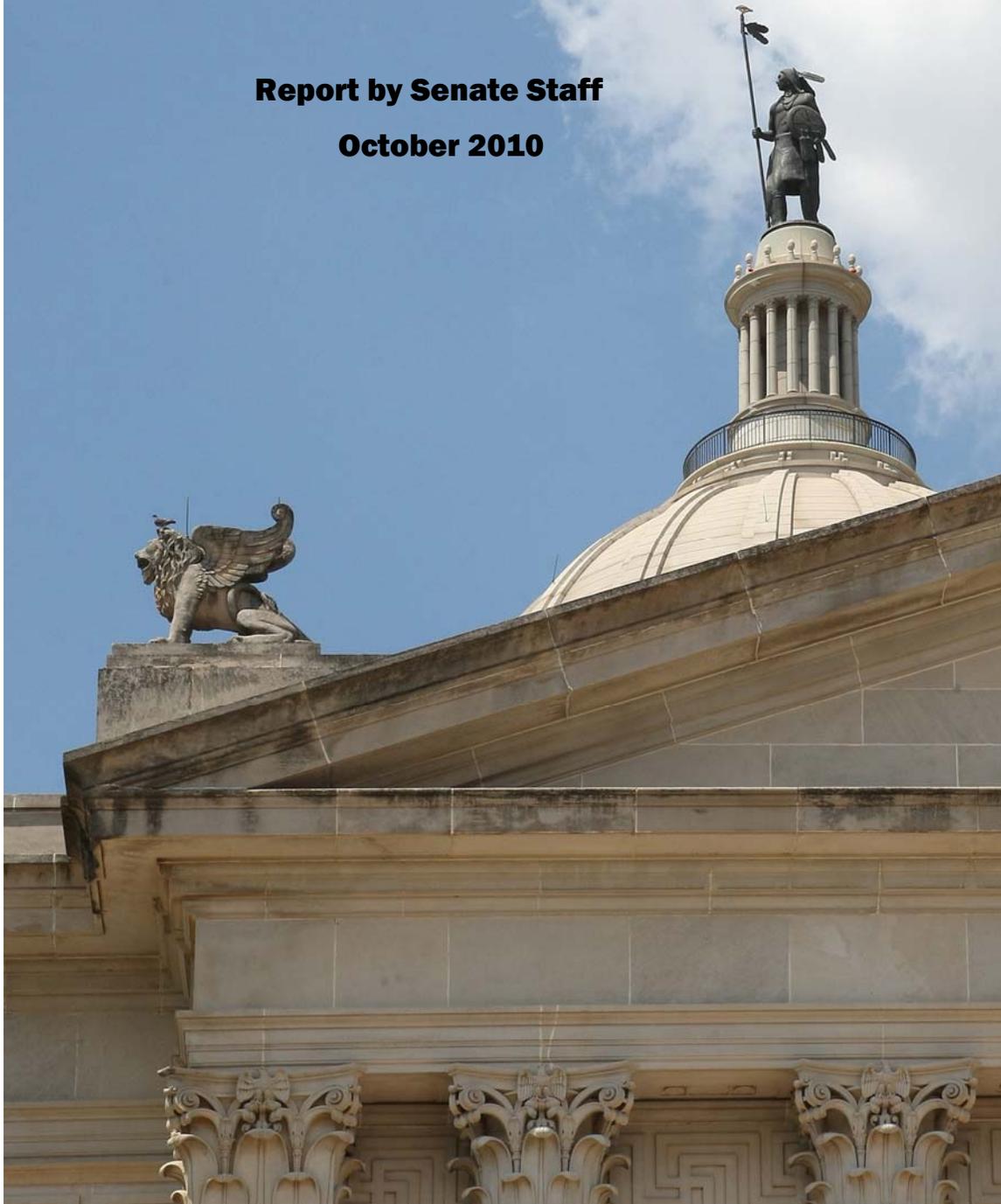


Oklahoma Senate

Overview of State Issues

Report by Senate Staff

October 2010



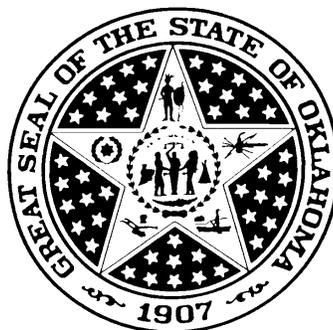
OKLAHOMA SENATE

Overview of State Issues

October 2010

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OVERVIEW

- **State Economy and Demographics**

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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

The effects of the national economic recession have been somewhat muted in Oklahoma. This is because our Oklahoma's economy has diversified in the past decade. In 2008, oil and agriculture – once the backbone of Oklahoma's economy – accounted for 15.5 percent of the state's total economic output, lower than the 17.5 percent share of the gross state product (GSP) in 1985.

Components of the 2008 Oklahoma Economy

	Dollar Amount <u>in Millions</u>	Percent <u>of Total</u>
Services	\$30,669	20.94%
Government	\$23,021	15.72%
Mining	\$20,943	14.30%
F.I.R.E.	\$17,531	11.97%
Trade	\$16,927	11.56%
Manufacturing	\$15,746	10.75%
Trans., Comm., & Util.	\$8,903	6.08%
Information	\$4,498	3.07%
Construction	\$5,369	3.67%
Other	\$935	0.64%
Agriculture	\$1,907	<u>1.30%</u>
Total Gross Domestic Product	\$146,448	100.00%

Source: Bureau of Economic Analysis

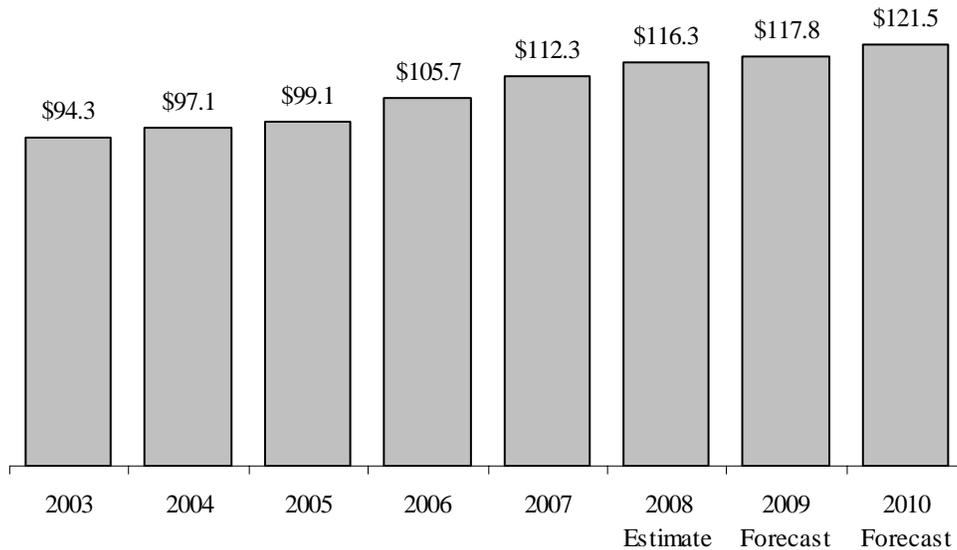
Despite the diversification of the economy, however, mining (which includes oil extraction) is more important to Oklahoma's economy than to the average state's economy.

The Finance, Insurance and Real Estate sector (F.I.R.E.), mining sector, and the services sector are the largest components of the Oklahoma economy. Together they comprise 47.2 percent of total state output. Oklahoma's manufacturing growth has frequently outpaced the nation 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, management and health professionals.

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.

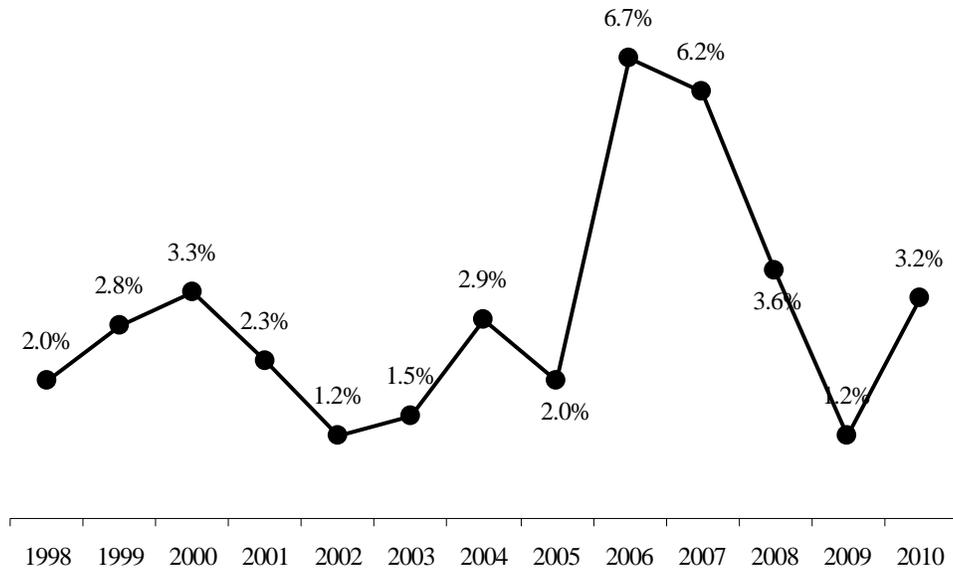
Oklahoma Real Gross State Product 2003 Through Projected 2010 (In Billions; 2000 Dollars)



Source: OSU College of Business Administration, Oklahoma Economic Outlook 2009 Forecast

The Real GSP, which is adjusted for price changes and is considered the most appropriate measure of state output, is forecast to increase by 3.14 percent in the year 2010, following an increase of 1.3 percent in 2009. Industries including health services will be strong and manufacturing will decline slower than the national average, due to a boost from the energy sector.

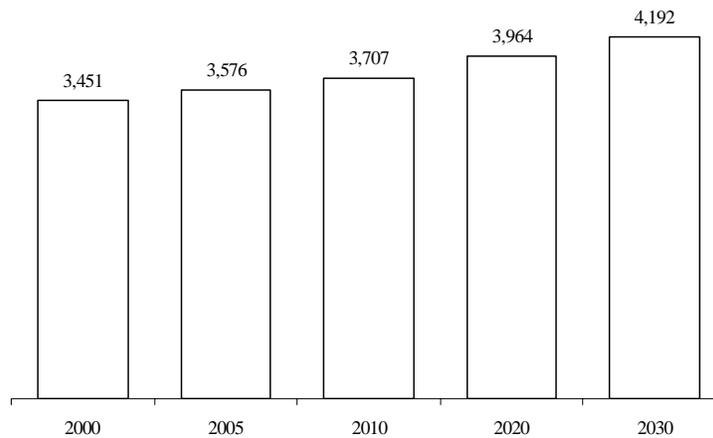
Oklahoma Real Gross State Product Growth Rate 1998 Through 2010



Source: OSU College of Business Administration, Oklahoma Economic Outlook 2009 Forecast

POPULATION

Oklahoma Population Trend and Projections 2000 Through 2030 (In Thousands)



Source: Oklahoma Department of Commerce

Census estimates for the year 2009 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 2009 is not due to a loss of population, because the state gained over 410,000 residents over the past 14 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 462,597 people or 13.4 percent between 2000 and 2030. This projected increase ranks 29th 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 2009 population estimates make 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 18 and 64 years of age – is expected to decrease from 60.9 percent in 2000 to 58.3 percent in 2020. Oklahoma has a larger percentage of young and elderly compared to the nation.

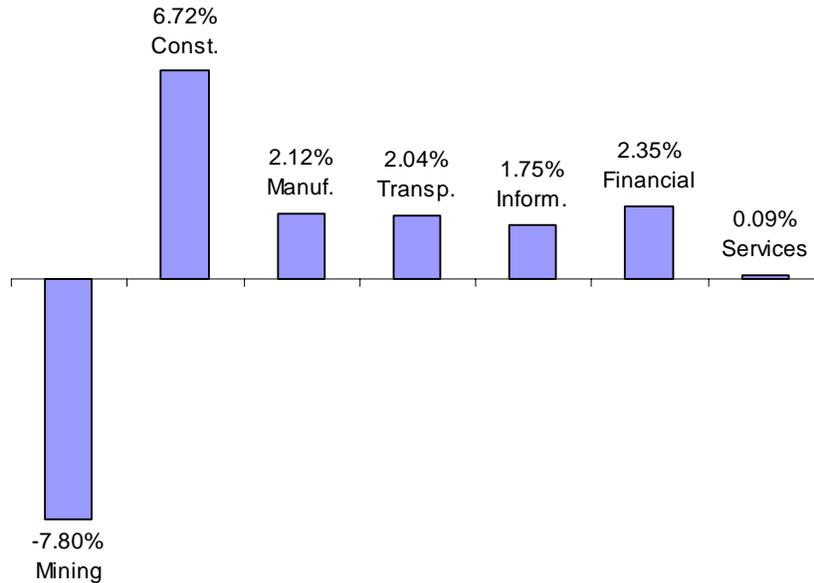
The primary reason for Oklahoma's projected decrease in the working-age proportion is the growth rate of elderly residents. Oklahoma's elderly population is projected to increase at a faster rate than the nation. In 2010, it is projected that Oklahoma will have the nation's 20th highest proportion of elderly in its population. However, by 2030 Oklahoma's proportion should be lower than the national level. 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 2008 was \$37,836 or 83 percent of the national average. This wage represents an 8.5 percent growth in wages from the 2005 average wage.

The per capita personal income (PCPI) in 2009 for Oklahoma was \$35,268 which is 90.1 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. PCPI grew by 15.75 percent between 2005 and 2009 in Oklahoma; the U.S. PCPI grew at a rate of 10.48 percent. Lower wages, in addition to Oklahoma's relatively high proportion of senior citizens and children explains much of the PCPI difference. When adjusted for the cost of living index, Oklahoma's PCPI is almost equal to the national average.

Oklahoma Private Sector Annual Employment Growth Rate, by Sector 2009 (Percentage Difference from U.S. Average)



Source: Bureau of Labor Statistics

Oklahoma's overall employment growth rate from 2007 to 2009 was -1.89 percent, much higher than the national rate of -4.85 percent.

Oklahoma's unemployment rate of 7.0 percent in August of 2010 was below the national rate of 9.6 percent.



STATE BUDGET

APPROPRIATION CHECKS AND BALANCES

In Oklahoma, projected revenues are certified by the Board of Equalization. This Board is comprised of the Governor, Lt. Governor, State Auditor and Inspector, Treasurer, Attorney General, Superintendent of Instruction and President of the State Board of Agriculture.

The Oklahoma Constitution, Article X, Sec. 23, requires a balanced budget. Appropriations are limited to 95 percent of projected revenues and can not exceed 12 percent in growth.

Any revenue collected that exceeds the certified estimate is deposited into the Constitutional Reserve (Rainy Day) Fund until it reaches a Constitutional cap of 10 percent of the prior year's General Revenue Fund. The Rainy Day Fund can be used under the following conditions:

- 3/8 of the fund can be used if General Revenue fails to meet the estimate in the current fiscal year;
- 3/8 of the fund can be used if General Revenue is projected to decline from one year to the next;
- 1/4 of the fund can be used if there is an emergency declaration by the Governor and a 2/3 vote in both the Senate and House of Representatives, or this same 1/4 can be used without the Governor's declaration if there is a 3/4 vote by Senate and House of Representatives.

The Governor has line item veto authority over all appropriation bills. Vetoes can be overridden by a super-majority vote by both the Senate and House of Representatives.

STATE BUDGET CYCLE

The state fiscal year begins on July 1 and ends on June 30 of the following year. The following is a breakdown of the budget cycle throughout that year.

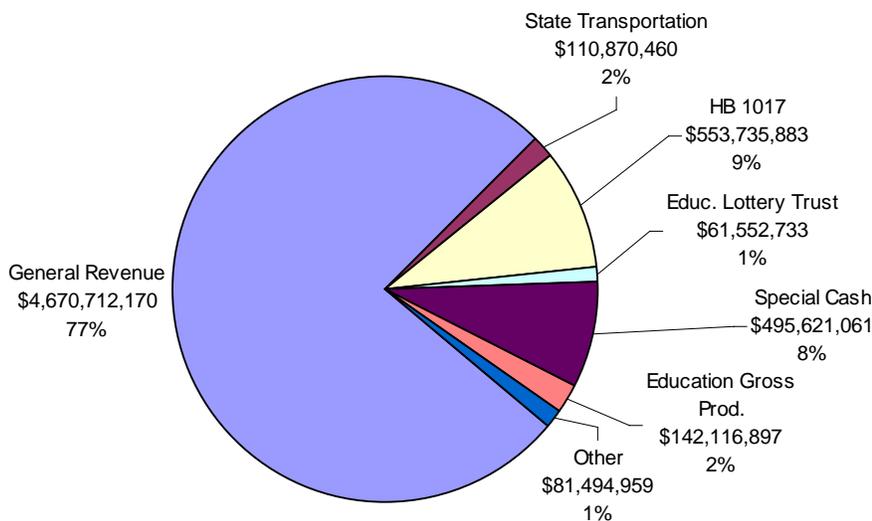
- **July 1** - The new fiscal year begins.

- **July through October** – Agencies formulate their budget work program. Budget limits are set by the Legislature in the preceding legislative session. Agencies begin formulating the budget request they will present for the next legislative session. This is a good time for advocacy groups to begin talking with state agencies about funding issues.
- **October 1** – Agencies submit their budget request to the Governor and Legislature for the upcoming fiscal year.
- **November** – Appropriation Subcommittees begin analysis of agency program performance measures and begin filing related reports. No appropriations can be made to an agency until these reports have been filed.
- **December** – The Board of Equalization meets for initial certification of revenues. This is the estimate the Governor uses for his budget. This is the best time for advocacy groups to contact the Governor about programs.
- **February** – The Governor submits his budget recommendations to the Legislature on the first day of Session. The Board of Equalization meets for certification of revenues. This is the estimate the Legislature is bound by constitutionally unless it passes a bill to increase or decrease revenue and that bill is signed by the Governor.
- **February through April** – Supplemental appropriations are considered for the current fiscal year. Subcommittees hold budget hearings for the up-coming fiscal year and move substantive bills with fiscal impacts through the process. This is the best time to talk to the Legislature about budget issues.
- **Late April to May** – The Subcommittees get their budget allocation and convene GCCA. By this time, the Senate and House Appropriation Subcommittees have decided most of what they want to fund, and it is time to work out their differences.
- **May** – The Legislature begins filing appropriation bills. During Session, the Governor has 5 days to sign or veto a bill or it becomes law without his signature. If the bill is passed during the last week of Session, the Governor has 15 days to sign it or it becomes a pocket veto. Session ends on the last Friday in May.
- **June** – The Board of Equalization meets to certify any changes to certification as a result of legislation that was signed into law and to certify that the Legislature did not exceed its appropriation authority.
- **June 30** – The current fiscal year ends. Agencies submit Budget Work Programs to the Office of State Finance and the process starts over.

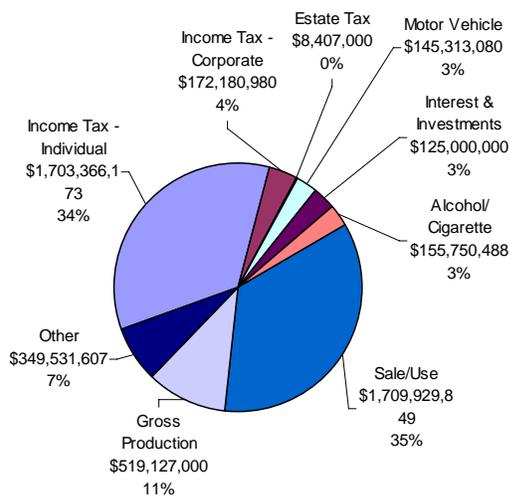
LEGISLATIVE APPROPRIATION AUTHORITY

The Board of Equalization certifies funds for the Legislature to appropriate and also provides estimates for some of the major agency revolving funds such as the Common Education 1017 Fund. It does not provide estimates for every revolving fund that the Legislature uses for appropriation. Revenues that were included in the Board's FY'11 certification packet totaled just over \$6.1 billion. Summaries of the major revenue categories are detailed below.

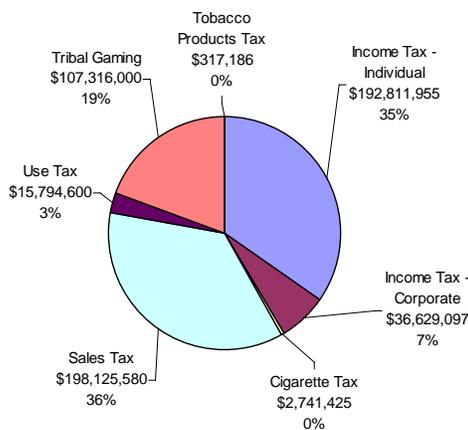
State Revenues by Major Category, FY'11



General Revenue Fund by Major Category, FY'11



HB 1017 Fund by Major Category, FY'11

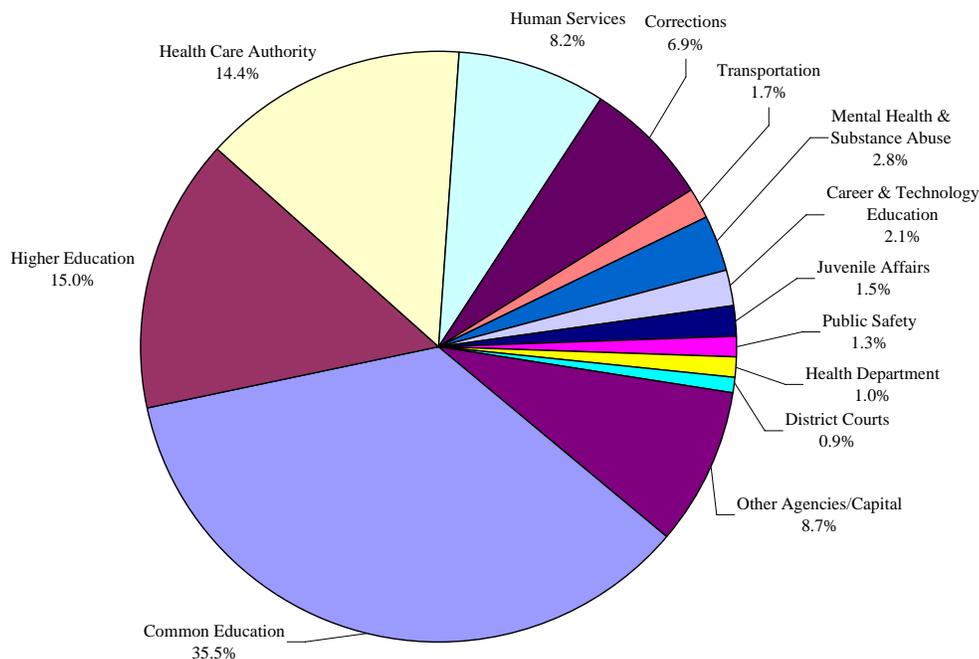


STATE EXPENDITURES

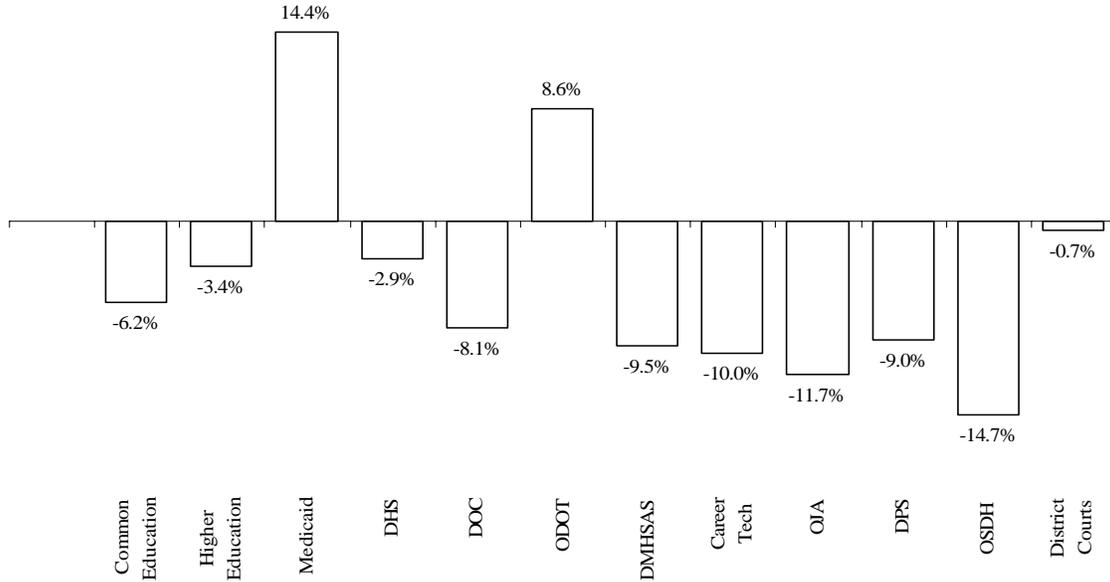
Seventy-eight agencies received state appropriated dollars in FY'11 totaling \$6,147,776,769. Another \$539,060,459 in federal stimulus funds were allocated to reduce budget cuts at Common Education, Higher Education and agencies which receive Medicaid funds. State and federal stimulus funds budgeted for FY'11 totaled \$6,686,837,228. The Department of Transportation was authorized to sell a \$65 million bond to cover a portion of the decrease described below.

	FY'10 <u>Appropriation</u>	FY'11 <u>Appropriation</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Common Education	\$2,446,504,826	\$2,375,556,186	-\$70,948,640	-2.9%
Higher Education	\$1,037,705,291	\$1,003,461,016	-\$34,244,275	-3.3%
Health Care Authority	\$980,384,093	\$963,015,720	-\$17,368,373	-1.8%
Human Services	\$522,260,369	\$550,712,113	\$28,451,744	5.4%
Corrections	\$476,225,000	\$462,141,777	-\$14,083,223	-3.0%
Transportation	\$193,085,716	\$114,771,010	-\$78,314,706	-40.6%
Mental Health & Substance Abuse	\$188,685,541	\$187,742,113	-\$943,428	-0.5%
Career & Technology Education	\$146,217,612	\$141,977,302	-\$4,240,310	-2.9%
Juvenile Affairs	\$104,161,835	\$99,162,067	-\$4,999,768	-4.8%
Public Safety	\$89,339,209	\$88,432,073	-\$907,136	-1.0%
Health Department	\$68,883,659	\$63,709,238	-\$5,174,421	-7.5%
District Courts	\$52,502,812	\$57,641,865	\$5,139,053	9.8%
FY'11 Subtotal (91.0% of Total)	\$6,305,955,963	\$6,108,322,480	-\$197,633,483	-3.1%
Other Agencies/Capital	\$625,892,038	\$578,514,748	-\$47,377,290	-7.6%
Total Appropriations	\$6,931,848,001	\$6,686,837,228	-\$245,010,773	-3.5%

Share of All FY'11 Appropriations by Agency



Top Twelve Agency Appropriations Percent Change FY'09 to FY'11



State revenues dropped dramatically between FY'09 and FY'11. The budgets for the agencies on the General Government and Transportation Subcommittee and the Natural Resources and Regulatory Services Subcommittee were cut on average 17% to 20%. Education and Medicaid received federal ARRA stimulus funds to offset or eliminate their cuts. Other core agencies were partially protected by the Legislature as well.

Of the top twelve agencies, the Department of Health took the largest cut at 14.7%. Over half of this cut was handled with the elimination of “pass thrus” and did not affect the operating budget of the Department. On the opposite end of the spectrum, the Oklahoma Health Care Authority received a 14.4% increase over this time period due to the maintenance of effort requirements associated with ARRA stimulus funds.

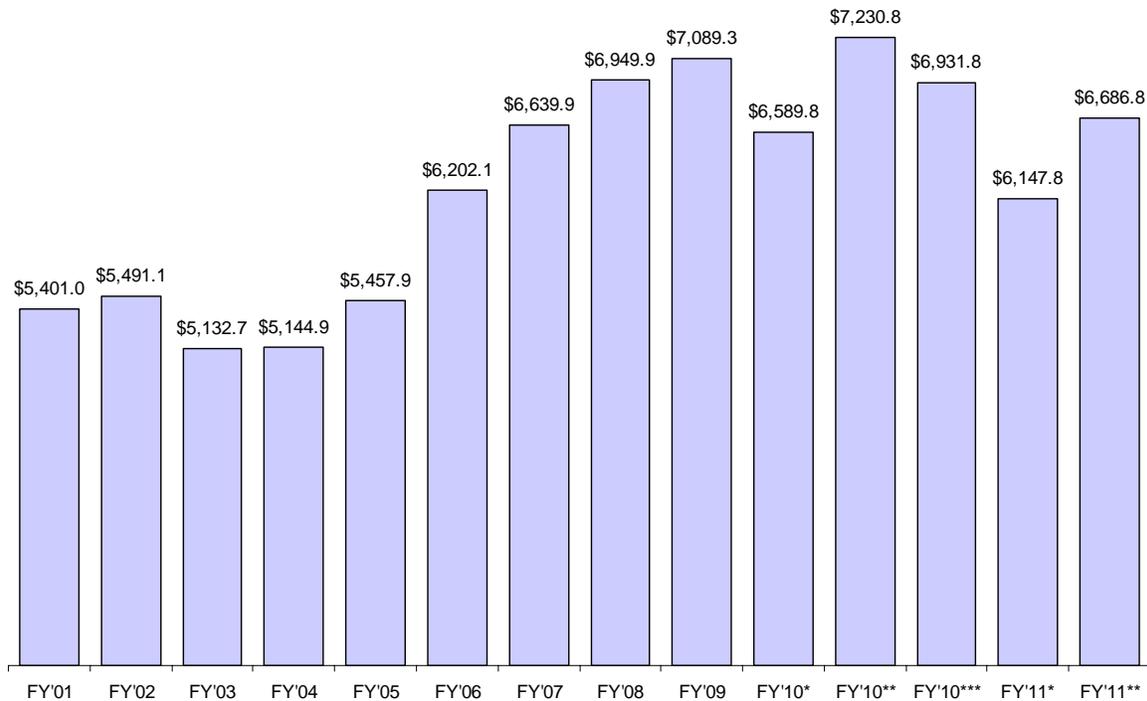
Educational entities were partially spared from cuts due to an influx of local revenues, tuition, fees and federal dollars. Career Tech’s state appropriations decreased by 10% during this time period, which equated to a total budget decreased of 8%. Higher Education received a 3.4% state dollar cut, but the total budget remained flat between FY'09 and FY'11. Finally, Common Education received a state dollar decrease of 6.2% between FY'09 and FY'11, but the total budget increased from a reported \$4.4 billion to \$4.5 billion.

The Transportation Department also experienced an increase of approximately 8.5% over this time period. State appropriations decreased, but a bond issue and an increase in apportionment to the ROADS Fund offset the loss.

APPROPRIATION HISTORY FY'01 TO FY'11

State expenditures were relatively constant in the early half of the decade. Revenues were affected in FY'03 and FY'04 by the terrorist attacks of 2001. They began to rebound in 2004, and significant gains were made in FY'05 and FY'06. The implementation of major tax reductions beginning in FY'07 and a slow down in the national economy in FY'08 and FY'09 contributed to more moderate expenditure growth in those years. By early 2009, the state was beginning to feel the effects of the national recession. The Board of Equalization certified a decrease in revenues which necessitated reductions to most state agency budgets. The Legislature and Governor used federal stimulus dollars to backfill those cuts at Common Education, Higher Education and for agencies that receive Medicaid funds. A severe economic downturn in FY'10 led the Office of State Finance to reduce allocations by 7.5%. The graph below depicts the FY'10 budget with and without these stimulus funds and the final total budget for FY'10 after the OSF cuts. FY'11 is depicted with and without the stimulus funds as well.

10-Year Appropriation History



* - Without Stimulus Funding ** - With Stimulus Funding ***-After OSF Reduction

FY'11 APPROPRIATION OVERVIEW

In preparing the FY'11 budget, the Legislature faced one of the largest revenue reductions in state history. Certification estimates indicated a \$1.201 billion or 18.2% decrease in tax collections for the upcoming fiscal year. They were also experiencing a nearly \$1 billion shortfall in the current fiscal year, FY'10. Approximately \$153 million of the decrease was attributable to falling natural gas gross production tax collections. Over \$396 million was from lagging personal income tax collections and another \$153 million was from decreased corporate income tax collections. Sales and Use Tax collections were projected to decrease by \$317 million. There was also \$265 million less available from prior year cash sources. The Legislature was able to identify approximately \$1.385 billion in additional revenues after certification to help mitigate the overall state dollar cuts in FY'10 and FY'11. These revenues came from a combination of ARRA stimulus funds, Rainy Day funds, tax credit moratoriums, fee increases and transfers from cash accounts, most of which are described in the following three sections.

The General Appropriation (GA) Bill for the 2010 legislative session was SB 1561. That bill, in conjunction with several single agency appropriation bills passed in the final week of the session, appropriated a total amount of \$6,687,477,228. There are several ways to calculate the difference in this appropriation from the amount appropriated for FY'10. For the purposes of this document, the FY'10 figure used will be \$6,931,848,001. This is the amount state agencies received in FY'10 after the Office of State Finance instituted an across the board 7.5% reduction in General Revenue allocations due to the FY'10 revenue failure. The resulting comparison reflects the actual differences in the operating budgets of the agencies for FY'10 versus FY'11. Total appropriations are \$244,370,773 less for FY'11 than what agencies actually received in FY'10. This is a 3.53 percent decrease, significantly less than the 18.2% initial decrease in certification.

The standard budget cut for FY'11 was 7% from the revised FY'10 budget. Only a handful of agencies received a larger cut than this, and it was often due to the removal of one-time funds or "pass through funds" which will not affect the agency's budgets. Many agencies received state funds, federal funds or fee increases to mitigate their 7% reductions. The Legislature was able to fully fund teacher retirement cost increases at Common Education, Higher Education and Career Technology Centers. The State Medicaid Program was fully funded using a combination of state and federal dollars as well as a new health care access fee (HB 2437). Other agencies such as the Department of Mental Health and Substance Abuse Services, Department of Human Services, Department of Rehabilitation Services, Department of Public Safety, Department of Medicolegal Investigations, Pardon and Parole Board and the Election Board were essentially held harmless from additional cuts. While ODOT did receive a \$14 million cut (7%) in appropriated dollars, the agency received its scheduled \$30 million increase in the ROADS Fund. Another \$65 million in State Transportation Funds were transferred to the Special Cash Fund, but that was made up to ODOT with the authorization of a bond issue in an equal amount. That explains a significant portion of the appropriation reduction to the General Government and Transportation subcommittee outlined below.

Comparison of Appropriations
Final FY'10 - FY'11
(In millions)

	<u>Approp.</u>	<u>FY'10 Approp.</u>	<u>FY'11 Dollar</u>	<u>Change Percent</u>
Education	3685.9	3575.3	-110.6	-3.0%
General Government & Transp.	362.4	267.3	-95.1	-26.2%
Health & Human Services	1979.7	1969	-10.7	-0.5%
Natural Resources & Regulatory	145.4	132.4	-13	-8.9%
Public Safety & Judiciary	745.2	730.3	-14.9	-2.0%
REAP	13.3	12.4	-0.9	-6.8%
Total	6931.9	6686.7	-245.2	-3.5%

ARRA STIMULUS FUNDS

The State of Oklahoma has received almost \$2.6 billion in American Recovery and Reinvestment Act (ARRA) Funds over the last two years. Approximately \$1 billion of those funds have passed through directly to local school districts, the Department of Transportation, Department of Environmental Quality, Water Resources Board and the Department of Commerce.

The Legislature and Governor had federal “stabilization funds” for Common Education and Higher Education totaling approximately \$472 million. These funds could be used to make up budget cuts at these two agencies as long as the state met eligibility requirements. The final budget agreement for FY’11 allocated the remaining \$199 million of these funds to help keep the cuts to Common Education and Higher Education at approximately 3% instead of the 7% experienced at other agencies.

The Legislature and Governor also had discretionary funds for the State Medicaid Program totaling approximately \$800 million for expenditure in FY’09, FY’10 and FY’11. The remaining \$340 million was authorized for use in FY’11 between OHCA, DHS, ODMHSAS, UHA, OJA and others to help mitigate their cuts. Congress is considering an extension of the Medicaid portion of the stimulus package. Approximately 37 states budgeted for this extension. Oklahoma did not. Our Medicaid program should be fully funded with or without the extension. An extension would help us fund the program in FY’12 instead.

RAINY DAY FUNDS

The Constitutional Reserve Fund had a balance of \$596.6 million at the beginning of the fiscal year. There are three constitutional provisions that allow for expenditures from this fund. They can be found in Article X, Section 23, subsections 6a, 7 and 8:

- 6.a *“Up to three-eighths (3/8) of the balance at the beginning of the current fiscal year in the Constitutional Reserve Fund may be appropriated for the forthcoming fiscal year, when the certification by the State Board of Equalization for said forthcoming fiscal year General Revenue Fund is less than that of the current fiscal year certification. In no event shall the amount of monies appropriated from the Constitutional Reserve Fund be in excess of the difference between the two said certifications.”* **This provision was used to transfer \$223.73 million to the Special Cash Fund. Of that amount, \$100 million was set aside for the next legislature.**

7. *“Up to three-eighths (3/8) of the balance at the beginning of the current fiscal year in the Constitutional Reserve Fund may be appropriated for the current fiscal year if the State Board of Equalization determines that a revenue failure has occurred with respect to the General Revenue Fund of the State Treasury...”* **This provision was used to fund FY’10 supplemental appropriations to agencies in the amount of \$223.73 million.**

8. *“Up to one-quarter (1/4) of the balance at the beginning of the current fiscal year in the Constitutional Reserve Fund may be appropriated, upon a declaration by the Governor that emergency conditions exist, with concurrence of the Legislature by a two-thirds (2/3) vote of the House of Representatives and Senate for the appropriation...”* **This provision was used to appropriate \$50 million to DOC, \$66 million to OHCA and \$33 million to Common Education for FY’11.**

OTHER REVENUES

A short summary of the major bills impacting state revenue for FY’11 is as follows:

SB 1267 (Mazzei/Hickman): Provides a moratorium on the ability to claim tax credits from July 1, 2010 through June 30, 2012 for credit programs relating to: investment in equipment and processes for recycling, reuse or source reduction of hazardous waste, amount of gas used in manufacturing establishment, investment in depreciable property or new employment relating to manufacturing, contributions to Energy Conservation Assistance Fund, purchase of Oklahoma-mined coal, investment in Oklahoma producer-owned agricultural processing entities, employer expenses for provision of child care services, expenses by child care service providers, fees paid as a guaranty fee relating to financing of small businesses, production and sale of electricity generated by zero-emission facilities, manufacture of advanced small wind turbines, expenses relating to immunizations for food service operators, rehabilitation of certain historic hotel or newspaper buildings, energy efficient residential property construction, employer expenses relating to injured employees, investment cost of new qualified recycling facility, ethanol fuel

production, biodiesel fuel production, location or expansion of facility within certain enterprise zone, purchase and transportation of poultry litter, investment in certain film or music projects, purchase of dry fire hydrants, railroad reconstruction or replacement expenditures, breeding of specially trained canines, qualified employee tuition reimbursement, compensation paid to qualified employees by employers, credits for qualified employees, loans made by financial institutions pursuant to Rural Economic Development Loan Act, origination fees paid by financial institutions making Stafford loans and new research and development jobs. Effective 7-1-2010.

SB 1396 (Mazzei/Hickman): Provides for the tax treatment of certain income which is deferred pursuant to the federal American Recovery and Reinvestment Act of 2009. Effective 8-27-2010.

SB 1503 authorizes the Corporation Commission to spend \$2,000,000 from the Petroleum Storage Tank Indemnity Fund.

SB 1522 (Johnson (Mike)/Miller): Modifies the apportionment of sales and use tax beginning July 1, 2010 by redirecting a portion of the amount currently going to the Tourism Promotion Revolving Fund and the Tourism Capital Improvement Revolving Fund to a newly created Historical Society Capital Improvement and Operations Revolving Fund. Modifies permissible uses for monies accruing to the Tourism Promotion Revolving Fund. Creates Historical Society Capital Improvement and Operations Revolving Fund. Effective 7-1-2010.

SB 1556 (Johnson (Mike)/Miller): Increases the fee for Motor Vehicle Reports provided by the Department of Public Safety from \$10 to \$25, \$20 of which to be deposited in the General Revenue Fund and \$5 deposited in the Department of Public Safety Revolving Fund. It also increases the fee for Motor Vehicle Reports furnished by a tag agent from \$10 to \$25, with \$18 deposited in the General Revenue Fund and \$5 deposited in the Department of Public Safety Revolving Fund. Effective 7-1-2010.

SB 1561 (Johnson (Mike)/Miller): Requires DPS to remit 100% of the net proceeds from electronic ticketing to the General Revenue Fund. The Board of Equalization certified \$50 million in revenues associated with this change. Effective 7-1-2010.

SB 1574 (Johnson (Mike)/Miller): The measure increases the fee for the minimum overweight vehicle permit from \$20 to \$40; increases the fee for each thousand pounds in excess of the legal load limit from \$5 to \$10; increases the fee for a special movement permit from \$250 to \$500; and increases the special combination vehicle permit fee from \$120 to \$240. The first \$20 million of the additional fee revenue is to be deposited in the General Revenue Fund. Effective 7-1-2010.

SB 1576 (Johnson (Mike)/Miller): Transfers \$120 million from the Cash Flow Reserve Fund to the Special Cash Fund. Effective 7-15-2010.

SB 1590 (Johnson (Mike)/Miller): Places a two-year moratorium on the ability to claim tax credits under two venture capital tax credit provisions - the Small Business Capital Formation Act and the Rural Small Business Capital Formation Act. The moratorium applies to investments made on or after June 1, 2010, through December 31, 2011. Effective 8-27-2010.

HB 2358 (Johnson (Mike)/Miller): Recognizes that OCIA plans to refinance the OCIA Series 2005 F Higher Education Bonds and the General Obligations Bond issued by the Building Bonds Commission. This refinancing will save Higher Education approximately \$16.5 million in FY'11 and will save the General Revenue Fund approximately \$23.5 million, as a portion of the tobacco tax is obligated for debt service on the General Obligation bonds. Effective 6-9-2010.

HB 2359 (Miller/Johnson (Mike)): Modifies various provisions relating to enforcement of the use tax, including: creating a retailer compliance initiative, an outreach program and various procedural changes to increase collections of the amount of tax currently owed but unpaid. Also reduces the amount of sales tax a vendor may keep for collecting and remitting the tax from 2.25% to 1%. Requires counties to contract with the Tax Commission for the collection and remittance of sales tax and allows cities to privately audit vendors for sales tax collection purposes. For the first time since 1988, increases the fee for a vending machine decal (in lieu of traditional collection of sales tax) from \$50 to \$150 annually. Modifies the apportionment of penalties for delinquent motor vehicle registration and payment of excise tax by extending the current apportionment for an additional year. Clarifies that there is no prohibition against a person holding both a retail and wholesale license to sell tobacco products. Effective 7-1-2010.

HB 2432 (Miller/Johnson (Mike)): Modifies the gross production tax exemption for horizontally drilled wells by sunsetting the current exemption as of July 1, 2011 and requiring all rebate claims to be filed before December 31, 2011. For production between July 1, 2011 and June 30, 2015, reduces the gross production tax rate from 7% to 1% for 48 months from initial production. Provides that revenue from the 1% tax be apportioned as provided in the current statute for production at the 4% rate. Effective 7-1-2010.

HB 2437 (Miller/Johnson (Mike)): Assesses a 1% fee on all claims paid for health and medical services with bring an additional \$78 million to the Health Care Authority for the operations of the agency. The agency also received \$30 million from the Insure Oklahoma Fund in HB 2438. For FY'11, the Health Care Authority will maintain the 3.25% provider rate cuts that were implemented in FY'10 to deal with the budget cuts. Effective 8-27-2010.

HB 2438 (Miller/Johnson (Mike)): Authorizes the Oklahoma Health Care Authority to spend \$30 million from the Insure Oklahoma Fund. Effective 7-1-2010.

HB 3024 (Hickman/Mazzei): Modifies requirements relating to data provided to the Incentive Review Committee. Eliminates the credit for clean-burning motor vehicle fuel property (electric cars) and for cars run on hydrogen fuel cells after tax year 2010. Modifies 2-year tax credit moratorium (from SB 1267) on:

- the investment/new jobs tax credit by allowing credits to be claimed after the moratorium period but not more than 50% in any one tax year;

- electricity generated from zero emission facilities (wind power) by reducing to 1-year moratorium, credits to be claimed after the moratorium period; and
- rehabilitation of historic buildings by allowing credits to be claimed after the moratorium period.

Also creates new one-time income tax credit for certain electric cars manufactured in Oklahoma. Effective 6-9-2010 for Sections 1, 3 and 6; 7-1-2010 for Sections 2, 4 and 5.

FY'10 SUPPLEMENTALS

Department of Corrections

- \$7,200,000 was provided to prevent planned furlough days for all employees.

Department of Public Safety

- The agency was given \$3,000,000 to prevent furloughs planned for all employees.

Board of Medicolegal Investigations

- The agency was given \$233,469 by HB 2485 for operations from the Bureau of Narcotics Drug Money Laundering and Wire Transmitter Revolving Fund, as well as new budget limits.

Common Education

- For the 2010 fiscal year, Common Education received a total supplemental appropriation of \$104,440,000. Of this amount, \$50 million was appropriated in reference to the revenue shortfall in the 1017 fund, and the remainder was appropriated to school districts through the state aid formula.

Higher Education

- For the 2010 fiscal year, Higher Education received a supplemental appropriation of \$25,560,000 to reduce the impact of the revenue shortfall.

Summary of Appropriations FY'10 – FY'11

	FY'10 Final Budget	FY'11 Final Budget	Dollar Change	Percent Change
Education Subcommittee				
Arts Council	\$4,763,988	\$4,406,689	-\$357,299	-7.50%
Career Technology Education, Education, State Department of	\$146,217,612	\$141,977,302	-\$4,240,310	-2.90%
Educational Television Authority	\$2,446,504,826	\$2,375,556,186	-\$70,948,640	-2.90%
Higher Education, Regents for	\$4,468,468	\$4,200,360	-\$268,108	-6.00%
Land Office, Commissioners of	\$1,037,705,291	\$1,003,461,016	-\$34,244,275	-3.30%
Libraries, Department of	\$5,004,880	\$7,109,000	\$2,104,119	42.04%
Physician Manpower Training	\$6,747,464	\$6,342,616	-\$404,848	-6.00%
Private Vocational Schools	\$5,205,484	\$4,812,367	-\$393,117	-7.55%
Science and Math, School of	\$179,773	\$167,194	-\$12,578	-7.00%
Science & Technology, Center for	\$6,980,704	\$6,540,080	-\$440,623	-6.31%
Teacher Preparation, Comm.	\$20,374,570	\$19,152,096	-\$1,222,474	-6.00%
TOTAL EDUCATION	\$1,772,100	\$1,641,053	-\$131,046	-7.39%
General Government & Transportation Subcommittee				
Auditor and Inspector	\$3,685,925,160	\$3,575,365,960	-\$110,559,200	-3.00%
Bond Advisor	\$5,432,710	\$5,152,673	-\$280,037	-5.15%
Central Services, Department of	\$160,367	\$155,556	-\$4,811	-3.00%
Election Board	\$17,252,205	\$15,973,031	-\$1,279,174	-7.41%
Ethics Commission	\$5,906,801	\$8,047,225	\$2,140,424	36.24%
Finance, Office of State Governor	\$729,204	\$692,744	-\$36,460	-5.00%
House of Representatives	\$574,613	\$545,882	-\$28,731	-5.00%
Legislative Service Bureau	\$22,175,326	\$20,623,054	-\$1,552,272	-7.00%
Lt. Governor	\$17,289,969	\$2,129,671	-\$15,160,298	-87.68%
Merit Protection Commission	\$16,496,527	\$15,341,770	-\$1,154,757	-7.00%
Military, Department of	\$5,271,866	\$4,902,835	-\$369,031	-7.00%
Personnel Management	\$567,418	\$527,699	-\$39,719	-7.00%
Secretary of State	\$567,657	\$527,921	-\$39,736	-7.00%
Senate	\$11,374,203	\$10,787,365	-\$586,838	-5.16%
Space Industry Development Auth.	\$4,208,124	\$3,913,555	-\$294,569	-7.00%
Tax Commission	\$327,340	\$304,426	-\$22,914	-7.00%
Treasurer	\$12,644,922	\$11,759,778	-\$885,145	-7.00%
TOTAL GG&T	\$456,225	\$424,289	-\$31,936	-7.00%
Health & Human Services Subcommittee	\$43,830,944	\$46,830,944	\$3,000,000	6.84%
Children and Youth, Commission	\$193,085,716	\$114,771,010	-\$78,314,706	-40.56%
Disability Concerns, Office of	\$4,023,803	\$3,903,089	-\$120,714	-3.00%
Health, Department of	\$362,375,942	\$267,314,518	-\$95,061,424	-26.23%
Health Care Authority	\$2,294,214	\$2,156,561	-\$137,653	-6.00%
Human Rights Commission	\$363,311	\$341,513	-\$21,798	-6.00%
Human Services, Department of	\$68,883,659	\$63,709,238	-\$5,174,421	-7.51%
Indian Affairs, Commission of	\$980,384,093	\$963,015,720	-\$17,368,373	-1.77%
J.D. McCarty Center	\$614,256	\$571,258	-\$42,998	-7.00%
Juvenile Affairs	\$522,260,369	\$543,110,884	\$20,850,515	3.99%
Mental Health & Substance Abuse	\$222,345	\$206,781	-\$15,564	-7.00%
Rehabilitation Services, Depart.	\$4,146,257	\$4,021,869	-\$124,388	-3.00%
University Hospitals Authority	\$104,161,835	\$99,162,067	-\$4,999,768	-4.80%
Veterans Affairs, Department of	\$188,685,541	\$187,742,113	-\$943,428	-0.50%
TOTAL HHS	\$29,369,737	\$30,453,770	\$1,084,033	3.69%
	\$41,005,093	\$38,595,044	-\$2,410,049	-5.88%
	\$37,261,405	\$35,957,256	-\$1,304,149	-3.50%
TOTAL HHS	\$1,979,652,115	\$1,969,044,074	-\$10,608,041	-0.54%

	<u>FY'10</u> <u>Final Budget</u>	<u>FY'11</u> <u>Final Budget</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
<i>Natural Resources & Regulatory Services Subcommittee</i>				
Agriculture, Department of	\$30,777,266	\$26,306,894	-\$4,470,372	-14.52%
Commerce, Department of	\$30,836,632	\$26,905,919	-\$3,930,713	-12.75%
Conservation Commission	\$9,021,281	\$9,845,434	\$824,153	9.14%
Consumer Credit, Department	\$575,543	\$535,255	-\$40,288	-7.00%
Corporation Commission	\$11,935,261	\$10,133,793	-\$1,801,468	-15.09%
Environmental Quality, Department	\$8,599,845	\$8,126,853	-\$472,991	-5.50%
Historical Society	\$13,476,863	\$12,913,636	-\$563,226	-4.18%
Horse Racing Commission	\$2,296,496	\$2,135,741	-\$160,755	-7.00%
Insurance Commissioner	\$2,164,340	\$2,012,836	-\$151,504	-7.00%
J.M. Davis Memorial Commission	\$331,543	\$306,677	-\$24,866	-7.50%
Labor, Department of	\$3,404,419	\$3,166,110	-\$238,309	-7.00%
Mines, Department of	\$871,937	\$810,902	-\$61,036	-7.00%
Oklahoma Scenic Rivers Comm.	\$297,063	\$279,239	-\$17,824	-6.00%
Tourism and Recreation, Depart.	\$23,966,201	\$22,503,229	-\$1,462,972	-6.10%
Water Resources Board	\$6,036,011	\$5,698,571	-\$337,440	-5.59%
Will Rogers Memorial Comm.	\$803,217	\$744,984	-\$58,233	-7.25%
TOTAL NRR	\$145,393,918	\$132,426,074	-\$12,967,844	-8.92%
<i>Public Safety & Judiciary Subcommittee</i>				
ABLE	\$3,630,864	\$3,376,703	-\$254,160	-7.00%
Attorney General	\$12,693,067	\$12,704,552	\$11,485	0.09%
Corrections, Department of	\$476,225,000	\$462,141,777	-\$14,083,223	-2.96%
Court of Criminal Appeals	\$3,056,710	\$3,455,575	\$398,866	13.05%
District Attorneys and DAC	\$36,836,086	\$34,257,560	-\$2,578,526	-7.00%
District Courts	\$52,502,812	\$57,641,865	\$5,139,053	9.79%
Fire Marshal	\$2,077,424	\$1,932,004	-\$145,420	-7.00%
Indigent Defense System	\$14,554,964	\$15,153,971	\$599,007	4.12%
Investigation, State Bureau of	\$15,824,002	\$14,716,322	-\$1,107,680	-7.00%
Judicial Complaints, Council on	\$247,937	\$230,581	-\$17,356	-7.00%
CLEET	\$4,341,704	\$3,917,618	-\$424,087	-9.77%
Medicolegal Investigations	\$4,347,444	\$4,794,164	\$446,720	10.28%
OBND	\$5,928,493	\$5,466,418	-\$462,076	-7.79%
Pardon and Parole Board	\$2,334,162	\$2,334,162	\$0	0.00%
Public Safety, Department of	\$89,339,209	\$88,432,073	-\$907,137	-1.02%
Supreme Court	\$16,550,345	\$15,381,358	-\$1,168,987	-7.06%
Workers' Compensation Court	\$4,676,769	\$4,349,395	-\$327,374	-7.00%
TOTAL PS&J	\$745,166,991	\$730,286,097	-\$14,880,893	-2.00%
REAP	\$13,333,875	\$12,400,504	-\$933,371	-7.00%
Total Appropriation	\$6,931,848,001	\$6,686,837,228	-\$245,010,773	-3.53%

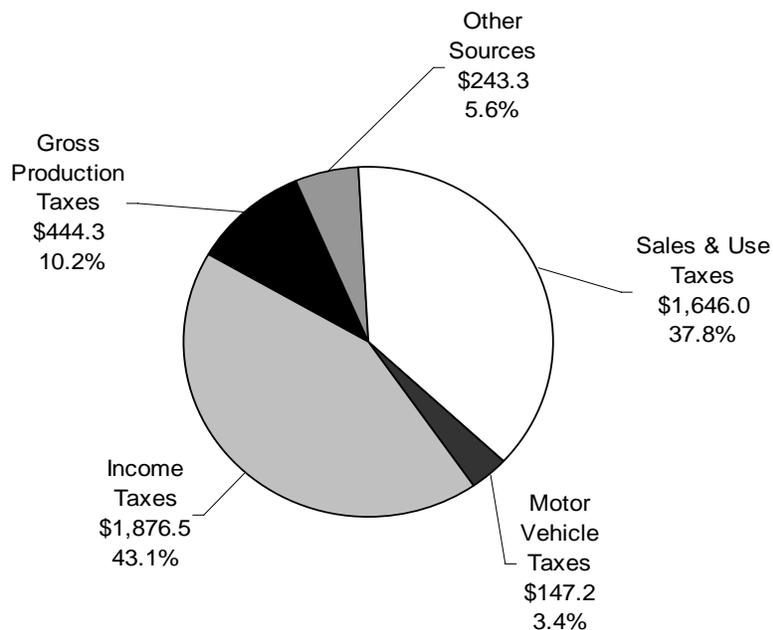


OKLAHOMA TAXES

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, tax cuts enacted since the mid-1990s are highlighted.

