

OKPOLICY.ORG

Oklahoma Policy Institute

FY '09 BUDGET REVIEW

SPECIAL POINTS OF INTEREST:

- Appropriations for the upcoming state budget year are just \$46.7 million, or 0.7%, greater than the current year. Most agencies received no additional funds to cover rising costs or mandatory employee benefit increases.
- Flat funding will fall short of ensuring a maintenance of effort and may instead translate into cuts to programs and services.
- Any economic downturn is likely to greatly exacerbate the state's current budget challenges and create major shortfalls for FY '10.
- Close monitoring is needed to understand what decisions are being taken to manage the budget squeeze, and the effects of these decisions on public programs and the clients and communities they serve.

Falling Flat: Will Standstill Funding Force Cuts in Services?

By David Blatt, Director of Policy

Faced with declining revenue collections, the Oklahoma Legislature approved a budget for the upcoming state budget year (FY '09) just \$46.7 million, or 0.7%, greater than the current year. Although a few agencies received additional funds to cover cost increases in core programs and legislative mandates, appropriations to most agencies were left essentially unchanged from the current budget year, with no allowance for rising costs.

Legislative leaders and the Governor referred to the FY'09 budget agreement as a "maintenance-of-effort" budget. However, as agencies wrestle with rapid inflation, unfunded mandates, growing enrollments, and declining federal support, flat funding will fall short of ensuring a maintenance of effort.

The question that will be answered in the coming months is which agencies will be able to cover rising costs with temporary belt-tightening measures, and which will be forced to cut back core public services and programs. As the Legislature left it up to agencies to grapple with flat funding levels, legislators, the media and the public

will now have to monitor closely the decisions that agencies make in the new budget year and the impact these decisions have on public programs and the clients and communities they serve.

This issue brief summarizes the main features of the FY '09 budget, examining what was funded and what was left unfunded in the budget agreement. We then explore some of the options agencies may consider to deal with funding gaps in the year ahead, including spending down reserves, leaving staffing vacancies unfilled, hiking user fees and cutting programs. We conclude by reviewing the state's fiscal outlook beyond the coming year, noting that if the Oklahoma economy is unable to resist the national economic downturn, this year's

budget woes are likely to deepen and lead to stark choices ahead.

I. Revenues on the Skids

Oklahoma funding decisions for the upcoming budget year are based upon revenue estimates that are certified by the State Board of Equalization. The Equalization Board issues a preliminary certification in December upon which the Governor's budget is built, followed by a revised and binding certification in February.¹

This year, the Board certified an initial revenue estimate in December of \$7.066 billion, which was a slight increase over the current year budget. However, the revised and binding estimate that was certified in February came in at \$146 million lower than the initial estimate and left the Legislature with \$114 million less available to appropriate than was available last year.

The explanation for the state's declining revenue collections is complicated, as the aggregate decline is the



result of multiple revenue streams moving in different directions. However, unlike other states that are currently suffering budget downturns, Oklahoma's problems are not the direct consequence of a faltering economy. Oklahoma's economy continues to fare well, with state personal income rising by a healthy 6.6% in 2007 and the seasonally-adjusted unemployment rate reaching 3.2% in April 2008.² Collections from the sales tax, which tends to be the revenue source that most closely tracks overall economic performance, were 6.3% higher in the third quarter of the current fiscal year than for the same period last year. By contrast, a recent national study of state budgets found sales tax collections dropping nationally and in a majority of states compared to a year before.³ Similarly, Oklahoma's oil and gas revenues continue to grow strongly, reflecting the state's booming energy sector.

The drop in available revenues for FY '09 was primarily the result of stagnant or declining collections from the state's individual income tax and corporate income tax:

- *Individual income tax* revenues continue to fall because of the large, phased-in tax cuts approved by the Legislature in 2004, 2005 and 2006. Despite three years of robust economic growth, individual income tax collections to the General Revenue fund are projected to fall by more than \$200 million in FY '09 compared to FY '06 (Fig. 1). The major income tax cuts of recent years are projected to have a \$598 million revenue impact in FY '09 (Fig. 2). In addition, the share of income tax collections allocated to the General Revenue fund are lower in part because some revenues are now going directly to the State Regents for Higher Education to fund Oklahoma's Promise scholarship program (\$54 million in FY '09) and to the Transportation Department for the ROADS program (\$160 million in FY '09).

- *Corporate income tax* collections, which had almost doubled in FY '07, have dropped back down in FY '08 and FY '09 (Fig. 1). Corporate income tax collections to the General Revenue fund were initially projected at \$452 million for FY '08 and \$352 million for FY '09; these estimates were revised downwards to \$284 million for FY '08 and \$273 million for FY '09. Economic factors may be partly responsible for the drop in corporate income tax collections; however, given the record profits that many Oklahoma-based companies continue to report, it is more likely that the drop in corporate tax receipts reflect efforts that

corporations have taken to reduce their state tax liability.

