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FY '10 BUDGET REVIEW

SPECIAL POINTS OF INTEREST:

- Appropriations for the upcoming state budget year are 1.5 percent greater than the current year. Without stimulus funds, FY '10 appropriations are 7.1 percent less than the current year.
- Stimulus funds helped minimize or avert funding cuts to most large state agencies, whereas most smaller agencies had their funding cut by up to 7 percent.
- While the impact of funding decisions remains to be seen, the ability of most state agencies to fulfill their core missions will be constrained by budget cuts and funding gaps.
- It is likely that the budget outlook for FY '11 will be much like the current year's.

Federal Dollars Soften the Blow, but Funding Gaps and Hard Choices Remain

With the national economic downturn reaching Oklahoma and state revenues plunging, the Oklahoma Legislature approached the task of developing next year's budget, FY '10, facing a huge shortfall. Ultimately, however, legislative leaders and the Governor concluded a budget agreement that provided an overall funding increase of 1.5 percent compared to FY '09. The drop in state revenues was offset almost entirely by federal dollars from this year's stimulus bill. Just looking at state dollars, FY '10 appropriations were 7.1 percent less than in FY '09 (see Figure 1).

Most state agencies had their FY '10 appropriations reduced by 5 to 7 percent. However, some state agency budgets were held flat in FY '10, or received small cuts or small increases, reflecting the purposes associated with stimu-

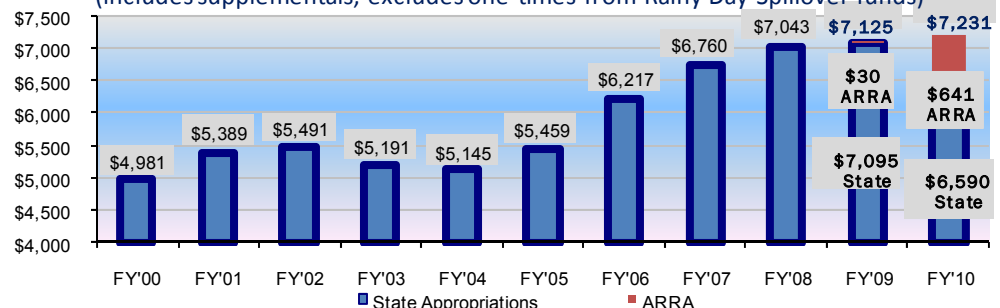
lus funds and decisions made by legislative leadership and the Governor. The ten largest state agencies, which together account for almost nine of every ten state appropriated dollars, were spared the full brunt of funding cuts, as were selected smaller agencies.

Despite the efforts to minimize the severity of budget cuts, all agencies face a tight and difficult year ahead as they wrestle with increases in mandatory operating expenses and, for some, rising caseloads in a downturn, with flat or reduced funding. Even the core agencies that were spared the full brunt of budget cuts expect to confront funding gaps that will have an impact on the services they provide to families, businesses, and communities and on their employees. Elimination or re-

ductions of programs, waiting lists, cuts in operations, fee increases, growing unfilled vacancies, and, potentially, employee furloughs and layoffs may be among the responses that agencies adopt to address their funding gaps.

This brief summarizes the main features of the FY '10 budget agreement, examining the major choices regarding revenues and expenditures that led to the final decisions on the budget. We then look ahead to explore two important questions: first, what may be the impact of the FY '10 budget on state agencies and the people they serve, and, second, what is the budget outlook for FY '11 and beyond?

Fig. 1: State Appropriations History, FY '00 - FY '10 (in \$ millions)
(includes supplementals, excludes one-times from Rainy Day Spillover funds)



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 certification in February that is binding on the Legislature as it works on developing the budget over the next several months.

This year, the Board certified an initial December revenue estimate of \$6,759.2 million, which was a decrease of \$309 million compared to FY '09 revenues. However, as economic conditions deteriorated over the end of 2008 and beginning of 2009, the revised and binding estimate that was certified in February was \$303 million lower than the initial estimate. This left the Legislature with \$612 million less available to appropriate than last year.

The steep drop in available revenues primarily reflects an anticipated drop in tax collections as the national economic downturn hits Oklahoma. Figure 2 compares estimated tax collections to the General Revenue Fund (GRF) for the five largest taxes in FY '10 compared to previous years. The graph shows a steep drop in anticipated collections from gross production taxes, the personal income tax, and

the motor vehicle tax compared to the pre-downturn levels of FY '08. Corporate income tax collections are expected to remain generally steady while sales tax revenues rise modestly.

While the struggling economy has primary responsibility for sagging revenue collections, two other factors also played a role in reducing the revenues available for appropriation in FY '10:

- The permanent tax cuts adopted by the Legislature while the economy was performing strongly between 2004 and 2007 continue to phase in. While a scheduled drop in the top personal income tax rate (from 5.5 percent to 5.25 percent) failed to take effect in 2009, other tax cuts did kick in.¹ In particular, the next stage in the multi-year increase in the standard deduction (available to tax filers who do not itemize deductions) had an estimated revenue impact for Tax Year 2010 of \$73.5 million; and
- Funding for transportation infrastructure through the ROADS program received an automatic increase of approximately \$64 million in FY '10.²

II. THE BUDGET AGREEMENT :

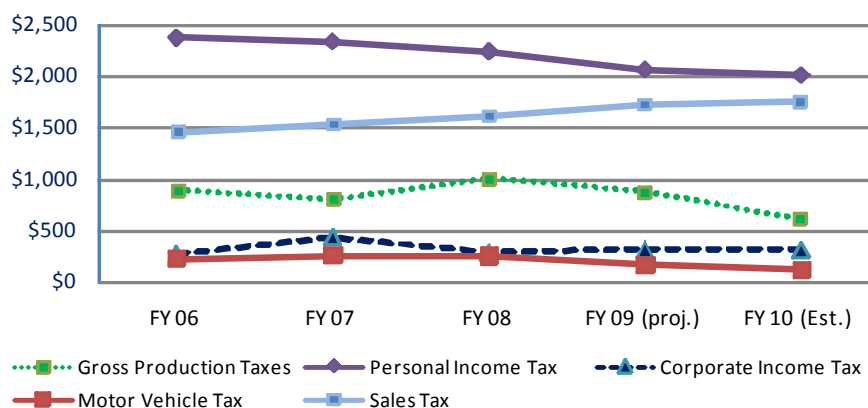
REVENUES USED AND UNUSED

This year's final FY '10 appropriations of \$7,231.2 million included some \$780 million in revenues that were not part of the February certification. Of this total, \$641 million came from federal funding included in the American Recovery and Reinvestment Act (ARRA), known as the stimulus bill, while the remaining \$139 million came from assorted state sources.³

