional average. To attain the regional average the state would need to appropriate over $218.7 million in additional state funds for education. Nationally, Oklahoma ranks 42 out of 51 states and the District of Columbia in annual per-pupil expenditures. The District of Columbia ranks first with $12,046 in annual per-pupil expenditures and Utah ranks last with $4,674 in annual per-pupil expenditures for FY'01.

Expenditures by Function

When looking at expenditures by function for the 2001-2002 school year, Oklahoma spends 57.8 percent of their expenditures on instruction. This is 3.7 percent less than the national average and 1.9 percent less than the regional average. Support services expenditures include food services, transportation costs, medical costs, counseling, testing and business services. General and school administration expenditures include costs associated with the office of the superintendent, district board of education, board treasurer, school election costs and school principals. Oklahoma spends below the regional and national average on support services but above the regional and national average on administration expenditures.

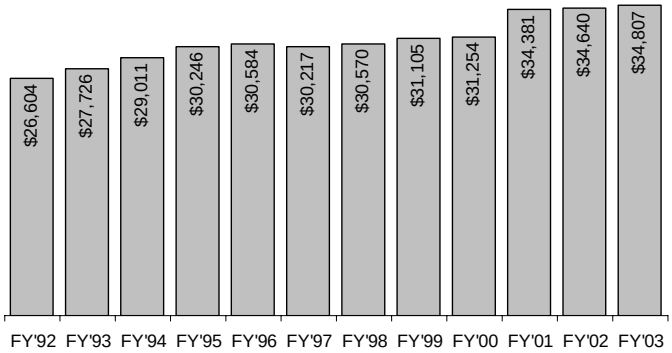
Percentage of School Expenditures by Function
Oklahoma and Surrounding States
2001 Through 2002



Teacher Salaries and Benefits

Since FY'90, legislators have focused on raising the salaries of classroom teachers. Between FY'92 and FY'03, the average salary for instructional staff has increased 31 percent, an average annual increase of 2.4 percent.

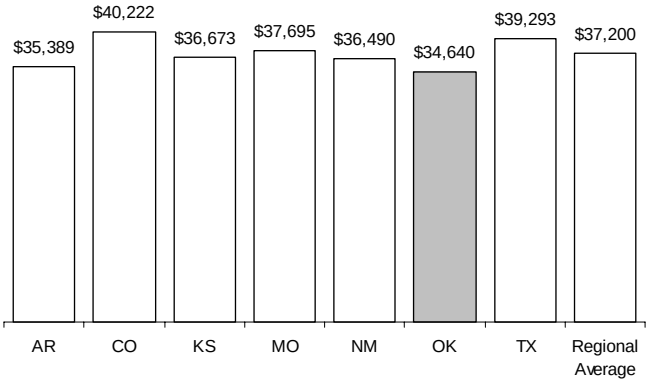
Average Instructional Staff Salaries in Oklahoma
FY'92 Through FY'03 (Excludes Fringe Benefits)



Source: State Department of Education State Aid

While school districts ultimately set teacher salaries, lawmakers have chosen to mandate minimum salaries in statute (70 O.S. 18-114.7). This policy has resulted in significant gains for beginning teachers, bringing Oklahoma's first-year teacher salary to parity with regional states. The average first-year salary for teachers in Oklahoma is second highest in the region. Since FY'90, the minimum teacher salary for a first-year teacher has increased from $17,000 in FY'90 to $27,060 in FY'03 (a portion of fringe benefit costs may be counted for minimum-salary purposes). This represents a 58 percent increase in salary in 13 years.

Average Teacher Salaries for Oklahoma and the Region
2001-2002 School Year



Source: OEA Table

However, salaries for experienced teachers in Oklahoma lag behind regional averages significantly.

To further address the issue of teachers' salaries, the Governor and the Legislature began an initiative in the 2004 session to raise teachers' salaries up to the regional average by FY'09. The impetus behind the initiative was the desire to keep one of the state's most valued assets within Oklahoma and to reward them as our regional states do. The increase would occur in two phases: The first phase of the plan would increase state coverage of certified employees' flexible benefit allowance to 100 percent, the second phase would directly raise salaries over a four-year period from FY'06 through FY'09.

The first phase was established by HB 2662, which not only raised the benefit allowance from 58 percent to 100 percent in FY'05, but also excluded certain fringe benefits from being counted toward the teachers' minimum salary schedule. These two provisions of the bill should yield an average salary increase of between $850 and $1,050 per year for approximately 30 percent of all Oklahoma teachers. The Legislature appropriated over $50 million to cover health insurance for all certified personnel within common education, and $3.75 million for certified personnel in the career tech system.

The second phase of the plan, which was laid out in SB 1272, would ensure Oklahoma's average ($34,877) reaches the regional average ($39,136) by FY'09. Currently, teachers at step 0 receive an increase of $1,161 when they reach step 1, and every year thereafter they receive $332. This plan increases the starting salary from $27,060 to $28,000, does away with the first year jump, and provides the following step increases:

- FY'06 – Step increases of $375 in years 0-4, $400 in years 5-9, and $425 in years 10+

- FY'07 – Step increases of $425 in years 0-4, $450 in years 5-9; and $475 in years 10+

- FY'08 – Step increases of $475 in years 0-4, $500 in years 5-9, and $525 in years 10+

- FY'09 – Step increases of $525 in years 0-4, $550 in years 5-9, and $575 in years 10+

Teachers will also see an increase of $1,200 between levels of degrees, whereas in FY'04 there was an $1,106 increase. For example: a teacher at Step 0 in FY'05 with a Bachelor's degree will earn $28,000; with a Mater's degree, $29,200; and with a Doctorate, $30,400. This second phase will cost $197 million over four years. When both phases of the plan are implemented, Oklahoma will have a more competitive benefit and salary package for teachers.

Full-time support personnel electing health insurance coverage will receive state funding equivalent to the HealthChoice Hi-option in FY'05 and subsequent years. Personnel electing not to enroll in health insurance coverage may receive $189.69/month in taxable compensation.

PUBLIC SCHOOL REFORM INITIATIVES

Oklahoma's public schools have undergone significant changes since FY'89. Many of these changes are the direct result of the enactment of the landmark Educational Reform Act of 1990, House Bill 1017. The Legislature appropriated more than $565 million over five years to implement a wide range of reform policies.

- **Reduced class sizes:** The Legislature appropriated $30 million for districts to hire more teachers to comply with reductions in class size requirements. For kindergarten through sixth grades, a student teacher ratio of 20:1 is mandated. For students in grades seventh through twelfth, the maximum number of students allowed per teacher is 140 per day. Failure to comply with class size limits results in sanctions, which are authorized by statute. The amount of funding withheld from school districts for exceeding class size limits decreased from $989,866 in FY'92 to $101,156 in FY'02, a reduction of 89.8 percent.

- **Exemptions:** Some classrooms are exempted from calculations of class size limits:

  - ✓ If the class taught is a physical education or music class;
  - ✓ If the classroom exceeds the limit within the first nine weeks of school;
  - ✓ If the creation of an additional class will cause a class to have fewer than 10 students in kindergarten through grade three, and fewer than 16 for grades four through six;
  - ✓ If a teacher's assistant is employed to serve in classrooms that exceed the class size limitation;
  - ✓ If the school district has voted indebtedness through the issuance of bonds for more than 85 percent of the maximum allowable pursuant to the provisions of Section 26 of Article X of the Oklahoma Constitution; or
  - ✓ If the school district is voting the maximum millage allowable for the support, maintenance and construction of schools.

- **Minimum Teacher Salaries.** Over $319.6 million was appropriated to increase the minimum salary for a beginning teacher from $17,000 in FY'91 to $24,060 in FY'94.

- **Funding Equity:** The Legislature achieved more equity in student funding by appropriating over $88 million to support the state aid formula.

- **Early Childhood Programs**: HB 1017 and follow-up legislation mandated and funded half-day kindergarten for all children and provided $8.4 million for half-day four-year-old programs.
- **School Regulation and Consolidation:** The initiative provided limited deregulation and reduction of school districts from 611 in 1988 to 544 in the 2000-2001 school year.
- **Accountability:** The Office of Accountability was created to compile student achievement data by school site (see section on Office of Accountability below).

Since FY'95, Oklahoma lawmakers have passed a number of reform and funding measures targeted to improve student achievement. These include:

- creating the Oklahoma Advanced Placement Grant Program;
- creating the Reading Sufficiency Act for children in K-3;
- increasing teacher salaries for teachers with 16 to 25 years of experience;
- increasing funding for early childhood programs; and
- creating the Education Leadership Oklahoma program which provides teachers who earn National Board Certification with an annual $5,000 stipend.

The Legislature's most recent reform initiatives were HB 1759 (1999) and HB 2728 (2000). Together, the bills enacted a myriad of early childhood and high school curriculum reforms in the K-12 system. Reforms included:

- **Rigorous high school curriculum requirements:** Four years of English, and three years each of math, history and science are required.
- **Charter schools:** Charter schools may operate in 15 school districts in Oklahoma and must be sponsored by either the local school district, or local career and technology center**.** For the 2002-2003 school year, Oklahoma City will have seven charter schools, and Tulsa will have two.

House Bill 1759 (1999) also mandated the establishment of an Academic Performance Index (API) to measure the performance of schools. The index will include analysis of student attendance rates, dropout rates, test results, advanced-placement participation, graduation rates, ACT scores and college remediation rates.

In addition to collecting and developing the index, the State Board of Education was responsible for setting annual growth targets for the state level, school districts and individual schools based on the initial API. The first API rating each school site and district was released during the 2001-2002 school year. These numbers will serve as a baseline for comparing progress and attaining educational standards and awards for future years.

EARLY CHILDHOOD EDUCATION

Recent studies indicate a strong positive correlation between quality early childhood programs and positive developmental, social and economic outcomes for children.

The Legislature has supported a range of early childhood developmental programs covering such areas as health care, developmental disabilities, child abuse prevention, parent education and early childhood education. These programs provide valuable developmental, health and educational services designed to ensure children under the age of 5 will be healthy and ready to learn once they enter kindergarten.

The following programs are either funded through the State Department of Education or in partnership with schools across the state.

SoonerStart

Funded through the State Department of Education, SoonerStart is a collaborative program which provides nursing, nutrition and case management services as well as physical, occupational and speech-language therapy to children who are disabled or developmentally delayed from birth to 36 months**.** In FY'04, the program served more than 9,471 children with a state and federal budget of $18.8 million.

Head Start

Head Start is a state and federally-funded program which provides developmental, health and parent educational services to low-income children ages 0 through 5 and their families. Oklahoma is one of the few states that provide state supplements for Head Start.

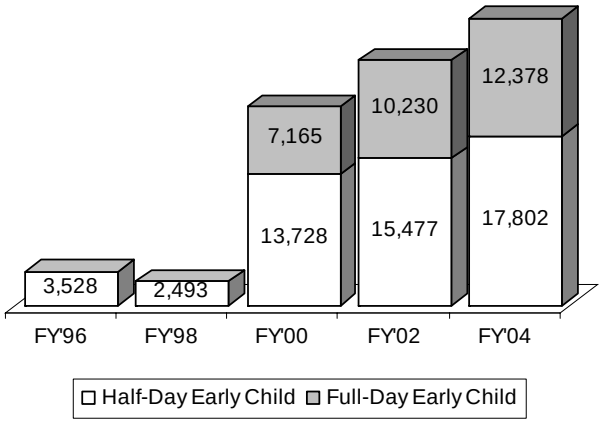
For FY'05, the Legislature appropriated more than $3.16 million, an increase of more than 600 percent since FY'92 when the Legislature initiated state funding of the program with a $423,000 appropriation. Oklahoma's program also received over $78.1 million in federal funds for FY'03. State funds are appropriated to the Oklahoma Department of Commerce for administration and management of the program.

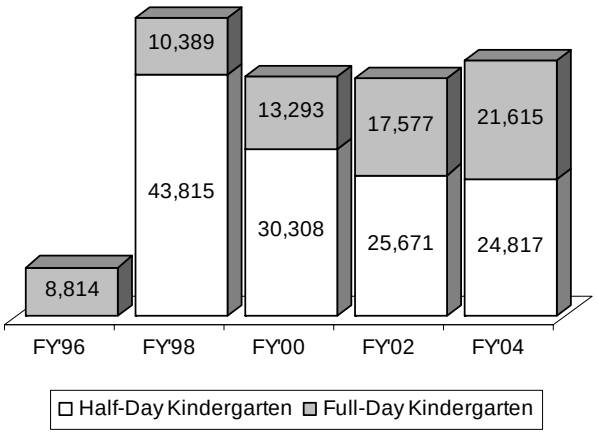
In FY'03, the program served 19,274 children. Of this number, over 7,554 children were 3 years old, 9,904 were 4 years old, and 412 were 5 years old. Despite recent gains, Head Start still serves almost half of the eligible three- and four-year-old population.

Programs for Four-Year-Olds

Free half-day and full-day programs for four-year-olds are offered by school districts across the state. These programs provide developmentally appropriate activities to prepare children for kindergarten. In 1998, the Legislature increased funding available to schools to provide these programs. Enrollment in this program has increased dramatically since then.

Growth in Early Childhood Education Programs
FY'96 Through FY'04





Oklahoma Parents as Teachers

The Oklahoma Parents as Teachers program is a voluntary home-school partnership that emphasizes the importance of the parents' role as the first teacher of children. The program received $1.29 million in state funds for FY'04 and served more than 7,764 families.

STUDENT TESTING

One of the most quantifiable methods to measure student success across the nation is standardized test scores. Oklahoma requires a number of state and national tests from third grade through high school.

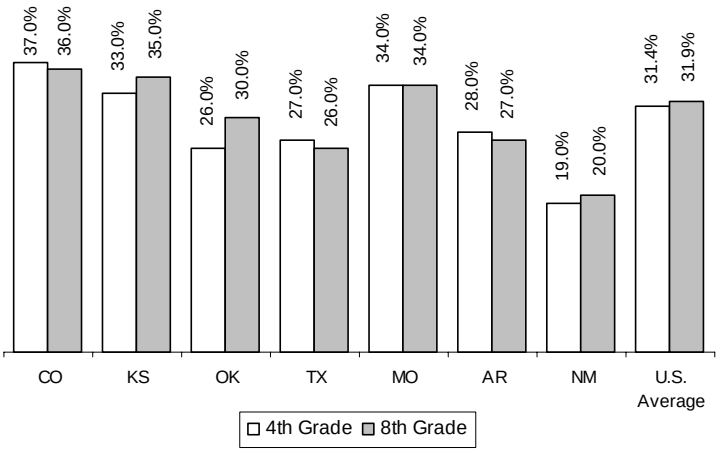
In 1985, the Legislature laid the foundation for a comprehensive testing system with the Oklahoma School Testing Program. Since that time the program has undergone a number of changes. For the 2002-2003 school year, children attending public schools or charter schools are required to participate in the following tests:

Grade Level	Test	Subjects Tested
3rd	Stanford 9	Reading, Math Language Arts
5th	Oklahoma Core Curriculum Test	Reading, Writing, Math, Science, U.S. History, U.S. Constitution, U.S. Government, Geography, Arts
8th	Oklahoma Core Curriculum Test	Reading, Writing, Math, Science, U.S. History, U.S. Constitution, U.S. Government, Geography, Arts
Secondary	OCCT – End of Instruction	English II, U.S. History, Biology I, Algebra I

The third grade norm-referenced test will be moved to a fourth grade norm-referenced test once funding to implement a third grade criterion-reference test is provided.

In addition to the above tests, the National Assessment of Educational Progress (NAEP), a standardized national test, is administered to a sample number of students in the 4th and 8th grade. The NAEP is used to compare students' educational achievements across the nation.

4th and 8th Grade 2003 Reading
National Assessment for Educational Progress (NAEP)
(Percent of Students Scoring at or Above Proficient)



- Of the 39 states participating in the 1998 Fourth Grade Reading NAEP, 10 states scored higher than Oklahoma and 28 scored lower.

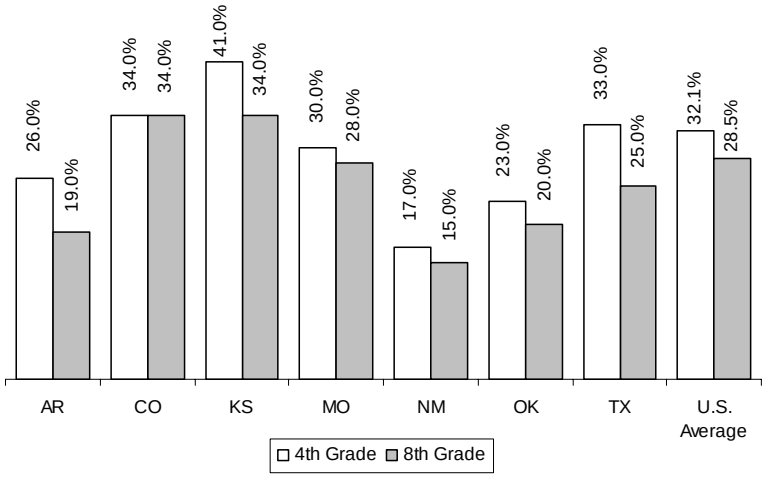
- Of the 36 states participating in the 1998 8th Grade Reading NAEP, nine states scored higher than Oklahoma, two states scored the same and 24 scored lower.

- Of the 50 states participating in the 2003 4th Grade Reading NAEP, 37 states scored higher than Oklahoma, two scored the same and 10 scored lower.

- Of the 50 states participating in the 2003 8th Grade Reading NAEP, 31 states scored higher than Oklahoma, two state scored the same and 17 scored lower.

Under the newly reauthorized federal Elementary and Secondary Education Act (ESEA) states will be required to implement annual tests in math and reading or language arts for all students in grades three through eight by the 2005-2006 school year. School districts must annually assess limited English proficiency students for proficiency by the 2002-2003 school year. By the 2007-2008 school year states must assess students in science once during each of the following grade spans: three through five, six through nine and ten through twelve.

4th and 8th Grade 2003 Math
National Assessment for Educational Progress (NAEP)
(Percent of Students Scoring at or Above Proficient)

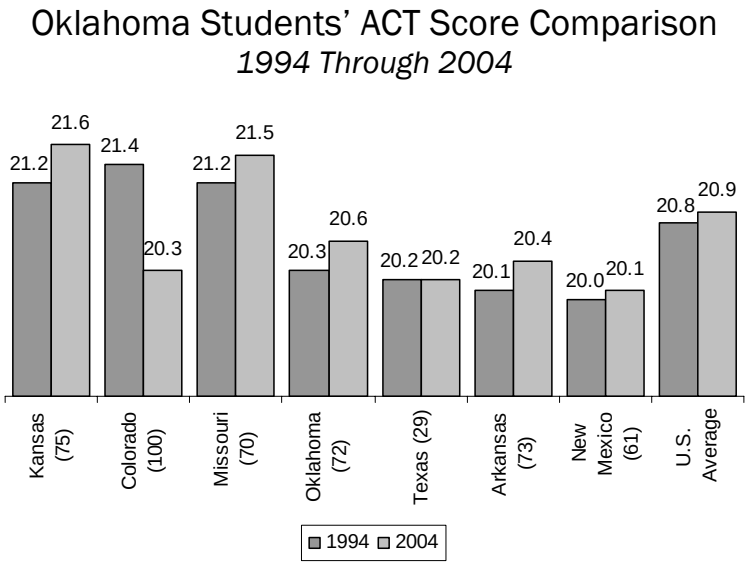


Office of Accountability

Pursuant to the Oklahoma Educational Reform Act of 1990 (HB 1017), the state created the Office of Accountability. Among other duties, the office provides an annual Oklahoma Educational Indicators report delineating the performance of various public schools and school districts. Every year, the office issues "report cards" for each school district and provides the information to the public. Individual school report cards may be accessed through the internet at www.schoolreportcard.com or by calling (405) 522-4578.

American College Test (ACT)

More than 70 percent of high school seniors in Oklahoma participate in the American College Test (ACT) for college admission. Between 1994 and 2004, Oklahoma's average score has increased from 20.3 to 20.6. This increase has occurred at the same time that the percentage number of students taking the ACT has increased from 66 percent to nearly 72 percent. Oklahoma's rate of growth in test scores more than doubles the national average during the period.



Note: The number in parenthesis represents the percentage of seniors taking the ACT in the state.

FEDERAL EDUCATIONAL REFORM EFFORTS

In January of 2002 the federal government passed House Resolution 1, otherwise known as the "No Child Left Behind Act". This bill re-authorized the federal Elementary and Secondary Education Act (ESEA) funding for states and expands state testing and accountability program requirements. The main goal of the act is to ensure that by the 2013-2014 school year, all students will attain a minimum standard of proficiency or better in reading/language arts and mathematics. A number of new components are required of states and school districts to ensure progress.

While the list of requirements a state must meet are numerous, the list below highlights the most important and far-reaching. Over the next few years states will be working to comply with the following provisions:

- Adopt state academic content standards in mathematics, reading/language arts and science. As a result of HB 1017, Oklahoma developed content standards in each of the four core academic areas in 1991. These standards are revised every three years. Revisions were written during the 2002 calendar year and reviewed by a number of state and national organizations;

- Develop and implement tests in grades three through eight in the areas of reading/language arts and math. This requirement must be met by the 2005-2006 school year. Oklahoma is receiving $5.6 million in federal funds to establish these tests. Tests in Oklahoma will need to be developed for the third, fourth, sixth and seventh grades and must be aligned to the state academic standards;

- Participate in the National Assessment of Educational Progress (NAEP); participation in this program is now required under state law;
- Develop and implement school improvement sanctions and a unitary system of accountability which meets federal rules and guidelines. Some changes in legislation may be required to achieve this goal; and
- Develop a system that ensures school districts report and demonstrate yearly improvements in tests scores among all populations by gender, race, ethnicity, special education and limited English proficiency status.

While some additional funds are being provided to meet some of these provisions, federal funds for developing the accountability system and reporting system are not provided. As Oklahoma works over the next few years to successfully implement this legislation, important policy and funding decisions will need to be addressed.

SCHOOLS FOR THE BLIND AND DEAF

The Oklahoma School for the Blind in Muskogee and the Oklahoma School for the Deaf in Sulphur provide day and residential services to students from across the state. Operated by the Department of Rehabilitation Services, both schools provide comprehensive educational and therapeutic services on their campus. The schools also provide a satellite pre-school, outreach and educational services to surrounding schools to allow even more students and families to have access to specialized programs.

For FY'04, the Oklahoma School for the Blind received over $5.1 million in state funds and had 65 children enrolled for the residential program and 49 enrolled for day services. For FY'04 the Oklahoma School for the Deaf received over $6.2 million in state funds and will serve 85 children in the residential program, 55 in the day program and 44 in the pre-school program.

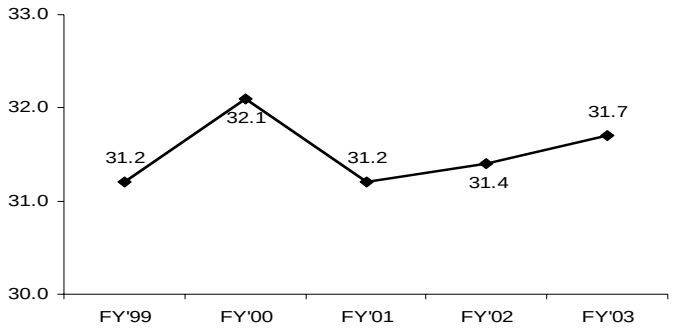
As part of the schools' residential education programs, students have opportunities to participate in activities similar to a typical public school, including student organizations and interscholastic athletics. Course work mirrors classes at any public school but is enhanced with specialized instruction such as Braille, sign language, adaptive technology and equipment, orientation and mobility, etc. Both residential programs serve pre-kindergarten through twelve grades. Both schools transport residents home for weekends and holidays.

OKLAHOMA SCHOOL OF SCIENCE AND MATHEMATICS

Created in 1983 through legislative action, the mission of the Oklahoma School of Science and Mathematics is to foster the educational development of Oklahoma high school students who are talented in science and mathematics and

show promise of exceptional development through participation in a residential educational setting emphasizing instruction in science and mathematics. This two-year residential school is located in Oklahoma City and provides advanced science and math courses to students in grades 11 and 12. With 26 full-time faculty and future capacity for 300 students, the school currently serves approximately 140 students on a 32 acre campus.

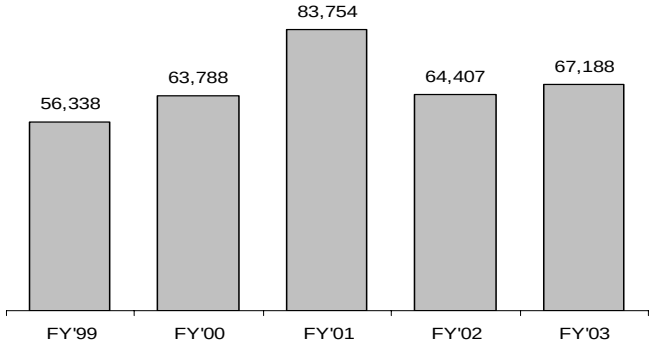
Average ACT Score of Residential School
(FY'99 Through FY'03)



The graduating class of 1998 and 2000 achieved the highest ACT composite scores of any high school in the United States. In addition the school has produced 135 National Merit Scholars.

To replicate the success of the residential school, the Legislature has provided funding to establish ten regional math and science centers across the state to provide advanced science and math courses to students living in districts that did not offer these courses. All regional centers are housed in career and technology centers and are taught by people having a Ph.D. in the subject area.

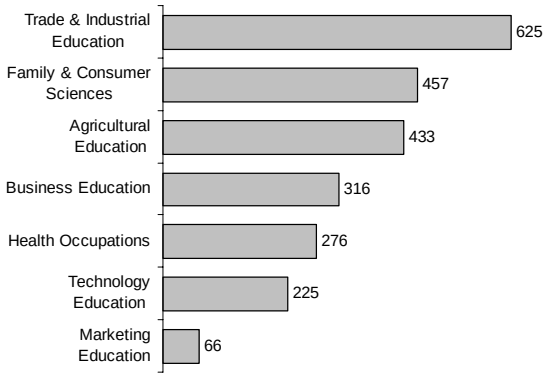
Average Scholarship Amount/Residential Students
(FY'99 Through FY'03)



CAREER AND TECHNOLOGY EDUCATION (VO-TECH)

The Oklahoma career-technology educational system, until FY'01 called the Vocational-technical or vo-tech system, was established in 1917 and originally provided vocational agricultural and home economics programs. Since then, the career-technology educational system has changed its focus to teach skills that will meet the demands of a competitive world market with special emphasis on technology and medical services. The name change that expresses the change was passed during the 2000 session.

Full-Time Programs in Career Technology



Source: State Department of Career-Technology Education

With 29 technology center districts, 54 campuses, and 560 comprehensive school sites, Oklahoma's career-technology educational system is an important part of the state's economic development efforts.

State Board of Career and Technology Education

The State Board of Career and Technology Education is the governing body for the Oklahoma career-technology educational system. Membership of the board consists of the State Superintendent of Public Instruction, six appointed members of the State Board of Education as ex-officio voting members, and six members appointed by the Governor, five of whom require Senate confirmation. The director of the department serves as an ex-officio nonvoting member and is the executive officer of the board.

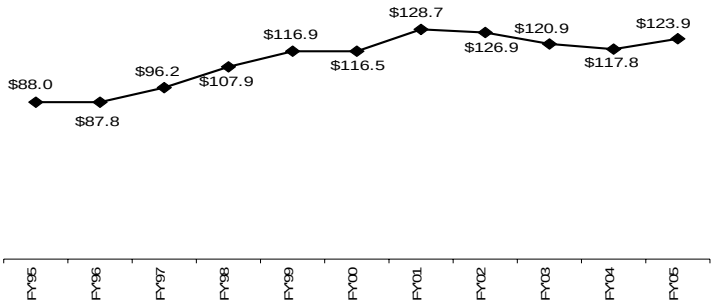
CAREER AND TECHNOLOGY FUNDING

Appropriation History

State appropriations for career-technology grew by 41 percent from FY'95 to FY'05.

Career & Technology Education Appropriation History

(In millions)

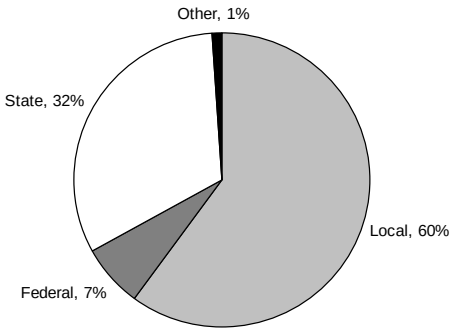


Technology Center Funding

Technology centers are funded through dedicated local ad valorem millages, state appropriated revenues and tuition fees paid by students. Millages are assessed on real property within a technology center district. The Oklahoma Constitution restricts technology center districts to a maximum of 10 operating mills and 5 building-fund mills. Changes in career-technology millages are enacted by a majority vote in a district-wide election.

Most technology centers depend more on local ad valorem receipts than state appropriations. Local property wealth varies widely from district to district, causing discrepancies in the amount of ad valorem revenue available to support each technology center. To address the discrepancies, the Legislature instituted a state equalization formula that allocates most state funds using local wealth as an inverse factor.

FY'03 Funding Sources for Career-Technology Centers



Source: State Department of Career-Technology Education

- Local taxes, tuition and other income comprise 60 percent of the system's entire budget.

CAREER AND TECHNOLOGY PROGRAMS

Comprehensive Schools

The cornerstone of Oklahoma's system of technology education is the comprehensive school, which provides programs to secondary and adult students at a public middle or high school. There are 1,223 programs in 400 school districts. Courses include vocational agriculture, business and marketing, graphic/computer design, etc. These programs also help students develop job-readiness skills, good work attitudes and leadership skills.

Technology Centers

Another key component of the career-technology system is the technology center. Oklahoma's network of technology centers, which began with the Tulsa County Area Technology Center in 1965, consists of 29 districts with 54 campuses across the state. The locations of these campuses allow 97 percent of Oklahomans easy access to career-technology programs.

Skill Centers

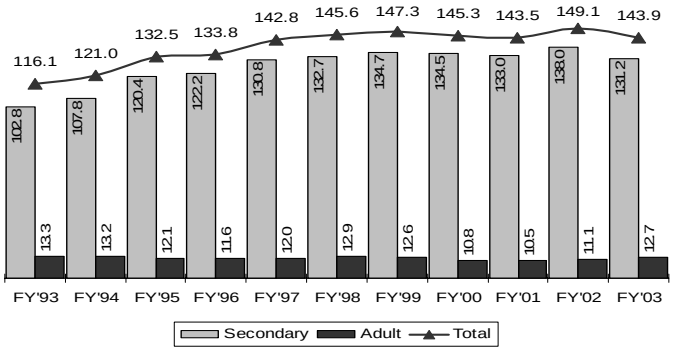
Programs at three Skill Centers (located at Tahlequah, Spiro and Midwest City) provide training to adults who are unemployed or need to improve their skills. There are 25 skill centers located on prison grounds targeting the inmate population, four skill centers in juvenile justice facilities and five community skills programs. These programs are focused on providing skills to inmates ready to transition to a community setting. The job placement rate for this program is over 80 percent.