**II. The Budget Agreement:
Hard Choices**

Because the final certified estimate provided less revenue than last year, constructing the FY '09 budget was an uphill struggle. Legislative leaders, the Governor, and advocacy organizations proposed a number of options for generating additional revenues, including tapping into the state's budget reserves in the Rainy Day Fund. While the Governor rejected use of the Rainy Day Fund for any purpose, the House, Senate and

Figure 1
Oklahoma General Revenue Collections by Major Tax,
FY '06 - FY '09 (in \$ millions)

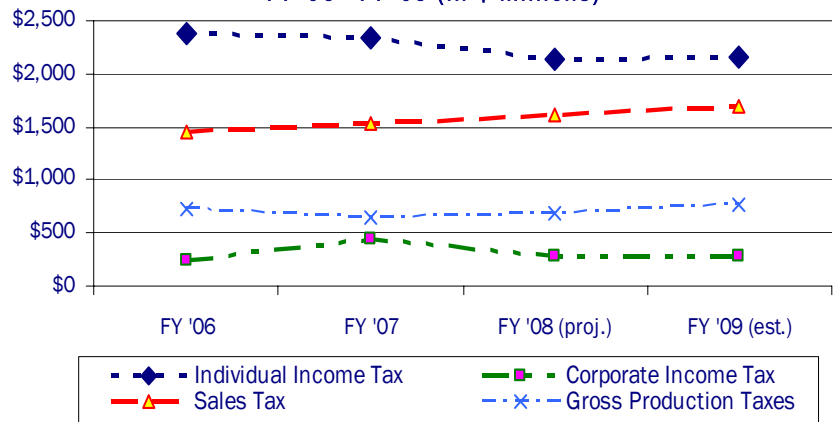


Figure 2
Lost Revenues from Select Income Tax Cuts Enacted 2004-2006
FY '05 through FY '10 (in \$ millions)

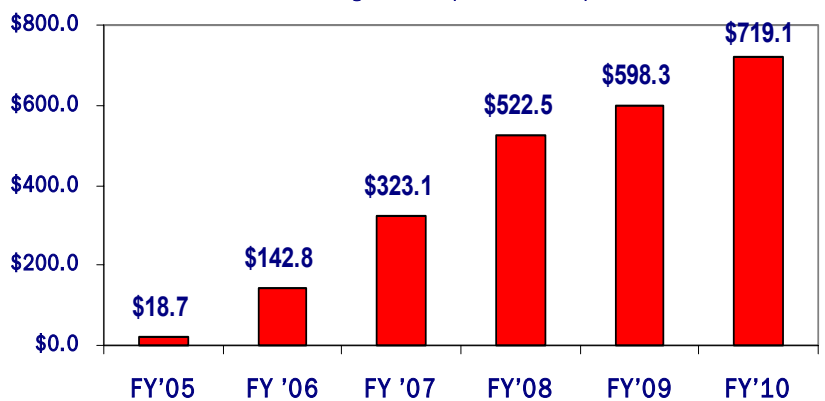
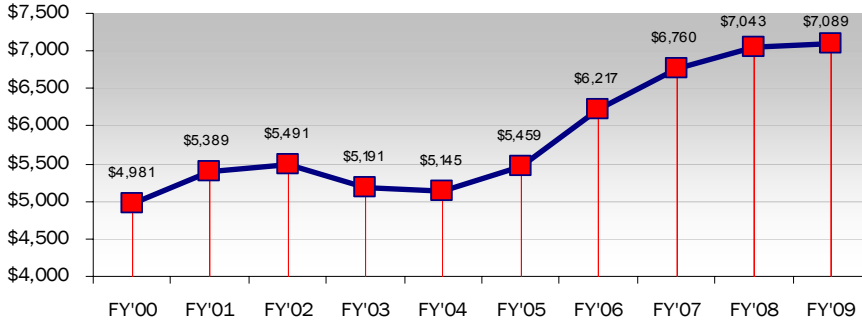


Figure 3
State Appropriations History, FY '00 - FY '09

(includes supplementals, excludes one-times from Rainy Day spillover funds)



Governor agreed on measures that made an additional \$281.3 million in non-certified revenue available for appropriations. The sources included the following:

- \$108.2 million from the revolving fund within the Oklahoma Health Care Authority (OHCA) that pays the state's share of Insure Oklahoma, the employer premium assistance health coverage program (SB 1353). Under the tobacco tax increase approved by the voters in 2004, 22.5% of increased tobacco tax revenues are allocated to this program. Because the program has served far fewer individuals than anticipated, the fund's balance had reached \$115 million. Most of this balance was reallocated to help fund OHCA's on-going operations in FY '09;
- \$103.9 million from the Cash Flow Reserve Fund that was transferred to the Special Cash Fund (SB 1365). These funds essentially represent money that became available when prior year collections came in over the 95% certification authority;
- \$40.7 million in projected revenues from a tax amnesty program

for delinquent taxpayers to be administered by the Oklahoma Tax Commission and from legislation closing off a corporate tax loophole associated with Real Estate Investment Trusts [SB 2034];

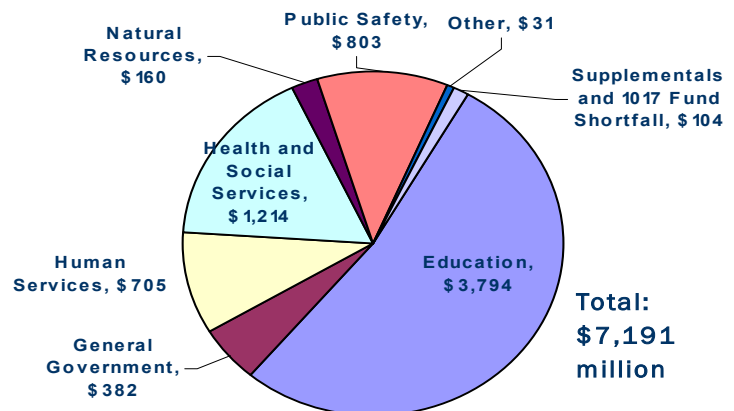
- \$16.0 million transferred from revolving funds administered by the Secretary of State's Office (SB 1236) and by the Oklahoma Department of Commerce, from the settlement of a lawsuit against WorldCom (HB 227, s.126);
- \$12.5 million in additional tobacco settlement payments (SB 1353).

Of the total available revenue, agencies received appropriations of \$7.089.3 billion for the upcoming budget year. This represents an increase of just \$47.7 million (0.7%) over the current year's final budget, including supplemental appropriations (see Fig. 3).⁴

Appropriations for FY '09 for most of the state's 80 appropriated agencies were left unchanged from FY '08, or were decreased to reflect the removal of one-time expenditures for such things as capital expenditures or IT upgrades [see pp. 8-9 for a comparison of agency funding levels in FY '08 and FY '09]. Twenty-seven agencies received increases in their state appropriations in FY '09. The largest funding boost was directed to the Oklahoma Health Care Authority, which received a \$70.4 million increase to replace lost federal support (\$38.0 million), replace carryover funds (\$15.0 million) and fund anticipated enrollment growth and utilization increases (\$14.0 million). Other substantial funding increases included:

- \$23.1 million to Common Education, Career Tech and Higher Education to fund mandated contribution increases for the Teachers' Retirement System;

Figure 4
Where Did the \$\$\$ Go? (in \$ Millions)



- \$2.9 million to the District Attorneys' Council for the funding formula;
- \$2.0 million to the Tax Commission for lawsuit expenses and operational increases.

A number of small agencies, including the Commission on Children and Youth, the Ethics Commission and the Civil Emergency Management Administration, had their funding boosted by over 10% to respond to pressing needs.

In the waning days of the session, leadership reached agreement on a \$475 million bond issue. The package included \$300 million for road and bridge improvements and \$100 million for endowed chairs at state colleges and universities, along with \$25 million apiece for construction of the Native American Cultural and Education Center, low river dams along the Arkansas River, and flood control projects. The agreement called for the transportation bonds to be serviced with growth revenues from motor vehicle fee collections. There was \$8.2 million appropriated for part-year funding in FY '09 of debt service payments on the bonds for the other purposes.

In addition, last-minute agreements between the House, Senate and Governor led to a final \$12.3 million being allocated between 16 agencies. In most cases additional funds were targeted for priority projects, such as biofuels research and a Tulsa homeless shelter, although a few agencies were helped with general operating costs.

While the Legislature managed to find enough money to fund some key obligations, many identified needs and priorities were left out of the budget agreement. The Legislature was unable to:

- Increase teacher salaries to move towards the regional average in teacher pay. The Governor's budget had proposed a \$1,200 pay raise for teachers at a cost of \$65 million to meet the goal of raising Oklahoma teacher pay to the regional average;
- Provide pay raises for state employees. The Governor's budget had proposed a 5% raise effective January 1st, 2009 for state employees, who have received only two pay raises in the last eight years;
- Fund the growth in the state's inmate population. The Department of Correction will receive \$3.6 million less in FY '09 than its current year budget. DOC projects a shortfall of \$17 million for the upcoming year without even considering projected growth of over 1,000 additional inmates during FY '09;
- Address critical staffing shortages in the child welfare system. Responding to chronic staffing problems and the filing of a new lawsuit, the Legislature gave preliminary approval to SB 1525, which called for the hiring of an additional 198 child welfare specialists "in order to implement caseload levels consistent with national models of excellence", but the bill was altered along the way and no new money was allocated to DHS.

