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## Four years of federal surplus propping up Oklahoma's budget is not enough to save the state's budget

- For the budget year beginning July 1, 2025 (Fiscal Year 2026), state agencies will have **\$12.08 billion** to spend ([Figure 1](#)). These appropriations are outlined in the general appropriations budget bill ([House Bill 2766](#)) during the 2025 legislative session.
- The FY 2026 budget is **\$1.6 billion (11.8 percent) less** than the FY 2000 budget when adjusted for inflation and population growth. This means the state has about **one-fifth less in revenue** to provide shared public services than it did 25 years ago ([Figure 1](#)).
- In addition, the budget bill includes **\$783.5 million** in supplemental funding for the fiscal year that ended on June 30, 2025 (FY 2025). Together, this brings the total spending for the 2025 legislative session to **\$12.87 billion**.
- The legislature has increasingly left significant amounts of unspent cash in their [General Revenue Fund](#) reserves. A total of **\$1.525 billion** in unspent cash remains from FY 2023 (\$347.6 M), FY 2024 (\$732.9 M), and FY 2025 (\$445.8 M).
- The state's budget has been propped up by federal funds over the past four years, allowing for strong state savings. However, reduced revenue from tax cuts and a tightening economy will shrink future budgets.

## Specific state funds used for one-time payments for large projects

- Along with appropriating money to agencies, Oklahoma legislators can also appropriate money to different legislatively approved funds. In the FY 2026 general appropriations bill, money from these funds was appropriated as FY 2025 supplemental funding for specific projects. The money will be spent in FY 2026.
- **\$312 million** in supplemental funds were appropriated to the Prison Acquisition Revolving Fund to facilitate the purchase of a private prison in Lawton, OK. [Senate Bill 1160](#) directed **\$238 million** from the Revenue Stabilization Fund, with the remaining balance drawn from the prior year's unspent general revenue funds.
- The legislature allocated a total of **\$491 million** from the [Legacy Capital Fund](#) (LCF). **\$250 million** went to the OSU Veterinary Medicine Authority to expand its animal teaching hospitals. **\$200 million** went to the pediatric heart hospital operated by the University of Oklahoma. **\$41.6 million** is being used to expand military facilities, including gyms, for the Military Department.
- The Progressing Rural Economic Property (PREP) Fund allocated **\$4.2 million** in supplemental funding to the Oklahoma Water Resources Board for water infrastructure projects, like the construction of water lines or connecting rural areas to public water supply to avoid contaminated well water. Additionally, **\$15 million** in supplemental funding from the PREP fund went to the Department of Aerospace and Aeronautics for airport infrastructure upgrades, and **\$8 million** was appropriated to the new "Emergency Medicine Revolving Fund," which aims to train students at a level 1 trauma center according to [HB 2784](#). The Department of Commerce also received **\$10.8 million in one-time appropriations** from the PREP fund, with **\$5 million** allocated for a municipal park in Oklahoma County and **\$4 million** for the relocation of a naval submarine in Muskogee.



- **\$103 million** was allocated from the [Statewide Recovery Fund](#), which is where the State of Oklahoma deposited ARPA funds for future use. This includes funding for critical services like mental health, food programs focused on distribution, education, and health assessments, water infrastructure projects, child care, medical care for children, and emotional and academic services for incarcerated youth. Federal funds from the American Rescue Plan Act of 2021 continue to support crucial, yet underfunded, services in the state.

## State savings are still strong, but lawmakers used one-time savings to justify ongoing tax cuts

- The legislature had to use state savings to cover the costs of services for FY 2026.
- Lawmakers moved **\$38 million out** of the [Constitutional Reserve Fund](#) (aka Rainy Day Fund) to the [Special Cash Fund](#). Since this money wasn't appropriated in the current year's budget, it is not accounted for in [Figure 2](#).
- The legislature had to appropriate **\$34.6 million** from the [Rate Preservation Fund](#) to the Oklahoma Health Care Authority to maintain reimbursement rates for Medicaid providers when the share of Medicaid expenditures paid by the federal government (FMAP) decreased ([Figure 2](#)).
- At the beginning of session 2025, there was **\$1.365 billion** in the Rainy Day Fund, **\$664 million** in the Revenue Stabilization Fund, and **\$596 million** in the Rate Preservation Fund. Currently, there is **\$1.33 billion in the Rainy Day Fund**, **\$425 million** in the [Revenue Stabilization Fund](#), and **\$561 million** in the Rate Preservation Fund, bringing total state savings to **\$2.31 billion** at the beginning of FY 2026 which started on July 1st of 2025 ([Figure 3](#)).