Enrollment Trends

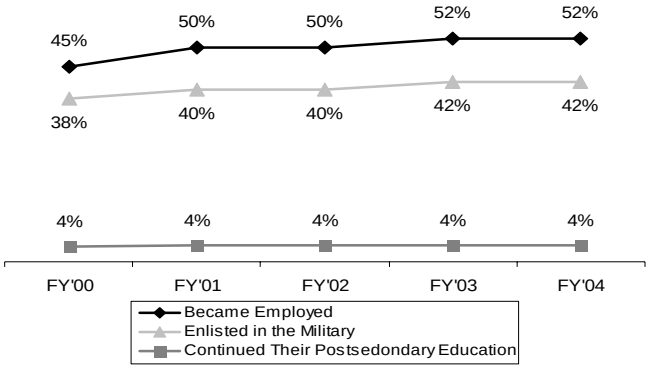
Between FY'93 and FY'03, total enrollment in career-technology programs increased by 24 percent.

Career Technology Enrollment Trends by Student Type

(In Thousands)



Student Outcomes for Career-Tech Programs
FY'00 Through FY'04



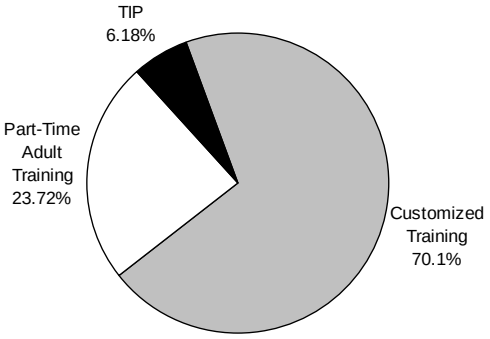
Source: State Department of Career-Technology Education

Career-Technology Economic Development Programs

Three career-technology programs focus primarily on economic development and are designed for adult education.

- **Adult Training and Development**: Adults wishing to expand their expertise or who are looking to change career paths are provided job-training workshops, seminars and short courses.
- **Training for Industry Programs (TIP)**: This program meets specific training needs of new or expanding industries in conjunction with the Quality Jobs Act.
- **Industry Specific Training**: Industry specific or customized training is provided by the career-technology system for existing businesses.

FY'04 Enrollment by
Career-Technology Economic Development Program



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POST-SECONDARY EDUCATION

Providing quality, affordable post-secondary educational programs to develop a skilled and educated workforce has become a priority with the Legislature. These programs are seen as an important key to improving the state's economy and per-capita income. Oklahoma's universities, colleges and career and technology centers (formerly called vo-tech centers) play an integral role in educating and preparing adults to compete in the state, national and global marketplace.

Since 1990, the Legislature has passed and implemented a number of funding and program initiatives to increase the caliber of our state's post-secondary institutions and expand opportunities for students to attain a post-secondary degree.

This chapter provides an overview of higher education and career and technology education in Oklahoma.

HIGHER EDUCATION

Oklahoma higher education began before Oklahoma Territory and Indian Territory combined to become a state in 1907. As early as 1890, the first territorial legislature created three institutions of higher learning. By 1901, four additional institutions of higher education were established across the state.

The Oklahoma State System of Higher Education was created in 1941 by a constitutional amendment, Article XIII-A, which provides that "all institutions of higher education supported in whole or in part by direct legislative appropriation shall be integral parts of a unified system." The amendment also created the State Regents for Higher Education as the "coordinating board of control of the Oklahoma State System of Higher Education." Currently, there are 25 colleges and universities, 10 constituent agencies and two higher education centers offering courses and degree programs across the state.

Higher Education Governance

The State Regents for Higher Education serve as the coordinating board for all state institutions. However, most agree that the Legislature has sole power to establish and/or close institutions (Attorney General Opinion 80-204). The primary responsibilities of the state regents are to:

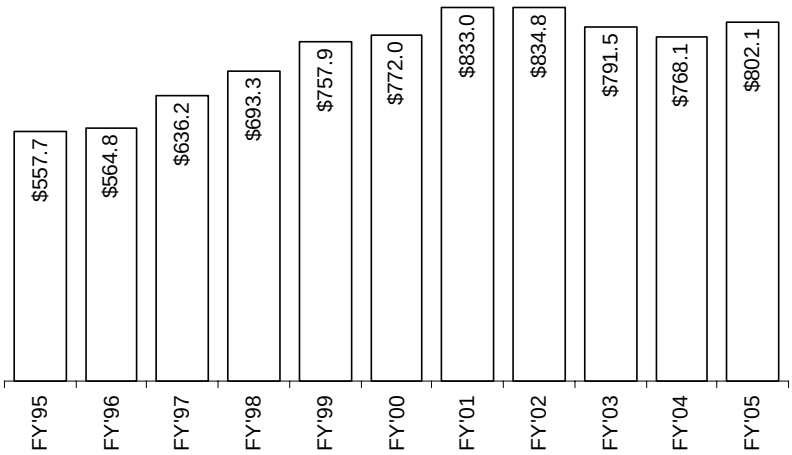
- prescribe standards of higher education;
- determine functions and courses of study at state institutions;
- grant degrees and other forms of academic recognition;
- recommend to the Legislature budget needs for each institution; and
- determine fees within the limits set by the Legislature.

In addition to the state regents, there are three Constitutional governing boards and 12 statutory governing boards. These boards have responsibility for the operational governance of the state's higher education institutions. Membership on all governance and coordinating boards is by appointment of the Governor and confirmed by the Senate.

Funding Trends for Higher Education

In FY'05, 15 percent of the state's appropriated budget went to the State Regents for Higher Education, which has sole authority for allocating state funds among colleges and universities.

History of Appropriations to Higher Education
FY'95 Through FY'05
(In Millions)



For FY'05 the Legislature appropriated over $802.1 million to the State Regents for Higher Education, which represents an increase of $244.4 million or 44 percent from the FY'95 level.

Since FY'89, the state regents' office has been funded through a line-item appropriation in the higher education funding bill. Prior to that year, the state office was funded through an assessment made on each of the institutions under the regents' control. The FY'05 appropriation for administrative operations in the state regents' office is $5.2 million. The regents have budgeted an additional $2.2 million to manage OneNet, the state's telecommunication network. These two items represent 0.9 percent of the total appropriation to higher education.

Endowed Chairs: Oklahoma has been making an effort in the last decade to establish itself as a research hub in the Midwest. Higher Education plays an important role in this endeavor; state higher education institutions perform a great deal of research that can benefit the state and the Nation. To draw better researchers to Oklahoma, the State Regents have requested private donations, to be matched by the state, to fund many new endowed chairs and professorships at the institutions. Until 2004, the State Regents could only match up to $7.5 million annually in private funds for this purpose. Private donations were being offered, but the Regents lacked the State funds to match them. But when House Bill 1904 passed during the 2004 Legislative Session, the Regents were able to eliminate that backlog of private donations. HB 1904 authorized a $50 million bond issue for Endowed Chairs to match these private funds. The bond issue will cover at least 170 endowed chairs across the state, 58 percent of which will exist at the two largest institutions (28 at OSU and 70 at OU).

Quartz Mountain Lodge and State Park: During the 2001 session the Legislature passed SB 567 which transferred the administration and funding of the Quartz Mountain Lodge and State Park located in Southwestern Oklahoma in the Wichita Mountains from the Oklahoma Department of Tourism and Recreation to the Oklahoma State Regents for Higher Education. The newly renamed Quartz Mountain Arts and Conference Center and Nature Park became a part of the Oklahoma State System of Higher Education as of January 1, 2002. A board of trustees under the State Regents for Higher Education was created, and they are responsible for the governance and management of the center. Over $1.9 million was transferred for FY'03 from the Oklahoma Department of Tourism and Recreation to the State Regents for Higher Education to manage the center.

Institutional Budgets

State appropriations represent less than 60 percent of total revenue for higher education; tuition and fee revenue comprise another 27.5 percent of the total higher education budget, while other funds comprise 12.9 percent.

The state regents' approach for determining the budget needs of higher education institutions is founded on the "peer-group" approach.

Peer State Appropriation Comparison
(In Millions)

Name of State	FY'94	FY'02	FY'03	FY'04	1-Year Change	2-Year Change	10-Year Change
ARIZONA	616,729	884,175	859,059	859,799	0.1%	-2.8%	39.4%
ARKANSAS	418,119	623,806	616,911	659,055	6.8%	5.7%	57.6%
COLORADO	531,761	756,809	685,529	591,511	-13.7%	-21.8%	11.2%
ILLINOIS	1,796,979	2,904,184	2,763,756	2,703,279	-2.2%	-6.9%	50.4%
IOWA	625,977	786,640	769,854	753,915	-2.1%	-4.2%	20.4%
KANSAS	484,724	712,923	679,830	685,832	0.9%	-3.8%	41.5%
KENTUCKY	630,276	1,039,117	1,068,484	1,115,174	4.4%	7.3%	76.9%
LOUISIANA	567,579	997,813	1,055,455	1,098,721	4.1%	10.1%	93.6%
MICHIGAN	1,559,304	2,257,732	2,151,247	2,080,228	-3.3%	-7.9%	33.4%
MINNESOTA	1,008,028	1,379,832	1,323,393	1,286,715	-2.8%	-6.7%	27.6%
MISSOURI	609,095	974,646	875,070	838,597	-4.2%	-14.0%	37.7%
NEBRASKA	358,249	516,249	520,769	498,809	-4.2%	-3.4%	39.2%
NEW MEXICO	393,353	605,193	609,070	644,385	5.8%	6.5%	63.8%
OKLAHOMA	538,565	796,312	750,656	731,375	-2.6%	-8.2%	35.8%
TEXAS	3,188,362	5,139,663	4,783,028	4,850,213	1.4%	-5.6%	52.1%
WISCONSIN	936,156	1,194,852	1,211,419	1,117,395	-7.8%	-6.5%	19.4%
WYOMING	124,694	161,917	191,958	196,935	2.6%	21.6%	57.9%
TOTALS	14,387,950	21,731,863	20,915,488	20,711,938	-1.0%	-4.7%	44.0%

Source: State Regents for Higher Education

The peer group concept involves first selecting institutions from across the nation with missions that are comparable to Oklahoma institutions for the three tiers (comprehensive, four-year regional and two-year institutions). Once peer institutions are selected, the per-student average revenue from appropriations and tuition and fees is determined at each peer institution. The average revenue per student of all peer institutions is multiplied by the student counts at each Oklahoma college and university to arrive at budget needs.

At a state college or university, the principal operating budget is called the educational and general (E&G) budget. It contains funds for the primary functions – instruction, research and public service – and activities supporting the main functions. The E&G budget is divided into Part I, which comprises mostly state funds, and Part II (the "sponsored budget"), which derives funding from external sources such as federal grants and training contracts. The E&G budget is distinct from the capital budget, which pays for new construction, major repairs or renovations, and major equipment purchases. Auxiliary enterprises – tangential services such as housing, food services and the college store – are also excluded from the E&G budget.

There are two primary sources of funds for the Part I E&G budget – state appropriations and revolving funds. Appropriations by the Legislature are made to the State Regents who, in turn, allocate directly to each facility in the state system. Appropriations constitute about 60 percent of the institutions' core educational budgets. Revolving funds are collected by the institution and consist primarily of student fees, sales and services of educational departments, and

indirect cost reimbursements from grants and contracts. These funds constitute approximately 40 percent of the core educational budget, with student fees being the largest component.

Revolving Funds

Among the State Regents' constitutional powers is:

> "…[t]o recommend to the Legislature proposed fees for all of such institutions and any such fees shall be effective only within the limits prescribed by the Legislature."

Since 1890, it has been public policy in Oklahoma to provide comprehensive, low-cost public higher education. Thus, residents of Oklahoma are afforded subsidies covering a majority of their educational costs at all colleges and universities of the state system. Oklahoma's institutions are below peer institutions in percentage of total higher education costs paid by tuition.

Comparison of Percentage of Total Cost Paid by Tuition

2001 – 2002 School Year

Tier	Peer Institutions	Oklahoma Institutions
Research Universities	40.3%	28.2%
Four-Year Universities	31.7%	27.4%
Two-Year Rural Colleges	23.6%	19.9%
Two-Year Urban Colleges	21.5%	22.6%
Technical Branches	24.7%	21.8%
Total	33.3%	26.4%

Source: State Regents for Higher Education

Tuition

In Oklahoma, determining tuition limits is a constitutional power of the Legislature. During the 2001 legislative session, the Legislature passed Senate Bill No. 596 and for the first time since the mid 1980's delegated this authority, within certain limits, to the Oklahoma State Regents for Higher Education. From the 2001-2002 through the 2006-2007 school years, the State Regents were authorized to increase tuition a maximum of 7 percent per year for Oklahoma residents, and 9 percent per year for nonresidents. Tuition rates at the professional schools (law, medicine, dental, veterinary medicine, etc.) could increase by 10 percent per year for residents and 15 percent per year for nonresidents during that time.

In the 2003 Legislative Session, the Legislature extended even more authority to the State Regents by allowing them to raise tuition by more than the seven and nine percent for residents and non-residents, respectively. The State Regents are now allowed to raise tuition at state higher education institutions to no more than

the combined average of resident tuition and fees at the state-supported institutions of higher education that are members of the Big Twelve Conference. This change amounted to significant tuition and fee increases for the state's schools; in the 2004 school year, students at the University of Oklahoma saw residential tuition and fees increase nearly 28 percent, and at OSU, by nearly 27 percent.

All revenue derived from enrollment fees, nonresident tuition, and special fees for instruction and academic services are deposited in the institution's revolving fund for allocation for support of Part I of the institutions educational and general budget.

Total Tuition and Fees Comparison

FY'03 and FY'04

	FY'03		FY'04		% Increase	
Institution	Resident	Non-resid.	Resident	Non-resid.	Resident	Non-resid.
University of Oklahoma	$2,929.00	$8,086.00	$3,741.00	$10,254.00	27.7%	26.8%
Oklahoma State University	$3,025.00	$8,092.00	$3,748.00	$10,066.00	23.9%	24.4%
University of Colorado	$3,566.00	$18,910.00	$3,846.00	$19,826.00	7.9%	4.8%
University of Kansas	$3,483.00	$10,687.00	$4,100.50	$11,576.50	17.7%	8.3%
Kansas State University	$3,249.00	$10,025.00	$4,060.00	$11,950.00	25.0%	19.2%
University of Nebraska	$4,125.00	$10,718.00	$4,498.00	$12,073.00	9.0%	12.6%
University of Texas	$3,950.00	$10,490.00	$4,188.00	$11,268.00	6.0%	7.4%
Iowa State University	$4,360.00	$13,052.00	$5,028.00	$14,370.00	15.3%	10.1%
University of Missouri	$5,552.00	$14,436.00	$6,558.00	$21,843.30	18.1%	51.3%
Texas A&M University	$4,748.00	$11,288.00	$4,915.64	$11,995.64	3.5%	6.3%
Texas Tech University	$3,867.00	$10,407.00	$5,045.00	$12,125.00	30.5%	16.5%
Big 12 Average	$3,895.82	$11,471.91	$4,520.74	$13,395.22		
Oklahoma as a Percent of the Big 12 Average	76.4%	70.5%	82.8%	75.8%		

Cost of Attending State Higher Education Institutions*

2004 – 2005 School Year

Tier	Tuition	Mandatory Fees	Average Academic Service Fees	Room & Board	Books & Supplies	Total
Comprehensive Universities	$10,248.00	$1,261.65	$402.12	$5,218.50	$896.50	$18,026.77
Regional Universities	$6,348.55	$897.32	$57.81	$3,502.40	$801.36	$11,607.44
Two-Year Colleges	$4,309.45	$661.25	$46.19	$3,345.43	$1,045.06	$9,407.38
Technical Branches	$5,685.00	$662.50	$161.76	$4,552.00	$1,022.50	$12,083.76
Higher Education Centers	$5,991.68	$165.00	$0.00	$0.00	$1,187.50	$7,344.18
OSU - Tulsa	$10,200.00	$1,045.80	$38.32	$0.00	$891.25	$12,175.37
OU Health Sciences Center	$10,296.00	$1,304.00	$271.48	$0.00	$3,525.00	$15,396.48

Sources: Institutional web-sites and the Washington State National Comparison Study

Research and Development

A vital part of the higher education system, research and development (R&D) is primarily funded through the sponsored budget (Part II of the E&G budget). For FY'04, the sponsored budget was $405.9 million. Federal grants comprise 56.4 percent of the sponsored budget.

Most of the sponsored budget is derived and spent by the two research universities – the University of Oklahoma (OU) and Oklahoma State University (OSU) – and their constituent agencies. Of the total system-wide sponsored budget in FY'03, these entities account for 73.2 percent.

Over the past 12 years, state and local government has significantly increased funding for research and development. In 2004, OU received $29.6 million in R&D funding from local and state government, and OSU received $24.7 million.

During the 2002 session the Legislature passed HB 2536 which will provide funds from the Petroleum Storage Tank Release Environmental Cleanup Indemnity Fund in the Corporation Commission to the University of Oklahoma (OU) and Oklahoma State University (OSU). HB 2536 states that 25 percent of the revenue collected from a motor fuel assessment will be allocated to the University of Oklahoma for the construction of a national weather center. This center will house a number of different state and federal research divisions. State funds will be matched dollar for dollar by federal funds. The university will receive up to $19 million for this project.

Another 25 percent of the revenue collected up to $19 million will also be allocated to Oklahoma State University to upgrade, renovate and refurbish laboratory facilities for the sensory research center. This center will provide valuable applied research to the national government. Federal research funds will also be available as a result of this investment.

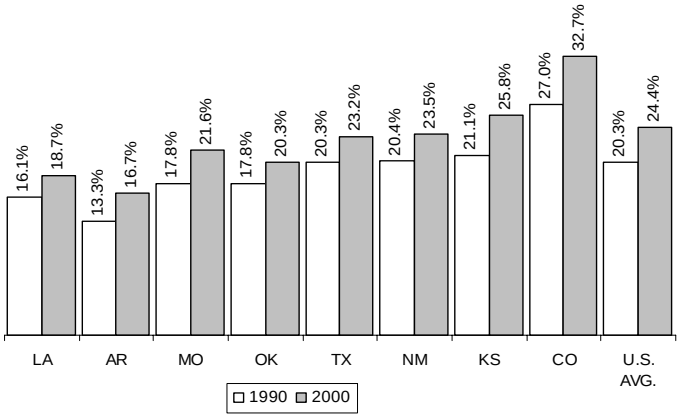
College Graduates in Oklahoma

Over the past ten years, legislators and state regents have implemented a number of initiatives designed to increase the number of Oklahoma high school students ready for college level work, going to college, and graduating with a higher education degree. Increasing the number of adults with higher education degrees in Oklahoma is an important step in improving Oklahoma's economic future.

Increasing the number of college graduates in Oklahoma can be achieved one of two ways. First the state may import more college graduates through increased higher wage jobs and economic development. Legislators have created and funded a number of programs through the Department of Commerce and the Oklahoma Center for the Advancement of Science and Technology to improve higher-wage economic development opportunities in the state.

Percentage of Population 25 Years of Age and Older With a College Degree

Oklahoma vs. Regional States and U.S., 1990 vs. 2000



Source: U.S. Census Bureau, Dicennial Census

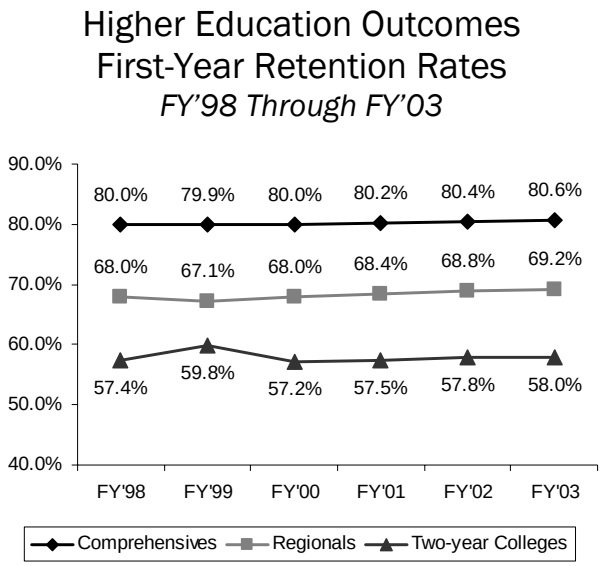
Another strategy the state regents are employing to increase the number of college graduates in Oklahoma is to increase the number of high school students entering college and college students remaining and matriculating with a higher education degree. Some programs are focused on encouraging more middle and high school students to take a college-preparatory curriculum and attend college while others are focused on college students.

Initiated in 1993, the Educational Planning and Assessment System (EPAS) is a partnership sponsored by the State Regents for Higher Education and The American College Test, Inc. and is focused on helping students in the eighth and tenth grade prepare for college. Eighty-three percent of school districts administer the EPAS program which assesses a student's academic readiness for college. Students and parents receive a detailed report outlining academic strengths and weaknesses with course recommendations for college-readiness.

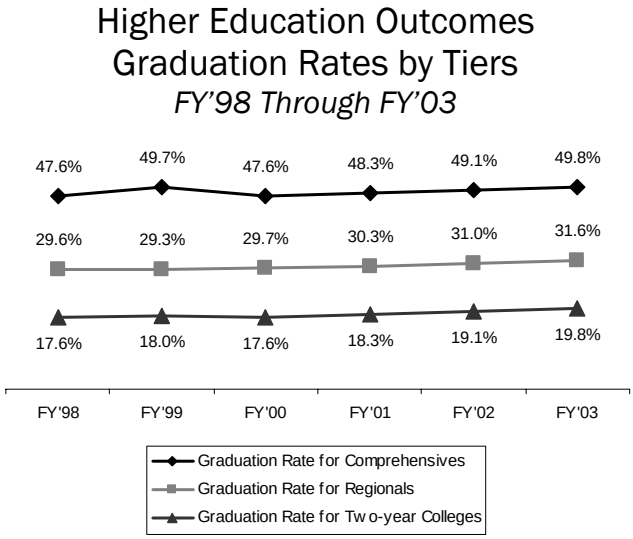
The Oklahoma Higher Learning Access Program, created by the Oklahoma Legislature provides tuition scholarships for up to five years to low to middle income students who might not otherwise attend college. Students must enroll no later than the tenth grade year, live with families who earn no more than $50,000 a year and successfully complete a college preparatory curriculum to qualify (see OHLAP).

Recognizing the importance of retaining and graduating more students, institutions have worked over the past five years to increase retention and graduation rates. In 1999, the state regents launched the "Brain Gain 2010"

campaign to increase the number of Oklahomans graduating with a college degree in Oklahoma. Task forces were formed at the state and institutional level to identify challenges and solutions to ensure more students and adults entered college and more students in college graduated with a higher education degree.



- During the 2002-2003 academic year, public institutions were responsible for conferring 24,963 degrees: 7,414 associate's degrees; 13,044 bachelor's degrees; 4,166 master's degrees; and 339 doctoral degrees. Private higher education institutions conferred an additional 3,843 degrees.



Source: State Regents for Higher Education

In addition to the initiatives mentioned above, the Legislature has created a number of other programs designed to increase the number of graduates and help students and families finance the cost of higher education. These include the Oklahoma College Savings Plan Act and the Oklahoma Higher Learning Access Program which not only help families pay for college but help students complete college.

Oklahoma College Savings Plan Act

Established in 1998 and implemented in 2000, the Oklahoma College Savings Plan Act provides parents and others an opportunity to save for college costs by creating a trust fund for prospective students. Any person may open an account on behalf of a beneficiary with as little as $25 and contribute as little as $15 per pay period to the savings plan. A maximum of $235,000 may be invested for each beneficiary, and families participating may not contribute to an Education IRA for the same beneficiary. Among the plan's benefits:

- Contributions up to $2,500/year per beneficiary can be deducted from Oklahoma taxable income;
- Funds are invested in a specific mix of securities, bonds and money market funds depending on the beneficiary's age;
- Interest earnings are not taxed until they are withdrawn. Upon withdrawal, the earning are taxed as the beneficiary's income, which is usually taxed at a lower income-tax rate than the contributor's;
- Funds invested can be used to pay for almost all costs of attending an accredited or approved college, whether public or private, in-state or out-of-state;
- If the beneficiary decides not to attend college, account holders may switch the beneficiary or save the funds for a later date; and
- A person may open an account at any time irrespective of the beneficiary's age.

This program began in April of 2000. To date, nearly 22,000 accounts have been opened with current assets totaling over $96 million.

State Financial Aid and Scholarships

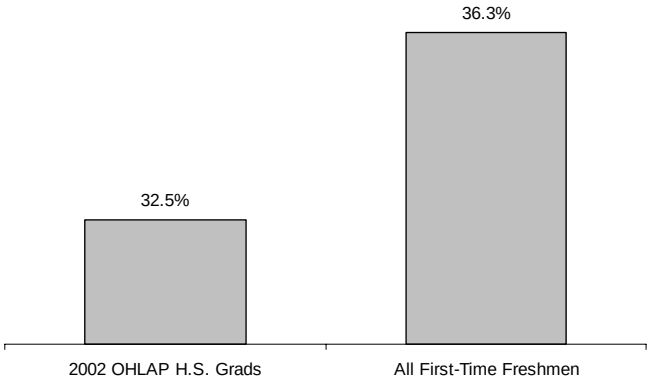
A number of programs are available to help students pay for college expenses. Some programs are based on financial need, and others are merit-based.

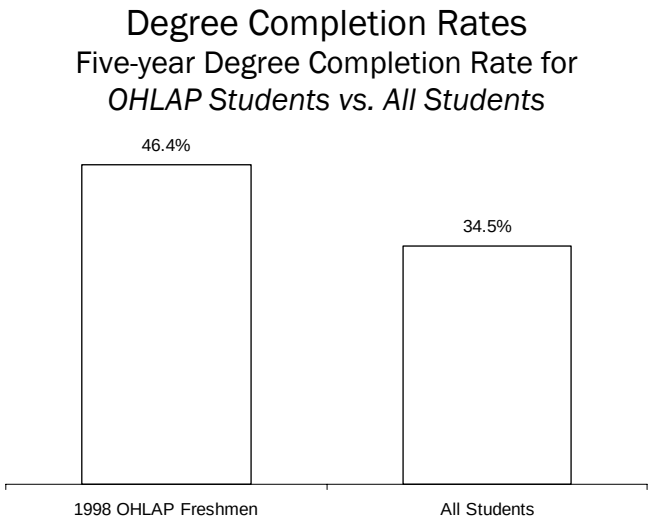
Oklahoma Tuition Aid Grant Program (OTAG): OTAG provides a maximum annual award of 75 percent of enrollment costs or $1,000, whichever is less, to low-income students residing in Oklahoma who are attending a public higher education institution at least part time. Students attending a private higher education institution in Oklahoma are eligible to receive a maximum $1,300 award. For FY'05 an estimated 20,000 students will receive a grant.

Academic Scholars Program: Ensuring Oklahoma's best students stay in Oklahoma to attain a higher education degree is the mission of this scholarship program. Students qualify for the program in one of three ways: (1) scoring among the top 0.5 percent of Oklahoma students on the ACT or SAT test; (2) receiving one of three official national designations, or (3) be nominated by a higher education institution (institutional nominee). The program provides $5,500/year to students attending OU, OSU or University of Tulsa; $4,000/year to students attending an Oklahoma four-year public or private college or university; or $3,500 for students attending Oklahoma two-year colleges if they are eligible under the first two criteria. Beginning with the Fall of 2003, awards provided under the institutional nominee designation will be half of all amounts listed above. In order to remain eligible for these awards, students must maintain a 3.25 GPA and complete 24 hours of courses a year. For FY'05 there will be 1,900 academic scholars across the state.

Oklahoma Higher Learning Access Program (OHLAP): This program's mission is to provide tuition assistance to students who might not otherwise attend or complete college. Qualifying students in families who earn less than $50,000 annually receive free tuition assistance to any public or private higher education institution in Oklahoma for up to five years. To qualify, students must enroll in the program by the tenth grade, must agree to take a college preparatory curriculum, must have a grade point average of 2.5 in high school, and must refrain from unlawful behavior. Studies show OHLAP students are much less likely to require remediation classes to prepare them for college-level work and more likely to remain in college through the third year. For FY'05 there are over 9,000 students receiving an award in college and over 23,000 students have enrolled in high school.

Remediation Rates, OHLAP Students vs. All Freshmen





Source: State Regents for Higher Education

Regional University Baccalaureate Scholarship: This program provides $3,000 and a tuition waiver to students who have received an official national designation, such as National Merit Finalist, or have achieved an ACT composite score of at least 30. Scholarships are available only to students attending one of the Oklahoma four-year regional universities. For FY'05 there will be 270 scholarship recipients.

Heartland Scholarship Fund: Lawmakers created this program to target children of victims of the April 19, 1995, bombing of the Alfred P. Murrah Federal Building in Oklahoma City. These awards can be applied to costs of tuition, fees, books, and room and board. Students attending an accredited higher education institution on a full-time basis receive the following amounts: $5,500/year for a comprehensive university, $4,000/year for a regional university, and $3,500/year for a two-year college. There are currently 20 scholarship recipients participating in this program.

Teacher Shortage Employment Incentive Program: Passed during the 2000 legislative session, this program reimburses qualifying participants for up to three years of tuition and fees after they have taught science or math in an Oklahoma public school district for five years. Qualifying students must enroll in the program by their sophomore year in college. Approximately 222 students have enlisted in this program.

Future Teachers Scholarship: Up to $1,500/year is awarded to full-time upperclassmen and graduate students who intend to teach a subject in which there is a critical need of teachers. In order to qualify, students must have graduated in the top 15 percent of their high school graduating class, scored at or above the 85th percentile on the ACT or similar test, or have been accepted for

admission to a professional accredited education program in Oklahoma. Lesser amounts are available to underclassmen and part-time students. For the FY'05 school year, the critical teacher shortage areas are special education, science, foreign language, math, and English. There are 100 people participating in this program.

National Guard Tuition Waiver: Members of the Army or Air National Guard who are pursuing an associate or baccalaureate degree at a state system institution receive an award amount equal to the cost of resident tuition. For FY'03 there will be over 2,100 students participating in this program.

Oklahoma Tuition Equalization Grant: This program was established in 2003 to assist Oklahoma college students in meeting the cost of attendance at non-public post-secondary institutions within the state. To qualify, a student must be an Oklahoma resident; be a full-time undergraduate; attend a qualified Oklahoma not-for-profit, private, or independent institution of higher education located in Oklahoma; have a family income of $50,000 or less; and meet their institution's policy on satisfactory academic progress for financial aid recipients. Recipients can receive the $1,000 award for up to five years after their first semester of post-secondary enrollment, not to exceed the requirements for completion of a baccalaureate program. In FY'05, approximately 500 students will receive a grant.

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ENVIRONMENT

There are six state agencies responsible for environmental regulations. The major tasks of the environmental regulatory agencies are outlined by the Oklahoma Environmental Quality Act (27A O.S. 1-3-101).