III. The Year Ahead:

Standing Still or Falling Back?

The key question facing state agencies is whether flat funding for the year ahead will allow for a genuine maintenance of effort, or will instead lead to cuts in programs and services. A num-

ber of factors will constrain the ability of agencies to maintain existing service levels with flat funding.

In the first place, even as overall appropriations levels were rising in recent years, the Legislature failed to properly fund agencies to cover mandated benefit contributions and increases in operating costs. This problem has several components:

- The rising cost of employee health insurance has posed the greatest burden on state agencies. Between FY '03 and FY '08, the total cost of state employee health insurance *more than dou-*

“ Even as overall appropriations levels were rising in past years, the Legislature failed to properly fund agencies to cover mandated benefit contributions and increases in operating costs.

bled from \$186 million in FY '03 to \$394 million in FY '08.⁵ But only in one year (FY '05) were agencies appropriated additional dollars to help absorb rising health care costs;

- In the case of pension benefits, the Legislature has mandated annual increases in the share of salary dedicated to the Oklahoma Public Employees Retirement System (OPERS) – from 10% in FY '05 to 13.5% in FY '08 (and rising to 16.5% by FY '11). Agencies have been left to absorb these mandated retirement contribution increases without additional ap-

propriations. Since FY '05, contributions to OPERS for all agencies will have risen by \$66 million (see Table 1). Increased retirement contributions between FY '05 and FY '08 amount to \$15.2 million just for the Department of Human Services and \$12.2 million for the Department of Corrections;⁶

- Agencies have received little or no assistance for several years of increases in general operating expenses for fuel, utilities, postage, contract labor, building maintenance, etc. The Department of Education, for example, has calculated that the cost of school operations, including operation of buildings, vehicle operations and maintenance, care and upkeep of grounds and security, rose by \$87 million between FY '05 and FY '07.⁷ The State Aid formula has not been funded for those increases.

The failure to fund increased operating expenses and mandated benefits means that *most agencies are already in a situation where funding levels fall short of ongoing expenditures.* Ongoing inflationary pressures ensure that

this situation will get even worse. The Bureau of Economic Analysis' price index for state and local government rose by 6.2 percent in the fourth quarter of 2007, which was 3.6 percentage points above the analogous measure for the national economy.⁸ Inflation affects government as a purchaser of such things as fuel for school buses and food for school nutrition programs, asphalt and general construction for roads, utilities for public buildings, and medical care for the indigent. As noted in a recent report by the Nelson A. Rockefeller Institute of Government, "other things being equal, high rates of inflation for state and local expenditures imply a reduced level of services for a given level of taxpayer resources."⁹

Actions in Washington will also strain agency budgets. Oklahoma is particularly hard hit by the declining federal match for its Medicaid expenditures. Efforts by the Centers for Medicaid and Medicare Services to disallow traditional expenditures from Medicaid coverage may also shift more of the funding burden for Oklahoma's Medicaid program onto the state. In addition, programs and funding streams in such areas as workforce training, vio-

lence prevention, public health, emergency preparedness and disaster management are all facing potential federal cuts, putting greater strains on state resources.

The Legislature provided little direction to agencies for how to keep their budgets in balance over the coming year, which begins on July 1st. Agen-

“ As noted in a recent report by the Nelson A. Rockefeller Institute of Government, “other things being equal, high rates of inflation for state and local expenditures imply a reduced level of services for a given level of taxpayer resources.

cies differ greatly in their ability to make it through the year on flat funding based on their current financial situation, their range of funding streams, and the extent to which they are affected by rising costs and growing demand for their services.

Depending on their particular budgetary circumstances, agencies may deal with shortfalls by adopting one or more of these strategies:

- *Drawing down carryover funds.* Agencies that have been able to build up unspent balances during recent good years will be able to draw down carryover funds to help maintain services during FY '09. However, the use of carryover is generally only a one-time option and can create larger holes for future years. The FY '09 budget agreement expressly includes FY '08 carryover from the

Table 1: Contributions to Oklahoma Public Employees Retirement System by State Agencies, FY '05–FY '09

Fiscal Year	Covered Payroll (in \$millions)	Contribution Rate	Contributions (in \$millions)
FY '05	\$1,142.8	10.0%	\$114.3
FY '06	\$1,227.9	11.5%	\$141.2
FY '07	\$1,299.0	12.5%	\$162.4
FY '08 (projected)	\$1,335.6	13.5%	\$180.2
FY '09 (estimated)	\$1,368.9	14.5%	\$198.5

