

Governor's Budget Reveals Funding Squeeze Ahead

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SUMMARY

Governor Brad Henry's \$7.3 billion fiscal 2009 budget reflects the struggle ahead, as rising costs and slowing revenues translate into possible cuts in vital public services. On the positive side, the budget would cover cost increases for some essential programs and provides new funding for selected initiatives in education, economic development and public safety. However, the budget underfunds or neglects some important obligations and, in some cases, relies on uncertain cost-saving and revenue-generating measures to remain in balance.

REVENUES

Permanent tax cuts passed in recent years continue to dampen revenue growth, resulting in a modest four percent increase in the Governor's fiscal 2009 budget. In addition to the revenue certified by the Board of Equalization in December, the Governor's budget proposes to generate an additional \$261 million for appropriation in FY '09 from a variety of sources. Of these sources, some appear straightforward and uncontroversial, such as the \$104 million that would be transferred from the Cash Flow Reserve Fund. Others are potentially problematic. These include:

- raising some \$30 million from a "taxpayer compliance initiative" that includes waiving penalties on delinquent taxpayers and closing a corporate tax avoidance loophole;
- generating over \$80 million in agency "efficiencies and savings" from procurement, technology and human resource reforms, as well as cutting agency allocations for employee benefits; and
- transferring \$35 million from various other funds;

Whether the Legislature will be willing to adopt these measures—and whether they could generate the additional revenues and savings estimated in the budget—remain open to question.

The Board of Equalization will meet in mid-February to certify a revised and final revenue estimate.

COST INCREASES AND SPENDING INITIATIVES

The Governor's budget includes some \$310 million in spending increases compared to the base current year budget. These are premised on the availability of additional revenues as proposed above. The largest budget increases are for the following (in \$millions):

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| √ Teacher salary increases (average \$1,200): \$68.5 | √ Corrections inmate growth: \$13.7 |
| √ Declining federal Medicaid match: \$42.5 | √ Higher ed institutional operations: \$13.0 |
| √ State employee pay raise (effective Jan 1, 2009): \$32.7 | √ Replace Medicaid carryover funds: \$12.0 |
| √ Teacher retirement fund increases: \$24.5 | √ Common ed state aid formula: \$10.0 |
| √ Medicaid enrollment and utilization increases: \$17.7 | √ Langston University urban education initiative: \$10.0 |

HOLES AND UNADDRESSED NEEDS

Even assuming additional uncertified revenues, the Governor's budget did not recommend funding several key priorities and obligations. These are among the potential holes that could, if unaddressed, force agencies to implement budget cuts in the year ahead:

- DHS has requested \$12.1 million for caseload growth in ADvantage (the long-term care waiver program for seniors and persons with disabilities), adoption assistance and family foster care. The Governor's budget, however, appropriates just \$5 million in additional revenue for DHS programs;
- The Oklahoma Health Care Authority's current year Medicaid budget includes \$45 million in one-time carryover, of which only \$12 million is replaced for FY '09;
- The budget has no additional funding to help agencies cover legislated increases in state employee pension costs due to take effect next year, nor to cushion the impact of rising fuel and utility costs;
- Education agencies are appropriated no money to address an anticipated \$15 million shortfall from the Lottery Trust Fund this year;
- The recent Department of Corrections audit recommended an additional \$30 million in FY '09 to operate prisons, but the Governor's budget allocates just \$14 million in new funds.