

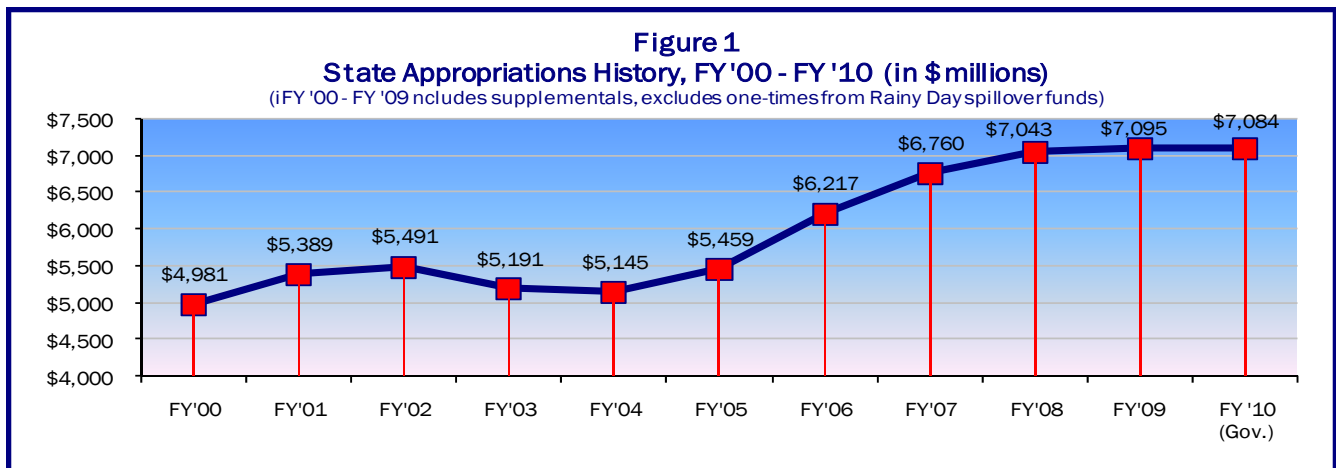
BUDGET BRIEF:

GOVERNOR HENRY'S FY '10 EXECUTIVE BUDGET PROPOSAL

SUMMARY

As the national economic downturn begins to have a growing impact on Oklahoma's economy, families, and public finances, Governor Brad Henry delivered his Executive Budget for the upcoming year, FY '10, on February 2, 2009. In December, the State Board of Equalization provided an initial FY '10 certification of \$6.756 billion, which is \$312.9 million, or 4.4 percent, less revenue than was available for appropriations in FY '09. The Governor was able to present a balanced \$7.084 billion budget without tax increases, across-the-board budget cuts, or use of the state's Rainy Day Fund. He did so by proposing over \$330 million of revenue-generating measures, including a number of fee increases, and almost \$50 million of targeted cuts to agency budgets. While minimizing the extent of actual funding cuts, the Governor's budget was unable to fund increases in operating expenses and program growth for many agencies, which could lead to cutbacks in programs and services over the coming year.

The Legislature will now begin its work developing the budget for FY'10. While the Governor's budget will help serve as a blueprint, the Legislature will work with a revised revenue certification once the Board of Equalization meets again later in February. In addition, the great wild-card in this year's budget process will be the amount, timing, and conditions attached to state fiscal relief measures that may be approved as part of a federal economic stimulus package.



I. Revenue Enhancements

In December, the State Board of Equalization provided an initial FY '10 certification of \$6.756 billion. The Governor's budget would appropriate an additional \$334 million beyond the certified estimate. The Governor's revenue-generating proposals include the following:

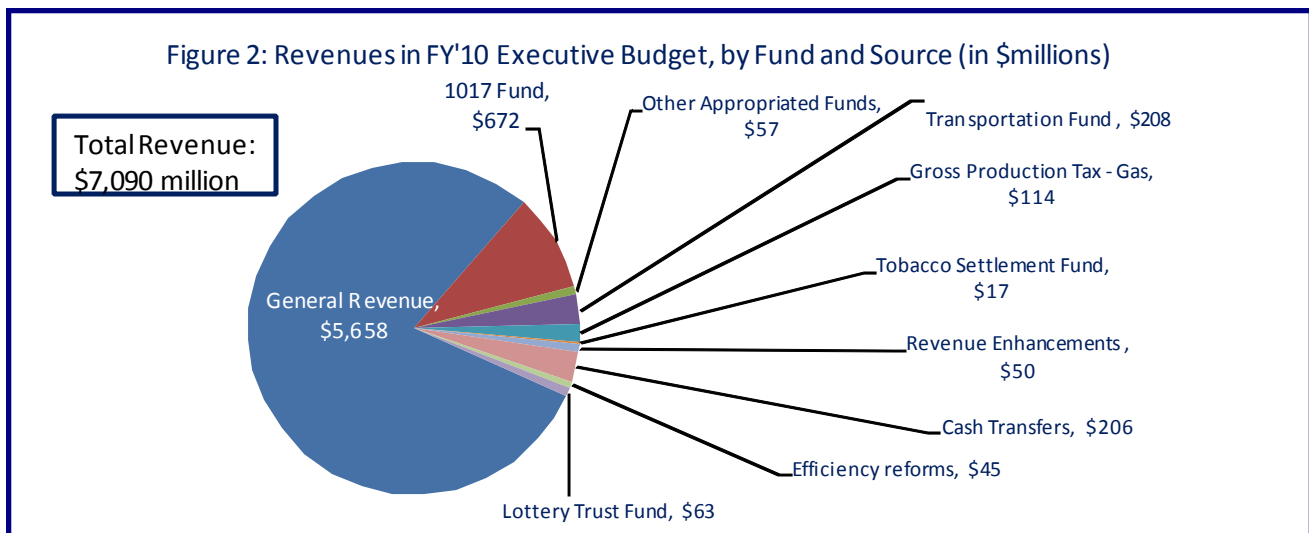
- **Cash Transfers - \$206.0 million.** The Governor's budget would appropriate \$150 million from the Cash Flow Reserve Fund and \$56 million from agency revolving funds. Other than \$5 million that would be transferred from the Insurance Department, the sources of the remaining \$51 million in agency revolving fund transfers

are unspecified in the budget book;

- *Adjustments to December's certification - \$53.7 million.* The Governor's budget includes additional revenues from current year collections to the HB 1017 Education Reform Fund (\$24.6 million), revenues that were omitted in December due to the sunseting of a tax credit (\$20 million), and adjustments to the State Transportation Fund (\$9.0 million);
- *Fee Increases - \$9.7 million.* The Governor proposes increasing fees on vending machine decals and sales tax permits, as well as fees charged by various agencies that accrue to the General Revenue Fund;
- *Tax Compliance- \$12.1 million.* Additional revenues are anticipated from proposals to list delinquent taxpayers on the Internet and to strengthen tax collection procedures;
- *Efficiency Reforms - \$45.0 million.* Reforms in information technology systems and procurement are projected to save the state \$45 million in FY '10. The budget treats these savings as additional revenue rather than as reduced expenditures; and
- *Insurance Tax - \$8.0 million.* The budget proposes assessing the 2.25 percent insurance premium tax on CompSource Oklahoma, the state-owned workers compensation insurer.

Whether the Legislature will be willing to adopt all these measures – and whether they could generate the additional revenues and savings estimated in the budget – remains to be determined.

As notable as the revenue-generating proposals that were included in the Governor's budget are several ideas the Governor did *not* propose. The Governor did not tap into the Rainy Day Fund, which has a \$596.6 million balance, of which up to \$373 million, or 5/8^{ths}, is potentially available for appropriations by the 2009 Legislature.¹ He did not propose eliminating or suspending any existing tax incentives or exemptions, or suggest the sale of any publically-owned assets. Perhaps least surprisingly, given the huge constitutional and political obstacles, he did not propose any broad-based tax increases.