STATE REVENUE MIX

Sources of General Revenue FY'10 (In Millions)



Total = \$4.358 Billion

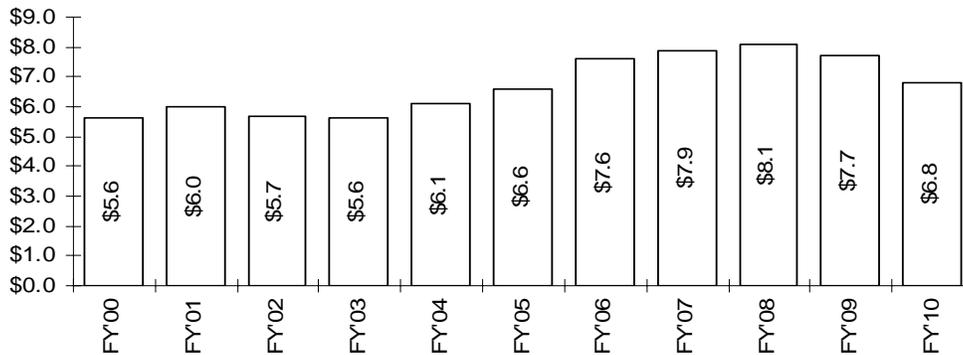
Source: Oklahoma Tax Commission, Apportionment of Statutory Revenues, Fiscal Year 2010

GROWTH IN STATE REVENUE

State revenue grew through FY'01, then after a decline in FY'02 and FY'03, rose to record levels through FY'08. Over the past two fiscal years, total state revenue has declined again.

Oklahoma Economic Growth *FY'00 Through FY'10 (In Billions)*

Tax Revenue



Source: Oklahoma Tax Commission and U.S. Department of Commerce Bureau of Economic Analysis

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. When phased-in income and estate tax cuts were enacted during 2005 and 2006 it was estimated that such actions would ultimately reduce certified revenue by about \$627 million by FY'11. While these changes were being phased-in, a national recession took its toll on state revenue. This made it virtually impossible to determine the extent to which each of these changes impacted tax revenue.

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. For example, a gap between actual revenue and estimates has a significant impact on amounts deposited into the state's "Rainy Day Fund".

The “Rainy Day” Fund, formally known as the Constitutional Reserve Fund, was created to hold the portion of state revenue collections which exceeds 100 percent of the official estimate for that year. Deposits to the fund are capped at 10 percent of the General Revenue Fund estimate for the prior year.

Beginning in FY’02, actual revenues began to fall considerably short of the estimates, requiring significant budget reductions for many agencies and limiting deposits to the Fund. 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. Between FY’05 and FY’08, deposits to the fund were up to the constitutional 10% limit. The following amounts were deposited to the “Rainy Day” Fund in recent years.

<u>Fiscal Year</u>	<u>Amount (in millions)</u>
FY’02	\$0
FY’03	\$0
FY’04	\$217
FY’05	\$243
FY’06	\$34
FY’07	\$75
FY’08	\$25
FY’09	\$3.6
FY’10	\$0

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 44.1 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 2007 Per Capita Taxes

State	Taxes Per Capita	Ranking
Arizona	\$3,668	31
Arkansas	\$3,230	43
Colorado	\$3,848	27
Kansas	\$4,091	20
Louisiana	\$4,020	24
Missouri	\$3,248	42
Nebraska	\$4,035	23
New Mexico	\$3,787	28
Oklahoma	\$3,308	41
Texas	\$3,441	35
U.S.	\$4,229	

Source: State Rankings 2010, A Statistical View of America, CQ Press, p. 306

Among regional states, Oklahoma is ranked lower in per capita taxes than any state except Arkansas and Missouri. Only Louisiana, Nebraska and Kansas are ranked in the upper half of the states, and all states in the region are below the national average. Alaska was ranked first in the nation with total per capita taxes of \$7,255. Alabama is ranked last with \$2,902 in total per capita taxes.

The average Oklahoman pays \$921 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 42nd (along with one other state) of the 50 states in state and local tax revenue as a percentage of personal income in 2007.

State and Local Taxes As Percentage of Personal Income

State	Taxes as % of 2007 Income	Ranking
Arizona	10.7%	21
Arkansas	10.2%	29
Colorado	9.1%	46
Kansas	10.9%	16
Louisiana	11.4%	9
Missouri	9.2%	45
Nebraska	10.6%	22
New Mexico	11.8%	7
Oklahoma	9.6%	42
Texas	9.3%	44
U.S.	10.7%	

Source: Ibid, p. 308

Alaska is ranked first at 17.7 percent. South Dakota is ranked last at 8.2 percent. Overall, the amount of state and local taxes as a percentage of personal income in the U.S. increased slightly from 2004 to 2007, from 10.4 percent to 10.7 percent. Oklahoma data show the same trend, with a slight increase from 9.4 percent in 2004 to 9.6 percent in 2007.

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. Additional growth in revenue during 2005, 2006 and 2007 permitted further broad tax reductions, several of which will be phased-in through 2010.

Much like the 2002 and 2003 sessions five years earlier, the 2008 session resulted in limited, targeted tax relief. In 2009, no broad tax cut initiatives were enacted due to revenue reductions and budget cuts, with the exception of one for active duty military personnel. During the 2010 legislative session, revenue and budget issues became so critical that a moratorium on many existing tax credit programs was put into place.

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.

- **2005 Session:** An improving revenue picture provided the 2005 Legislature with the ability to enact a \$60 million tax relief package focused on income tax relief for both individuals and businesses and targeted sales tax relief. Together, SB 435 and HB 1547 increased the standard deduction and reduced the top income tax rate. In tax year 2006, the standard deduction amount for those filing as "married filing jointly", head of household or qualifying widow, increased to \$3,000. For tax year 2007 and subsequent years, that amount will increase to \$4,000. The top income tax rate decreased from 6.65 percent to 6.25 percent beginning with tax year 2006.

Retired individuals gained an even greater benefit from additional tax measures enacted. SB 435 increased the amount of retirement income exempt from income taxes from \$7,500 to \$10,000. HB 1476 increased the military retirement income exemption to an amount equal to 50 percent of military retirement benefits or \$10,000, whichever is greater. In addition, under HB 1193 Oklahoma taxpayers received a one-time payment from a portion of surplus state revenue deposited in the "Rainy Day Fund".

Businesses and corporate taxpayers also benefited from both broad and industry-targeted tax relief. Under HB 1547, all corporations were given an exemption for certain capital gains (parallel to an exemption enacted for individuals in 2004). The franchise tax was simplified by eliminating the filing requirement for certain taxpayers in HB 1738. Bills enacted to provide targeted tax relief included measures to assist a variety of industries including: oil and gas, film and music, agriculture and alternative fuels. Sales tax relief was provided to organizations ranging from those providing support for homeless persons to those which focus on conservation and wildlife.

- **2006 Regular and Special Sessions:** Legislation enacted during these sessions will result in the largest tax cut in state history, including: decreases in the top income tax rate, increases in the standard deduction, expansion of retiree exemptions and elimination of the estate tax. In 2010 when all the changes are fully phased-in, over \$600 million in tax relief will be provided to Oklahomans. As in previous years, other legislation provided specific tax relief to businesses and nonprofit organizations. New economic development initiatives were also funded with surplus tax revenue.

Following last session's income tax rate decrease, HB 1172XX contained further reductions in the top marginal income tax rate. The rate will drop a full percentage point between 2007 and 2010. Specifically, the top rate will go to 5.65 percent in 2007, 5.55 percent in 2008 and 5.50 percent in 2009. Then, if state revenue continues to grow by at least 4 percent plus the cost of the additional scheduled tax reduction, the top marginal rate will drop to 5.25 percent in 2010.

Like the income tax rate, Oklahoma's standard deduction was modified both last and this session. HB 1172XX will also phase-in over a four-year period increases to the standard deduction until 2010 when it becomes tied to the federal standard deduction amount. From 2007 to 2009, the amounts will more than double. For example, those who are married, file jointly and do not itemize their deductions will be able to claim exemptions of \$5,500 in 2007, \$6,500 in 2008 and \$8,500 in 2009. That means the deduction will rise from the current 2006 level of \$3,000 to an estimated federal level of \$11,200 in 2010.

Private sector retirees will also benefit from a provision in HB 1172XX which will increase the income thresholds each year from 2007 to 2010 until they are completely eliminated in 2011. This means all retirees will ultimately be eligible to claim the \$10,000 deduction. Tax relief was also provided to military retirees. The amount of military retirement exempt from income tax increased to \$10,000 or 75 percent of benefits, whichever is greater.

The issue of estate tax was also addressed through the modification of provisions which currently apply to collateral heirs and the phase-out of the estate tax. For deaths which occur on or after January 1, 2007, lineal and collateral heirs will be subject to the same tax rate and exemption amount. That exemption will rise from \$1 million to \$2 million in 2008 and to \$3 million in 2009. For 2010 and beyond, the estate tax will be repealed.

In an effort to provide sales tax relief to certain nonprofit organizations, the 2006 Legislature approved sales tax relief measures which apply to a variety of nonprofit organizations ranging from community mental health centers to patriotic women's organizations to YMCAs. Sales tax exemptions or other tax credit programs were also enacted to benefit industries including: quarrying, coal-mining, zero-emission power generation and railroads.

Two funds were created during the 2006 Special Session for the purpose of utilizing certain surplus tax revenue for economic development purposes. SB 99XX created a \$150 million trust fund known as the Economic Development Generating Excellence (EDGE) Fund. Expenditures from the fund, limited to 5 percent of its assets, may be used as matching funds for applied research, for technology transfer and seed capital and for a variety of other specific uses. Two separate boards were also created to govern investment and expenditure of the fund. In HB 1169XX, the Oklahoma Department of Commerce and the Contingency Review Board were given the authority to propose and review expenditures of up to \$45 million by the Governor from a newly-created Oklahoma Opportunity Fund. Expenditures can be made for economic development purposes if they are expected to result in the creation of new jobs, maintenance of existing jobs, and/or investment in new property or ventures that will increase the state's tax base. In 2007, the Oklahoma supreme Court struck down the mechanism for using the Opportunity Fund. The law required expenditures from the fund to

be approved unanimously by the Governor and two legislative leaders who serve on the Contingency Review Board. The court ruled that this arrangement violated the constitutional separation of powers between branches of government. Since the ruling, no additional appropriations have been made to the Opportunity Fund.

- **2007 Session:** Just one year after the largest tax cut in state history, the 2007 tax relief package is estimated to result in an additional tax savings of about \$13 million in FY-08 and \$75 million in FY-09. This will be accomplished through an acceleration of the phased-in reduction of the top income tax rate, the establishment of a new income tax credit for parents of minor children and a franchise tax exemption for companies with liability of \$250 or less.

The four-year income tax rate reduction put into place during the 2006 legislative session would have reduced the top marginal income tax rate each year until 2010, when the rate was set to drop to 5.25 percent. Under the 2007 session tax agreement, the reduction is accelerated with the potential for the 5.25 percent top rate beginning during tax year 2009 if revenue targets are met.

Oklahoma parents who do not claim child care expenses will also benefit by being able to claim a new income tax credit. Under SB 861, a taxpayer with minor children may claim the greater of an existing child care expense tax credit or a new credit equal to 5 percent of the federal income tax child credit.

Most companies doing business in this state are subject to a franchise tax of \$1.25 on every \$1,000 of capital. During the 2006 session, companies with franchise tax liability of \$10 or less were exempted from the tax. Under this year's tax relief proposal in SB 861, those with a tax liability of \$250 or less would be exempt, relieving an additional 24,000 companies of the requirement to pay the franchise tax.

- **2008 Session:** Limited resources required the Legislature to enact only targeted tax relief initiatives during the 2008 session. That included: extending the expiration date for income tax credits for "clean-burning" motor vehicles (SB 1558), gross production tax exemptions for certain deep wells (SB 1658); modifying provisions relating to a tax credit for railroad reconstruction (SB 1799); and enacting new tax credit provisions for both employers and employees in the aerospace industry (HB 3239).
- **2009 Session:** Because resources were limited once again during the 2009 session, lawmakers were able to provide only minimal and targeted tax relief and assistance. Such measures included extending the sunset dates on certain existing tax exemption or credit provisions and modifying certain aspects of the Quality Jobs Program Act. The only traditional income tax relief came in the form of an increase in the income tax deduction for active duty military personnel. The deduction was increased from \$1,500 to 100% of salary or compensation. That deduction is in force through tax year 2014, when the impact will be analyzed and a determination will be made regarding its status.

- **2010 Session:** In the face of an historic revenue shortfall, the Legislature enacted various revenue enhancement measures including a moratorium on about 30 existing tax credit provisions (SB 1267 and HB 3024). Although some of the moratoriums were applied on a different basis, most will prevent any credits from being claimed on activities occurring from July 1, 2010 through June 30, 2012. Another measure (HB 2432) modifies existing gross production tax exemptions by deferring the payment of certain rebates until July 1, 2012.

INCOME TAXES

Oklahoma received more than \$2.43 billion in income tax revenues in FY'10. Income taxes are the largest single source of money for the state General Revenue (GR) Fund, accounting for 36 percent of total revenue and about 43.1 percent of the deposits to the GR Fund in FY'10. 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.

According to the CQ Press State Rankings 2010 publication, in 2008 Oklahoma ranked 32nd among the 50 states in per capita revenue collection from individual income taxes.

Individual Income Tax

Oklahoma's graduated income tax rate ranges from ½ percent to 5.5 percent, depending upon the amount of taxable income. For the 2010 tax year, the schedule for a single individual is as follows:

- ½ percent on the first \$1,000
- 1 percent on the next \$1,500
- 2 percent on the next \$1,250
- 3 percent on the next \$1,150
- 4 percent on the next \$2,300
- 5 percent on the next \$1,500
- 5.5 percent on the remainder

Since 2000, the Legislature has enacted a number of income tax changes, ratcheting down the top marginal rate from 7 percent and 5.5 percent. During the 2006 Special Legislation Session, a multi-year, phased-in rate reduction was enacted. As a result, the top marginal income tax rate has changed as follows:

<u>Year</u>	<u>Top Marginal Rate</u>
2004	6.65%
2005	6.25%
2006	5.65%
2007	5.50%
2008	5.50%

In the first year after 2008 when state revenue grows by at least 4 percent plus the cost of the scheduled change in the standard deduction, the top marginal rate will drop to 5.25 percent.

Individual Income Taxes Comparison

As the chart below demonstrates, Oklahoma ranked 32nd out of 43 states in the per capita amount of individual income taxes collected. When compared to the other states in this region, the state ranked 6th lowest of nine states. Five states in our region have higher maximum individual income tax rates and three have lower maximum rates.

In 2008, Connecticut had the highest per capita income tax collections with \$1,998 collected per person. Seven states (Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming) have no individual income tax.

The average Oklahoman pays \$153 less per year in individual income taxes than the average American citizen.

Income Taxes 2010 Rates; 2008 Per Capita Revenue and Rankings

<u>State</u>	<u>Tax Rate</u>	<u>Per Capita Revenue</u>	<u>Ranking</u>
Arizona	2.59 - 4.54%	\$524	40
Arkansas	1 - 7%	\$818	29
Colorado	4.63%	\$1027	17
Kansas	3.5 - 6.45%	\$1053	15
Louisiana	2 - 6%	\$712	36
Missouri	1.5 - 6%	\$859	25
Nebraska	2.56 - 6.84%	\$969	19
New Mexico	1.7 - 5.3%	\$611	38
Oklahoma	0.5 - 5.5%	\$765	32
Texas	--	--	--
U.S.		\$918	

Source: Ibid, p. 328, and State Individual Income Taxes, 2010 Tax Rate Table, web page of Federation of Tax Administrators (www.taxadmin.org)

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 \$357 million in revenues during FY'10. Corporate income taxes total just over one-tenth of the amount collected through individual income taxes.

Corporate Income Taxes Comparison

Oklahomans pay about 60 percent of the national average per capita in corporate income taxes. All states in the region are below the national average.

In per capita corporate income tax revenue, Oklahoma ranks 40th of the 46 states that levy a corporate income tax.

Alaska is the highest with \$1,427 collected per capita. Four states (Nevada, Texas, Washington and Wyoming) have no corporate income tax.

The corporate income tax rate is not necessarily related to per capita collections. For example, Kansas collects \$189 per capita under a four percent rate, but Oklahoma collects \$99 per capita with a six percent rate.

Corporate Income Tax 2010 Rates and 2008 Per Capita Revenue and Rankings

<u>State</u>	<u>Tax Rate</u>	<u>Per Capita Revenue</u>	<u>Ranking</u>
Arizona	6.968%	\$121	33
Arkansas	1 - 6.5%	\$119	35
Colorado	4.63%	\$103	38
Kansas	4%	\$189	12
Louisiana	4 - 8%	\$158	18
Missouri	6.25%	\$46	46
Nebraska	5.58 - 7.81%	\$131	26
New Mexico	4.8 - 7.6%	\$178	13
Oklahoma	6%	\$99	40
Texas	--	--	--
U.S.		\$167	

Source: Ibid, p. 340 and 2010 web page of Federation of Tax Administrators (www.taxadmin.org)

Statutory Apportionment of Income Taxes

For FY'10, individual income tax revenues are apportioned by the Oklahoma Tax Commission on a monthly basis according to the following statutory schedule:

- 85.66% to the General Revenue Fund, which is appropriated by the Legislature;
- 8.34% to the Education Reform Revolving Fund;
- 5.00% 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:

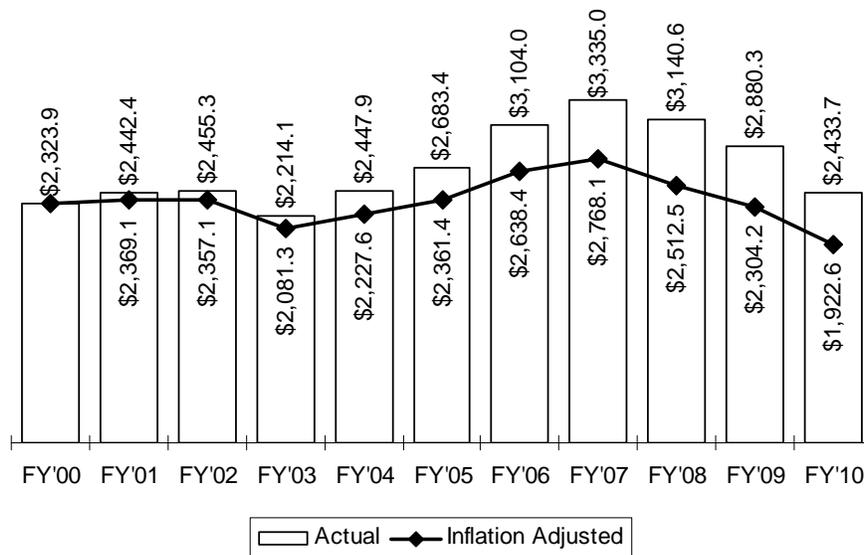
- 77.50% to the General Revenue Fund, which is appropriated by the Legislature;
- 16.5% to the Education Reform Revolving Fund;
- 5.00% to the Teachers' Retirement System Dedicated Revenue Revolving Fund; and
- 1.00% to the Ad Valorem Reimbursement Fund.

In FY'06 under HB 1078, a portion of income tax revenue was directed, prior to apportionment, to a newly-created road and bridge rebuilding fund, the Rebuilding Oklahoma Assess and Driver Safety Fund, also known as the ROADS Fund. In FY'10, the ROADS Fund received \$30 million in income tax revenue.

History of Revenues from State Income Taxes

Revenues from income taxes in Oklahoma have increased by over 47 percent over the last 10 years in real dollar terms, but when adjusted for inflation, the result is a decrease of nearly 17 percent.

History of Income Tax Revenue
FY'00 Through FY'10 (In Millions)



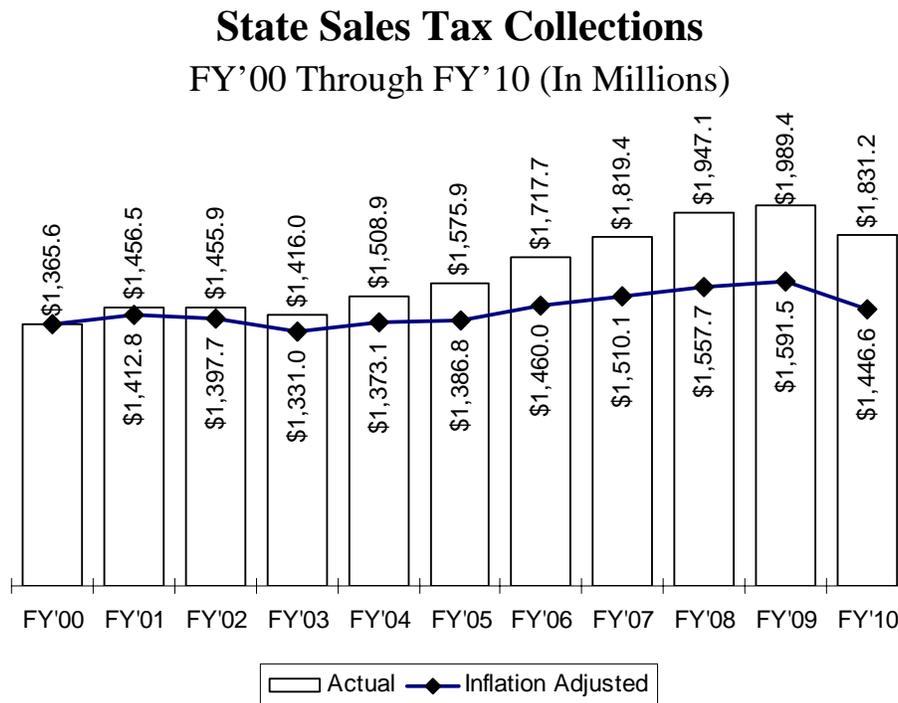
Source: Oklahoma Tax Commission and U.S. Bureau of Labor Statistics Inflation Calculator

SALES AND USE TAXES

In FY'10, state sales tax revenue totaled over \$1.83 billion and the use tax produced \$154.0 million. The state rate for both the sales tax and use tax in Oklahoma is 4.5 percent. The two taxes accounted for 37.8 percent of actual GR Fund revenues in FY'10. 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 grew by over 26 percent between FY'00 and FY'10 but when adjusted for inflation, grew by only 2.4 percent. On an annual basis, collections fluctuated greatly, with one year-to-year decrease as large as 8 percent and an increase as large as 9 percent.



Source: Oklahoma Tax Commission, U.S. Bureau of Labor Statistics Inflation Calculator

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 2010 Rates; 2007 Per Capita Revenue and Rankings

<u>State</u>	<u>State Sales Tax Rate</u>	<u>State & Local Per Capita Revenue</u>	<u>Ranking</u>
Arizona	5.6%	\$1,472	5
Arkansas	6.0%	\$1,333	9
Colorado	2.9%	\$1,046	17
Kansas	5.3%	\$1,087	14
Louisiana	4.0%	\$1,610	4
Missouri	4.2%	\$849	29
Nebraska	5.5%	\$981	20
New Mexico	5.0%	\$1,336	8
Oklahoma	4.5%	\$940	22
Texas	6.25%	\$1,062	16
U.S.		\$992	

Source: Ibid, pg. 310 and 2010 web page of Federation of Tax Administrators (www.taxadmin.org)

	<u>National Ranking</u>	<u>Regional Ranking</u>
Oklahoma's Per Capita Rank	22	9
Number of states imposing this tax	46	10
Number with rates higher than OK	35	6
Number with rates same as or lower than OK	11	3

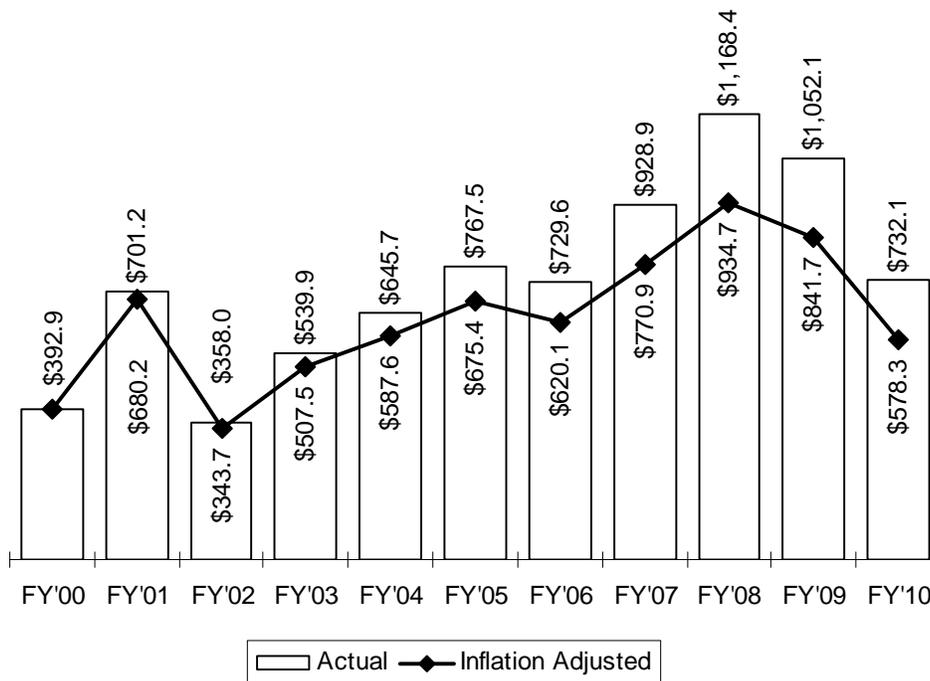
Washington is the highest with \$2,024 collected per capita. Four states (Delaware, Montana, New Hampshire and Oregon) have no sales tax.

The average Oklahoman pays \$49 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 from the severance tax provided \$732 million in FY'10.

History of Gross Production Tax Collections
FY'00 Through FY'10 (In Millions)



Source: Oklahoma Tax Commission and U.S. Bureau of Labor Statistics Inflation Calculator

There are two types of gross production taxes: the severance tax and petroleum excise tax. The severance tax produces the lion's share of the revenue.

Severance Tax

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

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

Petroleum Excise Tax

A petroleum excise tax is levied, in addition to the severance tax, on oil and gas at a rate of 0.095 of 1 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). While these tax structures were enacted with sunset dates, each has been extended several times. Between 2005 and 2009, gross production tax exemptions for certain deep-drilled wells and other types of drilling have also been extended beyond the original expiration dates. In 2010, as part of the overall budget and revenue package, certain gross production tax rebates were deferred for FY'11 and will be paid out over a later 36-month period. In addition, the tax rate for certain wells was modified, a cap on a specific rebate was removed and a mechanism was put into place to annually adjust a price threshold which affects many gross production tax exemptions.

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;
3.745%	to the County Bridge and Road Improvement Fund;

7.14% to counties where the oil is produced, for roads;
 7.14% to school districts;
 4.28% * to three funds – the Oklahoma tourism and Recreation Capital Expenditure Revolving Fund, the Oklahoma Conservation Commission Infrastructure Revolving Fund and the Community Water Infrastructure Development Revolving Fund – at one-third each from FY’07 to FY’ 14; and
 .535% to the Statewide Circuit Engineering District Revolving Fund.

- 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;
 3.28% to the County Bridge and Road Improvement Fund;
 12.50% to counties where the oil is produced, for roads;
 12.50% to school districts;
 3.75%* to three funds – the Oklahoma tourism and Recreation Capital Expenditure Revolving Fund, the Oklahoma Conservation Commission Infrastructure Revolving Fund and the Community Water Infrastructure Development Revolving Fund – at one-third each from FY’07 to FY’ 14; and
 .47% to the Statewide Circuit Engineering District Revolving Fund.

* Beginning FY’15, the percentage divided between three funds will revert back to the REAP Water Projects Fund.

- 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:

50.0%	to counties where the gas is produced, for roads; and
50.0%	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 mineral is produced for roads; and
7.14%	to school districts.

Petroleum Excise Taxes: Until July 1, 2011, petroleum excise tax revenues from oil are apportioned monthly as follows:

82.634%	to the General Revenue Fund;
10.526%	to the Corporation Commission Plugging Fund; and
6.84%	to the Interstate Oil Compact Fund.

Excise tax revenue from natural gas is apportioned monthly as follows:

82.6045%	to the General Revenue Fund;
10.5555%	to the Corporation Commission Plugging Fund; and
6.84%	to the Interstate Oil Compact Fund.

After July 1, 2011, petroleum excise tax revenues from oil and gas will be apportioned monthly as follows:

92.35%	to the General Revenue Fund; and
7.65%	to the Interstate Oil Compact Fund.

Gross Production Tax Collections by Type (In Millions)

	FY'03	FY'04	FY'05	FY'06	FY'07	FY'08	FY'09	FY'10
Severance	\$539.90	\$645.70	\$767.55	\$1,043.80	\$928.97	\$1,116.84	1052.14	732.15
Petroleum Excise	\$8.01	\$9.28	\$11.63	\$15.54	\$13.18	\$16.32	15.03	11.53
TOTAL	\$547.91	\$654.98	\$779.18	\$1,059.34	\$942.15	\$1,133.16	\$1,067.17	\$743.68

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 20.7 percent of the statewide public school budget in FY'10 and 63 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 \$535 per person in 2007 was less than 42% of the national average of \$1,270. Oklahoma ranks 47th out of the 50 states in per-capita property taxes.

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.

Per Capita State and Local Property Tax Revenue 2007

<u>State</u>	<u>Per Capita Revenue</u>	<u>Ranking</u>
Arizona	\$978	35
Arkansas	\$475	49
Colorado	\$1,169	23
Kansas	\$1,246	15
Louisiana	\$597	46
Missouri	\$890	37
Nebraska	\$1,350	16
New Mexico	\$513	48
Oklahoma	\$535	47
Texas	\$1,434	13
U.S.	\$1,270	

Source: Ibid, p. 312

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.
- 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 (2004) 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 2010, county median incomes ranged from \$36,300 in Pushmataha County to \$58,500 in the Oklahoma City 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. 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).

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. During FY’ 10, motor vehicle taxes and fees were apportioned monthly as follows:

36.20%	to school districts;
29.84%	to the General Revenue Fund;
0.31%	to the State Transportation Fund;
7.24%	to counties;
2.59%	to counties for county roads;
3.62%	to county highway funds;
0.83%	to county general funds;
3.10%	to cities and towns;
1.24%	to the Oklahoma Law Enforcement Retirement Fund;
0.034%	to the Wildlife Conservation Fund; and
15.0%	to the County Improvements for Roads and Bridges Fund.

This apportionment is subject to a “hold harmless” provision which mandates that no amounts earmarked for certain recipients (schools, counties, cities and towns and the Roads and Bridges

Fund) will ever fall below the amount apportioned in the previous year. Any additional monies needed come from the amount which would go to the General Revenue Fund.

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, interstate comparisons are not always reliable.

MOTOR FUELS TAXES

The State of Oklahoma generates revenues for state highways and county roads through an excise tax levied on motor fuels. The taxes are apportioned according to formulas established by the Legislature. The two major taxes levied are the gasoline tax and the diesel fuel tax.

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

History of Motor Fuels Taxes

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

Oklahoma's Motor Fuel Tax Rate History

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

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

Revenues from Fuel Taxes

Oklahoma state and local governments received approximately \$401 million in motor fuel tax revenues in FY'10. Among the 50 states, Oklahoma ranked 37th in per capita state revenue collections in 2005. The average Oklahoman pays about the same amount annually in motor fuel taxes as the average American citizen.

Motor Fuel Tax 2010 Rates, 2008 Revenues and Rankings

<u>State</u>	<u>Gasoline Tax Rate</u>	<u>Per Capita Revenue</u>	<u>Ranking</u>
Arizona	18.0¢	\$113	38
Arkansas	21.5¢	\$164	10
Colorado	22.0¢	\$129	26
Kansas	24.0¢	\$154	14
Louisiana	20.0¢	\$136	23
Missouri	17.55¢	\$124	30
Nebraska	27.7¢	\$165	9
New Mexico	18.9¢	\$126	29
Oklahoma	17.0¢	\$106	40
Texas	20.0¢	\$128	21
U.S. Median		\$120	

Source: Ibid, pp. 344 and 2010 web page of Federation of Tax Administrators (www.taxadmin.org).

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:

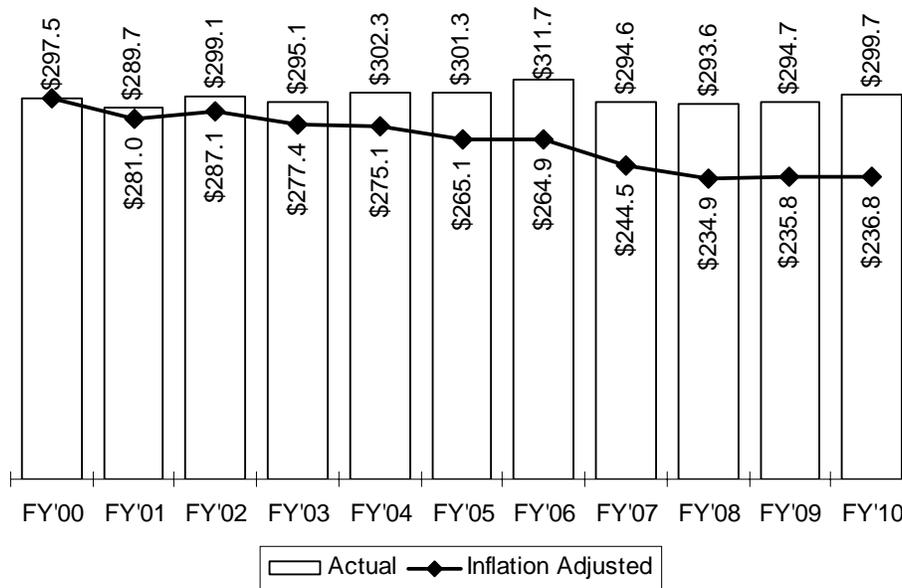
63.75%	to the State Transportation Fund;*
27.0%	to the counties for county roads and highways;

- 3.125% to the counties for construction, maintenance and repair of county roads as provided in the County Bridge and Road Improvement Act;
- 2.297% 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;
- 1.625% to the High Priority State Bridge Revolving Fund; and
- 0.328% to the Statewide Circuit Engineering District Revolving Fund.

* In addition, the first \$250,000 collected each month goes to the credit of the State Transportation Fund prior to apportionment.

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

Gasoline Tax Revenue (16 cents) FY'00 Through FY'10 (In Millions)



Source: Oklahoma Tax Commission and U.S. Bureau of Labor Statistics Inflation Calculator

At 17¢ per gallon, Oklahoma’s gas tax rate is the 44th lowest of the 50 states.

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.

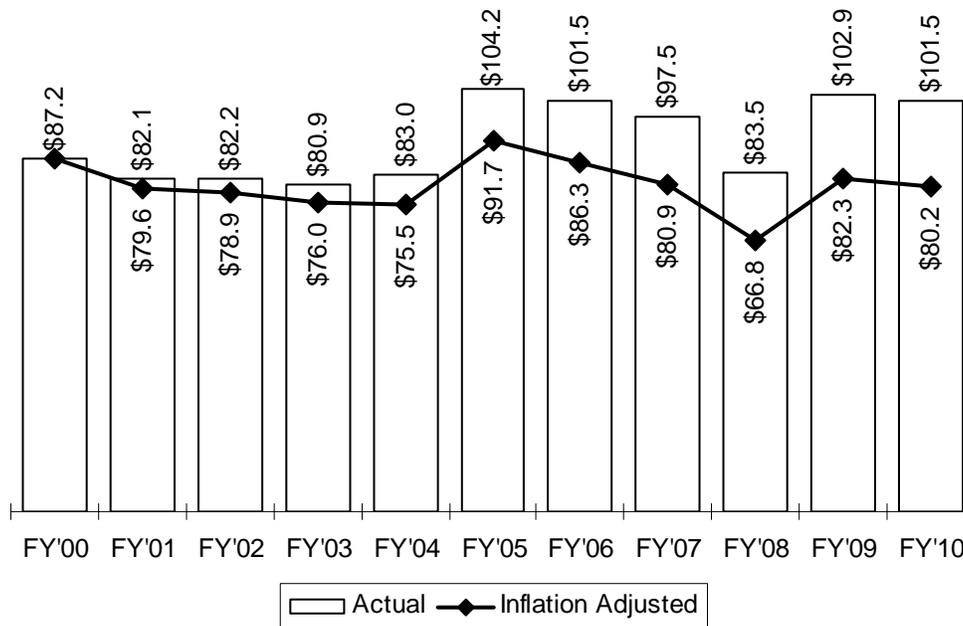
The 1¢ assessment is apportioned to the Petroleum Storage Tank Release Environmental Cleanup Indemnity Fund for cleaning up leaking underground storage tanks or to the State Transportation Fund.

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;
- 3.36% 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;
- 1.39% to the High Priority State Bridge Revolving Fund; and
- 0.488% to the Statewide Circuit Engineering District Revolving 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'00 Through FY'10 (In Millions)



Source: Oklahoma Tax Commission and U.S. Bureau of Labor Statistics Inflation Calculator

At 14¢ per gallon, Oklahoma's gas tax rate is the 47th lowest of the 50 states.

AGRICULTURE

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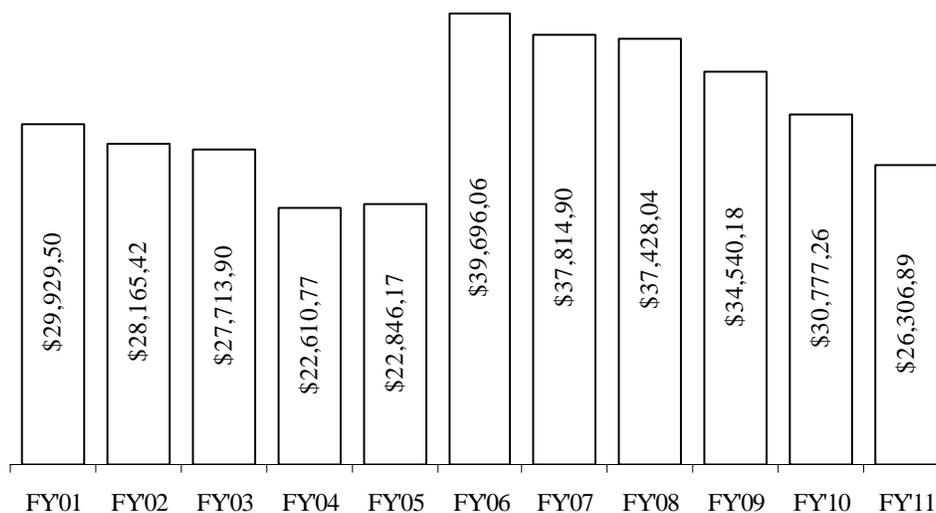


AGRICULTURE

Although it is sometimes 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 wheat, fifth in cattle and calf production, fifth in pecans, seventh in peanuts, ninth in hog production, and 11th in poultry production...

Department of Agriculture Appropriations Budget History *FY'01 Through FY'11*



During FY'06, Oklahoma suffered an extreme drought which caused large wildfires throughout the state. Most of the burden of fighting those fires was put on rural fire departments which are mostly funded by the Oklahoma Department of Agriculture, Food, and Forestry (ODAFF). ODAFF is also responsible for coordinating resources statewide in order to fight widespread wildfires by setting up, staffing, and managing an Incident Command Post. The high appropriation amount to the agency during FY'06 was due to one-time supplementals to cover costs associated with the wildfires and to increase funding to rural fire departments, almost doubling their yearly operational grants.

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 1.3 percent of Oklahoma's Gross State Product.

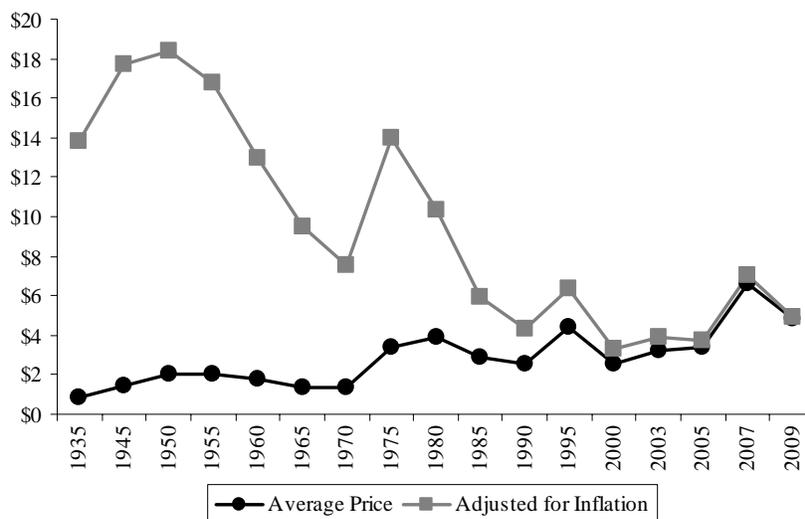
AGRICULTURAL PRICES

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 fared the worst in terms of economic retention of value; however, price jumps in the past couple of years have helped rebuild value.

Average Annual Price of Wheat
1935 Through 2009 (Dollars per Bushel)



Source: Oklahoma Agricultural Statistics Service

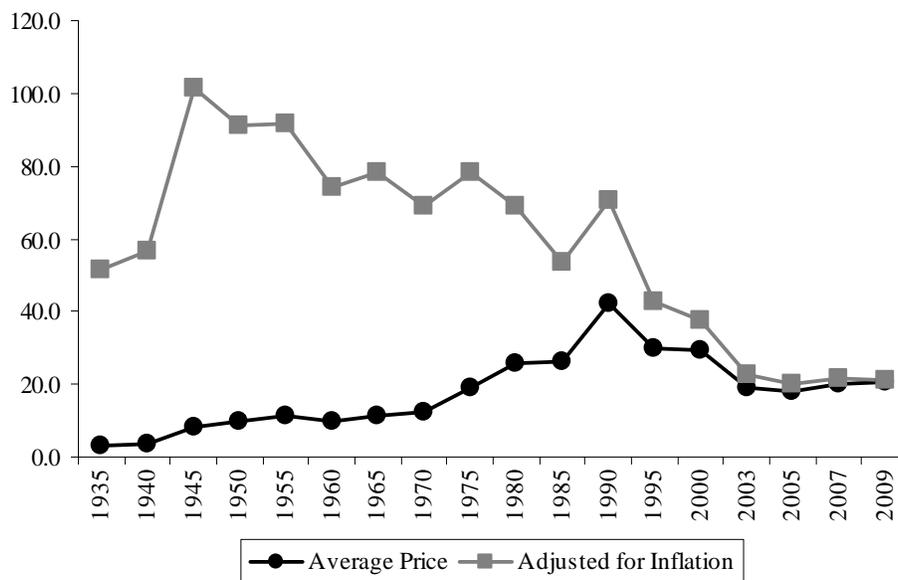
Although the price of wheat has increased from \$1.45 per bushel in 1945 to \$4.80 per bushel in 2009 (a 231 percent increase in actual price), adjusted for inflation, the value of wheat per bushel has actually declined 72 percent.

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 20.5 cents per pound in 2009 (a 147 percent increase in actual price). Adjusted for inflation, however, the value of peanuts per pound has declined. The price of peanuts in 2005 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
1935 Through 2009 (Cents per Pound)



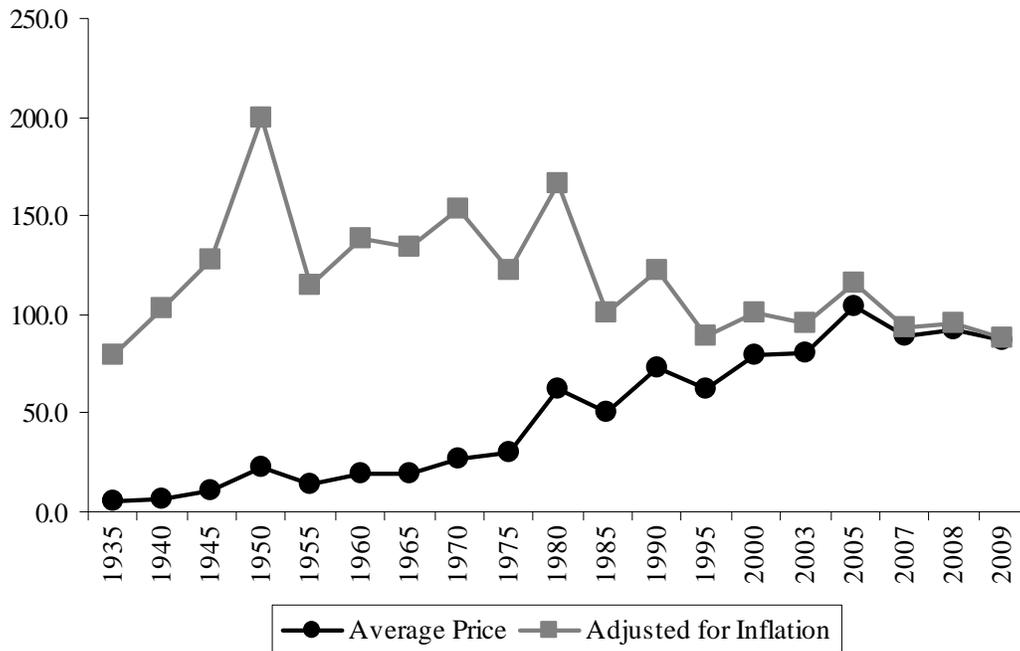
Source: Oklahoma Agricultural Statistics Service

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. In 2007, the average price received for cattle was \$89 dollars per hundred weight.

Average Price Received for Cattle 1935 Through 2007 (Dollars per Hundred Weight)



Source: Oklahoma Agricultural Statistics Service

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 only one-half of Oklahoma farmers can afford to work full-time on their farms. The other 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 2007 Census of Agriculture, the average age of farm operators in Oklahoma was 57.6 years of age. Thirty 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 44 percent decrease over the past 20 years.

Farming as an Occupation

Only 42 percent of Oklahoma's principal farm operators consider farming their primary occupation. Forty-three percent of the total number of principal farm operators work 200 days or more per year off the farm in other jobs.

The average net income of an Oklahoma farm in 2008 was \$11,856. 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 1,351 direct guaranteed loans worth \$135.3 million made to Oklahoma farmers and ranchers during FY'09. Oklahoma's total loan liability exceeds \$760 million.

LEGISLATIVE INITIATIVES RELATING TO AGRICULTURE

The Legislature addresses agricultural issues mainly through the Oklahoma Department of Agriculture, Food, and Forestry (ODAFF) 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 a 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;
- programs that educate minority youth about possible careers in the field of agriculture;
- the Farm-to-School Program that links Oklahoma agricultural producers to Oklahoma school cafeterias;
- bonds and lease agreements in order to build a new agriculture laboratory and replace aging or outdated equipment; and
- an AgriTourism program to support agricultural businesses who also contribute to tourism.

