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Oklahoma House of Representatives

Appropriations Overview

Fiscal Year 2009

OVERVIEW

In a year when the nation was confronted with an economic slowdown and possible recession, the Oklahoma Legislature used a stable state economy to craft a prudent fiscal approach to maintain vital government services and programs. Legislative leaders and the Governor agreed on a budgetary plan that ensures state government functions meet the public’s education, health, and safety demands. By using available certified funds, cash balances, state agency projected carryover, transferring available state funds, and adopting government efficiencies, the Oklahoma Legislature, with the Governor’s approval, enacted a Fiscal Year 2009 (FY-09) budget that does not reduce state agencies’ appropriated dollars, meets

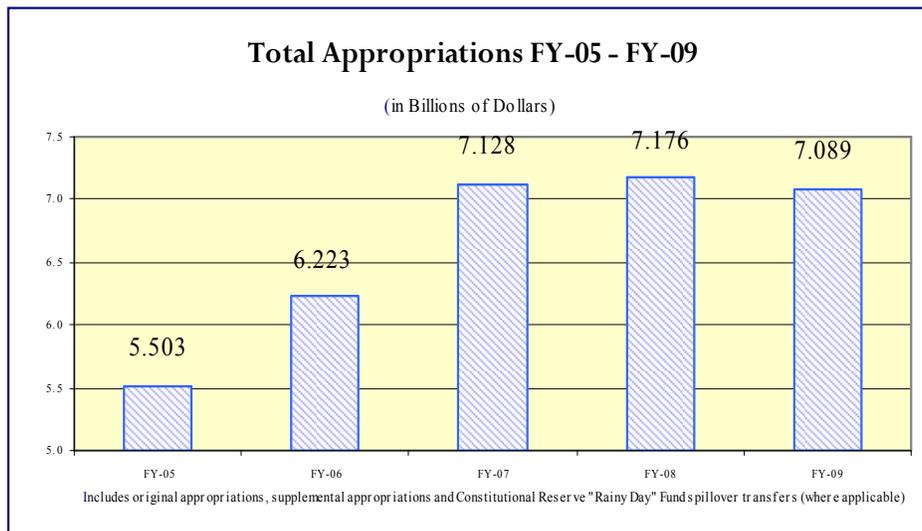
previous legislative commitments, and does not tap into the Constitutional Reserve “Rainy Day” Fund.

One key component used in crafting the state budget was the passage of SB 2034. This measure establishes a voluntary compliance initiative waiving penalties, interest and fees for taxpayers filing delinquent returns and paying any tax due during the two-month initiative period of September

“a budgetary plan that ensures state government functions meet the public’s education, health, and safety demands”

15 through November 14, 2008. The initiative will add an estimated \$34.7 million to state coffers. SB 2034 also prevents the misuse of the trust structure as a means of escaping state corporate income tax laws by no longer allowing corporations to deduct certain expenses, such as interest and rental expense, if paid to out-of-state private trusts. Closing this loophole increases the income tax revenue by \$6 million. Lastly, bill provisions prevent the 2008 federal stimulus package from having a negative impact on the state’s FY-09 certified revenue. The stimulus package provides a 50 percent bonus deduction for equipment rather than depreciating the

equipment over several years. SB 2034 prohibits the bonus depreciation as a deduction on state returns; however, Oklahoma taxpayers are able to take advantage of the bonus depreciation on federal returns.

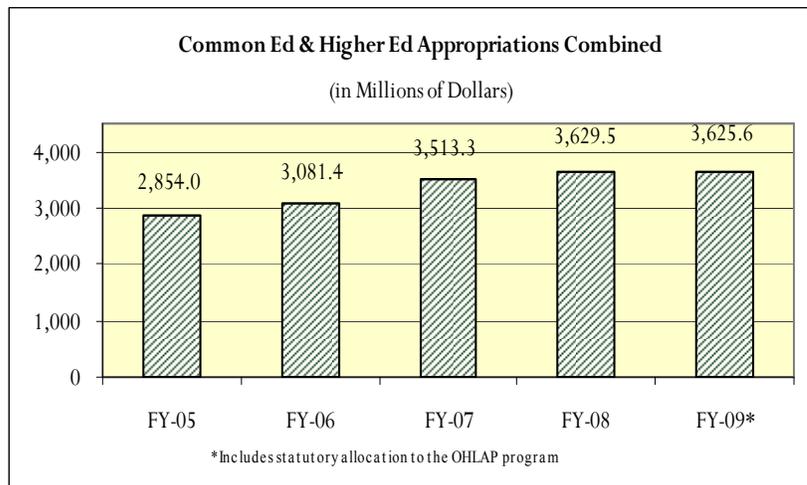


MAINTENANCE OF EFFORT BUDGET ENACTED

Perhaps the single most important function of any state legislature is to enact a budget that meets the public’s basic service needs in such areas as education, health, and safety. This challenge is particularly complicated in the State of Oklahoma, as the Legislature must constitutionally balance the state budget and must work within certain voter approved provisions (including State Question 640) which limit the Legislature’s ability to raise revenue. For these reasons, in times when state revenue does not equal fiscal projections made a year in advance, the Legislature must make public policy decisions which are difficult and, by necessity, may leave some needs not fully realized.