II. BRINGING THE BUDGET INTO BALANCE

With the \$334 million in revenue-generating measures included in his budget, the Governor had \$7.090 billion available for appropriation in FY '10. In order to bring the budget into balance and fund selected priorities (see below), the Governor's budget proposes spending reductions totaling \$70.5 million. In addition to removing \$22.5 million in one-time FY '09 expenditures, the budget's other \$48 million of spending reductions are of three kinds:

- **Budget cuts** – Of the 77 agencies that received appropriations in FY '09, 51 had their funding cut in the Governor's budget. Most agencies with cuts were cut 5 percent, but cuts ranged from 1 percent to 10 percent and totaled \$28.7 million. The Governor proposes to do away with state appropriations entirely

for two agencies, which would become funded exclusively through fees – the Insurance Department and Secretary of State. The Governor also would cut funding for REAP (Rural Economic Action Plan), which builds and repairs infrastructure in small communities, by \$5 million, or 35.5 percent. Other agencies subjected to large cuts include the Corporation Commission (10 percent), Horse Racing Commission (10 percent), Department of Central Services (10 percent), Department of Labor (7.5 percent) and Commission on Law Enforcement Education and Training (7.5 percent).

Two dozen agencies, representing over 93 percent of total state appropriations, were exempted from cuts. These 24 agencies provide essential public services in the areas of education, health care and human services, public safety and law enforcement, transportation, and the judiciary. Although both common education and post-secondary education were exempted from cuts, the Department of Rehabilitative Services, which operates the Schools for the Blind and the School for the Deaf, was cut 5 percent.

The Governor's budget did not provide specific proposals or guidance to any agencies on how to absorb their recommended cuts or address increased operating costs and additional obligations with flat funding. In some cases agencies have carryover in revolving funds that can be used to supplement FY '10 appropriations, while other agencies will likely be forced to leave staffing vacancies unfilled, eliminate positions, and cut programs and services.

- **Travel cuts** – The Governor proposed additional cuts to agency travel budgets to all but 15 agencies, affecting agencies that were subjected to overall cuts and those that were exempted alike. In almost all cases, travel budgets were cut by 10 percent. Cuts to travel budgets totaled \$8.9 million.
- **Fee increases** – Ten agencies had their appropriations cut in whole or in part on the expectation that they would raise fees. These cuts totaled \$10.4 million. The agencies expected to generate the largest amount of additional fee revenues are the Insurance Commission (\$2.5 million), Department of Education (\$2.3 million), Agriculture Department (\$1.5 million), and Department of Environmental Quality (\$1.3 million). The budget book indicates that these involve fees that have not been raised in well over a decade, but does not spell out exactly which fees would be raised.

The Appendix to this brief (pp. 5-6) breaks out appropriations levels and recommended cuts for each agency.

III. SPENDING INITIATIVES AND UNADDRESSED NEEDS

The combination of budget cuts and new revenues did allow the Governor to allocate increased funding above base FY '09 levels totaling \$65.4 million for a few selected purposes. These include:

- Increased health care costs for school personnel: \$25.3 million. This represents about half of the amount requested by the Department of Education and Department of Career and Technology Education to cover increased flexible benefit allowance costs;
- Increased teacher retirement contributions: \$19.4 million;
- Tulsa indigent care: \$12.0 million (including \$5 million as a FY '09 supplemental);
- ACE (Achieving Classroom Excellence) remediation and alternative testing: \$1.7 million;
- BioEnergy Center: \$3.5 million;
- Bond service payments for the Native American Cultural and Educational Authority: \$1.1 million;
- Sooner Start Early Intervention program: \$1.3 million;
- Crystal Darkness methamphetamine awareness campaign: \$500,000;
- System of Care grant match: \$250,000;
- School lunch program match: \$177,000; and

- Teacher working conditions survey: \$100,000.

However, many high-priority agency budget requests were left unfunded in the Governor's budget. Funding requests from the largest core agencies included:

- Department of Education - Funding to cover increased operating and transportation costs of public schools: \$127.8 million;
- Regents for Higher Education - Increased operational expenses, utilities and health insurance premiums for higher education institutions: \$53.4 million;
- Department of Mental Health and Substance Abuse Services— Maintain existing programs: \$24.7 million;
- Department of Human Services - Program growth of the ADvantage home- and community-based waiver program: \$23.4 million; and
- Department of Corrections - Population growth and mandatory costs of the state's correctional facilities: \$13.2 million.