## Every tax cut reduces the budget's ability to handle current and future needs

- The legislature passed [HB 2764](#), which cut the state's income tax. This bill cut the income tax by a quarter of a percent and included a plan to eventually eliminate the income tax via future quarter-of-a-percent cuts if certain economic conditions are met. The legislature also eliminated the bottom three of the six income tax brackets. The impact of these tax cuts won't be fully felt until FY 2027 (which starts on July 1, 2026). [A full year of these cuts is estimated to cost \\$340 million in lost revenue for FY 2027, and \\$357 million the following fiscal year.](#) Last year, the state eliminated the state portion of sales tax on groceries, costing the state about **\$418 million** for FY 2026. This lost revenue is an annual recurring cost and will likely increase due to inflation.
- [The revenue lost from the sales tax cuts and changing economic conditions put pressure on lawmakers when crafting this year's budget.](#) However, this is consistent with Oklahoma lawmakers' [history of cutting taxes in good economic conditions](#), followed by leaner years and, at times, economic busts.
- Oklahoma's [general revenue collections for FY 2025 were 2.6 percent higher](#) than the estimate for the year. However, this is because of unexpectedly large revenue collections from [individual and corporate income taxes and gross production \(oil and gas\) taxes](#) compared to FY 2024. Sales tax revenue **decreased by \$314 million** as predicted for FY 2025.
- With the income tax cuts made this session partially subsidized through state savings, the state's budget is even less prepared for an economic downturn.
- Over the long term, the automatic trigger income tax cuts will eventually eliminate what is now the state's largest source of revenue. These revenue losses will hinder the state's ability to fulfill its day-to-day responsibilities, let alone weather future economic crises.



- The cap on the state’s long-term road maintenance fund — [Rebuilding Oklahoma Access and Driver Safety \(ROADS\)](#) — was **increased by \$20 million**. However, current revenue sources are expected to be insufficient to fund the ROADS Fund. Some modifications were made to offset income tax revenue reallocations; however, overall, **\$19.3 million** of income tax revenue will supplement ROADS funding, resulting in a decrease of the same amount in the general revenue apportionment.

## Oklahoma’s unmet needs will remain unmet

- The school funding formula received an **additional \$25 million** for FY 2026.
- At the same time, when adjusted for inflation and enrollment, per-pupil funding has **decreased by 16 percent** since 2008. Each student receives **\$717 less** today than they did in 2008 ([Figure 5](#)).
- Education received the greatest share of this year’s appropriated funding at **\$5.76 billion (48 percent)**<sup>1</sup>, followed by Health and Social Services getting **\$2.32 billion (19 percent)** ([Figure 6](#)). Although they receive a large portion of the state’s appropriations, it is not nearly enough to fund essential services and programs, such as public schools, mental health services, rural hospitals, and aging infrastructure.
- These programmatic shortages can be attributed to deep budget cuts at agencies during economic downturns. Since 2009, 27 agencies have faced **greater than 30 percent cuts** to their budgets and 12 more have seen **cuts ranging from 10 to 30 percent** when adjusted for inflation and population growth<sup>2</sup> ([Figure 8](#)).
- Oklahoma has unmet needs that require targeted public investment to address. Lawmakers could have chosen to protect revenue and invest in state services, especially in the face of economic uncertainty. Instead, lawmakers delivered budget cuts or flat budgets to several state agencies compared to FY 2024. (And for all intents and purposes, flat budgets are budget cuts because flat budgets don’t account for inflation or population growth.)
- Instead of tax cuts, lawmakers could have chosen to put larger sums of money into everyday Oklahomans’ pockets by modernizing targeted tax credits — i.e. the [Sales Tax Relief Credit](#) (STRC), [Child Tax Credit](#) (CTC), or the [Earned Income Tax Credit](#) (EITC).

1 In sections 14, 15, and 16 of the General Appropriations bill (HB 2766), appropriations are made to the Oklahoma State Department of Education which will be transferred to the Teacher’s Retirement System of Oklahoma. Since the ultimate use of the money is for Teacher’s Retirement and not OSDE, the money was allocated to the Teacher Retirement System in this report. This leads to a difference of \$3.4 million between this report and the GA bill’s allocation of money for OSDE. The Education Subcommittee total does not change since both agencies are under this subcommittee.