EDUCATION

- **Common Education**
- **Career and Technology Education**
- **Postsecondary Education**

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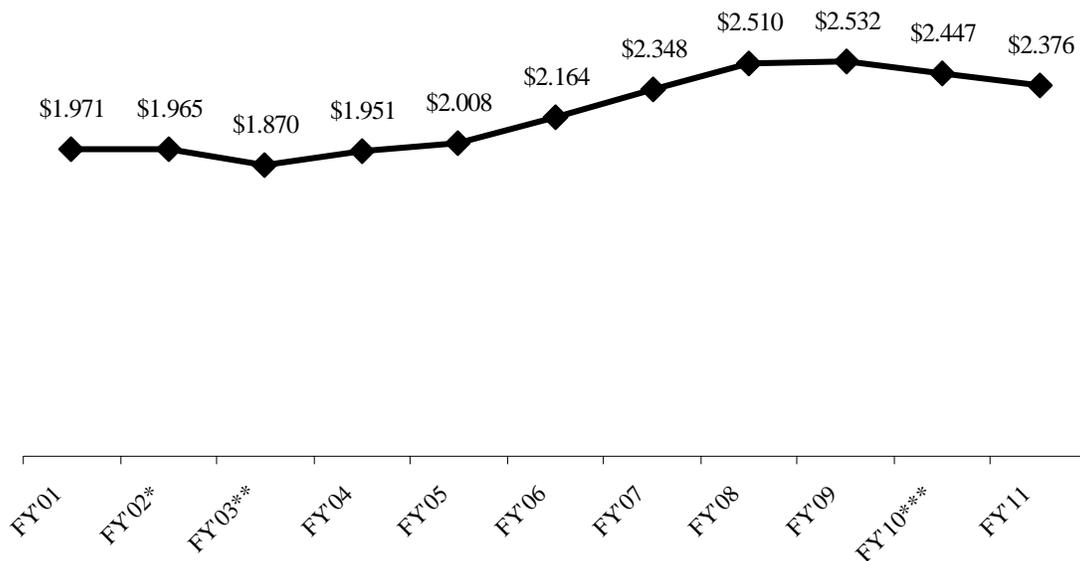


COMMON EDUCATION

Over the past several 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 and math 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'01 Through FY'11 (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.
- *** Due to a statewide revenue shortfall the agency's appropriations were reduced by 4.9 percent.

The largest single appropriation made by the Legislature supports the state's public school systems. For FY'11, 35.5 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 52.7 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.

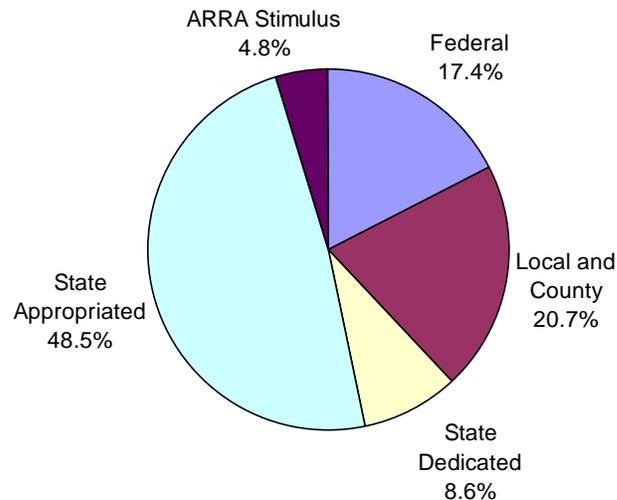
State Appropriations: Annual legislative appropriations rose steadily from FY'89 to FY'01, when they comprised more than 59 percent of all common school funding. Since FY'01, this percentage has fallen as low as 54 percent, mostly due to an increase in federal funds. Additional state funding comes from 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 current school year, all 527 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 use of the five-mill building-fund levy, and 387 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 9 percent of total common school revenue and comes from the following sources:

- Gross Production Tax – 7.14 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 – 36.2 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.

Revenue Sources for School Districts 2009-2010 School Year



Federal Funds: Until recently federal funds comprised the smallest share of total revenue, ranging from 7 percent 9 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. It has also increased due to an influx of federal stimulus dollars for the purposes of Title I and IDEA funding. 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

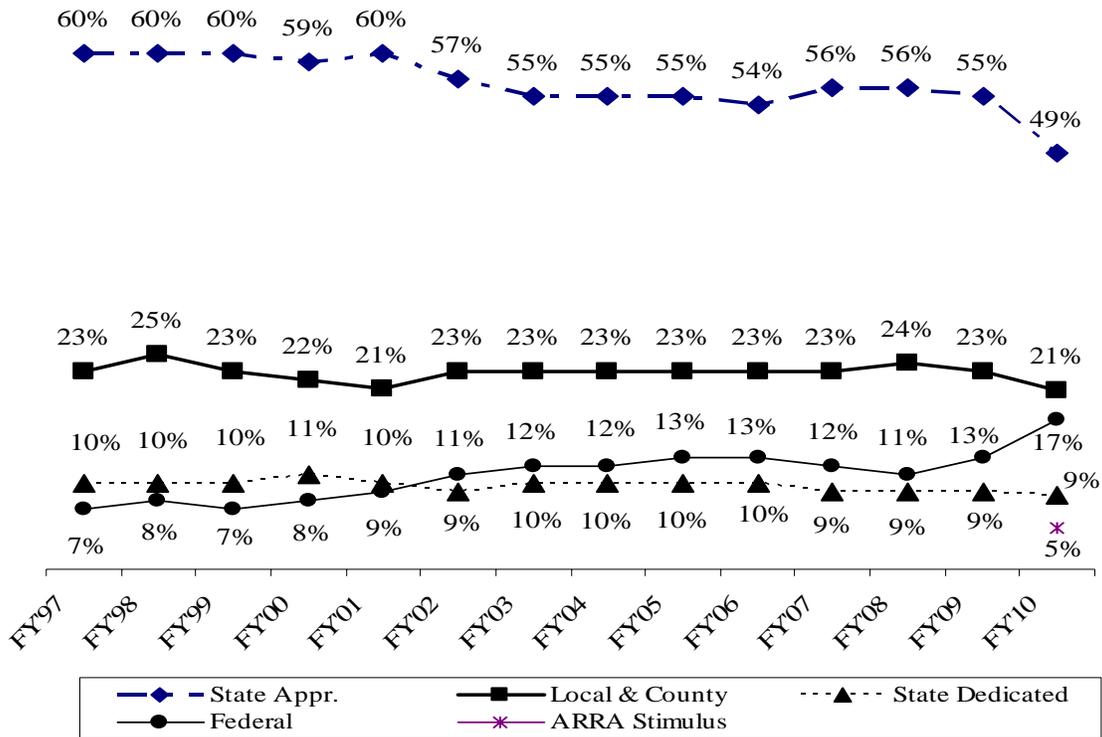
For FY'11, over 79.7 percent of the annual appropriation for common education will be distributed to local districts based on the statutory State Aid Funding Formula, which is designed to equalize funding among districts. 19.1 percent of the funds are for special funding items such as textbooks, alternative education programs, advanced placement programs, etc. Less than 1 percent is for operations of the State Department of Education. Comparatively, in FY'01, 80.2 percent of state common education funds were distributed through the State Aid Funding Formula, 18.8 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 48.5 percent of the funding mix.

Funding for Common Schools by Source Using General Funds FY'97 – FY'10

(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 weighted average daily membership (ADM) of students in each district for the preceding two years or the first nine weeks of the current school year. 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 Foundation Support Level (\$1,643.05 per weighted ADM for the 2009-2010 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 2009-2010 school year, the amount is \$78.35.

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 ($\$78.35 \times 20 = \$1,567.00$). 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'92 Through FY'10**

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	3.6%
FY'94	\$1,139.00	\$55.12	\$2,241.40	\$80.60	3.7%
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	2.8%
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	2.2%
FY'00	\$1,271.00	\$61.69	\$2,504.80	\$67.20	2.8%
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	3.7%
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	\$1,365.00	\$63.71	\$2,639.20	\$16.80	0.6%
FY'06	\$1,463.00	\$70.06	\$2,864.20	\$225.00	8.5%
FY'07	\$1,501.00	\$70.93	\$2,919.60	\$55.40	1.9%
FY'08	\$1,616.00	\$78.65	\$3,189.00	\$269.40	9.2%
FY'09	\$1,642.00	\$78.97	\$3,221.40	\$32.40	1.0%
FY'10**	\$1,643.05	\$78.35	\$3,210.05	-\$11.35	-0.4%

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

** Due to a revenue shortfall in FY'10, each district's total state aid was reduced by 7.6%.

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'08, the average Oklahoma per pupil expenditure including all funds was \$7,683.

LOTTERY AND GAMING

Two additional 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

HB 1278, which provided an outline for the Education Lottery, was approved during the 2003 Legislative Session. According to the rules of distribution that were set forth in the bill, 45 percent serves as prize money, 20 percent is used for administrative costs, and 35 percent is allocated to education. In the first two full years of its existence, only 30 percent of the net proceeds were allocated to benefit education since funding was needed to pay off the \$10 million bond issue for start-up costs. Of the portion allocated for education, 45 percent can be used to fund K-12th grade public education and early childhood development programs; 45 percent can be used to fund higher education and career and technology education tuition assistance programs, capital projects, endowed chairs, technology improvements, as well as the Schools for the Deaf and the Blind; 5 percent is deposited in the School Consolidation Assistance Fund; and 5 percent is deposited into the Teachers' Retirement System Dedicated Revenue Revolving Fund. The Oklahoma Education Lottery Commission, also authorized by HB 1278, oversees all lottery operations.

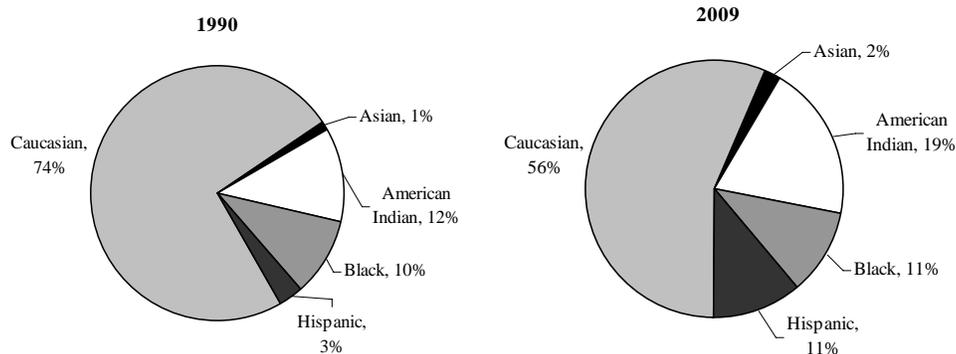
State-Tribal Gaming Act

Another Legislative initiative from the 2004 Legislative Session was the passage of SB 1252, also known as the State-Tribal Gaming Act. This Act provides revenues for two areas of funding. The first is the Education Reform Revolving Fund (1017 Fund), in which 88% of generated gaming revenues are placed. The Education Reform Revolving Fund helps provide financial support for public schools through the State Aid Formula. The second beneficiary is the General Revenue Fund, in which the remaining 12% of generated gaming revenues are placed. Originally, this 12% amount was apportioned to the Oklahoma Higher Learning Access Program (OHLAP), also known as Oklahoma's Promise, which funds scholarships for students who would like to attend an in-state public college or university. However, SB 820 from the 2007 Legislative Session redirected these funds to the General Revenue Fund. This bill provides that the State Board of Equalization will each year make a determination of the needed amount for OHLAP and automatically subtract it from the amount it certifies as available for appropriation from the General Revenue Fund.

STUDENT DEMOGRAPHICS

Over the past two decades Oklahoma's student population has experienced a number of changes. While the total number of students enrolling in school has increased by 1.3 percent from FY'90 through FY'09 (from 579,167 to 654,511), there have been some relatively significant changes in student enrollment by race and ethnicity. The number of Hispanic children enrolled in Oklahoma schools has increased by more than 52,000 students since 1990.

Public School Enrollment by Race/Ethnicity 1990 and 2009



Source: State Department of Education

The number of children identified in need of special education services increased by approximately 30.9 percent (22,176) from 71,760 children in FY'94. In FY'08, there were 93,936 students aged 3 through 21 on individual education programs (IEPs).

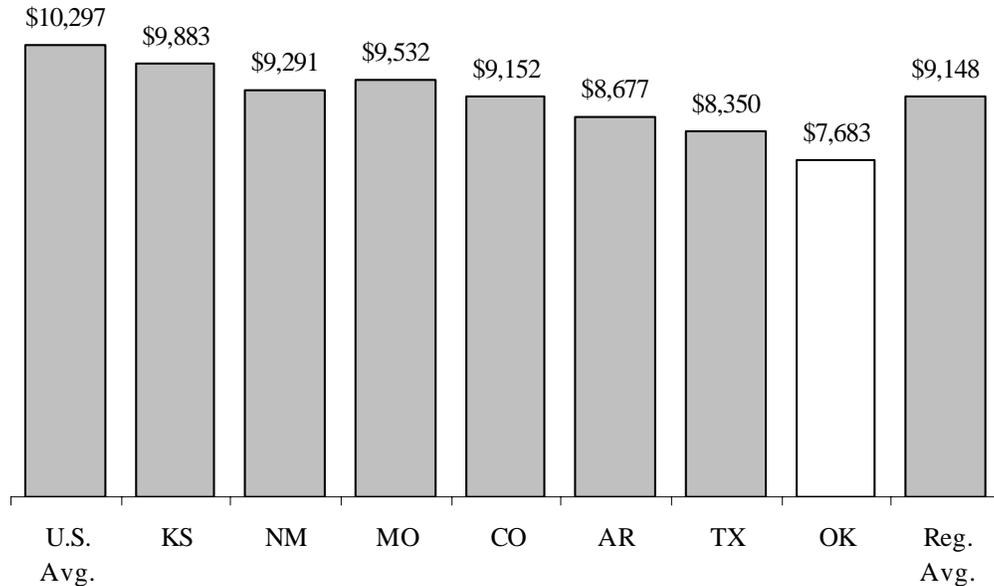
Oklahoma has 527 school districts with 1,020 elementary schools, 293 middle schools and 482 senior highs.

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 by many to be 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'08



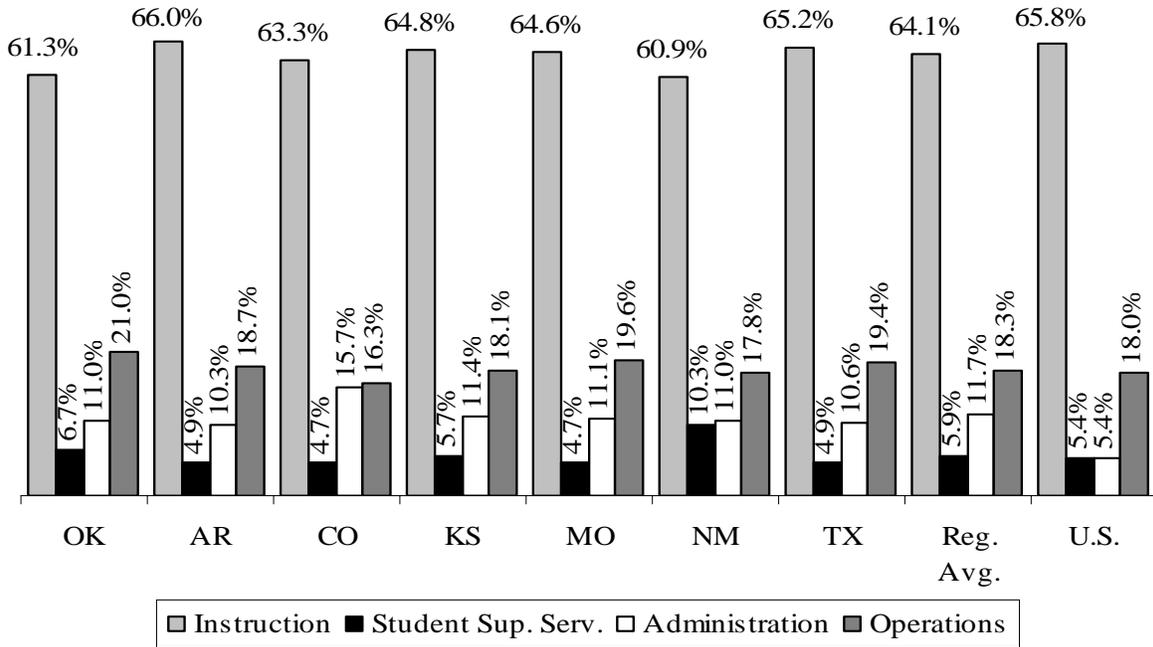
Source: National Center for Education Statistics (NCES) 2010

Oklahoma is at 84 percent of the regional average. Nationally, Oklahoma ranks 49 out of 50 states and the District of Columbia in annual per-pupil expenditures. New Jersey ranks first with \$17,620 in annual per-pupil expenditures and Utah ranks last with \$5,978 in annual per-pupil expenditures for FY'08.

Expenditures by Function

When looking at expenditures by function for the 2007-2008 school year, Oklahoma spends 61.3 percent of its money on instruction. This is 4.5 percent less than the national average and 2.8 percent less than the regional average. The category of instruction includes expenditures for staff and services that work directly with students, such as teachers, teaching assistants, and librarians. Student support services include guidance counselors, school nurses, social workers, and attendance staff. Administration includes administrators and administrative staff of schools and school districts. Operations include the operating expenditures for keeping schools and other school district facilities operating, as well as student transportation and food services.

Percentage of School Expenditures by Function Oklahoma and Surrounding States 2007 Through 2008

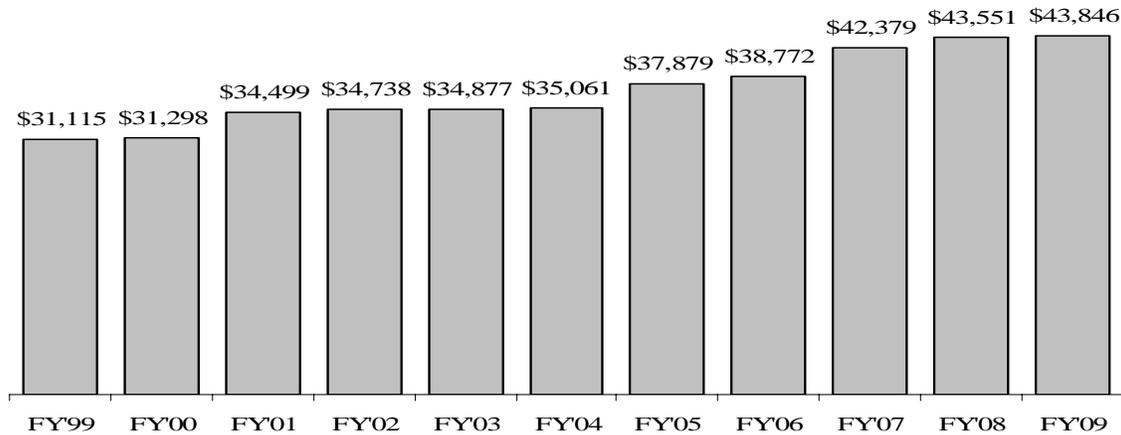


Source: National Center for Education Statistics (NCES) 2010

Teacher Salaries and Benefits

Since FY'90, legislators have focused on raising the salaries of classroom teachers. Between FY'99 and FY'09, the average salary for instructional staff has increased 40.9 percent, an average annual increase of 4.1 percent.

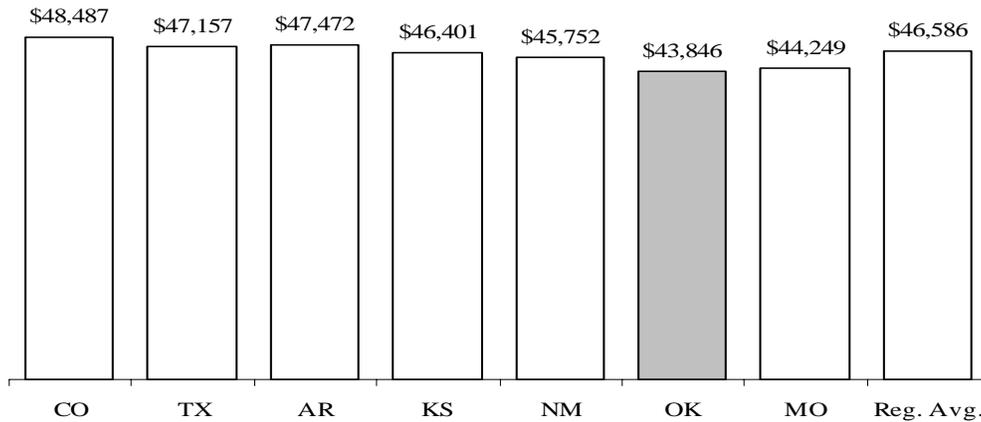
Average Instructional Staff Salaries in Oklahoma FY'99 Through FY'09 (Excludes Fringe Benefits)



Source: Southern Regional Education Board (SREB)

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 minimum teacher salary for a first-year teacher has increased from \$17,000 in FY’90 to \$31,600 in FY’10, for teachers with at least a bachelor’s degree. This represents an 85.9 percent increase in salary in 20 years.

Average Teacher Salaries for Oklahoma and the Region 2008-2009 School Year



Source: Southern Regional Education Board (SREB)

In recent years, lawmakers have made several efforts to improve teacher salaries and health benefits across the state. Since the 2004 Legislative Session, almost \$452 million in new funding has been appropriated for this purpose.

HB 2662, from the 2004 Legislative Session, raised the benefit allowance for all teachers from 58 percent to 100 percent and excluded certain fringe benefits from being counted toward the teachers’ minimum salary schedule. These two provisions of the bill yielded an average salary increase of between \$850 and \$1,050 per year for approximately 30 percent of all Oklahoma teachers. For the 2005 fiscal year, the Legislature appropriated \$76.3 million to cover health insurance for all certified personnel within Common Education, \$2.2 million for support personnel, and \$3.75 million for personnel in the CareerTech system.

During the 2005 Legislative Session, the teachers’ minimum salary schedule was changed to provide teachers with a salary increase that averaged \$1,300 per teacher throughout the state. For the 2006 fiscal year the Legislature appropriated \$57.8 million to Common Education in order to fund this increase through the State Aid Formula. Additional increases for health benefits were also included totaling approximately \$32.9 million for certified personnel and \$9.9 million for support personnel.

SB 2XX from the 2006 Special Session provided a \$3,000 across-the-board salary increase for all teachers, modified the 2006-07 salary schedule to reflect this increase and modified the 2007-08 salary schedule to include another \$600 across-the-board salary increase. For the 2007 fiscal year, the Legislature appropriated \$161.5 million to Common Education and \$5.9 million to CareerTech in order to fund this increase. Additional amounts of \$10 million and \$6 million were also appropriated to cover increased costs for certified and support personnel health benefits respectively. CareerTech received a \$1.6 million appropriation for health benefit cost increases as well.

HB 1134 from the 2007 Legislative Session helped Oklahoma's teachers receive an average annual salary increase of \$1,000 during the 2007-08 school year. The breakdown for this average increase is as follows:

- The 2007-08 minimum salary schedule already contained a \$600 salary increase when compared to the 2006-07 minimum salary schedule. This increase was put in place for all years of experience and degree levels. \$32.2 million was appropriated inside the State Aid Formula to cover the associated costs of this increase, including the employers' share of taxes and Teachers' Retirement contributions. The Department of Career and Technology Education also received \$1.5 million to fully fund this increase.
- In addition to this original \$600 increase, other increases were added to the 2007-08 minimum salary schedule as follows:
 - ✓ \$425 for teachers with at least 10 years of experience who have earned bachelor's degrees,
 - ✓ \$850 for teachers with at least 10 years of experience who have earned master's degrees, and
 - ✓ \$1,700 for teachers with at least 10 years of experience who have earned doctorate degrees.

\$20 million was appropriated to the Department of Education to cover the associated costs of these additional increases. Funding for these increases was appropriated through the State Aid Formula and again included the employers' share of taxes and Teachers' Retirement contributions. The Department of Career and Technology Education also received an additional \$845,778 to fully fund this increase.

- Although this salary increase was fully funded for every teacher, school districts are only required to pay their teachers at the 2007-08 Minimum Salary Schedule level. In other words, if a school district already pays its teachers above the 2007-08 Minimum Salary Schedule, it will be up to their discretion whether or not to pay teachers any additional money.

Finally, additional funding was again provided to address health care benefit cost increases for certified and support personnel. As a result, school districts received additional amounts of \$21.8 million, \$5.9 million, and \$2 million for certified personnel, support personnel, and the CareerTech system respectively.

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 originally appropriated more than \$565 million over five years to implement a wide range of reform policies as follows:

- **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.
- **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 after 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;
 - ✓ If the school district is voting the maximum millage allowable for the support, maintenance and construction of schools; or
 - ✓ If the school district consolidates or annexes under the Oklahoma School Voluntary Consolidation and Annexation Act.
- **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 Deregulation and Consolidation:** The initiative provided limited deregulation and funding incentives for the voluntary reduction of school districts from 611 in 1988 to 527 in the 2009-2010 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:

- the Oklahoma Advanced Placement Incentive Program;
- the Reading Sufficiency Act for children in K-3;
- increasing teacher salaries and providing 100 percent state-paid health insurance;
- increasing funding for early childhood programs;
- requiring districts to offer all-day kindergarten by the 2011-2012 school year;
- Education Leadership Oklahoma Act: Provides teachers who earn National Board Certification with an annual \$5,000 stipend;
- Rigorous high school curriculum requirements: Four years of English, and three years each of math, history and science are required;
- Charter Schools Act: Authorizes charter schools to operate in 13 school districts in Oklahoma and must be sponsored by the school district, technology center school district, a higher education institution or a federally recognized Indian tribe for the 2009-2010 school year. Oklahoma City had 13 charter schools, and Tulsa had four;
- The Education Open Transfer Act: Provides process for transfer of students to a district of parent's choice; and
- The Academic Performance Index (API): Measures the performance of schools. The index includes factors such as student attendance rates, dropout rates, test results, advanced-placement participation, graduation rates, ACT scores and college remediation rates.

The Legislature's most recent reform measures include the Achieving Classroom Excellence Act of 2005 (SB 982) along with a follow-up implementation bill (SB 1792) in 2006, which included several initiatives, with a major focus on high school reform. Key provisions included:

- **Full Day Kindergarten** – See discussion in Early Childhood Education section below.
- **Middle School Math Improvement** - \$2 million was provided for training of 500 teachers and awarding a \$1,000 bonus to teachers who attend the continuing education and successfully pass the intermediate math certification exam. The budget also included \$2.5 million for Middle School Math Labs in schools with records of low math performance. Ten schools were selected during the 2005-06 school year for pilot programs utilizing a scientifically research-based math improvement curriculum. Each year new schools are selected with a limit of one school selected per district each year, with no school being eligible to receive a mathematics laboratory more than once. The number of schools selected each year is determined based on the total amount of funds available as well as the number of computers necessary for a class of students at each qualifying school site. The State Department of Education reported in August of 2006 that the eighth grade math scores on the state tests increased an average of almost 16 percent after the first year of implementation of this program at the 10 pilot sites.
- **7th and 8th Grade Student Remediation** - Requires remediation for students who do not score at least at the satisfactory level on the reading and math tests administered in the 7th grade in the 2006-07 school year, and in the 8th grade in the 2007-08 school year. This is intended to prepare students for the end-of-instruction tests at the high school level.
- **ACE Steering Committee** – Created to advise the State Board of Education (SBE) on curriculum alignment, assessment development, cut-score determination, alternate tests, intervention and remediation strategies, and consequences for eighth-grade students who do not meet the mandated standard.
- **High School and Testing Reform**
 - ✓ Requires students entering 9th grade in 2006-07 school year to enroll in a college preparatory/work ready curriculum. Allows parents to choose to enroll their student in a non-college preparatory curriculum.
 - ✓ Directs SBE to develop end-of-instruction (EOI) tests in English III, Geometry, and Algebra II during the 2006-07 school year and implement the tests during the 2007-08 school year. The FY'07 budget included \$5.7 million for new test development and implementation.
 - ✓ Requires students to pass 4 out of 7 EOI tests to receive a high school diploma beginning with students entering 9th grade in the 2008-09 school year. Students must pass Algebra I and English II along with 2 of the following tests: US History, Biology I, Geometry, Algebra II, and English III.
 - ✓ Provides remediation and opportunity to retake EOI tests until at least a satisfactory score is attained on Algebra I and English II and two of the other listed tests or an approved alternative test.

- ✓ Authorizes technology center schools to provide remediation in Algebra I and Biology I to students enrolled in technology center schools.
- ✓ Directs State Department of Education to provide information on best practices for remediation and intervention and requires districts to monitor results and report findings to SDE.
- ✓ Requires student individualized education programs (IEPs) to have an appropriate statement on the IEP requiring administration of assessments with or without accommodations or with alternate assessments.
- ✓ Requires students identified as English language learners (ELL) to be assessed in a valid and reliable manner with the state academic assessments with acceptable accommodations as necessary, or with alternate assessments.
- ✓ Authorizes SBE to approve alternative methods for students to demonstrate mastery of the state academic content standards.
- ✓ Directs SBE to adopt rules for necessary student exceptions and exemptions to testing requirements. Requires SBE to collect and report data on number of students provided and categories of exceptions and exemptions granted.
- ✓ Directs SBE to review, realign and recalibrate the tests in reading and mathematics in third through eighth grades and the EOI tests. The SBE shall determine the cut scores for the new EOI tests and phase them in over a multi-year period. The SBE shall compare EOI tests with those of other states and adjust cut scores as necessary.
- ✓ Directs the SBE to retain services of a nationally recognized, independent organization to study the reliability and validity of the EOI tests.
- ✓ Provides tuition waivers for up to 6 credit hours per semester for high school seniors who meet eligibility requirements for concurrent enrollment.

Additional key public school reform initiatives were passed during the 2009 and 2010 Legislative Sessions as follows:

2009 Legislation

SB 222 created the Educational Accountability Reform Act. First, this bill created a P-20 Data Coordinating Council until July 1, 2015 to assess the state's current student data system and make recommendations on improvements towards a unified system among all education agencies. Second, it created the Quality Assessment and Accountability Task Force to conduct a crosswalk of state curricular and performance standards with those of other high achieving states and to review the state student testing system. Third, this bill created the Educational Quality and Accountability (EQA) Board until July 1, 2015, to review the process for determination of adequate yearly progress, the process for approval of testing contracts, the tests administered, the cut score process, and determination of student performance levels. Finally, this bill authorizes

the EQA Board to conduct an audit of the School Testing Program, and it modified the student testing performance level terminology and method by which the State Board of Education determines cut scores.

HB 1461 requires schools that do not achieve Adequate Yearly Progress (AYP) status for two consecutive years and are identified for school improvement to use the assistance of a school support team established by the State Department of Education. The school support team will review and analyze all operations of the school in order to incorporate school improvement strategies and facilitate professional development through teacher training.

HB 1864 changed the calculation of the school year to provide the option of measurement in hours (1,080 hours of classroom instruction) instead of days. It allows up to 30 hours a year to be used for attendance of professional meetings and allows parent-teacher conferences to count as classroom instruction time for no more than 12 hours per year. This bill also allows for the length of a school day to be extended and the number of days to be reduced, as long as the total number of hours is not less than 1,080 in a school year. Finally, it authorizes school districts to utilize instruction hours on Saturdays, pending the approval of the State Board of Education.

2010 Legislation

SB 1862 authorizes the sponsorship of charter schools by school districts, technology center school districts, and comprehensive or regional institutions in the State System of Higher Education if the charter school is located in a school district which has a school site on the school improvement list. It also authorizes the sponsorship of charter schools by federally recognized Indian tribes for the purpose of demonstrating native language immersion instruction. This bill also removes the cap on the establishment of new charter schools, and it provides preference for enrollment at new charter schools for eligible students who reside in the school district boundaries and who attend a school improvement site. Lastly, it specifies that administrative service fees of up to 5% retained by sponsors of charter schools shall only be assessed on State Aid allocations and not on any other line-item appropriated amounts.

SB 2033 authorizes several reform initiatives in support of Oklahoma's application for federal Race to the Top funds including a statewide teacher evaluation system, performance pay initiatives based upon the evaluation system, and other pay initiatives for teachers in hard-to-staff areas and low-performing schools. This bill also provides a process for dismissing teachers who do not achieve certain ratings under the evaluation system and limits compensation and benefits for career teachers who file a petition for trial de novo. Moreover, it requires the State Board of Education to adopt the K-12 Common Core State Standards for English/language arts and mathematics. Finally, this bill requires school district boards to implement one of four intervention models in the event that a school site in their district is persistently identified as being among the low-achieving schools in the state. These intervention models include the turnaround model, the restart model, the transformation model, and school closure.

SB 2330 created the Empowered Schools and School Districts Act. This act allows school sites, groups of schools, or school districts to submit empowerment plans to the State Board of Education detailing innovations designed to improve school performance and requesting that certain statutes and rules be waived to accomplish their plan.

HB 3029 provides several waivers, exemptions, and suspensions of certain requirements and programs during the 2011 and 2012 fiscal years as a result of the current budget downturn. It exempts school districts from media materials and equipment standard requirements as well as media program expenditure standards. It also directs the State Board of Education to exempt districts from any requirement in policy, rule, or law for the convening of advisory councils or committees. Moreover, this bill removes the requirement for districts to adopt and offer a professional development program and authorizes districts to expend textbook allocations, professional development funds, and library media program funds for school operations. It suspends the awarding of scholarships under the Education Leadership Oklahoma program and payment of National Board certification bonuses for any teachers who attain the certification during this two-year period. Finally, this bill prohibits the State Board of Education from assessing a financial penalty on any district due to accreditation deficiencies.

HB 3393 established the Lindsey Nicole Henry Scholarships for Students with Disabilities Program Act for the purpose of providing a scholarship to a private school of choice for any student with disabilities for whom an individualized education program (IEP) has been developed in accordance with the Individuals with Disabilities Education Act. It also provides scholarship eligibility requirements for students, eligibility requirements for participating private schools, participant compliance requirements, scholarship amount calculations, and payment procedures. It further specifies that scholarships are to be available beginning with the 2010-2011 school year. Finally, it sets the maximum scholarship amount as being the lesser of either (1) the calculated amount equivalent to the local and county revenue for the school district which is chargeable in the State Aid formula plus state-dedicated revenues plus state-appropriated funds per weighted average daily membership generated by that student for the applicable school year or (2) the amount of tuition and fees at the private school, minus up to five percent of the scholarship amount to be retained by the school district as an administrative fee.

EARLY CHILDHOOD EDUCATION

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.

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'11, the program served more than 12,899 children with a combined state and federal budget of \$19.1 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'10, the Legislature appropriated approximately \$2.69 million, an increase of more than 500 percent since FY'92 when the Legislature initiated state funding of the program with a \$423,000 appropriation. Oklahoma's program also received over \$83.8 million in federal funds for FY'09. State funds are appropriated to the Oklahoma Department of Commerce for administration and management of the program.

During FY'09, Head Start served 13,474 children through 413 programs state wide.

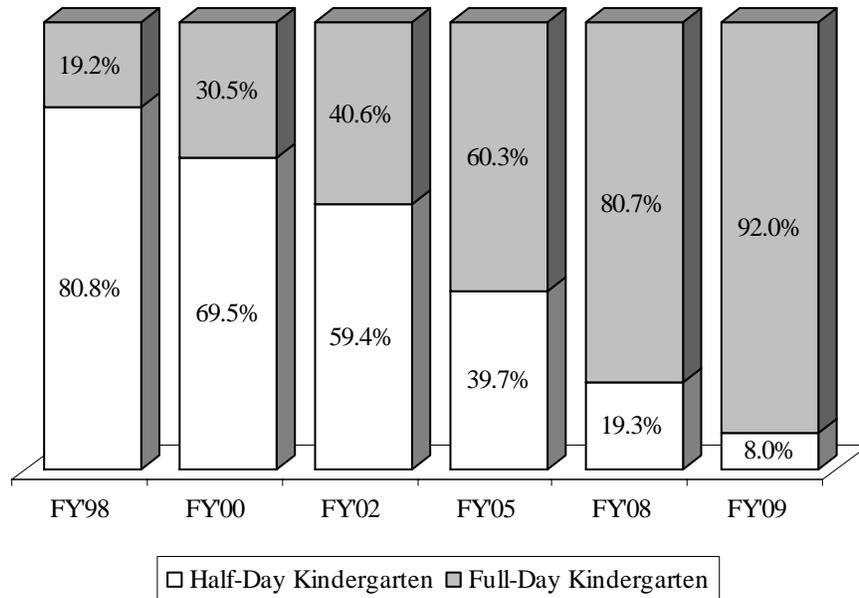
Programs for Four-Year-Olds

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. During FY'98, 2,493 four-year-olds in Oklahoma attended half-day public school pre-kindergarten, while in FY'09 attendance reached 37,378 for half-day and full-day programs combined. Currently, 73 percent of Oklahoma's four-year-olds attend public school pre-kindergarten.

Full-Day Kindergarten

Students five-years of age must attend at least a half-day of kindergarten; full-day attendance is optional. The requirement for school districts to offer full-day kindergarten was enacted in 1999 in HB 1759, but it was contingent on funding. Senate Bill 982 in 2005 amended this section to require all school districts to offer full-day kindergarten by the 2011-12 school year. More than 96 percent of school districts are already in compliance. Districts receive an increased weight in the State Aid formula for full-day kindergarten as an incentive to implement the program and the FY'06 budget provided \$21.6 million. Districts are exempt from the requirement if their bonded indebtedness exceeds 85 percent of the maximum allowable at any time in the previous five years.

Growth in Full-Day Kindergarten *FY'98 Through FY'09*



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 teachers of children. This program received \$1.8 million in state funding for the 2011 fiscal year, and it is expected to provide services for approximately 3,372 families at 77 school districts.

Oklahoma Partnership for School Readiness

Created in 2003 and funded through the Department of Human Services, the Oklahoma Partnership for School Readiness is a collaborative public/private partnership known as Smart Start Oklahoma. Smart Start coalitions in 18 communities across the state receive technical assistance, training and resources. In addition, the Partnership provides grants to support local needs assessments and strategic planning activities. This initiative first received state funding in FY'05 with a \$2 million appropriation and continues to receive that base funding amount.

Rural Infant Stimulation Environment (RISE)

During the 2007 Legislative Session, \$550,000 was appropriated to establish a RISE School Program that is designed to serve young children with physical disabilities from birth to five years of age. Funding for this program was later increased to \$600,000. However, the State Board of Education voted to entirely remove this state appropriated funding for the 2011 fiscal year, as they anticipate that it will be fully replenished by the U.S. Department of Education.

Educare

During the 2006 Legislative Session, \$5 million was appropriated for an early childhood public/private match pilot program. This funding was matched on a 1:2 basis for one rural and one urban program. During the 2007 Legislative Session, funding for this program was increased to \$10 million.

STUDENT TESTING

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.

All state-mandated tests are now criterion-referenced assessments, meaning they measure student attainment of skills established in Oklahoma's core curriculum, known as the Priority Academic Student Skills (PASS). At the secondary level, students are administered assessments at the completion of the subject matter instruction, rather than at specific grade levels. These tests are referred to as End-of-Instruction (EOI) tests. For the 2010-11 school year, students attending public schools are required to participate in the following tests:

3 rd	Reading and Mathematics
4 th	Reading and Mathematics
5 th	Reading, Writing, Mathematics, Science, and Social Studies
6 th	Reading and Mathematics
7 th	Reading, Mathematics, and Geography
8 th	Reading, Writing, Mathematics, Science, and U.S. History
Secondary	Algebra I, Algebra II, Geometry, English II, English III, Biology I and U.S. History

Oklahoma Core Curriculum Tests, Grades 3-8
Percentage of all Oklahoma Students Tested
Scoring at the Proficient Level

2009-10 School Year Compared to 2008-09 School Year

Grade Level	Content Area	Percent Proficient	Increase/Decrease
3	Reading	69	+2
	Math	70	+4
4	Reading	65	+2
	Math	67	0
5	Reading	65	0
	Math	68	+3
	Writing	82	-1
	Science	87	+3
	Social Studies	71	+3
6	Reading	64	-1
	Math	64	0
7	Reading	67	-3
	Math	65	+2
	Geography	82	+1
8	Reading	70	+3
	Math	66	+5
	Science	88	+2
	U.S. History	69	+1
	Writing	89	0

**Oklahoma EOI Tests Summary
2009-2010 School Year
Percentage of Regular Education
Students Who Scored at the Proficient Level**

Content Area	Percent Proficient Regular*	Increase/ Decrease
English II	84	+7
ACE Algebra I	75	0
Biology I	75	+3
U.S. History	72	+2
Algebra II	65	+2
Geometry	77	+4
English III	80	+3

* Regular education does not include English language learners (ELLs) nor students with disabilities who are served on an Individualized Education Program (IEP).

Source: State Department of Education, August 2007

In addition to the state tests, the National Assessment of Educational Progress (NAEP), a standardized national test, is administered every two years to a sample of approximately 2,500 4th and 8th grade students in schools selected by the NAEP governing board as being demographically representative of the state as a whole. The NAEP is used to compare students' educational achievement across the nation as an external check of the rigor of states' standards and assessments. Oklahoma has been required to participate in NAEP testing since passage of a state law in 1997. The federal No Child Left Behind Act has required all states to participate in NAEP beginning in 2003.

The following results reflect the 2009 NAEP test for students scoring at or above the basic level:

**Oklahoma’s History of Participation and Performance
on the National Assessment of Educational Progress (NAEP) Tests
as Compared to the U.S. Average Scale Score**

READING				MATHEMATICS			
Grade	Year	State Avg.	U.S. Avg.	Grade	Year	State Avg.	U.S. Avg.
4	1992	220	215	4	1992	220	219
	2003	214	216		2003	229	234
	2005	214	217		2005	234	237
	2007	217	220		2007	237	239
	2009	217	220		2009	237	239
8	1998	265	261	8	1992	268	267
	2003	262	261		2003	272	276
	2005	260	260		2005	271	278
	2007	260	261		2007	275	280
	2009	259	262		2009	276	282

Source: Oklahoma’s State Profile from “The Nation’s Report Card,” National Assessment of Educational Progress

Office of Accountability

Created by HB 1017 in 1990, the Office of Accountability operates under the governance of the Education Oversight Board. The office administers two programs, the Oklahoma Educational Indicators Program and the Oklahoma School Performance Review Program.

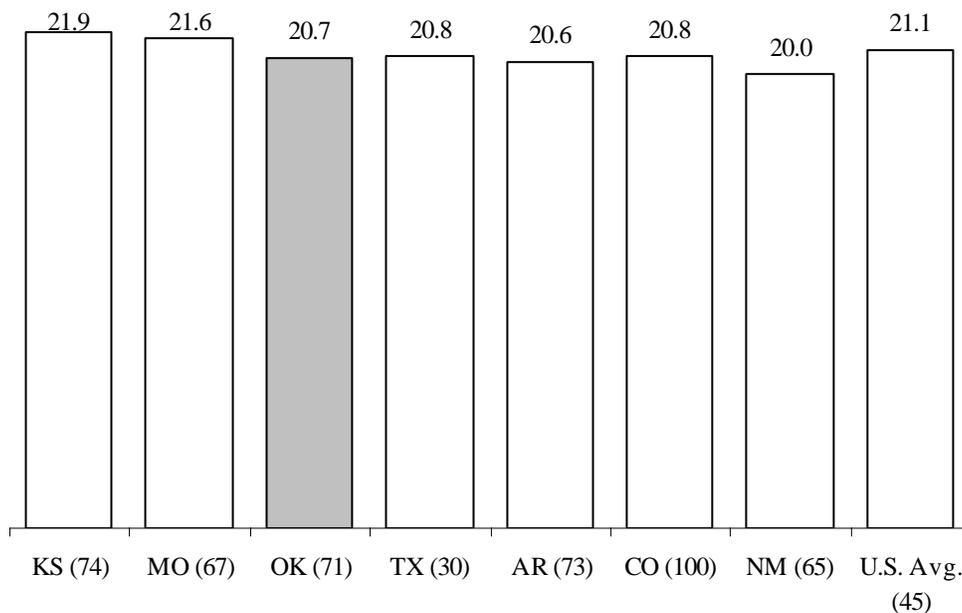
Through the Oklahoma Educational Indicators Program, the Office of Accountability provides annual reports on public school performance at the State, District, and School levels. These “Profiles” report cards provide school performance information that is comparable and in context with various indicators. The report cards may be viewed on the internet at www.schoolreportcard.org or by calling (405) 225-9470.

The Oklahoma School Performance Review Program was enacted in 2001 to determine the effectiveness and efficiency of the budget and operations of school districts.

ACT College Entrance Exam

Approximately 71 percent of high school seniors in Oklahoma participate in the ACT assessment for college admission. This compares to 45 percent of seniors nationally. Between 2005 and 2009, Oklahoma’s average composite score increased from 20.4 to 20.7, an increase of 1.5 percent.

Oklahoma Students' ACT Score Comparison 2009



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 U.S. Congress enacted House Resolution 1, 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. Congress is considering reauthorization of the ESEA once again. However, further consideration has been delayed until after the 2008 elections.

While the requirements a state must meet are numerous, the list below highlights the most important and far-reaching. Over the last several years Oklahoma has been 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 six years at a minimum and have been reviewed by a number of state and national organizations;
- Develop and implement tests aligned to the state academic standards 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 received \$5.6 million in federal funds to establish these

tests. In July of 2006, the United States Department of Education announced that Oklahoma was one of only four states in the nation to receive full federal approval of our student testing program;

- Develop and implement a single statewide accountability system for defining adequate yearly progress that meets federal guidelines;
- Ensure schools make adequate yearly progress (AYP) toward the goal of proficiency for all students in reading and mathematics by the 2013-14 school year. For schools and districts to make AYP, improvement must be demonstrated by all students along with each of the following subgroups of students: economically disadvantaged students, major racial or ethnic groups, students with disabilities, and English language learners;
- Develop and implement school improvement sanctions for schools and districts that fail to make AYP. The number of schools identified as in need of improvement has been on a steady decline in recent years;
- Participate in the National Assessment of Educational Progress (NAEP). Participation in this program is also required under state law; and
- Ensure all teachers of core academic subjects are highly qualified by the end of the 2005-06 school year. More than 92 percent of Oklahoma teachers were reported to have met the benchmark.

While some additional funds are being provided to meet some of these requirements, federal funds for developing the accountability system and reporting system are not provided. Oklahoma has been working over the last several years to successfully implement this legislation and as we continue toward the goal of all students meeting the achievement benchmarks by the 2013-2014 school year, 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.

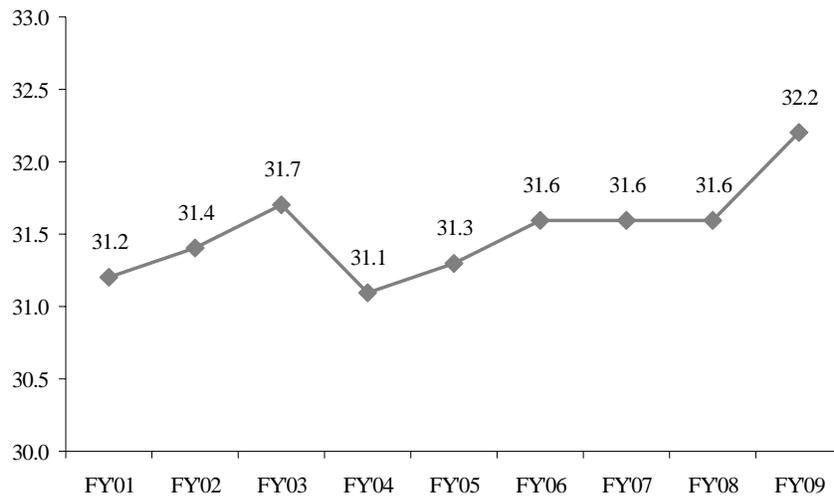
For FY'09, the Oklahoma School for the Blind received over \$6.9 million in state funds and served 41 children in the residential program, 54 in the day program, and 21 in summer school. For FY'09, the Oklahoma School for the Deaf received over \$8.6 million in state funds and served 91 children in the residential program, 63 in the day program, 33 in the pre-school program, and 99 in summer school.

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 future capacity for 280 students, the school currently serves approximately 144 students on a 32 acre campus.

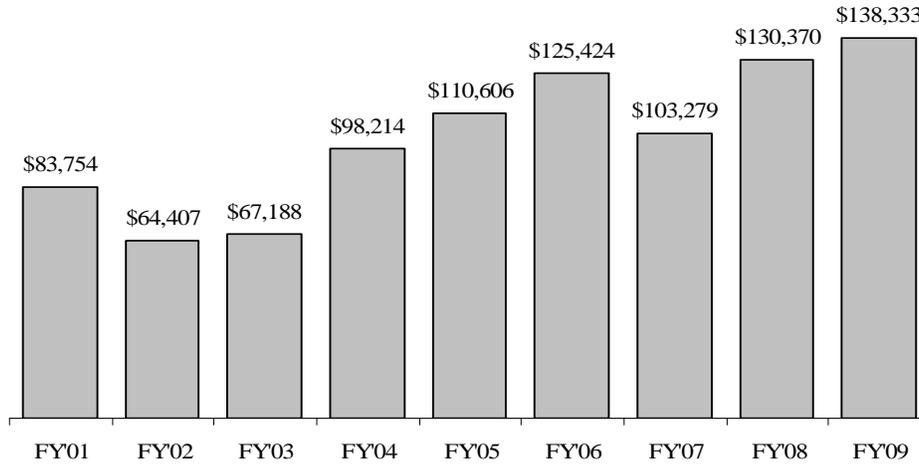
Average ACT Score of Residential School *FY'01 Through FY'09*



The graduating classes of 1998 and 2000 achieved the highest ACT composite scores of any high school in the United States. In addition, the school has produced 161 National Merit Scholars.

To replicate the success of the residential school, the Legislature has provided funding to establish 15 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'01 Through FY'09



CAREER AND TECHNOLOGY EDUCATION (VO-TECH)

Career and technology education got its start in 1904 when teacher H. F. Rusch, with the support of Oklahoma City Schools Superintendent Edgar Vaught, initiated the first manual training program. Schools in Lawton, Comanche, Ardmore and Muskogee followed Oklahoma City's lead. In all, 90 state schools offered vocational training prior to the passage of the Smith-Hughes Act of 1917, which established guidelines and funding for vocational education throughout the U.S.

In the 20th century, career and technology education advanced in both ideology and technology. Today, it is a comprehensive system that significantly contributes to the state's economic development and quality of life.

The Oklahoma Department of Career and Technology Education provides leadership and resources to ensure standards of excellence throughout the statewide system. The system offers its programs and services through nearly 400 public school districts, 29 technology center districts with 57 campuses, and 19 skills centers located in correctional facilities. Currently, there are more than 2,500 instructors working in all areas of CareerTech education. Each of the technology centers works closely with advisors from local industry to ensure that Oklahoma's students learn the skills needed to be valued members of the workforce.