ARRA included two funding streams intended to help support state budgets battered by the economic downturn and help states avoid or minimize cutbacks of vital public services, layoffs, tuition hikes, and tax increases.⁴ These were:

- *The State Fiscal Stabilization Fund (SFSF)*, which is divided into two components: 81.8 percent is earmarked exclusively for education, while 18.2 percent is general purpose funding that can be used for "other high priority needs such as public safety and other critical services, which may include education". Oklahoma was allocated \$472.8 in education stabilization funds and \$105.2 million in general purpose funds. The Legislature appropriated \$236.4 million in education stabilization funds, or exactly one-half of the total, for FY '10. The education funds were divided between common education (\$167.6 million) and higher education (\$68.8 million) proportionate to their FY '09 appropriation. The general

Fig. 2: Oklahoma General Revenue Collections by Major Tax, FY '06 - FY'10 (in \$ millions)



purpose state fiscal stabilization funds, which are considered to be up to the Governor's discretion, were left untouched, except for a \$10 million appropriation to the Health Care Authority.

- *Enhanced federal Medicaid matching funds (enhanced FMAP).* ARRA increased the federal share of Medicaid expenditures over a 27-month period, which began back in October 2008 and extends through December 2010. The total amount of enhanced FMAP funding is uncertain; it will depend on both the state's unemployment rate and the amount of the state's Medicaid expenditures. The Federal Funds Information for the States projects that Oklahoma will draw some \$950 million in additional federal Medicaid funds, but legislative staff projects that the total will be closer to \$800 million. The Legislature authorized agencies to spend \$394.7 million of enhanced FMAP in FY '10. The enhanced

FMAP funds were allocated to eight agencies that provide the state share for Medicaid services (see Table 1). The Legislature authorized most of these agencies to spend one-half of their estimated 27-month amount in FY '10, leaving the remaining half available for use in FY '11. In addition to the FY '10 enhanced FMAP allocation, the Legislature allocated \$30 million of enhanced FMAP to the Oklahoma Health Care Authority to cover shortfalls in its FY '09 budget.

The remaining additional revenues that were appropriated as part of the FY '10 budget included the following:

- \$75 million in available cash from prior year surpluses that was transferred to the Special Cash Fund (HB 1126);
- \$52.0 million in additional tax revenues generated by modifying income tax withholding requirements on employers, adopting new methods for collecting delinquent taxes, and assessing the

insurance premium tax on Compu-Source (SB 318), as well as increasing the late fees for renewing motor vehicle registrations (SB 658). Most of this amount is likely to be one-time revenue;⁵

- \$7 million in additional Tobacco Settlement payments;
- \$5.5 million transferred from revolving funds administered by the Secretary of State (HB 1186) and Treasurer (HB 1196).

It is worth noting that none of the state's Rainy Day Fund (RDF), which had accumulated a balance of \$597 million, was used to help cover funding gaps or minimize the extent of funding cuts in FY '10. The Constitution would have allowed up to \$224 million (three-eighths of the RDF balance) to be used to cover part of the decline in certified revenues in FY '10 and up to \$149 million (one-quarter) to be used upon declaration of an emergency. Governor Henry and legislative leaders rejected tapping the Rainy Day Fund when the first bleak revenue estimates were certified in December, and stuck to that position even when the budget

Table 1: Stimulus Funds Authorized in FY '10 Budget, by Agency

	FY '10 - State	FY'10 - ARRA	FY '10 - Total	% Stimulus
State Fiscal Stabilization Fund				
Education, State Department of	\$ 2,404,447,551	\$ 167,559,651	\$ 2,572,007,202	6.5%
Higher Education, Regents for	\$ 1,001,948,531	\$ 68,792,477	\$ 1,070,741,008	6.4%
sub-total State Fiscal Stabilization Fund*	\$ 3,406,396,082	\$ 236,352,128	\$ 3,642,748,210	6.5%
Enhanced FMAP				
Physician Manpower Training Commission	\$ 5,136,857	\$ 423,891	\$ 5,560,748	7.6%
Human Services, Department of	\$ 479,356,473	\$ 71,355,640	\$ 550,712,113	13.0%
Juvenile Affairs	\$ 111,689,909	\$ 698,669	\$ 112,388,578	0.6%
Health Care Authority*	\$ 663,336,492	\$ 316,460,502	\$ 979,796,994	32.3%
Health, Department of	\$ 73,030,278	\$ 1,330,652	\$ 74,360,930	1.8%
J.D. McCarty Center	\$ 4,089,389	\$ 363,572	\$ 4,452,961	8.2%
Mental Health & Substance Abuse Services	\$ 199,529,080	\$ 3,746,142	\$ 203,275,222	1.8%
University Hospitals Authority	\$ 33,176,659	\$ 10,316,683	\$ 43,493,342	23.7%
sub-total enhanced FMAP	\$ 1,569,345,137	\$ 404,695,751	\$ 1,974,040,888	20.5%
Total of Above Agencies	\$ 4,975,741,219	\$ 641,047,879	\$ 5,616,789,098	11.4%
Total of All Appropriated Agencies	\$ 6,590,111,524	\$ 641,047,879	\$ 7,231,159,403	8.9%
* OHCA received \$10 million from State Fiscal Stabilization Fund - General Purpose. Included in OHCA total. OHCA also received \$30 million in ARRA funds for FY '09, excluded from totals				

shortfall doubled in February. Using a portion of the Rainy Day Fund in FY '10 would have averted or minimized the cuts and funding gaps that agencies are facing in the year ahead. However, should revenue collections during the upcoming budget year fall short of appropriations, the decision to preserve the full RDF intact will mean that more money will be available to close this shortfall.⁶ The Rainy Day Fund is discussed further in Section V of this brief.