ENVIRONMENTAL AGENCY RESPONSIBILITIES

Oklahoma Conservation Commission

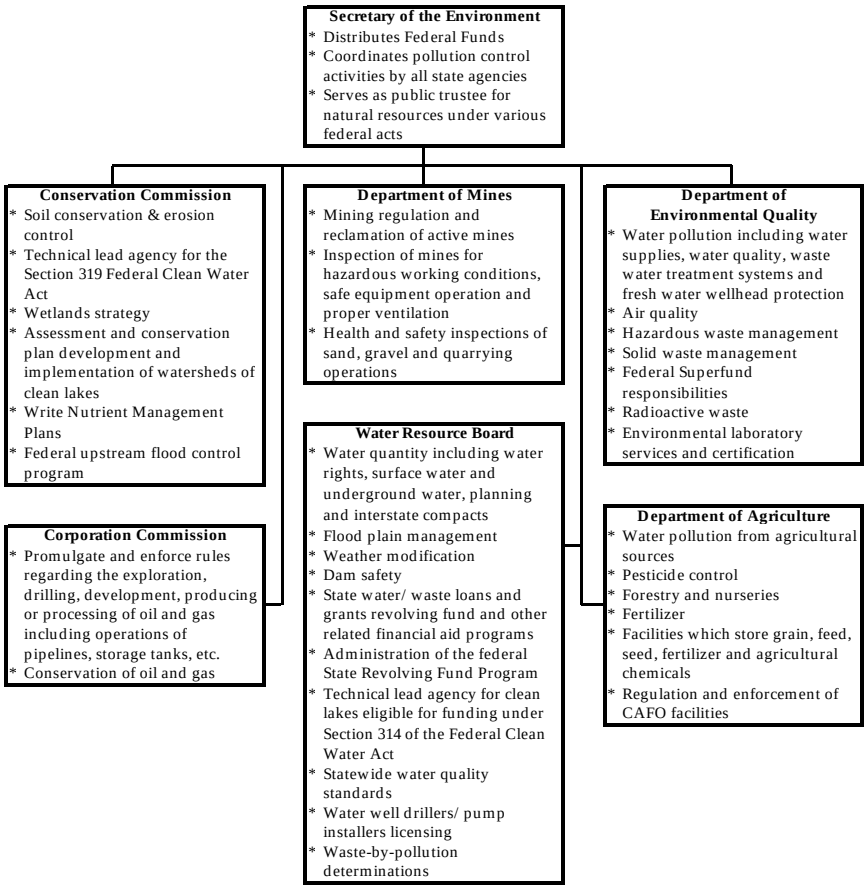
The Conservation Commission's primary responsibilities lie in the preservation and development of Oklahoma's natural resources. The commission has the responsibility for providing assistance to all 88 conservation districts in the areas of erosion prevention and control, prevention of flood and sediment damage, development of water resources, environmental education coordination, administration of the state Cost-Share Program, and maintenance of small upstream flood control structures.

State Department of Agriculture

The State Department of Agriculture was created to protect, improve and develop all of the state's agricultural resources, and to increase the contribution of agriculture to the state's economy. The department forms educational and economic partnerships, encourages value-added processing of Oklahoma's raw agricultural resources, and develops domestic and international markets for the state's agricultural commodities and products. The agency enforces laws and rules pertaining to food safety, water quality, and agricultural-related product or service quality.

Department of Environmental Quality

The Department of Environmental Quality (DEQ) provides comprehensive environmental protection and program management. DEQ is responsible for the principal environmental regulatory functions of air quality, water quality, and solid waste and hazardous waste management.



Oklahoma Water Resources Board

The Oklahoma Water Resources Board (OWRB) manages the waters of the state and plans for Oklahoma's long-range water needs to ensure an adequate supply of quality water. The primary function of the agency has been to administer the state's water rights program, both from ground water and stream water. The OWRB also administers the Clean Water State Revolving Fund (CWSRF) and the Drinking Water State Revolving Fund (DWSRF), which provide loans to qualified entities needing financial assistance to construct water and sewer projects.

Corporation Commission

Established in 1907 by the Oklahoma Constitution, the mission of the Corporation Commission is to regulate the activities of public utilities, oil and gas drilling, production and waste disposal; motor carriers, the storage, quality and dispensing of petroleum products, and other hazardous liquid handlers. The

commission also monitors Oklahoma compliance with a number of federal programs.

The Commission is comprised of three statewide elected officials. They serve six-year terms that are staggered so that a vacancy occurs every two years.

Department of Mines

The Department of Mines protects the environment through the enforcement of state and federal laws related to surface and sub-surface mining. Additionally, the department inspects mines for hazardous conditions, directs special consideration towards working conditions, verifies the safety of equipment operation, ensures proper ventilation, and regulates blasting activities.

CURRENT ENVIRONMENTAL INITIATIVES

The Legislature has supported various programs designed to monitor and remediate the state's natural resources. The following programs highlight the state's commitment to a sound environment.

Water Quality Monitoring (BUMP)

During the 1998 session, the OWRB was authorized and provided funding to implement a coordinated and comprehensive state water quality monitoring effort, known as the Beneficial Use Monitoring Program (BUMP).

Oklahoma's water resources are regulated through the promulgation of water quality standards, required by the federal government and developed by the OWRB. Beneficial uses are assigned to every water segment in Oklahoma. By statute, each state environmental agency is tasked with ensuring the maintenance of these beneficial uses. BUMP is designed to gather scientifically and legally defensible baseline water quality trend data. The data will be used to assess and identify sources of water quality impairment, detect water quality trends, provide needed information for the development of water quality standards, and facilitate the prioritization of pollution control activities.

BUMP is composed of five key elements or tasks, two of which have not been implemented due to funding constraints:

- River and Stream Monitoring: Almost 200 sites are sampled monthly for water quality. These sites are segregated into two distinct types of monitoring activities: fixed sites and rotating sites;

- Fixed Station Load Monitoring: Collection of water quantity flow data is used to track long-term trends;

- Fixed Station Lakes Monitoring: Currently 35 lakes are being sampled. The effort involves the sampling of about three stations per reservoir;

- Fixed Station Groundwater Monitoring: Focusing on groundwater will involve monitoring existing wells. Implementation of this facet of BUMP is being delayed due to lack of funding; and

- Intensive Investigation Sampling: This element, which also is pending implementation, attempts to document the source of water impairment and recommend restorative actions.

Superfund Remediation

The Superfund Program is administered by DEQ in partnership with the U.S. Environmental Protection Agency (EPA), which provides almost all the funding. Superfund is the federal program to monitor and remediate the nation's uncontrolled hazardous waste sites as well as the sites that pose the greatest threat to human health and the environment. Nationwide, EPA has identified 1,238 sites on the National Priorities List (NPL). In Oklahoma, there are seven NPL sites:

- Oklahoma Refining (Cyril);
- Imperial Refining (Ardmore);
- Tulsa Fuels and Manufacturing (Collinsville);
- Tar Creek (Ottawa County);
- Hudson Refining (Cushing);
- Double Eagle Refinery (Oklahoma City);
- Fourth Street Refinery (Oklahoma City);

Rural Economic Action Plan (REAP)

The Rural Economic Action Plan (REAP) was established in 1996 to stimulate the economic development of the infrastructure in rural Oklahoma. For FY'05, the appropriations to REAP totaled $20.6 million. The Department of Agriculture received $1.4 million, the Conservation Commission received $500,000, the Corporation Commission received $3 million, the OWRB received $191,632 and the Oklahoma Office of the State Auditor and Inspector received the balance of $15.5 million.

The $15.5 million portion is divided equally among the 11 Substate Planning Districts for rural economic development planning and implementation of projects. Provisions of REAP restrict grants to cities or towns with a population of less than 7,000. Also, the selection process gives priority to cities or towns with a population of less than 1,700.

The REAP portion given to the Conservation Commission will be used to fund various EPA 319 Priority Watershed grant projects around the state. This includes clean-up projects at Lake Wister, Grand Lake and Spavinaw Creek. The OWRB will utilize their portion of REAP to conduct water studies in such places as Grand Lake and the north fork of the Red River. Both the Department of Agriculture and the Corporation Commission will use REAP funding to replace portions of their General Revenue allocations.

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TAR CREEK

In 1981, the Environmental Protection Agency (EPA) named the Tar Creek site, an area that covers 40 square miles near Picher, Oklahoma to the National Priority Listing (NPL). Governed by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, this designation means Tar Creek has been shown to have known releases or threatened releases of hazardous substances, pollutants and contaminants that can adversely affect the health of people, animals and flora in the area. For the past 24 years state and federal policymakers have been working to identify the responsible parties, measure the impact of pollutants on the population and implement initiatives to clean the site.

This section provides an overview of the site, the environmental impact of the site on the land, people and animals in the area and the policy issues federal and state policymakers must continue to address over the next two to three decades to remediate the site.

BACKGROUND

The Tar Creek Superfund site covers 40 square miles and includes the towns of Picher, Cardin, Quapaw, Commerce, North Miami and Miami and individual and tribal owned land. The site was once part of the world famous Tri-State Mining District producing zinc and lead from about 1890 to the late 1950's. Thousands of tons of ore-containing rock were pulled from the earth from up to 275 feet below ground. Prior to the mining boom, this part of Ottawa County was lush with hay meadows and clean streams with an economy centered on ranching and farming.

Today, the site remains contaminated from the legacy of mining. Seventy-five million tons of mining wastes, called chat, remains on the ground. Hundreds of acres of land are covered by millponds, where waste from ore processing was placed. These wastes contain high levels of lead and zinc that have been and are continuing to be released to the environment.

Approximately 300 miles of underground tunnels are now filled with ground water. Several large areas have subsided or collapsed and new areas have begun subsidence during the past year. The ground water that fills the caverns, known as the Boone aquifer, is laden with metals and discharges in seeps and natural upwellings as well as from mine shafts, open bore holes and subsidence structures. Public drinking water supplies, produced from the deep Roubidoux aquifer, are affected by contaminated mine water.

FEDERAL INVOLVEMENT

The Tri-State Mining District was not unnoticed by the federal government. In fact, it was made possible, in large part, by the federal government. The mining boom flourished under the watch of the Department of Interior (DOI). DOI was engaged, through the Bureau of Indian Affairs and the Bureau of Mines, in issuing leases to mining companies. The mining companies mined and processed the ore and left the wastes uncontrolled on the ground. The federal government subsidized premium prices for metals during the period of World War II; the effect of this subsidy kept the mines operating during a period when profits were marginal.

In 1981, the Environmental Protection Agency proposed the site for NPL listing and has been working on it ever since. The Department of Interior (DOI) continues to be involved in two important ways: first, DOI is a responsible party under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) and Natural Resource Damages Act (NRDA); and second, DOI is the federal Natural Resource Trustee, responsible for assessing and claiming damages from responsible parties for restoration of injured resources. DOI is also the trustee for many Native American landowners in the area.

HEALTH AND ENVIRONMENTAL CONSEQUENCES

In 1996, testing by several state and tribal agencies showed that 34% of the children in the area had blood lead levels above the level considered safe. Exposure to lead, especially in children from birth to 6 years of age, can result in long-term effects including poor coordination, decreased stature, hearing loss, impaired learning capabilities and other developmental effects and in acute effects ranging from nausea, irritability, lack of concentration, seizures and death. Generations of children in this area have been exposed to lead from mining wastes, including the current generation.

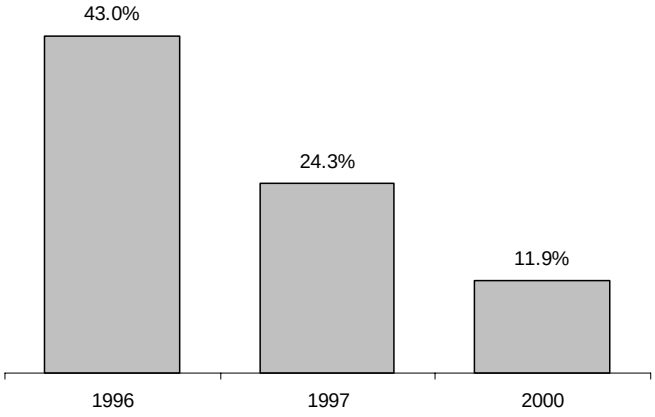
Tribal Efforts Against Lead (TEAL)

The TEAL study conducted by eight tribes* contained a representative sample of 31 census block groups in northeast Ottawa County. The team visited 6,686 homes and identified 474 eligible families, 387 of the families participated.

Testing was completed on one child from one to six years of age from each eligible family.

* The Peoria Tribe, in a united effort with the Quapaw Eastern-Shawnee, Miami's, Seneca-Cayuga, Modoc, Ottawa and Wyandotte nations of Oklahoma.

Percent of Children with High Lead Levels
1996 Through 2000



Successful ongoing efforts to reduce the amount of exposure of children to lead have included education, yard remediation, and lead paint abatement. These have been successful at reducing the number of children with high blood lead levels.

Abandoned mine workings, open shafts, and subsidence all pose undue hazards to people, livestock and wildlife in the area. Mine water, once acidic, discharges to Tar Creek, Beaver Creek and other creeks in the area. Little or no fish are found. The area is plagued with flooding that is exacerbated by chat in stream channels.

HISTORICAL APPROACH

Tar Creek is a very large and complex site with complicated environmental issues as well as a complicated social and political setting. It does not fit completely within any one federal program. This is evidenced by the historical approach to the site by EPA. EPA has spent almost $95 million on the site and has not and in the end will not fix all the problems. EPA's early activities in the 1980s were directed at improving stream water quality by diverting inflow to and outflow from the mine workings; the remedy was not successful in achieving that goal.

In 1995, with information on children's elevated blood lead levels, the EPA began to remove lead contaminated soil from residential yards and other areas frequented by children like playgrounds, parks, and daycares. Relocation of residents in the heart of the mining area was considered but local citizens are divided on this issue. The yard remediation continues today. Yet chat piles loom in and around these areas and chat has been used locally for county roads. This leaves the potential for recontamination high and the potential for continued exposure to lead even higher. For almost two years, EPA has been negotiating with primary responsible parties (PRPs), a handful of mining companies and the DOI, to conduct investigations of the mining wastes.

CURRENT PROJECTS

The 2004 Legislature provided $3 million for the Lead-Impacted Communities Relocation Assistance Act which authorizes the Department of Environmental Quality (DEQ) to assist in the relocation of families, with children under six-years of age, to a location outside of the Tar Creek Super Fund site. DEQ has been authorized to contract with certain public trusts in order to provide this assistance.

The 2002 Legislature provided $4 million in support for the Tar Creek area to work toward a solution that would address the health effects of the mine wastes on the impacted communities and to address some other issues in the area. The chat can be used as an economic resource if it is encapsulated. OU and OSU are developing documentation of the safety of chat in an asphalt matrix as well as the optimum mix for such asphalt through grants from the DEQ.

The Oklahoma Conservation Commission designed and contracted the reclamation of a 52 acre site just east of Picher (called the McNeely project) as well as a second 14 acre reclamation project on the northwest side of the town of Commerce (called the Enochs project). The McNeely project included two major subsidence areas as well as a large area covered by a layer of chat. During the reclamation the subsidence areas were filled with chat which was scraped off the surface. Following the chat removal the site was revegetated. The Enochs project included four shafts that needed sealing along with chat removal. Since the legislature's appropriation of the Rainy Day funds for Tar Creek, the Conservation Commission has received a $2.1 million grant from the USDA's Natural Resources Conservation Service to pay for the reclamation work at the Enochs site and to reclaim additional sites. The Commission contracted with the Public Works Department of the town of Commerce to perform the reclamation work at the Enochs site. As of October 18, 2004 dirt work at the Enochs site is nearing completion and vegetation will be planted later in October.

The Oklahoma Attorney General's office will contract for Oklahoma's portion of the Natural Resources Damage Assessment needed to pursue claims against the responsible parties. Water quality studies of the Tar Creek Basin and Grand

Lake (the downstream receptor for waters from the Spring and Neosho Rivers) will be coordinated through the DEQ Water Quality Office in Grove. Using Geographic Information Systems, the DEQ will track data from historical studies and current efforts in order to map the progress of remedial and restoration efforts. The federal, state and private efforts will be coordinated by DEQ so that a comprehensive, holistic solution for the environmental and health problems in the area can be developed and implemented. This coordination will keep projects moving, provide accountability for the money spent, prevent duplication of efforts, and ensure that the many concerns of citizens in the area receive consideration. There may not be one simple solution to the entire problem, but there are now concrete steps being implemented to reduce the burden of contamination for Ottawa County and Tar Creek.

MAJOR PROJECTS SUPPORTED

Project	Cost	Partners
Residential Remediation	$2,600,000	DEQ-EPA, Grand Gateway/ HUD
Land Reclamation	$500,000	Conservation Commission
Safe Chat Use/ Chat Removal Projects	$500,000	OU/ OSU, Grand Gateway
NRDA Assessment	$200,000	AG/ DOI
Project Coordination	$200,000	DEQ/ EPA
Relocation Assistance	$3,000,000	DEQ

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STATE DEPARTMENT OF HEALTH

Promoting health practices that reduce society's cost of treating illnesses and epidemics has, since statehood, been the focus of county health departments. The Oklahoma State Department of Health (OSDH) is the statewide coordinating body for those local efforts.

ORGANIZATION OF THE PUBLIC HEALTH SYSTEM

The public health effort has expanded greatly over the state's history as new health problems – and new ideas for combating them – have emerged. Services that fall within OSDH's mandate include:

- Providing free immunizations for children to prevent contagious illnesses;
- Providing prenatal care, including food vouchers and home visitations, to improve birth outcomes of low-income women;
- Providing family planning services to prevent unplanned and mistimed pregnancies;
- Providing food establishment inspections to prevent food-borne diseases.

A typical client at a local health department clinic does not have a low enough income to qualify for Medicaid and does not have a high enough income to purchase private health insurance. While clients are usually charged a fee based on their ability to pay, OSDH's operational theory is that recouping costs is not as important as preventing diseases and conditions that can seriously disrupt individual and public health. Primary care – treating diseases and medical conditions after their onset – is not the agency's primary mission. Instead, health department clinics provide preventative services and education to avert the onset of illness and disease – for example, by providing vaccines to children, or running educational anti-smoking or teen pregnancy prevention campaigns. There are certain exceptions to the emphasis on prevention over treatment. For example, persons with certain communicable diseases can get treatment at a health department as a way to protect public health (e.g., tuberculosis and venereal disease).

OSDH serves as the statewide coordinator of public health services, most of which are provided through local (county) health departments. The central office provides administrative and laboratory services to the local agencies and also maintains the state's vital records. Seventy counties are served by county-supported health departments. The other seven counties – Alfalfa, Cimmaron, Dewey, Ellis, Harper, Nowata and Roger Mills – do not contribute local funding. These seven counties receive only state-mandated services (i.e., environmental inspections, outbreak investigation and immunization). Optional services, such as prenatal clinics, are available only in counties that contribute local funds to the public health effort. Oklahoma City and Tulsa are served by city-county health departments that are administratively autonomous (guided by their own boards) but must comply with policies of the State Board of Health. Counties are encouraged to assess property taxes of up to 2.5 mills to fund operations of local health departments. Sixty-seven counties do so, most of them at the highest millage allowed by the Oklahoma Constitution. Three counties provide local support via sales taxes. Total local health monies collected statewide pay for less than one-third of all county health department operations.

FUNDING TRENDS

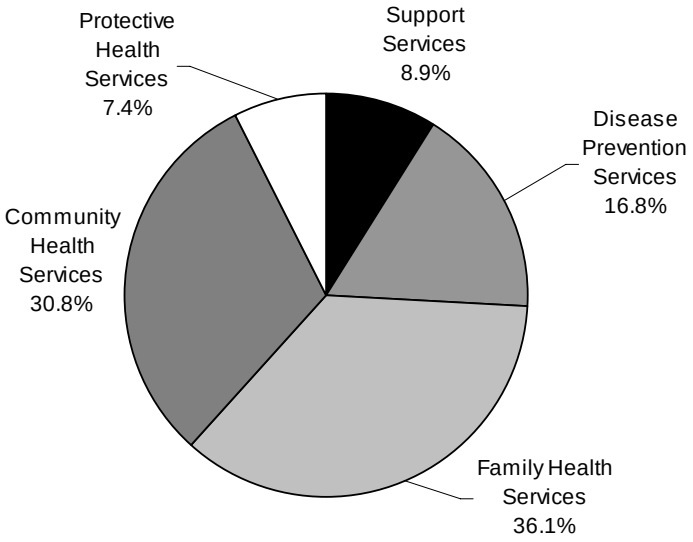
Over half (60.1 percent) of the FY'04 OSDH budget of $227.1 million came from federal sources (WIC, Medicaid, Maternal and Child Health Block Grant, various grants from U.S. Department of Health and Human Services and Centers for Disease Control). Appropriations accounted for $52.0 million or 23.2 percent of spending. Fees charged to clients (for such services as copies of birth and death certificates, occupational and restaurant licensing, trauma fund, organ donation and breast cancer) made up 4.8 percent of spending. County millage assessment generated $16.2 million or 7.1 percent of spending.

OSDH FY'04 Expenditures by Activity

	General Revenue	Fees	Federal Funds	Millage	Total
Support Services	$3,425,759	$10,258,374	$6,531,008	$0	$20,215,142
Construction Industries Board	$0	$1,787,090	$0	$0	$1,787,090
Disease & Prevention Services	$6,404,703	$1,364,764	$29,287,070	$0	$37,056,536
Family Health Services	$9,813,003	$114,067	$14,373,962	$0	$24,301,032
Community Health Services	$30,666,119	$1,981,297	$20,361,866	$16,173,795	$69,183,078
Protective Health Services	$1,849,476	$6,833,349	$8,213,945	$0	$16,896,771
WIC	$0	$0	$57,741,476	$0	$57,741,476
Total	$52,159,061	$22,338,941	$136,509,327	$16,173,795	$227,181,124

The sources of funding vary widely for different health department activities. Some activities are funded solely with appropriations; others function with no appropriated dollars. In some cases, each $1 of appropriations for a particular program is used to access from $1 to $9 in federal funds.

OSDH FY'04 Expenditures as a Percent of Total



SERVICES PROVIDED BY OSDH

The Oklahoma State Department of Health provides a wide array of services associated with the goal of preventative health. Major programs fall into the following categories: Family Health, Disease and Prevention, Community Health and Protective Health.

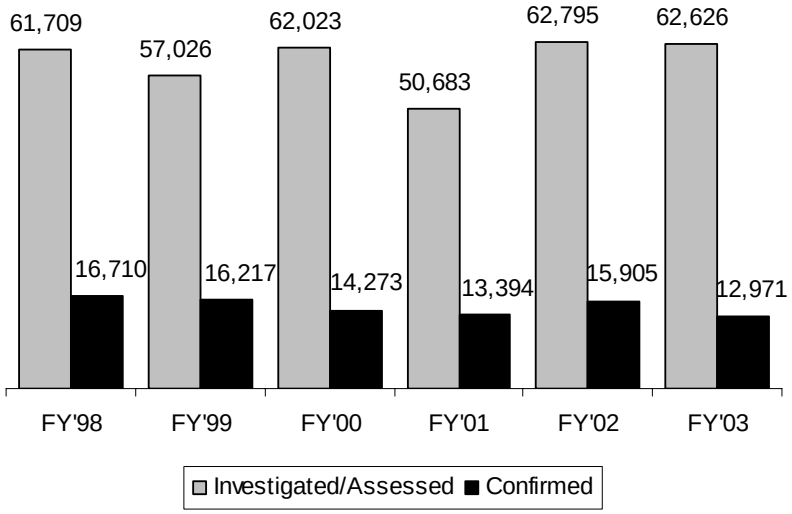
Family Health Services

This division, the agency's largest, had a budget in FY'04 of $82.0 million, or 36.1 percent of the total agency budget. Programs focus primarily on preserving and improving the health of women, children and teenagers:

- **Family Planning Services:** County health departments and non-profit clinics provide family planning services to low-income women at risk for unwanted and mistimed pregnancies. Services include physical exams, contraceptive supplies, education and counseling, and voluntary sterilization. Contracts specifically prohibit use of state funds for abortions.

- **Child Abuse Prevention Programs:** Resources focus on home visitation programs for low-resource mothers to improve health indicators and parenting skills in an effort to avert child abuse, unwanted repeat pregnancies and other adverse outcomes.

Confirmed Cases of Child Abuse and Neglect
FY'98 Through FY'03



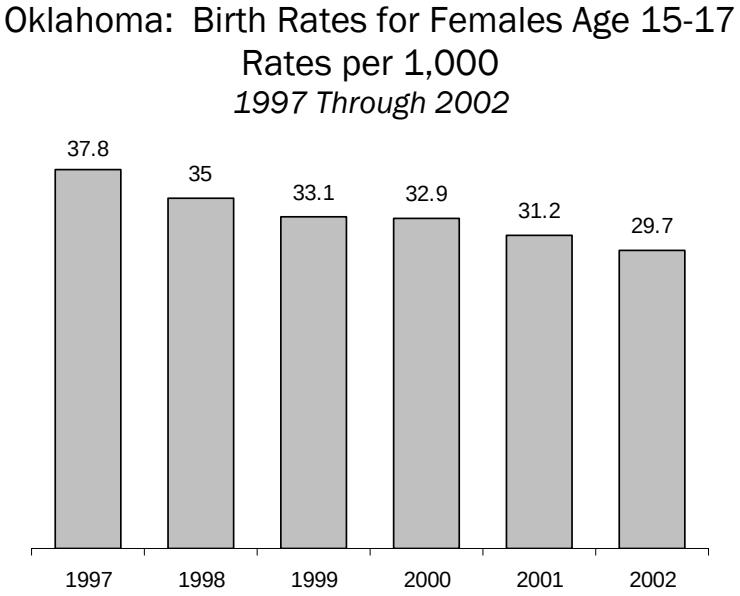
Source: DHS Children & Family Services Division

- **Child Guidance Services:** County health clinics offer diagnostic and short-term treatment services for developmental, psychological, speech, language and hearing problems among children. The agency also staffs the Early Intervention (SoonerStart) program, funded through the State Department of Education, for infants and toddlers.

- **Women, Infants and Children (WIC):** This federally-funded program provides nutritional education and coupons for selected foods to 90,000 pregnant women, infants, and children less than five years of age per month.

- **Dental Health**: Oral health screening and small-scale treatment is provided for children and nursing home residents in some areas through contracts with providers. There is also a school-based dental education program and a fluoridation program to improve the state's drinking water supply.

- **Teen Pregnancy Prevention**: The agency provides community-based programs aimed at lowering the state's teen birthrate via contracts with non-profit providers.



- **Newborn Metabolic Screening**: The agency coordinates screening of all Oklahoma newborns for various metabolic disorders.

Disease Prevention Services

This division had a budget in FY'04 of $37.1 million or 16.3 percent of the total agency budget. This division includes: Public Health Laboratory; Acute Disease; Chronic Disease Services; HIV/STD Services; Immunization Services; Injury Prevention Services; and Tobacco Use Prevention Services.

Chronic Diseases: The agency provides screening, tracking, education and referrals for persons at risk of a number of chronic diseases such as cancer, diabetes, heart disease and high blood pressure.

Communicable Diseases: This division is involved in monitoring and combating the spread of communicable diseases. The following services are provided:

- Immunizations –OSDH inoculates uninsured children for all state-mandated vaccines and coordinates the distribution of vaccines to private health facilities. In 2003 approximately 70.5 percent of Oklahoma's two-year olds were immunized compared with 79.4 percent nationally.

- Tuberculosis (TB) Treatment and Prevention –OSDH provides screening, diagnosis, and rigorous follow-up programs for persons with TB, many of whom are indigent and difficult to track.

- HIV/STD –OSDH coordinates and funds a statewide program for the surveillance and prevention of Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome and other sexually-transmitted diseases. The agency also helps eligible participants pay for prescriptions under the AIDS Drug Assistance Program.

Community Health Services

The Community Health Services Division, the agency's second largest division, accounted for 30.5 percent or $69.2 million of the agency's budget in FY'04. The division covers an array of services at the county health department level, including technical oversight for public health nurses and community health workers throughout the state, local finance and budgeting, and record keeping.

Protective Health Services

OSDH has responsibility for a wide range of regulatory services in areas that affect the health of citizens. Regulatory responsibilities include enforcing laws and regulations, performing routine inspections, investigating complaints, and issuing, renewing and revoking licenses.

Most of the $16.9 million budget for this division comes from licensure fees, and Federal Medicaid and Medicare funds which help support health and medical facility inspections conducted by OSDH employees.

- **Long-Term Care Services:** OSDH is responsible for licensing and inspecting nursing facilities, assisted living centers, group homes, intermediate care facilities for the mentally retarded, and residential care centers.

- **Medical Facilities and Entities:** The agency licenses hospitals, ambulatory surgical centers, community health centers, home health agencies, hospices, health maintenance organizations, etc.

- **Occupational Licensing:** OSDH licenses plumbers, electricians, barbers, hearing-aid fitters, the alarm industry, and licensed professional counselors.

- **Restaurant and Motel Inspection:** Restaurant and motel inspections are fee-funded and conducted by local sanitarians working out of county health departments.

- **County and City Jail Inspections:** OSDH employees inspect local jails to ensure compliance with minimum safety and inmate welfare standards. In response to jail crowding, this division has expanded enforcement efforts in this area.

Trauma

On February 13, 2004, the Oklahoma Legislature was notified of the need for supplemental funding to keep Oklahoma's only Level 1 Trauma Center open. During the legislative session, the University Hospitals Authority received $2.1 million in a supplemental appropriation to pay for indigent care at the OU Trauma Center, the state's only Level I Trauma Center. This was enough funding to reimburse both the hospital and OU Physicians Group for their anticipated losses during the period of January 1, 2004 through June 30, 2004. Additional funding was required to keep the Level I designation in FY'05. Also during the 2004 session, the Legislature passed several bills aimed at increasing the funding level for Oklahoma's trauma care system. Two of these bills were:

- **HB 2600** (Hilliard/Monson) assesses special trauma care fees ranging from $100 to $200 for certain traffic, controlled dangerous substance and drug trafficking violations for deposit into the Trauma Care Assistance Revolving Fund. Effective 11-1-04.

- **HB 2250** (Paulk/Robinson) imposes an additional $100 fine, increases certain fees by $10 and $100, and apportions certain amounts of existing fines for various traffic-related infractions for deposit to the Trauma Care Assistance Revolving Fund. Requires annual reports detailing fund disbursements. Effective 6-3-04

These two bills, along with SB 1554 could provide upwards of $10 million in new funding for the state's trauma system. Along with these bills, on November 2, 2004, Oklahoma voters approved State Question 713, which increased cigarette taxes by 55¢ per pack. Through the revenue generated by this tax, the Trauma Care Assistance Fund will receive approximately $17 million for Oklahoma's trauma care system.

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MEDICAID

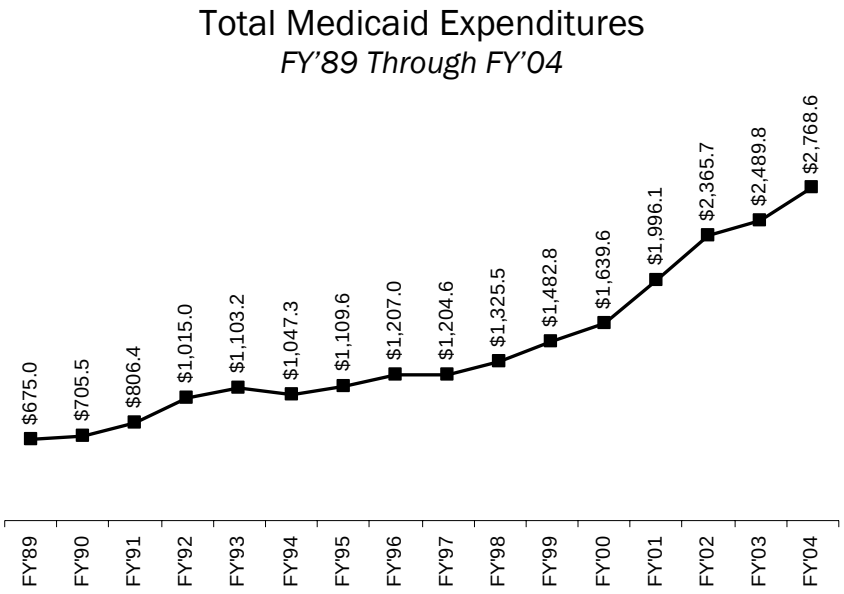
Medicaid, also known as Title XIX of the federal Social Security Act, is the primary mechanism for financing health care for low-income Americans. Unlike Medicare, which targets the elderly and is 100 percent federally funded, Medicaid is administered by state governments within certain guidelines set by the federal government.