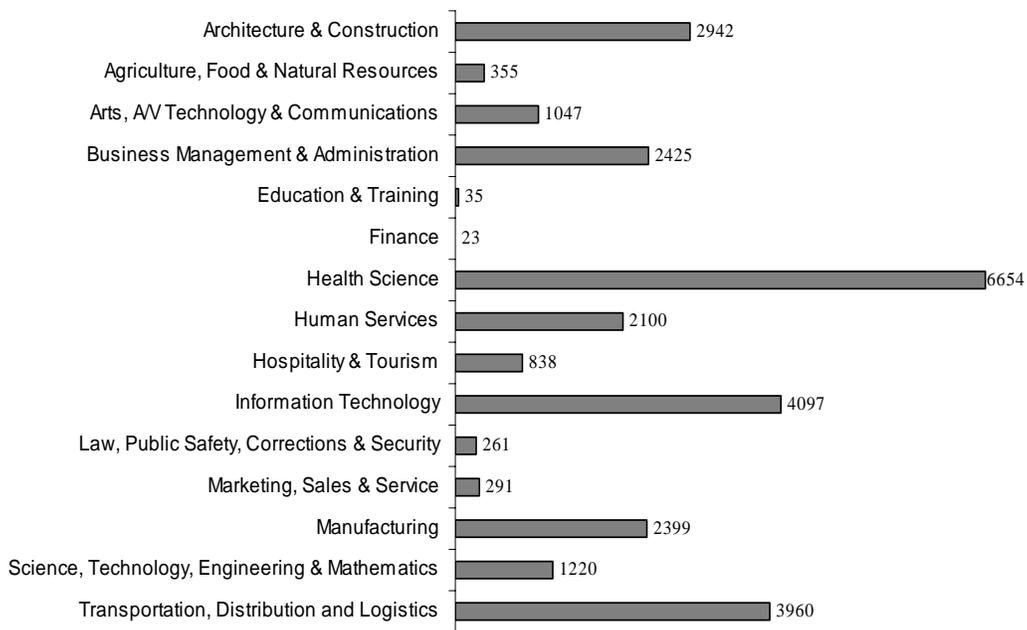
In 2009, enrollments in CareerTech training totaled 535,527. CareerTech provides nationally recognized competency-based curriculum, education, and training in the following broad categories. Each category offers a myriad of specialized and customized courses and training opportunities.

- Agricultural Education
- Business and Industry Training
- Business and Information Technology Education
- Family and Consumer Sciences Education
- Health Occupations Education
- Marketing Education
- Technology Engineering
- Trade and Industrial Education

Oklahoma’s CareerTech system uses competency-based curriculum. This curriculum is developed with the input of industry professionals, using skills standards to identify the knowledge and abilities needed to master an occupation. Competency-based education enables CareerTech to provide students with the skills employers are seeking in the workplace.

CareerTech has developed 15 Career Clusters, which group occupations together based on commonalities. Schools will use these Career Clusters as an organizational tool to help students identify pathways from secondary schools to career technical schools, colleges, graduate schools, and the workplace. The Career Clusters show students how what they are learning in school links to the knowledge and skills needed for their success in postsecondary education/training and future careers.

FY’09 Technology Center Enrollments By Career Cluster



Source: State Department of Career-Technology Education

State Board of Career and Technology Education

The Oklahoma State Board of Career and Technology Education is comprised of nine people. Two members of the State Board of Education are appointed to the CareerTech Board along with a resident of each of the five congressional districts and one member at-large. Members are appointed by the Governor and confirmed by the state Senate. Their terms vary in length from one to six years.

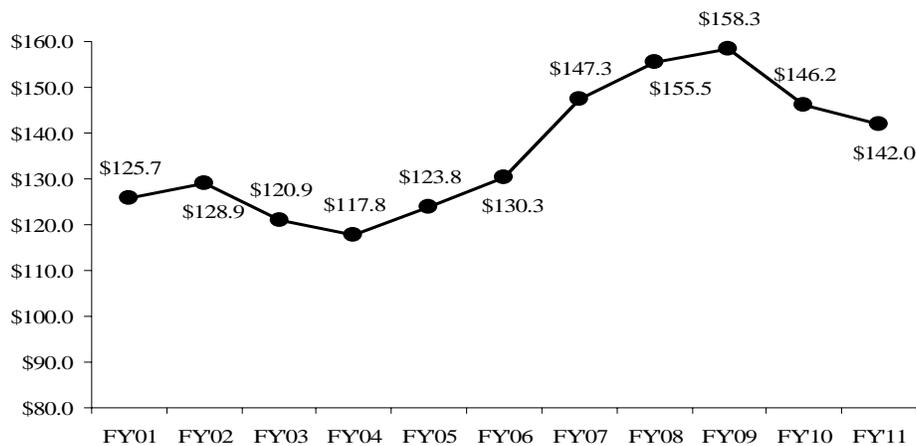
The State Superintendent of Public Instruction serves as the ninth member and the Board's chairperson. The Director of the agency serves as an ex officio, nonvoting member.

CAREER AND TECHNOLOGY FUNDING

Appropriation History

State appropriations for career and technology education funding grew by 10.3 percent from FY'01 to FY'11.

CAREER & TECHNOLOGY EDUCATION APPROPRIATION HISTORY (In millions)



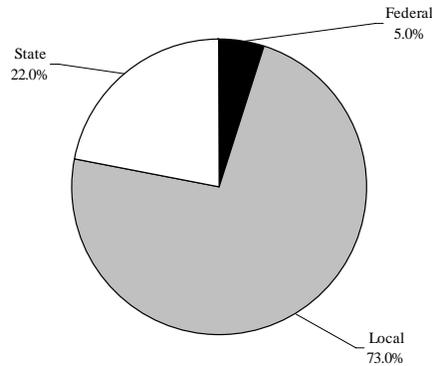
Technology Center Funding

Technology centers are funded through dedicated 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 five building-fund mills. Changes in technology center 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'10 FUNDING SOURCES FOR CAREER-TECHNOLOGY CENTERS



Source: State Department of Career-Technology Education

Local taxes, tuition and other income comprise 73 percent of the system's entire budget.

CAREER AND TECHNOLOGY SERVICES

Comprehensive Schools

In FY'09, enrollments totaled 156,755. Programs in seven occupational areas are offered at 560 elementary, junior and senior high schools in Oklahoma. Some 39 percent of students in grades 6-12 are enrolled in CareerTech offerings ranging from exploration programs to programs that provide specific knowledge and skills in career fields. Forty-nine percent of students in grades 9-12 are enrolled in Career Tech offerings.

These students learn valuable skills that prepare them for life and work in our ever-changing world. The hands-on experience in high-tech classrooms helps students increase technological proficiency and develop entrepreneurial skills. All career and technology education programs meet academic standards and prepare students to work in the "real" world.

Student Organizations

More than 71,000 secondary and postsecondary students are members of CareerTech program-related student organizations, which help develop teamwork and leadership skills. These organizations include BPA, Business Professionals of America; DECA, marketing education; FCCLA, Family, Career and Community Leaders of America; FFA, agricultural education; HOSA, Health Occupations Students of America; SkillsUSA, trade and industrial education; and TSA, technology engineering. Oklahoma has more than 2,176 students who are members of the National Technical Honor Society.

Technology Centers

Oklahoma's technology centers provide high school students and adults opportunities to receive high-quality career and technology education through various options. While high school students who live in technology center districts attend tuition-free, adult students are charged nominal tuition.

In FY'09, 29 technology center districts operated on 57 campuses through the state, making services easily accessible to most Oklahomans. In FY'09, high school student enrollments in technology centers equaled 17,080. Adult enrollments in full-time programs, Industry-Specific Training, Adult and Career Development and Training for Industry totaled 377,303.

Technology centers work with business and industry partners to ensure that curriculum meets the needs of the workplace. Many students participate in clinicals, internships and on-the-job training to experience the world of work.

Students frequently are able to earn college credit for classes taken at technology centers through agreements with colleges.

Skill Centers

CareerTech Skills Centers offer specialized, occupational training to adult and juvenile incarcerated individuals. Services have grown from just a few training programs in one center to a complete school system that provides services at 19 campuses. In FY'09, more than 1,469 individuals participated in Skills Center programs. In all, 94 percent of those completing Skills Centers programs have been placed in training-related jobs.

In a 2008 study of those who completed Skill Center training and were matched with training-related jobs, 82.6% did not return to incarceration within 52 months, compared to a rate of 65.5% for those who did not complete a Skill Center program.

Dropout Recovery

The students served through this initiative are out-of-school youth who are 15 to 19 years of age. These youth are given opportunities to gain academic credit and participate in career-specific training. In FY'09 dropout recovery programs were available at nine technology centers which helped 353 students attain a high school diploma and 21 completed a GED. Forty-two students were stabilized and returned to their home high school to continue their education. Two hundred and eighty-four students participated in local dropout recovery projects and will return in the fall to continue their pursuit of a high school credential.

NEW AND EMERGING SERVICES

Pre-Engineering Programs

CareerTech Pre-Engineering Education is offered in 11 technology center districts at 23 different campuses (high school and technology center). For the 2009-2010 school year, there were over 900 students enrolled in pre-engineering. The programs combine pre-AP and AP math and science courses with a sequence of engineering courses to better prepare students for college. The engineering curriculum, developed by the national, non-profit group Project Lead The Way, gives students the rigorous, relevant, reality-based knowledge that they need to excel in this high-tech field.

Cyber Security

Oklahoma's CareerTech is a member of the multi-state Cyber Security Educational Consortium, a National Science Foundation Advanced Technological Education Regional Center. The consortium was awarded its second prestigious \$2.7 million three-year Advanced Technological Education grant from NSF to help reverse the outsourcing and offshoring of high-tech jobs. Courses allow participants to obtain industry and government credentials while gaining practical hands-on experience. Eight technology centers throughout the state participate in the Cyber Security Education Consortium.

Biomedical Sciences

Oklahoma's CareerTech has partnered with Project Lead The Way and five other states to develop a biomedical sciences curriculum. In 2009, more than 300 students were enrolled at seven technology centers and two high schools. The Biomedical Sciences curriculum consists of four courses and, similar to pre-engineering, combines rigorous upper level math and science. Students interested in math, science, and the human body will find the Biomedical Sciences program a great introduction to numerous science and medical fields.

Biotechnology

As companies move from research and development to the manufacturing of pharmaceuticals, industrial and agricultural products, jobs will continue to increase in Oklahoma. Southern Technology Center, Ardmore, has formed a partnership with the Noble Foundation to design and implement a biotech academy. Students will complete a rigorous biotech curriculum, which includes two AP science courses, as well as the opportunity for internships and live research at the Noble Foundation. Other biotech programs have begun at Moore Norman and Meridian Technology Centers.

Nanotechnology

To position Oklahoma for the future of nanotechnology, the Oklahoma Department of Career and Technology and Oklahoma State University-Institute of Technology have launched the Oklahoma Nanotechnology Education Initiative. To advance this initiative, ONEI has been awarded a \$598,000 three-year Advanced Technological Education National Science Foundation grant. ONEI is addressing new workforce challenges by integrating microtechnology and nanotechnology concepts into career and technology education courses, while OSU Institute of Technology is developing a two-year associate degree that will advance industries' use of microtechnology and nanotechnology. ONEI also is offering summer camps for eighth, ninth and tenth grade students using the theme, "Nanotech, It's a "BIG" Deal." These camps introduce students to nanotechnology and its current application to Oklahoma Industry.

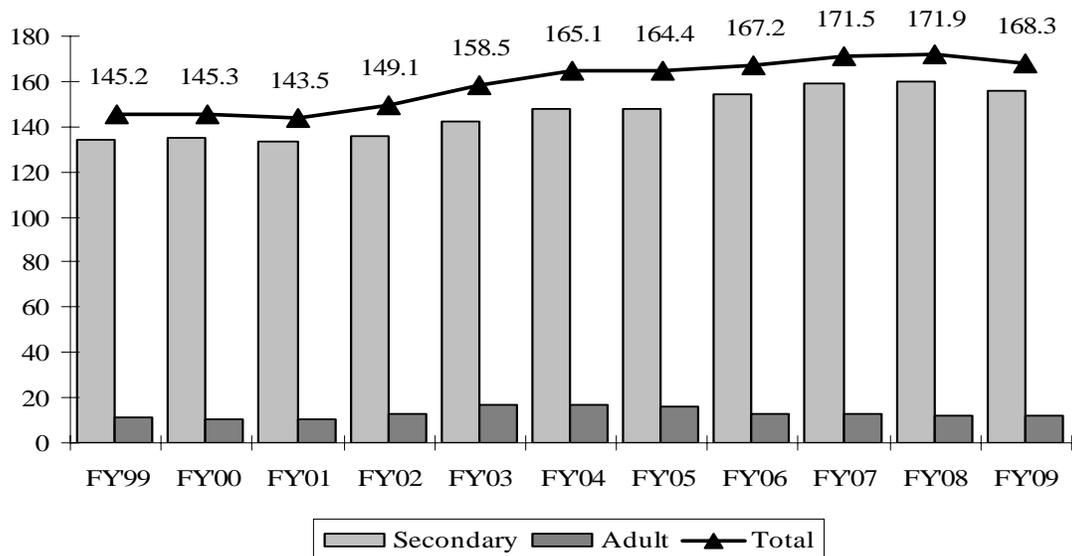
FIRST Robotics (For Inspiration and Recognition of Science and Technology)

FIRST Robotics Competition is designed to help high school students discover how interesting and rewarding the life of engineers and technicians can be. Oklahoma hosted its first Regional FIRST Competition in the Spring of 2008, and next year's Regional is already scheduled for March 2011. Many of the FIRST Robotics teams from the state of Oklahoma are led by CareerTech instructors.

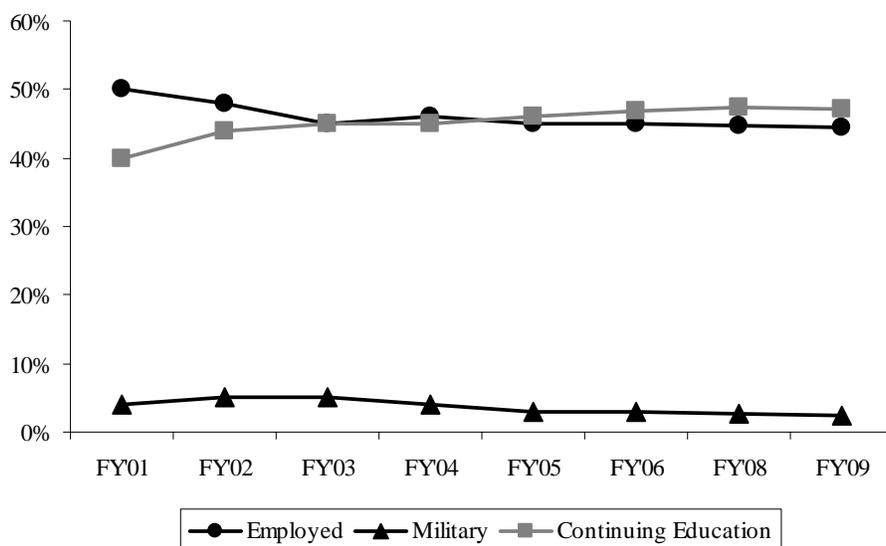
ENROLLMENT TRENDS

Between FY'99 and FY'09, total enrollment in career-technology programs increased by 14.2 percent.

CAREER TECHNOLOGY ENROLLMENT TRENDS BY STUDENT TYPE (In Thousands)



STUDENT OUTCOMES FOR CAREER-TECH PROGRAMS *FY'01 Through FY'09*



Source: State Department of Career-Technology Education

Career Tech Business and Industry Development

Oklahoma's CareerTech offers customized programs and services for new companies, existing companies, small businesses wanting to expand and entrepreneurs just getting started. Often these services are incentives for companies to relocate in our state. These programs are designed to ramp-up very quickly to meet the critical issues facing employers and are focused in three primary areas: Business and Industry Development, Adult and Career Development, and Business and Entrepreneurial Services.

- **Business and Industry Development:** Customized training for companies.

Training for Industry Program (TIP): This program meets specific training needs of new and expanding industries in conjunction with the Quality Jobs Act.

Industry Specific/Training for Existing Industry (TEI): These offerings are designed to help existing companies stay competitive through incumbent worker training programs.

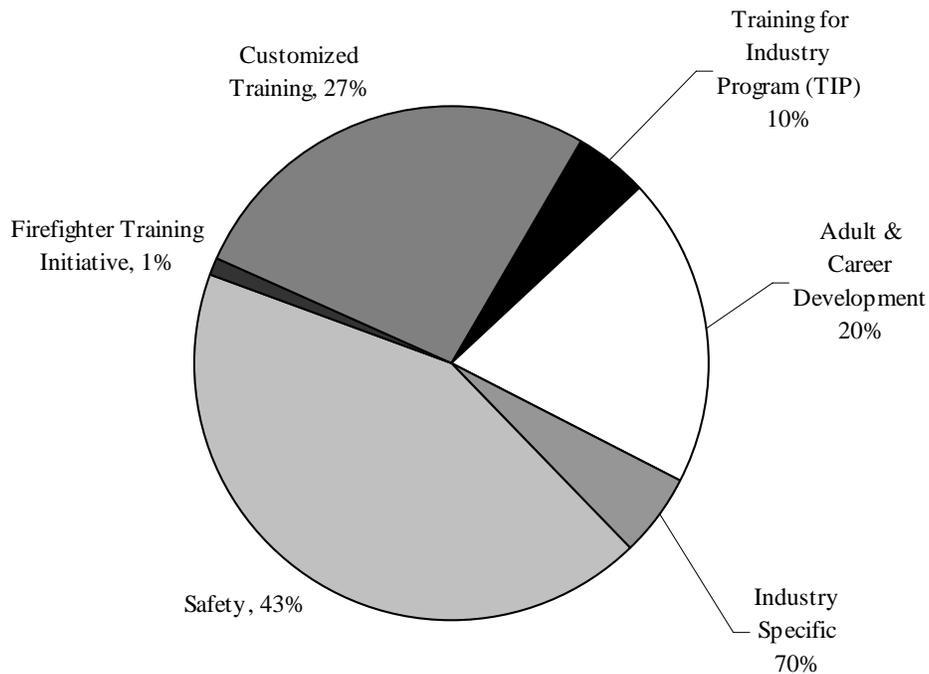
Safety and Health Training: These offerings are designed to help companies plan and implement safety processes, procedures and ongoing training to assure safe workplaces.

Firefighting Training Initiative: These offerings are designed to accommodate the increased demands for training and testing of volunteer firefighters across the state.

Oklahoma Bid Assistance Network: This program is designed to assist companies in obtaining state and government contracts.

- **Adult and Career Development:** Adults wishing to expand their expertise or who are looking to change career paths are provided job-training workshops, seminars, and short courses.
- **Business and Entrepreneurial Services:** Services are to provide professional assistance and guidance to persons interested in starting a new business or one currently successfully operating.

FY'09 ENROLLMENT BY CAREER-TECHNOLOGY ECONOMIC DEVELOPMENT OFFERINGS





POST-SECONDARY EDUCATION

Providing high 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, 11 regional universities, 12 community colleges, 11 constituent agencies and one higher education center 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:

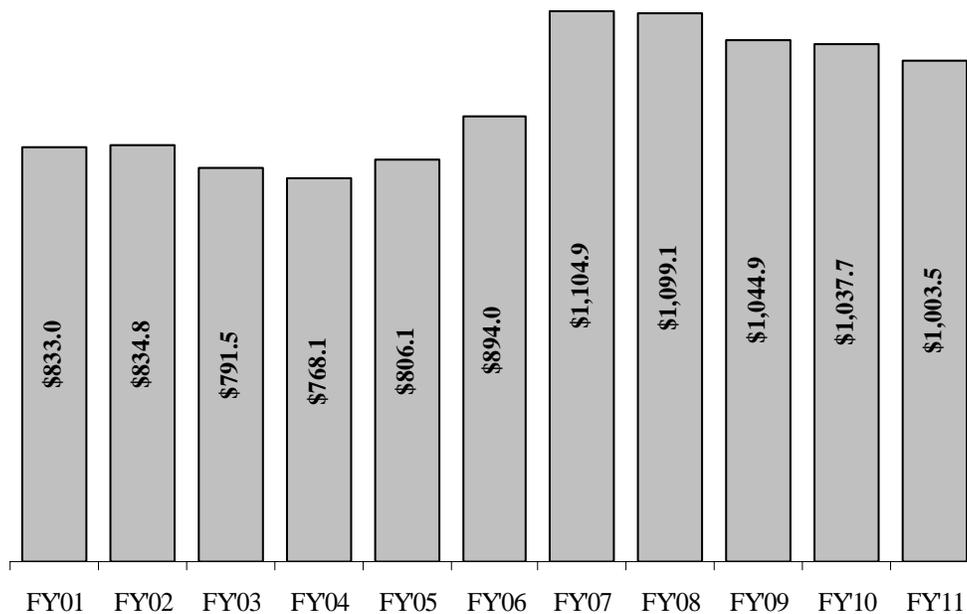
- prescribe standards of higher education;
- determine functions and courses of study at state institutions;
- grant degrees and other forms of academic recognition;
- recommend to the Legislature budget needs for state institutions; and
- determine fees within the limits set by the Legislature.

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 confirmation of the Senate.

Funding Trends for Higher Education

In FY'11, 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'01 Through FY'11* (In Millions)



For FY'11 the Legislature appropriated over \$1.003 billion to the State Regents for Higher Education, which represents an increase of over \$170 million or 20.5 percent from the FY'01 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'11 appropriation for administrative operations in the state regents' office is \$5.2 million, which represents less than 1 percent of total appropriations to higher education.

Endowed Chairs: Oklahoma has been making an effort 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.

In 2004, HB 1904 authorized a \$50 million bond issue for the Endowed Chairs program in order to eliminate the backlog. The Regents office used their annual \$7.5 million appropriation for Endowed Chairs to fund the debt service on the bond. However, the backlog of unmatched private funds continued to grow past this \$50 million amount.

As a result, HB 1137 from the 2007 Legislative Session was passed in order to increase the bonding authority for the Endowed Chairs program from \$50 million to \$100 million in an attempt to address the new backlog of private funds. At this time, appropriated funding was not provided to fund the debt service on the new bonds.

HB 1373 from the 2008 Legislative Session further increased the Oklahoma Capitol Improvement Authority's authority to issue bonds for the State's matching contribution for Endowed Chairs to \$150 million.

This bill also amended the Trust Fund provisions to provide that after July 1, 2008, state matching monies must be used to match the current backlog of endowment contributions before they may be used to match endowment accounts created after that date. After the backlog of state matching requirements are completed, expenditure of state matching monies is limited to a total of \$5 million per year; \$4 million for the comprehensive universities and \$1 million for other eligible institutions. Trust Fund endowment accounts of \$250,000 or less will be matched dollar for dollar with state matching monies and those exceeding \$250,000 will be matched with \$1 of state match for every \$4 received in contributions.

Although the Oklahoma Capitol Improvement Authority had been given authority to issue bonds up to \$150 million for the Endowed Chairs program, they had been unable to sell \$100 million of those bonds. Therefore, HB 3031 from the 2010 Legislature authorized OCIA to refinance or restructure outstanding obligations for the endowed chairs program. Due to the extended term of

the refinancing and lower interest rate there was no need to increase state appropriated funds for the debt service.

Oklahoma Promise of Excellence Act: During the 2005 session, the Legislature passed HB 1191 which created the Oklahoma Promise of Excellence Act of 2005 to authorize bonds for \$475 million for The Oklahoma State System of Higher Education. Bonds were issued by the Oklahoma Capital Improvement Authority, with revenues from the Oklahoma Education Lottery Trust Fund and any other source necessary designated for debt retirement. The scope of the Master Lease Program was expanded to include financing of acquisitions of or improvements to real property as well as personal property. An additional \$25 million in bonds were authorized to establish a permanent revolving lease fund within the Master Lease program, to be paid for with lottery revenues. Lease payments made for projects financed with money from this fund will go back into the fund for master leases.

In 2007, the Legislature amended both the personal property and real property portions of the Master Lease program. The use of the Master Lease program to finance the acquisition of personal property is now limited to a total of \$50 million in a calendar year. For real property, the Regents are required to submit an itemized list of proposed projects to the Legislature at the beginning of each legislative session, and the Legislature may disapprove all or part of the proposal. If the Legislature takes no action to disapprove, the proposal is deemed to be approved. SB 1332 from 2010 allows bonds issued under the Master Lease program to be refinanced. Savings are yet unknown.

The governing boards for OU, OSU and the State Regents (for all other institutions) have been authorized to issue bonds for capital projects at the institutions that may be paid for with any monies lawfully available other than revenues appropriated by the Legislature from tax receipts. The bonds issued under this act are tax exempt, and the Legislature is given the power to disapprove them.

Institutional Budgets

State appropriations represent 44.8 percent of total operating revenue for higher education; tuition and fee revenue comprise another 38.4 percent of the total higher education budget, while other funds comprise 16.8 percent.

The allocation of appropriations by the State Regents to Institutions is based upon achieving two goals – funding parity within each tier and peer funding parity.

Funding parity within each tier is achieved by the development of a budget need for each institution as well as the entire system. To arrive at the budget need, the State Regents use “program budgeting” to focus on the costs of offering courses for each academic program. The cost base incorporates the actual expenditures of appropriations, tuition and fees that are allocated to all courses.

Through the accumulation of the course data, a standard cost for each program is developed for each institution and each tier. The standard cost is then multiplied by the number of students enrolled in each program, a peer factor, and the percentage of cost attributable to state appropriations. Again, this data is aggregated for each institution as well as the entire system to arrive at a budget need.

The second part of the funding mechanism uses per student funding data from peer institutions.

State Support for Higher Education, Fiscal Years 2005, 2008, 2009, and 2010^a

	State Support (\$)											
	FY05			FY08			FY09			FY10		
	State Monies ^b	State Monies ^b	State Monies ^b	Federal Stimulus Monies: Stabilization funds ^c	Federal Stimulus Monies: Government Services Funds ^d	Total Support	State Monies ^b	Federal Stimulus Monies: Stabilization funds ^c	Federal Stimulus Monies: Government Services Funds ^d	Total Support		
Arizona	987,367,600	1,315,406,400	1,154,957,900	182,808,000	0	1,337,765,900	1,103,840,000	84,192,000	0	1,188,032,000		
Arkansas	655,270,998	879,882,230	887,321,221	0	0	887,321,221	905,301,021	13,641,365	0	918,942,386		
Colorado	597,921,311	747,481,054	682,248,254	150,676,055	288,000	833,212,309	679,624,934	150,676,055	0	830,300,989		
Illinois	2,685,920,700	2,948,632,100	2,997,136,935	0	0	2,997,136,935	3,039,940,000	40,426,300	53,510,100	3,133,876,400		
Iowa	743,121,766	873,709,364	914,197,000	0	0	914,197,000	721,515,000	103,380,000	2,500,000	827,395,000		
Kansas	727,534,311	825,697,884	806,010,141	9,599,299	0	815,609,440	753,700,801	40,000,000	0	793,700,801		
Kentucky	1,076,740,400	1,320,540,000	1,270,507,000	0	0	1,270,507,000	1,203,786,000	70,000,000	0	1,273,786,000		
Louisiana	1,287,848,788	1,707,668,337	1,706,364,806	0	0	1,706,364,806	1,410,621,395	189,700,000	0	1,600,321,395		
Michigan	1,947,744,600	2,033,709,000	2,051,065,300	0	0	2,051,065,300	1,837,465,800	68,238,000	0	1,905,703,800		
Minnesota	1,273,328,000	1,574,499,000	1,542,056,000	0	30,546,000	1,572,602,000	1,427,469,000	137,342,000	601,000	1,565,412,000		
Missouri	925,045,604	1,021,705,137	1,108,021,377	0	0	1,108,021,377	1,036,350,818	106,212,100	33,572,812	1,176,135,730		
Nebraska	519,741,659	657,011,774	651,703,765	0	0	651,703,765	622,962,181	0	0	622,962,181		
New Mexico	762,379,374	1,058,394,058	994,039,650	0	0	994,039,650	877,411,145	15,538,400	0	892,949,545		
Oklahoma	787,076,396	1,098,881,179	1,078,158,766	0	0	1,078,158,766	1,017,923,491	68,792,477	0	1,086,715,968		
Texas	5,110,262,835	6,343,669,747	6,104,326,402	0	0	6,104,326,402	6,542,926,661	0	326,907,500	6,869,834,161		
Wisconsin	1,121,729,480	1,228,373,932	1,276,923,830	0	0	1,276,923,830	1,191,512,368	0	0	1,191,512,368		
Wyoming	217,638,250	290,504,588	327,917,291	0	0	327,917,291	305,457,760	8,400,000	0	313,857,760		
Totals	65,140,375,830	80,744,607,515	77,939,288,748	2,303,416,998	30,834,000	80,273,539,746	75,182,255,565	3,621,270,555	608,371,907	79,411,898,027		

^aFY2010 figures represent initial allocations or estimates as of December 15, 2009 and are subject to change.

^bState monies include state tax appropriations and other state funds allocated to higher education.

^cIncludes education stabilization funds used to restore the level of state support for public higher education.

^dExcludes government services funds used for modernization, renovation, or repair.

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 44.8 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 55.2 percent of the core educational budget, with student tuition/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 above peer institutions in percentage of total higher education costs paid by tuition.

**Comparison of Percentage of Total Cost
Paid by Tuition/Student Fees
2008 – 2009 School Year**

<u>Tier</u>	<u>Peer Institutions</u>	<u>Oklahoma Institutions</u>
Research Universities	55.8%	51.8%
Four-Year Large Universities	52.3%	48.3%
Four-Year Small Universities	36.6%	42.6%
Two-Year Rural Colleges	28.3%	40.1%
Two-Year Urban Colleges	31.4%	31.9%
Technical Branches	<u>37.2%</u>	<u>41.2%</u>
Total Average	45.8%	46.9%

Note; Revenue defined as: Tuition/Fees + State Appropriations + Local Appropriations

Source: IPEDS, FY’10, State Regents

Tuition

In Oklahoma, determining tuition limits is a constitutional power of the Legislature. During the 2001 legislative session, the Legislature passed SB 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 2005-2006 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.

HB 2103 from 2007 Legislative Session directs each institution within the Oklahoma State System of Higher Education to offer to resident students enrolling for the first time as a fulltime undergraduate beginning with the 2008-2009 academic year, a tuition rate that will be guaranteed for a period of not less than four consecutive academic years at the comprehensive and regional universities at a rate not exceeding 115 percent of the institution's nonguaranteed resident tuition rate. Each institution shall provide students with the following information prior to enrollment:

- a. the annual tuition rate charged and the percentage increase for the previous four (4) academic years, and
- b. the annual tuition and percentage increase that the nonguaranteed tuition rate would have to increase to equal or exceed the guaranteed tuition rate for the succeeding four (4) academic years.

UNDERGRADUATE TUITION AND FEES
BIG TWELVE PUBLIC UNIVERSITIES
Academic Years 2000-01 and. 2009-10

University	2000-01		2009-10	
	Resident	Nonresident	Resident	Nonresident
Missouri	\$4,726	\$12,895	\$8,501	\$19,592
Texas A&M	\$3,572	\$9,592	\$8,177	\$22,607
Texas Tech	\$3,400	\$9,850	\$7,485	\$15,795
Texas	\$3,800	\$9,390	\$8,930	\$30,006
Iowa State	\$3,132	\$9,974	\$6,651	\$17,871
Nebraska	\$3,465	\$8,220	\$6,857	\$17,897
Kansas	\$2,725	\$9,493	\$7,414	\$18,097
Kansas State	\$2,781	\$9,549	\$6,870	\$17,577
Colorado	\$3,188	\$1,670	\$7,932	\$28,186
Oklahoma	\$2,774	\$5,204	\$6,483	\$16,474
Oklahoma State	\$2,774	\$5,204	\$6,201	\$16,556
Big Twelve Average	\$3,303	\$9,643	\$7,409	\$20,059

Source: FY'01 – “Washington Study Institutional Research and Reporting 9/21/04”
FY'10 – “FY 2009-10 Tuition Impact Analysis Report,” Oklahoma State Regents for Higher Education

AVERAGE COST OF ATTENDANCE
OKLAHOMA COLLEGES AND UNIVERSITIES
FULL TIME UNDERGRADUATE STUDENTS, FY'10

Tier	Tuition	Mandatory Fees	Academic Services Fees	Books & Supplies	Total for Commuter Students	Room & Board	Total for Students Living on Campus
<u>Resident</u>							
Research Universities	\$3,739	\$2,608	\$813	\$998	\$8,158	\$6,500	\$14,658
Regional Universities	\$3,143	\$1,038	\$182	\$1,084	\$5,447	\$4,448	\$9,895
Community Colleges	\$1,938	\$704	\$63	\$1,042	\$3,747	\$3,941	\$7,689
Technical Branches	\$2,520	\$798	\$177	\$1,325	\$4,819	\$4,712	\$9,531
OSU-Tulsa	\$3,941	\$2,261	\$628	\$1,100	\$7,929	\$0	*
OU Health Sciences Center	\$3,537	\$2,020	\$515	\$5,377	\$11,449	\$0	*
<u>Nonresident</u>							
Research Universities	\$13,907	\$2,608	\$813	\$998	\$18,326	\$6,500	\$24,826
Regional Universities	\$9,019	\$1,038	\$182	\$1,084	\$11,323	\$4,448	\$15,771
Community Colleges	\$5,657	\$704	\$63	\$1,042	\$7,466	\$3,942	\$11,408
Technical Branches	\$7,605	\$798	\$177	\$1,325	\$9,904	\$4,712	\$14,616
OSU-Tulsa	\$14,295	\$2,261	\$628	\$1,100	\$18,284	\$0	*
OU Health Sciences Center	\$13,518	\$2,020	\$515	\$5,377	\$21,430	\$0	*

* These institutions do not have traditional dormitory facilities with board plans.
Based on 30 credit hours per year for a full-time student.

College Graduates in Oklahoma

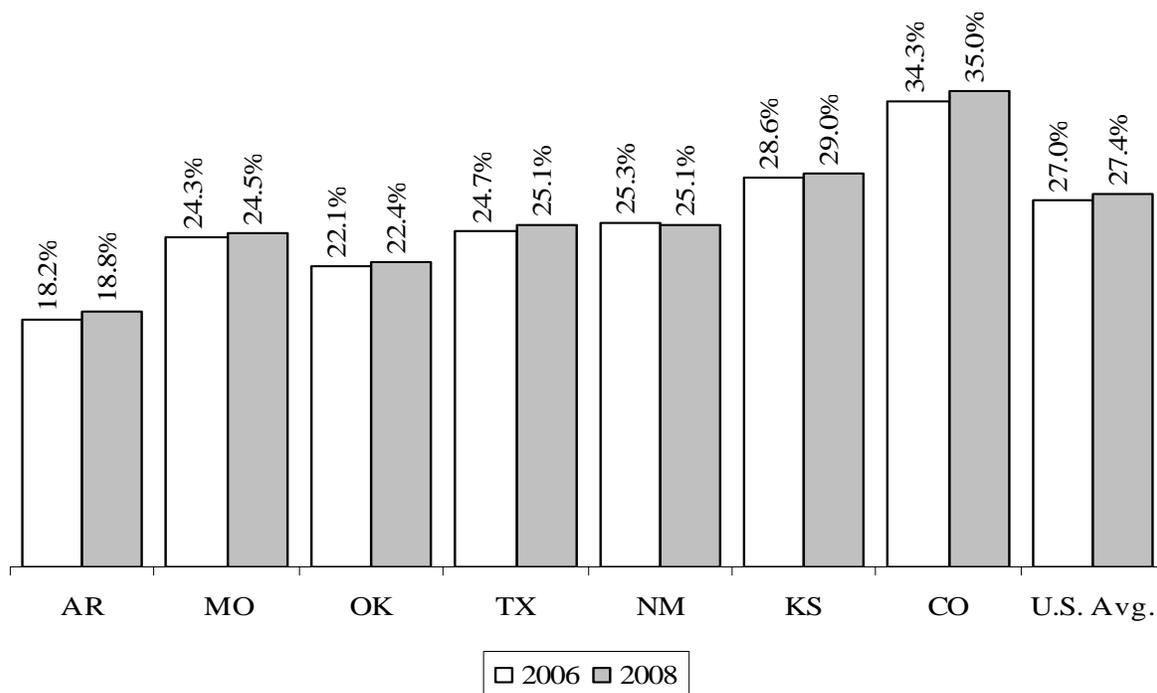
Over the past ten years, legislators and state regents have implemented a number of initiatives designed to increase the number of Oklahoma high school students ready for college level work, going to college, and graduating with a higher education degree. Increasing the number of adults with higher education 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.

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.

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

Oklahoma vs. Regional States and U.S., 2006 vs. 2008

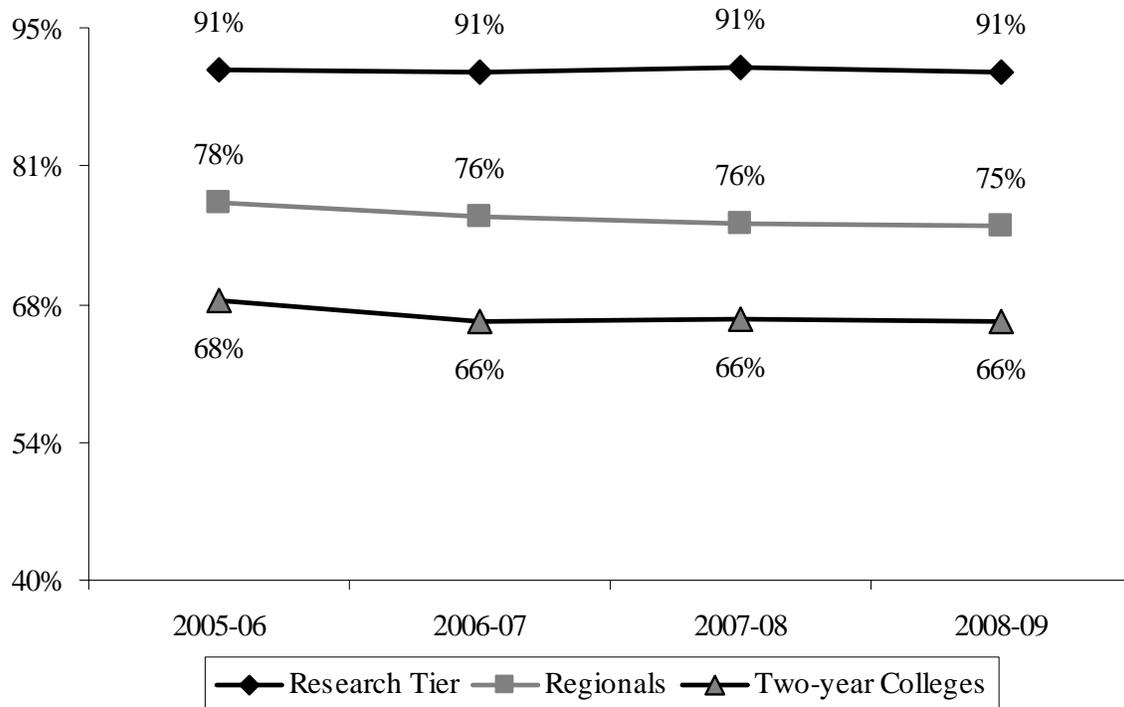


Source: U.S. Census Bureau

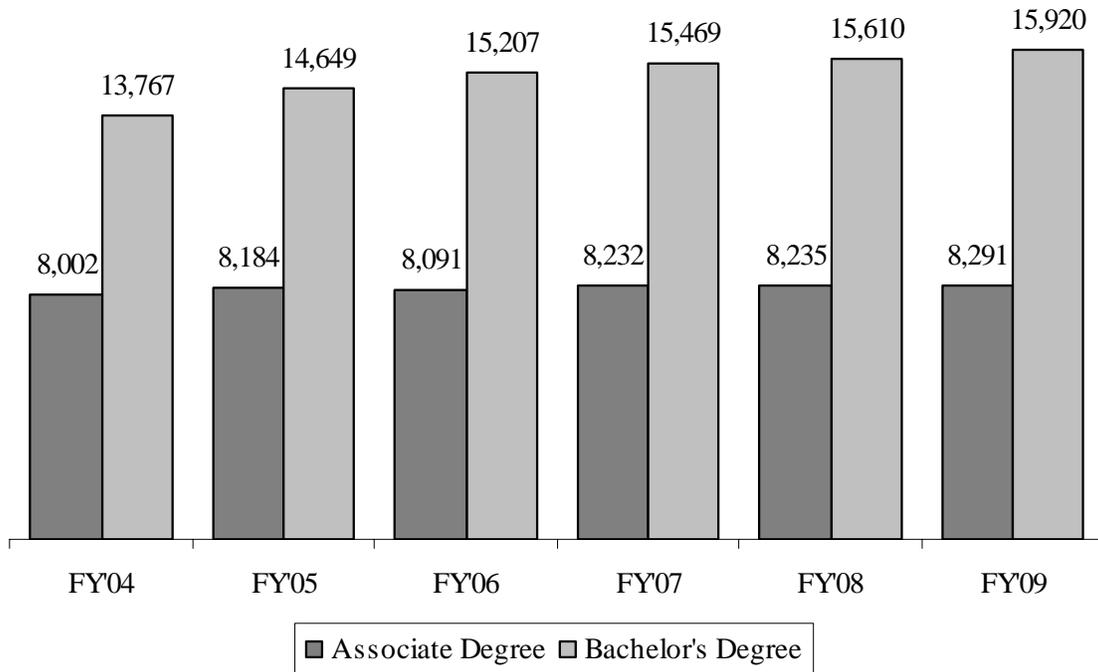
SB 1792 from the 2006 Legislative Session requires students beginning with those entering the ninth grade in the 2006-07 school year to complete a college preparatory/work ready curriculum to graduate from high school. However, it allows students to complete the current core curriculum in lieu of the college preparatory/work ready curriculum upon written parental approval.

Recognizing the importance of retaining and graduating more students, institutions have worked over the past several 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.

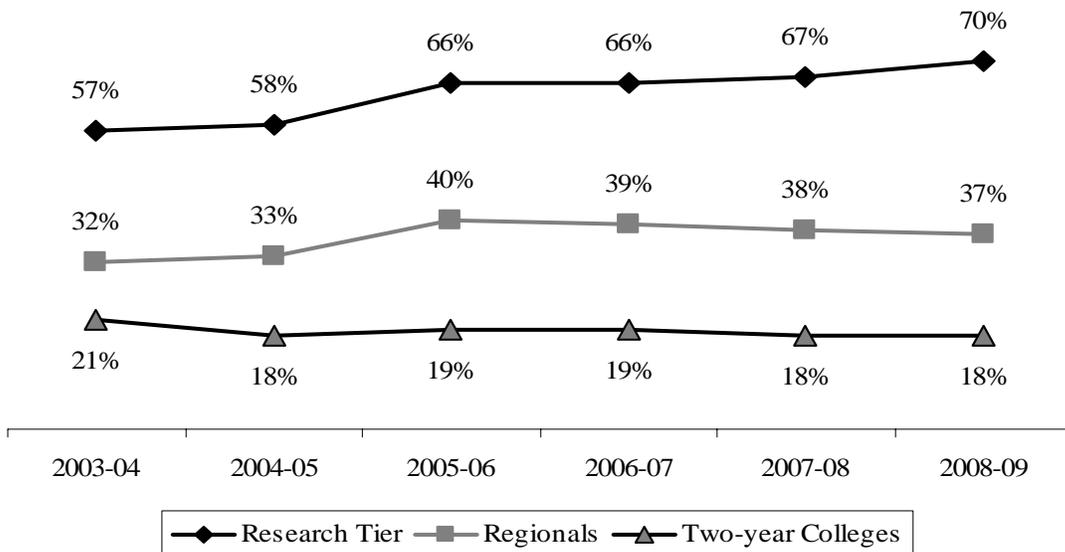
First-Year Persistence Rates Within State *2005-06 Through 2008-09*



Degrees Conferred in Oklahoma 2003-04 Through 2008-09



Graduation Rates by Tier Within State 2003-04 Through 2008-09



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 \$100 and contribute as little as \$25 per pay period to the savings plan. A maximum of \$235,000 may be invested for each beneficiary. Among the plan's benefits:

- Contributions up to \$10,000/year per taxpayer and \$20,000/year per married couple 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;
- Withdrawals are exempt from state and federal taxes.
- 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; funds can also be used for approved business, trade, technical or other occupational schools such as Career-Tech;
- 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 is the state's only qualified tuition savings plan. To date, nearly 45,700 accounts have been opened with current assets totaling over \$380 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' 10 an estimated 23,000 students received 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. In the Fall of 2003, awards provided under the institutional nominee designation became 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'10 there were 2,150 academic scholars across the state.

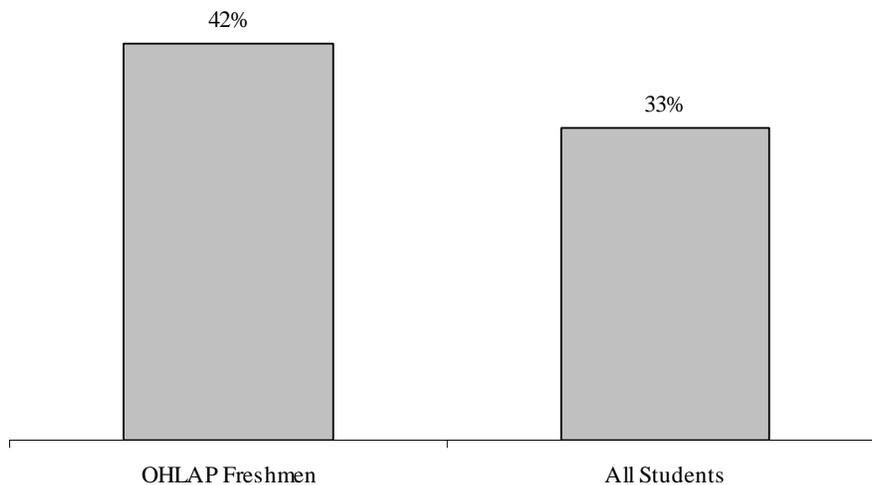
Oklahoma Higher Learning Access Program (OHLAP) – Oklahoma's Promise: This program's mission is to provide tuition assistance to students who might not otherwise attend or complete college. Qualifying students in families who earn less than \$50,000 annually receive free tuition assistance to any public or private higher education institution in Oklahoma for up to five years. In order 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 at least 2.5 in high school, and must refrain from unlawful behavior.

SB 820 from the 2007 Legislative Session created a permanent funding source for OHLAP, beginning July 1, 2008. Each year, the State Regents for Higher Education will provide the State Board of Equalization with an estimate of the amount of revenue necessary to fund OHLAP awards. The Board will make a determination of that amount and subtract it from the amount it certifies as available for appropriation from the General Revenue Fund. The Director of State Finance will transfer this amount to the OHLAP Trust Fund on a periodic basis as needed. Revenues from horse racing and the State-Tribal Gaming Act that have been deposited to the Oklahoma Higher Learning Access Trust Fund were redirected to the General Revenue Fund, beginning July 1, 2008. OHLAP eligibility requirements for students were modified by adding a requirement for students to be U.S. citizens or lawfully present in the U.S. as well as by allowing access to students who are both home-schooled and achieve an ACT score of at least 22. Eligibility requirements were further changed to include a new GPA requirement in order to retain benefits at the postsecondary level by requiring students to achieve a minimum GPA of 2.0 during their sophomore year and a minimum GPA of 2.5 during their junior year and thereafter. Students will also lose their program benefits if they are expelled or suspended for more than one semester from an institution of higher education. Disqualification of program benefits will occur if the student's family income exceeds \$100,000 at the time the student begins their postsecondary education.

SB 1038 from the 2008 Legislative Session created the Task Force on Oklahoma's Promise – OHLAP, to study the family income limitations for participation in and requirements for maintaining eligibility in the program. This bill modified the grade point average requirements for continuance of the scholarship and delayed these requirements until the 2010-2011 school year. Similarly, the limitation for family income to be below \$100,000 for students enrolling in postsecondary studies was also delayed. Finally, this bill extends the time period during which high school graduates must enroll in postsecondary studies to receive the OHLAP benefit for students who are members of the Armed Forces and ordered to active duty. HB 2446 from the 2008 Legislative Session modified the financial need eligibility requirements to qualify for OHLAP for any student who was adopted while in permanent custody of DHS, in court-ordered custody of a licensed private nonprofit child-placing agency, or federally recognized Indian tribe.

In FY'10, there were about 19,000 students receiving an award in college and over 28,000 students enrolled in high school. Studies show that OHLAP students are much less likely to require remediation classes to prepare them for college-level work and are more likely to remain in college through the third year.

Degree Completion Rates **Five-year Degree Completion Rate for** *OHLAP Students vs. All Students*



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 public four-year regional universities. For FY'10 there will be 310 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 20-25 scholarship recipients participating in this program. This program is now primarily administered through the OKC Community Foundation.

Teacher Shortage Employment Incentive Program: The Teacher Shortage Employment Incentive Program (TSEIP) was created in 2000 by SB 1393 to recruit and retain mathematics and science teachers in Oklahoma public schools. The incentive is the reimbursement of student loan expenses upon teaching five consecutive years in Oklahoma public schools. If there are no remaining student loans, the teacher will receive the same amount in a stipend. At present 605 teachers are currently enrolled in the program. Thirty-seven of the first 44 teachers that enrolled in 2001 received a benefit of \$10,347 at the end of the 2006 school year. 2006 was the first year that teachers were eligible for the benefit which is based on a formula included in the legislation.

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. There are 94 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'10 there were over 2,000 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 \$2,000 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'10, approximately 2,340 students will receive a grant.