2 27 agencies with more than 30% cut: Arts Council, Department of Career and Technology Education, Educational Television Authority, Regents for Higher Education, Department of Libraries, School of Science and Math, Center for Science and Technology, Auditor and Inspector, Emergency Management, House of Representatives, Lieutenant Governor, Senate, Tax Commission, Treasurer’s Office, Commission on Children and Youth, Office of Disability Concerns, Juvenile Affairs, J.D. McCarty Center, Department of Veterans Affairs, Department of Commerce, Historical Society, Department of Labor, Department of Tourism and Recreation, Department of Corrections, Council on Judicial Complaints, Bureau of Narcotics and Dangerous Drugs, and Pardon and Parole Board. 12 agencies facing a 10-30% cut: Commissioners of Land Office, Governor, Department of Human Services, Department of Rehabilitation, Department of Health, J.M. Davis Memorial Commission, Department of Mines, Alcoholic Beverage Laws Enforcement, Court of Criminal Appeals, District Courts, Department of Public Safety, Supreme Court.



## Looking forward: Where does the state go from here?

- **Lawmakers need to be realistic about the impacts of federal policy on the state's budget.** They need to acknowledge that the state's budget will be strained from recent federal cuts and must start planning for ways to alleviate the harm Oklahomans will face from programmatic cuts.
- **Lawmakers should repeal the income tax elimination** legislation and propose a balanced, revenue-raising budget that can fund the services Oklahomans rely on.
- This session saw lawmakers regress to their untransparent ways with the budget process — making decisions behind closed doors, without input from the majority of the legislature, and without adequate time for the majority of lawmakers and the public to evaluate the final budget bills. This is a step back from [the transparency gains seen during the 2024 legislative session](#). **Lawmakers should re-commit to transparency.**
- Many lawmakers said they voted for income tax cuts to deliver fiscal relief to Oklahomans, but low- and middle-income earners won't really get money back from these cuts. In fact, these Oklahomans may be even worse off because state services will likely be reduced or cut completely due to lost revenue from these tax cuts. **Efforts to provide everyday Oklahomans with tax relief should be laser focused on low- and-middle income Oklahomans who need it most by modernizing the CTC, EITC, and STRC.**

You can view this report & additional materials online at  
[okpolicy.org/fiscal-year-2026-budget-highlights](https://okpolicy.org/fiscal-year-2026-budget-highlights)



(Scan the QR code with your phone's camera to view this link)

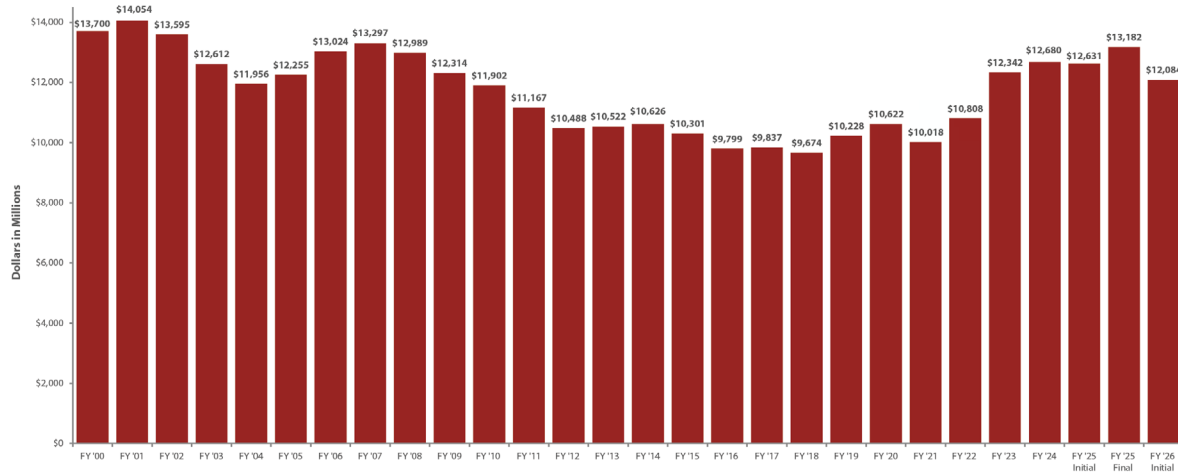
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**Figure 1** ([Return to text](#))

## State Appropriations FY '00 - FY '26, Adjusted for Inflation and Population Growth

In millions of 2025 dollars, adjusted by State & Local Government Implicit Price Deflator.  
Except where noted, all years are final, including mid-year cuts and supplementals.