Federal law requires every state to designate a single agency to administer its Medicaid program. Since 1993, the Oklahoma Health Care Authority (OHCA) has been the designated agency in Oklahoma. Prior to that time, the Medicaid program was administered by the Department of Human Services (DHS). DHS continues to play an important role in the Medicaid program because it certifies eligibility of recipients and operates home and community-based Medicaid programs serving elderly and disabled populations.

FINANCING

Medicaid is funded through a federal-state partnership. The federal share of the program, also known as the federal medical assistance percentage (FMAP), varies by state in inverse relation to a state's per capita income. For most services, Oklahoma's FMAP for FY'05 is 70.18. On average, for every one state dollar that Oklahoma Medicaid spends, Oklahoma receives $2.35 in Federal money. (The federal match for administrative expenses ranges from 50 percent to 90 percent, while some program expenditures are also eligible for matching rates of approximately 79 percent to 100 percent.)

In FY'04, the state share appropriated to the Oklahoma Health Care Authority was $439 million. Total program dollar expenditures were in excess of $2.6 billion, or approximately 17 percent of total state spending for that year.



In FY'04, the Medicaid budget is projected to increase to nearly $2.8 billion, with state appropriations accounting for $647.5 million.

While OHCA is the main beneficiary of state appropriations for Medicaid, other state agencies (such as the Department of Human Services, the State Department of Health, Department of Education and Department of Mental Health and Substance Abuse Services, the Office of Juvenile Affairs and the University Hospitals Authority, OU and OSU) pay the state match for various services and programs that are covered by Medicaid. Medicaid is also partly funded by fees on long-term care facilities and by rebates from drug manufacturers.

MEDICAID ELIGIBILITY

Medicaid eligibility is determined by DHS based on standards set by the state and federal government. Individuals are determined to be Medicaid eligible for six-month periods.

Covering the Uninsured

In general, Medicaid covers low-income mothers and children, the elderly, and people with disabilities. Most non-disabled working-age adults are ineligible for Medicaid, even if their income falls considerably below the federal poverty level. Medicaid served 670,797 Oklahomans throughout FY'04, or about 20 percent of the total population.

Children make up two-thirds of Oklahoma's Medicaid population while the aged, blind and disabled account for about 21 percent of the population. Enrollment patterns in the Medicaid program, however, do not correspond with expenditure breakdowns. Nationally, only 20 percent of Medicaid program dollars are spent on children, compared to 62 percent that is spent to provide services for the aged, blind and disabled populations. This discrepancy reflects the fact that the aged, blind and disabled are more likely to suffer from chronic health problems which may require ongoing medical assistance, episodes of acute care, and eventually long term care.

Medicaid Recipients and Expenditures
Fiscal Year 2004

Percentage of Recipients		Percentage of Expenditures	
TANF/AFDC	74%	AFDC/TANF	30%
Aged, Blind and Disabled	20%	Aged, Blind and Disabled	69%
Other	6%	Other	1%

Recipients of AFDC/TANF

Prior to federal adoption of Welfare Reform in 1996, persons eligible for the Aid to Families with Dependent Children (AFDC) program were automatically entitled to health care coverage under Medicaid. Congress severed this automatic link by repealing the AFDC program and creating the Temporary Assistance for Needy Families (TANF) program. Now, eligibility for Medicaid is no longer tied to receipt of cash assistance. However, anyone who meets the AFDC eligibility criteria that were in effect on July 16, 1996, is still able to receive Medicaid. In Oklahoma, the AFDC eligibility threshold is $5,652 per year for a family of three in the year 2004. Transitional Medicaid coverage is also guaranteed for families moving off welfare for a period of up to 12 months.

Low-Income Pregnant Women and Children

While most healthy adults are ineligible for Medicaid, the past decade has seen a concerted effort by Congress and the states to improve the health of children and pregnant women. In 1994, 14.2 percent of children nationally and 20.6 percent of Oklahoma children lacked health insurance. Among low-income children, the percentage without insurance was even higher. During the early 1990s, Congress mandated a phased-in expansion of Medicaid coverage for low-income children and pregnant women. This effort was superseded in Oklahoma by the passage of SB 639 (1997) and the state's Children's Health Insurance Plan.

SB 639 in 1997 increased Medicaid eligibility for pregnant women and children through 14 years of age to cover families whose income was up to 185 percent of the federal poverty level. A year later, the expanded eligibility level was expanded to cover families with children from 15 to 17 years of age. Under the program, an additional 120,000 children were added to the Medicaid program in the first 30 months following implementation. Of these new enrollees, one-third were newly eligible because of the new expanded criteria, and two-thirds were Medicaid eligible prior to SB 639 but had not been enrolled. Aggressive outreach by state agencies and community groups has played a large role in attracting eligible families to sign up for the program. Federal law required OHCA to begin covering children or persons 18 years of age on 9-1-01.

Concurrent with Oklahoma's initiative, the Federal government announced a $24 billion new program known as CHIP (Children's Health Initiative Plan) to encourage and assist states in insuring low-income children. The program provided enhanced federal matching funds to insure uninsured children up to 200 percent of the federal poverty level either through a Medicaid expansion (Oklahoma's option) or through a stand-alone CHIP program. Oklahoma is currently receiving an enhanced federal match of 80 percent for the Medicaid costs of children made eligible by SB 639.

Recipients of Supplemental Security Income (SSI)

SSI is a federal cash assistance program for persons who are 65 years of age, blind or disabled and poor, known as ABD. Receipt of SSI assistance automatically qualifies an individual for Medicaid. As of July 2004, there were 112,087 adult and 12,641 children ABD recipients.

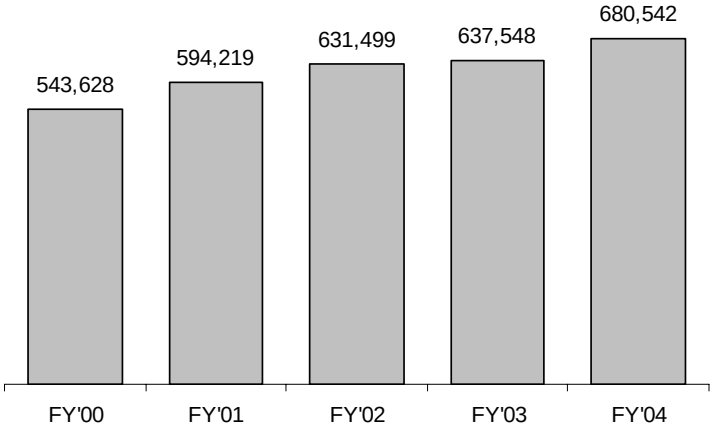
Medicaid Payments for Medicare Premiums

Under 1988 federal legislation, states are required to pay Medicare premiums, deductibles and coinsurance for needy elderly and disabled persons who are dually eligible for Medicare and Medicaid. This group is known as Qualified Medicare Beneficiaries (QMBs). The payments are cost-effective from the state's standpoint because it is less expensive to pay such out-of-pocket expenses for Medicare eligibles than it is to have them lose their Medicare benefits and fall into Medicaid eligibility. In FY'04, an average of 3,262 Part A premiums and 70,580 Part B premiums were paid each month.

Growth in Enrollment

The Medicaid program is designed to be counter cyclical with the economy. For every one percentage point increase in unemployment that occurs, Medicaid enrollment can be expected to increase by 2.7 percent. Enrollment in the Medicaid program began to increase dramatically after the events of September 11, 2001, and the national recession that followed.

Average Growth in Enrollment
FFY'00 Through FFY'04



MEDICAID AND MANAGED CARE

In response to dramatic growth rates in the Medicaid program during the late 1980s and early 1990s, the Legislature created the Task Force on Medicaid and Welfare Reform. The task force's report recommended the transition of Oklahoma's Medicaid program from a fee-for-service type system to one based on managed care principles. As a result, in 1993 the Legislature enacted the Oklahoma Medicaid Healthcare Options Act, which directed the newly-created OHCA to develop and implement a statewide, comprehensive system of managed health care delivery for Medicaid recipients. The objectives of this system are:

- to improve both the quality of Medicaid patient care and access to care through a greater emphasis on preventive services delivered by primary care providers; and

- to control Medicaid health care costs by reducing inappropriate utilization of services (such as non-emergency visits to hospital emergency rooms) while instilling greater budget predictability by shifting cost risk in a managed care model.

Oklahoma Managed Care

Prior to January 1, 2004 OHCA operated two separate forms of managed care – SoonerCare Plus and SoonerCare Choice. Under the SoonerCare Plus program OHCA contracted directly with Health Maintenance Organizations (HMOs) to provide medically necessary services to beneficiaries residing in Oklahoma City,

Tulsa, Lawton and the counties immediately surrounding these urban centers. In November of 2003, news of increased health care costs and a decision by a HMO to pull out of the state Medicaid program prompted the Oklahoma Health Care Authority board to approve a proposal to end its HMO contracts and expand the state's other managed care system, SoonerCare Choice.

Now OHCA only has one managed care program – SoonerCare Choice. After the transition of all beneficiaries from SoonerCare Plus into SoonerCare Choice in April 2004, OHCA dropped the word "Choice" from the name of the program. The entire managed care program is now referred to as SoonerCare.

SoonerCare is a Primary Care Case Management (PCCM) program in which the state contracts directly with primary care providers throughout the state to provide basic health care services. The SoonerCare program is partially capitated, in that providers are paid a monthly capitated rate for a fixed set of services with noncapitated services remaining compensable on a fee-for-service basis. Some beneficiary groups are not eligible to participate in SoonerCare. Persons eligible for Oklahoma Medicaid who are institutionalized, dual eligibles, in-state or tribal custody or enrolled under a Home and Community-based Waiver are not included in the SoonerCare program at this time.

Beneficiaries enrolled in SoonerCare are not "locked in" with a primary care provider/case manager (PCP/CM) and can change health care providers up to four times per year. This important facet to the program allows SoonerCare beneficiaries the opportunity to select a provider that has been added to the program. Providers contracting in this program include physicians, nurse practitioners and physician assistants.

Identifying the need to coordinate care for SoonerCare members with complex medical needs, the SoonerCare division created a Care Management department. This department contains nurse exceptional needs coordinators (ENCs) who support the Oklahoma Medicaid provider networks in both the SoonerCare program and fee-for-service areas through research, collaboration and problem resolution as related to members' care.

SERVICES PROVIDED BY MEDICAID

Unlike Medicare, which charges its recipients monthly premiums and includes co-pays and deductibles, Medicaid is a system of essentially free health insurance coverage for eligible beneficiaries. However, Medicaid involves some cost to clients: providers can charge co-payments for certain services (e.g., $1-$3 for doctors' visits or prescription drugs), and nursing home residents must "spend down" their own resources to a certain level before Medicaid begins paying their bills.

What Services are Covered?

Federally Mandated Services	Optional Covered Services	
Early/Periodic Screening Diagnosis & Treatment (EPSDT) Under Age 21	Case Management	Optometrist
Family Planning Services & Supplies	Chiropractor	Personal Care
Inpatient Hospital	Clinic	Physical Therapy
Laboratory & X-ray	Dental	Podiatrist
Non-emergency Transportation	Dentures	Prescribed Drugs
Nurse Midwife	Diagnostic Services	Preventive Services
Nurse Practitioner	Emergency Hospital	Private Duty Nursing
Nursing Facility/Home Health for Age 21+	Eyeglasses	Prosthetic Devices
Outpatient Hospital	Inpatient Hospital for Age 65+ in Institutions for Mental Diseases	Psychologist
Physician	Inpatient Psychiatric under age 21	Rehabilitative
Rural Health Clinic and Federally Qualified Health Center	ICF/MR	Respiratory Care
	Nurse Anesthetist	Screening Services
	Nursing Facility under age 21	Speech/Hearing/Language Disorders
	Occupational Therapy	TB Related

Hospital services followed by prescription drug and nursing facility expenditures account for more than $1 billion of the $2.8 billion Medicaid program.

Long-Term Care

Medicaid is the nation's primary insurer of long-term health care services for individuals with chronic, non-acute needs. In fact, more than 75 percent of all residents in Oklahoma nursing homes are Medicaid clients. Long-term care services range from personal care, rehabilitative therapies, chore services, and home-delivered meals to durable medical equipment and environmental modification. With the graying of the baby-boom generation and advances in medical technology contributing to a rapidly expanding senior population, providing adequate and affordable long-term care will be one of the great challenges confronting state and federal policy makers in the new century.

Medicaid payments for long-term care falls into two general categories:

Institutional Care: This includes such facilities as nursing homes, Intermediate Care Facilities for the Mentally Retarded (ICFs/MR), or state hospitals for the mentally retarded. The state pays private institutional providers a per diem to cover the full range of patients' needs, including room and board. Part of the revenue for nursing homes and ICFs/MR payments is raised by daily per-bed fees imposed on all licensed facilities, which are matched with federal funds.

Home- and Community-Based Programs: Through several Medicaid waivers administered by DHS, the state contracts with private agencies to provide needed services set out in an individual care plan. The largest waiver programs are the Home-and-Community Waiver for the developmentally disabled and the ADvantage Waiver for the aged and disabled. All 50 states have developed waivers as a way to allow those who do not need 24-hour nursing care to live fuller, more independent lives outside of institutions.

Eligibility for Medicaid long-term care services is based on a combination of medical and financial criteria. Medically, individuals must be certified as

needing a "nursing home level of care" to be eligible either for institutional placement or participation in one of the long-term care waivers. Financially, Medicaid recipients' incomes must be below 300 percent of the SSI eligibility threshold, which translates to monthly income of roughly $1,692 per person and $2,000 in non-exempted assets.

County	Proj. Pop. 2003 Census (Rounded)	Clients	Total Annual Expenditure
ADAIR	21,600	7,236	$21,500,079
ALFALFA	5,900	584	$1,800,208
ATOKA	14,100	3,486	$8,743,329
BEAVER	5,600	727	$1,652,644
BECKHAM	19,900	4,272	$17,393,782
BLAINE	11,700	2,305	$7,540,137
BRYAN	37,300	8,765	$30,893,254
CADDO	30,100	7,680	$21,461,132
CANADIAN	92,900	10,320	$28,318,923
CARTER	46,400	10,982	$38,203,985
CHEROKEE	43,800	10,279	$41,205,374
CHOCTAW	15,400	5,519	$19,058,814
CIMARRON	3,000	462	$1,090,436
CLEVELAND	220,000	24,443	$69,656,967
COAL	5,900	1,818	$7,073,017
COMANCHE	113,900	19,773	$41,041,076
COTTON	6,600	1,224	$4,344,171
CRAIG	14,900	3,926	$23,452,119
CREEK	68,800	13,007	$42,566,371
CUSTER	25,000	5,144	$16,732,917
DELAWARE	38,700	8,872	$26,866,953
DEWEY	4,500	621	$2,914,397
ELLIS	4,000	542	$2,435,106
GARFIELD	57,100	11,064	$76,752,103
GARVIN	27,200	6,459	$54,239,794
GRADY	47,400	8,230	$20,092,254
GRANT	5,000	664	$3,224,923
GREER	5,900	1,254	$4,074,166
HARMON	3,100	868	$3,774,899
HARPER	3,400	505	$2,187,881
HASKELL	12,000	3,479	$10,170,839
HUGHES	13,900	3,918	$17,227,789
JACKSON	27,300	5,655	$14,124,879
JEFFERSON	6,500	1,796	$6,195,513
JOHNSTON	10,500	2,592	$8,450,942

County	Proj. Pop. 2003 Census (Rounded)	Clients	Total Annual Expenditure
KAY	47,300	10,344	$29,451,234
KINGFISHER	14,100	1,832	$6,158,609
KIOWA	10,000	2,215	$8,629,908
LATIMER	10,600	2,767	$8,390,543
LEFLORE	48,900	14,008	$45,692,813
LINCOLN	32,300	5,684	$13,855,728
LOGAN	35,400	5,808	$16,537,252
LOVE	8,900	2,049	$4,995,517
MCCLAIN	28,600	4,074	$9,571,181
MCCURTAIN	34,000	11,422	$32,380,545
MCINTOSH	19,700	4,738	$18,334,690
MAJOR	7,400	1,059	$3,867,496
MARSHALL	13,700	3,039	$9,810,181
MAYES	38,900	8,727	$30,625,010
MURRAY	12,700	2,759	$9,233,028
MUSKOGEE	70,300	17,437	$70,116,588
NOBLE	11,300	2,101	$10,294,263
NOWATA	10,800	2,250	$8,815,550
OKFUSKEE	11,700	3,127	$16,843,844
OKLAHOMA	676,100	130,283	$309,911,252
OKMULGEE	39,700	10,943	$40,360,164
OSAGE	45,200	6,573	$20,085,890
OTTAWA	32,800	8,744	$29,566,152
PAWNEE	16,800	3,367	$13,373,628
PAYNE	71,100	9,523	$33,445,477
PITTSBURG	44,200	10,096	$38,330,710
PONTOTOC	35,200	7,996	$37,896,401
POTTAWATOMIE	67,300	14,697	$34,966,218
PUSHMATAHA	11,800	3,303	$13,389,416
ROGER MILLS	3,200	352	$1,386,627
ROGERS	77,200	9,993	$30,251,328
SEMINOLE	24,500	8,165	$31,679,704
SEQUOYAH	40,000	11,199	$36,681,348
STEPHENS	42,500	8,394	$26,360,283
TEXAS	19,900	3,363	$5,685,907
TILLMAN	8,800	2,290	$5,452,216
TULSA	570,300	92,946	$277,041,577
WAGONER	61,800	8,009	$21,855,213
WASHINGTON	49,100	7,818	$35,524,562
WASHITA	11,200	2,273	$8,160,894
WOODS	8,700	1,239	$4,459,928
WOODWARD	18,500	3,349	$10,645,649
	3,511,800	668,826	$2,116,575,697

TOBACCO TAX

November 2004 marked a new era in health care in the State of Oklahoma. Through State Question 713, Oklahoma voters approved a tax increase of 55¢ per pack on cigarettes. The resulting revenue ($149 million projected) generated from the new tax will be directed towards Oklahoma's health care needs. The following is breakdown of where the new revenue will be distributed.

Medicaid

Replacement of One Time Federal Funds: In 2003, the State of Oklahoma received approximately $71 million in one-time federal funds (Jobs and Growth Tax Relief Fund) for the State Medicaid program. The funds were distributed in five quarters, retroactive to April 1, 2003, in the form of an increase in the federal match rate. These one-time funds, used to expand benefits and provider rates, will be replaced with revenue generated from the Tobacco Tax.

Premium Assistance Program: The Governor has proposed an expansion of the Medicaid program's eligibility guidelines in order to reduce the number of uninsured Oklahomans. An additional $50 million in state funds will provide coverage to an estimated 100,000 individuals through a new premium assistance program. The Oklahoma Health Care Authority will help individuals who qualify for this program buy private insurance through their employer. The employer and employee will pay a portion of the cost as well. Individuals who are not offered employer sponsored insurance will be allowed to buy into the SoonerCare program.

Katie Becket Waiver: This Medicaid expansion program bases eligibility for disabled children off the child's income rather than the parents. This allows the parents of these children to earn more money in order to offset other costs associated with their child's care.

ER Physician Rate Increase: Approximately $2 million will be used to reimburse ER physicians who see Medicaid patients at a higher rate.

Rural Hospital UPL Relief: These funds will be used to restore $5 million of the $9.5 million rural hospitals are required to transfer back to OHCA as part of their Upper Payment Limit programs.

Ambulance Rate Increase: Funding of $1 million will be used to reimburse ambulance service providers who transport Medicaid patients at a higher rate.

Cancer

Comprehensive Cancer Center: Oklahoma has the unfortunate distinction of being one of the top states in the nation in cancer death rate. A comprehensive cancer center would compliment current cancer treatment and research facilities already in existence within the state. This facility would provide an important service to Oklahomans who currently rely on services provided in other states. Approximately $7 million of the tobacco tax proceeds will be used to pay the debt service for the new facility.

Breast and Cervical Cancer Treatment: Funding of $1 million will ensure that women who do not have health insurance can obtain assistance through the Medicaid program for the treatment of breast and cervical cancer.

Additional Funding Items

Adolescent Substance Abuse Services: Approximately 27,000 Oklahoma youth use an illicit drug. A large percentage of those children's first experience with substance abuse was with a tobacco product. These funds ($6 million) will allow an expansion of adolescent inpatient substance abuse services. This funding would provide additional inpatient services for 660 Oklahoma youth. The only inpatient facility for adolescents currently in Oklahoma is in Norman. This proposal will add several new sites, ensuring that adolescents in all parts of the state have access to treatment

Trauma Care: Approximately $3.4 million per year goes in to the state's existing Trauma Care Assistance Revolving Fund. The tobacco tax will bring in approximately $17 million in new revenues to the fund. It was created to help pay for uncompensated trauma care in hospitals. Unfortunately, nearly $42 million is needed to fully reimburse the cost of delivering trauma services to Oklahoma hospitals and physicians. This funding provides a step in that direction, and a portion of the funds could be matched with federal Medicaid funds.

Tulsa / OSU Health Care Initiative: These funds ($7 million) will be used to help build a telemedicine center in Tulsa and to fund a portion of the indigent care provided by OSU faculty and resident physicians

Smoking Cessation: These funds ($1.5 million) will compliment those provided by the Tobacco Settlement Endowment Trust Fund which are used to support tobacco cessation programs.

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MENTAL HEALTH AND SUBSTANCE ABUSE

Perhaps no state government function has experienced such a profound change in its mission over the past 40 years than the mental health system. As late as the 1960s, long-term institutionalization was the main service available to Oklahomans with mental illness. Civil commitment laws of the day did not guarantee patients due process. From its crude beginnings, the state mental health system has shifted paradigms. Hospitalization is now considered a temporary service for all but a few clients. Most mental health services are now provided in the community.

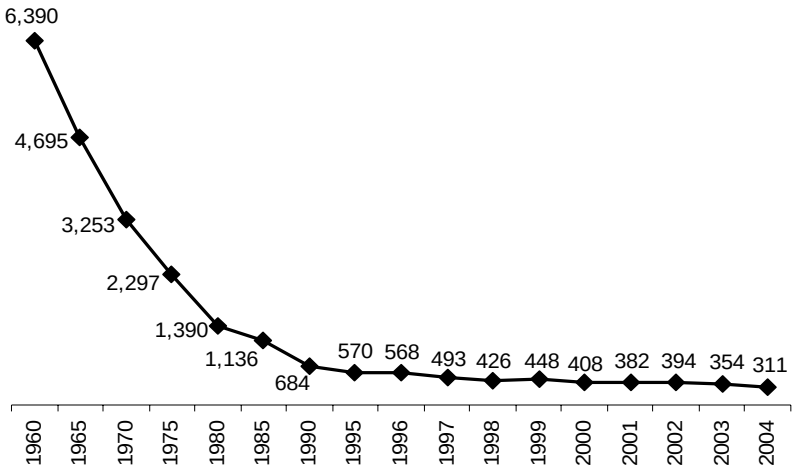
The Department of Mental Health and Substance Abuse Services (DMHSAS) now also focuses on addiction services, as well as domestic violence and sexual assault.

BACKGROUND ON MENTAL HEALTH CHANGES

While the federal government takes the national lead in providing physical health care to poor Americans, services for the mentally ill have historically been a state responsibility.

Until the mid-1960s, most adults with mental illness who could not function in society were committed to custodial care in large state hospitals, many of which housed 3,000 or more patients. But in the mid-1970s, the concept of "deinstitutionalization" led states to begin freeing mentally ill clients from the confines of institutions and treating them on an outpatient basis at Community Mental Health Centers (CMHCs). On an average day in 1960, nearly 6,400 Oklahomans were in the state's mental hospitals; in FY'04, the hospital census averaged 311, a decrease of 95 percent. An even more dramatic figure is that in 1960 about 3 out of every 1,000 Oklahomans were living in mental hospitals; now that number is less than 0.2 out of 1,000 Oklahomans.

Average Daily Census In State Mental Hospitals
(1960 Through 2004)



Three major developments changed the direction of mental health services in the United States:

- discovery of psychotropic medications that alleviate many of the disabling symptoms of psychotic disorders such as schizophrenia, and affective (mood) disorders such as severe depression and bipolar disorder;

- passage of the federal Community Mental Health Centers Construction Act in 1963; and

- landmark court rulings on the rights of people with mental illness to due process in commitment hearings and the right to treatment in the least restrictive setting.

DMHSAS OVERVIEW

DMHSAS is responsible for providing services to Oklahomans who are affected by mental illness, substance abuse, domestic violence, and/or sexual assault. During FY'04 almost 60,000 people received services from the agency and another 40,000 were reached through education and outreach programs.

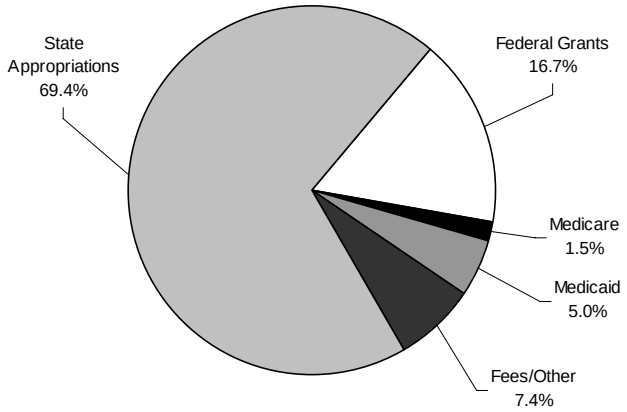
The state subsidizes services for clients with incomes below 200 percent of the federal poverty level. DMHSAS receives reimbursement for some services for clients who are eligible for the Medicaid program (see Medicaid).

Funding Sources

Oklahoma's mental health system is centralized and primarily state funded (69.4 percent in FY'05).

Due to federal Medicare cost-cutting policies and state reductions in the number of inpatient beds, Medicare revenue has decreased by 51 percent since FY'94. In FY'05 Medicare comprised only 1.5 percent of the agency's total budget. Despite this decrease, increases in funding for substance abuse from other federal grants have resulted in a net increase in federal funding as a percentage of the agency's budget.

DMHSAS Budget by Source, FY'05 Estimate
Total = $224,098,266



Services Provided

DMHSAS provides the following inpatient and community-based services in state administered or contracted programs:

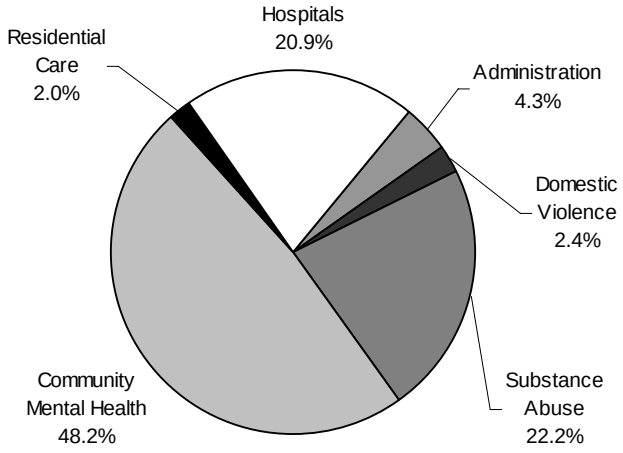
- regional adult psychiatric hospital (Griffin Memorial Hospital);
- child psychiatric hospital (Oklahoma Youth Center);
- forensic psychiatric evaluation and treatment (Oklahoma Forensic Center);
- Community Mental Health Centers or CMHCs (5 state-operated and 10 private non-profit) that provide outpatient counseling and, in some cases, short-term hospitalization and substance abuse treatment;
- community-based crisis intervention and emergency detention (Tulsa Center for Behavioral Health and Oklahoma County Crisis Intervention Center);

- state-administered alcohol and drug treatment residential centers (2 for adults, 1 for adolescents);
- privately operated alcohol and drug prevention, outpatient and residential treatment programs (86 non-profit and for-profit contract providers);
- residential treatment for persons with co-occurring disorders – both mental illness and substance abuse (3 state-operated and 1 contract);
- domestic violence programs (29 non-profit contract providers); and
- residential care home programs (34 contracted homes).

Program Budgets

State hospital operations account for 20.9 percent of the agency's FY'05 budget, down from 43.4 percent in FY'92. Hospitals serve only 3.5 percent of the agency's total clients. Behavioral health community-based programs will utilize 45.8 percent of the budget and serve 58.3 percent of the clients in FY'05. Substance abuse programs account for 22.2 percent of the budget and 22.8 percent of the clients. Domestic Violence utilizes 2.4 percent of the budget but serves 12.2 percent of the agency's clients. Central administration accounts for 4.3 percent of the budget.

DMHSAS Budget by Program, FY'05 Estimate
Total = $224,098,266



PROGRAM OVERVIEW

Mental Health

DMHSAS provides a myriad of programs. Several of these services are recent initiatives that have been presented to the Legislature as ways to improve mental health services and control costs. New treatment methodologies and medications have improved outcomes for persons with mental illness including decreased lengths of stay which saves tax payer dollars by providing treatment in the community.

CMHCs

One of the major challenges currently facing DMHSAS is that of equitable per capita funding for community mental health centers. Despite this struggle, the CMHCs continue to provide core services such as medications, counseling, and case management that help many people with mental illness live a life in the community. In addition to core services, most CMHCs are able to offer best practice, evidence-based services, albeit on a limited basis. Two examples of these impressive service delivery models, are Programs for Assertive Community Treatment (PACT) for adults and Systems of Care (SOC) for kids.

PACT

PACT teams are multi-disciplinary teams that provide intensive mental health services in the community to adults with severe mental illness who are not able to be served effectively by the traditional mental health system. Persons served in PACT tend to be very ill, high end users of hospitals and jails which are much more expensive systems and do not demonstrate successful outcomes the way PACT services do. Team members will go wherever they need to in order to provide services to someone – even if that means regularly visiting someone who is homeless under a bridge until housing becomes available. PACT teams in Oklahoma have seen some dramatic outcomes. A comparison of pre/post hospital days and jail days comparison for consumers admitted during FY'02 found:

- 4,729 pre-PACT hospital days vs. 614 post-PACT hospital days (6 months pre/post)

- 1.249 pre-PACT jail days vs. 301 post-PACT jail days (1 year pre/post)

Currently, there are 10 PACT teams in Oklahoma. It is estimated that Oklahoma needs at least 20 teams in order to address the need.

Systems of Care

Systems of Care programs provide services to children with severe emotional disturbances who are often served by multiple state systems which could include child welfare, juvenile justice system, special services in the school system, etc. Often the need for mental health services for children is not widely understood.

Hundreds of Oklahoma children are hospitalized each year for psychiatric illnesses. Both the Office of Juvenile Affairs and the Department of Human Services' Child Welfare Division have indicated that a significant number of the children they serve have mental health issues. SOC programs have seen dramatic improvements in outcomes for the children they serve. A comparison of approximately 100 children served found:

- 90 days prior to SOC participation vs. 90 days after 4-6 month participation
  - ✓ 302 days in the hospital vs. 105 days in the hospital
  - ✓ 283 days suspended from school vs. 81 days suspended from school
  - ✓ 74 contacts with law enforcement vs. 38 contacts with law enforcement

Currently, SOC programs have been initiated in 14 counties of the State.