ENERGY AND ENVIRONMENT

- **Energy and Environment Agencies**

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ENERGY AND 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

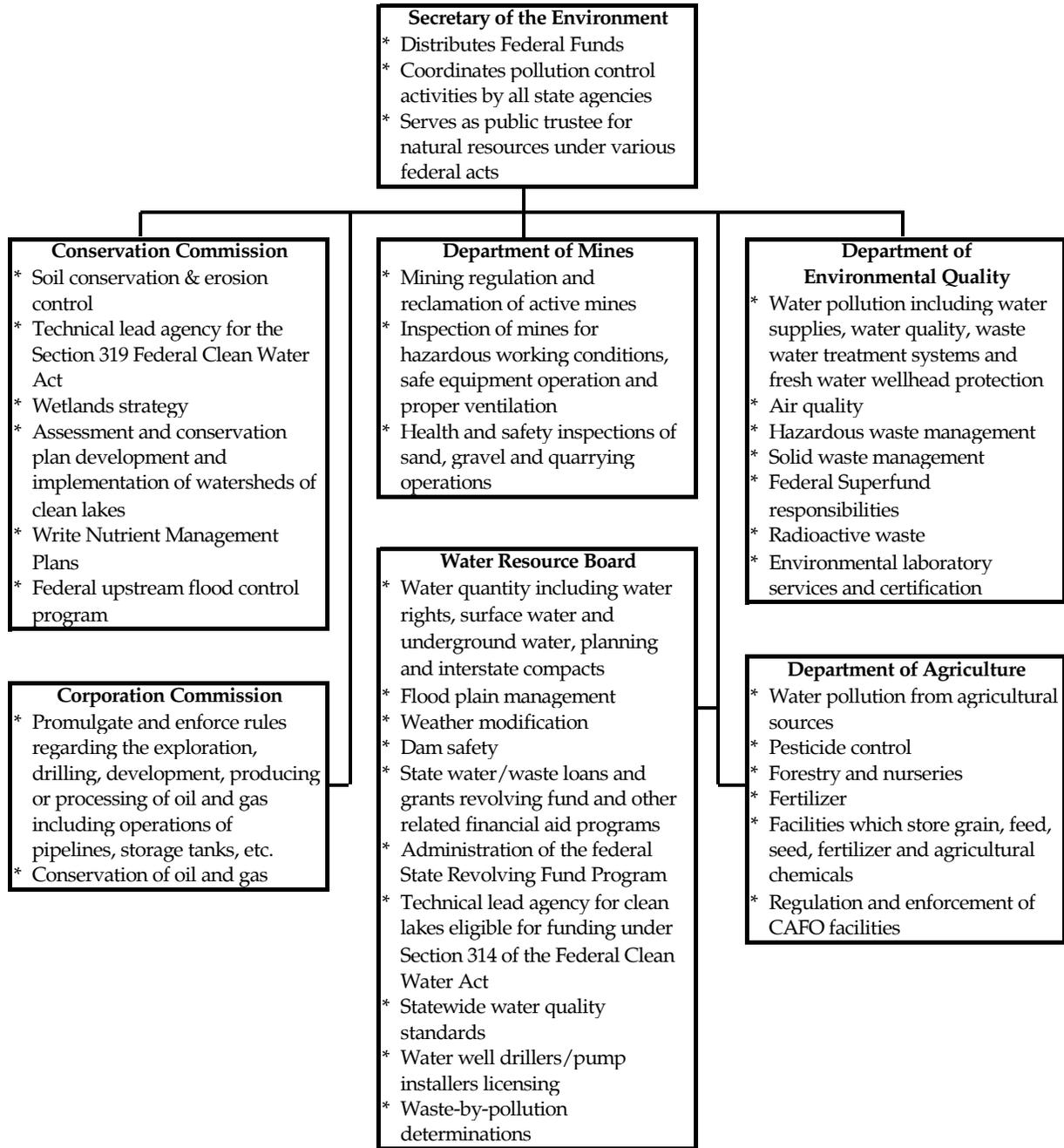
The Conservation Commission's primary responsibilities lie in the preservation and development of Oklahoma's natural resources. The commission has the responsibility for providing assistance to all 88 conservation districts in the areas of erosion prevention and control, prevention of flood and sediment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

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 along with monitoring concentrated animal feeding operations.

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. During the past two years, they have been working to update the Comprehensive Water Plan.

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, one of which has not been implemented due to funding constraints:

- River and Stream Monitoring: Almost 130 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 40 lakes are being sampled. The effort involves the sampling of about three stations per reservoir, but varies due to size;
- Fixed Station Groundwater Monitoring: Focusing on groundwater will involve monitoring existing wells. Limited ground water monitoring has occurred; and
- Intensive Investigation Sampling: This element attempts to document the source of water impairment and recommend restorative actions. No work of this nature has occurred in the last six years.

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 1,275 sites on the National Priorities List (NPL). In Oklahoma, there are eight NPL sites, five deleted sites and one proposed site. The current eight sites are:

- Oklahoma Refining (Cyril);
- Imperial Refining (Ardmore);
- Tulsa Fuels and Manufacturing (Collinsville);
- Tar Creek (Ottawa County);
- Hudson Refining (Cushing);
- Tinker Air Force (Midwest City);
- Mosley Road Sanitary Landfill (Oklahoma City); and
- Hardage/Criner (McClain County).

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'10, the appropriations to REAP totaled a little over \$23 million.

\$14.4 million is given to the REAP fund and divided equally among 10 Substate Planning Districts resulting in two of the districts receiving half of a portion 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.

Other REAP funds were derived from the apportionment of gross production revenues. During the 2006 legislative session, legislation was passed that divided the oil and gas gross production REAP funds three ways until 2014, between the Oklahoma Water Resources Board (OWRB), the Conservation Commission, and the Oklahoma Tourism and Recreation Department (OTRD). OWRB will use their portion of the funds to continue dealing with water infrastructure needs and also to conduct the Oklahoma Comprehensive Water Plan. The Conservation Commission will use their portion for the rehabilitation of watershed dams and for the Conservation Cost Share Program and the Conservation Reserve Enhancement Program. OTRD will use their portion for the purpose of one-time capital expenditures for capital assets owned, managed or controlled by the department. The department plans on using the funds to focus on environmental issues as identified by DEQ.

HEALTH AND SOCIAL SERVICES

- **State Department of Health**
- **Medicaid**
- **Mental Health and Substance Abuse Services**

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STATE DEPARTMENT OF HEALTH

Promoting health practices that reduce society's cost of treating illnesses and epidemics is 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.

Approximately 50% of clients do not have a low enough income to qualify for Medicaid nor do they have income sufficient 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 sexually-transmitted diseases).

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, Nowata, Roger Mills and Washita – 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

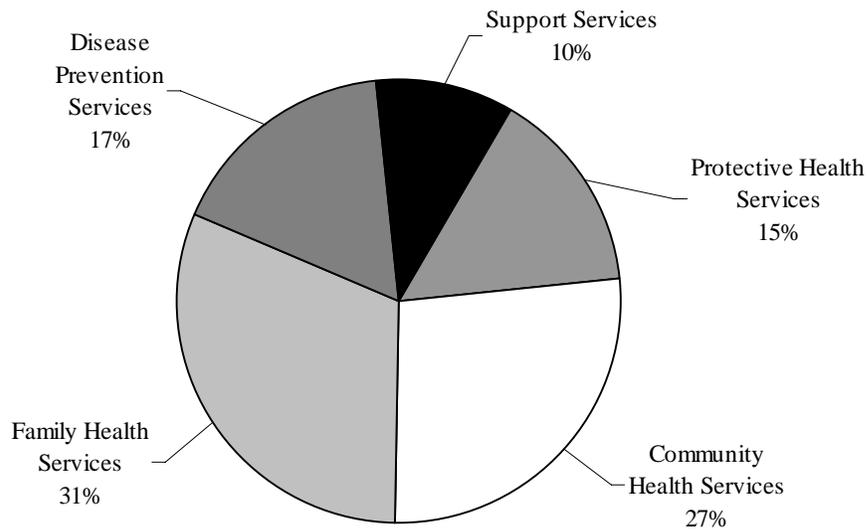
Over half (60.3 percent) of the FY'10 OSDH expenditures of \$366.6 million came from federal sources (WIC, Medicaid and various block grants from the U.S. Department of Health and Human Services). State appropriations accounted for \$59.1 million or 16.1 percent of spending. Fees charged to clients (for such services as copies of birth and death certificates, and occupational and restaurant licensing) made up 17.3 percent of spending. County millage assessment generated \$22.8 million or 6.2 percent of spending.

OSDH FY'10 EXPENDITURES BY ACTIVITY

	<u>General Revenue</u>	<u>Fees</u>	<u>Federal Funds</u>	<u>Millage</u>	<u>Total</u>
Support Services	\$4,108,653	\$13,597,212	\$12,800,052	\$0	\$30,505,917
Disease Prevention Services	\$9,737,025	\$5,576,477	\$43,639,478	\$0	\$58,952,980
Family Health Services	\$11,866,728	\$4,821,683	\$18,811,598	\$0	\$35,500,009
Community Health Services	\$34,332,487	\$1,648,346	\$24,872,100	\$22,185,701	\$83,038,634
Protective Health Services	\$4,810,439	\$33,517,187	\$10,070,020	\$0	\$48,397,646
WIC	\$0	\$0	\$87,718,343	\$0	\$87,718,343
Total	<u>\$64,855,332</u>	<u>\$59,160,905</u>	<u>\$197,911,591</u>	<u>\$22,185,701</u>	<u>\$344,113,529</u>

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'10 EXPENDITURES AS A PERCENT OF TOTAL



SERVICES PROVIDED BY OSDH

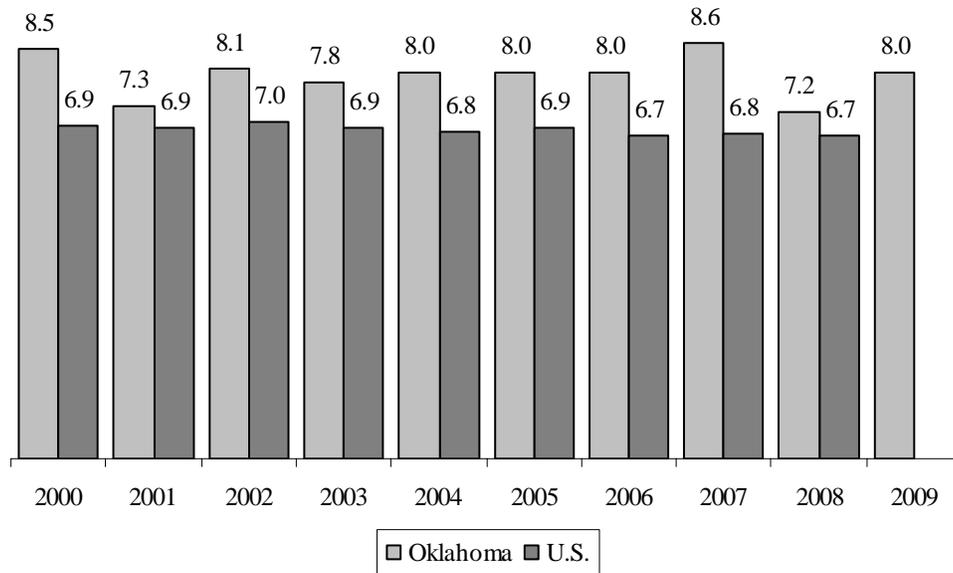
The Oklahoma State Department of Health provides a wide array of services associated with the goal of preventative health. Major programs fall into the following categories: Family Health, Disease and Prevention, Community Health and Protective Health. For fiscal years subsequent to FY'10, Community Health and Family Health have been combined in OSDH operational budgets and Disease and Prevention has been renamed Prevention and Preparedness.

Family Health Services

This division, the agency's largest, had expenditures in FY'10 of \$115.3 million, or 31.5 percent of the total agency expenditures. Programs focus primarily on preserving and improving the health of women, children and teens:

- **Maternal and Child Health Services:** County health departments and non-profit clinics provide materials, family planning and child health services to low-income pregnant women at risk for unplanned and mistimed pregnancies, infants, children and adolescents. The agency also provides community-based programs aimed at lowering the state's teen birthrate via contracts with community-based organizations.
- **Family Support and 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, unplanned repeat pregnancies and other adverse outcomes.

INFANT MORTALITY RATE (DEATHS PER 1,000 LIVE BIRTHS) OKLAHOMA VS. UNITED STATES



- **Child Guidance and SoonerStart Early Intervention 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 100,000 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, a fluoridation program to improve the state's drinking water supply and the Dental Loan Repayment Program.
- **Newborn Metabolic Screening:** The agency coordinates screening of all Oklahoma newborns for hearing loss and various metabolic disorders.

Disease Prevention Services

Disease Prevention Services (DPS) had expenditures in FY'10 of \$62.6 million or 17.1 percent of the total agency budget. Disease and Prevention is comprised of nine public health prevention and/or surveillance services: Public Health Laboratory; Acute Disease; Chronic Disease; HIV/STD; Immunization; Injury Prevention; Tobacco Use Prevention and Terrorism Preparedness and Response Services.

Public Health Laboratory Services: The Public Health Laboratory is CLIA-certified and provides essential laboratory services to local county health departments, agency programs and private health providers. Such services include analytical testing, training and technical assistance as well as pharmacy services for county health departments.

Communicable (Acute) Diseases: The primary responsibility of this program is to control communicable diseases through surveillance; investigation of disease outbreaks; analysis of data, to plan, implement and evaluate disease prevention and control measures; dissemination of pertinent information; education of healthcare professionals and the public. The Acute Disease Service provides screening, diagnosis and rigorous follow-up programs for persons with tuberculosis.

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

HIV/STD: 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.

Immunization Services: Immunizations help to reduce and eliminate morbidity and mortality caused by vaccine preventable diseases by supplying public and private health care providers with childhood and adult vaccines, and by performing immunization quality improvement assessments at schools, public and private clinics and child care centers. The percent of Oklahoma children fully protected against 10 deadly diseases dropped slightly from 71.7 percent in 2008 to 70.2 percent in 2009. Yet, only 15 states had a higher proportion of children covered in 2009 than Oklahoma.

Injury Prevention Services: Injuries are the third leading cause of death in Oklahoma and the leading cause of death among children and young adults 1–44 years of age. Many, if not most, of these injuries are preventable. The mission of this service is to improve the health of Oklahomans by working in collaboration with communities and stakeholders to identify injury problems, then develop, implement and evaluate environmental modifications and educational interventions. Some of the successful focus areas have been car seat safety, fire safety, and prevention of traumatic spinal cord injuries.

Tobacco Use Prevention: Tobacco Use Prevention is designed to build state capacity for broad-based tobacco use prevention programs, which support the Healthy People 2010 Objectives. Intervention areas include preventing initiation (to include reducing youth access) of tobacco products; eliminating exposure to environmental tobacco smoke; promoting cessation and addressing disparities. Critical components of the program include community mobilization, counter-marketing surveillance/evaluation, and policy development.

Terrorism Preparedness and Response: This program is intended to plan, prepare and respond to a public health disaster or adverse event using an all-hazards approach. It involves coordination with all agencies and entities that would be involved in a response including hospitals, state, local, and city public, private and military groups. Activities include assessment, planning, exercises, detection, education, enhanced disease surveillance and a rapid notification system.

Community Health Services

Community Health Services, the agency's second largest division, accounted for 26.8 percent or \$98.3 million of the agency's expenditures in FY'10. 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.

The mission of Community Health Services (CHS) is to strengthen the capacities of local Public Health Agencies through workforce education, leadership training, performance management, program research, development of strategic alliances, and community education. A primary responsibility is to enhance the capacity at the state and local levels for the development of population-based and clinical preventive services to meet community defined needs.

- **Nursing Service:** Strives to enhance health and wellness of individuals, families and communities through a holistic nursing approach; meeting quality requirements through personal readiness and teamwork; and valuing individual work and fostering personal and professional excellence.
- **Record Evaluation and Support:** Supports effective and efficient operations of county health department services by ensuring patient records are organized and maintained to conform with medico-legal standards. Provides on-site training and software support for agency computer application programs for data collection, billing, and patient records.
- **Community Development Service:** Provides the foundation for building community partnerships, serves as "change agents" working within communities to identify community resources and best practices to meet community needs. Further supports communities by identifying funding opportunities; assisting in the development of Community Health Centers and Federally Qualified Health Centers, and fostering population-based services to meet State Health Department priorities.

- **County Health Departments:** Responsible to establish priorities in collaboration with communities and to implement program specific guidelines for OSDH defined goals and objectives. The 68 County Health Departments under the jurisdiction of the OSDH accomplish this through the provision of direct clinic and population-based services, community out-reach, and through the development of community partnerships and local and regional plans. These units also play a primary role in the development and implementation of emergency response plans at this level.

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 rules, performing routine inspections, investigating complaints, and issuing, renewing and revoking licenses.

Most of the \$54.2 million expenditures for this division come from licensure fees, trauma disbursements 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, intermediate care facilities for the mentally retarded, residential care centers and adult day care centers.
- **Medical Facilities and Entities:** The agency licenses hospitals, ambulatory surgical centers, community health centers, home health agencies, hospices, etc.
- **Occupational Licensing:** OSDH licenses barbers, hearing-aid professionals, the alarm industry, home inspectors and licensed professional counselors.
- **Restaurant and Motel Inspection:** The Consumer Protection Division is responsible for licensing, monitoring and inspecting hotels and motels, eating and drinking establishments, retail and wholesale food outlets, food manufacturers, public bathing places, medical micropigmentation, body piercing, and all sources of ionizing radiation. They also administer statewide programs for bedding, general occupational health and product safety.
- **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

- The Trauma Care Assistance Revolving Fund was created by the Legislature in July 1999. Originally it was funded with a \$4 increase in driver's licenses and a \$1 increase in boat and motor registrations. This raised approximately \$2.5 million per year.

- In March of 2003 the Legislature increased the driver's license fee by \$1.50 making the assessment \$5.50 per drivers license. This increased annual collections to around the \$3 million level.
- In 2004 the following occurred:
 - ✓ A \$100 special assessment for violations of the open container laws
 - ✓ \$10 extra for speeding
 - ✓ A \$100-\$200 special assessment for violation of insurance laws, reinstatement of driver's license and certain drug offenses
 - ✓ Fines (\$200-\$5,000) for second and subsequent convictions of driving without a valid driver's license
 - ✓ State Question 713 was passed: 7.5 percent of tax on cigarettes and 11.39 percent of payments in lieu of excise tax on tribal entities went to Trauma Fund

In FY'05 when these last measures were partially implemented the Trauma Fund took in \$8.2 million. In FY'10, receipts to the fund totaled \$32.1 million. The March 2010 distribution was \$12.1 million bringing the cumulative total disbursements to hospitals, ambulance services and physicians for uncompensated trauma care \$119.9 million



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.

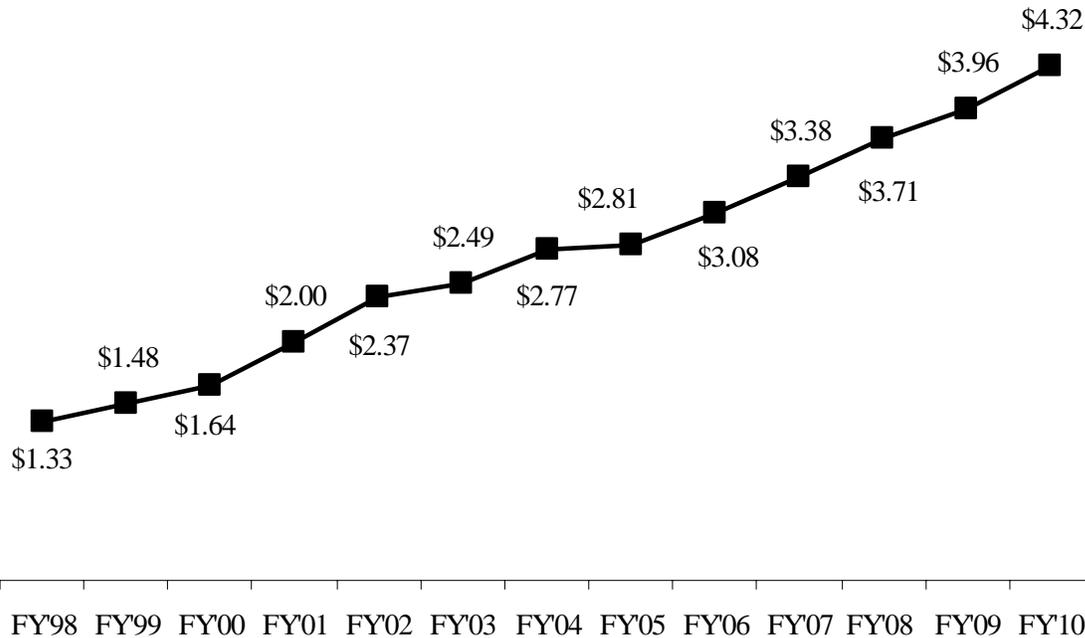
FINANCING

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'10 was 64.43%. On average, for every one state dollar that Oklahoma Medicaid spends, Oklahoma receives \$2.99 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'09, the state share appropriated to the Oklahoma Health Care Authority was \$733.1 million. Total program dollar expenditures were estimated to be in excess of \$3.9 billion, or approximately 10.5 percent of total state spending for that year.

In FY'09, the Medicaid budget is projected to increase to over \$3.9 billion, with state appropriations accounting for \$842 million.

Total Medicaid Expenditures FY'98 Through FY'09



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 enrolled 825,138 Oklahomans throughout FY'09, or about 22 percent of the total population.

Children make up two-thirds of Oklahoma's Medicaid population while the aged, blind and disabled account for about 19 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 2009*

Percentage of Recipients		Percentage of Expenditures	
TANF/AFDC	70.13%	TANF/AFDC	36.45%
Aged, Blind, and Disabled	19.13%	Aged, Blind, and Disabled	56.70%
Other	12.64%	Other	6.86%

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 37 percent of the Federal Poverty Level (FPL) or \$6,775.00 per year for a family of three in 2011. Children through age 19 are eligible up to 185 percent of FPL or \$33,874.00 per year. 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 Oklahoma, children under the age of 19 are covered up to 185 percent of FPL. Pregnant women are also covered up to 185 percent of FPL. Under HB 2842, passed during the 2nd Session of the 50th Legislature (2006), college students up to age 23 who are full-time students will be covered, provided they meet eligibility requirements. 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.

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 185 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, in the State Children's Health Insurance Program, 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 June 2010, there were 125,874 adult and 18,974 children ABD recipients.

Medicaid Payments for Medicare Premiums

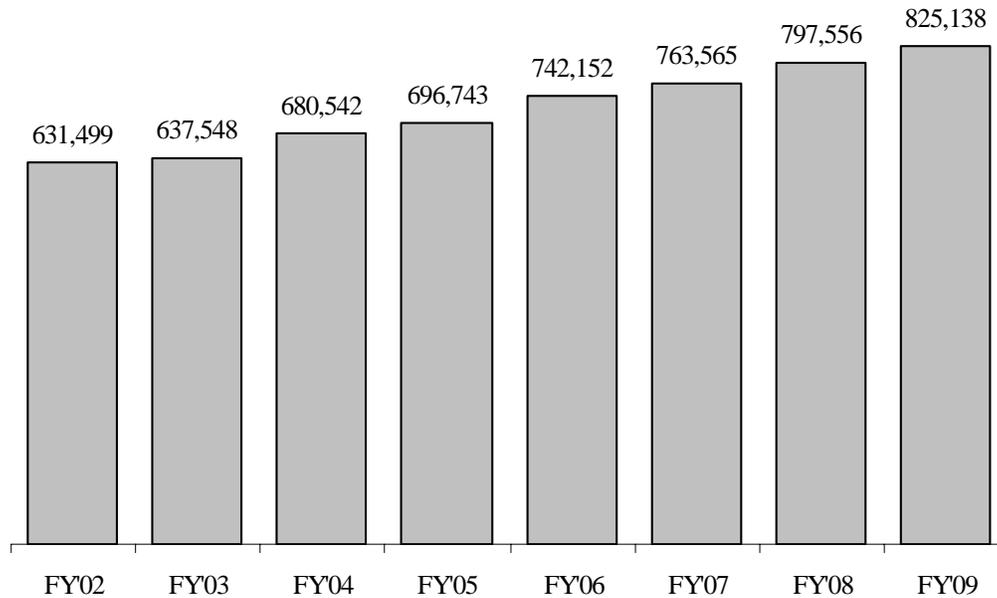
Under 1988 federal legislation, states are required to pay Medicare premiums, deductibles and coinsurance for needy elderly and disabled persons who are dually eligible for Medicare and Medicaid. This group is known as Qualified Medicare Beneficiaries (QMBs). The payments are cost-effective from the 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'09, an average of 2,481 Part A premiums and 81,591 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.

Enrollment has continued to increase throughout the recession in FY'09 and FY'10. Between July 2009 and July 2010, HCA has seen a 6.9% increase in enrollment. That is 45,000 more enrolled in a years time.

Average Growth in Enrollment FFY'02 Through FFY'07



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

Hospital services followed by prescription drug and nursing facility expenditures, account for more than \$1 billion of the \$3.9 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 \$2,022 per person and \$2,000 in non-exempted assets.

Premium Assistance Program: In January 2006, the Oklahoma Health Care Authority (HCA) started enrolling businesses and individuals into the Insure Oklahoma program. The first component of the Insure Oklahoma program is designed to assist Oklahoma small business owners (with 100 or fewer employees) in purchasing health insurance on the private market for their income eligible employees (at or below 185 percent of Federal Poverty Level). As of October 2010, the program had enrolled 5,444 businesses and 19,098 employees. A second component to the Insure Oklahoma program is the individual plan. The individual plan is designed as a safety net for those Oklahoma individuals who cannot access private, group health insurance coverage. Those who may be eligible for this plan include workers who employer does not offer health insurance and workers who are ineligible for their employer's insurance plan. The individual component of the Insure Oklahoma program began enrollment in March 2007. As of October 2010, the program had enrolled 12,778 uninsured Oklahomans. Funding for this program is generated from the Tobacco Tax approved by the voters in 2004 (State Question 713).

Statewide Medicaid Information

County	Population Proj. July 2008*	Unduplicated Enrollees**	Expenditures
ADAIR	21,811	8,714	\$34,661,312
ALFALFA	5,637	745	\$3,620,435
ATOKA	14,655	3,902	\$15,481,455
BEAVER	5,248	774	\$2,043,176
BECKHAM	21,136	5,379	\$23,349,745
BLAINE	12,659	2,772	\$10,236,429
BRYAN	40,109	11,277	\$48,958,399
CADDO	29,024	7,957	\$28,404,726
CANADIAN	106,079	14,849	\$56,940,153
CARTER	47,979	12,977	\$56,847,414
CHEROKEE	45,733	12,242	\$54,779,298
CHOCTAW	14,890	5,569	\$26,284,389
CIMARRON	2,556	521	\$1,242,508
CLEVELAND	239,760	37,214	\$149,229,264
COAL	5,721	1,893	\$8,533,277
COMANCHE	111,772	23,016	\$76,658,460
COTTON	6,191	1,381	\$6,067,238
CRAIG	15,132	4,766	\$27,139,079
CREEK	69,822	17,136	\$80,104,344
CUSTER	26,412	6,240	\$25,720,283
DELAWARE	40,425	11,050	\$42,572,802
DEWEY	4,389	696	\$3,467,888
ELLIS	3,971	561	\$2,132,443
GARFIELD	58,167	14,048	\$97,033,076
GARVIN	27,247	7,023	\$60,003,337
GRADY	51,066	10,818	\$41,690,771

County	Population Proj.	Unduplicated	Expenditures
	July 2008*	Enrollees**	
GRANT	4,450	672	\$3,169,403
GREER	5,713	1,591	\$8,124,269
HARMON	2,843	928	\$4,404,508
HARPER	3,290	673	\$2,212,111
HASKELL	12,152	4,100	\$17,431,274
HUGHES	13,625	3,589	\$19,117,407
JACKSON	25,236	6,496	\$26,634,192
JEFFERSON	6,219	2,165	\$9,319,048
JOHNSTON	10,286	3,455	\$17,158,759
KAY	45,632	12,386	\$47,992,405
KINGFISHER	14,300	2,535	\$9,050,589
KIOWA	9,399	2,557	\$12,309,927
LATIMER	10,561	2,620	\$12,157,495
LEFLORE	49,802	14,763	\$60,189,074
LINCOLN	32,153	7,015	\$25,854,121
LOGAN	38,102	7,647	\$34,072,830
LOVE	9,155	2,480	\$8,358,472
MCCLAIN	32,365	5,060	\$20,001,487
MCCURTAIN	33,532	12,253	\$50,192,793
MCINTOSH	19,698	5,413	\$27,828,837
MAJOR	7,112	1,003	\$4,302,211
MARSHALL	14,919	4,039	\$15,502,919
MAYES	39,912	10,164	\$46,246,052
MURRAY	12,784	3,360	\$13,308,935
MUSKOGEE	71,278	20,641	\$101,738,513
NOBLE	11,169	2,190	\$13,227,427
NOWATA	10,729	2,555	\$10,695,377
OKFUSKEE	11,172	3,618	\$23,519,137
OKLAHOMA	706,617	162,077	\$645,520,342
OKMULGEE	39,219	12,834	\$62,236,313
OSAGE	45,489	7,250	\$31,293,839
OTTAWA	31,849	9,916	\$40,795,537
PAWNEE	16,307	3,900	\$17,945,788
PAYNE	78,280	12,285	\$48,499,774
PITTSBURG	45,115	10,598	\$49,974,733
PONTOTOC	36,999	9,714	\$52,866,586
POTTAWATOMIE	69,616	18,531	\$75,226,759

County	Population Proj.	Unduplicated	Expenditures
	July 2008*	Enrollees**	
PUSHMATAHA	11,710	3,531	\$17,376,833
ROGER MILLS	3,404	401	\$1,346,713
ROGERS	84,300	14,757	\$67,631,249
SEMINOLE	24,200	8,413	\$39,161,298
SEQUOYAH	41,034	13,890	\$58,277,413
STEPHENS	43,498	9,863	\$37,732,871
TEXAS	20,283	4,436	\$9,648,585
TILLMAN	7,899	2,504	\$9,087,840
TULSA	591,982	119,934	\$498,201,986
WAGONER	68,960	9,954	\$44,528,792
WASHINGTON	50,452	9,740	\$47,435,251
WASHITA	11,709	2,287	\$10,165,020
WOODS	8,422	1,518	\$6,923,223
WOODWARD	19,838	4,089	\$14,370,543
OUT OF STATE		4	\$7,837,100
OTHER^	0	3,224	\$437,724,483
	<u>\$3,642,361</u>	<u>\$825,138</u>	<u>\$3,959,130,141</u>

* County Population Projections were downloaded from the Oklahoma Department of Commerce website (www.odoc.state.ok.us)

** Enrollees listed represent an unduplicated count of individuals that were eligible for Medicaid at some point in time within FY'05 by their recorded county of residence.

^ Includes state custody and out of state enrollees or providers and any non-provider or non-beneficiary specific payments.



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 in the areas of mental health and substance abuse services. 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. Advances over the past several years have made recovery a reality for thousands of Oklahomans.

BACKGROUND ON MENTAL HEALTH CHANGES

Until the mid-1960s, the primary means to treat mental illness was institutionalization in large state hospitals. On an average day in 1960, nearly 6,400 Oklahomans were in the state's mental hospitals. In the mid-1970s, the concept of "deinstitutionalization" prompted states to increase efforts to utilize outpatient services through Community Mental Health Centers. This approach has proven to be an effective means of recovery and a less costly method to provide services as compared to long-term inpatient care in a hospital setting. Today, over 70,000 individuals receive services from the department each year. Of those, only about 3 percent require hospital care. The vast majority take part in mental health and substance abuse outpatient programs, targeted community based services, prevention efforts and educational initiatives.

Much of the department's recent success can be attributed to an understanding that when left untreated, mental illness and substance abuse are a leading cause of disability and premature loss of life. The fiscal and economic impact of untreated, under-treated and unserved mental illness and substance abuse on Oklahoma is estimated to be \$8 billion.

DMHSAS OVERVIEW

The Oklahoma Department of Mental Health and Substance Abuse Services is responsible for providing services to Oklahomans who are affected by mental illness and substance abuse. In fiscal year 2010, the department provided services to approximately 70,000 individuals.

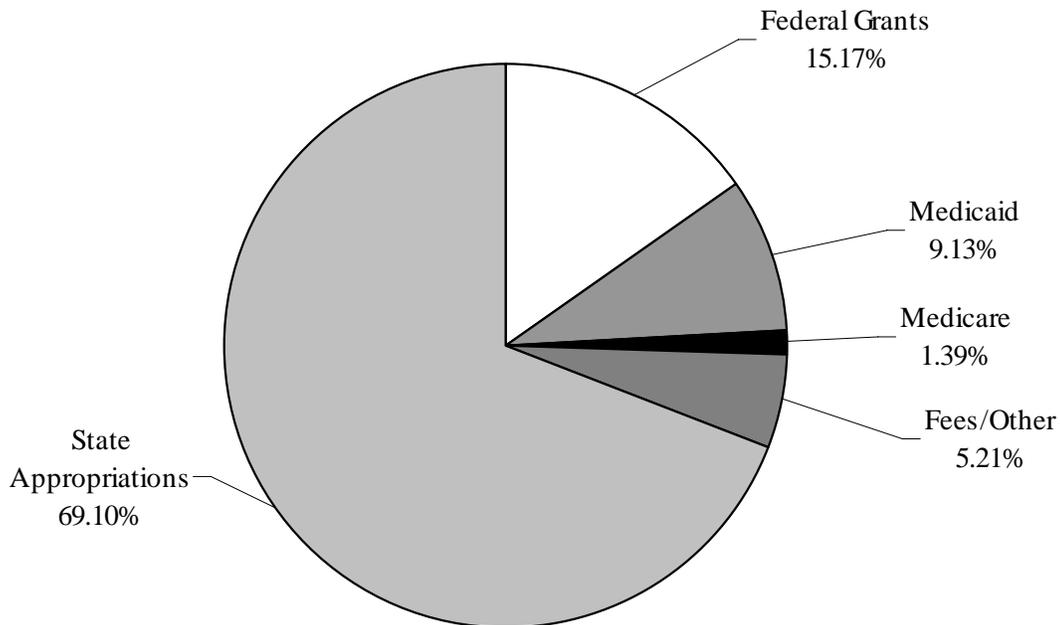
The state subsidizes services for clients with incomes below 200 percent of the federal poverty level and receives reimbursement for some services for clients who are eligible for the Medicaid program.

Funding Sources

Oklahoma's mental health system is centralized and primarily state funded (61.4 percent in FY'10).

Federal funding from various sources comprise the majority of the rest of the budget. Medicaid is the most important non-appropriated funding source for individual client services. In recent years, federal categorical grants, which are generally awarded for a specific project and are time limited, have increased dramatically and currently account for 16.4 percent of the budget while federal block grants have decreased in both actual dollars and as a percent of the budget.

DMHSAS Budget by Source, FY'10
Total = \$284,544,769



Services Provided

The department provides the following inpatient and community-based services in state administered or contracted programs.

Psychiatric Hospital Services

- Regional Adult Psychiatric Hospital (Griffin Memorial Hospital)
- Child Psychiatric Hospital (Childrens Recovery Center)
- Forensic Psychiatric Evaluation and Treatment (Oklahoma Forensic Center)

Community Mental Health Centers

- There are five state-operated and 10–private non-profit CMHCs that provide outpatient counseling and, in some cases, short-term hospitalization and substance abuse treatment.

Crisis Intervention Centers

- Community-based crisis intervention and emergency detention (Tulsa Center for Behavioral Health, Oklahoma County Crisis Intervention Center, Green Country in Muskogee, Red Rock Crisis Center in Clinton, and the Crisis Intervention Center in Norman).

Alcohol and Drug Treatment Programs

- State-administered alcohol and drug treatment residential centers (two for adults, one for adolescents).
- Privately operated alcohol and drug prevention, outpatient and residential treatment programs. (80 contracted treatment providers, 72 of which are outpatient programs)
- Residential treatment for persons with co-occurring disorders – both mental illness and substance abuse. All programs are required to be co-occurring competent.

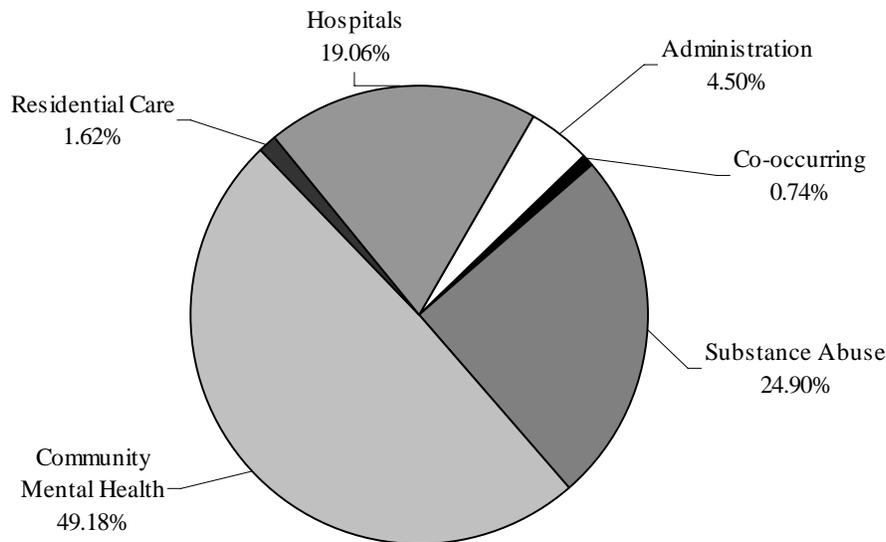
Residential Care Homes

- 27 contracted homes.

Program Budgets

State hospital operations account for 18.79 percent of the agency's FY'10 budget, down from 43.4 percent in FY'92. Hospitals serve only 3 percent of the agency's total clients. Mental health community-based programs will utilize 50.56 percent of the budget and serve 71.4 percent of the clients in FY'10. Substance abuse programs account for 24.75 percent of the budget and 32 percent of the clients. Co-occurring programs (for persons who have both a mental health and a substance abuse disorder) accounted for 0.12 percent of the budget and 0.5 percent of clients. Central administration accounts for 4.34 percent of the budget.

DMHSAS Budget by Program, FY'10 Total = \$284,544,769



PROGRAM OVERVIEW

The demand for public mental health services exceeds the capacity of the current treatment system. This has always been the case, but has been exacerbated in recent years due to a growing public awareness of mental illness and of the existence of effective treatment; rising healthcare costs; and the state's growing substance abuse problem, particularly the brain-damaging use of methamphetamine and resultant psychotic behavior.

Through the use of proven practices and expansion of community based services, the department will increase the effectiveness of services and continue to improve the efficiency of the delivery system. The department's goal is to ensure access to appropriate care for all Oklahomans and the recovery of all served.

Mental Health Services

One out of four adults will have one or more episodes of mental illness during their lifetime. People with mental illness are 10 times more likely than the general population to take their own lives.

For those who survive the illness, other health problems threaten their quality of life. Persons with mental illness are at significantly increased risk for diabetes, heart disease, obesity, and associated organ failure. At the same time, people with medical conditions such as diabetes and heart disease are at increased risk for mental illness; the combination of the two can be deadly.

The Oklahoma Department of Mental Health and Substance Abuse Services follows a tiered delivery of services designed to serve the most severely ill first. This approach is based on key principles that stress the following:

- Crisis intervention will be available to all in need. Longer-term services will be targeted to those most in need.
- A thorough face-to-face evaluation of the need for mental health services will be conducted for anyone meeting financial need criteria.
- Persons meeting defined diagnostic criteria will receive services on a timely basis, within uniformly defined time frames.
- Continuity of care between inpatient and outpatient providers will be emphasized.

Needs are prioritized and resources carefully directed to ensure a standard of excellence for services that are delivered.

There were 54,000 people served by the department's mental health services in fiscal year 2010.

Programs for Assertive Community Treatment (PACT)

The Program of Assertive Community Treatment (PACT) is an effective, evidence-based service delivery model providing intensive, outreach-oriented mental health services to people with schizophrenia, bi-polar disease and other serious and persistent mental illnesses. Using a 24 hours-a-day, seven days-a-week team approach, PACT delivers comprehensive community treatment, rehabilitation and support services to consumers in their homes, at work and in community settings.

Building community supports such as PACT and other non-traditional programs of care allows an individual, who otherwise may be subjected to multiple hospital visits, or jail, the ability to address the demands of their illness while remaining in the community. The program is intended to assist clients with basic needs, increase compliance with medication regimens, address any co-occurring substance abuse, help clients train for and find employment, and improve their ability to live with independence and dignity. PACT was implemented in Tulsa and Oklahoma City in

May of 2001 with \$2 million provided by the state legislature. The program, now with teams located statewide, serves more than 900 people with serious mental illness in 19 counties. Oklahoma is considered a national leader in this area. The following measures show a pre/post hospital and jail comparison for consumers:

	<u>Pre-PACT</u>	<u>Post-PACT</u>	<u>Percent Reduction</u>
Hospital Days	9,583	2,612	75%
Jail Days	3,614	1,314	70%

Systems of Care (SOC)

In the fall of 2002, Oklahoma received a six-year, \$9.4 million “Systems of Care” grant to establish children’s behavioral health service “hubs” throughout Oklahoma. The program has since expanded to serve children in 40 counties, and serves more than 700 children and families throughout the state.

There is a tremendous need to expand children’s services throughout the state and programs such as Systems of Care, which cut through red tape and focus attention on the needs of the children and their families to provide the appropriate level of services. It is targeted to impact children, ages 6-18 years, with serious emotional and behavioral problems at home, school and in the community, and, it has been proven as a model system.

Evaluation demonstrates significant achievements in a child’s behavior when measuring outcomes following six-month client participation. Examples include:

	<u>Percent Reduction</u>
Out of Home Placements	35.5%
School Detentions	79.5%
Self-Harm Attempts	50%
Arrests	63.9%

Mental Health Courts

Mental health court is a highly structured, court-based program providing a treatment alternative for non-violent offenders diagnosed with a mental illness. Court structure and processes are designed to identify and address the unique needs of a non-violent person who has come in contact with the criminal justice system because of his or her mental illness. Mental health courts currently exist in seven counties.

Community Mental Health Centers (CMHC)

One of the major challenges currently facing the department is that of equitable 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.

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, persons with mental illness are stabilized in hospitals with medications, discharged, then either cannot or do 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, but are not competent to proceed because of their mental illness, and hospital-based treatment for persons adjudicated as Not Guilty by Reason of Insanity (NGRI). The forensic population, served at the Oklahoma Forensic Center (OFC) in Vinita, is on the increase. In July 2000, there were 132 forensic patients at OFC. Census now averages approximately 165. Occasionally, there is a waiting list of individuals being held in local jails awaiting the availability of a bed at OFC.

SUBSTANCE ABUSE SERVICES

In Oklahoma, nearly 130,000 adults need treatment for alcoholism and another 21,000 need treatment for other types of drug use. In fiscal year 2010, over 21,000 people received substance abuse services through the department. While many are in need of services, many also are receiving the assistance they need through programs provided by the department. Access to treatment services – through community-based substance abuse treatment programs, drug courts, support groups, and the encouragement of family and friends – help thousands of Oklahomans each year find the road to recovery.

The benefits of treatment accrue not only to individuals and their friends and families, but to society as well. Research shows that, a year after treatment, drug use was reduced by 50 percent, criminal activity dropped by 80 percent, employment increased, and homelessness and dependence on public assistance decreased. For every dollar spent on treatment, nearly \$7 is saved in reduced crime-related costs, a figure that rises to \$12 when health-care costs are included.

The department operates or contracts with 80 substance abuse treatment programs offering a range of evidence-based outpatient, residential and aftercare services. Programs offered are based upon the needs of the individual. In addition, substance abuse treatment is available at community mental health centers. ODMHSAS also funds a network of 17 Area Prevention Resource Centers offering substance abuse prevention education and community prevention project development.

Alcohol is still, by far, Oklahoma’s number one drug of choice. The top listed drugs of choice for clients during 2010 are as follows:

Alcohol	32 percent
Marijuana	27 percent
Methamphetamine	15 percent
Cocaine	7 percent
Prescription Opiates	10 percent

Proven Substance Abuse Programs are Making a Difference in Oklahoma

Evidence-based, “best” practices have emerged in substance abuse treatment and are being implemented in the state, providing tools that result in a recovery for many individuals previously considered untreatable; as evidenced by stable living situations, employment, and reduced contact with the criminal justice system.

Drug Courts

Coordinated through ODMHSAS, the drug court program couples the power of the court system with the benefits of substance abuse treatment. The drug court's primary purpose is to redirect certain drug offenders into a highly structured, judicially monitored treatment program rather than sending them to prison. Each participant is evaluated and assisted by a drug court "team" that includes representatives from the judicial, criminal justice, law enforcement and treatment field. No violent offenders are eligible for the program. Oklahoma has one of the top drug court programs in the nation, with nearly 4,000 participants. In 1995, Oklahoma had one drug court. In 2010 there were more than 53 drug courts (this includes adult drug and DUI courts, juvenile drug courts and family drug courts) serving 63 counties across the state. The average cost of drug court for one person is about \$5,000 per year, compared with \$19,000 or more per year for prison.

Substance Abuse Treatment for Adolescents, Women and Their Children

Among the most vulnerable and historically underserved populations in the past are pregnant women and women with dependent children. This is changing, however, as these women and children are now one of the department's top priorities. Pregnant women and women with dependent children receive services through the agency's Temporary Assistance for Needy Families (TANF) contract with the State Department of Human Services. Treatment programs offer comprehensive, gender-specific substance abuse treatment services focusing on a number of areas. Individual and group counseling covers the psychology of addiction, core values, spirituality, relationships, anger management, 12-step recovery groups, family therapy, co-dependency, relapse prevention and parenting skills, as well as a number of other healthy living-related topics.

Toward the end of the four- to six-month program, clients begin working on receiving their high-school equivalency diplomas, if needed, and undergo job testing and interviewing skills. Programs also have comprehensive services for children ranging from infants who are born with drugs or alcohol in their system to toddlers and children up to age 12.

DUI Program

Oklahoma also has become one of a small but growing number of states that has changed from an "offense-driven" DUI system to an "assessment-driven" DUI system. In the past, DUI offenders had to attend either a 10- or 24-hour DUI school, depending on whether the offense was the initial or a subsequent arrest. This type of process is simple and easy to administer, but did not consider the actual condition of the offender. Now, Oklahoma DUI offenders receive a detailed assessment, followed by treatment recommendations assigned from a grid containing five levels of intervention. The levels outlined in the intervention grid are of increasing intensity and designed to match the indicated severity of risk identified for the offender. These changes are intended to better identify the relative risk level of the offender and offer the most appropriate level and type of intervention.

Problem Gambling Service System

Before 2005, no public funds were allocated to prevent and treat pathological and problem gambling. In March, 2005, however, pursuant to the Oklahoma Horse Racing State-Tribal Gaming Act, ODMHSAS began receiving monthly installments, totaling \$250,000 annually, to provide treatment and education related to problem gambling. In May 2007, ODMHSAS received its first quarterly installment pursuant to the Oklahoma Education Lottery Act, totaling \$500,000 annually. This funding is also targeted to prevention and treatment of problem gambling.

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). Approximately half of all clients admitted to a department inpatient psychiatric facility have an alcohol diagnosis or presenting problem in addition to their mental illness.

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. The department is aggressively moving forward to address these needs and ensure appropriate care for all clients.

HUMAN SERVICES

- **Department of Human Services**

- **Juvenile Justice**

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DEPARTMENT OF HUMAN SERVICES

While the Oklahoma Department of Human Services (OKDHS) 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, OKDHS took on more and more functions over the years as the state's health and welfare system was developed.

For years OKDHS was the state's largest agency. At its apex in FY'93, OKDHS 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 to review the organization, and it was determined that major divisions of OKDHS – 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 OKDHS. The Legislature has transferred four large divisions out of the agency and created four new, distinct entities:

- University Hospitals Authority (OU Teaching Hospitals)
- Department of Rehabilitation Services
- Oklahoma Health Care Authority (Medicaid)
- Office of Juvenile Affairs

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

Functions Separated from OKDHS Since 1993

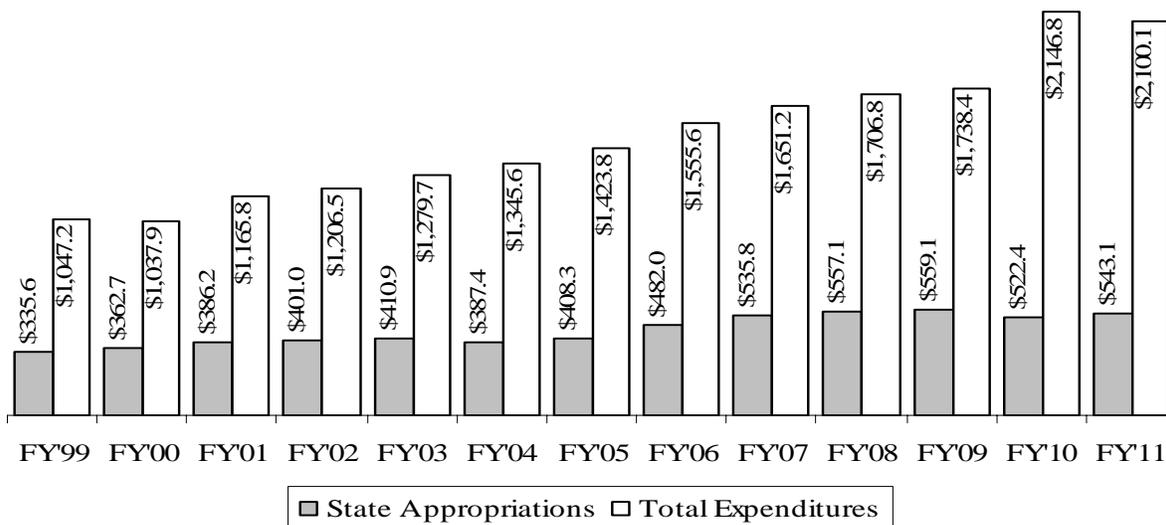
<u>Year</u>	<u>Function Transferred</u>	<u>Transferred Amount</u>
1993	University Hospitals Authority	\$29,710,032
1993	Rehabilitation Services	\$21,952,152
1995	Health Care Authority	\$227,816,716
1995	Office of Juvenile Affairs	\$75,959,840
Total		\$355,438,740

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

FUNDING

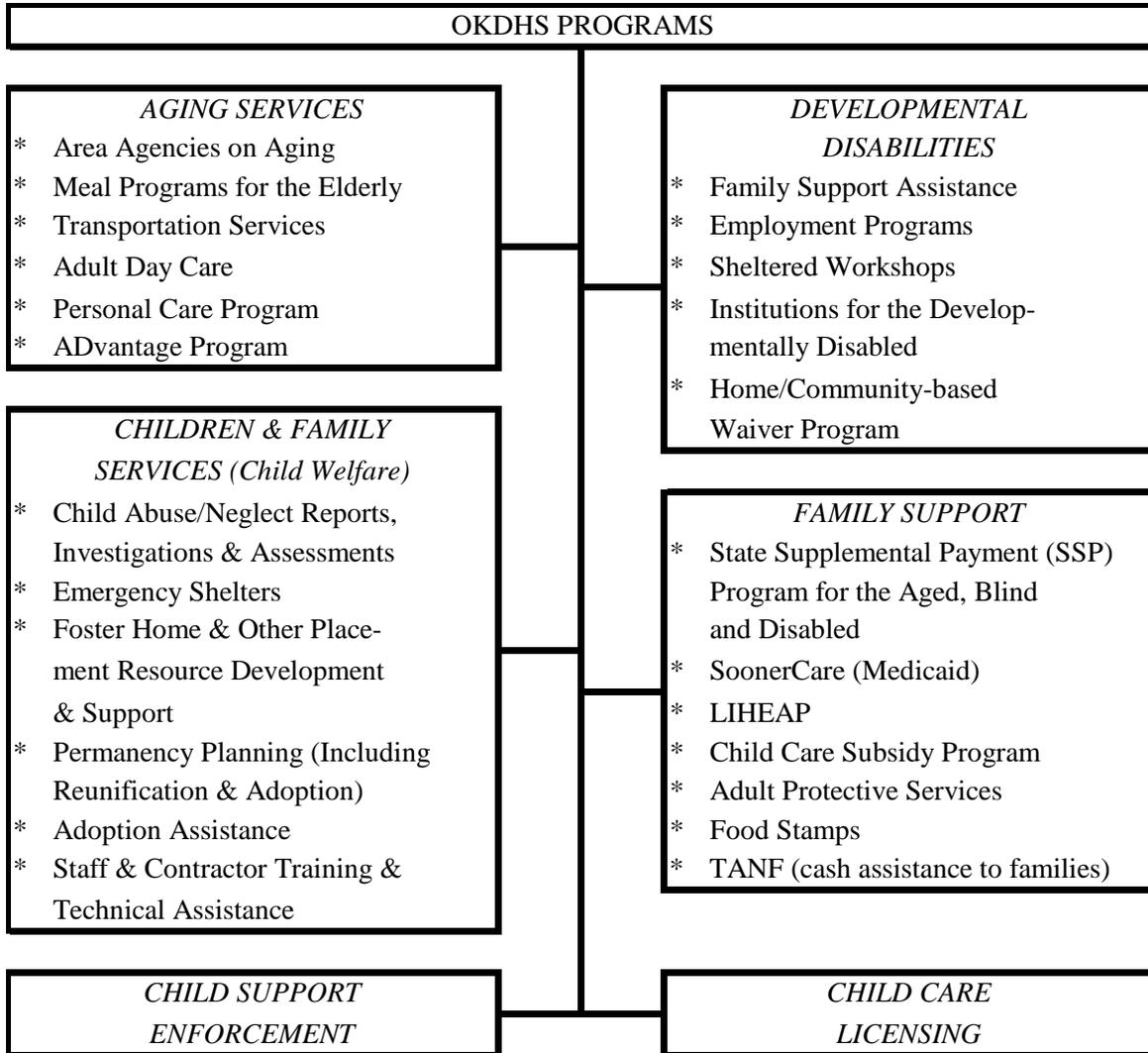
Approximately 65 percent of the \$2.1 billion total budget in FY'10 was provided by Federal block grants, entitlement programs, and a small amount from expenditures certified by other State Agencies. The amounts used in the comparison are the initial Appropriation dollars compared to the initial Budget Work Program (BWP) and does not include any supplemental funding for BWP Revisions.