It is unclear at this point how these and other agencies would be able to address increased operating expenses, rising employee benefit costs, and growth in program utilization at the flat or reduced funding levels in the Governor's budget.

The final major component of the Governor's balanced budget involves the assumption of increased federal funds becoming available for the Medicaid program if and when Congress adopts an economic stimulus package. The budget provided no additional state appropriations to the Oklahoma Health Care Authority to fund Medicaid growth and utilization increases, the state's share of increased Medicare payments, or a scheduled decline in federal matching funds. These obligations were projected to cost the state over \$80 million in FY '10. In addition, other state agencies, including the Department of Human Services, Department of Mental Health and Substance Abuse Services, and University Hospitals Authority, would be affected by declining federal contributions in the absence of Congressional action. However, under the stimulus proposals being considered by Congress, Oklahoma is slated to receive an estimated \$720 million to \$915 million over the next two years just for the Medicaid program.² This funding should be sufficient to at least sustain the Medicaid program and Medicaid-supported services at existing levels.

Medicaid is the most prominent of several areas in which what happens in Congress over the coming weeks could substantially improve or weaken the state's budget outlook. The stimulus bills under consideration would increase funding to the states for a wide range of existing grant programs in areas including education, social services, public health, transportation, environmental protection and law enforcement. Some of these new federal dollars would require increased investments in infrastructure, technology, and construction projects, while others would just require a maintenance of existing effort and could free up state dollars to be used for other priorities. The federal bills would also create a state fiscal stabilization fund that would provide two payments to the states, one specifically for education and another for "public safety and other government purposes, which could include education". Both House and Senate versions of the stimulus package include \$761 million for Oklahoma in fiscal stabilization dollars to cover the next two years.

NOTES

The Governor's FY '10 Executive Budget is available online as a PDF at: [http://www.ok.gov/osf/documents/FY-2010 Budget Book.pdf](http://www.ok.gov/osf/documents/FY-2010%20Budget%20Book.pdf)

¹ For a full discussion of the Rainy Day Fund, see Oklahoma Policy Institute, *Options for Addressing State Budget Shortfalls*, January 2009; at: <http://okpolicy.org/options-addressing-state-budget-shortfalls-jan-2009>

² The \$720 million estimate is of the House proposal from FFIS, Issue Brief 09-02, *Estimated Impact of House Stimulus FMAP Provisions*, January 23, 2009. The \$915 million estimate is of the Senate Proposal from the Center on Budget and Policy Priorities, *Economic Recovery Packages: State-by-State Estimates of Key Provisions Affecting Low- and Moderate-Income Individuals*, updated February 3, 2009; at <http://www.cbpp.org/1-22-09bud/htm>