Medicaid for Mental Health Providers

In recent years the Medicaid program has become a significant revenue source for mental health providers. Much of this increase has come about because CMHCs are assuming more responsibility for persons needing treatment as opposed to state hospitals. Many CMHC services are Medicaid reimbursable, while state psychiatric hospitals are considered institutions and are, therefore, ineligible for Medicaid.

Medications

The advent of more effective psychotropic medications for people suffering from schizophrenia, severe depression, and bipolar disorder has enabled many more clients to lead normal, healthy lives in their communities. These "new generation" medications have improved quality of life for many people and have the potential to decrease hospitalization costs for states. It is important to provide appropriate medications on a consistent basis for all clients. Otherwise, mentally ill patients are stabilized in hospitals with medications, discharged, then either cannot or will not continue to take prescribed medications. Their condition deteriorates until law enforcement or loved-ones intervene, then they are re-admitted to a hospital.

Forensic Services

DMHSAS is responsible for providing several forensic services: evaluating all people charged with a crime that are believed to suffer from mental illness, treating defendants with mental illness who are waiting for trial, and housing persons adjudicated as Not Guilty by Reason of Insanity (NGRI). The forensic population, served at the Oklahoma Forensic Center in Vinita, is on the increase. In July 2000, there were 132 forensic patients at OFC. By August 2002, the census was up to 160 patients – above the unit's capacity of 151. Often, there is a waiting list of individuals being held in local jails awaiting the availability of a bed at OFC. In addition many of the buildings are over 70 years old with

numerous maintenance needs. In the 2004 Legislative Session, DMHSAS received approval for up to $18.9 million in capital bond funds to build a new, 200-bed forensic unit.

SUBSTANCE ABUSE SERVICES

Like many states, Oklahoma has been experiencing an increase in the demand for substance abuse treatment programs. A recent needs assessment by DMHSAS indicates the agency has enough resources to serve only one-fourth of the indigent persons who need substance abuse treatment. Significant waiting lists result.

Adolescent residential substance abuse treatment programs are in especially high demand. Currently, only two private, non-profit centers provide such programs for adolescents. There are no residential treatment services in the northwestern or northeastern parts of the state.

Substance abuse in youth and adults is associated with domestic violence, child abuse, and other crimes. National studies conclude:

- Approximately, 25 percent of adults receiving the Temporary Assistance for Needy Families Block Grant have an alcohol/substance abuse problem;

- More than 66 percent of inmates report some type of alcohol/substance abuse problem; and

- In 70 percent of child welfare cases investigated by the Department of Human Services, alcohol/substance problems play a role.

Reductions in resources, including the nation-wide reduction in insurance benefits for residential substance abuse treatment, have decreased the length of stay for residential substance abuse services. Research shows the longer a person is in residential treatment (particularly anything 28 days or longer), the higher the success rate for maintaining sobriety.

Drug Courts

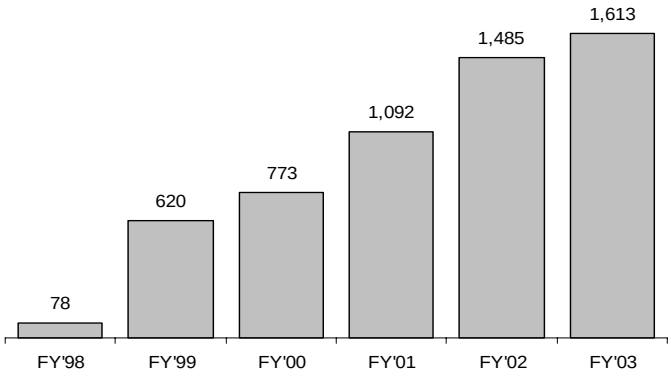
Drug Courts are being developed across Oklahoma as a means of controlling alcohol and drug abuse and related criminal activity. Drug Courts, operated by district judges in county courthouses, are designed as a cost-effective means of addressing criminal activity through rehabilitation rather than incarceration. In FY'05 there will be 41 Drug Courts operating in Oklahoma; 30 serve adults (including 1 court that specializes in DUIs), 10 serve juveniles and one serves families.

Drug Court participants are offenders who plead guilty to a suspended sentence and agree to follow program rules. They can be incarcerated if they do not

participate and complete their rehabilitation program. Drug Courts serve low-risk, drug-dependent offenders with several programs, including:

- judicial supervision;
- frequent drug testing;
- drug counseling;
- treatment for substance abuse/addiction;
- educational opportunities;
- employment services; and
- sanctions and incentives.

Drug Court Participants
FY'98 Through FY'03



The programs are supervised by a team that is headed by the judge. The multidisciplinary teams include drug treatment providers, counselors, law enforcement officers and district attorney staff.

An evaluation of the Drug Court program for FY'02 and FY'03 yielded the following statistics:

- 1,666 participants in the Drug Court Program and out of DOC custody
- Retention rate for drug courts is 83.1 percent (18.7 percent higher than the national average)
- 75 percent decrease in unemployment
- 50.4 percent increase in income
- 13 percent increase in those with a high school diploma

- 19.1 percent increase in number of parents who had their children living with them

- Two times (74 percent) less likely to recidivate than standard probation offenders

- Four times (316 percent) less likely to recidivate than released prison inmates

- 27 drug free babies born in the program

- Cost effective and fiscally sound:
  - ✓ Incarceration per year per person - $16,842
  - ✓ Drug Court per year per person - $2,325
  - ✓ Cost savings per year per person - $14,517

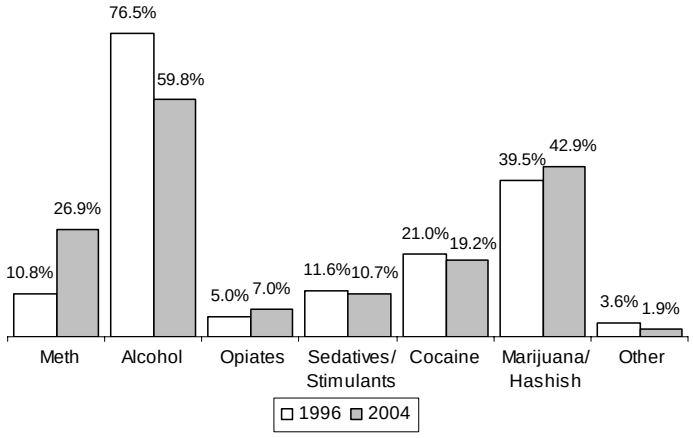
- Gender specific to the drug court:
  - ✓ 70 percent Male
  - ✓ 30 percent Female

Drug of Choice

Oklahoma, more so than many states, has seen a shift in the drug of choice. In FY'96, methamphetamine was the drug of choice for 10.8 percent of the clients served by DMHSAS, and alcohol was the drug of choice for 76.5 percent of DMHSAS clients served. In FY'04, methamphetamine was the drug of choice for 26.9 percent of the clients served by DMHSAS, and alcohol was the drug of choice for 59.8 percent of DMHSAS clients. It is important to note that even with the alarming rise of methamphetamines, alcohol still remains the number one drug of choice for persons receiving substance abuse services.

Percent of Clients Admitted by Drug of Choice

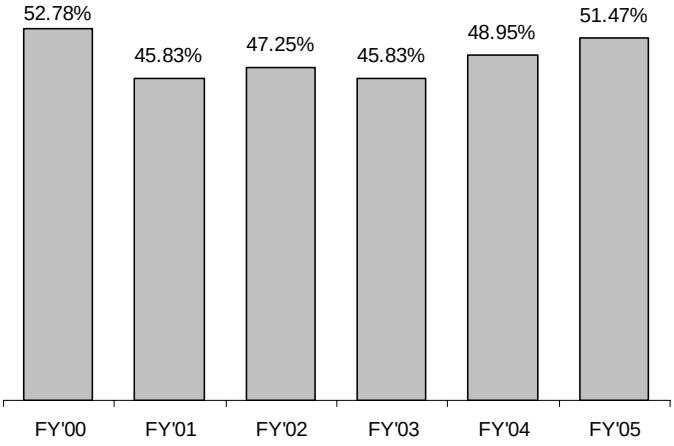
FY'96 and FY'04



Co-occurring Disorders

Both state and national statistics demonstrate that more and more persons needing services have both a mental health and a substance abuse disorder (co-occurring disorder). From 2000 to 2005, of the clients admitted to a DMHSAS inpatient psychiatric facility, approximately half had an alcohol diagnosis or presenting problem.

Percent of Clients Admitted to a
Psychiatric Facility With an Alcohol Diagnosis
FY'00 Through FY'05



Providing services to persons with co-occurring disorders presents some unique challenges. First, service providers need to have staff that are appropriately trained and equipped to address both issues. Second, there is a lack of services for persons with co-occurring disorders. Currently, DMHSAS only has four residential program and five out-patient programs that specialize at some level in co-occurring services.

Domestic Violence

DMHSAS provides services to adults and children who have been affected by domestic violence or sexual assault, as well as perpetrators of the violence when appropriate. Services include:

- crisis intervention;
- safe shelter;
- help in obtaining legal assistance;
- victim/survivor support and advocacy;
- referral services; and
- education and training.

In 1999, a national study indicated that Oklahoma had the eighth highest incidence of death due to domestic violence in the nation. With the aid of the above mentioned services provided through DMHSAS, the state improved its position in the study to number 19 by the year 2000. There is much work left to do.

A recent study concluded that 19 percent of Oklahoma students surveyed reported being intentionally physically hurt by a boyfriend or girlfriend compared with 8.8 percent of students surveyed nationally. In addition, 9.7 percent of Oklahoma students surveyed reported being forced to have sexual intercourse against their will, compared with 8.8 percent of students surveyed nationwide.

Oklahoma has the 3rd highest rate in the country for the number of African-American women killed by their partners with handguns and the 4th highest for Caucasian women. In Oklahoma when there is a domestic violence homicide where children are part of the family, 48 percent of those children actually witness the homicide.

In FY'04, domestic violence services were provided to more than 10,000 individuals, 28 percent of whom were children. DMHSAS expenditures for domestic violence totaled $5.5 million. Domestic violence programs have to utilize a variety of other funding to provide services. Many count on federal funding from VAWA and/or VOCA funding (administered through the District Attorney's Council), emergency shelter grants from local communities, United Way, and donations of time, money, and volunteers from their local community.

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DEPARTMENT OF HUMAN SERVICES

While the Department of Human Services (DHS) has experienced structural changes over the past six decades, its primary mission has remained largely the same: to enable people and families to lead healthy, secure, economically independent and productive lives.

Until 1983 the agency received direct funding from the state sales tax, bypassing the annual legislative appropriations process. With a dedicated and growing revenue source, DHS took on more and more functions over the years as the state's health and welfare system was developed.

For years DHS was the state's largest agency. At its apex in FY'93, DHS consumed $2 billion in state and federal funds annually, or one out of every three dollars spent by all of state government.

Beginning in the 1990s, lawmakers began a piece-by-piece process of reviewing the organization. It was determined by successive legislatures that major divisions of DHS – the public teaching hospitals, rehabilitative services, Medicaid, and juvenile justice services – could be managed more effectively if moved outside the umbrella of the state's largest agency.

DECENTRALIZATION

Since 1993, decentralization has been the trend at DHS. The Legislature has transferred four large divisions out of DHS and created new, distinct agencies:

- University Hospitals Authority
- Department of Rehabilitation Services
- Oklahoma Health Care Authority
- Office of Juvenile Affairs

As a result, DHS's appropriated budget decreased by more than half between FY'94 and FY'95.

Functions Separated from DHS Since 1993

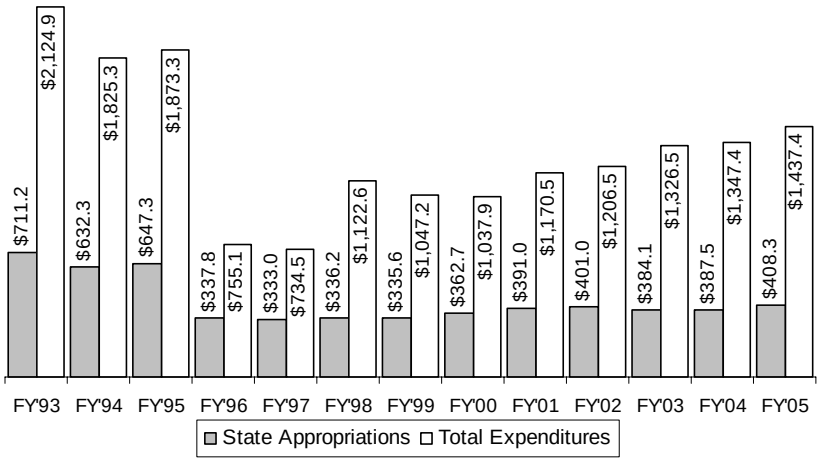
Year	Function Transferred	Transferred Amount
1993	University Hospitals Authority	$29,710,032
1993	Rehabilitation Services	$21,952,152
1995	Health Care Authority	$227,816,716
1995	Office of Juvenile Affairs	$75,959,840
Total		**$355,438,740**

Note: The University Hospitals Authority is currently partnered with Columbia Health Care Association, which provides management and operating services.

FUNDING

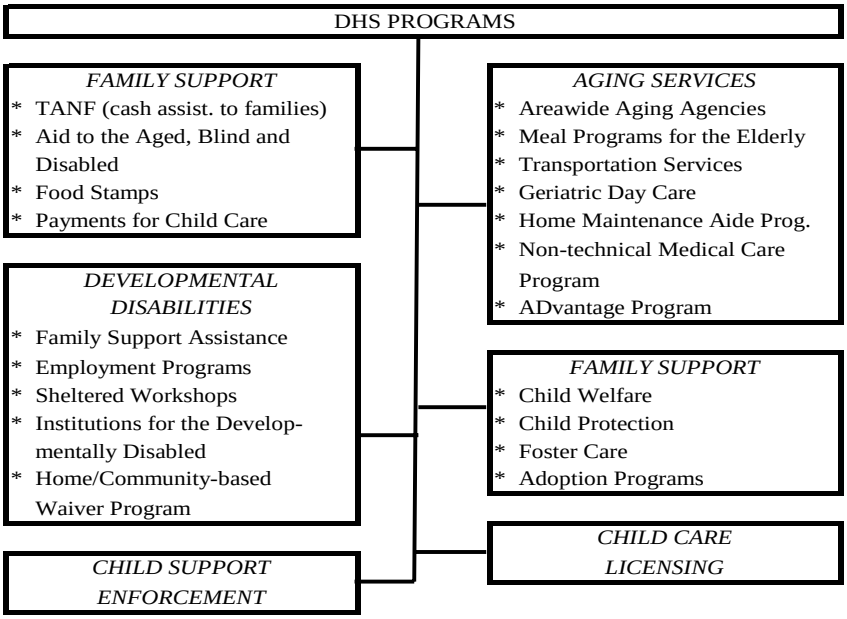
More than half of the agency's $1 billion total budget in FY'05 was provided by federal block grants and entitlement programs. State appropriations for the agency have remained steady over the years as a result of increased federal funds and decentralization.

Appropriations and Total Budget Comparison
FY'93 Through FY'05 (In Millions)



ORGANIZATION

The agency consists of six main divisions that oversee the following major programs:



Family Support Programs

The Family Support Division is responsible for a number of programs providing low-income and disabled Oklahomans with cash payments, food stamps, and child care assistance.

Temporary Assistance for Needy Families (TANF) Block Grant: In August 1996 Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act, which drastically altered both the funding and focus of the nation's welfare system. The act replaced Aid to Families with Dependent Children (AFDC) with TANF and made major revisions in child support laws. TANF introduced two critical changes to welfare:

- It eliminated the entitlement status of welfare – no longer are citizens guaranteed public assistance. Eligibility and benefits are determined more by state policies and budget constraints and less by federal mandates; and

- Stringent time limits and work requirements have been enacted for all recipients of cash assistance. Recipients may collect cash assistance for a lifetime maximum of five years and must have at least part-time work to receive benefits.

If there are more eligible clients than funds, the state may deny programs and services to eligible clients. All families who are eligible to receive TANF are also eligible for Medicaid (see Medicaid).

TANF Eligibility and Benefit Levels

Under TANF, DHS defines eligibility criteria and benefit levels. The agency also may implement caps on eligible members of the family and require recipients to work. According to 2004 eligibility requirements, a person qualifying for cash assistance payments must:

- have at least one dependent child living with them;
- not own a car worth over $5,000;
- not have over $1,000 in other assets available;
- cooperate with child support enforcement efforts to establish paternity and increase parental support; and
- be willing to comply with all of the work requirements mandated by state and federal law.

The average family in the TANF program involves a parent and two children. In FY'04 the average monthly payment was $218.63 per month. The maximum monthly payment for a family of three is $292 per month. The maximum a family of three can earn to still receive any cash assistance payment is $704 per month in gross income.

Monthly TANF Payments vs. Federal Poverty Level

Family Members	2000 TANF Payment	Fed. Poverty Level	TANF as % of Poverty
1	$180	$776	23%
2	$225	$1,041	22%
3	$292	$1,306	22%
4	$361	$1,571	23%
5	$422	$1,836	23%
6	$483	$2,101	23%
7	$544	$2,366	23%
8	$598	$2,631	23%
9+	$650	$2,896	23%

TANF has four purposes set out in federal law:

- to provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;

- to end the dependence of needy parents on government benefits by promoting job preparation, work and marriage;

- to prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and

- to encourage the formation and maintenance of two-parent families.

Under federal laws that ordered the conversion from AFDC to TANF, Oklahoma must expend at least $61.8 million in state funds each year to access federal funds that total $148 million (this state funding amount is referred to as "maintenance of effort" or MOE). In addition to cash assistance, TANF gives states the flexibility to use the grant for many other programs as long as they meet one of the four purposes of TANF.

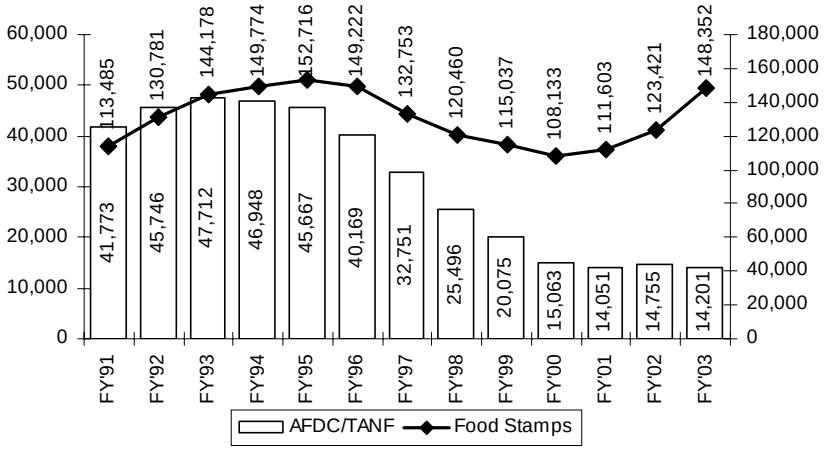
Types of Programs & Services Eligible for TANF Funds

* Adult Basic Education/ GED/ Literacy	* Tax Credit for Low-Income Families
* Services to Low-Income Fathers	* Teenage Pregnancy Prevention
* Child Abuse Prevention	* Services to Teen Parents
* Employer Stipends	* Post Employment Services
* Child Care	* Early Childhood Education
* Job Training	* Homeless Shelters
* Utility Assistance	* Safety Net Services
* Transportation/ Cars	* Food Banks
* Substance Abuse Treatment	* Domestic Violence Training/ Prevention

As a result of welfare reform initiatives and the state's prosperous economy, the caseload for the TANF program has decreased dramatically – by more than 70 percent between FY'93 and FY'04.

The increase in the number of families served by TANF from FY'01 to FY'03 is due to the decline in the economy. Food stamps are normally an indicator of the health of the economy and the number of families eligible for these benefits has been increasing since FY'00.

Families Served by AFDC/TANF and Food Stamps
FY'91 Through FY'03



Source: DHS Annual Reports

Aging Services Programs

The DHS Aging Services Division administers community programs that support the independence and quality of life of senior citizens. Many of the services are delivered through 11 Area Agencies on Aging (AAAs), which were created as a result of the federal Older Americans Act of 1965. Major services provided include:

- **Congregate and Home-Delivered Meals:** AAAs provide meals and nutrition education to senior citizens across the state. More than four million meals are served annually, with 1.8 million delivered to homes. This program is funded by state appropriations and federal funds from the Older Americans Act;

- **Transportation:** Transportation services to medical appointments, shopping and other social services are provided across the state through AAAs;

- **Adult Day Services***:* In FY'04, 31 sites across the state provided subsidized day care for 924 elderly persons. People who receive Supplemental Security Income (SSI); Aid to the Aged, Blind or Disabled (ABD); or meet state income guidelines may qualify for a subsidy for day care costs;

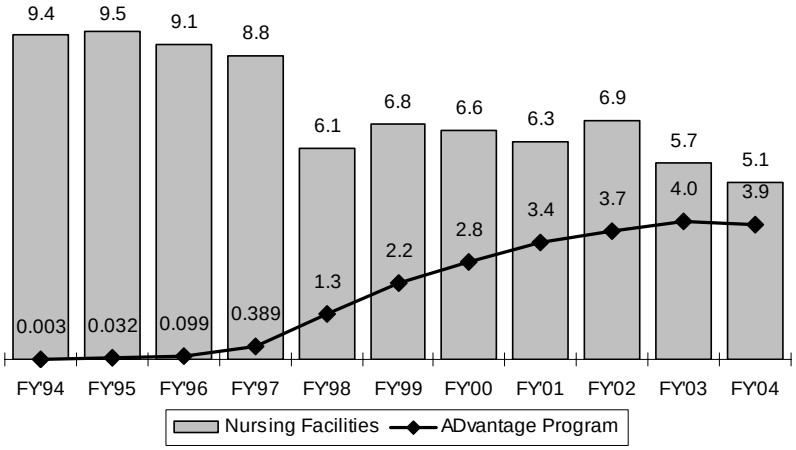
- **Personal Care Program:** This Medicaid program provides in-home visits from caseworkers and registered nurses to assess clients' needs, develop a plan of care, monitor recipient progress and supervise contracted personnel

who provide the care. Eligibility for this program is based on a person's income; and

- **The ADvantage Program – The Home Health Care Alternative to Institutional Nursing Home Care**: The ADvantage program provides an alternative to nursing home care by providing in-home health care and case management services to adults with physical disabilities and to seniors who qualify medically for nursing home care under Medicaid and who meet income guidelines. This comprehensive medical and social program is a federally- and state-funded Medicaid program under the home and community-based waiver. Home visits from nurses, housekeepers and therapists allow people to sustain their independence, preventing the need for more expensive nursing home care. Caseworkers work with clients' families to coordinate a wide range of services.

  Serving 14,106 people in FY'04, program growth slowed from the record high of 14,369 people served in FY'03. The average annual per-client cost of the ADvantage program is $10,590 – less than half the $23,389.26 cost for nursing home care. The program is funded with 30 percent state funds and 70 percent federal funds.

Comparison of Medicaid Days for
Nursing Facilities vs. ADvantage Program
FY'94 Through FY'04 (In Millions)



Developmental Disabilities Programs

The mission of the Developmental Disabilities Services Division is to help people with developmental disabilities lead more independent and productive lives in the least restrictive environment.

The division administers community-based programs and runs institutions for eligible citizens.

- **Family Support Assistance:** This program provides monthly cash payments to eligible families who care for children with developmental disabilities. Payment amounts depend on the number of eligible children living in the home. In FY'04, 1,735 children were paid an average of $250/month under this program. For each additional qualifying child a family receives $50/month.

  This program is funded through state and federal funds available through the Temporary Assistance for Needy Families (TANF) block grant. For FY'05, the budget for this program is projected to be over $4 million.

- **Work Programs:** The division manages several programs to help persons with developmental disabilities live more independently by getting and holding jobs. These programs include Supported Employment, Sheltered Workshops, and Community Integrated Employment for Persons with Developmental Disabilities**.** Under these programs, job coaches and on-the-job support services are provided.

- **Institutional Residential Services:** DHS operates three residential facilities: the Southern Oklahoma Resource Center (SORC) in Pauls Valley (with an average FY'04 census 202), the Northern Oklahoma Resource Center (NORC) in Enid (average FY'04 census 170) and the Greer Center in Enid (average FY'04 census 51). The Greer Center specializes in people who have been dually diagnosed with developmental disability and mental illness. During FY'00, management of the Greer Center was turned over to a private contractor.

  Funding for each of the three centers is provided through the Medicaid program. For every dollar the state spends another two dollars is provided by the federal government.

- **Home and Community Based Waiver Programs:** The division administers three different waiver programs that provide medical and therapeutic services to children and adults with developmental disabilities. While all three programs are funded under Medicaid, children and adults participating must meet separate eligibility criteria than others to qualify. First a person must have an IQ of less than 70 and they must be identified as disabled by the Social Security Administration. Then a person must meet the income guidelines. Persons must be making less than $1,692 a month and have no more than $2,000 in assets (savings, equity, car, etc.). Services eligible for funding include:

  - ✓ Physical/occupational therapy;
  - ✓ Medical services;

- ✓ Counseling;
- ✓ Nursing assistance; and
- ✓ Vocational services.

Due to restricted funding and high demand, there are 4,185 eligible children and adults on a waiting list for services. Of this number 1,737 have been on the waiting list for three or more years. As a result of limited funds children and adults on the waiting list may only participate in the In-Home Supports Waiver program.

The Community Waiver Program was established as a direct result of the Hissom lawsuit. It is a part of the Medicaid program and served over 3,012 individuals in FY'04 and spent over $53 million in state funds. Under this program, case managers work with the family and health professionals to design an annual service plan for clients. The amount of services a child or adult receives is based on what the case manager, family and health professionals determine is necessary and is not capped at a maximum annual dollar figure. The average annual cost per client for FY'04 is approximately $64,000.

The In Home Supports Waiver for Children was created as an alternative to the Community program. Any new clients under the waiting list are served under this program. Like the community waiver a case manager is assigned to a family. Unlike the community waiver program families have more direct involvement in the child's service plan. Each child receives a maximum of $11,300/child to cover all eligible services for one year. Parents have the flexibility to budget and select specific services for their children. During the 2004 fiscal year, 292 children participated in this program.

The In Home Supports Waiver for Adults was created as an alternative to the Community program. Any new adults under the waiting list are served under this program. Like the community waiver a case manager is assigned to a family. Unlike the community waiver program, adults and families have more direct involvement in their service plan. The program provides a maximum of $16,950/adult for eligible medical and therapeutic services every year. Adults have the flexibility to budget and select specific services up to the maximum cap. During the 2004 fiscal year 725 adults participated in the program.

Division of Children and Family Services (Child Welfare)

The DHS Division of Children and Family Services is responsible for performing four major functions:

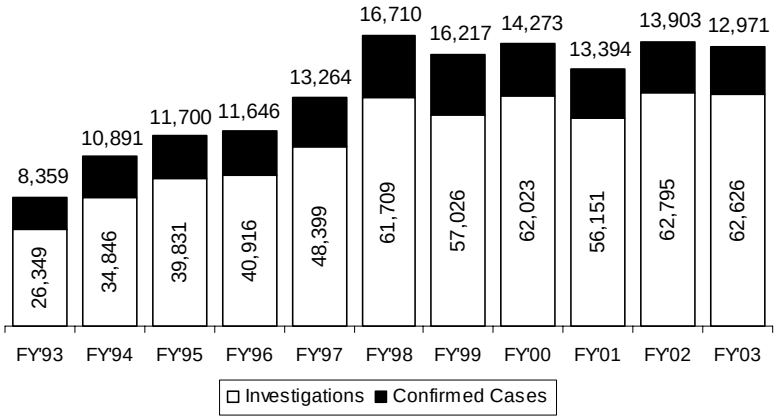
- investigating child abuse cases;

- providing safe foster care home placements for children removed from their homes;
- administering programs that strengthen and preserve families; and
- developing permanent placement plans for children, which includes adoption and family reunification.

The division operates two shelter programs: the Oklahoma County Juvenile Center in Oklahoma City and the Laura Dester Center in Tulsa. It also administers the federal Family Support and Preservation Block Grant, which funds community-based parenting classes, counseling services and other programs designed to keep families together.

Child Abuse Investigations: In FY'03, the number of investigations of child abuse was more than double the number in FY'93. Some of this increase can be attributed to increased public awareness and public funding of this issue.

Number of Child Abuse Investigations and Confirmations by Child*
FY'91 Through FY'03

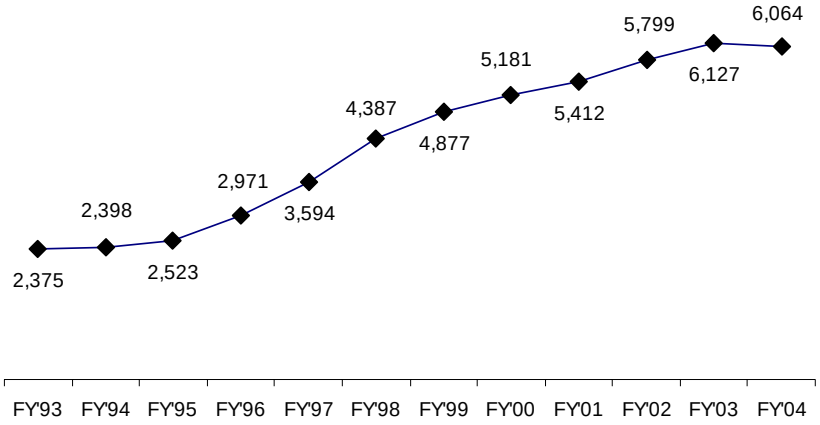


* This is a duplicated count. For example, if one child is investigated three times throughout the year, it is counted three times.

The number of confirmed reports of child abuse has increased by more than 50 percent since FY'93. About twenty percent of investigations result in confirmed cases of child abuse. The percentage of confirmed cases attributable to sexual abuse continues to increase. Since 1991, 457 children have died from child abuse and neglect. In FY'03, 27 deaths of children in Oklahoma were attributed to abuse and neglect.

Foster Care: The division spent $36.1 million in state and federal funds on Foster Care in FY'03. The average number of Oklahoma children living in foster care homes has increased by more than 150 percent between FY'93 and FY'04, an increase that has been directly linked to more confirmed cases of child abuse.

Average Daily Number of Children in Foster Care
FY'91 Through FY'04



The average length of stay for out-of-home care was reduced from 31.3 to 20.6 months from FY'00 to FY'04.

In FY'04, there were 2,226 foster care homes available (the number of homes does not include kinship foster homes as they are not available to care for other foster children). With more children in need of foster care than homes available, children are spending more time in shelters, emergency foster care or group homes.

