Although Oklahoma’s economy continues to show signs of decent growth, the state budget is in rough straits. The latest certification by the state Board of Equalization reveals that the state will have less funds available for appropriation in FY ’09 than in the current year. The state is already straining to support the pressing budget needs of its correctional facilities, highway and bridges, public schools and colleges, retirement systems, and social services networks. Without adequate resources to address these essential needs, our families, businesses and communities will be directly affected by underfunded services.

The current budget situation is, to a considerable extent, a clear and foreseeable consequence of the tax cuts enacted by recent legislatures. Between 2004 and 2006, elected officials responded to robust revenue collections, fueled by a strong national economy and a surging energy sector, by approving a set of large and permanent tax cuts. Figure 1 shows the effect on revenues of the largest tax cuts from this period, which primarily involved cutting the personal income tax and phasing out the state’s estate tax. What is perhaps most noticeable about the tax cuts is that they were structured so that their revenue effects swell out over time, much like the balloon payments common in the recent home mortgage crisis. The revenue loss from the cuts almost doubles between FY ’07 and FY ’09 alone, and will continue to grow until the cuts are fully implemented in FY ’11.

State revenues typically decline only in the midst of an economic downturn. In Oklahoma’s case, however, revenues have begun to fall even as the economy remains strong. Figure 2 confirms that tax cuts are the primary cause of the state’s current budget woes. During the initial years of the economic upturn (FY ’04—FY ’06), revenues grew in line with, or more strongly than, the state economy, as measured by state personal income. Then, as the tax cuts phased in, revenue growth slowed in FY ’07 to 4.1%, even as personal income grew a robust 7.7%. Despite current forecasts of decent, if somewhat slower, economic growth in the state, General Revenues are now projected to fall by 2.9% in FY ’08 and to recover by only 2.7% in FY ’09. In particular, individual income tax collections—normally the fastest growing revenue source in a strong economy—are projected to decline by over 9% in FY ’09 compared to their peak in FY ’06. By contrast, state sales tax collections, which have been affected only minimally by tax cuts, are projected to grow by 17% between FY ’06 and FY ’09. If personal income tax collections had grown at the same rate as sales tax collections since FY ’06, the legislature might be looking at $630 million more in next year’s budget than under the current certification. These lost revenues would have allowed for funding of critical needs that the current budget situation now puts in jeopardy.