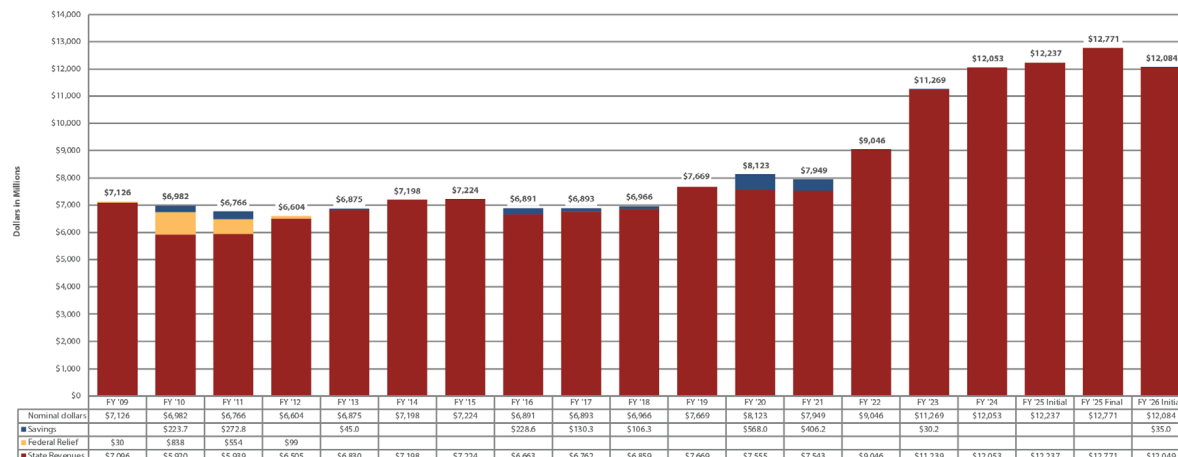
Source: OK Policy analysis of appropriations bills and Federal Reserve Economic Data.



**Figure 2** ([Return to text](#))

## Oklahoma State Appropriations, FY '09 - FY '26

In 2025 dollars, final includes mid-year cuts & supplementals except where noted.



NOTE: State revenues is all revenue in appropriation except federal funding, one time money, and savings. Historical numbers for the state savings have been reviewed and updated. These numbers will look different from numbers reported in prior fiscal year's Budget Highlights. Two main sources were used to review the amounts appropriated from savings accounts in any given fiscal year: the Senate Appropriations Reports (mainly FY 2022) and the Executive Budget Books (mainly FY 2026). For some years, the accounting of appropriations are different between the two sources. Therefore, the general appropriations bills for each fiscal year are used to decipher which year the appropriations should fall under.

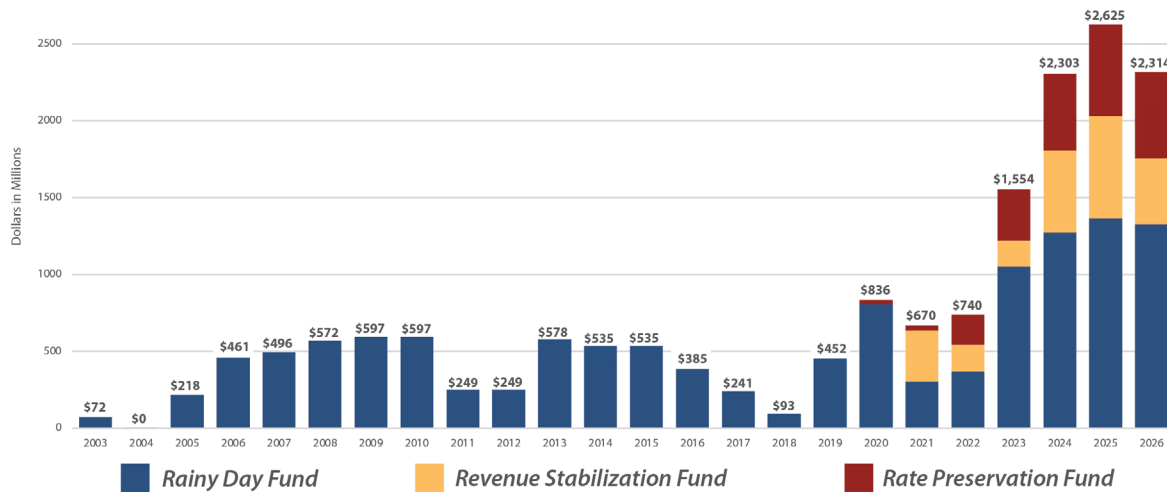
Source: OK Policy analysis of appropriations bills and Federal Reserve Economic Data.