Source: Oklahoma Public Employee Retirement System

Oklahoma Health Care Authority (\$20 million), Department of Human Services (\$20 million) and Department of Mental Health and Substance Abuse Services (\$5 million) as part of these agencies' FY '09 base budgets;

- *Trimming operating expenses.* Faced with rising costs and flat funding, most agencies will likely adopt various belt-tightening measures to limit spending, including deferring all non-essential purchases and maintenance, limiting agency travel, and allowing staffing vacancies to go unfilled. It is not clear whether any agencies will have to go further and adopt voluntary buy-out or mandatory reduction-in-force plans to get through the year;
- *Cutting back on services.*⁹ While most agencies will try to avoid cuts in services to the public, there are already indications of how flat funding may unavoidably entail service reductions. The Department of Human Services, for example, which needs some \$12 million to address projected caseload growth in the ADvantage home- and community-based waiver program for the aged and persons with disabilities, is looking at capping benefits for those already in the program and establishing a waiting list for future applicants. The SoonerStart program, which provides early intervention services to pre-school children with identified developmental delays, is looking at benefit cuts that could leave the program out of compliance with federal requirements and at risk of lawsuits. Some school districts may be unable to rehire first-year teachers and may cut back or eliminate student field trips due to fuel costs. As agencies begin to submit their budget work plans for

the new fiscal year beginning July 1st, additional examples of service cuts will likely emerge;

- *Hiking user fees:* Some state agencies will attempt to pass on increased costs by raising fees and charges. The University of Oklahoma has already signaled its intention to boost tuition by 10% for the 2008-09 school year, with other higher education institutions likely to follow suit with similar, or larger, increases. The Labor Department was able to obtain legislative approval for fee increases for boilers and pressure vessel inspections. Other agencies that have the authority to raise fees via administrative rules rather than requiring legislative approval may consider doing so over the course of the year.

We do not yet know what strategies agencies will adopt to balance their budgets over the coming year. It will require close attention and monitoring to understand what decisions are being taken, and what the effects are of these decisions on public programs and the clients and communities they serve.

IV. Budget Forecast:

If It Rains, Expect to Get Drenched

Oklahoma is not alone in facing a tight budget year ahead. The most recent report from the National Conference on State Legislatures states that, "With a few exceptions, state finances are deteriorating, in some cases considerably."¹¹ The Center on Budget and Policy Priorities counts twenty-eight states as facing shortfalls in their budgets for the coming fiscal year.¹² As in Oklahoma, slowing revenue growth is primarily responsible for the states' budget woes. However, most other states that are experiencing sagging revenue collections have already been hit by the downturn in the national economy.

We cannot predict whether the recent anemic performance of the national economy

will continue and if so, when and to what extent Oklahoma will be affected. On the one hand, Oklahoma's economy is benefiting from soaring commodity prices in the energy and agriculture sectors and is somewhat less affected by the bursting of the housing bubble. This situation recently led Forbes Magazine to label Oklahoma City the nation's most "recession-proof" city.¹³ On the other hand, it is

“ While most agencies will try to avoid cuts in services to the public, there are already indications of how flat funding may unavoidably entail service reductions.

unlikely that Oklahoma can be spared the effects of a prolonged or deep national downturn. The last forecast from OSU's Center for Applied Economic Research notes that "the state is not immune to national economic conditions," and predicts slowing job and income growth in 2008 and 2009.¹⁴ During the last national economic slowdown of 2001-02, Oklahoma held out longer than most states but was eventually hit by the downturn.

If the national economy rebounds quickly, then this year's budget woes may prove a brief and forgettable hiccup. But what if the state's relative immunity to the nation's recent economic ailments begins to wear down and a weakening economy infects state tax collections? Is the state well-positioned to weather a brewing budget storm, or can Oklahoma expect to suffer major damages?

Overall, our assessment is that any kind of economic downturn will greatly

exacerbate the state’s current budget challenges and create major shortfalls for FY ’10.

The best guide for the future may be the past. The state’s last budget downturn of 2002-04, which accompanied a relatively mild and short-lived economic downturn, led to a cumulative budget shortfall of some \$1.2 billion. Even with federal fiscal relief, an automatic income tax increase, and other revenue enhancements, the state was forced to enact deep cuts to schools, Medicaid, social services and public safety to balance its budget during those three tough years. Adjusting for budget growth and policy changes, a budget downturn comparable in magnitude to the last one would create a shortfall of just under \$2 billion in the years ahead.¹⁵

There are several factors in the near-term budget outlook that seem likely to intensify the magnitude of any downturn and reduce the chances of weathering the storm without deep and painful budget cuts:

- Next year’s budget includes over \$180 million in one-time revenues and carryover funds that are being used for on-going operating costs. This creates a rather substantial hole to be filled in building the FY ’10 budget. The Oklahoma Health

Care Authority’s budget alone has \$128 million in non-recurring revenue that will have to be replaced in FY ’10. In addition, the Legislature will need to annualize the funding set aside for debt service payments on the 2008 bond package.