Adoption Subsidies: The Adoption Subsidy Program provides payments to families who adopt children with developmental disabilities. Federal and state law provides three types of reimbursements or subsidies:

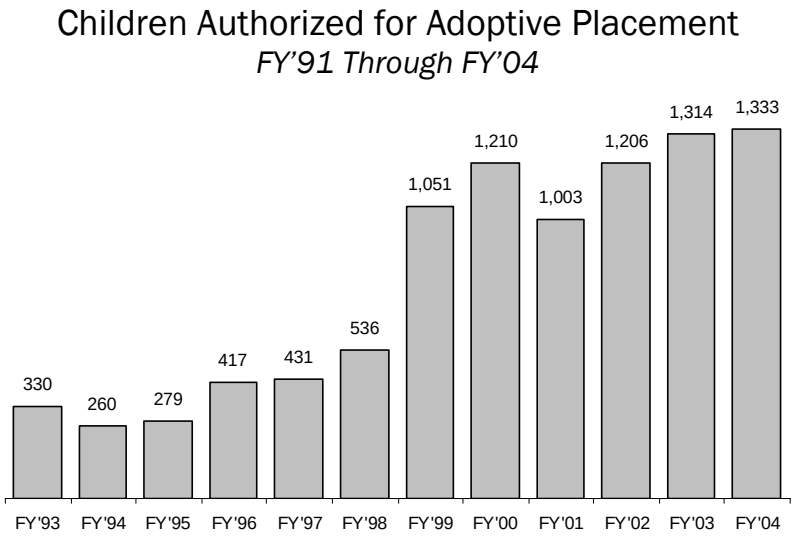
- A general subsidy is designed for children who have an identified medical need. As of September 2004, 7,093 children were receiving this subsidy. This is an increase of 11 percent since September of 2003;

- A non-recurring subsidy is funded by 50 percent state and 50 percent federal funds and provides reimbursement to the adoptive family for costs associated with adoption. The program provides a one-time payment not to exceed $1,200; and

- A post-legal adoption subsidy is a state-funded program to assist families who have adopted a child who has a causative, pre-existing condition which was not identified or known prior to the adoption and requires treatment.

The Adoption Subsidy Assistance program provided monthly benefits and/or services to 7,333 children during FY'04.

Due to concerted efforts on the part of DHS, the number of children placed in adoptive homes has more than quadrupled between FY'93 and FY'04. However, Over 1,200 children are still awaiting adoption.



Of the 1,333 children authorized for placement in adoptive homes in FY'04, 50 percent were 5 years of age or less, 38 percent were 6 to 12 years of age, and 12 percent were 13 to 18 years of age. Fifty-nine percent of children placed in adoptive homes were part of a sibling group. For FY'04, 37 percent of the children were placed with relatives, 21 percent with non-relatives, 35 percent with foster parents and the remaining 7 percent with kinship.

Division of Child Care

The Division of Child Care is responsible for assuring that Oklahoma's children and their parents have access to licensed, affordable, quality child care. This is accomplished through administration of the federal Child Care Development Fund and the statewide licensing program that monitors child care programs for compliance with minimum requirements.

In FY'98, DHS began using a tiered system for rating child care centers and homes.

- A ✯ rating means the facility meets minimum licensure standards.
- A ✯+ rating, added in FY'01, is available to facilities for a 24-month period. The expectation is that at the end of the 24-months the facility will meet ✯✯ requirements or revert back to the ✯ rate.
- A ✯✯ rating is given if the facility meets additional quality criteria, OR is nationally accredited. This rating was instituted in April 1998. The number of two star centers and homes has increased nearly 1200 percent from April of 1999 to October of 2004, from 132 facilities to 1714 facilities.
- A ✯✯✯ rating is awarded when a program meets additional criteria, AND is nationally accredited. This rating was instituted in July 1999. The number of three star centers and homes has increased over 400 percent from July of 2000 to October of 2004, from 28 facilities to 143 facilities.

In addition to creating the ✯+ category to encourage improvements, DHS has implemented several reimbursement rate increases for higher quality child care facilities.

The state child care reimbursement rate depends on a number of factors: the facility's star rating, the age of the child, whether the child attends full- or part-time, whether the facility is a home or a center, and whether the facility is located in an area of high or low rates.

Division of Child Support Enforcement

The mission of the Child Support Enforcement Division is to establish, monitor, and enforce the financial responsibility of parents for their children. To this end, the division provides the following services:

- locating non-custodial parents;
- establishing paternity;
- establishing and enforcing support orders;
- collecting and distributing support payments; and
- modifying child support orders when necessary.

The Child Support Enforcement Division (CSED) provides services to families statewide through a variety of different delivery models. CSED contracts with District Attorneys to operate 18 Child Support Offices. CSED directly operates 17 offices, two offices are operated by a private vendor, and one office is operated by a non-profit organization. Additionally, the Chickasaw Nation has established two Tribal Child Support Offices.

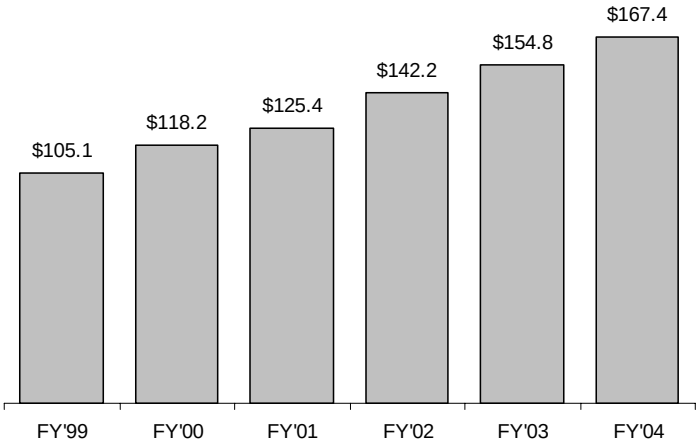
Of its total FY'04 budget, CSED contracts with District Attorneys totaled over $11 million, with an average contract amount of $688,000. For FY'04, CSED had over 140,000 open cases; of these cases, approximately 15 percent of the

cases are current TANF cases, 48 percent are former TANF cases and 37 percent are non-TANF related.

CSED increased the amount of support collected by 59 percent between FY'99 and FY'04.

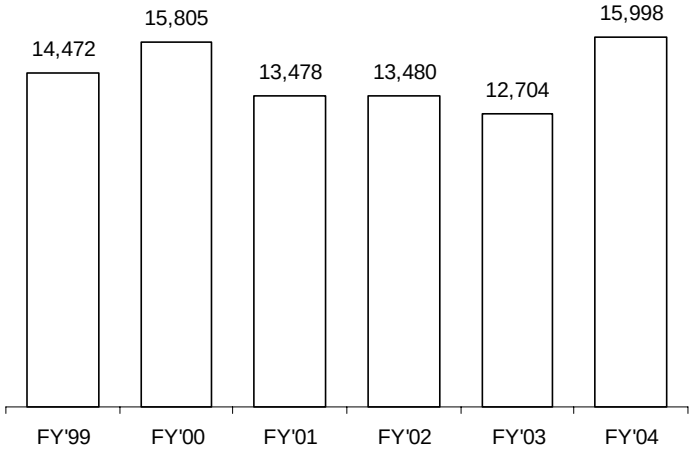
Child Support Collections

FY'99 Through FY'04 (In millions)



Paternities Established in Child Support Cases

FY'99 Through FY'04



JUVENILE JUSTICE

The organization of state programs addressing juvenile delinquents changed significantly in the mid 1990s. Before 1995, these programs were under the purview of the Department of Human Services. A separate agency, the Office of Juvenile Affairs (OJA), was created in 1995 to establish independent management of the juvenile justice system, a move designed to improve services and hold juveniles more accountable for their actions.

OFFICE OF JUVENILE AFFAIRS

The creation of OJA was part of a sweeping juvenile justice reform bill, HB 2640, enacted in 1994. After a one-year transition period, the agency became operational July 1, 1995 (FY'96). The bill expanded prevention, intervention and detention programs across the state. The focus of the bill was to:

- Initiate a number of primary prevention programs to prevent juvenile crime altogether;
- Provide immediate consequences and rehabilitation programs for early offenders to prevent further juvenile crime; and
- Ensure the public's safety by providing more medium-security beds for juveniles adjudicated for serious offenses.

Changes in Juvenile Justice Laws

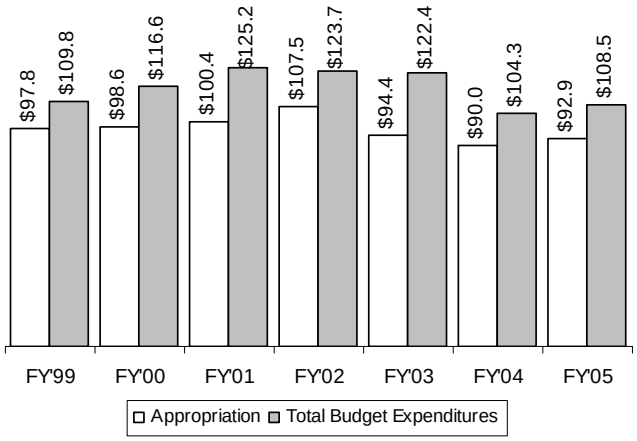
In addition to creating prevention and treatment programs for adjudicated youth, HB 2640 also enacted the "Youthful Offender Act" in 1994. Prior to this time, the juvenile justice system was required to release a juvenile in the state's custody at the age of 18. Under the Act, if a juvenile sentenced as a Youthful Offender turns 18 years of age but has failed to successfully complete his treatment plan, he can be transferred to the adult correctional system by the court of jurisdiction. Similarly, he can also be moved to the adult system at any time if he violates the terms of his rehabilitation agreement with the court. During the 2000 Legislative Session, the Youthful Offender Act was amended to allow a

youth up to the age of 20 to remain in the juvenile system if OJA requests an extension of custody. The purpose of this amendment was to allow OJA enough time to complete rehabilitation plans of youthful offenders who were seventeen years of age or older at the time of their sentencing.

OFFICE OF JUVENILE AFFAIRS BUDGET

Funding for juvenile justice remains primarily a state responsibility. The federal government provides modest funding for juvenile justice programs or services through reimbursement from the Title XIX Medicaid program for youth who are not institutionalized; pass-through and discretionary funding from the Juvenile Accountability Incentive Block Grant (JAIBG); and formula, Title V, and challenge grants from the Office of Juvenile Justice and Delinquency Prevention (OJJDP). The JAIBG grant has been reduced in amount during the last two years and is currently slated for elimination in FY'07.

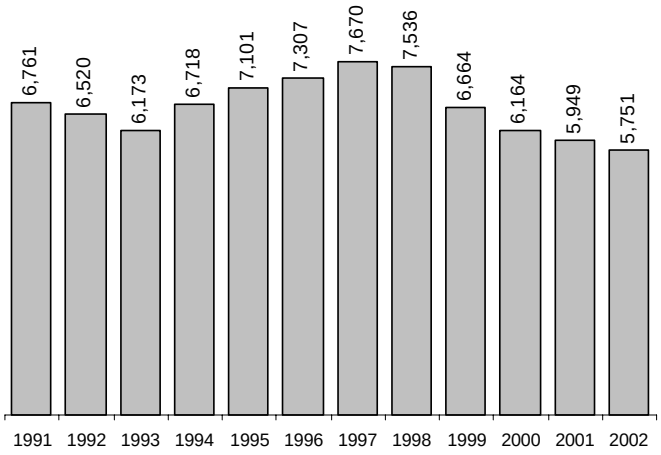
Appropriations and Total Budget
FY'96 Through FY'05 (In Millions)



JUVENILE CRIME AND RECIDIVISM

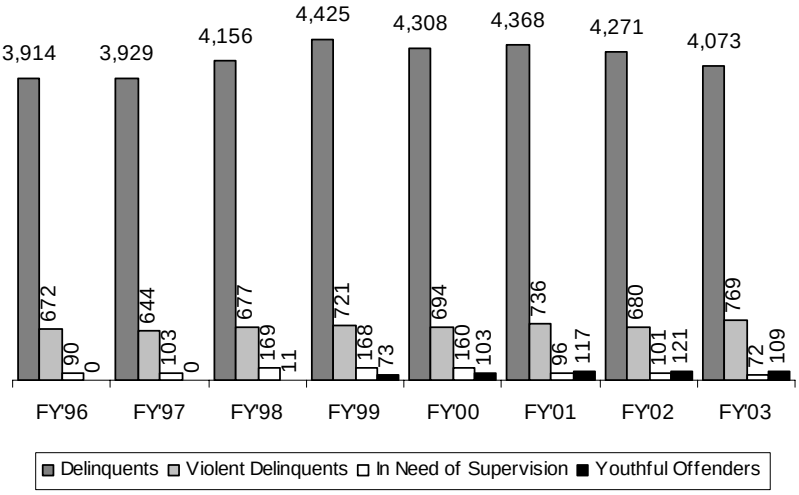
While the total juvenile arrest rate declined 13.7 percent between 1999 and 2002, the violent index crime arrest rate did not decline during that time period. Similarly, while the total number of juveniles adjudicated delinquent decreased 4.6 percent between FY02 and FY03, the number of juveniles adjudicated delinquent for violent offenses increased 13.1 percent between FY02 (680) and FY03 (769).

Juvenile Arrest Rates
1991 Through 2002



Source: OSBI Uniform Crime Reports

Types of Adjudication



Source: FY2003 Annual Report, Office of Juvenile Affairs

OJA PROGRAMS

In keeping with the agency's mission, programs provided by the Office of Juvenile Affairs can be divided into three categories:

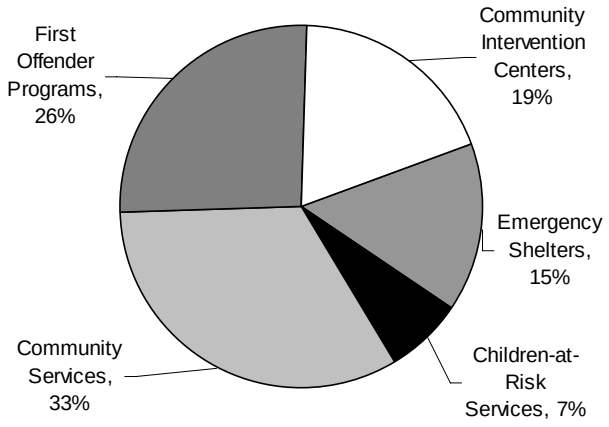
- Prevention programs which aim to prevent and decrease juvenile delinquency;
- Intervention/treatment programs which provide immediate consequences and rehabilitation services for juveniles adjudicated for less serious offenses; and,
- Detention/incarceration programs which protect the public from juveniles who have been adjudicated for or are charged with violent or other serious offenses.

Youth Services Agencies

The State of Oklahoma funds 41 community based Youth Services agencies serving all 77 counties across the state. These agencies are responsible for providing a continuum of services from parenting classes and family counseling (prevention programs) to first-time offender and emergency shelter programs (intervention programs). Some also subcontract with counties to provide secure detention center services (detention/incarceration). For FY'04, community based Youth Services, received nearly $22 million in state funding and served over 39,719 individuals. In addition, the agency provides community educational programs to schools and parent organizations.

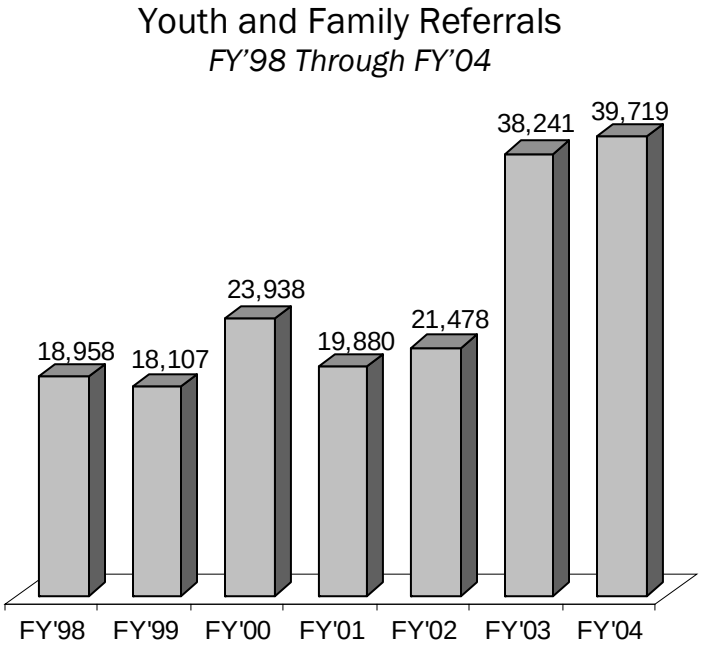
Individuals Served – FY'04

Total Served – 39,719



Prevention Programs

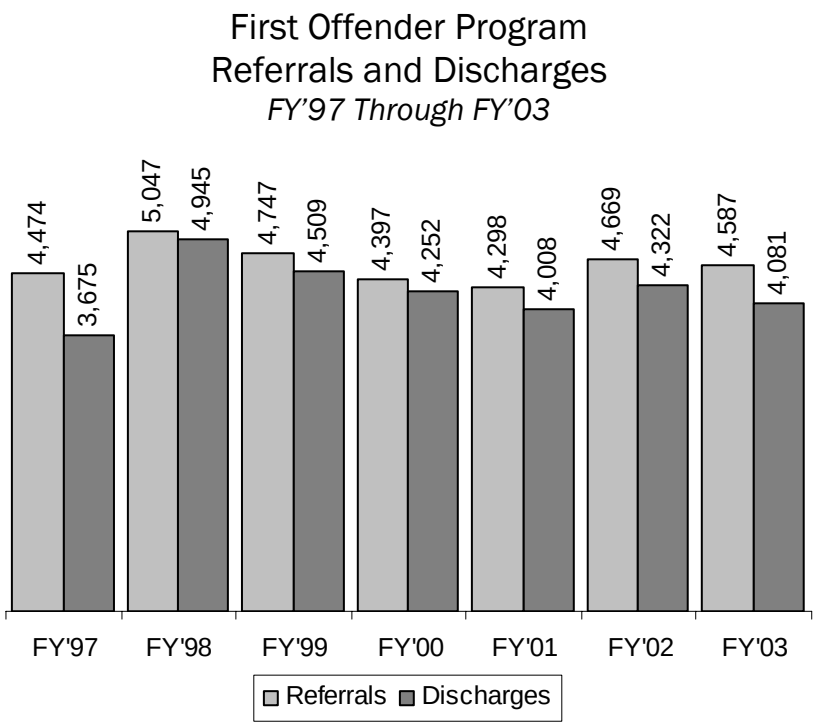
Part of the mission of community based Youth Services agencies is to prevent youth from entering the juvenile justice system. These agencies provided direct behavioral health services to 15,863 new referrals in FY'04. Services included 655,089 hours of counseling, behavioral rehabilitation, school outreach and support services.



Source: OAYS Program Data

Intervention/Treatment Programs

- **First Offender:** This curriculum-based program is state-funded and administered by Youth Services agencies across the state. The program is designed to intervene and prevent identified community youth from further involvement in the juvenile justice system. Youth served under this program include but are not limited to those who have committed truancy, curfew violations and shoplifting. Parents and youth must apply to participate in the program; it provides eight weeks of counseling and instruction on anger management, responsible decision-making and appropriate behavior. State law allows district attorneys to defer further prosecution of juveniles who successfully complete the program.



Other Diversionary Programs

- **Graduated Sanctions Program:** This program is a community-based initiative focused on preventing juveniles who have committed non-violent minor offenses from going on to commit more serious and/or violent crimes. It is funded by the federal government under the Juvenile Accountability Incentive Block Grant (JAIBG) and by community donations. For FY'02, 25 counties received federal funds to implement graduated sanctions in their communities and served 1,417 youth in these programs statewide.

  Youth arrested for minor offenses (i.e. Vandalism, Petit Larceny) are referred to the program. The youth and their parent are given the option to participate in the program or go through the juvenile justice system. If the family elects to participate in the program, the youth appears before a community board. The board determines what the appropriate consequences and treatment plan should be for the youth based on the individual needs of the youth. A variety of consequences and services are ordered by the community boards to assist the youth with learning responsibility through community accountability. Each program is unique to the geographic location and the community it serves. Services/Consequences may include: counseling, community service projects, life skills programs, and Saturday school.

Secure Detention & Residential Programs

State funds are provided for 392 secure detention beds in 17 counties. These centers provide secure detention to youth arrested for violent crimes who are awaiting their court process and youth who are adjudicated delinquent and awaiting placement. Rates for these centers vary according to facility capacity and range from $79.90/day for the 79 bed facility in Oklahoma City to $142.02/day for 6- to 7-bed facilities.

Residential services are provided to adjudicated youth in the custody of the Office of Juvenile Affairs for serious property crimes and violent offenses. Services range from therapeutic foster care homes to maximum-security institutions. All OJA placements incorporate educational services either at a local school as in the case of foster care or on-site at the facility as in group homes and secure institutions.

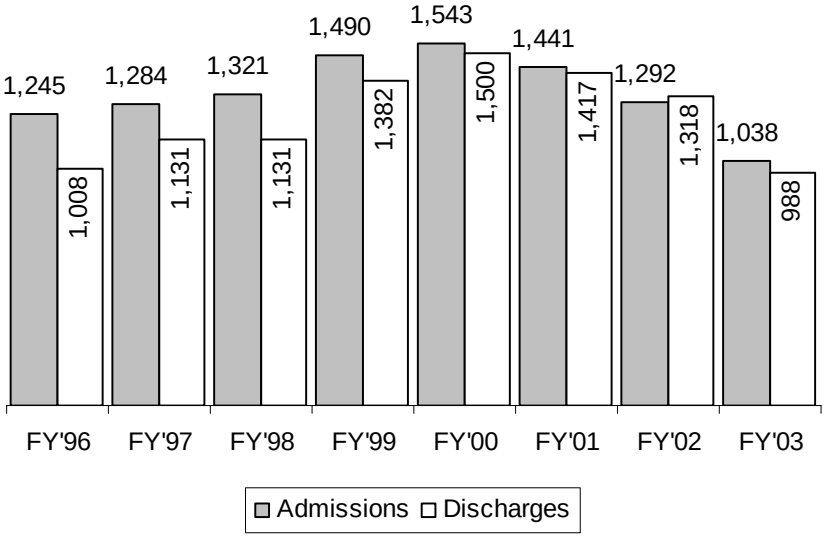
- **Level E:** Level E placements have a highly structured environment and regularly scheduled contact with professional staff. Crisis intervention is available through a formalized process on a 24-hour basis. Youth in this category display extreme anti-social and aggressive behaviors and often suffer emotional disturbances as well. The state utilizes approximately 200 level E beds through private providers at an average cost of $136/day.

- **Therapeutic Foster Care (TFC):** TFC is a contracted service for youth who need medical and therapeutic services but can be served outside of a psychiatric facility. The agency contracts for approximately 20 beds costing $31.38 per day with an annual cost of $11,454 per bed.

- **Specialized Community Homes:** These are homes of individuals in the community who provide room and board for up to five youths in the contractors' homes. The contractor is a professional social service provider who offers intensive, individually focused therapeutic intervention programs. OJA currently contracts with seven homes and provides an annual salary of $38,000 to providers. In addition to the annual salary, providers receive $18 per day in foster care maintenance payments for each child they are serving.

- **Thunderbird Youth Academy Company B Program:** This quasi-military boot camp program comprised of 32 beds at a cost to OJA of $112.72 per bed per day provides a short-term, highly structured residential setting that primarily serves chronic property offenders. The emphasis of the program is on promoting education, accountability, community service projects and self-respect.

Annual Out of Home Placement Admissions and Discharges
FY'96 Through FY'03



Source: FY2003 Annual Report, Office of Juvenile Affairs

- **Secure Institutions:** Secure institutions are locked and fenced facilities that provide OJA's most intensive level of residential programming. They are reserved for youth whose behavior represents the greatest risk to the public and to themselves. The agency operates three institutions: the Southwestern Oklahoma Juvenile Center in Manitou (78 beds), the Central Oklahoma Juvenile Center in Tecumseh (116 beds), and the Lloyd E. Rader Center in Sand Springs (203 beds).

Follow-up and Aftercare

Research shows that an essential part of successful rehabilitation of delinquent youth includes a program of 6 to 12 months of follow-up/aftercare that includes both surveillance as well as therapeutic counseling services. OJA has implemented two such programs to provide these essential services: The Community Compliance Program (Tracking) and Community At-Risk Services (CARS). Community Compliance provides tracking and accountability services, and CARS provides the therapeutic component.

Between FY99 and FY03, the Oklahoma Military Department contracted with OJA to provide surveillance in its Tracking Program, known as STARS (State Transition and Reintegration Services) for all youth leaving a group home or institution. The goal of the STARS program was to ensure that youth were

successfully completing their reintegration plan through the provision of mentoring, tutoring, community services, and tracking. In FY'02, the program tracked over 2,800 youth and had a total budget in excess of $3 million. At the end of FY'03, the program was reduced because of budget cuts to $774,000 and funded at that level for FY'04.

The current tracking program began in August, 2003 by OJA contracting with 63 private individuals at $15 per hour to provide face-to-face tracking. Subsequently, the agency acquired 38 Global Positioning System (GPS) electronic monitors at a cost of $4.20 per day. A combination of face-to-face tracking and GPS monitoring between September, 2003, and June, 2004 served approximately 350 youth. OJA's current capacity to track youth at any one time is limited to no more than 134 youth, compared to the Military Department's capacity of 500 youth at any one time when that agency provided the program.

Therapeutic services are provided by the Community At-Risk Services (CARS) program which was implemented in its present form in FY'00. CARS services are provided by community based Youth Services agencies and include services such as individual, group and family counseling as well as school reintegration. Youth exiting group homes and institutions are eligible for CARS services. Additionally, CARS also serves other at-risk youth with prevention services.

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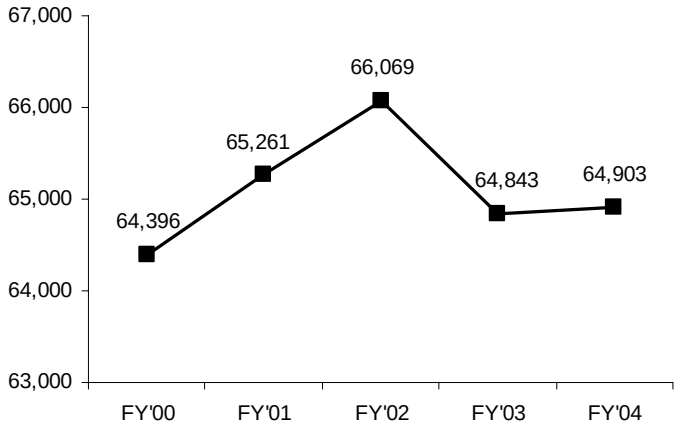
STATE PERSONNEL ISSUES

Total State Government Employment

State agencies paid a total of 64,903 full-time-equivalent employees in FY'04, according to Office of Personnel Management data. This total includes 28,709 FTE at state higher education institutions. While FTE levels at most state agencies are regulated by legislative limits, employment levels in the higher education system are set by governing boards.

Total Employment by State Agencies
FY'00 Through FY'04



Source: Office of Personnel Management

State Employee Salaries

The average state employee earns $32,887 per year (according to Office of Personnel Management data, which excludes higher education agencies). State employees' average salary has increased an average of 2.4 percent per year over the past five years.

Average Oklahoma State Employee Salary

FY'00 Through FY'04

Fiscal Year	Average Salary	Percent Change
2000	$29,385	
2001	$31,708	7.9%
2002	$32,626	2.9%
2003	$32,695	0.2%
2004	$32,887	0.6%

Source: Office of Personnel Management

PAY RAISE HISTORY

FY'06 $700 annual across-the-board raise provided for all state employees effective July 1, 2005. (HB 2005)

FY'05 $1,400 annual across-the-board raise provided for all state employees effective January 1, 2005 (HB 2005).

FY'04 No Pay Raise

FY'03 No Pay Raise

FY'02 No Pay Raise

FY'01 $2,000 annual across-the-board raise provided for all state employees effective October 1, 2000 (SB 994).

FY'00 2 percent pay increase, with a minimum provision of $600 and a maximum provision of $1,000, for all state employees effective July 1, 1999 (SB 183).

FY'99 4 percent pay increase, with minimum provision of $1,250 and a maximum provision of $2,000, for all state employees effective January 1, 1999 (HB 2928).

FY'98 No Pay Raise

FY'97 $1,200 annual across-the-board raise for agency employees. Also, an allied health pay plan gave a 10 percent raise to about 900 health care workers (SB 846).

FY'96 No Pay Raise

FY'95 $800 annual across-the-board raise for agency employees beginning October 1, 1994 (SB 870).

FY'94 No Pay Raise

FY'93 2.5 percent mandatory pay increase for all state employees effective December 1, 1992, and a discretionary 2.5 percent increase effective January 1993. Agencies paid costs of these raises within existing personnel budget; no new appropriations were provided. About half the state work force received the optional raise, which agencies granted based on their fiscal capacity (HB 1973).

FY'92 $420/year per employee. Also enacted was an increase in the minimum state employee salary from $11,700 to $12,413 (the federal poverty level for a family of three) (HB 1681).

FY'91 $1,000/year per employee (SB 877).

FY'90 $400/year per employee (SB 58).

STATE EMPLOYEE BENEFITS PACKAGE

The state employee benefits package consists of paid annual and sick leave; a defined benefit retirement plan and a deferred compensation retirement plan; and group health, life, and disability insurance.

Generally, employees pay the following costs of benefits:

- 3 percent of the first $25,000 of salary and 3.5 percent on salary above $25,000, paid to the Oklahoma Public Employees Retirement System (OPERS). However, contributions differ for employees in other retirement systems (see Retirement Benefits);
- supplemental life insurance premiums (optional);
- effective January 1, 2005, employees under the age of 50 may defer up to $14,000 annually while employees 50 or over may defer up to $18,000 per year
- federally mandated social security tax and Medicare tax.

State agencies, as employers, pay the remaining cost of providing employee benefits as follows:

- 10.0 percent of salaries paid to OPERS;
- a benefits allowance ranging from $407.92 to $952.71 in Plan Year (PY) 2005, depending on whether an employee chooses to buy coverage for dependents (see Group Health Insurance Benefits). The state funds 75 percent of the monthly group health insurance premiums for dependents;
- $25 per month matching employer contribution for employee participants of the state's deferred compensation program; and
- federally-mandated social security tax and Medicare tax.

RETIREMENT BENEFITS

The state has seven state retirement plans. OPERS is the main retirement system, covering two of every three state employees. The normal retirement age for state employees is 62. Any employee retiring on or after this age is entitled to an annual benefit equal to 2 percent of the employee's final average salary, multiplied by the number of years of credited service. For example, an employee retiring at the age of 62 with a final average salary of $25,000 and 30 years of credited service would receive an annual retirement benefit of $15,000 (2% x 30 years x $25,000).

Employees may elect to receive a greater retirement than that listed above. By contributing an additional 2.91 percent of all gross salary, an employee will receive a 2.5 percent multiplier rather than a 2 percent multiplier for all years of service in which the greater contribution was made.

Statutes also allow state employees to retire under the "Rule of 80" or "Rule of 90", depending on the date the member joined the system. To qualify for retirement under this option, the sum of the employee's age and years of credited service must equal 80 or 90. Thus, an employee 55 years of age with 25 years of service may retire with full benefits under the "Rule of 80”.

Another option for state employees is early retirement. To qualify, an employee must be at least 55 years of age and have a minimum of 10 years of credited service. An employee who elects to retire early receives an adjustment of annual benefits in accordance with the following schedule:

Examples of Retirement Benefits at Various Ages

Age	Percent of Normal Retirement Benefits	Age	Percent of Normal Retirement Benefits
62	100.00%	58	73.33%
61	93.33%	57	66.67%
60	86.67%	56	63.33%
59	80.00%	55	60.00%

For example, an employee 55 years of age with a final average salary of $25,000 and 10 years of service would receive an annual retirement benefit of $3,000 (2% x 10 years x $25,000 x 60%).

A final benefit to retirees is a state contribution of $105 per month credited toward group health insurance costs.