**Figure 3** ([Return to text](#))

## State Savings Balances, FY '03 - FY '26



NOTE: All balances are as of beginning of the fiscal year. Excludes unbudgeted cash and balances from all other funds. The numbers for Rainy Day Fund (RDF) differ based on the source used: Senate Appropriations Reports vs the Governor's Executive Budget.

Source: RDF FY 2003-24: State of Oklahoma Executive Budget for Fiscal Year 2026, pg 687. FY 2025 numbers for RDF, RSF, and RPF:

State of Oklahoma Executive Budget, Fiscal Year 2026, pg 4. State of Oklahoma Executive Budget, Fiscal Year 24. RSF and RPF

numbers for FY 2020-2024 come from State of Oklahoma Executive Budgets for corresponding FY. FY 2026 numbers

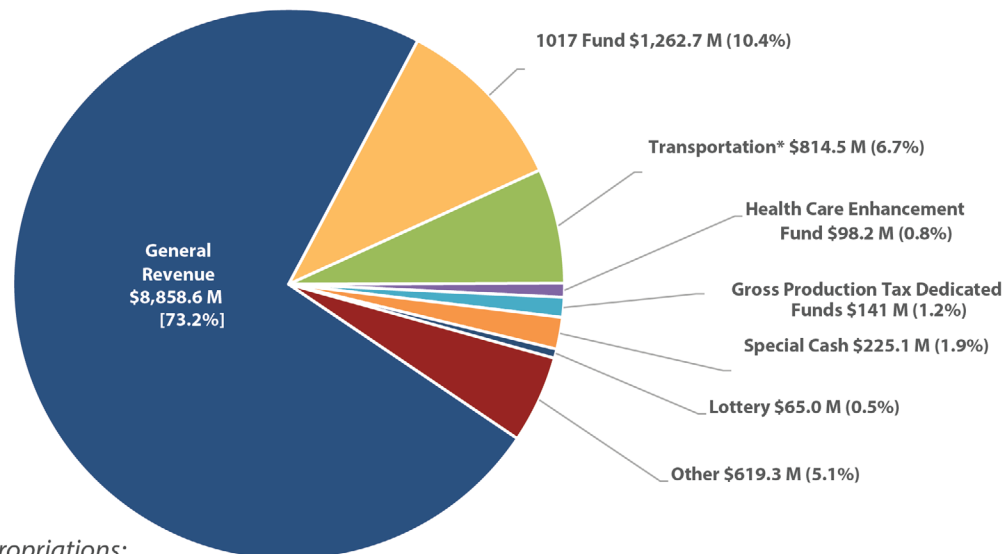
for RPF and RDF: HB 2766 Sec. 79 and 154 withdrawal amount used to calculate balance of funds.

FY 2026 RSF balance: Senate Live Proceeding May 22, 2025 at timestamp 2:22 pm.



**Figure 4**

## FY '26 Appropriations by Revenue Source



Total FY 26 Appropriations:  
**\$12,084 M**

NOTE: Transportation includes the ROADS Fund, which has been excluded from budgets in some prior years.