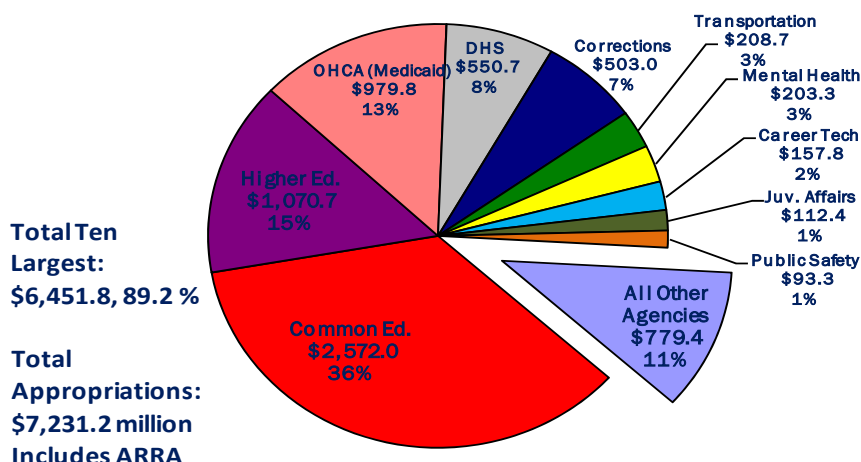
III. APPROPRIATIONS – WIELDING AND SPARING THE AXE

The Governor and legislative leaders agreed on the budget on May 15th, just one week before the scheduled adjournment date. During the final week of session, additional last-minute funding was allocated for several agencies and programs, most notably REAP (Rural Economic Action Plan) and the Department of Public

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Safety. When the final dust had settled, FY '10 appropriations for all agencies totaled \$7,231.2 million. This represented an increase of \$106.4 million, or 1.5 percent, compared to final FY '09 appropriations (including supplementals).⁷ In the absence of the \$641 million in stimulus funds injected into the budget, FY

Fig. 3: FY '10 State Appropriations by Agency (in \$ millions)



'10 appropriations would have been \$6,590.1 million, or \$504 million (7.1 percent) less than in FY'09.

The joint press release announcing the budget agreement from House Speaker Chris Benge, Senate President Pro Tem Glenn Coffee, and Governor Brad Henry stated that, “With the help of stimulus funds, we were able to protect a number of priority areas, including education, health care, transportation and public safety...”⁸ Stimulus money not only supplemented state revenues for education and health care agencies, but also freed up state dollars that then became available to shore up the budgets for agencies that were not allocated stimulus dollars. (The Appendix on pp. 10-11 compares FY '09 and FY '10 funding for each agency and shows the allocation of stimulus dollars).

Although there are several ways to explore how agencies fared under the FY '10 budget agreement, it is useful to compare the largest ten state agencies, which received 89 percent of state appropriations, with the remaining 68 agencies, which divided the remaining 11 percent (see Figure 3). This comparison shows the extent to

which cuts were concentrated on the smaller state agencies, while the largest agencies performing core functions in the areas of education, health, human services, public safety, and infrastructure had their funding levels largely protected.

- Of the ten largest agencies, only two received funding cuts greater than 2.5 percent (Public Safety, - 3.9 percent; Mental Health and Substance Abuse Services, - 3.0 percent, of which 1 percent was the removal of one-time funds), while five received appropriation increases, ranging from 0.1 percent for the Office of Juvenile Affairs to 12.3 percent for the Oklahoma Health Care Authority. The other three large agencies had their funding levels unchanged or cut less than 2.5 percent. Together, funding for these ten agencies increased \$161 million, or 2.6 percent, in FY '10. Of these ten agencies, six received stimulus funds.
- Of the 68 smaller agencies, 49 received funding cuts of greater than 4 percent. Only five received a funding increase, while the re-

maintaining 14 agencies had their funding frozen or took cuts of less than four percent. Together, funding for these agencies decreased \$54 million, or 6.5 percent, in FY '10. Of these 68 agencies, four received stimulus funds.

Overall, there were ten agencies that received funding increases in FY '10 compared to FY '09. Of these ten, the lion's share of the new dollars went to three agencies:

- Oklahoma Health Care Authority, +\$107.7 million, primarily to cover enrollment growth and utilization increases in the Medicaid program;
- Department of Education, +\$40.3 million, primarily for teachers' health care and retirement costs; and
- Regents for Higher Education, +\$30.9 million, for retirement costs and institutions' operating expenses to avoid tuition increases.

In addition, several agencies received additional dollars in FY '10 for priorities of legislative leadership or the Governor. The funding increases of at least \$1 million included the following:

- The Health Department received \$2.5 million as pass-through funding for Federally Qualified Health Centers serving the uninsured;
- The Department of Commerce received \$2.2 million for debt service and operating costs of the Native American Cultural and Educational Authority, and \$950,000 for bonds associated with base closures;

- The Treasurer's Office received \$2 million for state land reimbursements;
- The Department of Agriculture received \$1.2 million for Clear Water Act compliance;
- The Office of Juvenile Affairs received \$1 million for the Tulsa County Juvenile Justice Center; and
- The Department of Human Services received \$1 million to implement changes emerging from the child welfare audit.

IV. THE IMPACT OF THE FY '10 BUDGET

While appropriations bills and budget summaries provide us important information on funding levels and allocations, it is much harder for us to know at this point how appropriations decisions will translate into agency decisions about programs, services, and staffing over the coming year. The impact of FY '10 funding levels will vary considerably across agencies, based not only on the size of the funding cut or increase they received but also on such factors as whether they have managed to accumulate carryover in revolving funds, how much access they have to non-appropriated revenues through federal funds and user fees, and others. *However, with a few possi-*

ble exceptions, most or all state agencies are likely to face funding gaps in the upcoming budget year.

There are several components to the funding squeeze on agencies. In the first place, most agencies again received no funding to cover increased operating costs during the upcoming year, particularly the increased cost of employee retirement and health benefits:

- In the case of retirement costs, the employer contribution rate will rise to 15.5 percent in FY '10, up from 14.5 percent in FY '09 and 10.0 percent as recently as FY '05. As can be seen from Table 2, the Oklahoma Public Employment Retirement System (OPERS) estimates that agency retirement contributions will rise by \$19 million in FY '10 and will have risen by over \$100 million over five years. Even during the years when overall appropriations were rising, the Legislature largely failed to fund agencies to cover rising retirement contributions in OPERS. By contrast, the Legislature has upheld its commitment to fund increased contributions to the Oklahoma Teachers Retirement System the past two sessions.