- It is already known that federal Medicaid support will decline yet again in FY ’10. According to projections by Federal Funds Information for States (FFIS), Oklahoma’s federal Medicaid matching rate will fall from 65.90 in FFY ’09 to 65.31 in FFY ’10. FFIS calculates the impact of this drop to be some \$30 million in lost federal revenue for SFY ’10.¹⁶
- The tax cuts approved from 2004-07 will continue to phase in. In tax year 2009, the standard deduction increases from \$6,500 to \$8,500; more seniors become eligible to exempt their retirement income from the income tax; and the estate tax exemption increases from \$2 million to \$3 million. These tax cuts are projected to decrease tax revenues by up to \$100 million in FY ’10.

The main ground for optimism about Oklahoma’s budget situation entering a potential economic downturn is the size of the reserves that have accumulated in the

state’s Rainy Day Fund. Currently the RDF has a balance of \$571.6 million, its highest ever (see Figure 5). Under Article 10, Section 23 of the Constitution, withdrawals from the Fund are subject to the following rules:

- Up to 3/8th can be spent to cover gaps when revenue collections for the current fiscal year fall short of appropriated amounts;

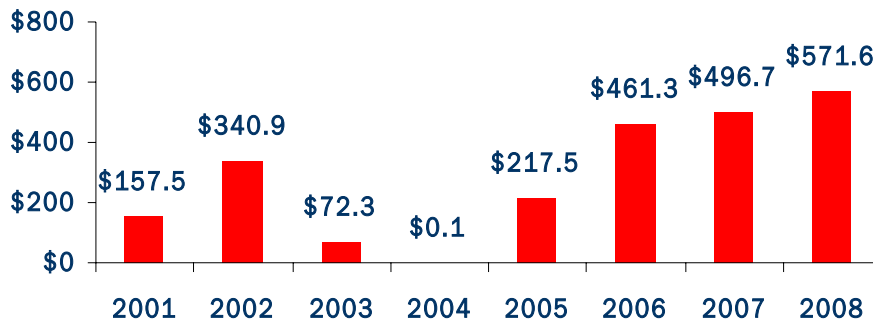
“ While a robust RDF balance can significantly mitigate the impact of a budget downturn, we should not expect budget reserves to be sufficient.

- Up to 3/8th can be spent to cover a decline between current year General Revenue certification and projected General Revenue certification for the upcoming year; and/or
- Up to 1/4th can be spent upon the declaration of an emergency by the Governor with legislative concurrence.

The Rainy Day Fund was left off the table in this year’s budget negotiations in favor of raiding OHCA’s premium assistance fund to the tune of \$108 million (see discussion on p. 3).

While a robust RDF balance can significantly mitigate the impact of a budget downturn, we should not expect budget reserves to be sufficient. If the projection of a \$2 billion shortfall based on the assumption

Figure 5
Rainy Day Fund Balances, FY '01 - FY '07 (opening balance in \$ millions)



