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BUDGET TRENDS AND OUTLOOK — MARCH 2016

The state faces a huge budget shortfall

- As a result of revenue collections coming in below projections, mid-year revenue failures were declared in December and February. Agencies were cut by 7 percent of their General Revenue Fund allocation, totaling \$413M.
- The Board of Equalization in February certified \$5,851M in available funds for FY 2017, which is \$1,288M, or 17.8 percent less than FY 2016 initial appropriations.
- To balance this year's budget, the Legislature appropriated close to \$500 million in one-time money from the Rainy Day Fund, cash reserves, agency revolving funds, and other non-recurring sources.
- The Rainy Day Fund currently has a \$385 million balance. This entire amount could be used to cover a portion of the shortfalls in FY 2016 and FY 2017.

Budget shortfalls are a result of both the economic slowdown and policy choices

- Gross production revenues on oil and gas to the GR Fund are projected to be just \$103M in FY 2016 and \$66M in FY 2017, compared to an average of \$455M from FY 2010-12. Low energy prices are also affecting income tax and sales tax collections.
- The tax cut lowering the top income tax rate from 5.25 to 5 percent that took effect in January will reduce revenues by \$57 million in FY 2016 and \$147 million in FY 2017. Since 2004, the top income tax rate has been cut from 6.65 to 5.0 percent, resulting in lost revenues of \$1.022 billion.
- The cost of tax incentives more than doubled between 2010 and 2014, according to Oklahoma Watch. When energy prices were high, the 1 percent tax rate on horizontal drilling cost the state over \$250 million annually in lost revenue.
- The budget is also affected by the growing share of tax revenues that are allocated off-the-top for earmarked purposes. In particular, the ROADS Fund has grown to \$476 million this year and is scheduled to receive another \$59.7 million increase in FY 2017.

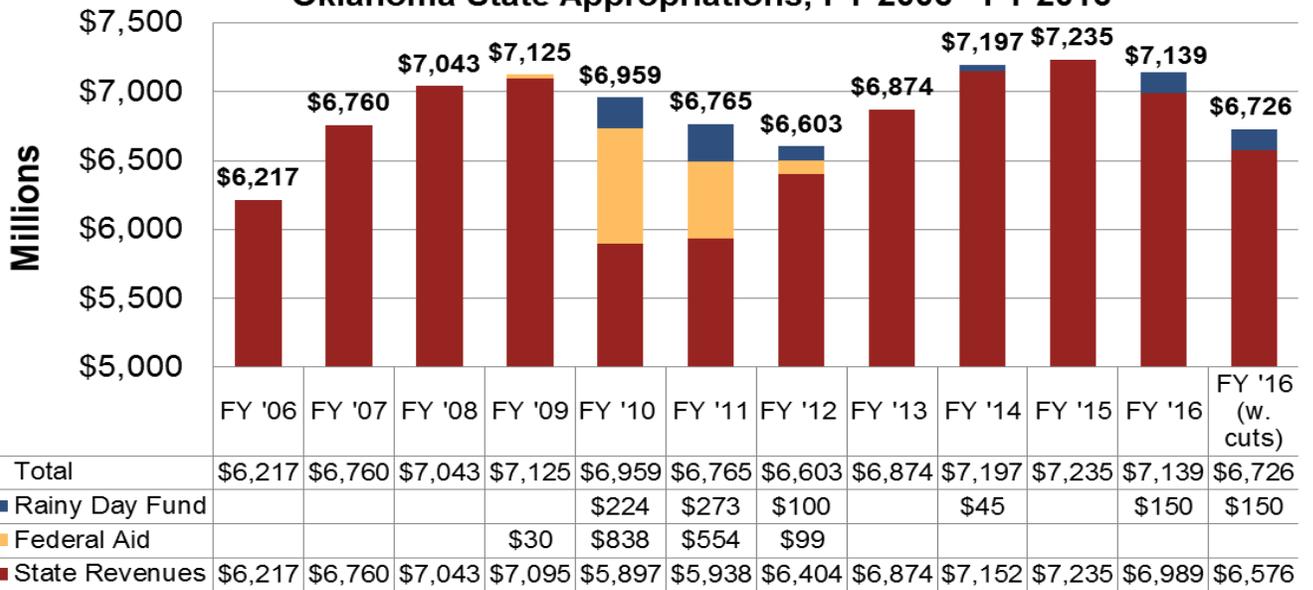
State services have already been cut deeply and repeatedly in recent years