Appropriations and Total Budget Comparison *FY'99 Through FY'11 (In Millions)*



ORGANIZATION

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



The Food Stamp Program under Family Support needs to change to Supplemental Nutrition Assistance Program (SNAP). Child Support Enforcement needs to be changed to Oklahoma Child Support Services and Child Care Licensing needs to change to Oklahoma Child Care Services.

Family Support Programs

The Family Support Division is responsible for a number of programs providing low-income and disabled Oklahomans with cash payments, food benefits, child care, LIHEAP, and SoonerCare (Medicaid). It is also responsible for providing protective services for vulnerable adults.

State Supplemental Payment (SSP): The SSP Program provides a small payment to eligible Oklahomans who are aged, blind or disabled. The number of Oklahomans who receive SSP has increased by almost 10,000 since 2001. Federal regulations require that Oklahoma expend the same amount in SSP payments each year. In order to stay within the required spending level the amount of the individual benefit has decreased each year to account for the increase in recipients. Since 2004 the maximum individual benefit has decreased from \$50 to the current amount of \$42 per month. All SSP recipients now receive their payment on a debit card or by direct deposit. This process is handled through the Finance Division's Electronic Payments System (EPS).

Sooner Care (Medicaid) Eligibility: 2010 was the first year the federal poverty levels did not increase; therefore, all income eligibility guidelines remained the same in 2009. In September 2010 the Oklahoma Health Care Authority began online eligibility determination for children, families with children, and pregnant women through a web-based system called Online Enrollment. OKDHS will still enroll persons for SoonerCare (Medicaid) at county human services centers and retains responsibility for determining SoonerCare (Medicaid) eligibility for the aged, blind, and disabled populations, including nursing home care, waived programs, and the Medicare Savings programs (Qualified Medicare Beneficiary, Specified Low Income Beneficiary, and Qualifying Individuals) eligibility.

The Low Income Home Energy Assistance Program (LIHEAP): The program consists of four components: 1) Heating Assistance, where OKDHS provides partial payment directly to the utility company/fuel provider for eligible household heating bills, beginning in December of each year; 2) Crisis Assistance, which is paid to the utility company/fuel provider through the Energy Crisis Assistance Program (ECAP), beginning in March of each year – applications for crisis assistance are accepted year round from those with life threatening medical situations; 3) Summer Cooling assistance, where DHS provides partial payment directly to the utility company for eligible household cooling bills, beginning in July of each year; and 4) Weatherization Assistance, where homeowners are assisted in making their homes more energy-efficient, which is administered by the Oklahoma Department of Commerce with LIHEAP funds allocated to them by OKDHS.

Historically, LIHEAP in Oklahoma has been funded solely with federal funds. Oklahoma's LIHEAP income eligibility maximum was raised to 130 percent of the Federal Poverty Guideline in federal fiscal year (FFY)'09 from 110 percent in past years and aligns with the Supplemental Nutrition Assistance Program (SNAP, formerly the Food Stamp Program). Due to increased federal funding in FFY'09 LIHEAP payment amounts were increased to eligible households. For the FFY'09 winter heating program, 110,962 households were approved for assistance with an average payment of \$153 paid to the utility company/fuel provider.

Child Care Subsidy Program: The child care subsidy program in Oklahoma began as part of the Aid to Families with Dependent Children (AFDC) program in 1969. What had then evolved into four separate child care funding streams was consolidated in 1996 by the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). This new funding source is called the Child Care Development Fund (CCDF). This block grant expanded the amount of money available to states for child care. States can transfer funds from Temporary Assistance to Needy Families (TANF) block grant into their CCDF program. Oklahoma pays for child care for TANF

recipients directly from TANF funds. The Oklahoma Legislature also approves additional funding for the Child Care Subsidy Program. With this expanded funding, more low-income families are receiving child care assistance.

The child care subsidy program encourages collaboration with many agencies and programs which help to strengthen and increase resources available to families. These other agencies and programs include child support services through the Oklahoma Child Support Services Division, the SoonerCare (Medicaid) program, Child Protective Services, the TANF program, Head Start, Early Head Start, Children First, Pre-K, and Child Care Resource and Referral programs.

In 2009, OKDHS provided child care services to 70,022 children. The family must be determined eligible before their child care services can be either fully or partially subsidized. The family may have a co-payment for the child care based on their income, the number of family members and the number of family members needing services.

Providing child care services is part of an overall plan of service designed to help low income families achieve their maximum potential for self-support. It is a service provided for children as a means to strengthen the family. Providing quality child care services assures the parent or caretaker that each child in care has the opportunity to receive developmental and learning experiences while the parent or caretaker is engaged in self-support activities like employment, education or training. The worker tries to help the client become more independent by suggesting ways to increase household income and identifying strengths in the client's life. Child care is also provided in critical situations to help prevent neglect, abuse or exploitation of children. The Family Support worker and the Child Welfare worker freely share information to develop a plan that best meets the needs of the family when both are working with the family.

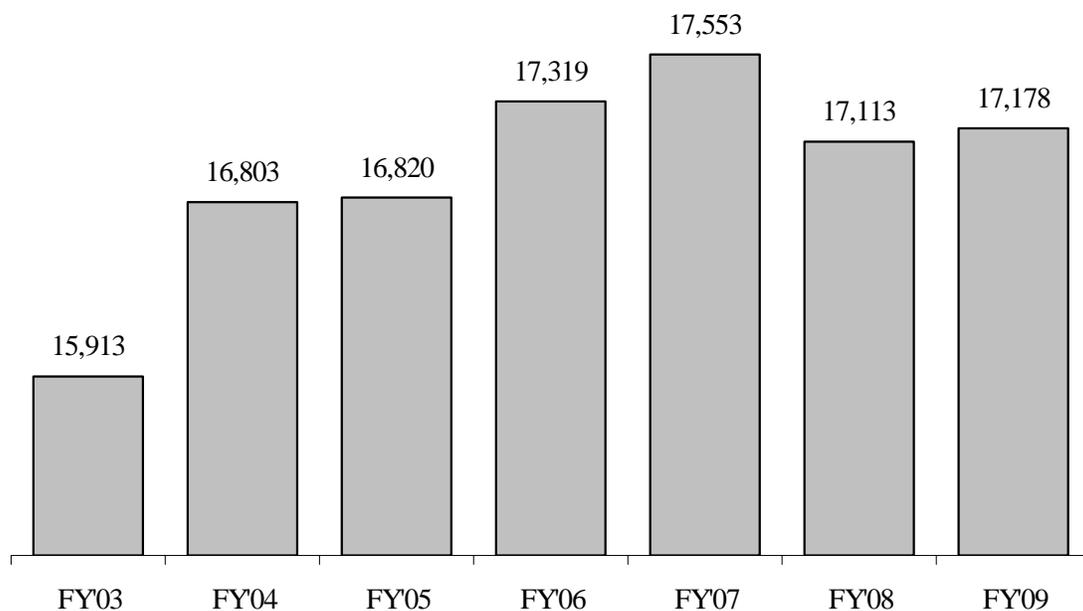
Unlike TANF, no direct payments are made to the families that receive child care services. Instead, all funds from this program are paid directly to a licensed and contracted child care center or home, or a contracted in-home provider chosen by the parent or caretaker. Providers are licensed to provide child care from child care licensing specialists located in the local human service center offices. Providers request a contract from the Family Support Services Division Child Care Section. Until a provider is granted both a license and a contract, subsidized child care cannot be paid by OKDHS.

Adult Protective Services (APS): OKDHS is mandated by Oklahoma Statutes Title 43A Section 10-101 through 10-111 to provide protective services for vulnerable adults. There are 2 sections of the APS unit, the Community APS program (CAPS) and the Long Term Care Investigation (LTCI).

APS is a non-means tested, multi-faceted program for persons 18 years of age or older who are vulnerable and have allegedly been abused, neglected, and/or exploited. Community APS includes all investigations where the alleged perpetrator is not a staff member of a nursing facility. The Long Term Care Investigators Unit investigates allegations of maltreatment by nursing facility staff of nursing facility residents.

APS have been provided since 1977 when the first APS statute was enacted by the Oklahoma Legislature. The program receives a small portion of the federal funding from the Social Services Block grant. The remainder of the funding is from state dollars. In FY'10 APS specialists investigated 17,662 reports of maltreatment of vulnerable Oklahoma adults. APS specialists substantiated 10672 investigations for 60% of the total investigations. The 17,662 investigations included 29,636 distinct allegations. Fifty six (56) percent of the alleged victims were over sixty (60) years of age. The chart below lists the number of reports for the last 5 fiscal years.

State Community Adult Protective Services Completed Investigations



APS staff at the state and local level work with community partners to provide a safety net of services for vulnerable adults. Staff routinely coordinate with local law enforcement, district attorneys, local medical and mental health providers as well as many local service organizations to provide services for those vulnerable adults who have been mistreated and to prevent a reoccurrence of the maltreatment. Maltreatment of vulnerable adults was criminalized in 1984 via Title 21, Section 843.1 of the Oklahoma Statutes. Prosecutions were limited and sporadic until 2003 when OKDHS sponsored conferences to improve awareness of the types of maltreatment.

The fastest growing allegation of maltreatment is financial exploitation of the elderly and vulnerable adult population. The rise in exploitation is related to difficult economic conditions and the reliability of monthly income from sources like Social Security, retirement and other predictable forms of income. Vulnerable adults are often preyed upon by individuals who, by illegal means, target this group to obtain their assets. As a result of this alarming trend, the OKDHS APS program responded with a series of conferences that were held throughout the

state. These conferences brought together law enforcement, district attorneys, judges and APS professionals to improve accountability for persons who perpetrate on vulnerable adults.

The types of referrals investigated by the OKDHS APS program are self neglect, caretaker neglect, caretaker abuse, sexual abuse, financial exploitation, verbal abuse, and sexual exploitation. The Oklahoma Legislature added a new allegation of financial neglect in November of 2007 in response to requests of Oklahoma's District Attorneys.

The types of vulnerabilities affecting APS clients include cognitive impairments such as Alzheimer's, and other forms of dementia; physical health problems such as chronic debilitating diseases or illnesses; developmental disabilities; mental illness; traumatic brain injury; and substance abuse.

Services are offered to assist vulnerable adults prevent future occurrences of maltreatment. Self determination of adults is a cornerstone of the APS program, and as such staff makes determinations of the person's ability to consent to services on every investigation. The client may reject offers of service as a result of an APS investigation.

Clients who lack decision making abilities and who are in life endangering situations may be provided with involuntary protective services if there are services available to relieve the situation. These involuntary services are court ordered following approval of a certified petition brought before the court.

Long Term Care Investigations (LTCI): LTCI resides in the OKDHS Family Support Services Division APS unit. Its focus is investigations involving abuse, neglect and exploitation of nursing facility residents. During FY'10 LTCI completed intakes on 3009 cases; 817 were assigned to inspectors for investigation. LTCI inspectors substantiated 36 percent of the cases that were assigned.

LTCI staff routinely coordinates with local law enforcement, district attorneys, the State Department of Health, Ombudsmen, licensure boards and other social service and enforcement organizations to stop current problems and prevent reoccurrence of abuse. Staff also coordinates with local, state and county agencies to improve enforcement of abuse, trouble shoot potential problems in facilities, provide training and other activities designed to prevent abuse or facilitate a resolution.

Supplemental Nutrition Assistance Program (SNAP formerly the Food Stamp Program). SNAP serves as the first line of defense against hunger. It enables low-income families to buy nutritious food with Electronic Benefits Transfer (EBT) cards. Food benefit recipients spend their allotment to buy eligible food in authorized retail food stores.

During FFY'09, SNAP food benefits totaling \$592,050,841 were issued to Oklahoma eligible households. Based on a monthly average, 445,364 persons in 188,635 households were assisted, receiving \$260 per household or \$110 per person. This accounts for a monthly average of \$49,058,671 food benefit dollars received by Oklahoma from United States Department of Agriculture (USDA)-Food and Nutrition Service.

Applicant households apply for program benefits through a local human services center office. A request for Services form can be obtained at the local offices or printed from the www.okdhs.org website and submitted to a local office as the first step in the eligibility process. Eligibility is determined by local office staff based on federally mandated requirements including:

- income test;
- meeting work requirements for adults age 18 to 50 (currently suspended through 09/30/2011 as part of the 2009 Stimulus Bill changes);
- household size.

Congress reauthorizes the SNAP (formerly the Food Stamp Program) every five years. It was last reauthorized in the 2008 Farm Bill (HR 612A). The program name was officially changed effective 10/01/2008 and Oklahoma chose to adopt the new federal name for its food benefit program. Every October 1st, states are required to make changes to the program through the Thrifty Food Plan overall.

Temporary Assistance for Needy Families (TANF) Block Grant: In August, 1996, Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), 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.

The Deficit Reduction Act (DRA) of 2005 reauthorized the TANF program through the year 2010. The new law addressed the needs of families by maintaining the program's overall funding and basic structure, while focusing increased efforts on building stronger families through work, job advancement, and research on healthy marriage and responsible fatherhood programs.

TANF Eligibility and Benefit Levels

Under TANF, OKDHS 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 2010 eligibility requirements, a person qualifying for cash assistance payments must:

- have at least one dependent child living with them;
- not have over \$5,000 equity in a car;
- not have over \$1,000 in other assets available;
- cooperate with child support enforcement efforts if a parent is absent from the home 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'10 the average monthly payment was \$247. This figure does not include payments some clients receive for work participation allowances, work start-up payments or transportation services. The maximum monthly TANF grant for a family of three is \$292. The maximum a family of three can earn to still receive any cash assistance payment is \$702 per month in gross income.

Monthly TANF Payments vs. Federal Poverty Level FY'09

<u>Family Members</u>	<u>FY'09 TANF Payment</u>	<u>Fed. Poverty Level</u>	<u>TANF as % of Poverty</u>
1	\$180	\$902.50	20%
2	\$225	\$1214.17	19%
3	\$292	\$1525.83	19%
4	\$361	\$1837.50	20%
5	\$422	\$2149.17	20%
6	\$483	\$2460.83	20%
7	\$544	\$2772.50	20%
8	\$598	\$3084.17	19%
9+	\$650	\$3396.00	19%

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.

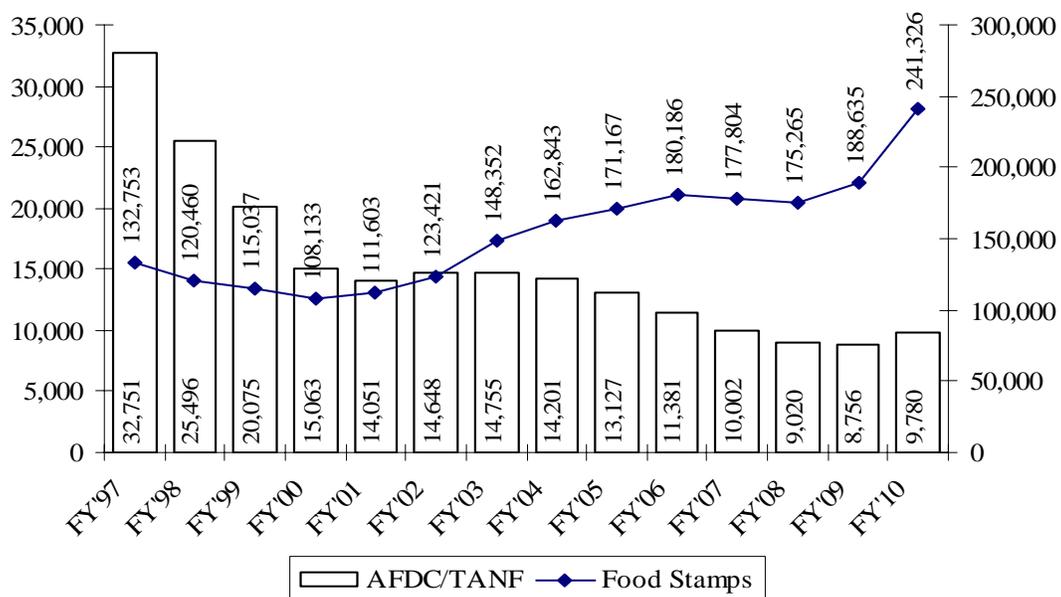
Under federal laws that ordered the conversion from AFDC to TANF, Oklahoma must expend at least \$60.1 million in state funds each year to access federal funds that total \$145 million (this state funding amount is referred to as “maintenance of effort” or MOE). In addition to cash assistance, TANF gives 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	* Domestic Violence/Training/Prevention
* Low-Income Father Services	* Tax Credit for Low-Income Families
* Child Abuse Prevention	* Teenage Pregnancy Prevention
* Employer Stipends	* Services to Teen Parents
* Caseworker Incentives	* Substance Abuse Treatment
* Child Care	* Transportation/Cars
* Job Training	* Vocational Training
* Utility Assistance	* Legal Aid Services
* Tuition Assistance	

During the past eight years, the number of adults participating in this program has declined significantly. However, there has been a slight growth in cases due to current economic conditions

Families Served by TANF and SNAP FY'97 Through FY'10



Source: OKDHS Annual Reports

Aging Services Programs

The OKDHS Aging Services Division (ASD) administers community programs that support the independence and quality of life of older Oklahomans. Many of the services are delivered through 11 Area Agencies on Aging (AAA's), which were created as a result of the federal Older Americans Act of 1965. Major services provided include:

- **Long-Term Care Ombudsman Program:** The Long-Term Care Ombudsman Program is administered by the Aging Services Division of the Oklahoma Department of Human Services under the authority of the Older Americans Act and the Oklahoma Long-Term Care Ombudsman Act.

The Ombudsman Program serves residents in Oklahoma Long-Term Care Facilities including nursing homes, assisted living, and residential care homes. An ombudsman helps improve the quality of life and the quality of care available to the residents. A long-term care ombudsman is a person who receives complaints from residents of long-term care facilities, their friends or relatives and attempts to resolve those complaints. The Ombudsman has the authority to explore problems and recommend corrective action. Ombudsmen also serve as a clearing house of information on issues relating to systems, programs and services to the aging.

The Ombudsman Program is supported by local staff and volunteers committed to improving and enriching the lives of institutionalized older persons. Training in skills such as problem solving and communication, the processes of aging and long-term care facility regulations is provided by the Ombudsman Program for all staff and volunteers.

In State Fiscal Year 2010 the Ombudsman program investigated 6,489 complaints on the behalf of residents of long-term care facilities. Over 99% of those complaints were able to be addressed without the need to refer them on to enforcement agencies, and the great majority of complaints were resolved to the satisfaction of the resident and/or complainant.

- **Congregate and Home-Delivered Meals:** AAA's provide meals and nutrition education to older Oklahomans across the state. For FY'09, more than five million meals were served with 3 million delivered to homes, including 1.9 million delivered to ADvantage consumers. 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 via local providers (Older Americans Act services) and through the Federal Transit Administration's Section 5310 program which provides buses to non-profit organizations to provide transportation to individuals who are elderly and individuals with disability;

National Family Caregiver Support Program: Caregiver services under the Older Americans Act include information to caregivers about available services, assistance to caregivers in gaining access to services, individual counseling, organization of support groups, and caregiver training to assist the caregivers in the areas of health, nutrition and financial literacy and in making decisions and solving problems relating to their caregiver roles. In addition, the respite voucher program provides respite care to family members caring for older Oklahomans, and also to grandparents who are raising grandchildren (and other relatives serving as parents). Vouchers can be used by the caregiver to hire a person of their choice to provide a temporary break from the stress of care giving. In 2010, the respite voucher program served its 10,000th caregiver. There are also supplemental services on a limited basis to complement the care provided by caregivers such as the summer camp for grandchildren and the backpack program for school age children.

- **CNCS (Council for National and Community Services) Volunteer programs:** These programs are the Foster Grandparent Program (mentors for school-age children), the Senior Companion Program (companions to homebound elders) and the Retired Senior Volunteer Program. These programs connect older volunteers to volunteer opportunities in their communities. OKDHS contracts with area programs also funded by the CNCS federal program.
- **Adult Day Services:** In FY'09, 37 sites across the state provided subsidized day care for 1,544 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 adult day care costs in centers that contract with OKDHS for funding.
- **2-1-1 Coordinating Council:** OKDHS, through the Aging Services Division, participates in the 2-1-1 Coordinating Council with other state agencies and entities who have a stake in information and referral (I&R) functions in Oklahoma. The general purpose of the Oklahoma 2-1-1 Coordinating Council, the "Lead Entity" for the 2-1-1 initiative in Oklahoma, is to develop a statewide and integrated 2-1-1 service map for the state that avoids overlap, develop and maintain certification standards for providers who operate call centers, assist call centers in their pursuit of state and national standards; develop and maintain a process for call center accountability and compliance; provide leadership and coordination for the 2-1-1 call centers as they relate to large scale emergencies and homeland security needs, develop an outcome driven strategic plan and advocate for funding to support and sustain the 2-1-1 delivery system.

2-1-1 is an easy to remember, free 24-hour telephone number that connects people with health and human service resources, including:

- ✓ Basic Human Needs Resources – food banks, clothing closets, shelters, rent assistance, utility assistance;
- ✓ Physical and Mental Health Resources – health insurance programs, Medicaid and Medicare, prenatal care, Children's Health Insurance Program, medical information lines, crisis intervention services, support groups, counseling, drug and alcohol intervention and rehabilitation;

- ✓ Employment Supports – financial assistance, job training, transportation assistance, education programs;
- ✓ Support for Older Persons and Persons with Disabilities – adult day care, congregate meals, Meals on Wheels, respite care, home health care, transportation, homemaker services; and
- ✓ Support for Children, Youth and Families – child care, after-school programs, Head Start, family resource centers, summer camps and recreation programs, mentoring, tutoring, child protective services

2-1-1 operates in local communities with support from private and public sources. 2-1-1 is not supported by a phone company surcharge like 9-1-1. Counties throughout Oklahoma are developing funding partnerships with stakeholders including local and state government, the business community, United Way organizations, and charitable foundations. The funding picture for each county is unique. The 2-1-1 line became effective statewide in Spring of 2008.

- **Personal Care Program:** Personal Care is an optional Medicaid service that is available to any person regardless of age who requires the service and is financially eligible. OKDHS determines both financial eligibility and service need. OKDHS county office staff performs the financial eligibility determination and ASD nurses housed around the state perform the service need evaluation.

Personal care attendants provide assistance with activities of daily living (bathing, grooming, etc), light housekeeping and meal preparation. The amount and type of assistance needed is based on the consumer's need, as determined by OKDHS. The personal care attendants are employed by licensed home care agencies, except in a small number of cases where needs dictate the service be provided by an independent personal care attendant.

- **The ADvantage Program:** The ADvantage Program is a Medicaid-funded alternative to Medicaid-funded nursing home care. It provides services to elders and some younger adults with disabilities who qualify to have Medicaid pay their nursing home care but elect to stay at home. Long-term care services are provided in the home and community, rather than in a nursing facility through this Medicaid 1915(c) waiver program. Everyone who is in the ADvantage Program could choose to have their long-term care services provided in a nursing facility. Each ADvantage Program consumer has a case manager who works with the consumer and family to develop a care plan comprised of services to keep the consumer safely at home at a reduced cost to the state. Not every service plan is the same but is based on the consumer's needs and their informal support system's capacity to assist in meeting those needs. The cost to the state in Medicaid dollars spent for each consumer's ADvantage Program services must be equal to or less than the state would have paid to provide nursing facility services to that consumer. Generally, if a person needs 24 hour skilled care, the ADvantage Program is not the appropriate service delivery system to meet their needs.

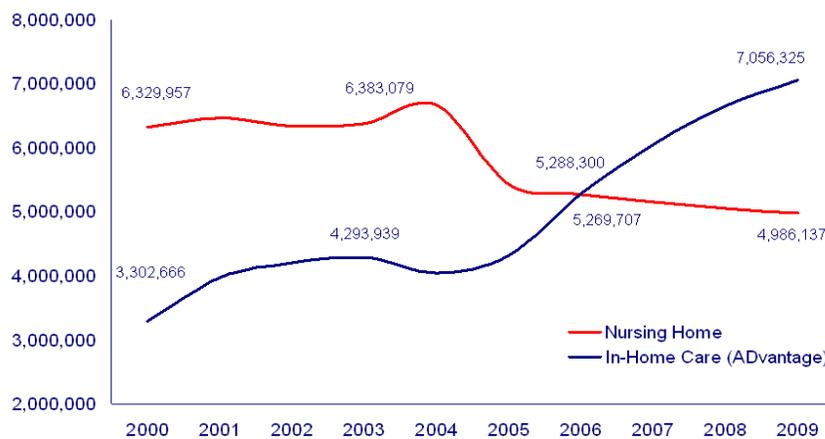
OKDHS staff performs the financial and level of care eligibility determinations. The OKDHS/ASD nurse who performs the level of care determination provides potential consumers with a list of eligible case management providers in the consumer's geographic region from which the consumer chooses their case management agency. Depending on need, the consumer may also receive:

- ✓ Personal Care (Assistance with activities of daily living or homemaker/chore activities)
- ✓ Adult Day Health Care
- ✓ Home Delivered Meals
- ✓ Specialized Equipment and Supplies

The ADvantage Program began as a pilot in 1994 and has grown steadily since then. In FY'09, 24,165 consumers elected to be served in the ADvantage Program. In that same year 20,533 consumers received Medicaid nursing facility services.

The average daily Medicaid expenditure for both acute care services and ADvantage Program services was \$30.17 per-person in FY'09. The average daily Medicaid expenditure for both acute care services and nursing home services was \$103.39 per person during that same time period. Since approximately 30 percent of these costs are paid with state-appropriated funds (with the other 70 percent being federal Medicaid participation), the program continues to save the state a significant amount of money, while providing a choice of settings for Medicaid consumers to receive their long-term care.

Advantage Waiver Comparisons with Nursing Home Care – 2009 Bed Days



2009 numbers are not finalized and are subject to change.

OKDHS continues implementation of its Electronic Data Entry & Retrieval System (ELDERS) to automate the medical eligibility process for the ADvantage Program. Since the beginning of the ADvantage Program, OKDHS has performed the required medical eligibility process using a paper-driven system. The processing of forms necessary to determine eligibility and provide services has slowed the eligibility-determination process. With ELDERS, the OKDHS nurses use laptop computers in the field to enter the required consumer information and then transfer that data electronically to the OKDHS computer system, thus decreasing the time and resources required to make these determinations.

- **Legal Services:** Working with the Legal Aid Society of Oklahoma and the AAAs, the Legal Services Developer of ASD serves to help protect the legal rights of older Oklahomans and ensure legal services are available to Oklahomans over the age of 60 by informing service providers, partners and the general public on issues affecting older Oklahomans and making referrals for legal services. The Legal Services Developer provides leadership in effecting advocacy that strengthens protections for older Oklahomans by empowering constituency groups to provide effective legislative advocacy through education, training, and consultation.

Developmental Disabilities Programs

The mission of the Developmental Disabilities Services Division (DDSD) is to enable persons with developmental disabilities to lead healthy, independent and productive lives to the fullest extent possible; to promote the full exercise of their rights as citizens of their communities, state, and country; and to promote the integrity and well-being of their families. The division's purpose is to design and operate a service system that efficiently uses available resources to support individuals in the least restrictive and intrusive manner possible. The division administers community-based programs and operates institutions both directly and through contract with an external company.

MEDICAID SERVICES: Medicaid is the primary funding source for DDSD services. The state share for Oklahoma is approximately 25 percent and the federal share is about 75 percent of each dollar spent for Medicaid services. In other words, for every dollar the state spends, the federal government provides another three dollars. DDSD operates three major programs funded by Medicaid: (1) Home and Community-Based Waiver Services provided through four 1915(c) waivers, (2) Targeted Case Management provided by DDSD staff, and (3) Public Intermediate Care Facilities for the Mentally Retarded.

- **Home and Community Based Waiver Programs:** The division operates four different Medicaid waiver programs: In-Home Supports Waiver for Children, In-Home Supports Waiver for Adults, Community Waiver, and the Homeward Bound Waiver. Waiver services are provided by contracted provider agencies throughout Oklahoma. The services available through these waiver programs include:
 - ✓ Adaptive Equipment, Architectural Modifications, and Medical Supplies
 - ✓ Employment Services
 - ✓ Family Training/Counseling

- ✓ Habilitation Training Specialists
- ✓ Professional Medical Services, including dental, nursing, nutritional, occupational, physical and speech therapies
- ✓ Psychological Counseling
- ✓ Residential Services
- ✓ Respite Services
- ✓ Transportation Services

To be eligible for DDS waiver services, a person must:

- ✓ be a resident of the State of Oklahoma;
- ✓ be determined financially eligible for Medicaid by OKDHS;
- ✓ be determined to have a diagnosis of mental retardation or related condition;
- ✓ be determined to meet the Intermediate Care Facilities for the Mentally Retarded (ICF/MR) level of care;
- ✓ be age three or older;
- ✓ not be simultaneously enrolled in any other Medicaid waiver program;
- ✓ not be residing in a hospital, nursing facility, or ICF/MR; and
- ✓ meet other waiver-specific eligibility criteria.

Waiver services are not entitlement programs. The fact that a person qualifies for the service does not mean he or she can automatically be served. Waiver services are dependent on the availability of state money to match the federal funds supporting the programs. There is a waiting list for waiver services because there are more people requesting these services than there are state-matching funds to provide services. During FY'08 over 1,000 individuals applied for services and were added to the waiting list. As of June 30, 2010, 5,737 are on the waiting list for waiver services.

The Community Waiver was first approved by the federal government in 1985. This waiver provides for a comprehensive array of services including residential, employment, professional and habilitation services and supports. Case managers work closely with family and health professionals to design an annual service plan of care for the service recipients based on their identified needs. During FY'10, 2,761 individuals were served under the Community Waiver for a total cost of \$159.9 million, which required \$40.1 million in state funding. The average annual cost per service recipient was approximately \$57,732.

The In-Home Supports Waiver (IHSW) was created in 1999 in response to a comprehensive survey that found 85 percent of the individuals on the waiver waiting list wanted support to remain living in their own homes. Individuals on the IHSW are assigned DDS Case Managers to assist them in locating, securing, and coordinating needed services. During FY'08, eligible children 3 through 17 years of age could receive up to \$12,820 of services per year through the IHSW for Children. Eligible adults 18 years of age or older could receive up to \$19,225 of services per year through the IHSW for Adults. The IHSW for Children provides less funding than the IHSW for Adults because many services are already available to children through the Medicaid State Plan Early and Periodic Screening,

Diagnosis and Treatment (EPSDT) Program and the Oklahoma Department of Human Services Disabled Children's Program (DCP).

During FY'10, 458 children participated in the IHSW for Children at a cost of \$3.6 million, which required \$.9 million in state funding. 1,482 adults participated in the IHSW for Adults at a cost of \$22 million, which required \$5.5 million in state funding.

The Homeward Bound Waiver was created in September 2003 to provide services and supports to the members of the Plaintiff Class of the Homeward Bound vs. The Hissom Memorial Center lawsuit. Prior to 1994, the Hissom Memorial Center in Sand Springs was one of the long-term care facilities operated by OKDHS. This waiver program meets the requirements set by the federal court for serving the individuals who lived at the center during a certain period of time. The services provided under the Homeward Bound Waiver are the same as those under the Community Waiver, with the exception of Class Members having the choice of sharing a house with roommates or living in a single placement. During FY'10, 755 individuals were served in the Homeward Bound Waiver for a total cost of \$94.6 million, which required \$23.7 million in state funding. The average annual cost per service recipient was approximately \$125,309.

- **Targeted Case Management Services:** Each person receiving waiver services through DDS has a case manager who ensures that individual needs are met through linkage, assessment, brokerage, advocacy, and monitoring activities. Targeted case management services (TCM) are activities that assist this population in gaining access to needed medical, social, educational, and other services and supports, even if these supports and services are not covered under the Oklahoma Home and Community-Based Services waivers. Services provided include assessment and reassessment; support/service planning, and monitoring and coordination. The DDS Case Manager serves as the individual's Qualified Mental Retardation Professional (QMRP).
- **Public Intermediate Care Facilities (Resource Centers):** The Resource Centers serve individuals age six or older who meet the ICF/MR level of care requirement when their individual circumstances indicate this type of placement is the least restrictive, most appropriate living arrangement available. The division operates three facilities: the Southern Oklahoma Resource Center (SORC) in Pauls Valley (average FY'08 census-161); the Northern Oklahoma Resource Center (NORCE) in Enid (average FY'08 census-51); and the Robert M. Greer Center located on the NORCE campus (average FY'06 census-51). The Greer Center is the only state facility that exclusively serves individuals who are diagnosed as having both mental retardation and mental illness. On February 1, 2000, the management and operation of the Greer Center was contracted to Liberty of Oklahoma Corporation under a 10-year agreement. During FY'10, the facilities had a total cost of approximately \$63.3 million, of which \$15.9 million was state funding.

NON-MEDICAID SERVICES:

DDSD offers a wide array of additional services that are not funded by Medicaid but are designed to support individuals in their communities. While DDSD continues to explore additional federal funding sources, these services are primarily funded by 100 percent state dollars.

- **Family Support Assistance Program:** This program provides monthly cash payments to a limited number of families who have a child younger than 18 years of age with a developmental disability, and whose adjusted gross income is no more than \$45,000 a year. The families receive \$250 per month for one child meeting the eligibility criteria. If a family has more than one child meeting the eligibility criteria, an additional \$50 per month per child can be received, with a maximum of \$400 per month. These payments help families pay for needed services such as respite care, architectural modifications, technical assistance, or personal items such as diapers and medication. This program is funded by state and federal funds available through the Temporary Assistance for Needy Families (TANF) block grant. During FY'10, more than 2,708 children were served through this program at a cost of approximately \$5.4 million.
- **State Funded Employment Services (Sheltered Workshop and Community Integrated Employment):** Sheltered Workshops provide employment services and work activities for individuals with developmental disabilities. In 1975, the Department began funding Work Activity Centers that later became known as Sheltered Workshops. Sheltered Workshops continue to provide opportunities for adults with developmental disabilities to engage in meaningful work or participate in training activities. People who receive sheltered workshop services are paid for their work in accordance with their abilities and rules established by the US Department of Labor. Community Integrated Employment services are designed to promote independence through gainful, integrated employment. Services include assessment, training, supportive assistance and follow-along support. Employment may be a single placement or in groups of not more than eight.
- **State Funded Group Home Program:** Group Homes offer a living arrangement for 6 to 12 people who share a home and receive up to 24 hours per day of supervision, support, and training in daily living skills. Group Home residents are 18 years of age or older and are provided community living services. Group Homes are single-family homes located in the community close to other services and activities. The home is owned or leased by a private agency. The agency receives reimbursement from DDSD for supervising and supporting residents of the home.

Children and Family Services (Child Welfare)

The OKDHS Children and Family Services Division, in conjunction with Field Operations staff, are responsible for developing and implementing Child Welfare Services in all 77 counties. These services include:

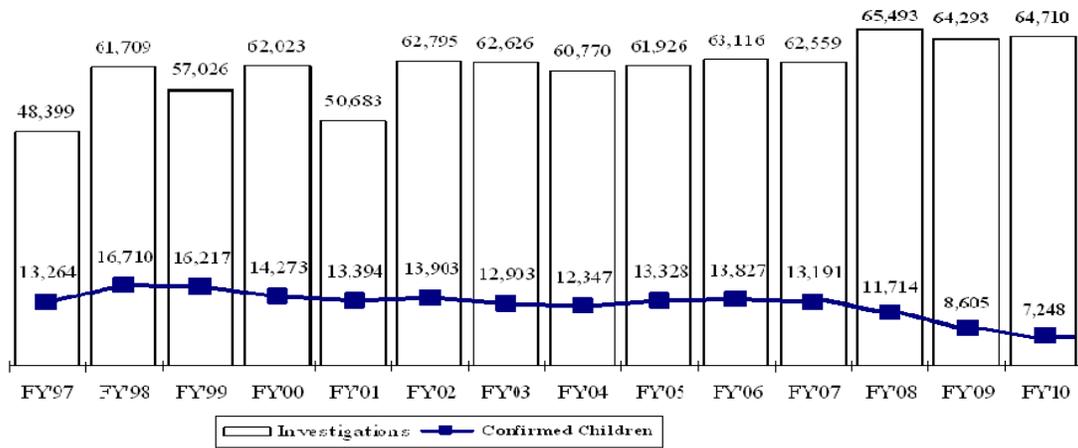
- Responding to reports of child abuse and neglect;

- Working with families involved in reports of abuse or neglect to safely maintain their children in their own homes;
- Providing emergency shelter services in Oklahoma City and Tulsa for children removed from their homes and placed into the protective or emergency custody of OKDHS;
- Recruiting, assessing, training, approving and supporting foster families and other resources for safe out of home placements for children removed from their homes;
- Working with families of children in out of home care to reunite them safely, if possible, providing direct and contracted services;
- Developing and facilitating permanent placement plans for children, which includes adoption and family reunification; and
- Supporting adoptive families.

The division operates two shelter programs: the Pauline Mayer Shelter in Oklahoma City and the Laura Dester Children's Center in Tulsa. It also administers the federally-funded Promoting Safe and Stable Families Program, which funds some family preservation, family support, time-limited family reunification and adoption support services.

Child Protective Services: In FY'97, OKDHS received reports of child abuse and neglect on 51,001 families. Since then, the number of reports has steadily increased and, in FY'09, OKDHS received 64,710 reports, a 27 percent increase since FY'97. All reports of child abuse and neglect are documented and reviewed, and approximately 44 percent are subsequently investigated. Of those cases investigated, about 16 percent are confirmed. In FY'09, 88 percent of cases were attributed to neglect, eight percent to physical abuse, and four percent to sexual abuse. Threat of Harm, Failure to Protect, Exposure to Domestic Violence, Inadequate or Dangerous Shelter, Other, Substance Abuse by Caretaker, Lack of Supervision, and Inadequate Physical Care account for 90 percent of all confirmed cases of neglect.

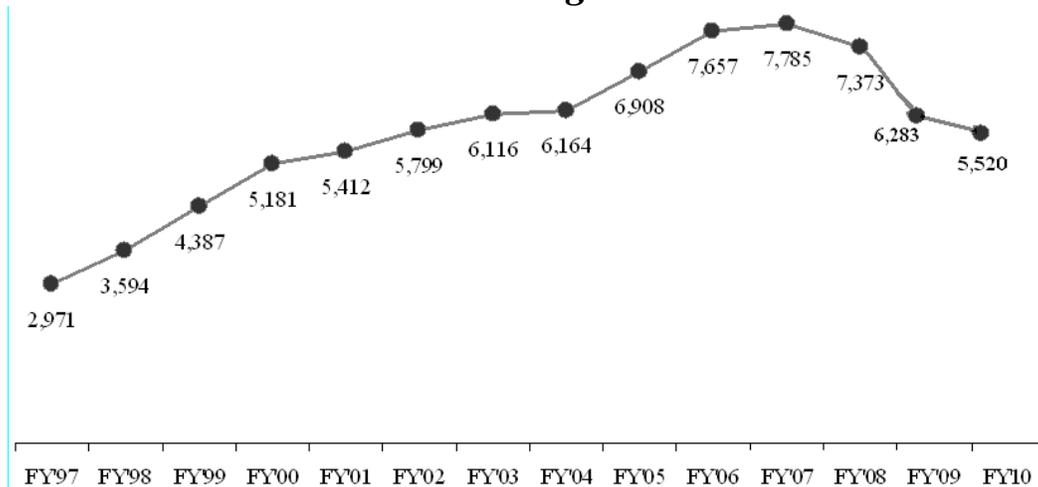
Number of Child Abuse Investigations and Confirmations by Child* FY'97 Through FY'10



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

Out of Home Care: OKDHS spent \$73.7 million in state and federal funds on out of home care for custody children in FY'07. The number of Oklahoma children in out of home care grew steadily through FY'07 to 12,222 but has declined by nearly 4200 children in FY'10 to 7,970. The majority of children in out of home care are placed with foster or kinship families with the daily average declining by 762 from FY'09 to FY'10. The average length of stay for children in out of home care is 14 months while the average length of stay for children exiting to permanence is 25.7 months.

Average Daily Number of Children in Foster Family and Kinship Care *FY'97 Through FY'10*



Foster/Kinship Care: Currently there are 2585 foster family homes available statewide. Of these homes, 50.41 percent are kinship, reflecting the diligent efforts to place children with family. In FY'05, the foster/kinship family rate of reimbursement was increased by 50 cents per day, and the rate was again increased by \$1.00 per day in FY'06. Before the FY'05 increase, the rates had been the same since 1982.

Therapeutic Foster Care (TFC): Therapeutic Foster Care is a residential behavioral management service provided in foster home settings. TFC is designed to serve children ages three through eighteen with special psychological, social, behavioral, and emotional needs who can accept and respond to the close relationships within a family setting, but whose special needs require more intensive or therapeutic services than are found in traditional foster care. On average, 1,000 children are in TFC placements at any given time.

Group Homes: For FY'10, OKDHS group home beds had contracts with eleven providers for a total of 333 group home beds and served approximately 600 custody youth. Eighty-nine percent of group home beds are for children with a behavioral health prognosis who require therapy and educational programming on the group home campus.

Adoption Assistance: The Adoption Assistance Program helps to secure and support safe and permanent adoptive families for children with special needs. Adoption assistance is designed to provide adoptive families of any income level with needed social services, and medical and financial support to care for children considered difficult to place. Federal and state law provides for adoption assistance benefits including Medicaid coverage, a monthly adoption assistance payment, special services, and reimbursement of non-recurring adoption expenses:

- **Medicaid.** The child is eligible for the Oklahoma Medicaid program or the Medicaid program in the state of residence.
- **Monthly assistance payments.** An adoption assistance payment is available for children meeting that meet the special needs criteria. As of July 2010, 11,138 children were receiving this subsidy.
- **Special services.** Special services are used to meet the child's needs that cannot be met by the adoptive parent(s) and that are not covered under any other program for which the child would qualify. Effective October 1, 2009, child care services may be paid by OKDHS as a part of adoption assistance for children who are in foster care as defined in Section 1355.20 of Title 45 Chapter XIII of The Code of Federal Regulations, at the time of approval for adoption assistance. As of July 2010, there were 520 children approved for child care as part of adoption assistance.
- **Reimbursement of non-recurring adoption expenses.** Reimbursement of non-recurring adoption expenses is available to assist adoptive parents with one-time expenses related to the costs of the adoption. Funding is provided by 50 percent state and 50 percent federal funds. The program provides a one-time payment not to exceed \$1,200 per child; and

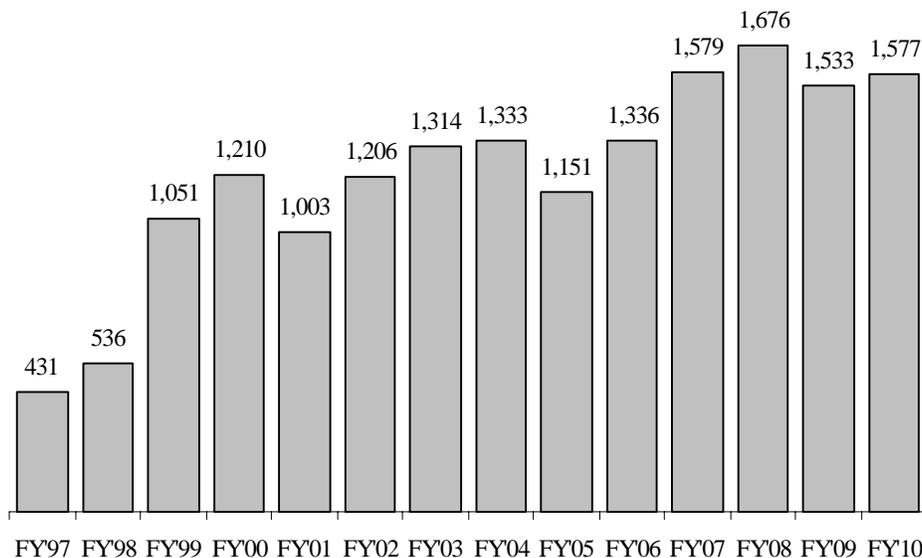
- **Post-legal adoption assistance.** Post-legal adoption assistance is a state-funded program to assist families who have adopted a child who has a causative, pre-existing condition which was not identified or known prior to the finalization of the adoption which has resulted in a severe medical or psychiatric condition that requires extensive treatment, hospitalization, or institutionalization. The child must also meet the definition of a child with special needs.

The Adoption Assistance Program provided monthly benefits and/or services to more than 12,000 children during FY'09 and FY'10 with this number expected to rise due to a continued increase in the number of finalized adoptions.

Adoption Services: Due to concerted efforts on the part of OKDHS, the number of children placed in adoptive homes has more than quadrupled between FY'93 and FY'10. However, about 1,800 children are still awaiting adoption. Approximately 80 to 85 percent of the children awaiting adoption are in an identified resource home who anticipate adopting the children.

Of the 1,577 children authorized for placement in adoptive homes in FY'10, 58 percent were five years of age or less, 34 percent were six to 12 years of age, and 8 percent were 13 to 18 years of age. Approximately ninety percent or more had one or more special needs (defined as either physical, mental or emotional disability; or age, racial or ethnic factor). Fifty-five percent of children placed in adoptive homes were part of a sibling group. For FY'10, 42 percent of the children were placed with relatives, 13 percent with non-relatives, 37 percent with foster parents and the remaining 8 percent with kinship. Kinship placements may include relatives as well as others who are not related, but who have an existing emotional bond with the child, such as a school teacher or a neighbor.

Children Authorized for Adoptive Placement *FY'97 Through FY'10*



While authorizations have slightly declined over the last 2 years, this is in direct relation to the declining number of children in out of home care waiting for an adoptive home. Oklahoma has, however, increased the number adoption finalizations over the last 2 years. In FFY'08, Oklahoma finalized the adoptions of 1,465 children. This was surpassed in FFY'09 with the finalizations of 1,498 children. The FFY'10 year ends on 09/30/2010 and it is expected that Oklahoma will exceed 1500 finalizations.

Oklahoma Child Care Services

The Oklahoma Child Care Services (OCCS) assures Oklahoma families have access to licensed, affordable, high-quality child care where children have the opportunity to develop to their fullest potential in a safe, healthy and nurturing environment.

The Oklahoma Child Care Facilities Licensing Act (10 O.S., § 401-410), enacted in 1963, authorizes OKDHS to administer the licensing program. This responsibility includes developing minimum requirements for child care facilities, revising existing requirements, and implementing policies and procedures for the licensing program. The foundation of quality child care is a strong licensing program working closely with the Child Care Advisory Committee. OCCS is committed to working with providers to ensure licensing requirements are met that safeguard the health and safety of children while in care. A well-trained licensing staff and regular monitoring visits increase the likelihood of positive outcomes in children's physical, emotional and cognitive well-being.

The National Association of Child Care Resource & Referral Agencies (NACCRRA) released a state report card comparing states on how well they meet basic requirements needed to protect the health and safety of children in care. Independent ranking by NACCRRA placed Oklahoma third overall in center care and second in family child care home care. A key factor in Oklahoma's ranking is the fact that Licensing Specialists conduct three unannounced inspections annually.

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.
- A ★★★ rating is awarded when a program meets additional criteria, and is nationally accredited. This rating was instituted in July 1999.

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.

During FY'09, ninety seven percent of children whose center-based care was subsidized by OKDHS attended two star or higher centers. During the same year, seventy-three percent of children whose home-based care was subsidized by OKDHS attended two star or higher homes.

At the end of June 2010 Oklahoma had 4,561 licensed child care facilities including 1,751 child care centers, part-day, school-age and day camp programs; and 2,810 family child care homes and large family child care homes. Licensing specialists work cooperatively with the Cherokee Nation, Muscogee Creek Nation, Chickasaw Nation, and Choctaw Nation tribal licensing programs to license facilities and reduce duplication of monitoring tasks.

Residential and Agency Licensing Services license residential child care facilities and child-placing agencies throughout the state. Licensing staffs provide a variety of consultative services, in addition to regulatory responsibility for the enforcement of licensing requirements. They also investigate complaints regarding non-compliance with licensing requirements or violations of the Oklahoma Child Care Facilities Act. Their primary mission is to ensure that licensed programs are safe and healthy environments for children and youth who are in 24 hour, out of home care. At the end of June 2010, Residential Licensing Services monitored the following child care facilities with a combined capacity of 3,700 children: 38 children's shelters and 89 residential child care programs. In addition the program monitored 58 child-placing agencies.

The Professional Development Unit is responsible for the development of initiatives contributing to the mission of the OCCS including training for Licensing staff and child care providers. To accomplish their goals, the Unit participates in the development of initiatives; creation of contracts through an invitation to bid process, interagency agreement or grant award; and monitoring of initiatives for effectiveness. Major services were delivered through contracts with the University of Oklahoma, Oklahoma State Regents for Higher Education, Oklahoma Child Care Resource and Referral Association, Oklahoma State Department of Health, and the Oklahoma Department of Mental Health and Substance Abuse Services.

Oklahoma Child Support Services

Oklahoma Child Support Services (OCSS), a division of OKDHS, acts as an economic advocate for the children of Oklahoma. When a parent fails to participate in a child's life, it often falls on taxpayers to pick up the bill. OCSS helps all taxpayers by enforcing both parents' financial responsibility for the support of their children.

The mission of OCSS is to enhance the well-being of children by establishing, monitoring and enforcing a reliable source of support for the families it serves.