Table 2: Contributions to Oklahoma Public Employee Retirement System by State Agencies, FY '04 - FY '10

Fiscal Year	Covered Payroll (in \$millions)	Contribution Rate	Contributions (in \$millions)
FY '04	\$1,055.74	10.0%	\$105.60
FY '05	\$1,142.80	10.0%	\$114.30
FY '06	\$1,227.90	11.5%	\$141.20
FY '07	\$1,299.00	12.5%	\$162.40
FY '08	\$1,337.78	13.5%	\$180.60
FY '09 (est.)	\$1,361.50	14.5%	\$197.42
FY '10 (est.)	\$1,395.60	15.5%	\$216.31

Source: Oklahoma Public Employees Retirement System

- Most agencies are also left to absorb rising employee health care costs out of existing resources. As we see from Figure 4, the cost of employee health care nearly doubled between 2004 and 2009. The cost for 2010 is not yet known, but some increase is again likely. While the Legislature provided \$27 million to the Department of Education to cover the increased health care costs of school employees in FY '10, health care increases for other agencies were again left unfunded.

In addition to employee benefit costs, agencies confront another year of rising costs for such items as fuel, utilities, postage, contract labor, building maintenance, etc. Even though inflation has subsided in recent months, it continues steadily to erode the ability of agencies to operate the same level of goods and services without additional revenues.

While costs are rising for all agencies, some are also confronting increased demands and rising caseloads as a result of the economic downturn, population trends, legislative mandates, and other factors. This is especially true of health and human service agencies, which were protected from the worst of the budget cuts but may still confront funding gaps in the year ahead. Some examples include:

- The Oklahoma Health Care Authority (OHCA) received funding for FY '10 sufficient to cover 2.5 percent growth in costs due to increased enrollment and utilization. OHCA now forecasts that the cost of operating the Medicaid program at existing eligibility and service levels may increase by closer to 7.5 percent next year. Should that occur, OHCA may face a significant funding shortfall.
- The Department of Human Services has stated that it will require \$23 million to cover increased participation in the ADvantage program, which provides home- and community-based services for the frail elderly and persons with disabilities as an alternative to nursing facilities, along with several million dollars for growth in adoption assistance payments. The agency's budget, however, was cut by \$8.4 million.
- The Department of Mental Health and Substance Abuse Services had requested \$24 million in additional state funds in FY '10 to maintain their existing programs at current service levels given increased costs and growing caseloads. It took a \$4.3 million cut (excluding one-time expenditures). At this time, however, the Department is hopeful that it can manage next year's budget without clients facing disruptions in service.

The Legislature provided little or no direction to agencies on how to keep their budgets in balance over the coming year, which begins July 1st. Depending on their particular budgetary circumstances, agencies may deal with funding gaps in a whole host of ways. For example:

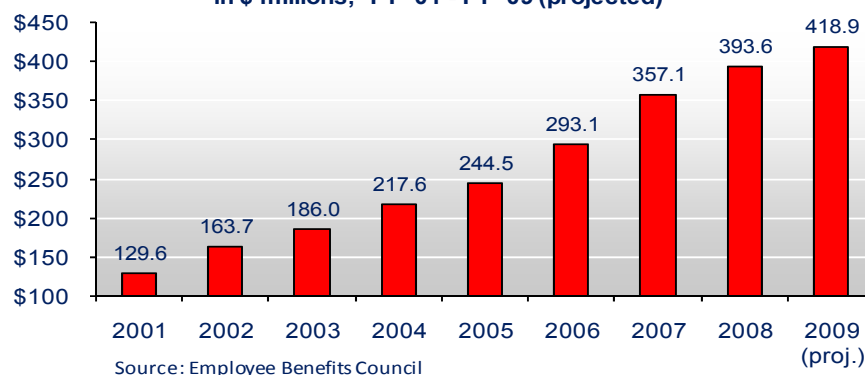
- Agencies that provide services to the general public, whether by

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operating state parks, museums, and libraries, dispensing licenses and certificates, or processing applications and tax returns, are likely to make up for budget shortfalls by reducing staffing levels, cutting back on their hours of operations, or closing facilities on an intermittent or ongoing basis. The Oklahoma Historical Society has already announced it will reduce the number of hours of operation of a dozen state museums and sites.⁹ The Department of Public Safety, which already stopped making available printed versions of driver instruction manuals last year, is cautioning that there will be fewer driver's license examiners due to unfilled vacancies.¹⁰

- Regulatory agencies, tasked with protecting public health and con-

Fig. 4 : State Employee Health Benefit Allowance, in \$ millions, FY '01 - FY '09 (projected)



sumer safety, are likely to provide fewer inspections of businesses, take longer to respond to consumer complaints, and, where they can, raise fees on businesses, consumers, and local governments. The State Health Department, for example, reported back in December that they were down to only two surveyors to inspect 250 assisted-living, residential care and adult day-care centers due to funding shortages.¹¹

- At least some programs that provide services to vulnerable and at-risk populations are likely to increase staffing caseloads, implement waiting lists and freeze or reduce program participation, cut reimbursement rates to community-based providers, and eliminate certain programs entirely.¹²
- While most agencies are likely to avoid mandatory furloughs and involuntary layoffs if at all possible, these options may become inevitable for agencies unable to balance their budgets through unfilled vacancies alone. Many agencies are already operating with a substantial number of unfilled vacancies; the State Health Department, for example, testified to the Legislature in March that rising costs for employee insurance and benefits have forced

the agency not to replace nearly 200 employees since September 2007.¹³

For some agencies – particularly the Department of Transportation, which is receiving substantial new funding from both the state and federal governments, and school districts that will benefit from a significant injection of Title I funding – the upcoming year may not pose significant challenges. But for most agencies, their ability to fulfill their core mission, whether ensuring public safety, administering justice, protecting consumers, providing arts and recreational opportunities, offering care to the needy, or educating students, will be constrained by budget cuts and funding gaps.

V. BEYOND NEXT YEAR

In making decisions about the FY '10 budget, legislative leaders and the Governor were keenly cognizant of the fact that Oklahoma has just begun to see the effects of a national economic downturn that is expected to be among the steepest and longest in decades. Throughout the budget process, they emphasized the need to think not only in terms of next year's budget but also the years after – FY '11 and FY '12. In this section, we consider the budget outlook for these coming years.