In addition to OPERS, there are six state retirement systems with their own unique rules and regulations: the Oklahoma Teachers’ Retirement System (OTRS), the Uniform Retirement System for Justices and Judges (URSJJ), the

Oklahoma Police Pension and Retirement System (OPPRS), the Oklahoma Law Enforcement Retirement System (OLERS), the Oklahoma Firefighters Pension and Retirement System (OFPRS), and the Oklahoma Wildlife Conservation Retirement System.

GROUP HEALTH INSURANCE BENEFITS

Employees are offered a benefit allowance to pay for mandated and optional coverages as well as assist employees in the cost of covering dependents. The benefit allowance is based on the following formula:

Average monthly premium of all high option health plans

Plus

Average monthly premium of all high option dental plans

Plus

Basic life insurance monthly premium

Plus

Basic disability monthly premium

Equals

Employee Only Flexible Benefit Allowance

Dependents are covered at 75 percent of the average monthly premium of all high option health insurance plans. The benefits allowance is used to purchase the options the employees want. They must select a coverage for themselves in the following areas: medical; dental; life; and disability. If the total price of the options selected by the employees is less than the benefit allowance, they receive the difference as taxable income. If the cost of the options selected by the employees is more than the benefit allowance, the employees may elect to pay for the excess through pre-tax payroll deductions.

The state offers its employees a standard indemnity plan (HealthChoice) or health maintenance organizations (HMOs). The basic differences between the medical plans are: cost; choice of doctors and hospitals; how the employee and the plan share expenses through deductibles, co-payments, and coinsurance; and the maximum the employee has to pay out of pocket.

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PUBLIC SAFETY AND CORRECTIONS

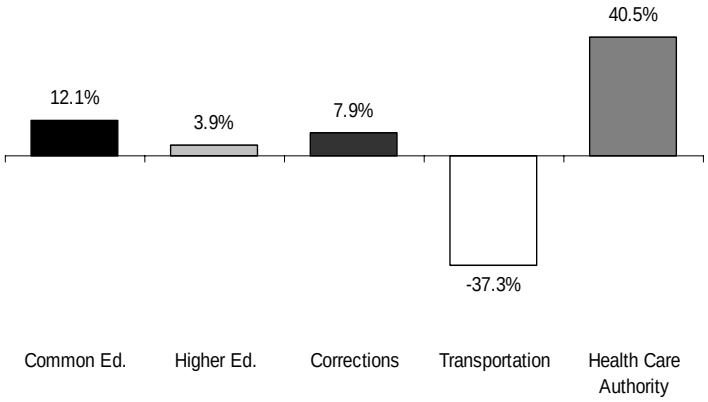
Department of Corrections

The mission of the Department of Corrections (DOC) is to protect the public, the employees, and the offenders. This chapter describes the state's prison system, summarizes recent concerns and initiatives, and discusses benchmarks with other states.

DEPARTMENT OF CORRECTIONS BUDGET

Since FY'95, the Department of Corrections budget has grown faster than every other major area of state government, increasing 104 percent. Budget cuts in two of the past three fiscal years have leveled off growth in DOC's budget. However, increasing inmate counts and costs necessitate continued growth in DOC expenditures.

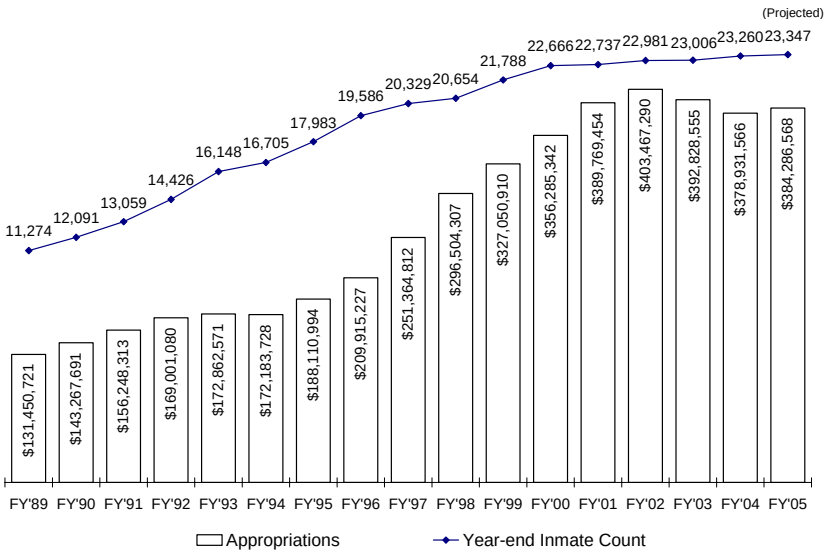
Percent Change in Appropriations to Select Agencies
FY'00 Through FY'05



Appropriations and Inmate Count History

Since FY'89, the number of inmates in DOC custody has doubled, while appropriations have tripled. The FY'05 DOC budget comprises 7.2 percent of the total state appropriated budget. In FY'89, the DOC state appropriated budget comprised 5.9 percent of the total state appropriated budget.

History of DOC Appropriations and Inmate Count
FY'89 Through FY'05



Source: Inmate Count from DOC End of FY "Inmate Population Analysis

Sources of Funding

Almost all funding for DOC comes from state appropriations. Revolving funds are generated from sales of products and services to inmates (canteen sales), and from sales of inmate-produced products and services to internal and external purchasers. Federal funds are generally grants for specific treatment or rehabilitation programs.

FY'05 DOC Budget by Source

Appropriated Funds	$384,286,568	88%
Revolving Funds	43,966,127	10%
Federal Funds	8,768,020	2%
Total Funding	$437,020,715	100%

Costs of the Prison System

Almost all (93 percent) of the funds spent by DOC go toward housing inmates in various settings. The remaining 7 percent represents administrative costs. Cost per inmate varies widely by type of facility and program.

FY'02 Costs and Counts of DOC Programs

By Program Type, From Lowest to Highest Security

Program	Average Offender Count	Percent of Total	Total Annual Expenditures	Percent of Total	Cost Per Day
Probation and Parole	31,946	58.9%	$23,728,433	6.2%	$2.03
Halfway Houses	737	1.4%	$9,723,097	2.5%	$36.14
Community Work Centers	1,051	1.9%	$12,550,304	3.3%	$32.72
Community Corrections Centers	914	1.7%	$13,057,106	3.4%	$39.14
Minimum Security Prisons	6,132	11.3%	$97,605,557	25.4%	$43.61
Medium Security State Prisons	7,612	14.0%	$125,961,778	32.8%	$45.34
Medium Security Private Prisons	3,958	7.3%	$66,783,699	17.4%	$46.23
Co. Jail Beds - Contract	359	0.7%	$4,578,038	1.2%	$34.94
Maximum Security Prisons	1,528	2.8%	$29,533,159	7.7%	$52.95
TOTAL	54,237		$383,521,171		

Source: DOC "Statement of Operating Costs," based on FY'02 actual expenditures. Costs include administrative and central services, which are apportioned by inmate counts.

Organization of the Prison System

There are 24 prisons – 17 public and 6 private – scattered throughout the state.

Location of Oklahoma Prisons

Private Prisons	
Davis Correctional Facility (private)	Holdenville
Cimarron Correctional Facility (private)	Cushing
Great Plains Correctional Facility (private)	Hinton
Lawton Correctional Facility (private)	Lawton
Northfork Correctional Facility (private)	Sayre
Diamondback Correctional Facility (private)	Watonga

Public Prisons

Bill Johnson Correctional Center	Alva
Dick Conner Correctional Center	Hominy
Eddie W. Warrior Correctional Center	Taft
Howard McLeod Correctional Center	Atoka
Jackie E. Brannon Correctional Center	McAlester
James Crabtree Correctional Center	Helena
Jess Dunn Correctional Center	Taft
John Lilly Correctional Center	Boley
Joseph Harp Correctional Center	Lexington
Lexington Assessment and Reception Center	Lexington
Mabel Bassett Correction Center	McLoud
Mack Alford Correctional Center	Stringtown
Northeast Oklahoma Correctional Center	Vinita
Oklahoma State Penitentiary	McAlester
Oklahoma State Reformatory	Granite
Ouachita Correctional Center	Hodgen
William S. Key Correctional Center	Fort Supply

Of the six private prisons four hold Oklahoma inmates exclusively, one holds out-of-state inmates exclusively and one is vacant. Four of the private prisons are owned by Corrections Corporation of America and Cornell Corrections Corp and GEO Group each own one. Oklahoma ranks 2nd in the number prisoners in private prisons with 6,476, second only to Texas, which totals 16,773.

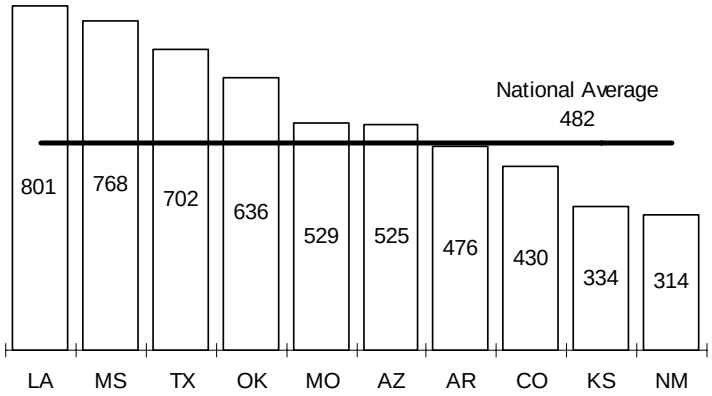
In addition to prisons, the DOC also operates 20 community-security facilities (these, along with most minimum-security prisons, have no secure fences). Fifteen are work centers and five are community corrections centers. The department also contracts with 11 privately operated halfway houses.

Cost Comparisons with Other States

Oklahoma has consistently incarcerated a greater percentage of its residents than almost every other state. In 2003, according to Bureau of Justice data, Oklahoma imprisoned 636 inmates for each 100,000 residents (or 0.64 percent of the population), which far exceeds national average rate of 482 prisoners per 100,000 residents. Only the states of Louisiana (801 per 100,000), Mississippi (768 per 100,000), and Texas (702 per 100,000), incarcerate more of their population. One in 143 U.S. residents were in prison or jail at 2002's year end.

State Prisoner Incarceration Rates, 2003

Rates per 100,000 Population



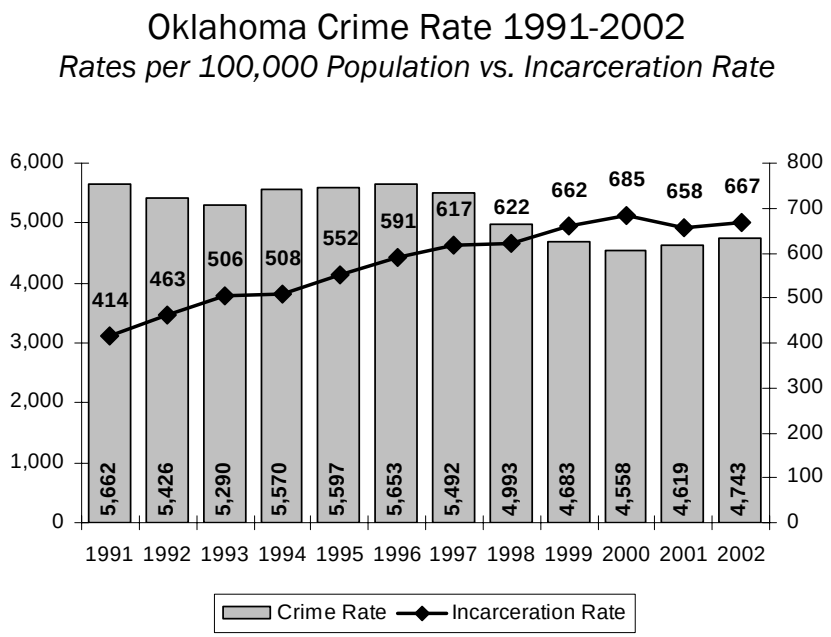
Source: Bureau of Justice Statistics, "Prisoners in 2003"

Some of the gap in the incarceration rate can be explained by Oklahoma's higher crime rate. Oklahoma's 2002 crime rate of 4,743 per 100,000 residents is 15.4 percent higher than the national average of 4,110. While that might explain one-third of the statistical divergence in incarceration, the other two-thirds is speculative. Many sociologists point to similarities of Louisiana, Mississippi, Texas, and Oklahoma: they are Southern states-which have a general emphasis on retribution vs. rehabilitation, they share low per-capita income, and have low per-capita educational attainment. Oklahoma executed 6 prisoners in 2004, down from 14 in 2003. Since 1976, Oklahoma has executed 75 inmates, third in the U.S. behind only Texas (330) and Virginia (94).

While the crime rate in Oklahoma has dropped 24 percent from its high in 1987, the incarceration rate during the period has more than doubled, increasing 169 percent. (The crime rate is measured in index crimes: murder, non-negligent manslaughter, forcible rape, robbery, aggravated assault, burglary, larceny-theft, motor vehicle theft, and arson).

4,079 or 67 percent of the 6,050 people entering prison in FY'01 were first-time offenders, these offenders are generally the best candidates for rehabilitation. Most of these offenders committed non-violent crimes.

With Oklahoma's extraordinary rate of imprisonment, many Oklahomans might think that much more is spent on prisons than in other states. However, that is not the case. There are two ways to compare Oklahoma's prison spending with other states: Costs per inmate and cost per capita.



Source: OSBI "Uniform Crime Reports"

Per-Capita State and Local Expenditures for Corrections – In 2000, the latest year for which data is available, Oklahoma ranked 26th among the 50 states, spending $148 per citizen for state, county and city incarceration. The national per-capital spending is $173. (Source: U.S. Census 2002 report, "Government Finances: 1999-2000")

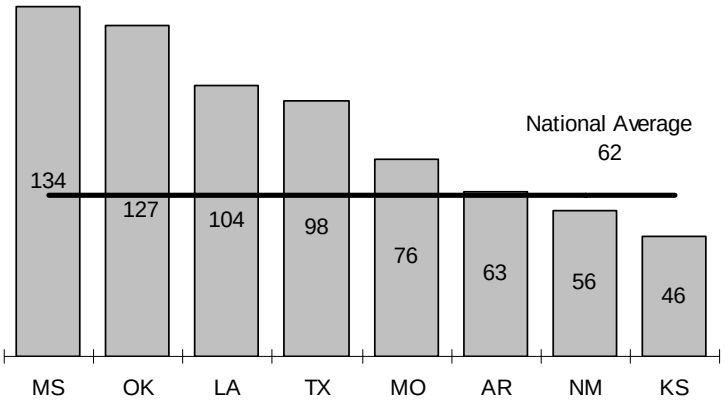
Per-Inmate Spending: – In 2001 Oklahoma ranked 43rd in the nation in spending per state prisoner. Oklahoma spent $46.07 per day or $16,309 per inmate in that year, which was 72 percent of the national average of $63.98 per inmate per day or $22,650. (Source: 2001 Corrections Yearbook)

Female Offenders

Over the past several years, Oklahoma has consistently ranked number one in incarcerating women. Oklahoma incarcerates 127 females per 100,000 people. This incarceration rate is 105 percent above the national average (62 per 100,000 people). 2003 saw a slight change as Mississippi passed Oklahoma in incarceration rates.

Female offenders represented 9.1 percent of all sentenced prisoners for DOC in 2002. The national average is 6.7 percent. A majority of these receptions stem from drugs and alcohol.

Female Incarceration Rates, 2003
Rates per 100,000 Population



Source: Bureau of Justice "Prisoners in 2003"

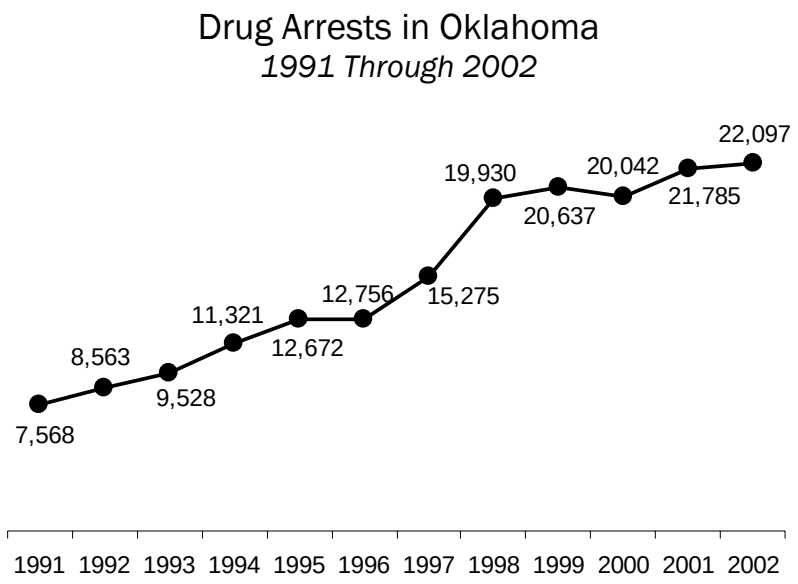
PROFILE OF OKLAHOMA PRISONERS

The typical Oklahoma prisoner is a white male, 33 years of age, and who has dropped out of school after the 10th Grade. He is being imprisoned after his first or second conviction, and is serving his first prison term. His crime was non-violent, most likely drug-related. He is a heavy user of drugs or alcohol. He will serve slightly more than two years in prison, about 40 percent of a six-year sentence.

Changes in Crimes Committed

Four out of ten prisoners entering DOC's custody are convicted on drug or DUI charges. The war on drugs, begun in the 1980s, has impacted the prison system more than any other policy initiative. In the 19 years between 1985 and 2004, the percentage of inmates remanded to prison on drug charges quadrupled, from 10.0 percent to 46.0 percent. In 2004, more than 3,304 inmates came into the prison system on drug convictions, versus 429 in 1985.

Oklahoma is not unique in the trend of imprisoning more drug offenders. Nationally, the proportion of drug law violators grew from 8.6 percent in 1985 to 20.4 percent in 2001.



Source: Department of Corrections "Uniform Crime Reports"

Drug Abuse

Drug and alcohol abuse is a leading cause of criminal activity and increased sentence lengths for these crimes contribute to prison overcrowding. At the end of FY'04, 44.98 percent of those incarcerated had been identified with a substance abuse problem – a total of 10,462 offenders out of a system total of 23,608. During FY'04, 5,253 offenders participated in a DOC substance abuse program. The number of participants will likely decrease in the coming year as grant funds that support seven prison-based substance abuse programs have been eliminated from the federal budget.

Since FY'02, system-wide random drug testing results have remained under 3 percent positive. During FY'04, system-wide random drug testing resulted in a 2.8 percent positive rate across all public and private facilities, community correction centers, work centers and halfway houses. The incidences of dirty tests were slightly higher in state prisons than in private prisons, at 2.9 percent and 2.3 percent respectively. Offenders on probation or parole are excluded from system-wide random testing. However, probationers and parolees are subject to different types of drug testing such as suspect testing, pre-sentence investigation testing and scheduled drug testing. During FY'04, approximately 33,000 offenders were on probation or parole. Out of these active Pardon and Parole cases 15,270 were drug tested producing an 18.85 percent positive rate.

Education

Of new inmates entering the prison system in FY'04, approximately 43 percent read below the eighth grade level and approximately 56 percent claimed neither a high school diploma nor the equivalent. Education programs are available at every prison; however, not all inmates qualify for educational programs. In FY'04, 7,557 inmates participated in educational program. Job training programs are available at most facilities in conjunction with the Career Tech schools.

POLICY ISSUES AND PROGRAMS

Community Sentencing Alternatives

The most recent addition to expand DOC's capacity to handle offenders has come in the agency's Community Sentencing Division. In FY'03, the Legislature earmarked at least $5 million, and DOC added another $3.7 million, so that DOC can provide treatment and supervision of moderate-risk offenders who might otherwise have been sentenced to prison.

While community sentencing is still in its infancy, it has proven to be a very worthwhile program. In FY'03, 1,830 qualifying offenders received a community sentence. Before community sentencing, this population would have been remanded to a correctional institution at a cost of $18,000/year. Instead, these offenders stay in the community at a substantially lower cost than the state average price. While in the community, the offender is employed, receives treatment, and pays restitution and court-ordered fees.

Community sentencing is now utilized by 44 counties. Of the over 7,421 qualifying offenders who have received a community sentence since March 2000, 3,814 remain active participants.

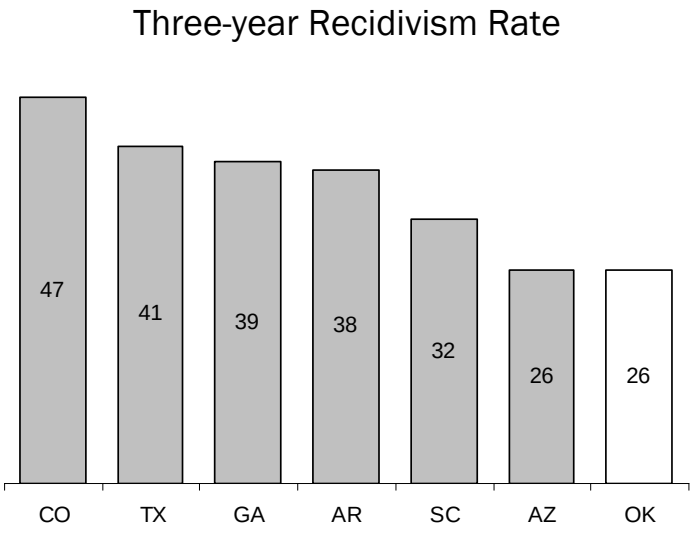
Recidivism: the Revolving Door

Oklahoma's three-year recidivism rate is about 26 percent, meaning that 26 out of each 100 inmates released from the prison system are reincarcerated after three years. The rate is comparable to the national average.

In FY'03, the state saw 8,247 receptions into the prison system. Of those, 3,187 or 39.0 percent had served time in prison previously.

Rehabilitation programs focus on reducing recidivism and helping inmates become economically self-sufficient law-abiding citizens. To encourage inmates into rehabilitation programs, DOC awards achievement earned credits for successful completion of approved programs. Such credits count directly against an inmate's sentence – each credit subtracts one day from the sentence they must

serve. Credits are 90 for completion of high school or General Educational Development (GED) program, 70 for a long-term substance abuse program, 30 for the short-course substance abuse program and 30 for literacy training.



Source: 2000 Corrections Yearbook

Staffing Ratio

The current starting salary for a correctional officer (CO) is $20,671, slightly more than $10 per hour. After 18 months on the job, the average annual salary for a CO is $23,443. A legislative pay increase was approved in 2001 and various retirement benefits added in an effort to recruit and retain correctional officers. Most recently a legislative pay raise of $1,400 and $700 annually was approved and will go into effect in January and July 2005 for all employees on board as of December 31, 2004 and June 30, 2005 respectively. The FY'04 turnover for the correctional officer series was 13.0 percent. However, turnover within the correctional officer series has reached a high of 55.56 percent for Correctional Security Office I.

In FY'02, the ratio of inmates to correctional officers was 7.3 to 1. Currently, there is a 17 percent vacancy rate for CO's.

County Jails

Because of funding and space shortages, DOC pays county jails for housing between 500-700 prisoners at any given time. Jails are different from prisons in that they are designed to hold suspects awaiting trial and offenders sentenced to less than one year confinement. Felons sentenced to more than one year confinement become DOC's responsibility. DOC pays jails under two programs:

- "Contract Beds" to hold medium-security inmates after they have been received to the prison system; and

- "Back-up Beds" to hold convicted felons until DOC has the space to receive them into the prison pipeline.

On June 30, 2004, DOC was paying 17 county jails to house about 440 prisoners in contract beds at a rate of $30/inmate/day. DOC was paying counties 24/day for each of the 1,313 inmates backed up in county jails. Jails are paid below the $45.75 inmate/day rate paid to private prisons, but jails do not offer the quality or quantity of services (education, recreation, law library access, medical services, case management or jobs) typically provided in a prison setting.

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TOURISM

In Oklahoma, tourism offers its citizens two important commodities: economic development opportunities and recreational resources. The Oklahoma Department of Tourism and Recreation (OTRD) is the state agency that promotes development and use of the state parks, resorts and golf courses. The department also advances tourism by publicizing information about recreation facilities and events.

OTRD operates the following state facilities:

- 50 state parks;
- 4 resorts;
- 2 lodges;
- 10 golf courses; and
- 11 Welcome Centers.

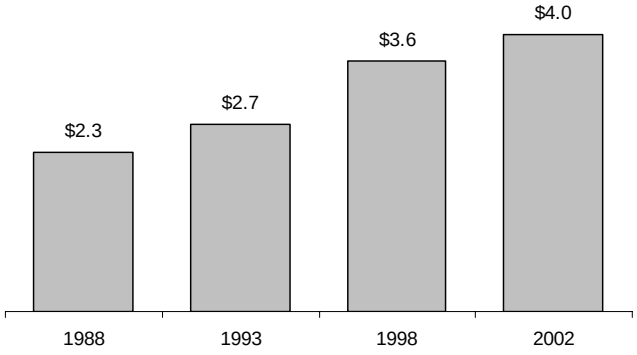
ECONOMIC IMPACT OF TOURISM

In Oklahoma, tourism generates $4 billion in domestic travel spending, according to the Tourism Industry Association.

It is estimated that tourism accounts for 69,000 jobs in Oklahoma. In addition, tourism contributes to the development of the workforce for the companies that supply goods and services to the travel industry, from real estate brokers to cleaning services to grocery stores to gas stations.

In 2002, tourism contributed $691 million in federal, state, and local taxes. Travel-generated tax revenue is a significant economic benefit because governments use these funds to support travel infrastructure and help support a variety of public programs. Each dollar spent by domestic travelers in Oklahoma produced 10 cents for federal tax coffers, five cents in state tax receipts, and two cents in local tax funds.

Domestic Travel Spending in Oklahoma
(Billions of Dollars)



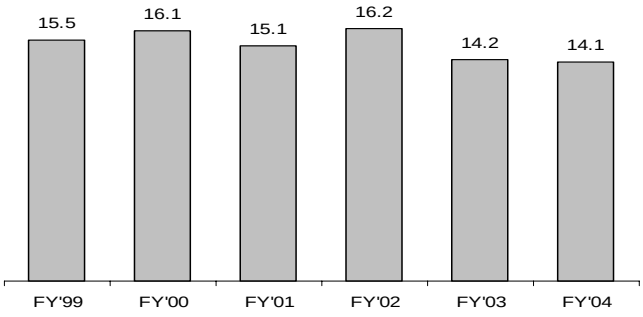
Source: Travel Industry Association and the U.S. Department of Commerce

STATE PARKS

Oklahoma features an extensive range of state park resources. From large state parks like Beavers Bend and Lake Murray, to the geographical dispersion of the parks throughout the state like Black Mesa and Natural Falls, park visitors can enjoy a multitude of natural resources. Oklahoma State Parks offer a great ecological diversity from the woodlands and lakes of the southeast to mesas and deserts of the panhandle. In fact, mile for mile, Oklahoma has the most diverse terrain in America. All parks offer a great array of natural environments which welcome both expert and novice nature enthusiasts.

Oklahoma's 50 state parks serve over 14 million visitors annually, ranking the 15th most visited in the United States. The parks are supported by 308 full-time employees and 85 seasonal employees during the summer months.

State Park Attendance in Oklahoma
(In Millions)



The parks consist of more than $210 million in assets, including some 2,100 structures and buildings. Private entrepreneurs operate sixty-one leased concessions. These operations provide numerous services and recreational opportunities for guests, from miniature golf and horseback riding to marinas and restaurants.

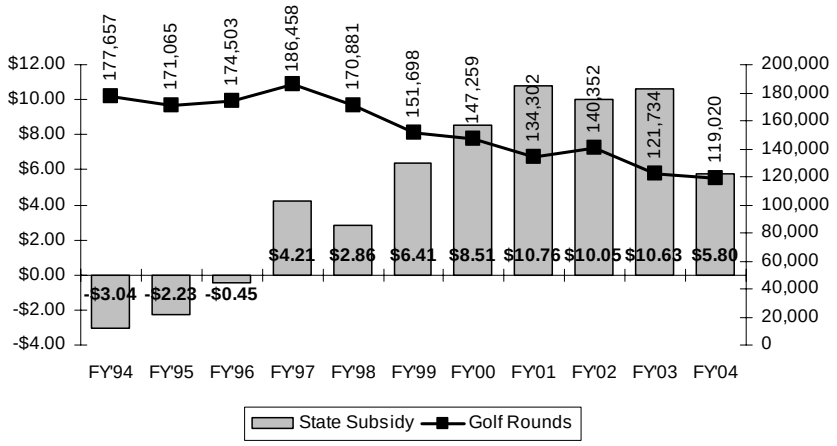
STATE GOLF COURSES

The state owns and operates 10 golf courses:

- Arrowhead Golf Course, Canadian;
- Cedar Creek Golf Course, Broken Bow;
- Chickasaw Pointe Golf Resort, Kingston;
- Fort Cobb Golf Course, Fort Cobb;
- Fountainhead Golf Course, Checotah;
- Grand Cherokee Golf Course, Langley;
- Lake Murray Golf Course, Ardmore;
- Lake Texoma Golf Course, Kingston;
- Roman Nose Golf Course, Watonga; and
- Sequoyah Golf Course, Hulbert.

During the peak season, about 53 full-time employees work with 84 seasonal employees and volunteers to operate the courses located throughout the state. In FY'04, the courses generated almost $4.3 million in revenue. In FY'04, 158,052 rounds of golf were played, a 2.2 percent decrease over FY'03.

Golf Rounds and State Subsidy per Round
(Excluding Roman Nose, Chickasaw Pointe & Grand Cherokee)



STATE RESORTS

The Resort Division maintains four resort and two lodge properties, all located within our state parks. Each of our facilities include lodge rooms and cabin accommodations and offer amenities such as restaurants, meeting space, catering, recreational facilities and programs. Further, each of our resort parks provide our guests the opportunity to golf, fish, hike and indulge in a myriad of other activities. The resorts and lodges are geographically distinct and located throughout the state:

- Western Hills Guest Ranch is in the northeast section of the state, located near Wagoner, in the Sequoyah State Park;
- Lake Texoma Resort is south-centrally positioned, near Madill in the Lake Texoma State Park;
- Lake Murray Resort also is south central, just outside of Ardmore and within the Lake Murray State Park;
- Roman Nose Resort is found in the Roman Nose State Park close to Watonga, in the central portion of the state;
- The Lakeview Lodge is in the southeast area of the state, near Broken Bow, within Hochatown State Park; and
- The Belle Starr Lodge is located in the Robbers Cave State Park near Wilburton, in southeast Oklahoma.

Each resort is designed with a theme reflecting the history of its area and the type of recreation it provides.

For FY'04, the resorts generated $7.2 million in revenue. Performing jobs from major maintenance to food service, about 124 full-time and 78 seasonal employees staff the facilities. Because the facilities are located in predominately rural locations, the resorts are major employers and contributors to the local economies.

OKLAHOMA WELCOME CENTERS

Welcome Centers serve as an information resource and rest area for travelers along Oklahoma's major highways and interstates.

Oklahoma operates 11 Welcome Centers:

- Thackerville;
- Capitol Building, Oklahoma City;
- Miami;
- Sallisaw;

- Colbert;
- Blackwell;
- Erick;
- Walters;
- Catoosa;
- Oklahoma City; and
- Cherokee Turnpike in Delaware County.