This is exactly the fiscal environment in which the Legislature found itself in February of 2008. When the Office of State Finance (OSF) finalized the 2008 Session revenue estimates in mid-February, the Legislature was faced with the challenge of constructing an FY-09 state budget with \$113.9 million less to spend than in the 2007 Session. In effect, the revised revenue meant that the Legislature had to formulate a state budget smaller than the just over \$7 billion budget approved the year before.

The drop in state revenues represented the first time in four years that revenues available for appropriation to state government had not increased above projected levels. It should be noted that constitutionally the Legislature may only appropriate 95 percent of the certified revenue available in a



“\$113.9 million less to spend than in the 2007 Session”

given fiscal year along with cash balances, prior certified revenue and special fund authorizations. The vast majority of this Session’s revenue shortfall resulted from a \$178 million decrease in certified corporate income tax revenue, 39.4 percent less than FY-08. Other revenue shortages totaling nearly \$100 million were seen in lottery proceeds, the State Transportation Fund, and the Education Reform “HB 1017” Fund. Offsetting the revenue decrease were increases in the estimates for gross production tax on oil and gas (\$104 million) and sales tax (\$101 million).

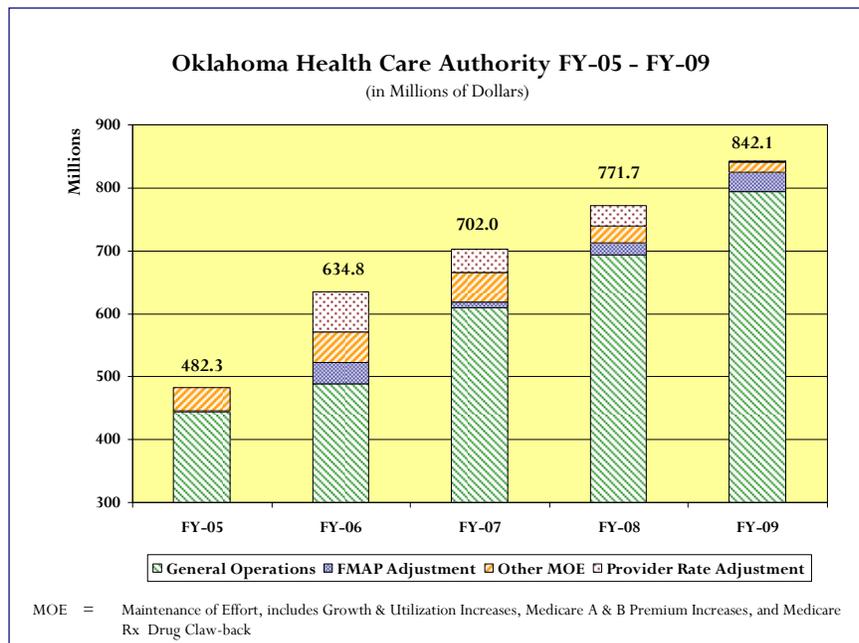
MAINTENANCE OF EFFORT BUDGET ENACTED

In spite of the decrease in revenues, the House of Representatives, in conjunction with the State Senate and the Governor, reached a “maintenance of effort” budget agreement in April which:

- Provide at least a standstill budget to the state’s 80 appropriated agencies;
- Authorizes \$120 million in additional appropriations to maintain current Medicaid
- Fully funds DOC for the first time since FY-99 without expectation of a need for supplemental appropriations;
- Increases the Ethics Commission budget by nearly 30 percent to meet operational

increases and information-technology improvements; and,

- Covers the previously noted shortfall in the Education Reform Revolving Fund to ensure that school districts receive full apportionments for the remaining months of FY-08, and provides Common Educa-



provider rates, meet eligibility requirements, and preserve participant benefits; to increase prison capacity by 276 beds as recommended by a performance audit of the Department of Corrections (DOC); to maintain service levels in Advantage Care which allows elderly persons to remain in their homes; and to fulfill education funding commitments such as Achieving Class-

room Excellence (ACE) Remediation Act, National Board Certification for teachers, and Oklahoma Teachers’ Retirement System (OTRS) contributions;

tion with an additional \$16.1 million through the Ad Valorem Reimbursement Fund to offset school districts’ ad valorem revenue losses resulting from tax exemptions granted to manufacturers for new or expanded facilities.

