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BUDGET TRENDS AND OUTLOOK — MARCH 2017

Oklahoma faces another large budget hole next year.

- The State Equalization Board has certified \$6.030 billion in available revenue for next year, which is \$748 million less than this year's initial appropriation. The shortfall is primarily due to the use of over \$600 million in non-recurring revenue in this year's budget, along with a slight (2.0 percent) decline in projected tax collections. This certification is binding on the Legislature for developing the FY 2018 budget.
- The Equalization Board also declared a mid-year revenue failure for FY 2017, which triggered a 0.7 percent across-the-board cut to agency allocations from the General Revenue Fund. In addition, the HB 1017 Fund, which goes entirely to common education, faces a \$39 million shortfall this year.

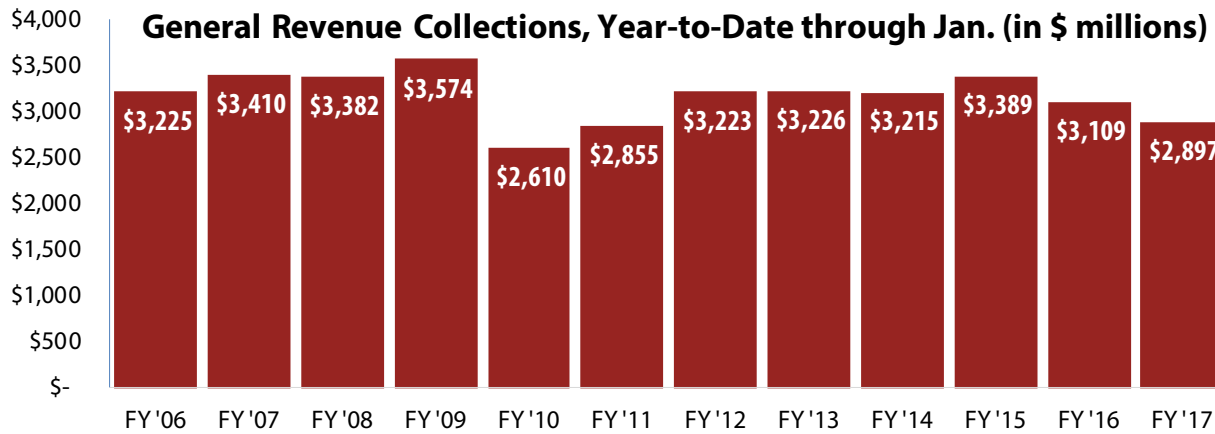
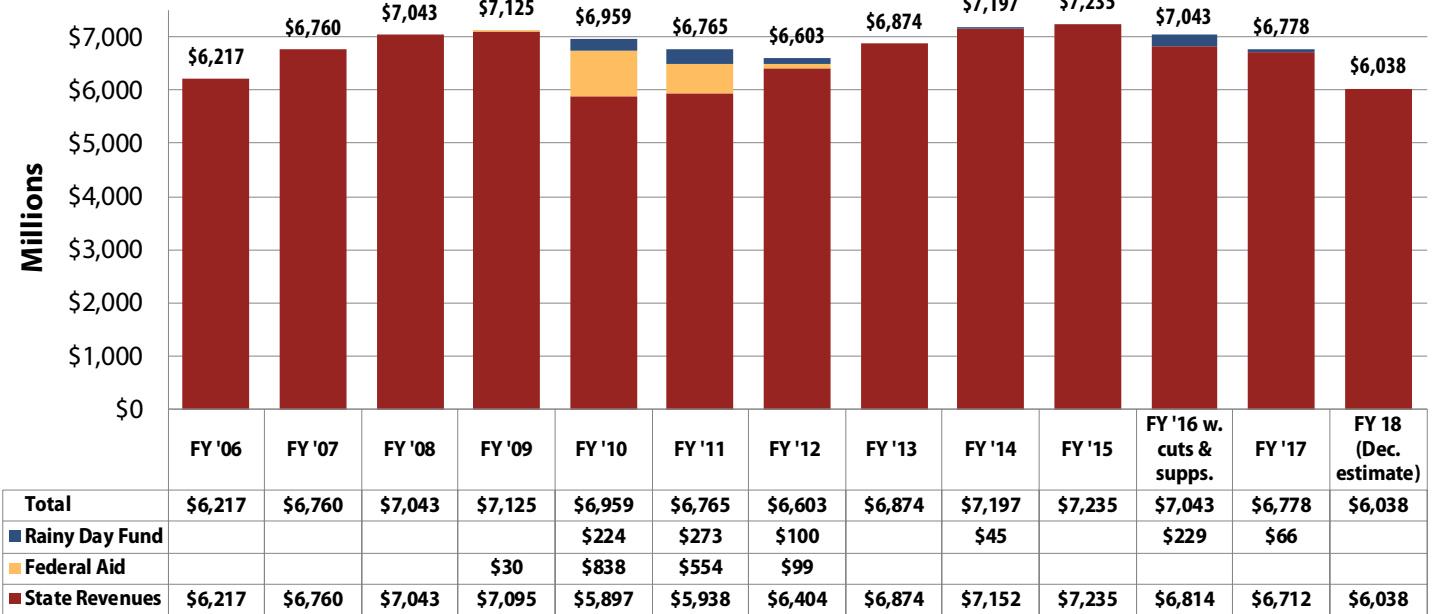
State funding has been cut deeply in recent years.