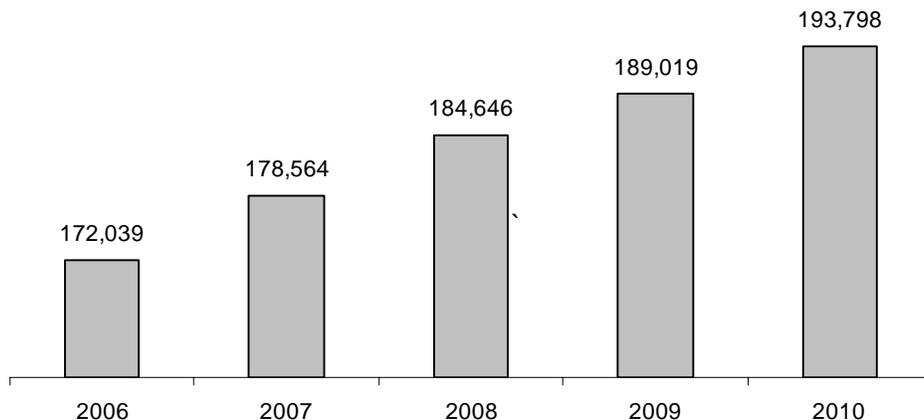
OCSS provides the following services:

- locating non-custodial parents;
- establishing paternity;
- establishing and enforcing child support and medical support orders;
- working with other partners, states and countries to obtain child support;
- collecting and distributing support payments; and
- modifying child support orders when necessary.

Child Support Services provides these services to families statewide through a variety of different delivery models. OCSS contracts with District Attorneys to operate 14 full-service Child Support Offices. OCSS directly operates 21 full-service offices, a private vendor operates two full-service offices, and one full-service office is operated by a non-profit organization. There are also three special offices: one focuses on working with parents of newborns, one works with the child welfare and juvenile cases for the determination of paternity and collection of child support, and the third works with difficult-to-collect cases.

As of June 30, 2010, OCSS had almost 194,000 open cases. Of these, approximately 11 percent are current TANF or Foster Care assistance cases, 37 percent are former TANF or Foster Care assistance cases and 52 percent have never been on TANF or Foster Care assistance but 47 percent of those are Medicaid cases.

Child Support Ending Caseload *SFY 2006 through 2010*



Through the OCSS Internet site, child support payments may be paid by credit or debit cards. WebPay also offers a bank transfer directly to OCSS known as “direct debit.” Both individuals and employers are eligible to sign up for this service. OCSS also has a cooperative agreement with the Oklahoma Employment Security Commission to provide an exchange of information regarding quarterly wages, new hires, and unemployment claims.

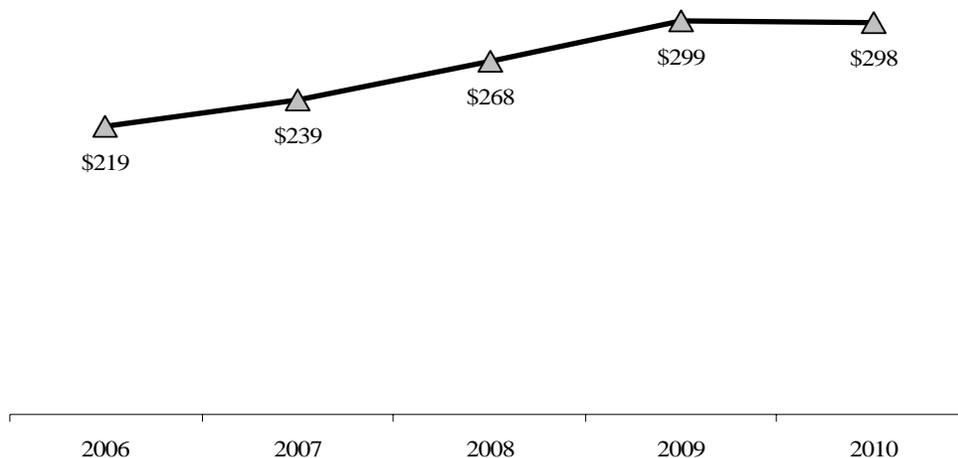
Other OCSS partnerships for the benefit of Oklahoma's families include:

- Access and Visitation – Through contracts with local non-profit social service agencies, and funded by a special federal grant, referral services are available for a parent to have access to and visitation time with his or her children.

University of Oklahoma, Center for Public Management contracts:

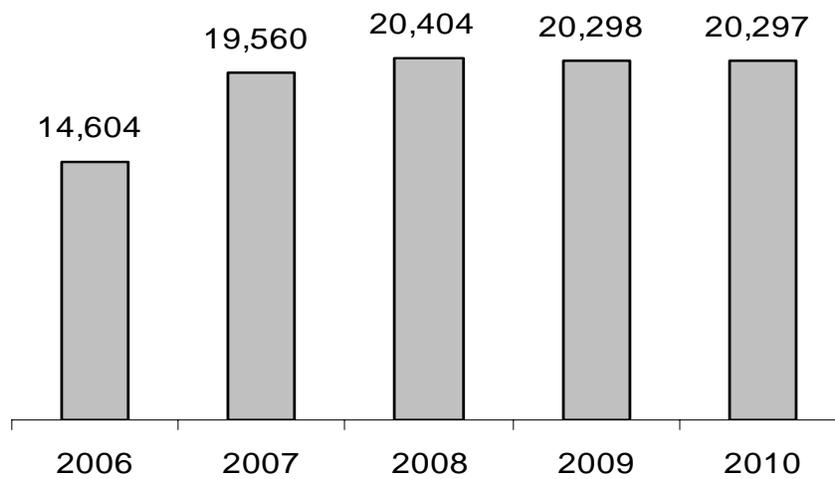
- Customer Assistance Response Effort (CARE) Customer Call Center has been Oklahoma's primary source for child support customer information since 2001. The call center currently answers 55,000 customer calls each month, with an additional monthly average of 96,600 calls being handled by the Interactive Voice Response (IVR) system. CARE answered its five millionth call on June 2, 2010. Customer Service Representatives (CSRs) successfully resolve an average of 91.8 percent (50,490) of calls processed each month - allowing district offices to devote State resources to other casework.
- In February 2008, the Oklahoma Employer Service Center opened its phone lines. This center was developed to educate employers on new hire and income assignment requirements. Employers also receive assistance enrolling children in employer health plans.
- OCSS was sixth in the nation in the percentage increase in total distributed collections from FFY'08 to FFY'09. Total distributed collections (including interstate collections) increased by 2.98 percent, from \$285 million in FFY'08 to \$293 million in FFY'09. Oklahoma was seventh in the nation in the percentage increase in in-state distributed collections. In-state collections increased by 2.98 percent from \$263 million in FFY'08 to \$271 million in FFY'09. These figures are based on preliminary figures from the federal government. For the year ending June 30, 2010, total collections (including interstate) were over \$298 million, as displayed in the graph below.

Total Child Support Collections
SFY 2006 through 2010 (in millions)



- OCSS was first in the nation in the Paternity Establishment Performance Measure in FFY'06 and FFY'07, based on federal performance measure criteria. As of June 30, 2010 OCSS established paternity (by order or by paternity acknowledgement) of 20,297 children; 15,070 of these established paternities were through voluntary acknowledgement.

Paternities Established in Child Support Cases *SFY 2006 through 2010*



- The federal cost effectiveness ratio decreased from \$4.42 to \$4.13 between FFY'08 and FFY'09. For the year ending June 30, 2010, cost effectiveness is \$4.07. This means OCSS collected over four dollars for every dollar spent on collection. Achieving the \$4.00 threshold qualifies Oklahoma for more federal incentives and for every state dollar spent in the child support program; the federal government matches that dollar with two more.

OCSS has a variety of special collection strategies and tools to compel child support payments. Among them:

- **Income Assignment** – In partnership with employers, OCSS withholds child support from paychecks as the primary method of child support collection. During the year ending June 30, 2010, over \$186 million was collected - a 1 percent increase from the previous year.
- **Federal Tax Offset** – This automated process with IRS allows for seizure of IRS refunds. Federal stimulus packages in each of the previous two years greatly increased child support collections from this source. During the year ending June 30, 2010, over \$33 million was collected - a 21 percent decrease from the previous year, but an increase of \$11 million over the last year without a federal stimulus payment.

- Oklahoma Tax Refund Offset – This automated process for seizure of state tax refunds is in partnership with the Oklahoma Tax Commission. The federal stimulus packages required taxpayer to file a federal tax return, many for the first time in years. That in turn increased the state tax return filings and tax refunds available for child support offset. During the year ending June 30, 2010, over \$4.4 million was collected - a 10% increase from the previous year, and an increase of \$1 million over the last year without a federal stimulus payment.
- Unemployment Offset – Another automated process, this seizes unemployment benefits in partnership with Oklahoma Employment Security Commission. This offset allows for continuation of regular payment of child support when the payor is unemployed. During the year ending June 30, 2010, almost \$21 million was collected - a 144 percent increase over the previous year and a more than 500 percent increase from the year ending June 30, 2008.
- Workers' Compensation and Personal Injury Award Intercept – Enhanced by new law first effective November 1, 2007, this automated process intercepts workers' compensation and personal injury settlements and awards. During the year ending June 30, 2010, almost \$6 million was collected - a more than 100 percent increase from the year prior to the legislative change. OCSS has also begun to receive personal injury settlements and should see greater collections next year.
- Lottery Offset – Starting with legislation passed and first effective in November 2005, this is the newest special collection process, garnering collections for a limited group of families. During the year ending June 30, 2010, \$29,778 was collected.

Tribal Child Support Agencies within Oklahoma

Since FY'99 OCSS has maintained a cooperative agreement with the Chickasaw Nation Tribal Child Support Agency. Similar to the agreements found in other states, OCSS works under this cooperative agreement to assist the tribe in creating its own child support program. OCSS has also collaborated with the Osage, Cherokee, Kaw, Muscogee Creek, Ponca and Comanche Nations and the Modoc Tribe with their federally funded tribal child support programs. OCSS partnered with these tribes to jointly develop customer outreach letters, case referral and transfer policy, training, and enhancement to the automated computer system.



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 separate agency became operational on July 1, 1995 (FY'96). The bill expanded prevention, intervention and detention programs across the state. The goals of the legislation were to:

- Initiate a number of primary prevention programs to prevent juvenile crime;
- 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". 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 (YO) turns 18 years of age but has failed to successfully complete his treatment plan, the juvenile may be transferred to the adult correctional system by the court of jurisdiction. Similarly, the juvenile may also be moved to the adult system at any time if the terms of the rehabilitation agreement with the court were violated.

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 YOs who were seventeen years of age or older at the time of their sentencing to have sufficient time in the juvenile system to complete their rehabilitation plans.

During the 2006 Legislative Session, the Youthful Offender Act was further amended. These amendments were the most substantive changes since the enactment of the original legislation. SB1799 included eliminating the ten-year cap on the sentence a YO could receive; mandating in lieu of the cap the same sentencing range as for an adult offender. SB1799 also provided for the retention of YOs in OJA custody until age twenty-one, only in the event of the opening of a new, separate facility devoted to the treatment of YOs. SB1760 removed the cases of fifteen, sixteen and seventeen-year olds charged with first degree murder from eligibility as YOs or from any further jurisdiction of the Juvenile Court.

During the 2008 Legislative Session, the legislature rewrote the Youthful Offender Act in SB1403 to have the courts review the sentence at the time the YO turns eighteen. At the sentencing review hearing, the court may make one of four recommendations: (1) the YO is returned to OJA in order to complete the rehabilitation agreement, provided the time shall not exceed the YO reaching eighteen years and 5 months; (2) the YO is discharged from OJA and transferred to DOC to complete the original sentence, and the court cannot add more time than the original sentence; (3) the YO is placed on probation with DOC; or (4) the YO is discharged from state custody.

SB1403 (2008) the Youthful Offender Act was further amended by permitting the transfer of a YO to DOC if a YO is found to have committed battery or assault and battery on a state employee or contractor while in custody; if a YO has disrupted the facility, smuggled contraband, engaged in other types of behaviors which have endangered the lives or health of other residents or staff; or established a pattern or disruptive behavior not conducive to the policies and procedures of the program. Additionally, SB1403 defined the placement of a YO to be the responsibility of OJA, and OJA is to place a YO not more than 45 days following the filing and adoption of the written rehabilitation plan with the court, unless an emergency is declared. For YOs who have been sentenced to OJA custody who are pending placement into an OJA facility, seventeen- and eighteen-year olds may be detained in county jails while eighteen-year olds may be held in the general population of county jails. The bill also retains annual court review hearings for YOs who are in OJA custody, which are to be completed within 30 days of the date the sentence was imposed.

In 2009, SB270 clarified that a sentence imposed upon a youthful offender would be served in the custody of or under the supervision of OJA until the expiration of the sentence, the youthful offender is discharged, or the youthful offender reaches the age of 18, whichever occurs first. The parole of a youthful offender as a triggering event for the termination of the sentence was eliminated. This bill also clarified that at the age of 18, the court may order that the youthful offender be placed in the custody of the Department of Corrections rather than incarcerated in the custody of DOC.

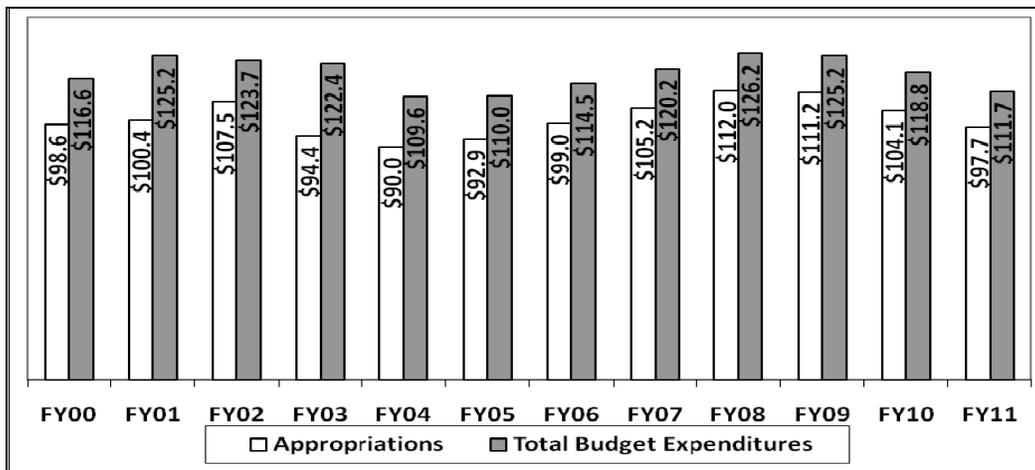
In 2009, HB2029 renumbered all sections of the Juvenile Code, including the Youthful Offender Act.

In 2010, SB1771 clarified that youthful offenders shall not remain in the custody of or under the supervision of OJA beyond the maximum age of 18 years and 5 months.

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 Block Grant (JABG); and formula and Title V from the Office of Juvenile Justice and Delinquency Prevention (OJJDP) of the U.S. Department of Justice.

Appropriations and Total Budget
FY'00 Through FY'11 (In Millions)

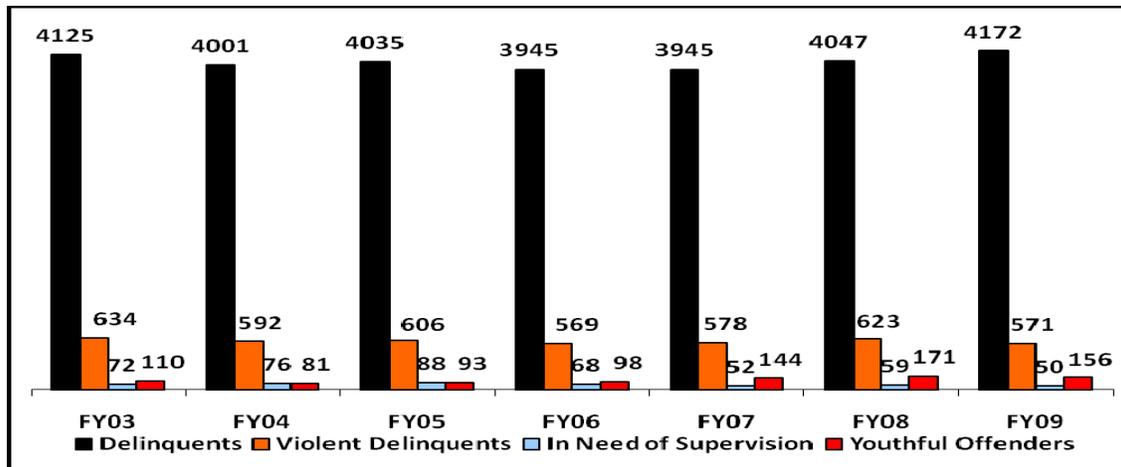


Appropriations to the agency were decreased during FY'10 due to the state revenue failure caused by the recession. Monthly cuts of 5% began in August '09 and were increased to 10% beginning in December '09 for the remainder of the fiscal year. The net effect was a 7.5% reduction in state appropriations for FY10. Appropriations were reduced an additional 4.8% for FY11. In addition, the agency was required to carryover \$912,464 in stimulus savings from FY10 to FY11.

JUVENILE CRIME AND RECIDIVISM

While the total number of juveniles adjudicated as delinquent increased only slightly between FY'03 and FY'09 (1.1%), the number of juveniles adjudicated as Youthful Offenders increased 41.8 percent between FY'03 (110) and FY'09 (156).

Types of Adjudication *FY'03 Through FY'09*



Source: Office of Juvenile Affairs – Juvenile On-Line Tracking System (JOLTS).

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.

Prevention

Community-Based Youth Services: Community-based Youth Services agencies are the primary providers of prevention services for the juvenile justice system, since part of their mission is to prevent youth from entering the juvenile justice system.

The State of Oklahoma funds 42 Youth Services agencies serving all 77 counties across the state and is responsible for providing a continuum of services. Youth Services Agencies provide community educational programs to schools and parent organizations, parenting classes, and family counseling (prevention programs) as well as first-time offender and emergency shelter programs (intervention programs). Some also subcontract with municipalities to operate community intervention centers serving as temporary holding facilities for youth arrested on minor charges when their guardians cannot immediately be located.

During FY' 10, Youth Services agencies received nearly \$23.3 million in state funding.

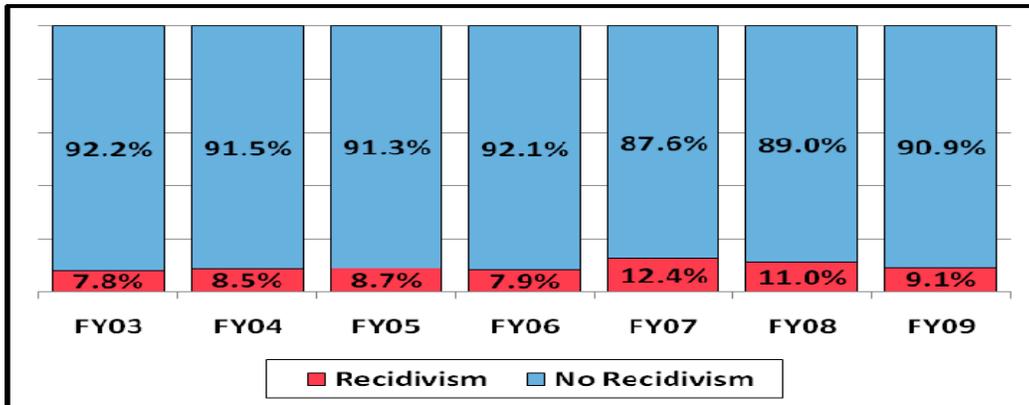
Intervention/Treatment Programs

Graduated Sanctions: This program is a community-based initiative focused on preventing juveniles who have committed non-violent minor offenses from committing more serious and/or violent crimes. In previous years, it has been funded by the federal government under the Juvenile Accountability Block Grant (JABG) and by community donations. The federal funding which supported this program has undergone a gradual reduction. State dollars have been appropriated to allow for continued existence of these community-based services. For FY' 10, nineteen communities had graduated sanctions programs in operations.

Youth arrested for minor offenses (such as vandalism or petty 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 the appropriate consequences and treatment plan 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 and/or consequences may include counseling, community service projects, life skills programs, and Saturday school.

First Offender: This curriculum-based program is primarily 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 have committed minor offenses such as being truant, violating curfew, 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.

First Offender Program Recidivism *FY'03 Through FY'09*



Source: Office of Juvenile Affairs – Juvenile On-Line Tracking System (JOLTS).

Detention/Incarceration

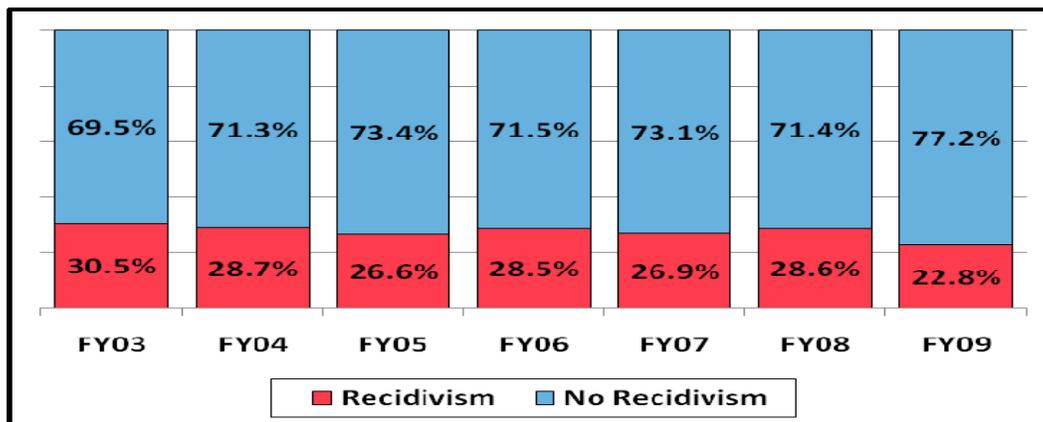
State funds are provided for 301 secure detention beds located in 17 counties. These centers provide secure detention to juveniles arrested for serious crimes as well as juveniles placed in state's custody and awaiting placement in an OJA-operated or contracted facility. State reimbursement for these centers varies according to facility capacity and during FY'10 the OJA budget for detention centers was reduced by 7.5% and will sustain a further reduction during FY'11 of 4.4% due to the reduction in state appropriations.

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 foster homes to maximum-security institutions. During FY'10, the OJA contract for the 30-bed program operated by the Oklahoma Military Department was cancelled due to the state's budget shortfall. The program had served 90 chronic property offenders a year. 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.

- **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 \$33.80 per day with an annual cost of \$12,337 per bed.
- **Specialized Community Homes:** These are homes of individuals in the community who provide room and board for up to four youths. The contractors are professional social service providers who offer intensive, individually focused therapeutic intervention programs. In FY'11, OJA had a reduction from six to two homes, as the annual salary reduced from \$38,000 to \$31,500. In addition to salary, providers receive \$22.63 per day in foster care maintenance payments for each child they are serving.

- Level E Group Homes:** These staff secure group homes 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 contracts with private providers for 226 Level E beds at an average cost of \$142/day. Due to the state's budget shortfall, the payments to Level E providers were reduced by 3.0% during FY'10 and will be cut a further 4.4% during FY'11 for a total reduction of 7.4%.
- 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 for which the bed count has declined from 148 beds to 72 (including a 14 bed diagnostic and evaluation program).

Annual Out-of-Home Placement Recidivism *FY'03 Through FY'09*

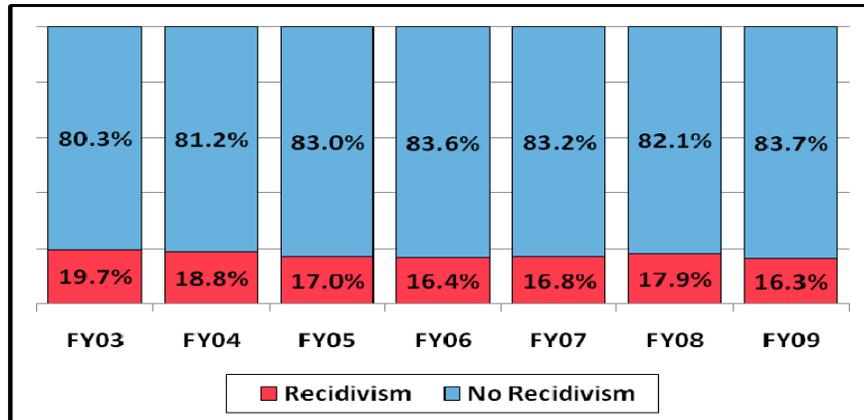


Source: Office of Juvenile Affairs – Juvenile On-Line Tracking System

Follow-up and Aftercare

Research shows that an essential part of successful rehabilitation of delinquent youth includes a program of six to twelve months of follow-up/aftercare that includes both surveillance as well as therapeutic counseling services. OJA provides the surveillance and Youth Services agencies provide the therapeutic counseling through their Community At-Risk Services (CARS) program. The CARS program was implemented in FY'00 for individual, group and family counseling, as well as school reintegration. All youth exiting group homes or institutions are eligible for CARS services, while other at-risk youth may also receive services in order for them to remain at home. During FY'10 the CARS program was reduced by 7.5% and will be reduced a further 4.4% during FY'11.

Annual Recidivism Rates for the CARS Program *FY'02 Through FY'09*



Source: Office of Juvenile Affairs – Juvenile On-Line Tracking System

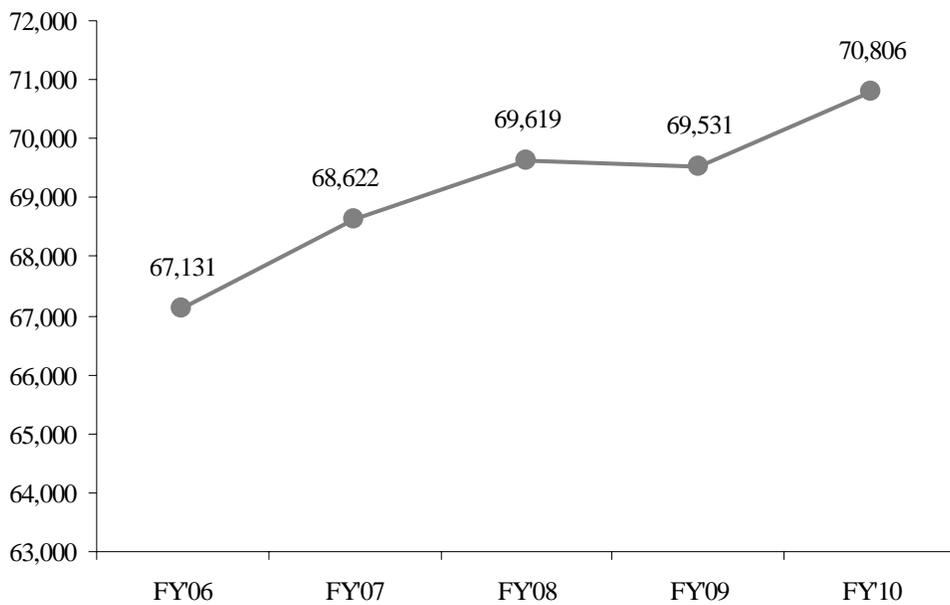


STATE PERSONNEL ISSUES

Total State Government Employment

State agencies paid a total of 70,806 full-time-equivalent employees in FY'10, according to Office of Personnel Management data. This total includes 33,830 FTE at state higher education institutions, a 1,479 person increase from FY'08. 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'06 Through FY'10



Source: Office of Personnel Management

State Employee Salaries

The average state employee earns \$39,486 per year (according to Office of Personnel Management data, which excludes higher education agencies). State employees' salaries have increased an average of 10.74 percent over the last five years.

Average Oklahoma State Employee Salary FY'05 Through FY'09

<u>Fiscal Year</u>	<u>Average Salary</u>	<u>Percent Change</u>
2005	\$35,656	7.7%
2006	\$37,880	5.8%
2007	\$38,585	2.9%
2008	\$39,020	2.2%
2009	\$39,486	2.2%

Source: Office of Personnel Management

PAY RAISE HISTORY

FY'10	No Pay Raise
FY'09	No Pay Raise
FY'08	No Pay Raise
FY'07	5 percent annual across-the-board raise provided for all state employees effective October 1, 2006. (SB 82XX)
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:

- 3.5 percent of salary 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);
- federally mandated social security tax and Medicare tax; and

- effective January 1, 2010, employees under the age of 50 may defer up to \$16,500 (adjusted for inflation) annually while employees 50 or over may defer up to \$22,000 (adjusted for inflation) per year.

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

- 15.5 percent of salaries paid to OPERS;
- a benefits allowance ranging from \$603.29 to \$1,578.68 in Plan Year (PY) 2011, 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

<u>Age</u>	<u>Percent of Normal Retirement Benefits</u>	<u>Age</u>	<u>Percent of Normal Retirement Benefits</u>
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%).

Another benefit to retirees is a state contribution of \$105 per month credited toward group health insurance costs. The monthly health insurance premium for retirees under the age of 65 is equal to the monthly premium for active employees (commonly known as the blending of rates).

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.

There are legislative procedures which govern the consideration of certain retirement measures. The Oklahoma Pension Legislation Actuarial Analysis Act requires legislation pertaining to OPERS, URSJJ, OTRS, OPPRS, OLERS and OFPRS to be subject to review by an actuary that contracts with the Legislative Service Bureau. Legislation relating to these systems is identified by an RB number and the Legislative Actuary makes a determination whether such a measure does or does not have a fiscal impact. A retirement bill deemed not to have a fiscal impact may be introduced, considered and enacted during either session of a Legislature. Legislation which is deemed to have a fiscal impact must be introduced during the first session of a Legislature. For such legislation to be considered, the legislation must first be submitted by the committee of which the legislation was assigned to the Legislative Actuary for an actuarial investigation. Once the investigation is completed, retirement measures having a fiscal impact can only be considered, passed and enacted during the second session if the concurrent funding associated with such measure is also provided.

Legislation was enacted in 2007 to take a significant step toward improving the funding level of OTRS. The employer contribution rate is increased by 50 basis points (0.50 percent) over a three year period. These increases will result in generating approximately \$50 in additional annual contribution by FY'11. If the contribution rates are fully implemented and funded, the funded status of TRS would be at 80 percent by the year 2026. These rates will only increase if the Legislature makes available the appropriate funding to the employers to cover the cost.

GROUP HEALTH INSURANCE BENEFITS

State 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:

$$\begin{aligned} & \text{Average monthly premium of all high option health plans} \\ & \qquad \text{Plus} \\ & \text{Average monthly premium of all high option dental plans} \\ & \qquad \text{Plus} \\ & \text{Basic life insurance monthly premium} \\ & \qquad \text{Plus} \\ & \text{Basic disability monthly premium} \\ & \qquad \text{Equals} \\ & \text{Employee Only Flexible Benefit Allowance} \end{aligned}$$

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 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.

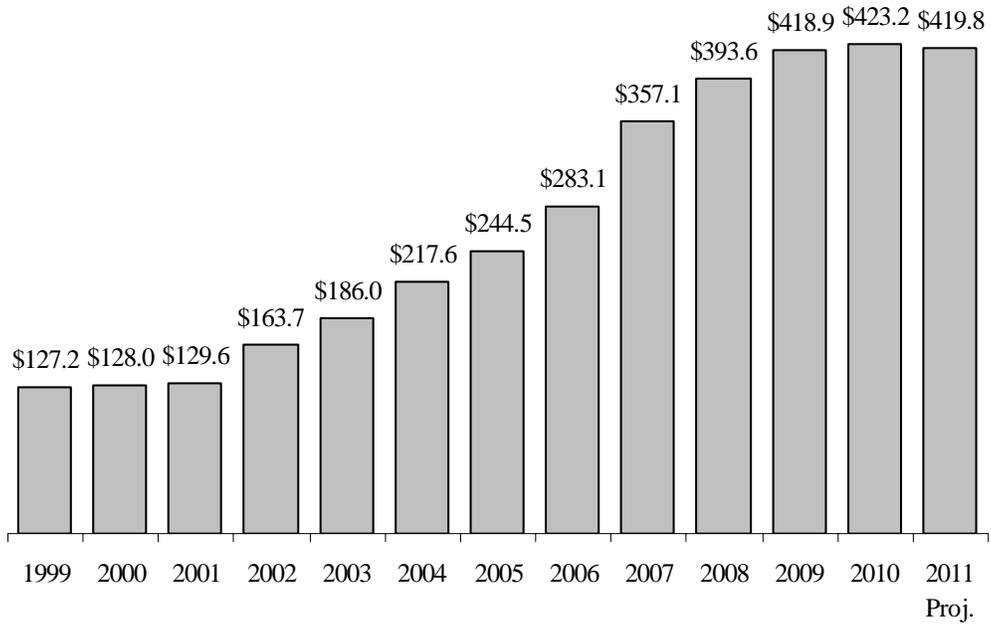
The state offers its employees a standard indemnity plan (HealthChoice) or health maintenance organizations (HMOs). The basic differences between the medical plans include: cost; choice of doctors and hospitals; how the employee and the plan share expenses through deductibles, co-payments, and coinsurance;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

School district employees are also offered a benefit allowance to pay for coverage for the group health insurance plan offered by the state or the self-insured plan offered by the school district. Full-time certified and support personnel electing health insurance coverage will receive an allowance in the amount equal to the Health Choice Hi-option. Personnel not electing coverage may receive \$189.69 per month in taxable compensation. There is no benefit allowance provided to school district employees for dependent coverage.

The cost of providing health benefits to state employees and their families has been increasing steadily over the past decade. Small changes to the benefit plan and other adjustments have allowed rates to remain fairly constant the last two years. Despite this good news, state agencies have still had to absorb nearly \$300 million in cost increases since FY'99.

Benefit Allowance Cost Projection

(In Millions)



PUBLIC SAFETY AND CORRECTIONS

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PUBLIC SAFETY AND CORRECTIONS

Department of Corrections

This chapter describes the state prison system, summarizes recent initiatives and concerns, and compares significant benchmarks with other states.

ORGANIZATION OF THE PRISON SYSTEM

There are 24 prisons - 17 public and 6 private - scattered throughout the state. Of the six private prisons, three hold Oklahoma inmates exclusively and three hold out-of-state inmates exclusively. (The Diamondback and Great Plains facilities are currently vacant). Oklahoma has the 3rd most number of inmates held in private prison beds (4,700) in the nation, behind Texas and Florida.

In addition to prisons, DOC also operates 15 work centers and seven community corrections centers. DOC also contracts with 11 privately operated halfway houses and 15 county jails to house inmates.

As-of September 13, 2010, the Department had a 98.9% occupancy-rate at facilities and a 94.9% occupancy rate in contract beds. It housed 1,232 offenders in county jail backup (awaiting reception at LARC) and it also supervised 23,360 offenders on probation and 3,440 on parole.

	<u>City</u>	<u>Capacity</u>	<u>Opened</u>
<u>Private Prisons (Non-Oklahoma Inmates)</u>			
Great Plains Correctional Facility (Cornell)	Hinton	2,000	1991
Northfork Correctional Facility (CCA)	Sayre	2,400	2000
Diamondback Correctional Facility (CCA)	Watonga	2,160	1998
<u>Private Prisons (Oklahoma Inmates)</u>			
Davis Correctional Facility (CCA)	Holdenville	1,670	1996
Cimarron Correctional Facility (CCA)	Cushing	1,620	1997
Lawton Correctional Facility (GEO)	Lawton	2,526	1998

<u>State Prisons–Maximum Security (plus med/min units)</u>				
	<u>City</u>	<u>Capacity</u>	<u>Opened</u>	
Oklahoma State Penitentiary	McAlester	1,115	1908	
Lexington Assessment and Reception Center	Lexington	1,439	1978	
<u>State Prisons–Medium Security (plus min units)</u>				
Oklahoma State Reformatory	Granite	999	1908	
Dick Conner Correctional Center	Hominy	1,196	1979	
Joseph Harp Correctional Center	Lexington	1,397	1978	
Mack Alford Correctional Center	Stringtown	805	1973	
James Crabtree Correctional Center	Helena	1,071	1982	
Mabel Bassett Correction Center (Female)	McLoud	1,136	1998	
<u>State Prisons–Minimum Security</u>				
Jackie E. Brannon Correctional Center	McAlester	737	1985	
Jim Hamilton Correctional Center	Hodgen	706	1969	
Jess Dunn Correctional Center	Taft	982	1980	
John Lilley Correctional Center	Boley	836	1983	
Northeastern Oklahoma Correctional Center	Vinita	420	1994	
William S. Key Correctional Center	Fort Supply	1,087	1988	
Howard McLeod Correctional Center	Atoka	616	1961	
Bill Johnson Correctional Center	Alva	566	1995	
Eddie W. Warrior Correctional Center (Female)	Taft	783	1988	

INMATE DEMOGRAPHICS

The statistics below are a snapshot of the demographics of the inmates in DOC custody taken in September, 2010.

Inmate Count = 26,015

	<u>Count</u>	<u>Percentage</u>
<u>Gender</u>		
Male	23,253	89.4%
Female	2,762	10.6%
<u>Race</u>		
Caucasian	13,878	53.4%
African Am.	7,834	30.1%
Native Am.	2,297	8.8%

Hispanic	1,869	7.2%
Other	137	0.5%

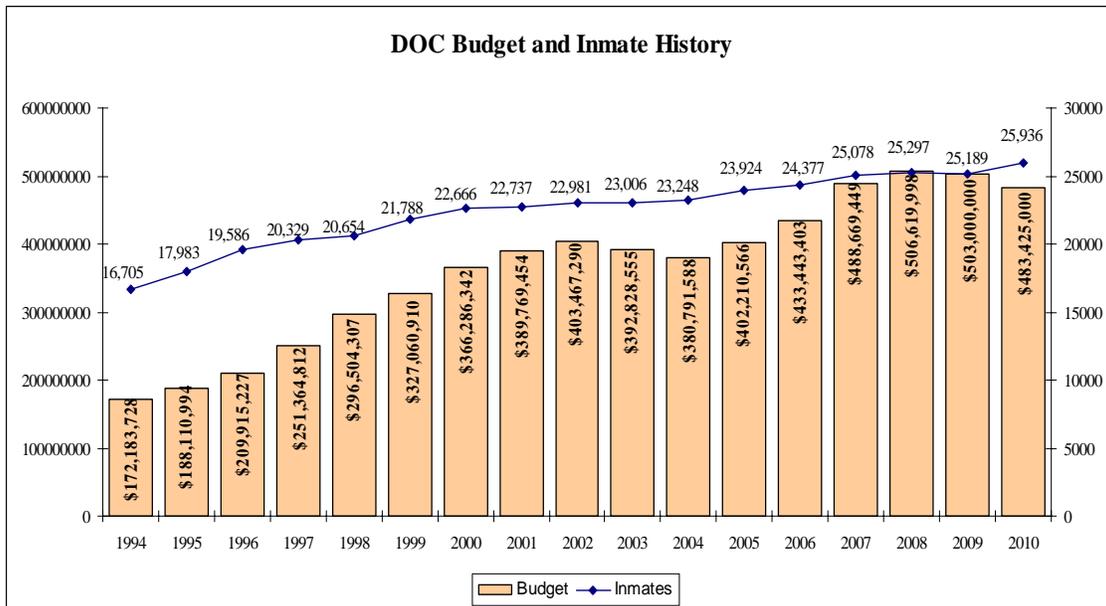
Crime Type

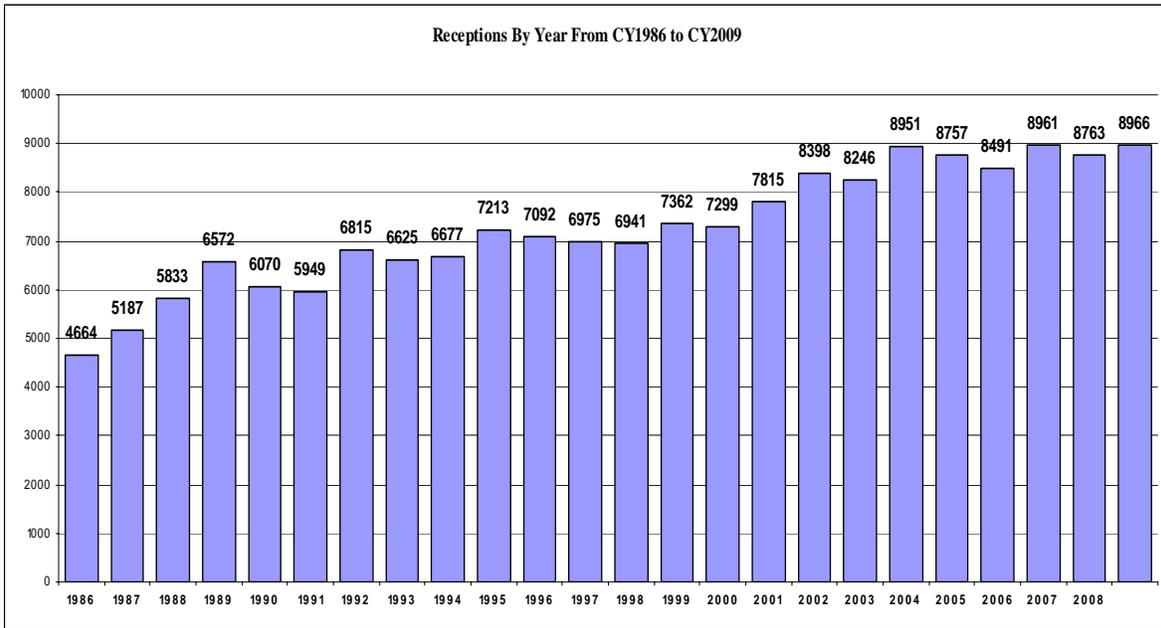
Violent	12,286	47.2%
Non-Violent	13,729	52.8%

<u>Top 5 Controlling Offenses</u>	<u>Number</u>	<u>Avg. Sentence (Years)</u>
Possession of Controlled Subst.	2,079	8.1
Dist. of CDS Poss. w/Intent	1,929	12.6
Murder 1st Degree	1,215	46.8
Burglary 2nd Degree	1,171	9.3
Assault and/or Battery w/ Dangerous Weapon	1,045	14.7

Growth in the Prison System

The number of inmates in DOC custody has more than doubled since 1991 and the agency's budget has more than tripled in that time. The FY'11 budget for DOC comprises 7% of the total state appropriated budget. The chart below shows the fiscal year-end inmate counts and appropriated budgets for DOC since FY'94.

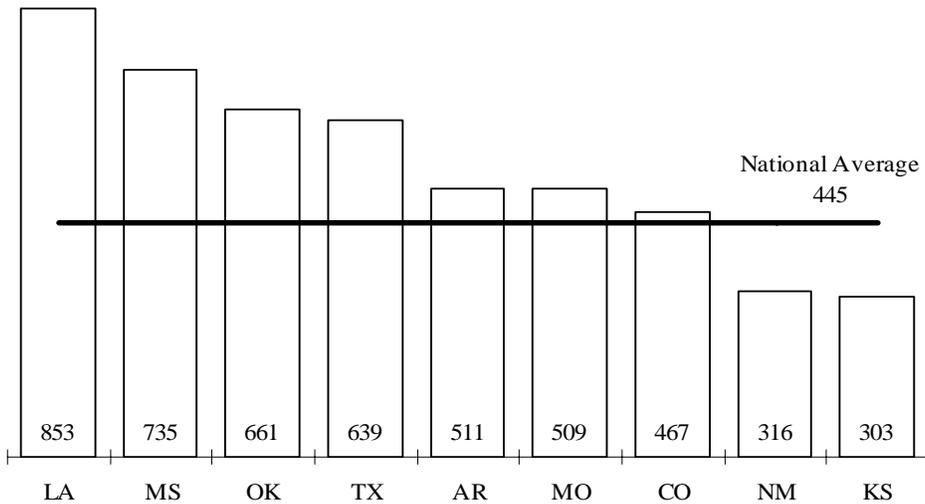




HOW OKLAHOMA COMPARES WITH OTHER STATES

In 2008, Oklahoma imprisoned 665 persons for each 100,000 residents, which is nearly 50% higher than the national average of 445. Only the states of Mississippi and Texas had higher rates of incarceration.

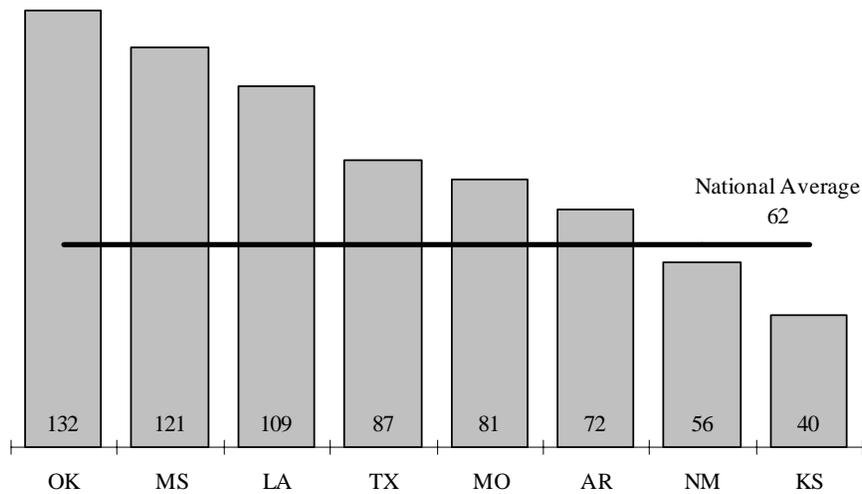
*Peer State Prisoner Incarceration Rates, 2008
Rates per 100,000 Population*



Female Offenders

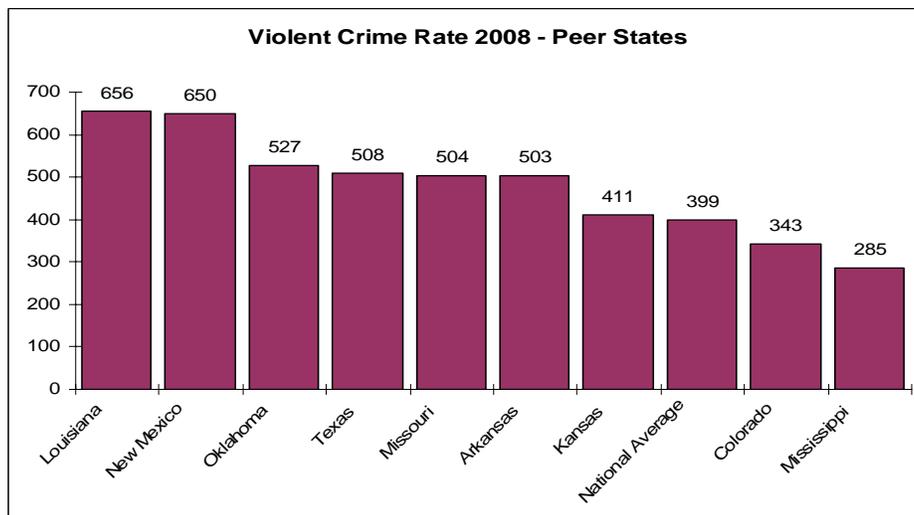
When looking at female offenders specifically, Oklahoma has the highest incarceration rate in the country. In 2008, the State incarcerated 132 women for each 100,000 female residents which are more than double the national average of 61.

Peer State Female Incarceration Rates, 2008 *Rates per 100,000 Population*



CRIME RATES

According to the FBI, Oklahoma ranks, as-of 2008, 17th nationally in rate per 100,000 of property crimes, while it ranks 11th in rate of violent crimes. Oklahoma's violent crime rate is 32% higher than the national average.

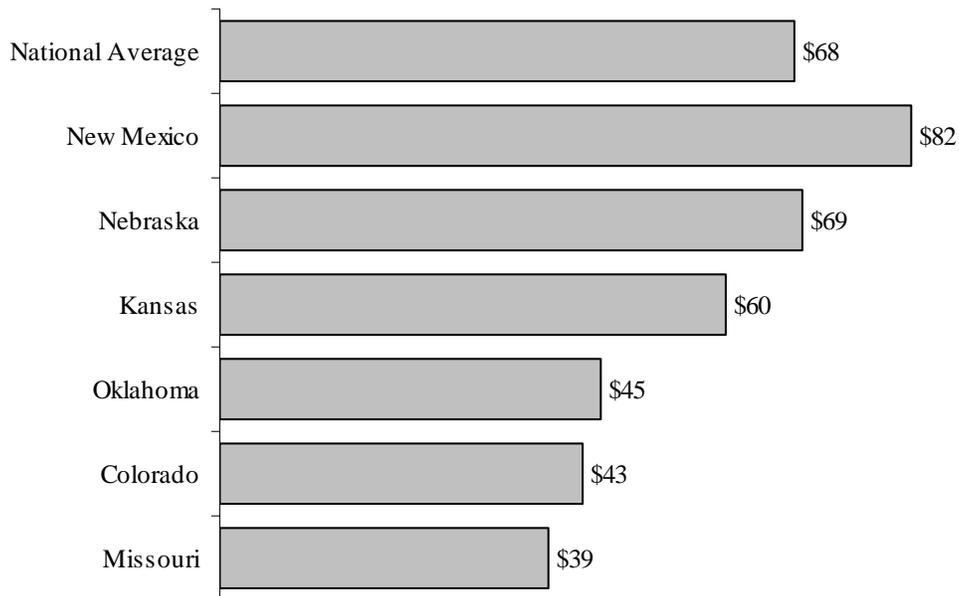


MGT PERFORMANCE AUDIT

On July 16, 2007, the State of Oklahoma contracted with MGT of America, Inc. for a comprehensive performance review of the Oklahoma Department of Corrections and related criminal justice functions. Under this contract, MGT conducted a review of the department's operations with a primary focus on improving efficiency, reducing costs, and planning for the growth of the system's inmate population in a manner consistent with the public's safety.

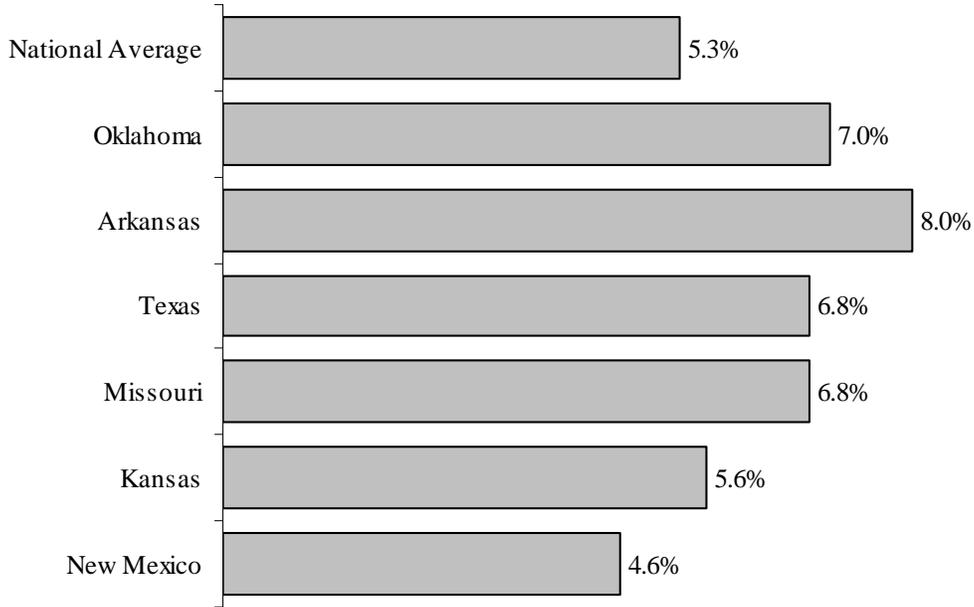
MGT released a final report to the Legislature on December 31, 2007, in which 141 recommendations were made. Some of the Audit's key findings are discussed on the following pages.