APPENDIX: FY '09 and FY '10 Appropriations by Agency

(includes supplementals)	Gov's Budget	Gov's Budget	Gov's Budget	Gov's Budget	Gov's Budget	Gov's Budget
FY '09 Actual	FY '10	Remove 1-Times & Funding Increases	Budget Cut %	Budget Cut \$	Travel Cut	Fee increases
Subcommittee on Education						
Arts Council	5,150,967	4,992,238		3.0%	(154,529)	(4,200)
Career and Technology Education	158,269,736	161,386,659	3,211,704	-	-	(94,871)
Education, State Department of	2,531,702,553	2,568,255,333	38,951,245	-	-	(147,215)
Educational Television Authority	8,394,383	5,037,858	(3,200,000)	3.0%	(155,831)	(693)
Higher Education, Regents for (1)	1,040,286,280	1,039,184,581	4,956,845	-	-	(6,058,000)
Land Office, Commissioners of	4,864,881	4,864,881		-	-	-
Libraries, Department of	7,294,856	6,923,036		5.0%	(364,743)	(7,077)
Physician Manpower Training Comm.	5,523,502	5,244,587		5.0%	(276,175)	(2,740)
Science & Math, School of	7,985,737	7,983,996		-	-	(1,741)
Science & Technology, Center for	22,456,507	22,450,928		-	-	(5,579)
Teacher Preparation, Commission on	2,059,982	1,991,335		3.0%	(61,799)	(6,847)
Subcommittee Total	\$3,793,989,384	\$3,828,315,432	\$43,919,794		(\$1,013,077)	(\$6,328,963)
Subcommittee on General Government						
Auditor and Inspector	6,315,269	5,553,241	(400,000)	5.0%	(315,763)	(46,264)
Bond Advisor	186,419	176,530		5.0%	(9,321)	(568)
Central Services, Department of	18,713,175	16,822,599		10.0%	(1,871,318)	(19,259)
Civil Emergency Management Admin.	1,156,604	760,459	(350,000)	3.0%	(24,198)	(21,947)
Election Board	6,805,988	6,278,004		5.0%	(340,299)	(7,684)
Ethics Commission	667,960	667,960		-	-	-
Finance, Office of State	23,081,434	21,897,981		5.0%	(1,154,072)	(29,382)
Governor	2,661,981	2,522,638		5.0%	(133,099)	(6,244)
House of Representatives	19,176,434	18,128,337		5.0%	(958,822)	(89,276)
Legislative Service Bureau	5,537,349	5,255,768		5.0%	(276,867)	(4,714)
Lt. Governor	659,597	626,506		5.0%	(32,890)	-
Merit Protection Commission	613,684	592,625		3.0%	(18,411)	(2,648)
Military, Department of	13,132,301	12,970,035		1.0%	(131,323)	(30,943)
Personnel Management	4,891,745	4,639,710		5.0%	(244,587)	(7,448)
Secretary of State	380,517	-				(380,517)
Senate	14,699,125	13,908,614		5.0%	(734,956)	(55,555)
Space Industry Development Authority	530,340	500,044		5.0%	(26,517)	(3,779)
Tax Commission	50,201,340	45,719,341	(2,000,000)	5.0%	(2,410,067)	(71,932)
Transportation, Department of	207,691,448	207,591,448	(100,000)	-	-	-
Treasurer	4,668,763	4,431,350		5.0%	(233,438)	(3,975)
Subcommittee Total	\$381,771,473	\$369,043,190	(\$2,850,000)		(\$8,915,948)	(\$401,617)
Subcommittee on Human Services						
Children and Youth, Commission on	2,608,473	2,472,808		5.0%	(130,424)	(5,241)
Disability Concerns, Office of	412,769	403,529		2.0%	(8,255)	(1,255)
Human Rights Commission	710,226	669,903		5.0%	(35,511)	(4,811)
Human Services, Department of	559,107,190	558,499,967		-	-	(607,223)
Indian Affairs, Commission of	258,466	244,557		5.0%	(12,923)	(986)
Juvenile Affairs	112,254,258	112,212,404		-	-	(41,845)
Rehabilitation Services, Department of	30,053,770	28,907,223	443,000	5.0%	(1,502,689)	(87,286)
Subcommittee Total	\$705,405,152	\$703,410,391	\$443,000		(\$1,689,802)	(\$748,647)
Subcommittee on Health and Social Services						
Health Care Authority	842,122,261	842,087,263		-	-	(34,998)
Health, Department of	75,028,113	76,426,638	2,000,000	-	-	(601,475)
J.D. McCarty Center	4,452,961	4,223,612		5.0%	(222,648)	(6,701)
Mental Health & Substance Abuse Services	209,579,129	210,198,979	750,000	-	-	(130,150)
University Hospitals Authority (2)	48,250,342	48,249,941		-	-	(401)
Veterans Affairs, Department of	40,282,600	40,261,592		-	-	(21,008)
Subcommittee Total	\$1,219,715,406	\$1,221,448,025	\$2,750,000		(\$222,648)	(\$794,733)