- The FY 2017 budget is \$361 million (5.1 percent) less than the initial FY 2016 budget and \$265 million (3.8 percent) less than the final FY 2016 budget after mid-year budget cuts and supplemental appropriations. This year's budget is \$1.25 billion, or 15.6 percent, below FY 2009, adjusted for inflation.
- Over half of all appropriated agencies (39 of 73) have now been cut by 20 percent or more since FY 2009.
- State formula funding for public schools remains \$179 million below FY 2008 levels, while enrollment has increased by over 50,000 students.
- The state Medicaid agency has cut \$445 million from provider rates and health care benefits since 2010.
- There are over 7,400 Oklahomans with developmental disabilities on a waiting list for home- and community-based services.
- State government (excluding higher education) employs 8 percent fewer people than seven years ago and fewer people than in 2001—despite population growth, heavier caseloads, and new mandates and responsibilities.

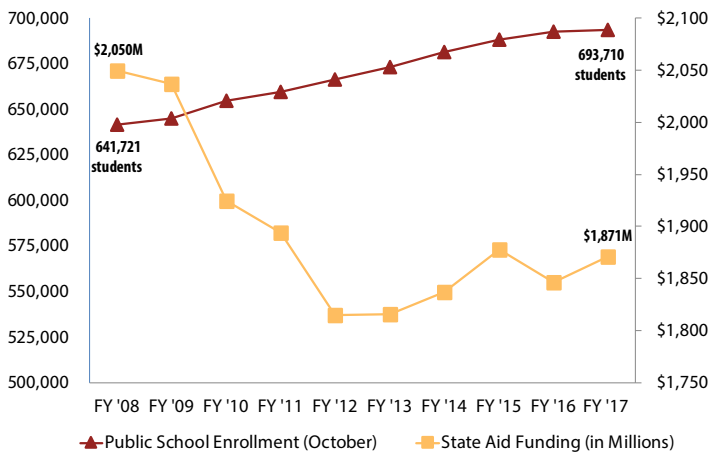
Budget shortfalls are a result of both economic factors and policy choices.

- Gross production tax revenues to the General Revenue Fund are projected to be just \$151M in FY 2017, compared to an average of \$455M from FY 2010-12. Low energy prices are also affecting income and sales tax collections.
- Corporate income tax collections have fallen in 2017 to less than one-quarter of what they were in 2013 due to economic conditions and various tax breaks.
- Since 2004, the top income tax rate has been cut from 6.65 to 5.0 percent, resulting in annual lost revenues of \$1.022 billion. When all tax cuts are considered, the annual revenue loss approaches \$1.5 billion.
- The cost of tax incentives more than doubled between 2010 and 2014, according to Oklahoma Watch. The largest tax break takes the form of lower tax rates on oil and gas production, which cost the state over \$600 million in lost revenue in FY 2015.
- The budget is also affected by the growing share of tax revenues allocated off-the-top for earmarked purposes. In particular, the ROADS Fund has grown to over \$500 million this year and is scheduled to receive another \$59.7 million increase in FY 2018.
- Over the longer-term, Oklahoma faces a growing structural budget deficit due to an aging population, decaying infrastructure, and an outdated tax system.

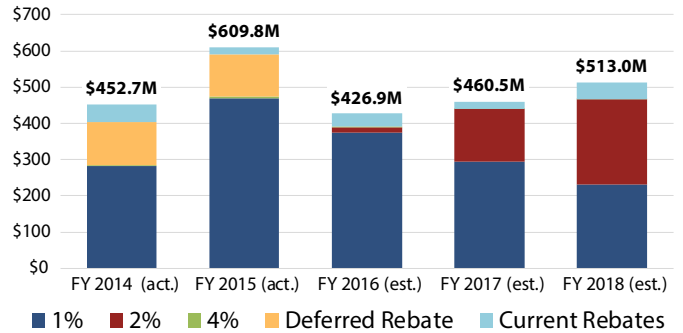
Oklahoma State Appropriations, FY 2006 - FY 2018 (in \$ millions)



State Aid Funding for Schools Has Not Kept Up With Enrollment



Annual Cost of Gross Production Tax Breaks and Rebates (in \$M), FY 2014- FY 2017



Source: Oklahoma Policy Institute calculations based on Oklahoma Tax Commission data

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