In looking at FY '11, there are grounds for both optimism and pessimism in the state's budget outlook. The good news

involves the following:

- Virtually all economic forecasters now agree that the recession will bottom out by mid- or late-2009, and that the recovery will begin later this year. Historically, while Oklahoma tends to enter recessions later than most states, the pattern is for us to participate in the recovery at a similar time as other states.¹⁴

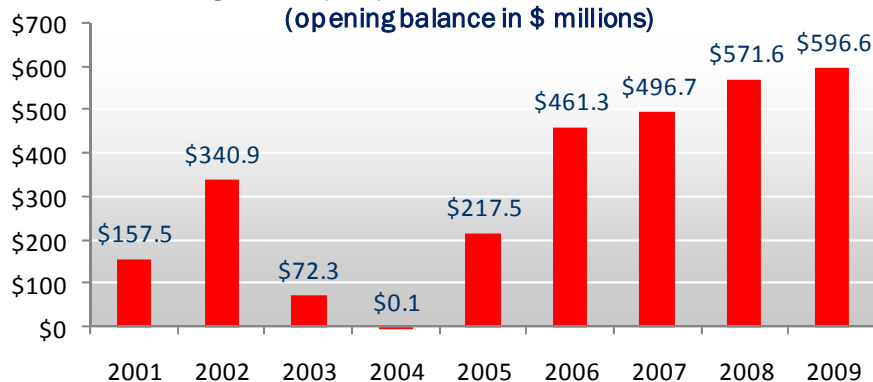
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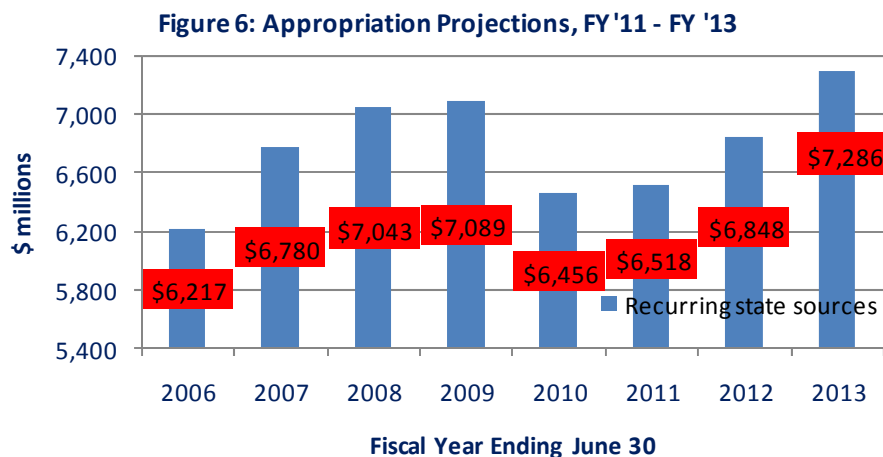
- From a revenue standpoint, the anticipated economic recovery suggests that revenue collections will bottom out in FY '10 (July 2009 to June 2010) and begin to rebound in FY '11.
- Along with some rebound in revenues in FY '11, Oklahoma budget makers will have access to stimulus dollars and to the Rainy Day Fund. There should be some \$700 million remaining of state fiscal stabilization fund and enhanced Medicaid dollars. As can be seen in Figure 5, the Rainy Day Fund has a balance of \$597 million as of June 30, 2009.

However, these positive factors affecting the FY '11 budget are offset by the following:

- Revenues are likely to only recover partially in FY '11. As

Fig. 5: Rainy Day Fund Balances, FY '01 - FY '09
(opening balance in \$ millions)





Source: Oklahoma Board of Equalization for 2006-10, Oklahoma Policy Institute projections for 2011-13

shown in Figure 6, we forecast that it will not be until at least FY '12, and likely FY '13 before revenues fully return to their pre-recession (FY '08) levels, even without adjusting for inflation.¹⁵

- Additional tax cuts slated to take effect in Tax Year 2010 will dampen revenue collections in FY '11. This includes the final phase-in of the state standard deduction to equal the federal amount, the full repeal of the estate tax, larger exemptions of retirement income, and this year's measure to exempt military earnings from state income tax. In addition, under current law, if General Revenues are projected to grow by more than 4 percent in FY '11 compared to the FY '10 GR estimate, the top personal income tax rate automatically falls from 5.5 percent to 5.25 percent. This tax cut alone would reduce FY '11 revenue by over \$100 million.
- Finally, if revenues are projected to increase in FY '11, then most of the Rainy Day Fund becomes untouchable for appropriation. Under the state Constitution, up to three-eighths of the Rainy Day Fund are available to make up for shortfall in

current year collections and three-eighths are available for the next year if GR collections are forecast to be less than current year's collections. Accordingly, only the one-fourth of the RDF that may be spent upon declaration of an emergency would be available in FY '11, if revenue collections begin to grow.¹⁶

On balance, it is likely that the budget outlook for FY '11 will be much like the current year's. Modest increases in revenue collections are likely to be partly or fully offset by revenue losses from tax cuts, while stimulus money helps keep funding for core programs and services afloat. Some Rainy Day Fund money could be available to plug funding gaps, but the reserve fund's rules preclude using most of the Fund once revenues are on an upswing, even if they remain below pre-downturn levels. While deeper budget cuts may be unlikely, agencies will become increasingly hard-pressed to avoid cutting essential services and programs and laying off employees the longer they are forced to go without additional funding.

Unfortunately, the situation further out may be grimmer than for next year due to the scheduled disappearance of stimulus dollars at the end of FY '11. Without those

funds, we could be looking at a huge hole in the FY '12 budget, especially for the Medicaid program, which faces a precipitous drop in the federal matching rate. Stimulus dollars account for 8.9 percent of total state appropriations in the FY '10 budget and are likely to account for a similar percentage in FY '11. Unless the state immediately comes roaring out of the recession with double-digit revenue growth, it will be difficult for state revenues to make up for the loss of \$600 million to \$700 million in stimulus dollars in FY '12. Again, under current rules, the state would be limited to using only one-quarter of the Rainy

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Day Fund in FY '12, upon declaration of an emergency.

VI. RECOMMENDATIONS

There will not be any easy solutions to the ongoing budget crunch that can be expected to continue over the next several years. But there are several options that deserve careful consideration:

- Change the Rainy Day Fund's rules to allow for appropriations further into a downturn. The current rules allow three-eighths of the Fund to be spent only when revenues are declin-

ing. We have now seen that leaders are extremely hesitant to tap the RDF at the onset of a downturn without knowing how bad things will ultimately get. This creates the prospect that we will be facing large shortfalls in FY '11 and, especially, FY '12 while most of the Fund remains off-limits. An alternative would be to allow RDF money to be used any time revenues remain below the peak of the current economic cycle. If legislation were introduced next year to put such a proposal on the ballot in 2010, it would create the opportunity to have RDF revenues help us over the post-stimulus hump in FY '12 and FY '13.