Continued on p. 10

FY '08 and FY '09 Appropriations by Agency

	Final FY '08 (1) <small>(includes supplementals)</small>	FY '09 (2)	Difference
Subcommittee on Education			
Arts Council	5,150,967	5,150,967	-
Career and Technology Education	156,241,984	158,269,736	2,027,752
Education, State Department of (3)	2,530,403,412	2,531,702,553	1,299,141
Educational Television Authority	8,394,383	8,394,383	-
Higher Education, Regents for (4)	1,076,770,669	1,039,886,280	(36,884,389)
Land Office, Commissioners of	4,864,881	4,864,881	-
Libraries, Department of	7,294,856	7,294,856	-
Physician Manpower Training Comm.	5,523,502	5,523,502	-
Private Vocational Schools, Board of	-	193,304	193,304
Science & Math, School of	7,597,512	7,985,737	388,225
Science & Technology, Center for	22,456,507	22,456,507	-
Teacher Preparation, Commission on	2,059,982	2,059,982	-
Subcommittee Total	\$3,826,758,655	\$3,793,782,688	(\$32,975,967)
Subcommittee on General Government			
Auditor and Inspector	6,315,269	6,315,269	-
Bond Advisor	186,419	186,419	-
Central Services, Department of	19,053,697	18,713,175	(340,522)
Civil Emergency Management Admin.	836,604	1,156,604	320,000
Election Board	7,785,988	6,805,988	(980,000)
Ethics Commission	517,960	667,960	150,000
Finance, Office of State	23,081,434	23,081,434	-
Governor	2,661,981	2,661,981	-
House of Representatives	19,176,434	19,176,434	-
Legislative Service Bureau	4,887,349	5,537,349	650,000
Lt. Governor	693,197	659,597	(33,600)
Merit Protection Commission	648,684	613,684	(35,000)
Military, Department of	13,654,939	13,132,301	(522,638)
Personnel Management	4,891,745	4,891,745	-
Secretary of State	530,517	380,517	(150,000)
Senate	14,699,125	14,699,125	-
Space Industry Development Authority	530,340	530,340	-
Tax Commission	48,201,340	50,201,340	2,000,000
Transportation, Department of	217,869,721	207,691,448	(10,178,273)
Treasurer	4,668,763	4,668,763	-
Subcommittee Total	\$390,891,506	\$381,771,473	(\$9,120,033)
Subcommittee on Human Services			
Children and Youth, Commission on	2,334,473	2,608,473	274,000
Disability Concerns, Office of	412,769	412,769	-
Human Rights Commission	710,226	710,226	-
Human Services, Department of	557,107,190	559,107,190	2,000,000
Indian Affairs, Commission of	258,466	258,466	-
Juvenile Affairs	112,110,812	112,254,258	143,446
Rehabilitation Services, Department of	29,539,374	30,053,770	514,396
Subcommittee Total	\$702,473,310	\$705,405,152	\$2,931,842
Subcommittee on Health and Social Services			
Health Care Authority	771,709,298	842,122,261	70,412,963
Health, Department of	73,786,143	75,028,113	1,241,970
J.D. McCarty Center	4,452,961	4,452,961	-
Mental Health & Substance Abuse Services	209,529,129	209,579,129	50,000
University Hospitals Authority	41,865,342	43,250,342	1,385,000
Veterans Affairs, Department of	40,282,600	40,282,600	-
Subcommittee Total	\$1,141,625,473	1,214,715,406	\$73,089,933

Continued on p. 9

FY '08 and FY '09 Appropriations by Agency—cont.

	Final FY '08 (1) (includes suppl.)	FY '09	Difference
Subcommittee on Natural Resources and Regulatory Affairs			
Agriculture, Department of	33,678,049	34,540,185	862,136
Centennial Commission	1,066,511	-	(1,066,511)
Commerce, Department of	28,104,894	30,934,772	2,829,878
Conservation Commission	9,187,084	10,292,962	1,105,878
Consumer Credit, Department of	669,042	669,042	-
Corporation Commission	18,370,533	12,415,417	(5,955,116)
Environmental Quality, Dept. of	9,728,096	9,728,096	-
Historical Society	14,687,451	14,967,451	280,000
Horse Racing Commission	2,669,568	2,669,568	-
Insurance Commissioner	2,515,943	2,515,943	-
J.M. Davis Memorial Commission	535,403	385,403	(150,000)
Labor, Department of	3,760,284	3,760,284	-
Mines, Department of	1,013,586	1,013,586	-
Scenic Rivers Commission	345,322	345,322	-
Tourism and Recreation, Department of	27,826,991	28,041,991	215,000
Water Resources Board	6,801,524	6,801,524	-
Will Rogers Memorial Commission	1,083,702	933,702	(150,000)
Subcommittee Total	\$162,043,983	\$160,015,248	(\$2,028,735)
Subcommittee on Public Safety			
Alcoholic Beverage Laws Enforcement	3,925,266	3,925,266	-
Attorney General	13,944,449	14,781,704	837,255
Corrections, Department of	506,619,998	503,000,000	(3,619,998)
Court of Criminal Appeals	3,489,631	3,474,527	(15,104)
District Attorneys and DAC	39,920,210	42,820,210	2,900,000
District Courts	57,674,778	58,067,785	393,007
Fire Marshal	2,270,855	2,270,855	-
Indigent Defense System	16,304,008	16,734,008	430,000
Investigation, State Bureau of	17,316,450	17,316,450	-
Judicial Complaints, Council on	283,729	283,729	-
Law Enforcement Education and Training	4,410,370	4,614,370	204,000
Medicolegal Investigations, Board of	4,825,625	4,825,625	-
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	98,370,391	97,170,391	(1,200,000)
Supreme Court	19,420,570	19,247,063	(173,507)
Workers' Compensation Court	5,242,033	5,259,801	17,768
Subcommittee Total	\$803,369,839	\$803,143,260	(\$226,579)
Other Appropriations			
REAP	15,500,000	15,500,000	-
Governor's Emergency Fund		15,000,000	15,000,000
Others Total	\$15,500,000	\$30,500,000	\$15,000,000
TOTAL	\$7,042,662,766	\$7,089,333,227	\$46,670,461

Notes: (1) FY '08 excludes one-time appropriations from Rainy Day Fund spillover funds

(2) FY '09 appropriations for some agencies subject to Governor's approval of bills passed on the final day of session

(3) Dept. of Education was appropriated \$56.9 million to make up for FY '08 revenue shortfalls - excluded from totals

(4) Funding for Higher Education in FY '09 excludes \$54 million for OHLAP. Higher Education received \$48 million in appropriations for OHLAP in FY '08

of a downturn similar in magnitude to the last one is roughly accurate, spending down budget reserves may make up for some one-quarter to one-third of a prospective shortfall.