These facilities are located at various points of entry to the state, in the major metropolitan areas, and the state capitol building. These 11 centers provide tourism-related materials to over 1.6 million visitors per year. Studies have demonstrated that for every three visitors who stop at a tourism information center, one is influenced to extend their stay in Oklahoma; thereby, additional dollars are added to the state and local economies.

OKLAHOMA TODAY MAGAZINE

Oklahoma Today covers the people, places, history and culture of Oklahoma in a manner designed to encourage readers to explore the state and its people.

As the official state magazine, *Oklahoma Today* tells the historic and contemporary story of Oklahoma to a worldwide audience. The magazine is published bi-monthly beginning in January and ending in November. An extra issue, the *Year in Review*, is published in late January.

Oklahoma Today is produced by a staff of nine full-time employees. The magazine also relies on the talent of freelance writers, photographers and art directors. *Oklahoma Today* has a paid circulation of almost 38,000 and a readership of approximately 227,000. The magazine is distributed to newsstands in Oklahoma and surrounding states and is available on selected newsstands and bookstores nationwide.

Oklahoma Today has received multiple awards for excellence. *Oklahoma Today* has won the coveted "Magazine of the Year" title four times in the last decade and was named a finalist two times by the International Regional Magazine Association (IRMA).

OKLAHOMA FILM AND MUSIC COMMISSION

The Office of the Film and Music Commission promotes, supports, and expands film, television and music activities in Oklahoma. Activities of the division include conducting location searches for film and television producers and coordinating the activities of the production companies, communities, state and local permitting agencies, as well as the public.

The division administers two rebate programs: the Oklahoma Sales Tax Rebate Program and the Oklahoma Film Enhancement Rebate Program.

The Oklahoma Sales Tax Rebate Program offers eligible motion picture and television production companies a state and local tax rebate on all goods and services used or consumed on virtually any project shot in Oklahoma.

The Oklahoma Film Enhancement Rebate Program has created the most progressive and innovative rebate programs in the country to entice more long-term narrative film and television productions to the state. This program rebates 15 percent of documented production expenditures made in Oklahoma.

Film Enhancement Rebate Program
Funding History

Appropriations (to date)

FY'02 Appropriation	$150,000
FY'03 Appropriation	$44,000
ACOG Funding	$185,188
Total	$379,188

Expenditures (to date)

$58,425.14 - Film Titled "The Round and Round".
$38,860.88 - Film Titled "Sam and Janet"
$158,697.00 - Film Titled "The Christmas Child"
$123,204.48 - Film Titled "Return to Sender"

TRAVEL AND TOURISM

Native America

The marketing campaign for Oklahoma features the state slogan "Native America". Our signature advertising phrase is "Oklahoma: In its Native State". The slogan is an effort to give Oklahoma an image. The phrase plays off of our state's rich Native American culture and heritage, as well as the vast natural beauty and diversity.

Oklahoma maintains the largest Native American population per capita of any state in the country. Many of the over 260,000 Native Americans are descendants of the original 67 tribes inhabiting Oklahoma, formerly known as Indian Territory. Currently, 39 Native American tribes have their tribal headquarters here in Oklahoma. The name "Oklahoma" itself is a Choctaw name meaning "Red People".

Oklahoma is also home to the one of the most ecologically diverse regions in the country. Distinct eco-regions offer a variety of recreation opportunities for

citizens and visitors alike. Oklahomans can enjoy activities ranging from boating and fishing on the beautiful lakes in the northeast to hiking and rock climbing on the rocky cliffs in the southwest, and from riding off-road vehicles across the sand dunes in the arid deserts of the northwest to kayaking and observing nature in the lush pine forests of the southeast.

Advertising

For FY'04, the Department spent $3.7 million on domestic advertising. These funds were derived from revenue collected from the Tourism Tax. In FY'05, the Department is budgeting $4.4 million for domestic advertising.

TRIP (Travelers Response Information Program)

Travel Counselor Volume
1-800-652-OKLA

	FY'04
General Information Calls	31,591
Parks/Resorts Calls	7,737
Total Calls Handled	39,328
Total Counselor-Assisted Inquiries	***41,958***

Literature Requests

	FY'04
Phone	29,822
Voice Mail	3,830
U.S. Mail	2,984
E-Mail	2,394
Website	41,136
Reader Service	49,203
Total Literature Requests	***129,369***

Website Activity
WWW.TRAVELOK.COM

	FY'04
Total Visitor Sessions	1,488,184
Total Page Views	10,922,018
Average Sessions Per Day	4,068
Average Length of Session	11:16

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TRANSPORTATION

The mission of the Oklahoma Department of Transportation (ODOT) is to provide a safe, economical and efficient transportation network for the people, commerce and communities of Oklahoma. Because many experts cite quality roads as an essential element in creating and maintaining healthy economies, Oklahoma's legislative leaders have made an effort to reverse the state's historically low investment in transportation issues. This chapter summarizes the challenges facing ODOT and highlights recent initiatives intended to create solutions.

BACKGROUND

In 1995, ODOT released a comprehensive highway needs study which calculated a $4.57 billion backlog of construction needs on state highways. At that time, state fuel taxes were the only significant source of revenue for highway construction, and a projected fuel tax growth of 2 percent annually would never bridge the gap between revenues and needs. Several factors had eroded the supply of fuel tax dollars available for highways:

- More efficient automobiles consume less fuel;
- Tax exemptions rose; and
- Legislation was enacted to support non-highway programs with fuel taxes.

In addition, while fuel tax revenue remained stagnant, the demand for highway funding continued to grow:

- Construction costs increased due to inflation and environmental mandates;
- A heavier volume of traffic caused roads to deteriorate faster and require more maintenance.

To address these funding shortfalls, both ODOT and the Legislature have enacted various policies over the past decade:

- ODOT decreased its payroll by 501 FTE or 26 percent from FY'94 to FY'04;
- The department outsourced more functions, particularly mowing and engineering;
- The Legislature authorized the use of more inmate labor for routine maintenance projects (litter removal, guardrail repair and other manual tasks);
- A cap was placed on the number of miles of roadway considered part of the state highway system. Under revised Transportation Commission rules, no new roadway may be added to ODOT's maintenance list unless equal mileage is removed;
- The Legislature increased funding from sources other than the collection of fuel taxes.

CAPITAL IMPROVEMENT PROGRAM (CIP)

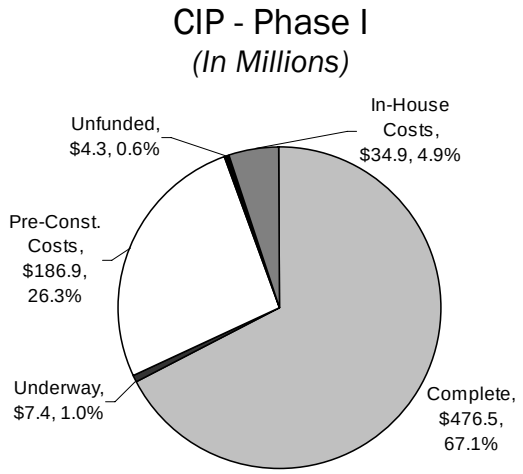
In an effort to address the state's highway needs, the Legislature adopted HB 1629 (1997), which provides a plan for $1.01 billion in new revenues for highway construction. Using a combination of appropriated funds and bond sale proceeds, CIP nearly doubled the annual amount spent for state highway construction. Of the $1.01 billion total, $560 million is provided as direct appropriations to ODOT and another $450 million was raised through bond financing. To retire the bonds, the Legislature annually appropriates the requisite funding, and ODOT then makes debt-service payments to the Oklahoma Capitol Improvement Authority (OCIA).

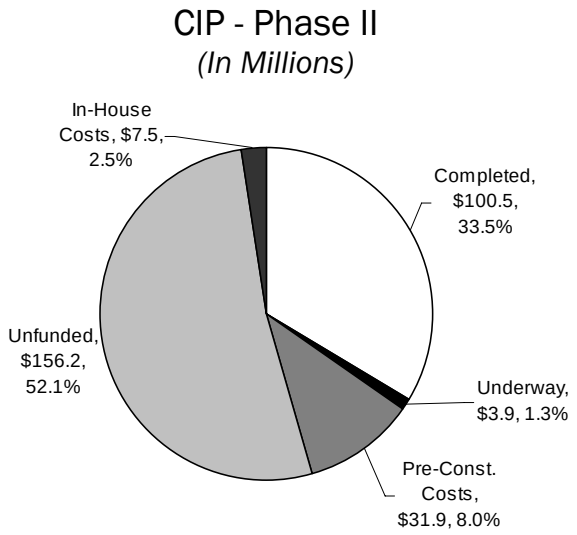
The $1.01 billion in funding is divided into two phases:

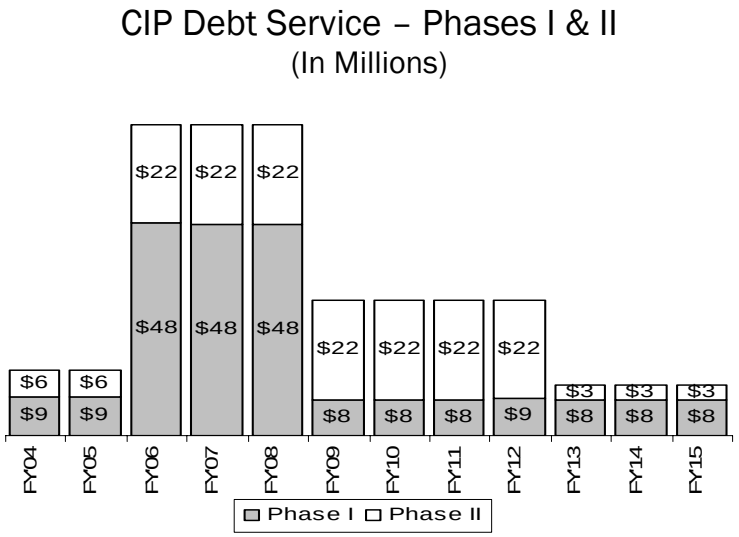
- Phase I provided $710 million for specific road projects listed in the bill. Of the total, $410 million was directly appropriated over five years, and $300 million was generated by the sale of revenue bonds in May 1998.
- Phase II originally provided for funding of $300 million in undetermined road projects; however, the Legislature specified them in HB 2259 (2000). Of the total, the plan calls for $150 million in direct appropriations and $150 million from bond financing.

FY'02 marked the final year of funding for Phase I; 67 percent of construction projects were completed by the end of FY'04. Phase II ROADS funding began in FY'01 with $150 million raised from the issue (August, 2000) of bonds;

however the $150 million in scheduled appropriations was postponed due to the economic downturn and the resulting revenue shortfalls of FY'02 and FY'03. Thus, construction on Phase II is now only 34 percent complete. CIP debt service was restructured for FY'04 and FY'05 because of the revenues shortfalls ($14.7 million for both years); however, $69.9 million is due annually from FY'06 through FY'09, with increasingly smaller annual amounts owed until retirement of the bonds in FY'15 (please, see chart).







GARVEE BONDS

Grant Anticipation Revenue Vehicles (GARVEE bonds) are a financing instrument that enable states to fund transportation projects based on their anticipated future federal funding. States and local agencies can issue GARVEE bonds for transportation projects using future federal highway funds to repay the principal, interest, and any other costs associated with the issuance of the bonds. The use of GARVEE bonds was authorized at the federal level by the National Highway System Designation Act of 1995.

In October 2000, the Contingency Review Board (comprised of the Governor, House Speaker and Senate Pro Tempore) authorized the sale of $799 million in GARVEE bonds; an additional $250 million was approved in February 2002, bringing the total to $1.05 billion. Authority to use the GARVEE bond program was included in HB 2259 (2000). As envisioned, this program would finance 12 bond projects across the state in an effort to enhance economic development. According to ODOT, completion of these projects will leave all Oklahoma cities with a population of 10,000 or more with four-lane highway access to the interstate system. Once issued, the bonds will be retired over a ten-year period using future federal highway appropriations.

The GARVEE program was on hold for three years while the state Supreme Court considered several challenges to its constitutionality, ranging from a separation of powers conflict (the Contingency Review Board) to the question of whether the issue of bonds would incur a statewide debt and thus required a vote of the people. The Council on Bond Oversight was created to answer the former argument while the Court ruled the latter lacked merit.

All legal hurdles were cleared by December 2003 and the Court then approved an initial $100 million issue of GARVEE bonds. To date, ODOT has sold $50 million of the bonds; the first contract - a $4.1 million project to improve almost three miles of U.S. 70 in southeastern Oklahoma – was let in May 2004.

GARVEE PROJECTS
(Cost in Millions)

US 70 from I-35 to Durant $158.4

US 70 from Idabel to Hugo $83.7

SH 99 from SH 39 to SH 59 between Ada and Seminole $57.8

US 59 from US 271 to I-40 between Poteau and Sallisaw $114

US 183 from US 70 to I-40 between Davidson and Clinton $127.2

SH 3 from SH 34 to SH 33 between Woodward and Watonga..... $118.4

SH 88 from US 412 to I-44 between Inola and Claremore $44.7

SH 20/SH 88, the Claremore South Bypass $46.2

US 169 from I-244 to 21st St. in Tulsa $23.0

US 77 from I-44 to Memorial Rd. (Broadway Extension) $25.4

Broadway Extension (OKC) between NW 36th and
NW 63rd (includes I-44 interchange)..... $149.0

I-44 between Yale and Riverside in Tulsa..... $263.3

CROSSTOWN EXPRESSWAY – OKLAHOMA CITY

In May 2002 the Federal Highway Administration (FHWA) approved ODOT's Crosstown Expressway project, the largest single such undertaking in Department history. ODOT, the FHWA, the City of Oklahoma City and the general public had labored since 1996 to solve the problem of an ever-growing I-40 traffic load with the least impact on the affected area and community. The current elevated roadway - completed in the early 1960's - was designed to accommodate 70,000 vehicles per day; today's traffic count numbers 100,000 daily users. Because of the age of the roadway and the increased traffic, it became clear to all concerned that prompt action was necessary to keep traffic safe and flowing.

Total costs for the new Crosstown Expresses are at estimated at $360 million; all funding will derive from federal sources. If the monies are secured in a timely fashion ODOT plans an early 2008 completion date.

Program Status – October 2004
(In Millions)

- Federal Funds Received $129.8
- Expenditures to Date $94.6
  - ✓ Right-of-Way Acquisition – $71.1
  - ✓ Engineering Studies – $4.1
  - ✓ Right-of-Way Clearance – $1.3
  - ✓ Canal Utility Relocations – $1.7
  - ✓ Engineering Costs (various companies) – $13.5
  - ✓ Other – $2.9
- Remaining Funds $35.2

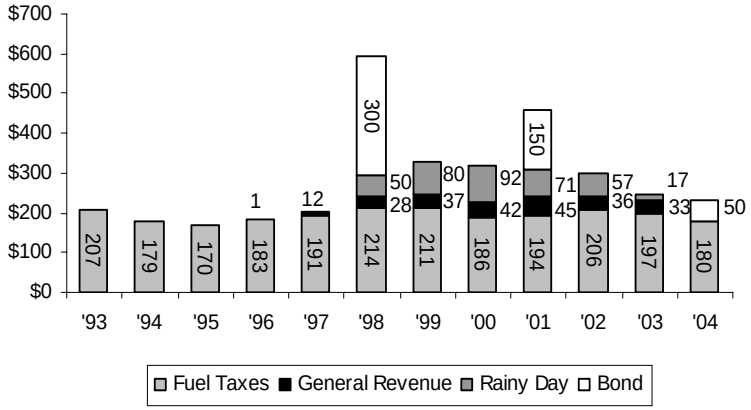
FUNDING FOR STATE HIGHWAYS

Total monies available for support of the state transportation system have increased by $329.2 million or 63 percent between FY'94 and FY'04. This is largely due to an increase in federal funds and revolving fund monies which derive from both state and federal sources.

ODOT Revenue Sources Comparison
FY'94 and FY'04

	FY'94		FY'04	
Funding Source	Dollars (In Millions)	Percent of Total	Dollars (In Millions)	Percent of Total
Transportation Fud Approp.	$179.8	34.5%	$192.2	22.61%
Revolving Funds	$106.1	20.4%	$203.5	23.94%
Federal Funds	$235.0	45.1%	$454.0	53.41%
Office of State Finance Refund	$0.0	0.0%	$0.4	0.05%
Total	$520.9	100.0%	$850.1	100.00%

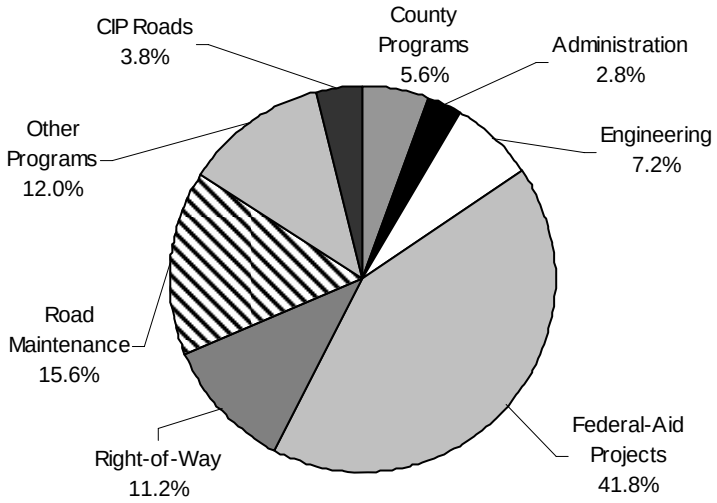
History of ODOT Highway Construction Fund Receipts
FY'94 Through FY'04 (In Millions)



Highway Spending by Category

More than 40 percent of ODOT expenditures in FY'04 went to road improvement projects with federal participation.

FY'04 ODOT Actual Expenditures by Program
($736.4 Million)



Highway construction projects have a significant impact on the economy of Oklahoma. ODOT reports that for every $1 million in highway construction projects granted to an Oklahoma-based contractor, about 90 jobs are created and about $840,000 is expended on indirect salaries and materials.

FUNDING FOR COUNTY ROADS

The County Bridge and Road Improvement Fund was established within ODOT to receive motor fuel tax receipts that are apportioned directly by statute for maintenance, repair, and replacement of county roads and bridges (as prescribed by the County Bridge and Road Improvement Act). These funds are allocated among the various counties by ODOT. To receive monies, a county must submit to ODOT a project plan for repair or replacement of a county road or bridge. Projects are approved by the Transportation Commission and contracts are awarded subject to the state competitive bidding process. As work progresses contractors submit progress billings to ODOT for payment from the fund.

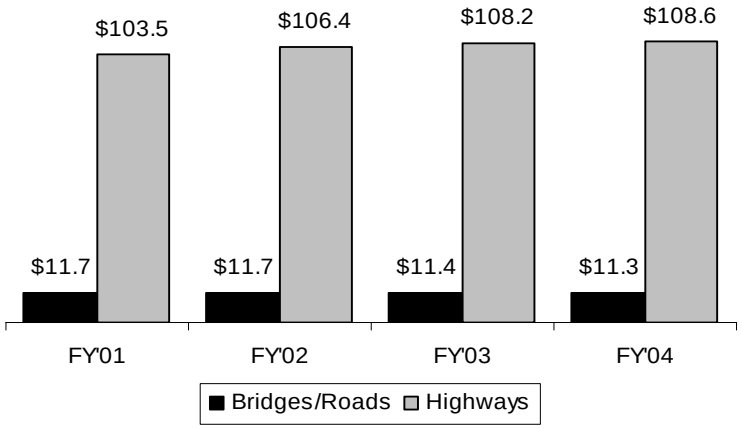
The apportionment of funds from the County Bridge and Road Improvement Fund is based on factors developed by ODOT, taking into consideration the following:

- the county's share of total state road mileage;
- the county's share of statewide vehicle miles driven annually, measured by ODOT; and
- effects of terrain on road improvement and maintenance costs. Flat terrain is presumed to be 15 percent less costly than rolling terrain, and mountainous terrain is 15 percent more costly than rolling terrain. Thus, a county with less-than-average mountainous terrain receives a reduced apportionment.

The following table shows how the various factors influence apportionment in three counties: one that is a relatively mountainous eastern county, a flat western county and an urban county with high traffic volume:

	Mountainous LeFlore Co.	Flat Terrain Harper Co.	High Traffic Oklahoma Co.
Cost Factor	2.33	0.98	2.27

State Funding: County Bridges/Roads and Highways
(In Millions)



STATE ROAD AND BRIDGE SYSTEM STATISTICS

State Highway System Mileage

Interstate, Non-Toll	670 miles
State Highways	11,596 miles
Total State Highway System	12,266 miles

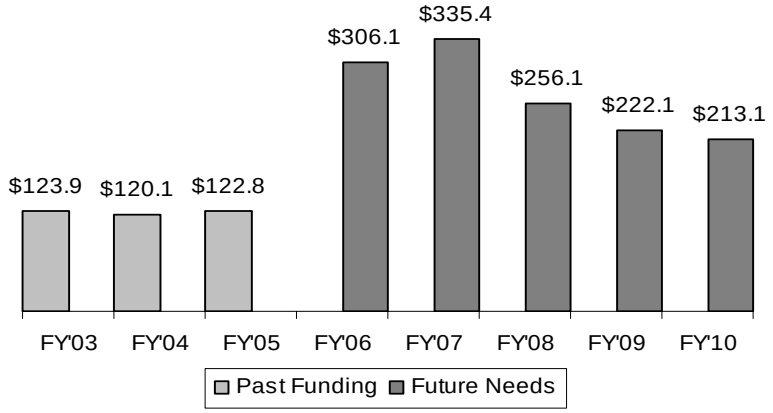
Condition of Bridges Statewide

			Off System			
	State Bridges		Urban Bridges		Rural Bridges	
Condition	Number	%	Number	%	Number	%
Adequate	5,131	75.9	1129	69.7	7,329	52.0
Functionally Obsolete	547	8.1	184	11.4	577	4.1
Structurally Deficient	1,082	16.0	306	18.9	6,187	43.9
Estimated Cost to Replace	**$5.06 billion**		**$228.3 million**		**$2.02 billion**	

MAINTENANCE

ODOT calculates a backlog of special maintenance projects (major road resurfacing, widening, bridge repair, etc) in excess of $1 billion; and it estimates average funding needs of $267 million for each of the next five fiscal years (FY'06 through FY'10) to bring the state's roads, highways and bridges up to minimum standards. After that period, its maintenance requirements are estimated at $250 million annually. In FY'04 ODOT allocated $120.1 million to its maintenance budget; the estimated FY'05 budget is $122.8 million.

Maintenance Budget
Past Funding/Future Needs
(In Millions)



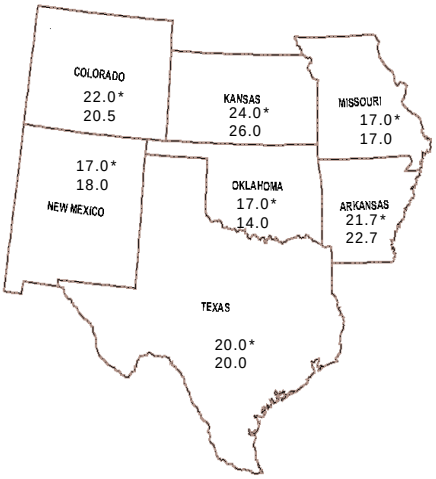
In the 2004 legislative session two fuel tax increase measures were introduced to address the maintenance backlog:

- HB 2632 sought a statewide vote on the gradual increase in the gasoline tax by 5 cents per gallon and the diesel tax by 8 cents; the plan, when fully implemented, would have generated $141 million annually for roads and bridges maintenance.

- HB 2559 proposed a legislative referendum on the increase in the gasoline tax by 7 cents and the diesel tax by 9 cents; it would have yielded $143 million annually for maintenance activities.

Both measures were assigned to the General Conference Committee on Appropriations but not heard: given the precipitous rise of fuel prices the chances for approval of any tax increase were deemed poor.

Regional Fuel Tax Comparison



Please note: Gasoline taxes are marked by the asterisk (*) while diesel taxes are the second numbers. Both are expressed as cents per gallon.

OKLAHOMA TRANSPORTATION AUTHORITY (OTA)

Revenue

OTA is a non-appropriated state agency (it receives no state or federal dollars) that administers the state's turnpike system; all revenues are derived from tolls, concessions and fines. Over the past several years the system has experienced a gradual increase in toll revenues, from $124.5 million in 1998 to a projected $186.6 in 2004. This represents a 50 percent growth, which the Authority attributes to the completion of turnpike extensions, a 15 percent toll hike and a heavier volume of traffic. A portion of state excise taxes for fuels consumed on turnpikes is made available to the agency for bond debt payment in the event that revenues fall short of debt requirements; to date that has not occurred, and the agency has "passed some $310 million through" to ODOT since 1992.

Financial Obligations

The financial structure of the turnpike system is based on "cross-pledging": costs incurred and revenues received are combined. Debt payment, then, is based on the total, not on an individual turnpike within the system. Total outstanding bond debt is $2.09 billion: $1.2 billion in principal, with $891 million in interest paid by the time the bonds are retired in 2028. Debt service is $89.5 million for Calendar 2004; annual payments will reach $98 million by 2006, hold steady through 2022, and then fall off to the $50 million range until retirement.

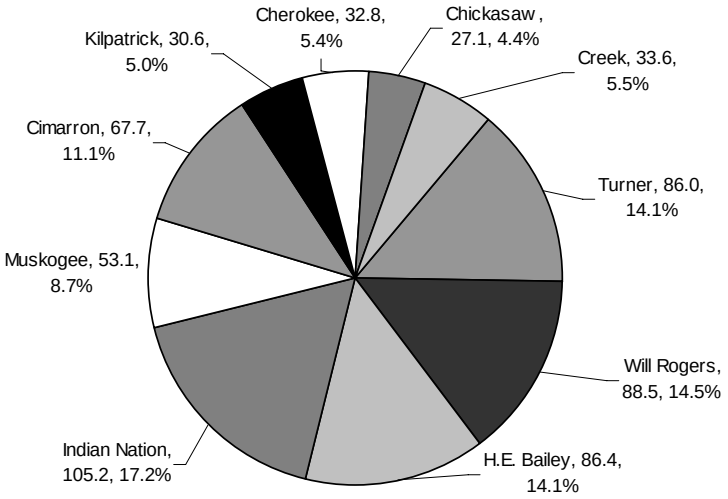
Maintenance

The OTA Capital Plan identifies maintenance (repair, rehabilitation, and improvement) expenditures on a five-year basis; it is updated annually. Since its inception (1994) through 2003, the Plan has devoted $303.5 million to maintain the turnpike system. The current Five-Year Plan (2004-2009) estimates expenditures of $322.5 million.

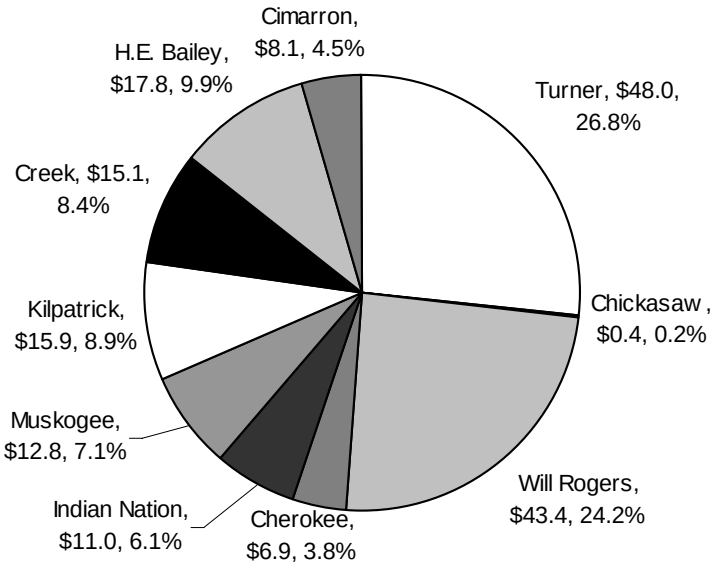
System Statistics

In January 1998, OTA was authorized to issue bonds for the construction of five new turnpike completion and/or improvement projects: Kilpatrick, Turner, Muskogee, Will Rogers, and H.E. Bailey. Bonds totaling $678 million were issued that year; all projects were completed during calendar 2002. Oklahoma's 612 total turnpike miles account for 5 percent of the state's highway system. This amount ranks second nationally (New York is first); by regional comparison Kansas, a state demographically similar (highway system mileage, industrial usage, weather, etc.), has some 250 miles of turnpike roads.

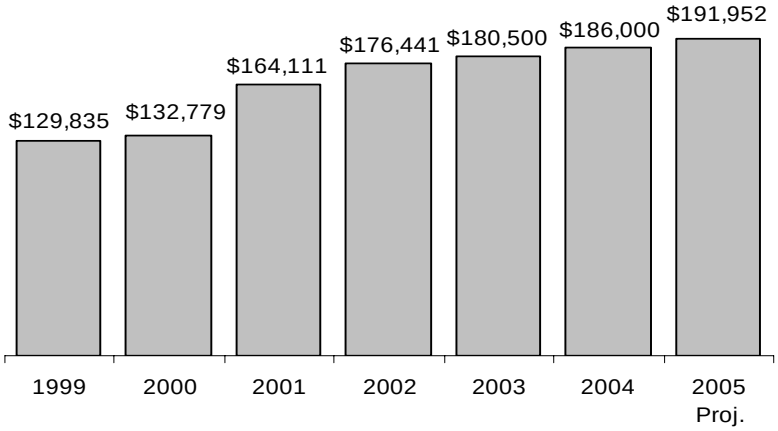
Turnpike Mileage/System Percentage



2005 Turnpike Revenue/System Percentage
(Projected, In Millions))

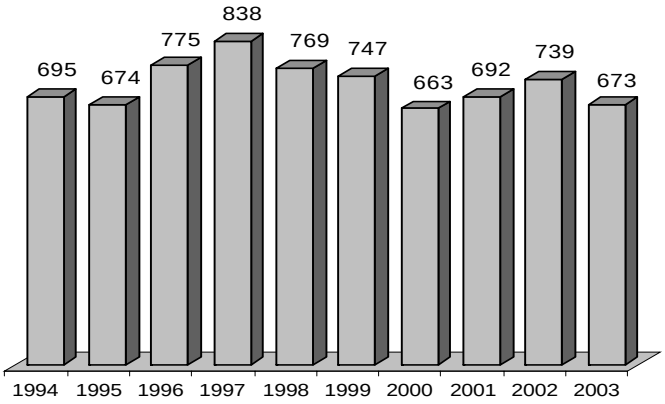


Historical and Projected Toll Revenue
1999 Through 2005



HIGHWAY SAFETY

In 1995, the federal government removed a provision that penalized states which allowed speed limits higher than 65 mph on the national highway system. In December of that year, state laws were enacted to increase highway speed limits across the state. On turnpikes and designated rural segments of the interstates, the speed limit was raised from 65 mph to 75 mph. On four-lane divided highways and super two-lane highways, the speed limit became 70 mph. For other highway locations, the speed limit stayed at 65 mph during daytime but increased from 55 mph to 65 mph during nighttime. Under state law, ODOT and the Oklahoma Transportation Authority (which oversees the turnpike system) are authorized to set lower speed limits on roads under their jurisdiction.

Initially, the greater speed limits were accompanied by an upsurge in the number of traffic fatalities, which reached a record high of 838 in 1997; this was an increase of 164 or 24.3 percent over the 1995 number. Since then the average number of deaths has decreased (reflecting the national trend) and now approximates previous levels (see chart).

Number of Traffic Fatalities in Oklahoma
1994 Through 2003