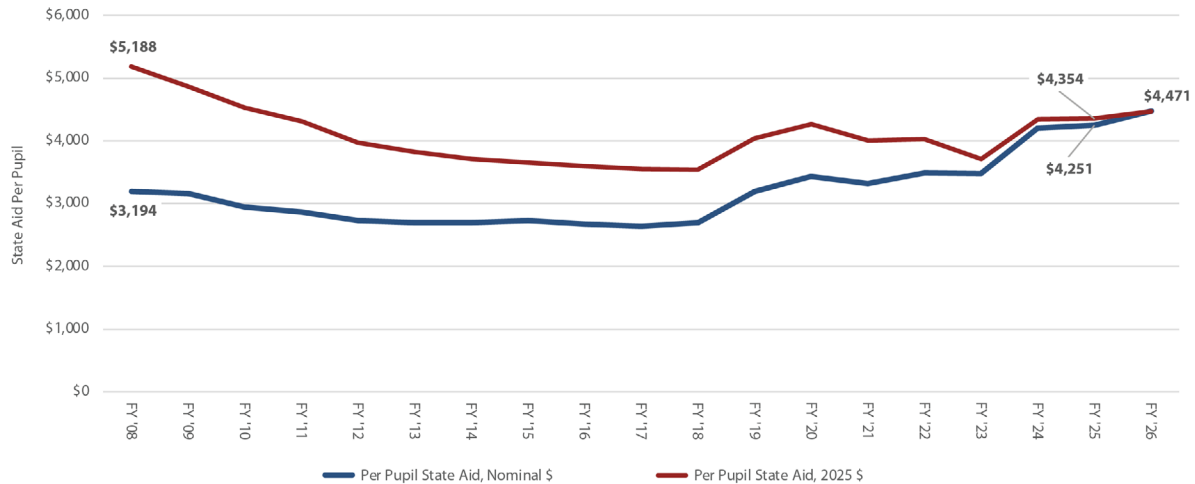
Source: OK Policy analysis of FY2026 appropriations bills.





**Figure 5** ([Return to text](#))

## Oklahoma Public School State Aid Formula Funding, FY '08 - FY '26

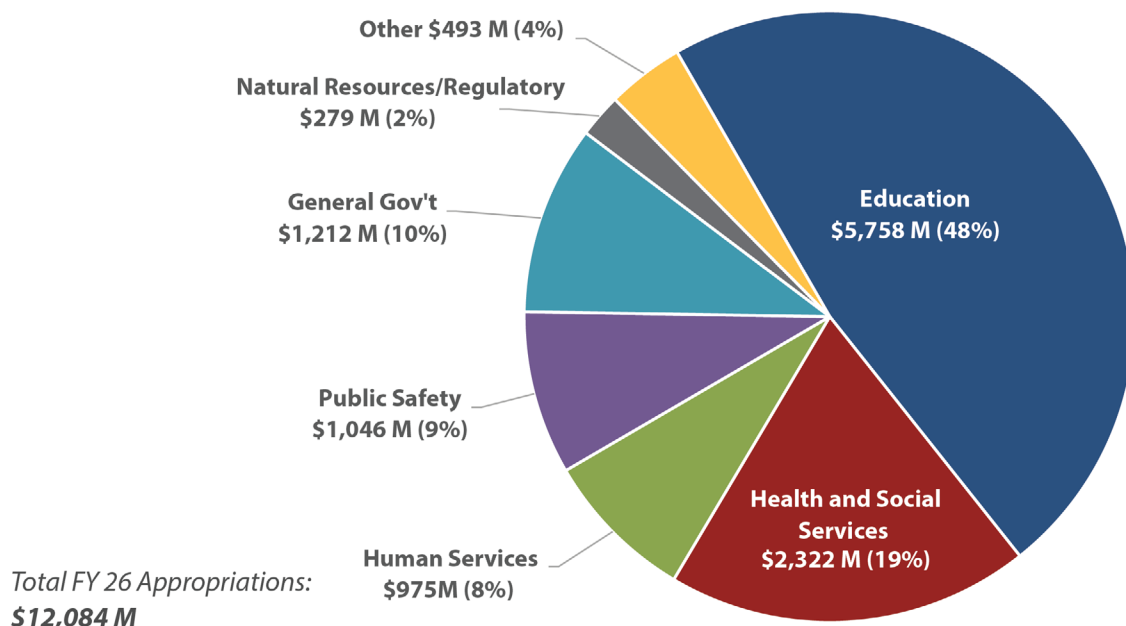


Source: State Department of Education enrollment totals FY 2008-2025. FY '26 data comes from a 5-year average of enrollment growth. State aid appropriations from FY 2008-26 general appropriations bills.



**Figure 6** ([Return to text](#))

## FY '26 Budget by Function



Source: OK Policy analysis of FY 2026 general appropriations bills.