Correctional System Per Diem Costs, FY'06



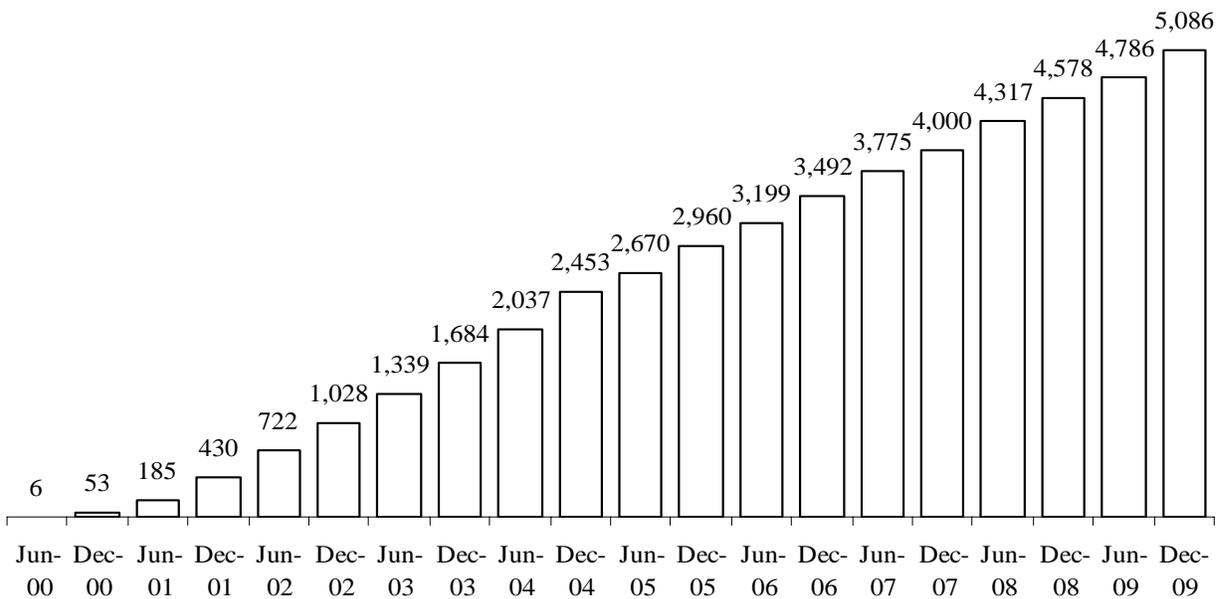
However, when comparing how much the State spends on Corrections as a percentage of the state budget, Oklahoma spends double the national average.

Corrections as a Percent of State Budget, FY'06

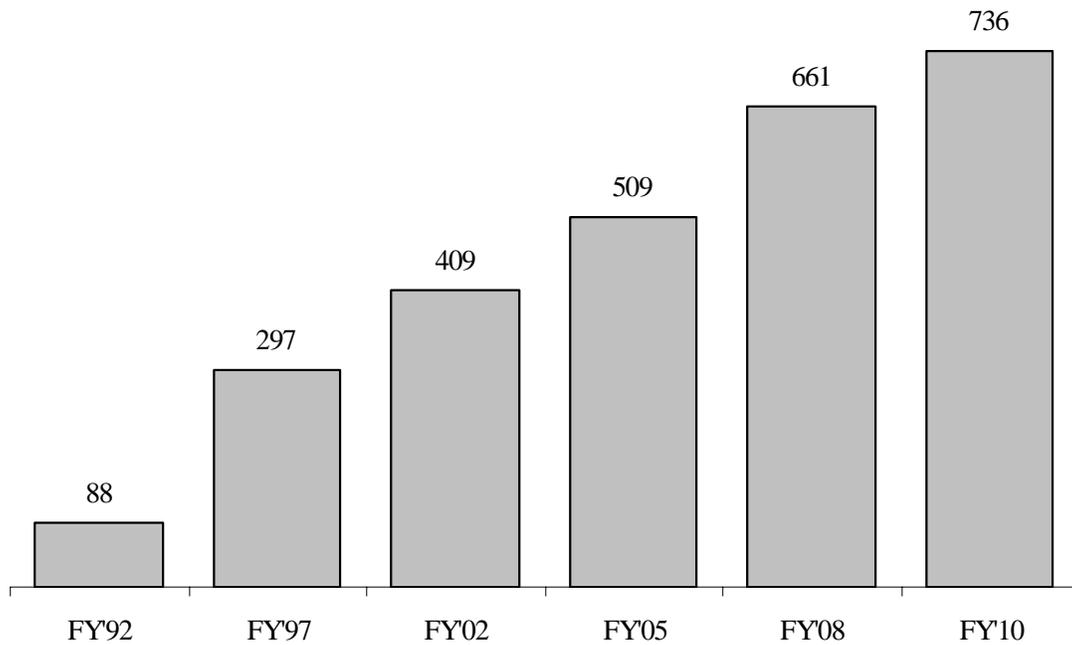


“MGT found that virtually all of the projected growth in Oklahoma prisoners is a consequence of longer periods of imprisonment associated with the “85%” sentencing laws, accompanied by a very low parole grant rate.”

Number of Inmates Serving a Sentence for an 85% Crime



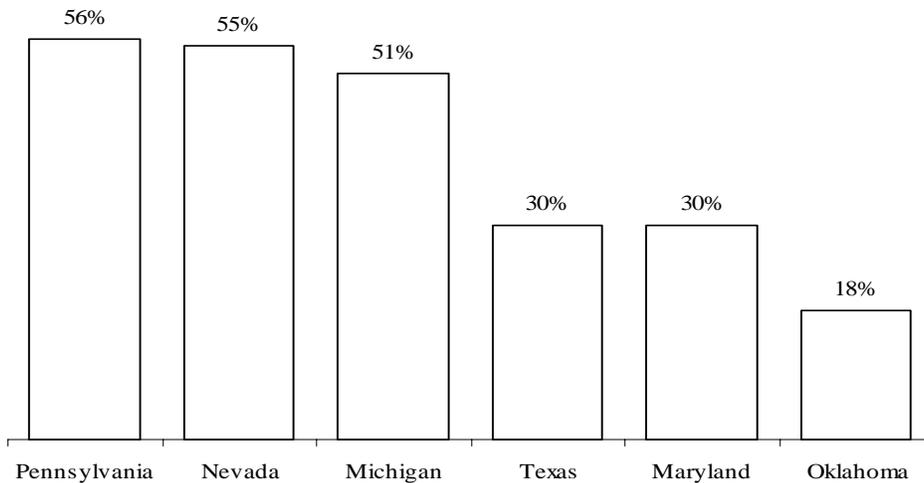
Inmates Serving a Sentence of Life Without Parole



MGT noted that Oklahoma is the only state in the nation where the governor is directly responsible for the routine approval of all parole releases from the state's correctional system and recommended the Governor only be required to review the most violent cases.

MGT also noted that Oklahoma's parole rate has fluctuated from a high of 41 percent to a low of 7.5 percent in the past 16 years and that then current rate of 18 percent was much lower than the parole rates of other states with discretionary parole release programs.

State Parole Rates



DEPARTMENT OF CORRECTIONS BUDGET

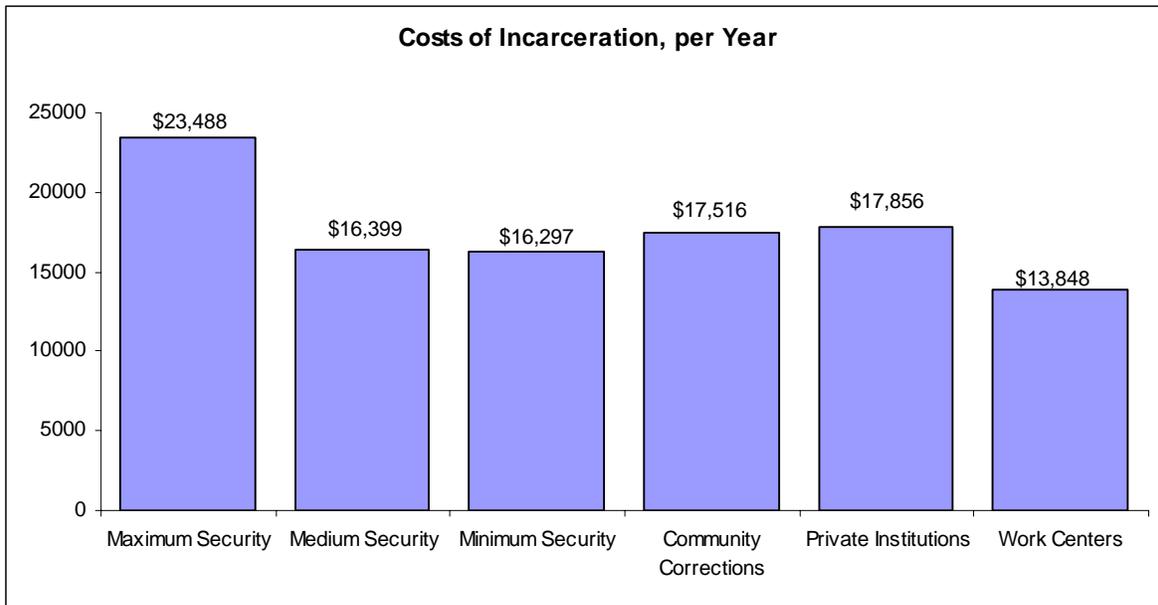
SOURCES OF FUNDING

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 through Oklahoma Correctional Industries and Agri-Services to state agencies and private purchasers. Federal funds are generally grants for specific treatment or rehabilitation programs.

FY'11 DOC Budget by Source

Appropriated Funds	\$462,141,777	90%
Revolving Funds	42,953,664	9%
Federal Funds	<u>3,687,863</u>	<u>1%</u>
Total Funding	\$508,783,304	100%

Costs of the Prison System



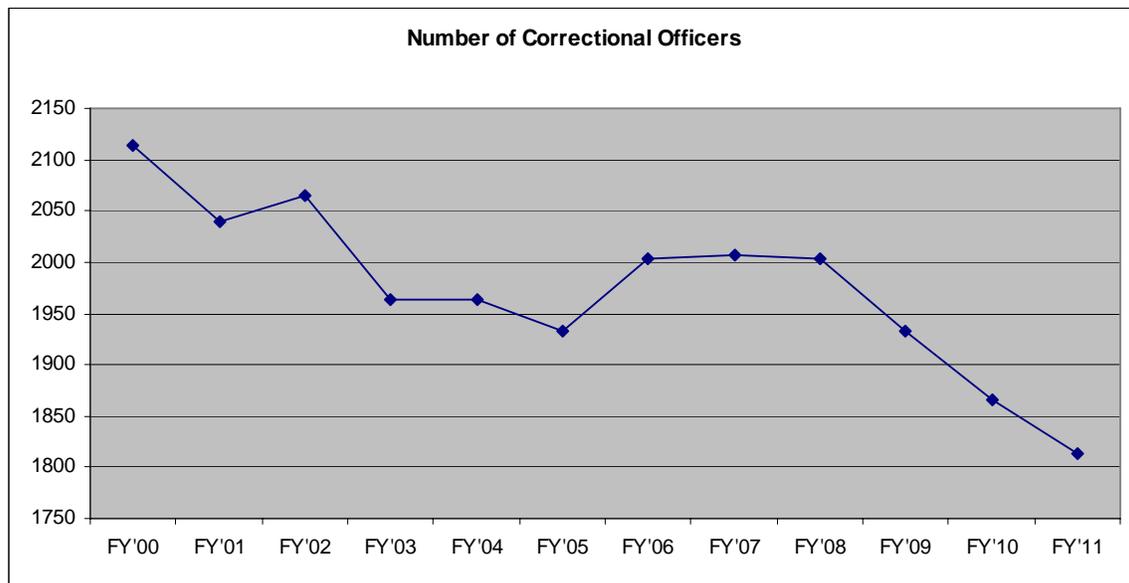
CURRENT ISSUES AND TRENDS

Overcrowding Issues

Due to continual overcrowding issues, the Department developed a bond issue proposal totaling more than \$330 million for a new maximum security facility and expansion and/or renovation of medium and minimum security facilities. However, MGT recommended the Legislature commission an independent engineering/architectural firm to produce a master plan that considered the Department's proposed expansion plans and develop alternatives as found appropriate. The study was conducted in FY'09 by the Durrant Group.

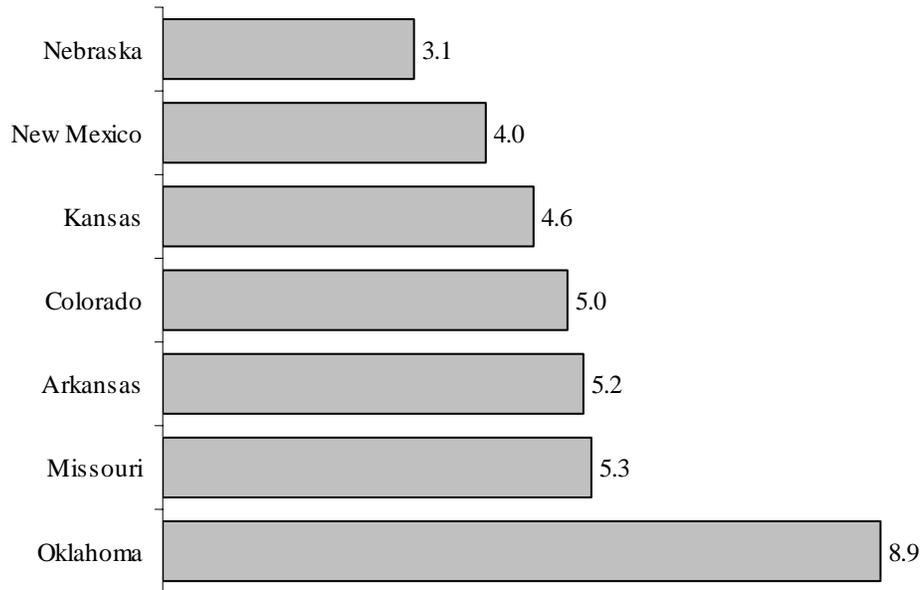
Staffing Issues

The at-capacity or over-capacity levels at DOC facilities and the Department's consistent budget struggles have put a strain on DOC employees in the form of poor morale, high turnover rates, high over-time expenditures and low corrections officer-to-inmate ratios. MGT made several recommendations concerning dangerously low-staffing levels at specific DOC facilities, but in general found that the Department has consistently dealt with annual budget constraints by reducing budgeted FTE levels and the associated personnel costs.



In order to deal with budget cuts in FY'10 and FY'11, the Department offered early retirement plans on 3 different occasions and 301 employees have accepted the buyouts. The DOC has also been forced to leave vacant positions unfilled. Although this has helped the agency meet budget, it has put a further strain on manpower, especially among correctional officers, already a concern.

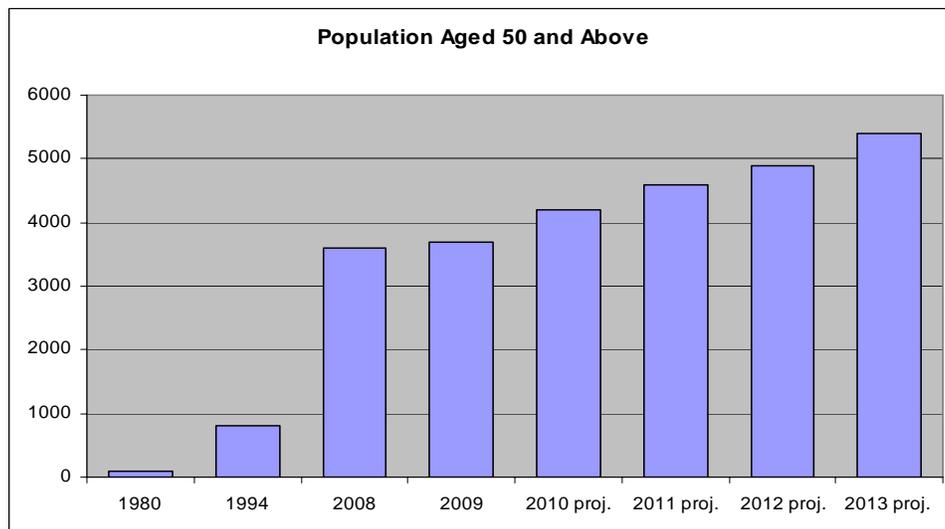
Inmates Per Correctional Officers in Peer States, FY'07

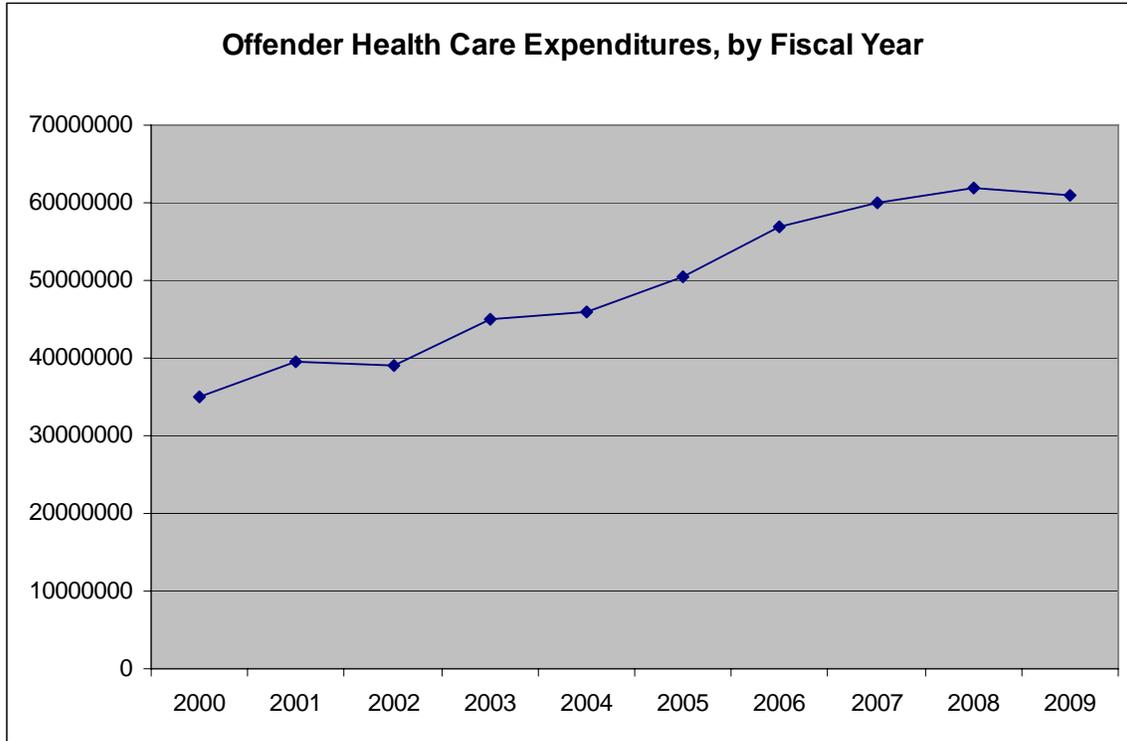


Offender Health Costs

DOC reports that approximately 47 percent of all incarcerated offenders, 43 percent of males and 79 percent of females, have a history of or current symptoms of a mental illness. Twenty-six percent of incarcerated offenders, 23 percent of males and 52 percent of females have current symptoms of mental illness.

The DOC reports that the average age of inmates is increasing dramatically, which costs the State more in medical expenses. As seen in the chart below, four times as many offenders are now over the age of 50 as there were 16 years ago. DOC medical costs have subsequently almost doubled since 2000.





Other Agencies

Another area of concern in the public safety sector is the Board of Medicolegal Investigations, which lost its national accreditation in 2009 primarily due to inadequate staffing, excessive workload and a lack of sufficient space. A comprehensive reform bill was passed by the Legislature in 2010; however, the bill was vetoed by the Governor. Still, a bill was passed in 2010 to begin the process of moving the agency to Edmond and building a new headquarters to be located near the OSBI Forensic Science Center and the University of Central Oklahoma Forensic Science Institute.

TOURISM

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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:

- 42 state parks;
- 5 resorts;
- 7 golf courses; and
- 10 Tourism Information Centers.

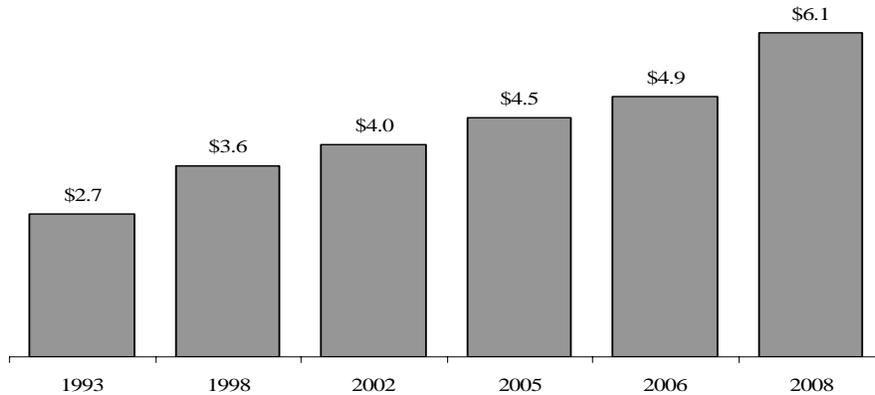
ECONOMIC IMPACT OF TOURISM

In 2008, Oklahoma tourism generated \$6.1 billion in domestic travel spending, according to the Oklahoma Tourism and Recreation Department.

It is estimated that tourism accounts for 76,000 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 2008, tourism contributed \$953 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)



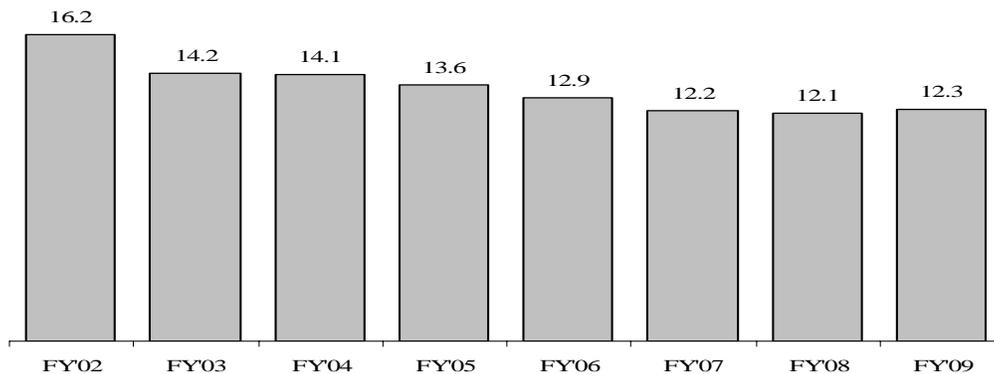
Source: Travel Industry Association and the U.S. Department of Commerce; OTRD

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 approximately 12 million visitors annually, ranking the 18th most visited in the United States. The parks are supported by approximately 300 full-time employees and 250 seasonal employees during the summer months.

State Park Attendance in Oklahoma (In Millions)



The parks consist of more than \$236 million in assets, including some 2,100 structures and buildings. Private entrepreneurs operate 42 leased concessions. These operations provide numerous services and recreational opportunities for guests, from miniature golf and horseback riding to marinas and restaurants.

Recent legislation has provided new funds for extensive capital improvement to the state parks system, partially in preparation for Oklahoma's centennial, but mostly due to need. In FY'07, slightly over \$10 million in one-time monies was appropriated. On a continuing basis, the department will be receiving a portion of the REAP funds, and the sales and use tax revenues.

The portion of the REAP funds will be used to address environment improvements such as potable water, wastewater infrastructure, and erosion control.

The portion of the sales and use tax is estimated to be about \$10 million each year. The following categories and allocations show how the Department plans on using the funds:

Facility Renovations	\$3,800,000
Comfort Stations	\$1,200,000
Campgrounds	\$1,500,000
Accessibility/Trails	\$700,000
Playgrounds	\$1,700,000
Docks/Piers/Ramps	\$800,000
Master Plan/Assessment	\$300,000

STATE GOLF COURSES

The state owns and operates seven golf courses:

- Arrowhead Golf Course, Canadian
- Cedar Creek Golf Course, Broken Bow
- Fort Cobb Golf Course, Fort Cobb
- Grand Cherokee Golf Course, Langley
- Lake Murray Golf Course, Ardmore
- Roman Nose Golf Course, Watonga
- Sequoyah Golf Course, Hulbert

During the peak season, about 30 full-time employees work with 60 seasonal employees and volunteers to operate the courses located throughout the state. In FY'08, the courses generated over \$3.4 million in revenue. In FY'08, 114,069 rounds of golf were played, a 21 percent decrease over FY'07.

State Golf Course Statistics

FY'03 Through FY'08

	<u>FY'03</u>	<u>FY'04</u>	<u>FY'05</u>	<u>FY'06</u>	<u>FY'07</u>	<u>FY'08</u>	<u>FY'10</u>
Total Rounds Played	161,608	158,052	158,070	158,010	138,415	114,069	78,787
State Appropriations	\$1,397	\$845	\$882	\$878	\$776	\$408	\$1,345
Total Golf Visitor Revenue	\$4,352	\$4,289	\$4,435	\$4,409	\$4,029	\$3,426	\$2,340
Revenue as a % of Total Budget	76%	84%	83%	83%	69%	59%	64%
Total Golf Expenditures	\$5,749	\$5,134	\$5,317	\$5,287	\$4,941	\$4,941	\$3,657
Profit/Loss (Inc. minus Exp.)	\$0	\$0	\$0	\$0	-\$136	-\$827	-\$1,317

STATE RESORTS AND LODGES

The Resort Division maintains three 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 Murray Resort is in south central Oklahoma, 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'10, the resorts generated \$3.87 million in revenue. Roman Nose Resort was closed this year for renovation. Performing jobs from major maintenance to food service, about 85 full-time and 100 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 TOURISM INFORMATION CENTERS

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

Oklahoma has 12 Information Centers:

- Thackerville
- Capitol Building, Oklahoma City
- Midwest City (operated by the City of Midwest City)
- Miami
- Sallisaw
- Colbert
- Blackwell
- Erick
- Walters
- Catoosa
- Oklahoma City
- Cherokee Turnpike in Delaware County (operated by the Cherokee Nation)

These facilities are located at various points of entry to the state, in the major metropolitan areas, and the state capitol building. These 12 centers provide tourism-related materials to over 1.5 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 13 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 45,000 and a readership of approximately 150,000. 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. Named “Best Magazine in Oklahoma” for 2007 and 2010 by the Society of Professional Journalist, *Oklahoma Today* has won the coveted "Magazine of the Year" title six times since 1991 by the International Regional Magazine Association (IRMA).

OKLAHOMA FILM AND MUSIC COMMISSION

The office of the Oklahoma Film and Music Commission promotes, supports and expands film, television and music activities in Oklahoma. Activities of the division include research, scouting and evaluation of locations for film and television productions and coordinating the activities of the productions and the communities in which they shoot. That includes permitting, arranging clearances and serving as a liaison between the productions and state and location officials, institutions, businesses and the media.

The division administers two incentive programs: The Oklahoma Film Enhancement Rebate Program and the Point-of-Purchase Oklahoma Sales Tax Exemption.

The Oklahoma Film Enhancement Rebate program, funded up to \$5 million per year in 2005, offers a 35 percent rebate to qualifying production’s expenditures in Oklahoma with a minimum \$50,000 budget and a minimum \$25,000 Oklahoma expenditure.

The Point-of-Purchase Oklahoma Sales Tax Exemption is offered to qualifying productions on goods and services to be used in the production. There is no minimum budget or expenditure requirement.

There are also two tax credits designed to support and grow Oklahoma’s film and music industries. Oklahoma taxpayers can experience a 25 percent tax credit when they invest the profits of one film or music project produced in Oklahoma into a subsequent project to be

produced in Oklahoma. There is also a 10-25 percent tax credit for construction of Oklahoma film or music facilities.

Film Enhancement Rebate Program History

<i>Economic Impact</i> <i>Film and Music Office</i>				
	<u>FY'06</u>	<u>FY'07</u>	<u>FY'08</u>	<u>FY'09</u>
Feature Films	8	8	7	10
Reality Shows	1	1	2	566
TV Programs	23	21	15	35
Documentaries/Industrial	186	191	124	9
Commercials	554	302	231	969
Total Productions	<u>772</u>	<u>523</u>	<u>379</u>	<u>1589</u>
Total Impact (Millions)	\$18.92	\$17.40	\$19.40	\$25.60

Films made in Oklahoma in 2009 and 2010:

- “The Killer Inside Me” (2009)
- “Bringing Up Bobby” (2010)
- “Heaven’s Rain” (2010)
- “Extreme Home Makeover” (2010)
- “A Christmas Snow” (2010)

TRAVEL AND TOURISM

Native America

Over the past several years, Oklahoma’s tourism marketing campaign has evolved to represent the state’s growing tourism opportunities and attractions. The campaign as always featured the “Oklahoma Native America” theme line as a brand identity designed to provide an image for Oklahoma which reflects our state’s rich Native American culture and heritage, as well as the vast natural beauty and diversity found here.

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.

In 2004, the department extended the "Oklahoma Native America" theme line by implementing the highly successful OKLA campaign.

Advertising

For FY'10, the Department spent \$3.5 million on domestic advertising. These funds were derived from revenue collected from the sales and use tax. Return on the advertising dollars has grown from \$7.70 to \$59.00 in 2009. Total direct spending attributed to the Department's tourism advertising totaled \$68.8 million in 2007.

During the 2006 legislative session, legislation was passed that repealed the Tourism Tax. However, the law also earmarked 0.93 percent of sales and use tax revenues to replace the Tourism Tax revenue. That appropriation was reduced to 0.87% of sales and use tax revenues during the 2010 legislative session. Beyond advertising, those funds will be used for capital improvements in state parks.

TRIP (Travelers Response Information Program)

TRIP (Travelers Response Information Program)	
	<u>FY'10</u>
General Information Calls	17,500
Parks/Resorts Calls	5,428
E-Mail Requests	3,065
<i>Total Counselor-Assisted Inquiries</i>	<u><u>25,993</u></u>

Literature Requests	
	<u>FY'10</u>
Phone	12,776
Voice Mail	1,289
U.S. Mail	891
E-Mail	902
Website	32,445
Reader Service	20,879
<i>Total Literature Requests</i>	<u><u>69,182</u></u>

Website Activity	
<u>www.travelok.com</u>	
	<u>FY'10</u>
Total Visitor Sessions	1,356,496
Total Unique Visitor Sessions	1,211,982
Total Page Views	9,584,366
Average Sessions Per Day	3,715
Average Length of Session	8:57

NACEA

The Native American Cultural and Educational Authority (NACEA) was created in 1994 to construct and operate the American Indian Cultural Center and Museum for generating awareness and understanding of the history of tribes and their relationship to Oklahoma today. Originally, the state would cover one-third of the construction cost, the federal government would cover one-third, and the final third would come from private donations or the tribes. The total cost of construction was estimated at \$150 million. However, due to budget restraints, the federal government is not expected to be able to fulfill its portion of the funding. Therefore, during the 2008 session the Legislature authorized another bond for \$25 million to further fund the construction of the center. (SB 1374)

TRANSPORTATION

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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.

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

- ODOT decreased its payroll by 323 FTE or 13 percent from FY'96 to FY'06;
- 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);
- The legislature created the ROADS fund, which will infuse \$2.3 billion to ODOT between FY'08 and FY'16.

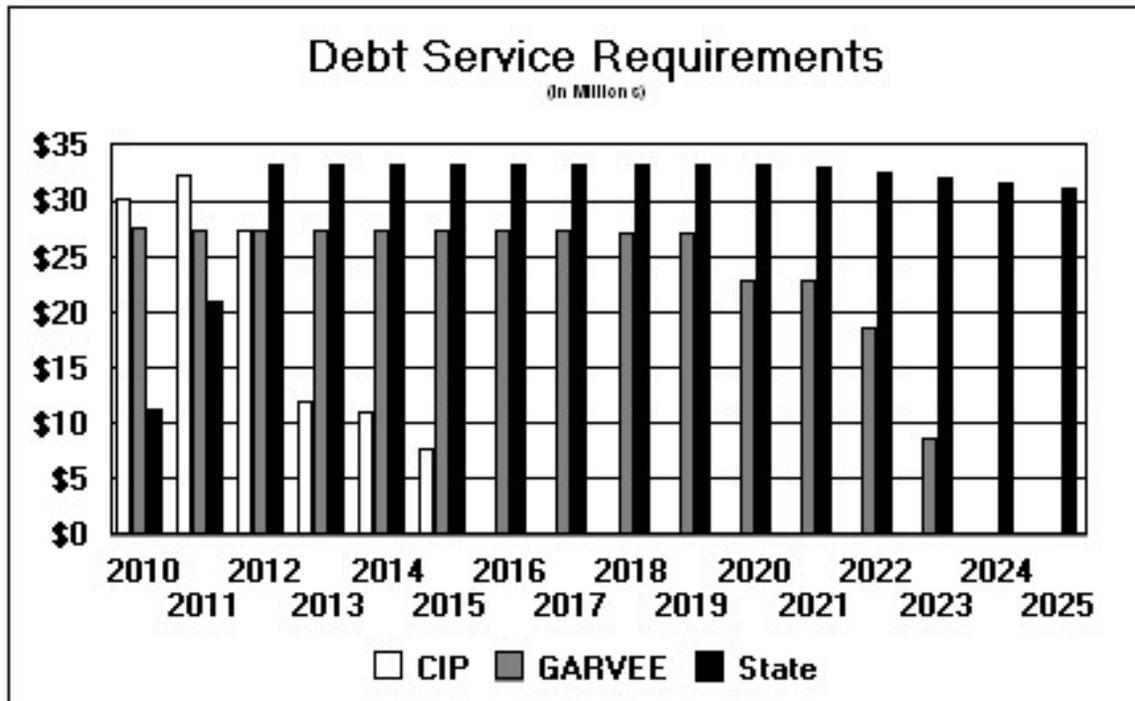
CIP AND RECENT BOND ISSUES

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, the Capitol Improvement Program (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.

Beginning in 2006 under HB 1176, ODOT is now liable for the CIP debt service. As the debt service requirement is reduced the difference between the annualized amount and the debt service requirement will be available for roads and bridges.

During the 2008 session, HB 2272 was enacted which directed even more bond proceeds to ODOT. The bill authorized the sale of \$300 million in bonds in two issues, the first \$150 million no earlier than August 1, 2009 and the second \$150 million no earlier than August 1, 2010. The Oklahoma Capitol Improvement Authority (OCIA) will also issue these bonds.

During the 2010 session, HB 2434 authorized ODOT to increase the August 1, 2010 bond issue amount to cover ODOT’s FY’11 authorization decrease and continue funding road and bridge improvements.



GARVEE BONDS

Grant Anticipation Revenue Vehicles (GARVEE bonds) are a financing instrument that enables 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. 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.....	\$13.4
US 70 from Idabel to Hugo.....	\$65.1
SH 99 from SH 39 to SH 59 between Ada and Seminole	\$29.8
US 59 from US 271 to I-40 between Poteau and Sallisaw	\$26.7
US 183 from US 70 to I-40 between Davidson and Clinton	\$23.4
SH 3 from SH 34 to SH 33 between Woodward and Watonga.....	\$3.2
SH 88 from US 412 to I-44 between Inola and Claremore.....	\$1.9
US 169 from I-244 to 21st St. in Tulsa.....	\$13.4
US 77 from I-44 to Memorial Rd. (Broadway Extension)	\$3.0

Broadway Extension (OKC) between NW 36th and NW 63rd (includes I-44 interchange)	\$38.7
I-44 from Riverside Drive to Memorial.....	\$69.1

CROSS-TOWN 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 that prompt action was necessary to keep traffic safe and flowing.

Total costs for the new Crosstown Expresses are at estimated at \$660 million; all funding will derive from federal sources. If the monies are secured in a timely fashion ODOT plans a 2012 completion date.

ARRA STIMULUS FUNDS

In 2009, ODOT received \$465 million in federal stimulus funds. The federal stimulus package includes approximately \$360 million for state highway projects, \$33 million for county road projects, and \$33 million for the Association of Central Oklahoma Governments (ACOG), \$22 million for the Indian Nations Council of Governments (INCOG) and \$12 million for towns with a population of less than 5,000 people.

ODOT will receive approximately \$360 million from the stimulus package for state highways and bridges. The highway projects scheduled for letting have already been deemed necessary and had been previously scheduled in ODOT’s Eight-Year Construction Work Plan. According to the stimulus guidelines, the first 50% of funds allocated to the state must be contractually obligated and sub allocated within 180 days, and the next 50% of funds must be contractually obligated and sub allocated within one year.

ODOT will also receive \$39 million for urban and rural public transit programs. All federal funds for the urban areas will be distributed for buses in Oklahoma City, Tulsa, Norman, Stillwater and Lawton.

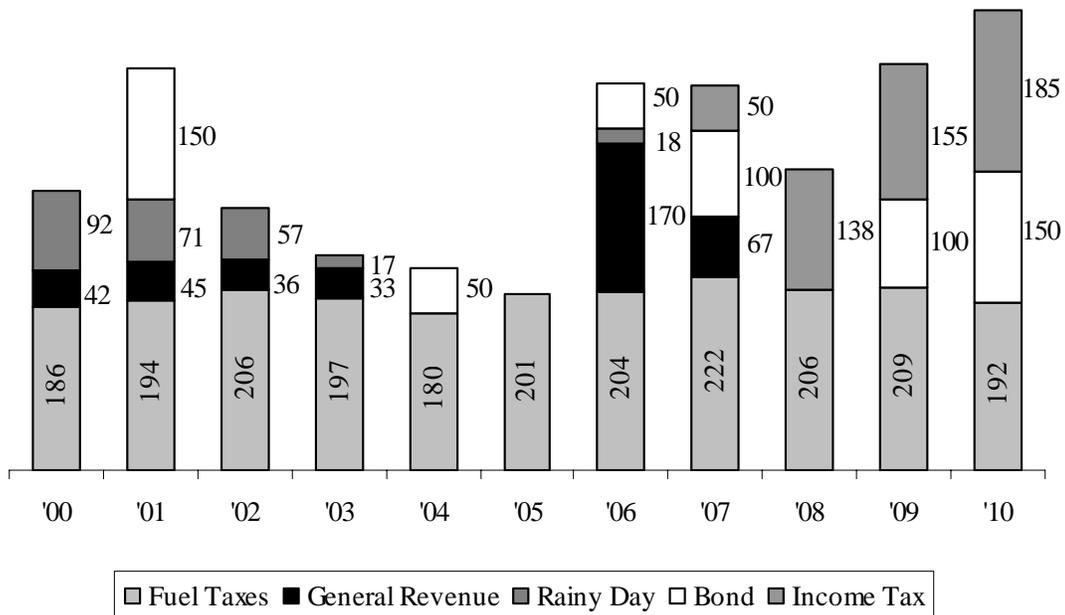
FUNDING FOR STATE HIGHWAYS

Total monies available for support of the state transportation system have increased by \$412.9 million or 61 percent between FY'00 and FY'10. This is largely due to an increase in federal funds and state appropriations.

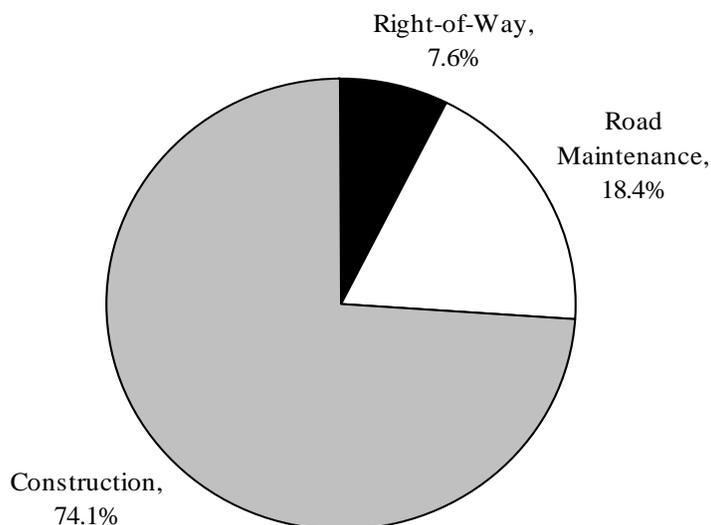
ODOT Revenue Sources Comparison *FY'00 and FY'10*

Funding Source	FY'00		FY'10	
	Dollars (in millions)	Percent of Total	Dollars (in millions)	Percent of Total
Appropriation	\$320.3	30.5%	\$0.0	0.0%
Revolving Funds	\$237.8	22.7%	\$736.6	39.5%
Federal Funds	\$491.6	46.8%	\$947.5	50.9%
ROADS Fund	\$0.0	0.0%	\$179.1	9.6%
Total	\$1,049.7	100.0%	\$1,863.2	100.0%

History of ODOT Highway Construction Fund Receipts *FY'00 Through FY'10 (In Millions)*



FY'10 ODOT Actual Expenditures by Program (\$1 Billion)



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 are expended on indirect salaries and materials.

ROADS FUND

During the 2005 session a historic piece of legislation was passed that would help infuse funds into the Oklahoma Department of Transportation for years to come. HB 1078 created the Rebuilding Oklahoma Access and Driver Safety (ROADS) Fund. Initially, the fund would provide funding for the maintenance and repair of state highways and bridges and would increase incrementally (\$17.5 million if the percentage of General Revenue Fund growth is less than 3 percent compared to the previous year, \$35 million if growth is 3 percent or better) until reaching the amount of \$170 million.

However during the 2006 legislative session, another major measure was introduced and passed to help further address state road and bridge funding. HB 1176XX, passed in 2006, built upon HB 1078 to dramatically increase funding for the State's transportation infrastructure. The bill:

- Changed the State Transportation Fund into a revolving fund;

- Apportioned 5 percent of all fees, taxes and penalties collected or received pursuant to the Oklahoma Vehicle License and Registration Act to the County Improvements for Roads and Bridges Fund for the fiscal year beginning July 1, 2007 (FY'08). This apportionment will grow to 10 percent in FY'09 and 15 percent in FY'10 for a total annual fiscal impact of approximately \$85 million;
- Increased the cap on the ROADS fund from \$170 million to \$270 million and increases yearly apportionment growth from a maximum of \$35 million a year to \$50 million a year.

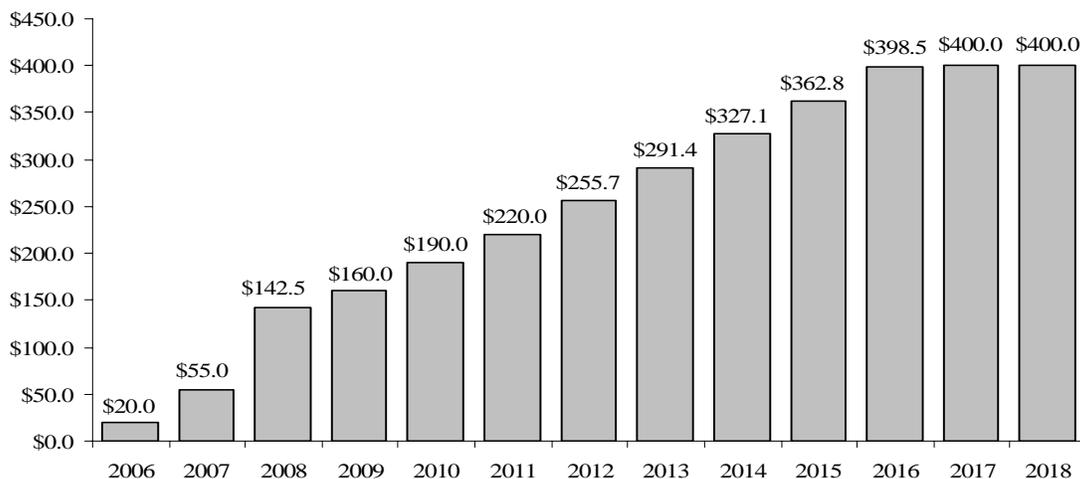
During the 2008 session a third improvement to the ROADS fund was passed. HB 2272 built even further on the previous ROADS bills by:

- Removing the 3 percent annual trigger for additional funding, this will provide for a consistent annual increase of \$30 million.
- Increasing the total allocation to the ROADS fund from \$270 million to \$370 million.
- Authorizing the sale of \$300 million in bonds in two issues, the first \$150 million no earlier than August 1, 2009 and the second \$150 million no earlier than August 1, 2010. The Oklahoma Capitol Improvement Authority (OCIA) will issue the bonds and ODOT will service the debt on the new financings

During the 2010 session a fourth change to the ROADS fund was passed in SB 1466. The bill:

- Increased the annual ROADS fund allocation from \$30 million to \$35.7 million
- Increased the overall cap on the fund from \$370 million to \$400 million.

ROADS Fund Revenue *(in Millions)*



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:

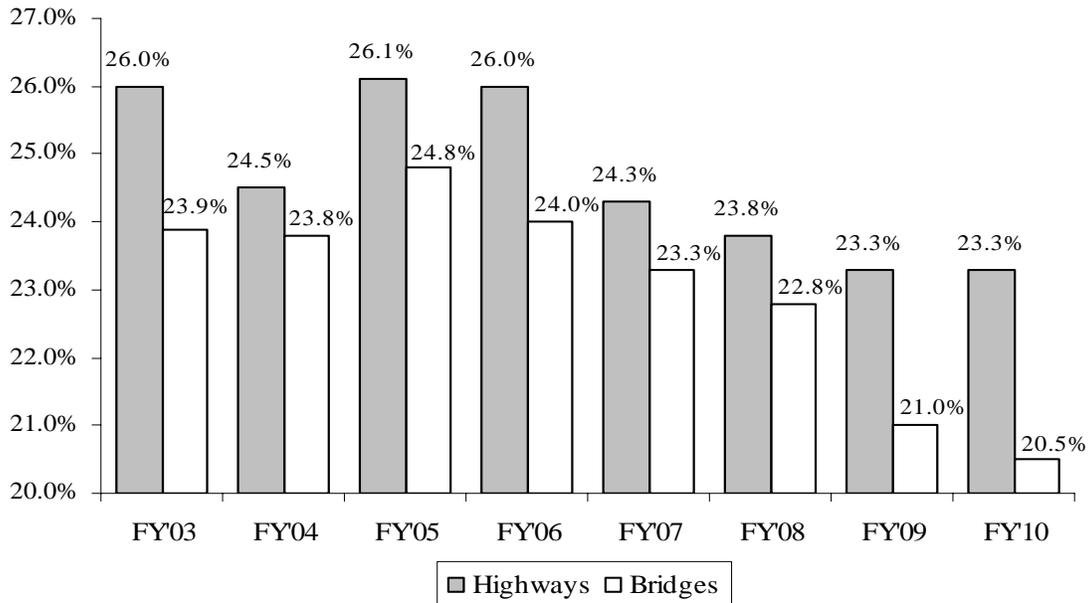
	<u>Mountainous LeFlore Co.</u>	<u>Flat Terrain Harper Co.</u>	<u>High Traffic Oklahoma Co.</u>
Cost Factor	2.33	0.98	2.27

In the 2006 Legislative Session, funding for county roads was addressed in two separate bills. SB 1288 appropriated \$25 million in one-time funds to the County Bridges and Road Improvement Fund for the repair of county roads and bridges in the state. HB 1176 apportioned 5 percent of all fees, taxes and penalties collected or received pursuant to the Oklahoma Vehicle License and Registration Act to the County Improvements for Roads and Bridges Fund for the fiscal year beginning July 1, 2007 (FY'08). This apportionment will grow to 10 percent in FY'09 and 15 percent in FY'10 for a total annual fiscal impact of approximately \$85 million;

In the 2008 Legislative Session, HB 2381 created the “Emergency and Transportation Revolving Fund” and transferred \$25 million from the State Highway Construction and Maintenance Fund to the newly created fund. The new fund will be administered by the counties and used for emergency transportation needs within the state. No deposits have been made to the fund since the initial \$25 million.

STATE ROAD AND BRIDGE SYSTEM STATISTICS

Highways and Bridges in Disrepair

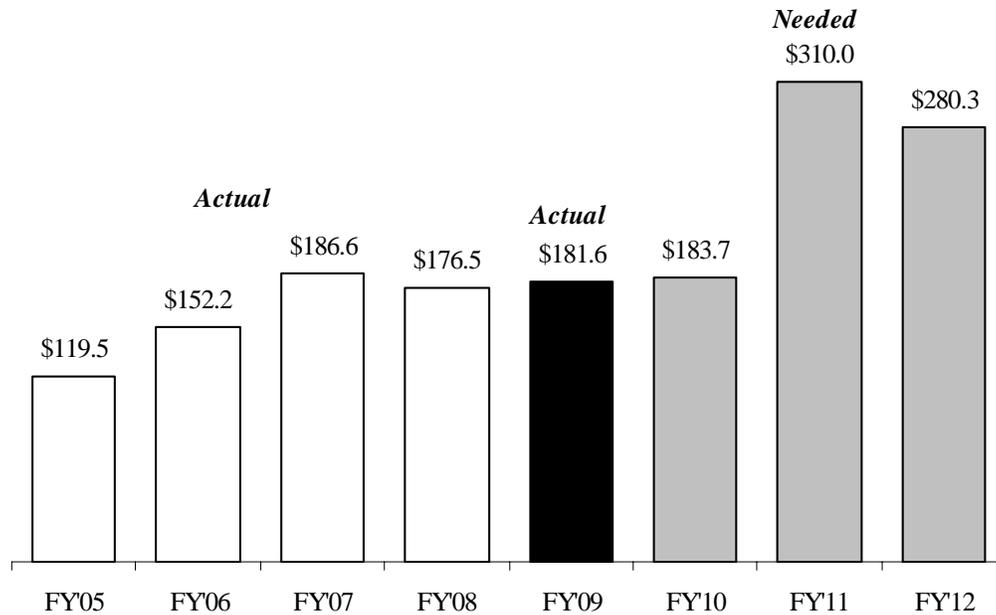


It should be noted that with the additional funding that ODOT received beginning in FY’06, and increasing over the next few years, the agency expects these percentages to decrease substantially.

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 \$289 million for each of the next five fiscal years (FY’08 through FY’12) to bring the state’s roads, highways and bridges up to minimum standards. In FY’10 ODOT allocated \$183.7 million to its maintenance budget.

**Maintenance Budget
Past Funding/Future Needs
(In Millions)**



OKLAHOMA TURNPIKE 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 \$129.8 million in 1999 to a projected \$226.7 in 2010. This represents a 66 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 amount, not on an individual turnpike within the system. Total outstanding bond debt is \$1.56 billion: \$1.08 billion in principal, with \$482 million in interest paid by the time the bonds are retired in 2028. Debt service was \$93.7 million for Calendar 2009; annual payments will reduce from approximately \$93 million per year down to the \$70 million range by 2022.

Maintenance

Started in 1994, the OTA Capital Plan identifies maintenance (repair, rehabilitation, and improvement) expenditures on a five-year basis; it is updated annually. The current Five-Year Plan (2011-2015) estimates expenditures of \$392.1 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