- The FY 2016 budget is \$1,132M or 14.4 percent, below FY 2009, adjusted for inflation.
- This year, 62 of 72 appropriated state agencies initially received budget cuts or flat funding. Cuts to agencies ranged from 0.25 to 7.25 percent. Many are at least 25 percent below their funding levels of 2009.
- State formula funding for public schools remains \$198 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.
- The Department of Corrections is operating with 460 fewer correctional officers than in 2008, even as the inmate population continues to grow.
- State government employs 8 percent fewer employees than six years ago and fewer people than in 2001—despite population growth, heavier caseloads, and new mandates and responsibilities.

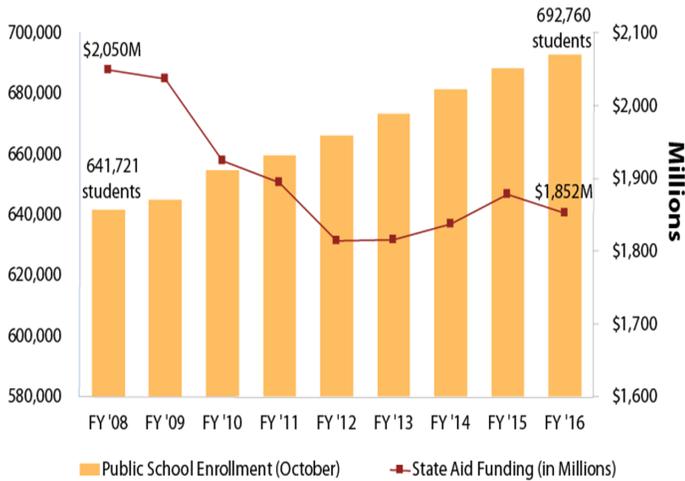
General Revenue Collections, FY '06 - FY '16
Year-to-Date through January (in \$M)



Oklahoma State Appropriations, FY 2006 - FY 2016



State Aid Funding for Schools Has Not Kept Up With Enrollment

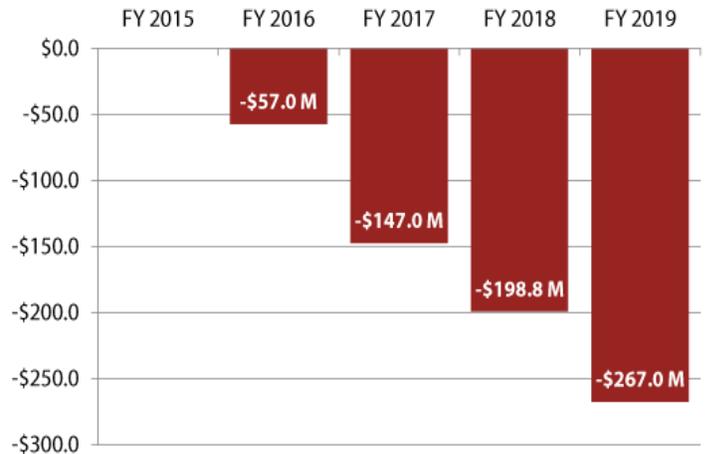


Note: State Funding excludes money allocated for textbooks

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Annual Revenue Loss from 2014 Tax Cuts

(in \$ millions; assumes rate reductions phase in on 1/1/2016 and 1/1/2018)



For in-depth, updated information on the state budget, visit: <http://okpolicy.org/responsible-budget-taxes> & www.okpolicy.org/blog