“Several tax cuts enacted in previous years phased in this year, and will continue to do so in the years ahead.

- *Defer additional tax cuts at least until funding levels have been restored to pre-downturn levels.* This year's Legislature showed itself to be very attentive to the need to preserve the revenue base during a downturn by rejecting most tax cut proposals and decoupling from changes in federal law that would have reduced state revenues.¹⁷ Still, several tax cuts enacted in previous years phased in this year, and will continue to do so in the years ahead. In particular, the provision that cuts the top income tax rate by 0.25 percent as soon as revenues begin to grow will undercut efforts to restore funding to pre-downturn levels.
- *Consider new funding streams for*



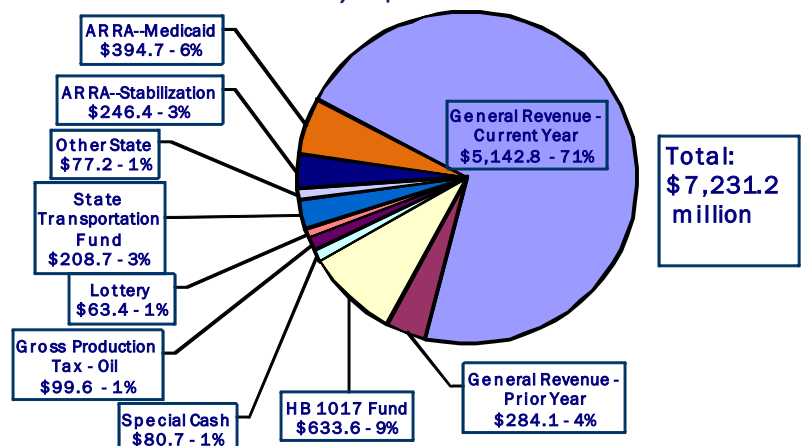
Medicaid. The state's Medicaid program will be hit especially hard by the end of the federal stimulus package. In recent years, Oklahoma's federal Medicaid matching rates had been declining. This would have continued but for the stimulus bill, which included a "hold harmless" provision that kept Oklahoma's base federal match at its FY '08 level. In FY '12, Oklahoma's FMAP could fall from 75 or 76 percent to under 64 percent, creating a gigantic funding hole of several hundred million dollars. While this situation could be at least partly addressed by Congress, it is hard to envision how the state would be able to fill this hole on its own without cutting health care services in the absence of new revenue. For years there

has been discussion about new fees or assessments on health care expenditures to expand coverage, raise reimbursement rates, and other purposes; the post-stimulus doomsday scenario should give further impetus to this debate.

- *Require meaningful multi-year forecasting in the revenue certification, executive budget, and appropriation phases of developing the state budget.* The FY '10 budget deliberations were based on a vague assumption that "things could get worse," but there was no official forecast of revenues and expenditures beyond the end of FY '10. It is thus impossible for policy makers and the public to evaluate the assumptions—stated and unstated—that underlay budget proposals and to study and debate proposals that make the most sense over the long run rather than in one year.

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Fig. 7: Revenues Allocated to the FY '10 Budget by Revenue Fund, in \$ Million



FY '09 and FY '10 Appropriations by Agency

	FY '09 Total (1)	FY '10 - State (2)	FY '10 - ARRA (2)	FY '10 - Total (2)	Difference FY'09 to FY'10 Total	% Change FY'09 to FY'10 Total
Subcommittee on Education						
Arts Council	5,150,967	\$ 5,150,257		\$ 5,150,257	\$ (710)	0.0%
Career and Technology Education, Department of	158,269,736	\$ 157,790,479		\$ 157,790,479	\$ (479,257)	-0.3%
Education, State Department of	2,531,702,553	\$ 2,404,447,551	167,559,651	\$ 2,572,007,202	\$ 40,304,649	1.6%
Educational Television Authority	8,394,383	\$ 4,830,776		\$ 4,830,776	\$ (3,563,607)	-42.5%
Higher Education, Regents for (1)	1,039,886,280	\$ 1,001,948,531	68,792,477	\$ 1,070,741,008	\$ 30,854,728	3.0%
Land Office, Commissioners of	4,864,881	\$ 4,524,339		\$ 4,524,339	\$ (340,542)	-7.0%
Libraries, Department of	7,294,856	\$ 7,294,856		\$ 7,294,856	\$ -	0.0%
Physician Manpower Training Commission	5,523,502	\$ 5,136,857	423,891	\$ 5,560,748	\$ 37,246	0.7%
Science & Math, School of	7,985,737	\$ 7,546,706		\$ 7,546,706	\$ (439,031)	-5.5%
Science & Technology, Center for	22,456,507	\$ 22,026,563		\$ 22,026,563	\$ (429,944)	-1.9%
Teacher Preparation, Commission on	2,059,982	\$ 1,915,783		\$ 1,915,783	\$ (144,199)	-7.0%
Subcommittee Total	3,793,589,384	\$ 3,622,612,698	\$ 236,776,019	\$ 3,859,388,717	\$ 65,799,333	1.7%
Subcommittee on General Government						
Auditor and Inspector	6,315,269	\$ 5,873,200		\$ 5,873,200	\$ (442,069)	-7.0%
Bond Advisor	186,419	\$ 173,370		\$ 173,370	\$ (13,049)	-7.0%
Central Services, Department of	18,713,175	\$ 17,403,253		\$ 17,403,253	\$ (1,309,922)	-7.0%
Civil Emergency Management Administration	1,156,604	\$ 788,329		\$ 788,329	\$ (368,275)	-31.8%
Election Board	6,805,988	\$ 6,373,569		\$ 6,373,569	\$ (432,419)	-6.4%
Ethics Commission	667,960	\$ 621,203		\$ 621,203	\$ (46,757)	-7.0%
Finance, Office of State	23,081,434	\$ 23,081,434		\$ 23,081,434	\$ -	0.0%
Governor	2,661,981	\$ 2,475,642		\$ 2,475,642	\$ (186,339)	-7.0%
House of Representatives	19,176,434	\$ 17,834,084		\$ 17,834,084	\$ (1,342,350)	-7.0%
Legislative Service Bureau	5,537,349	\$ 5,537,153		\$ 5,537,153	\$ (196)	0.0%
Lt. Governor	659,597	\$ 613,425		\$ 613,425	\$ (46,172)	-7.0%
Merit Protection Commission	613,684	\$ 613,684		\$ 613,684	\$ -	0.0%
Military, Department of	13,132,301	\$ 12,251,559		\$ 12,251,559	\$ (880,742)	-6.7%
Personnel Management	4,891,745	\$ 4,549,323		\$ 4,549,323	\$ (342,422)	-7.0%
Secretary of State	380,517	\$ 353,881		\$ 353,881	\$ (26,636)	-7.0%
Senate	14,699,125	\$ 13,670,186		\$ 13,670,186	\$ (1,028,939)	-7.0%
Space Industry Development Authority	530,340	\$ 493,216		\$ 493,216	\$ (37,124)	-7.0%
Tax Commission	50,201,340	\$ 44,803,723		\$ 44,803,723	\$ (5,397,617)	-10.8%
Transportation, Department of	207,691,448	\$ 208,741,341		\$ 208,741,341	\$ 1,049,893	0.5%
Treasurer	4,668,763	\$ 6,341,950		\$ 6,341,950	\$ 1,673,187	35.8%
Subcommittee Total	\$381,771,473	\$ 372,593,525	\$ -	\$ 372,593,525	\$ (9,177,948)	-2.4%
Subcommittee on Human Services						
Children and Youth, Commission on	2,608,473	\$ 2,480,232		\$ 2,480,232	\$ (128,241)	-4.9%
Disability Concerns, Office of	412,769	\$ 392,769		\$ 392,769	\$ (20,000)	-4.8%
Human Rights Commission	710,226	\$ 664,061		\$ 664,061	\$ (46,165)	-6.5%
Human Services, Department of	559,107,190	\$ 479,356,473	71,355,640	\$ 550,712,113	\$ (8,395,077)	-1.5%
Indian Affairs, Commission of	258,466	\$ 240,373		\$ 240,373	\$ (18,093)	-7.0%
Juvenile Affairs	112,254,258	\$ 111,689,909	698,669	\$ 112,388,578	\$ 134,320	0.1%
Rehabilitation Services, Department of	30,053,770	\$ 30,453,770		\$ 30,453,770	\$ 400,000	1.3%
Subcommittee Total	\$705,405,152	\$ 625,277,587	\$ 72,054,309	\$ 697,331,896	\$ (8,073,256)	-1.1%
Subcommittee on Health and Social Services						
Health Care Authority	872,122,261	\$ 663,336,492	316,460,502	\$ 979,796,994	\$ 107,674,733	12.3%
Health, Department of	75,028,113	\$ 73,030,278	1,330,652	\$ 74,360,930	\$ (667,183)	-0.9%
J.D. McCarty Center	4,452,961	\$ 4,089,389	363,572	\$ 4,452,961	\$ -	0.0%
Mental Health & Substance Abuse Services	209,579,129	\$ 199,529,080	3,746,142	\$ 203,275,222	\$ (6,303,907)	-3.0%
University Hospitals Authority	43,250,342	\$ 33,176,659	10,316,683	\$ 43,493,342	\$ 243,000	0.6%
Oklahoma State University Medical Authority	5,000,000	\$ -		\$ -	\$ (5,000,000)	-100.0%
Veterans Affairs, Department of	40,282,600	\$ 40,282,600		\$ 40,282,600	\$ -	0.0%
Subcommittee Total	1,249,715,406	\$ 1,013,444,498	\$ 332,217,551	\$ 1,345,662,049	\$ 95,946,643	7.7%