The other ground for hope is the possibility of fiscal relief from the federal government. During the last downturn, the magnitude and impact of the state's budget shortfall were eased by federal fiscal relief. As part of a \$20 billion national package, Oklahoma received \$219 million in federal funds, divided between an unrestricted grant (\$117 million) and enhanced federal Medicaid matching rates (\$102 million).

When it approved the federal stimulus package in January, Congress turned down entreaties from the state to include state fiscal relief. However, Congress may well consider a second stimulus package if the national economic picture fails to improve. National groups representing state governments and advocates for the needy are already lobbying vigorously for fiscal relief in the form of direct grants to the states and enhanced Medicaid funding.¹⁷

REFERENCES

¹For a full overview of the budget process, see the 2008 Legislative and Budget Process Overview prepared by the Alliance for Oklahoma's Future, available at www.okpolicy.org

²Personal income figures are from the Bureau of Economic Analysis at <http://www.bea.gov/regional/spi/default.cfm?satable=summary>; state unemployment rates are from the Bureau of Labor Statistics at <http://www.bls.gov/news.release/laus.nr0.htm>

³Donald J. Boyd and Lucy Dadayan, "State Revenue Flash Report: Sales Tax Declines in Most States", Rockefeller Institute of Government, May 1, 2008 at <http://www.rockinst.org/publications/subpage.aspx?id=14786>

⁴The Legislature also approved \$46.7 million to be used for FY '08 supplements, including \$24.0 million to the Department of Corrections, \$17.6 million to the Department of Education, \$2.0 million to the Office of Juvenile Affairs and \$3.1 million to the Corporations Commission. An additional \$56.9 million was appropriated to make up for shortfalls in FY '08 collections in the HB 1017 fund earmarked for common education.

⁵Data supplied by Employees Benefit Council.

⁶Data supplied by OPERS and DHS.

⁷Oklahoma Department of Education, "Fiscal Year 2009 Budget Request"

⁸Bureau of Economic Analysis data cited in Lucy Dadayan and Robert B. Ward, "State Tax Revenues Weaken Still Further, While Costs Rise Sharply", Nelson

A. Rockefeller Institute of Government, State Revenue Report, No. 71, March 2008 at <http://www.rockinst.org/publications/subpage.aspx?id=14558>

⁹Ibid, p. 11.

¹⁰This paragraph draws on published news reports and information supplied to the author by state agencies.

¹¹National Conference of State Legislatures, "State Budget Update: April 2008", April 2008 at <http://ncsl.org/programs/fiscal/sbu200804.htm>

¹²Elizabeth C. McNichol and Iris Lav, "25 States Face Total Budget Shortfall Of At Least \$40 Billion In 2009; 6 Others Expect Budget Problems", Center on Budget and Policy Priorities, updated April 25, 2008 at <http://www.cbpp.org/1-15-08sfp.htm>

¹³Don Mecoy, "Oklahoma City named as 'recession-proof'", Oklahoman, May 2, 2008

¹⁴Mark C. Snead, *April Forecast Update: U.S. Conditions Weaken, State Continues to Outperform*, Center for Applied Economic Research, Oklahoma State University William S. Spears School of Business, April 4, 2008

¹⁵See Alliance for Oklahoma's Future, *Confronting Leaner Times: Options for Addressing State Budget Shortfalls*, March 2008 at: http://www.okpolicy.org/files/shortfalls_brief_Fin.pdf

¹⁶FFIS, "Issue Brief 08-16: Updated FY 2010 FMAP Projections", March 26, 2008.

¹⁷See the statement by the National Governors' Association calling for \$12 billion in fiscal relief at: <http://www.nga.org/Files/>

OKPOLICY.ORG

Better Information, Better Policy

OUR MISSION

Oklahoma Policy Institute (OK Policy) is committed to advancing policies aimed at alleviating poverty, expanding economic opportunity and promoting fiscal responsibility. To that end, OK Policy conducts objective analysis of state policy issues in order to better position Oklahoma to become a more prosperous, better educated, healthier and increasingly equitable state.

CONTACT US

OKLAHOMA POLICY INSTITUTE
228 ROBERT S. KERR, SUITE 750
OKLAHOMA CITY, OK 73102
405-601-7692
INFO@OKPOLICY.ORG