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	(includes supplementals)	Gov's Budget	Gov's Budget Remove 1-Times & Funding Increases	Gov's Budget Budget Cut %	Gov's Budget Budget Cut \$	Gov's Budget Travel Cut	Gov's Budget Fee increases
	FY '09 Actual	FY '10					
Subcommittee on Natural Resources and Regulatory Affairs							
Agriculture, Department of	34,540,185	31,644,367		5.0%	(1,332,109)	(63,709)	(1,500,000)
Commerce, Department of	30,934,772	34,447,104	4,606,000	5.0%	(1,029,039)	(64,507)	
Conservation Commission	10,292,962	9,758,620		5.0%	(514,468)	(19,694)	
Consumer Credit, Department of	669,042	626,876		5.0%	(33,452)	(8,714)	
Corporation Commission	12,415,417	10,959,812	(205,000)	10.0%	(1,221,042)	(29,563)	
Environmental Quality, Dept. of	9,728,096	7,761,286		5.0%	(486,405)	(134,905)	(1,345,500)
Historical Society	14,967,451	14,203,338		5.0%	(748,373)	(15,741)	
Horse Racing Commission	2,669,568	2,335,145		10.0%	(266,957)	(14,266)	(53,200)
Insurance Commissioner	2,515,943	-		n/a	n/a	n/a	(2,515,943)
J.M. Davis Memorial Commission	385,403	366,133		5.0%	(19,270)	-	
Labor, Department of	3,760,284	3,467,560		7.5%	(282,201)	(10,702)	
Mines, Department of	1,013,586	979,728		3.0%	(30,408)	(3,450)	
Scenic Rivers Commission	345,322	328,056		5.0%	(17,266)	-	
Tourism and Recreation, Department of	28,041,991	26,429,683	(220,000)	5.0%	(1,358,050)	(34,259)	
Water Resources Board	6,801,524	5,639,156		5.0%	(230,076)	(26,856)	(905,436)
Will Rogers Memorial Commission	933,702	887,017		5.0%	(46,685)	-	
Subcommittee Total	\$160,015,248	\$149,833,881	\$4,181,000		(\$7,615,801)	(\$426,366)	(\$6,320,079)
Subcommittee on Public Safety							
Alcoholic Beverage Laws Enforcement	3,925,266	3,725,502		5.0%	(196,263)	(3,501)	
Attorney General	14,781,704	13,964,447	(57,255)	5.0%	(736,222)	(23,780)	
Corrections, Department of	503,000,000	502,898,116		-	-	(101,884)	
Court of Criminal Appeals	3,474,527	3,474,527		-	-	-	
District Attorneys and DAC	42,820,210	41,470,443		3.0%	(1,284,606)	(65,161)	
District Courts	58,067,785	58,067,785		-	-	-	
Fire Marshal	2,270,855	2,200,431		3.0%	(68,126)	(2,299)	
Indigent Defense System	16,734,008	15,866,441		5.0%	(836,700)	(30,867)	
Investigation, State Bureau of	17,316,450	17,316,450		-	-	-	
Judicial Complaints, Council on	283,729	255,021			(28,373)	(335)	
Law Enforcement Education and Training	4,614,370	4,261,328		7.5%	(346,078)	(6,964)	
Medicolegal Investigations, Board of	4,825,625	4,224,852		5.0%	(241,281)	(3,325)	(356,167)
Narcotics and Dangerous Drugs, Bureau of	6,773,895	6,773,895		-	-	-	
Pardon and Parole Board	2,577,581	2,577,581		-	-	-	
Public Safety, Department of (3)	97,170,391	97,150,391		-	(20,000)	-	
Supreme Court	19,247,063	19,247,063		-	-	-	
Workers' Compensation Court	5,259,801	4,370,426		-	-	-	(889,375)
Subcommittee Total	\$803,143,260	\$797,844,699	(\$57,255)		(\$3,757,649)	(\$238,116)	(\$1,245,542)
Other Appropriations							
REAP	15,500,000	10,000,000			(5,500,000)		
Governor's Emergency Fund	15,000,000	5,000,000	(10,000,000)				
Others Total	\$30,500,000	15,000,000	(10,000,000)		(\$5,500,000)	\$0	\$0
TOTAL	\$7,094,539,923	\$7,084,895,618	\$38,386,539		(\$28,714,925)	(\$8,924,748)	(\$10,377,388)

(1) Funding for Higher Education in FY '09 and FY '10 excludes \$54 million for OHLAP; FY '09 includes \$400,000 supplemental for County Government Training Program

(2) Includes \$5 million FY '09 supplemental for OSU-Tulsa indigent care

(3) Department of Public Safety's budget cut was restricted to the Board of Tests

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