FY '09 and FY '10 Appropriations by Agency—cont.

	FY '09 Total (1)	FY '10 - State (2)	FY '10 - ARRA (2)	FY '10 - Total (2)	Difference FY'09 to FY'10 Total	% Change FY'09 to FY'10 Total
Subcommittee on Natural Resources and Regulatory Affairs						
Agriculture, Department of	34,540,185	\$ 32,558,058		\$ 32,558,058	\$ (1,982,127)	-5.7%
Commerce, Department of	30,934,772	\$ 33,281,088		\$ 33,281,088	\$ 2,346,316	7.6%
Conservation Commission	10,292,962	\$ 9,572,455		\$ 9,572,455	\$ (720,507)	-7.0%
Consumer Credit, Department of	669,042	\$ 622,209		\$ 622,209	\$ (46,833)	-7.0%
Corporation Commission	12,415,417	\$ 11,605,688		\$ 11,605,688	\$ (809,729)	-6.5%
Environmental Quality, Department of	9,728,096	\$ 9,297,129		\$ 9,297,129	\$ (430,967)	-4.4%
Historical Society	14,967,451	\$ 14,253,034		\$ 14,253,034	\$ (714,417)	-4.8%
Horse Racing Commission	2,669,568	\$ 2,482,698		\$ 2,482,698	\$ (186,870)	-7.0%
Insurance Commissioner	2,515,943	\$ 2,339,827		\$ 2,339,827	\$ (176,116)	-7.0%
J.M. Davis Memorial Commission	385,403	\$ 358,425		\$ 358,425	\$ (26,978)	-7.0%
Labor, Department of	3,760,284	\$ 3,497,064		\$ 3,497,064	\$ (263,220)	-7.0%
Mines, Department of	1,013,586	\$ 942,365		\$ 942,365	\$ (71,221)	-7.0%
Scenic Rivers Commission	345,322	\$ 321,149		\$ 321,149	\$ (24,173)	-7.0%
Tourism and Recreation, Department of	28,041,991	\$ 25,909,406		\$ 25,909,406	\$ (2,132,585)	-7.6%
Water Resources Board	6,801,524	\$ 6,525,417		\$ 6,525,417	\$ (276,107)	-4.1%
Will Rogers Memorial Commission	933,702	\$ 868,343		\$ 868,343	\$ (65,359)	-7.0%
Subcommittee Total	\$160,015,248	\$ 154,434,355	\$ -	\$ 154,434,355	\$ (5,580,893)	-3.5%
Subcommittee on Public Safety						
Alcoholic Beverage Laws Enforcement	3,925,266	\$ 3,925,258		\$ 3,925,258	\$ (8)	0.0%
Attorney General	14,781,704	\$ 13,722,234		\$ 13,722,234	\$ (1,059,470)	-7.2%
Corrections, Department of	503,000,000	\$ 503,000,000		\$ 503,000,000	\$ -	0.0%
Court of Criminal Appeals	3,474,527	\$ 3,304,551		\$ 3,304,551	\$ (169,976)	-4.9%
District Attorneys and DAC	42,820,210	\$ 39,822,795		\$ 39,822,795	\$ (2,997,415)	-7.0%
District Courts	58,067,785	\$ 54,003,040		\$ 54,003,040	\$ (4,064,745)	-7.0%
Fire Marshal	2,270,855	\$ 2,245,864		\$ 2,245,864	\$ (24,991)	-1.1%
Indigent Defense System	16,734,008	\$ 15,734,022		\$ 15,734,022	\$ (999,986)	-6.0%
Investigation, State Bureau of	17,316,450	\$ 17,107,029		\$ 17,107,029	\$ (209,421)	-1.2%
Judicial Complaints, Council on	283,729	\$ 268,040		\$ 268,040	\$ (15,689)	-5.5%
Law Enforcement Education and Training	4,614,370	\$ 4,414,356		\$ 4,414,356	\$ (200,014)	-4.3%
Medicolegal Investigations, Board of	4,825,625	\$ 4,699,939		\$ 4,699,939	\$ (125,686)	-2.6%
Narcotics and Dangerous Drugs, Bureau of	7,423,895	\$ 6,299,722		\$ 6,299,722	\$ (1,124,173)	-15.1%
Pardon and Parole Board	2,577,581	\$ 2,523,418		\$ 2,523,418	\$ (54,163)	-2.1%
Public Safety, Department of	97,170,391	\$ 93,339,686		\$ 93,339,686	\$ (3,830,705)	-3.9%
Supreme Court	19,247,063	\$ 17,867,941		\$ 17,867,941	\$ (1,379,122)	-7.2%
Workers' Compensation Court	5,259,801	\$ 5,055,966		\$ 5,055,966	\$ (203,835)	-3.9%
Subcommittee Total	\$803,793,260	\$ 787,333,861	\$ -	\$ 787,333,861	\$ (16,459,399)	-2.0%
Other Appropriations						
REAP	15,500,000	\$ 14,415,000		\$ 14,415,000	\$ (1,085,000)	-7.0%
Governor's Emergency Fund	15,000,000	\$ -		\$ -	\$ (15,000,000)	-100.0%
Others Total	30,500,000	\$ 14,415,000	\$ -	\$ 14,415,000	\$ (16,085,000)	-52.7%
TOTAL	\$7,124,789,923	\$6,590,111,524	\$641,047,879	\$7,231,159,403	\$106,369,480	1.5%

