

A GUIDE TO STATE QUESTION 779



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At a Glance

- State Question 779 would amend the Oklahoma Constitution to increase the state sales tax rate by one percent to fund a variety of public education programs, including a teacher pay raise.
- The one percent sales tax increase would amount to a 22% increase in our state sales tax burden.
- The tax is estimated to generate \$615 million in revenue in its first year.
- State Question 779 could increase taxes on Oklahoma households by more than \$420 a year.
- If passed, Oklahoma would have the highest average combined sales tax rate in America.
- State Question 779 would increase the combined sales tax rates of Tulsa and Oklahoma City, Oklahoma's largest cities, to be the 3rd and 5th highest rates among America's major cities, respectively.
- Less than 60 percent of the tax revenue could be spent on teacher pay raises and retention.
- Higher education and career and technology education would receive nearly one quarter of the tax revenue.
- The proposal would require school districts to use some funds for teach pay raises, but no transparency measures are mandated in State Question 779 for revenues spent on other programs, such as higher education.

A Closer Look

The Tax

State Question 779 would add Article XIII-C to the Oklahoma Constitution to levy an additional one percent (1.0%) tax on all sales, storage, use, or other consumption of personal property or goods and services subject to taxation under the Oklahoma Sales Tax Code (the Code). The new tax levied by State Question 779 would be an additional tax on top of Oklahoma's current sales tax rates and would be reported and collected in the same manner required by the Code for Oklahoma's general sales tax. The proceeds of the tax would be deposited in a new fund in the State Treasury, created by the amendment, to be called the "Oklahoma Education Improvement Fund" (the Fund). If passed, the amendment would become effective on July 1 of 2017. ¹

State Question 779's additional one percent sales tax would effectively increase Oklahoma's current state sales tax rate of 4.5% to 5.5% - which would amount to a 22% increase in our state sales tax burden. State Question 779 is estimated to generate \$615 million in its first full year. ² The Oklahoma State School Boards Association (OSSBA) has stated that the tax would generate "\$427 million annually, with \$369 million left to use for teacher pay raises and recruitment or retention." ³ Based on these estimates, the tax increase could result in Oklahoma households paying more than \$420 a year, according to the Oklahoma Council of Public Affairs. ⁴

Currently, Oklahoma has the sixth highest average combined sales tax rate in the country.⁵ This means that the average person in Oklahoma pays a combined local and state sales tax rate of 8.85% - higher than any neighboring state with the exception of Arkansas. Under State Question 779, Oklahoma would have the highest average combined sales tax rate in the United States at 9.8%.⁶ Additionally, many residents in Oklahoma could see their combined tax rates climb to well above 10%, or even higher, if State Question 779 is passed.⁷

In terms of the effects on Oklahoma's urban centers, the combined rates for Oklahoma's largest cities, Oklahoma City and Tulsa, would increase to be among the highest rates of America's major cities.⁸ Oklahoma City's combined sales tax rate would increase to 9.38%, the 5th highest in the country, and Tulsa's combined rate would increase to 9.52%, the 3rd highest among America's 50 largest cities.⁹

Following the Money

While the amount of funds going to common education would total around 69 percent, the amount actually going toward teacher pay raises could be significantly less. The amendment would require that 86.33% of the funds going to common education be used "to increase teacher salaries," or "to otherwise address and prevent teacher and certified instructional staff shortages in the manner most suited to local district circumstances and needs..." The amendment also states that "common school districts shall use thirteen and two-thirds percent (13.67%) of the additional funds provided to them under this Article XIII-C to adopt or to expand programs, opportunities, or reforms to improve reading in the early grades, to improve high school graduation rates, and to increase college and career readiness."¹⁰

Thus, only 86.33% of the common education funding – less than 60 percent of the total funding – could be used for teacher pay raises. However, given the flexibility of the amendment to address staff shortages "in the manner most suited to local district circumstances and needs," some districts could spend a much smaller percentage of their appropriated funds from the tax for teacher pay raises. The remainder of the funds would go to higher education (19.25%), early childhood education (8%), and career and technology education (3.25%).¹¹

Each year the State Board of Equalization would be required to investigate appropriations from the Oklahoma Education Improvement Fund to ensure that the tax revenues are "used to enhance and not supplant funding for education." The Legislature would be required by the Oklahoma Constitution to only appropriate dollars from the Fund to supplement other funding sources and not to "supplant or replace" other state monies supporting education. If the Board of Equalization determines that funding for education has been supplanted by money from the Fund, the Legislature would be prohibited from making "any appropriations for the ensuing fiscal year until an appropriation in that amount is made to replenish the Oklahoma Education Improvement Fund."¹²

Lastly, regarding the revenue for common education, the funds would be distributed under State Question 779 "in proportion to the school population of the several districts, on the basis of the state aid formula for common education then in effect."¹³ According to the OSSBA, a few large districts could receive millions of dollars, while the majority of school districts would receive significantly less, with some smaller schools only receiving a few thousand dollars.¹⁴

Accountability & Transparency

The Amendment would require the State Auditor and Inspector to “approve auditors who shall annually audit the use made of the monies distributed to the school districts... to ensure that it is used only for the purposes specified in [the amendment].” There is no similar provision under State Question 779 for the other areas receiving funding through the Oklahoma Education Improvement Fund.¹⁵ For example, while the proposal does direct the higher education dollars to be spent on “college affordability,” the proposal’s broad language could provide more latitude – the amendment states that monies shall be used “for use in improving college affordability, or otherwise in the improvement of higher education.”¹⁶

About the Author

Robert Aery is the Oklahoma Deputy State Director for Americans for Prosperity. Robert received his bachelor’s degree from Oral Roberts University, earned his law degree (J.D.) from the University of Tulsa College of Law, and is a licensed attorney.

For more information, email Robert at raery@afphq.org.

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16. Ibid. (emphasis added).



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Contact AFP-Oklahoma

3307 S. Harvard Avenue, Suite C | Tulsa, Oklahoma 74135
(405) 225-0247 | americansforprosperity.com/oklahoma



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