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Oklahoma Policy Institute

BUDGET TRENDS AND OUTLOOK — DECEMBER 2017**Oklahoma faces a large budget hole this year and a larger one next year.**

- The state Supreme Court in August struck down a cigarette fee that was expected to provide \$214 million in funding this year (FY 2018) to three health agencies – the Department of Mental Health and Substance Abuse Services, Oklahoma Health Care Authority (Medicaid) and Department of Human Services. This led Governor Fallin to call a special session that lasted 8 weeks from September to November.
- When the dust settled on special session, the three health agencies received enough funding to avert massive immediate cuts. But the agencies remain a combined \$111 million short of initial FY 2018 funding levels, which continues the threat of major cuts later this year without additional funds.
- Along with the large remaining funding gap for the health agencies, this year's budget now uses over \$500 million in non-recurring revenue, which creates a substantial budget hole for next year.
- Gov. Fallin is expected to call a second special session aimed at approving permanent revenues needed to fill this year's gap, set the budget on a sustainable path, and invest in key priorities.

State funding has been cut deeply in recent years.

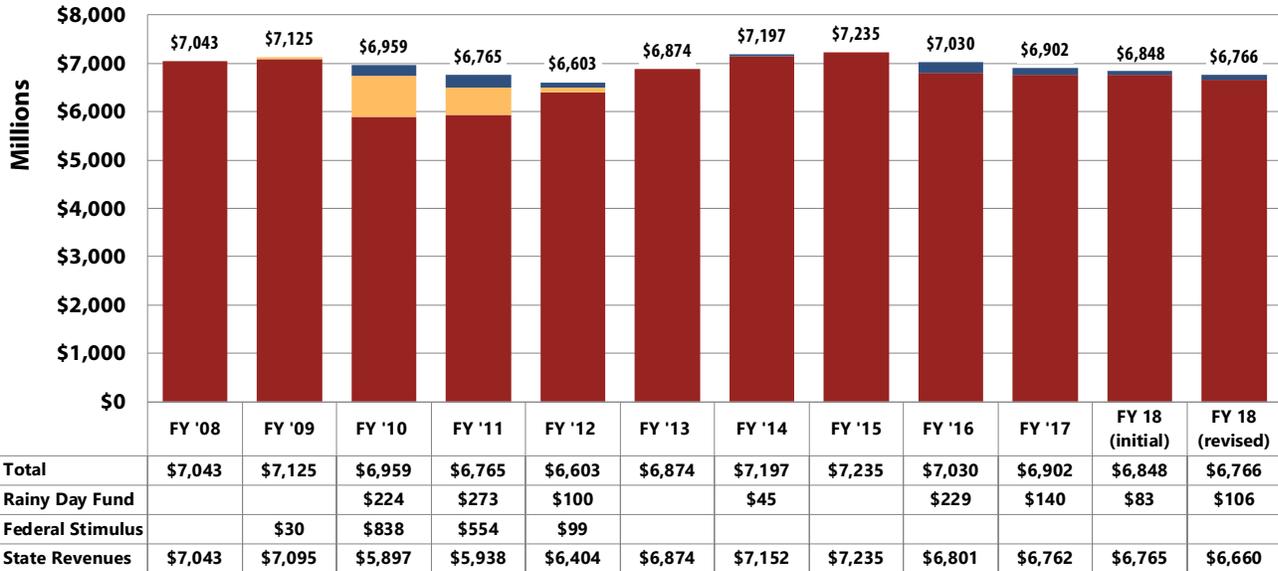
- The initial FY 2018 budget of \$6.848 billion was \$20 million less than the final FY 2017 budget. This is \$1.26 billion, or 15.6 percent, below the FY 2009 budget adjusted for inflation.
- Over half of all appropriated agencies (39 of 65) have seen their state funding cut by over 20 percent since 2009.
- State aid funding for public schools remains \$179 million below FY 2008 levels, while enrollment has increased by over 50,000 students. Teachers have gone over a decade without an increase in the salary schedule, and school districts this year have issued over 1,800 emergency teaching certifications.
- State support for higher education has been slashed by \$266 million - over 25 percent - since 2009.
- The state Medicaid agency has cut \$445 million from provider rates and health care benefits since 2010, with an additional 6 percent cut for most providers scheduled for December 1st.
- More than 7,500 Oklahomans with developmental disabilities are on a waiting list for home- and community-based services.
- State government (excluding higher education) employs 11 percent fewer workers than seven years ago and 7 percent fewer 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.