Notes:

(1) FY09 includes supplementals to OSU Medical Authority (\$5,000,000), Bureau of Narcotics (\$650,000) and Oklahoma Health Care Authority (\$30,000,000 of ARRA funds)

(2) Some FY'10 amounts are pending signature of the Governor

NOTES

¹ The drop in the tax rate is subject to a “trigger” of at least 4 percent growth in General Revenue, which did not occur in FY '10.

² ROADS funding from GR increases by \$30 million in FY '10, while the share of the motor vehicle tax going to the County Improvement for Roads and Bridges Fund increases from 10 percent to 15 percent. See OK Policy, “Fact Sheet: Transportation Funding Assured of Growth”, June 2008, at: <http://okpolicy.org/fact-sheet-transportation-funding-assured-growth>

³ Of the funds included in the February certification, \$5.7 million in the Commission of the Land Office fund was left unappropriated.

⁴ For a fuller discussion of these funding streams and other provisions of the stimulus bill, see: OK Policy, The Federal Stimulus Package: Funds Available to State and Local Governments”, February 2009, at: <http://okpolicy.org/files/OKPolStimulusbrief.pdf>

⁵ SB 658 directs that the increased fee revenue for failing to renew motor vehicle tags will go the General Revenue Fund in FY '10 and to the State Highway Construction and Maintenance Fund in subsequent years.

⁶ The Legislature appropriates at 95 percent of the certified estimate of most

funds. Up to three-eighths of the amount in the Rainy Day Fund can be used to make up for a shortfall in the current year's collections compared to appropriations.

⁷ There were three supplemental appropriations:

- \$5 million to the Oklahoma State University Medical Authority (HB 1127);
- \$650,000 to the Bureau of Narcotics and Dangerous Drugs (SB 206); and
- \$30 million of ARRA funds authorized for the Oklahoma Health Care Authority (HB 1198).

⁸ “Governor, Legislative Leaders Announce Budget Deal; Four Core Areas of Government Protected Under Agreement”, *Joint Press Release*, May 15, 2009; at: http://gov.ok.gov/display_article.php?article_id=1254&article_type=1

⁹ Barbara Hoberock, “Oklahoma History Center to cut hours”, *Tulsa World*, May 21, 2009.

¹⁰ “Trooper Furloughs Avoided with New Funds”, *Oklahoma House of Representatives Media Division Press Release*, May 19, 2009, at: http://www.okhouse.gov/OkhouseMedia/news_story.aspx?NewsID=3176, and Mick Hinton, “Driver’s manual shortage fuels criticism of DPS”, *Tulsa World*, December 16, 2008.

¹¹ Sean Murphy, “Budgetary woes facing Health Department”, *Associated Press*,

December 10, 2008.

¹² Under the terms of the stimulus bill, states accepting stimulus dollars are precluded from cutting or restricting Medicaid eligibility. See OK Policy, “Safeguarding Medicaid eligibility in a downturn”, *Blog Post*, April 7, 2009; at: <http://okpolicy.org/blog/health/safeguarding-medicaid-eligibility-in-the-budget-downturn/>

¹³ Michael McNutt, “Toddler illustrates health agency’s budget troubles”, *NewsOk.com*, March 24, 2009.

¹⁴ Chad Wilkerson, “U.S. and Oklahoma Economic Outlook,” presented to *Economic Security for Oklahomans, a Conference of the Oklahoma Asset Building Coalition*, Oklahoma City, April 22, 2009.

¹⁵ For a fuller discussion, see: Oklahoma Policy Institute, “Now’s the Time: Using Stimulus and Rainy Day Funds Can Reduce the Impact of State Budget Cuts”, May 2009; at: <http://okpolicy.org/news-time-use-rainy-day-funds>

¹⁶ The rules for use of the Constitutional Reserve Fund (Rainy Day Fund) are in Article 10, Section 23 of the Oklahoma Constitution.

¹⁷ See our discussion of 2009 tax legislation in “A year without tax cuts – almost”, *Blog post*, May 28, 2009; at: <http://okpolicy.org/blog/taxes/a-year-without-tax-cuts-almost/>

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CONTACT US

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

This brief was prepared by David Blatt, Director of Policy, with research assistance from Paul Shinn. Contact David at: dblatt@okpolicy.org