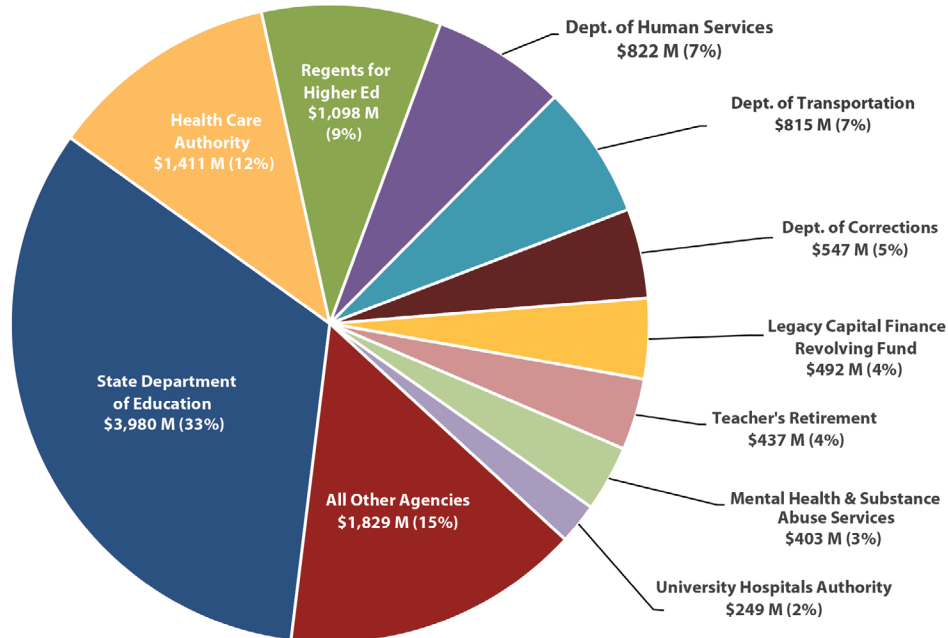






**Figure 7**

## Appropriations to Ten Largest and Remaining Agencies/Funds, FY '26



Total FY 26 Appropriations: **\$12,084 M**

Total Ten Largest: **\$10,255 M (85%)**

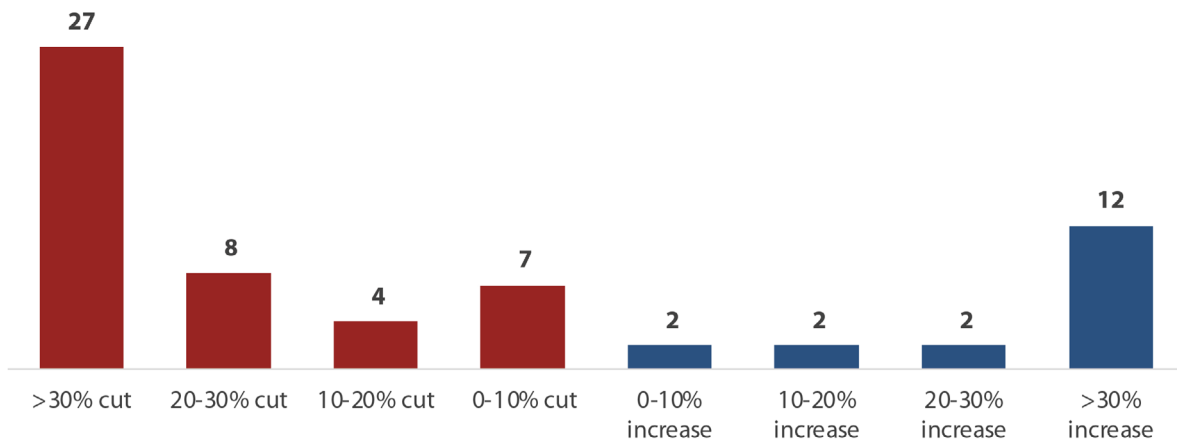
Source: OK Policy analysis of appropriations bills.

NOTE: Total percentage may be more than 100 due to rounding.



**Figure 8** ([Return to text](#))

## Change in Real Agency Funding, FY '09 - FY '26, by Number of Agencies



Note: Graph is adjusted for inflation and population growth. In years prior to FY 23 budget highlights, this graph used nominal dollars. Only accounts for agencies that were funded in both FY '09 and FY '26.

Source: OK Policy analysis of appropriations bills and Federal Reserve Economic Data.