- 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.
- Tax breaks on oil and gas production cost the state over \$600 million in lost revenue in FY 2015, although several tax breaks for older production have since been repealed.
- Over the longer-term, Oklahoma will continue to face serious budget challenges due to an aging population, decaying infrastructure, economic transformations, and an outdated tax system.

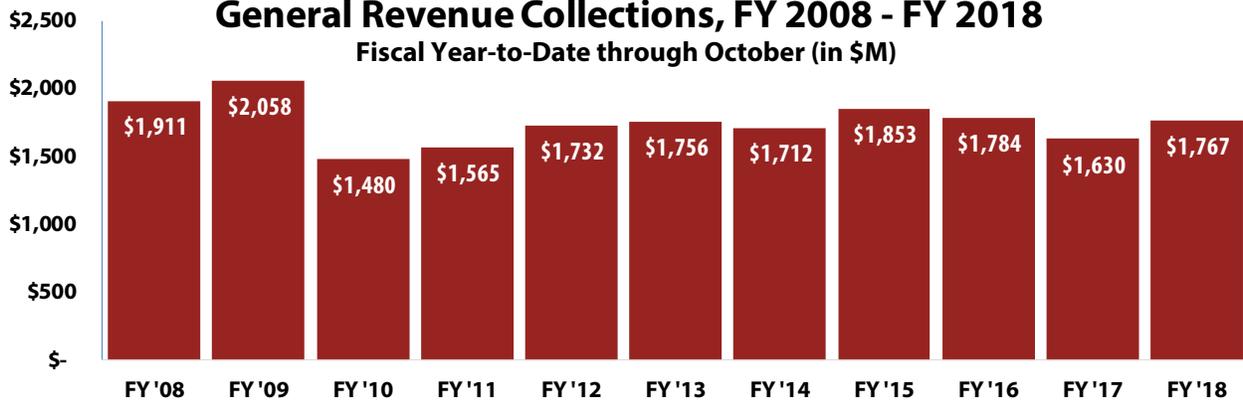
Oklahoma State Appropriations, FY 2008 to FY 2018

(in \$ millions, includes mid-year cuts & supplementals)

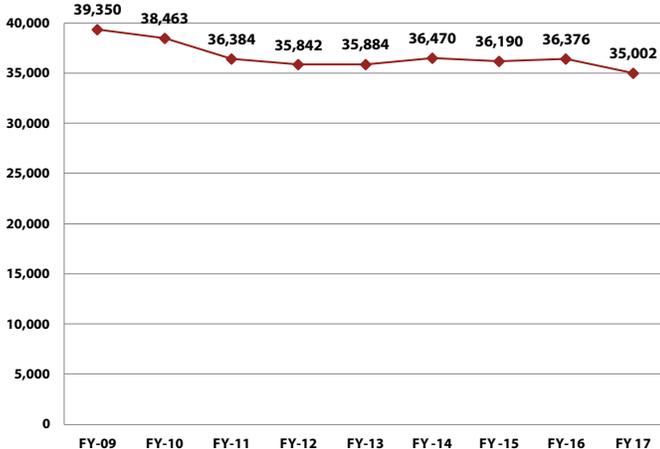


General Revenue Collections, FY 2008 - FY 2018

Fiscal Year-to-Date through October (in \$M)



Oklahoma State Government Employs More Than 4,000 Fewer Workers Compared to 2009



State Aid Funding for Schools Has Not Kept Up With Enrollment