MAINTENANCE OF EFFORT BUDGET ENACTED

FY-09 Appropriations Ten Largest Agencies by Amount			
	<u>Appropriation</u>	<u>Percentage of Total Appropriations</u>	
1	State Board of Education	\$2,531,702,553	35.7
2	Regents for Higher Education	1,039,886,280	14.7
3	Health Care Authority	842,122,261	11.9
4	Human Services	559,107,190	7.9
5	Corrections	503,000,000	7.1
6	Transportation*	207,691,448	2.9
7	Mental Health/Substance Abuse Services	209,579,129	3.0
8	Career and Technology Education	158,269,736	2.2
9	Juvenile Affairs	112,254,258	1.6
10	Public Safety	97,170,391	1.4
Remaining Seventy Appropriated Agencies		828,356,677	11.7
Total FY-09 Appropriations		\$7,089,139,923	

* Transportation total does not include funding from provisions of HB 1176X

ROAD FUNDING

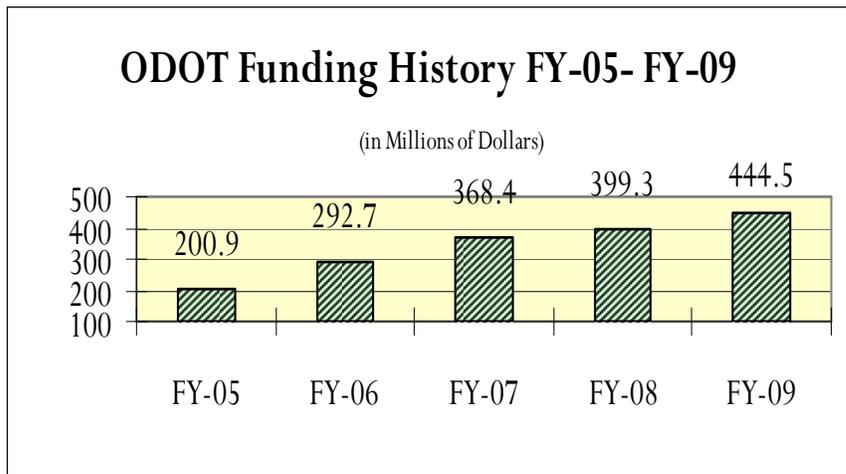
As a result of the funding provisions of HB 1078 enacted in 2005 and HB 1176X enacted in 2006, the Legislature ensured that the Oklahoma Department of Transportation (ODOT) will receive \$445 million in FY-09 for maintenance on state and county roads and bridges, an increase of 10 percent over the FY-08 level. This was accom-

plished despite General Revenue Fund revenue growth of less than 3 percent which under

the **“\$445 million in FY-09”**

provisions of HB 1176 authorizes a \$17.5 incremental deposit to the “ROADS Fund,”

rather than the \$50 million ODOT would have received, if the 3 percent “trigger” had



been reached. However, this lesser allocation was partially offset by a reduction in the agency’s FY-09 bond debt service obligation; the decrease will make an additional \$38 million available for state road and bridge maintenance projects.

CAPITAL BOND ISSUES

The Legislature and the Governor reached agreement on the issuance of bonds of \$475M, in multiple series, to address critical road and bridge improvement needs, reduce the backlog of endowed chair state matching funds within the Higher Education system and for flood control rehabilitation, dam and bridge improvements on the Arkansas River and for construction of the Native American Cultural and Education Center.

“..lower cost than through the use of a pay-as-you-go approach..”

The \$300 million transportation issue will allow the Department of Transportation to forward fund numerous projects contained in their eight-year construction plan. By utilizing bond funding projects can be completed at lower cost than through the use of a pay-as-you-go approach, as cost inflation for construction material is expected to remain at historical levels. Continued improvements to the state highway system will improve safety and will enhance economic development.

The issuance of \$100 million in obligations for the Endowed Chairs program provides the state match against private donations at the state’s institutions of higher education. The Legislature also imposed a moratorium on the establishment of new endowed chairs until the current backlog, estimated at over \$200 million, is exhausted. Upon removal of the moratorium the match requirements will be modified and an annual cap on state match funding is to be

applied to moderate the future state funding requirements.

Twenty-five million dollars of flood control rehabilitation will allow for matching with significant federal funds for critical improvements in the state’s flood mitigation and prevention system, as many of the sites are currently well past their useful lives. Successful rehabilitations of these assets will ensure many years of effective flood control throughout the state.

Inclusion of the Arkansas River dam modification, bank, pedestrian bridge and downstream improvements of \$25 million will bring significant enhancement to the quality of life in the Tulsa area. Project funds are expected to be matched with federal funds to assist with completion.

Providing \$25 million in construction funding

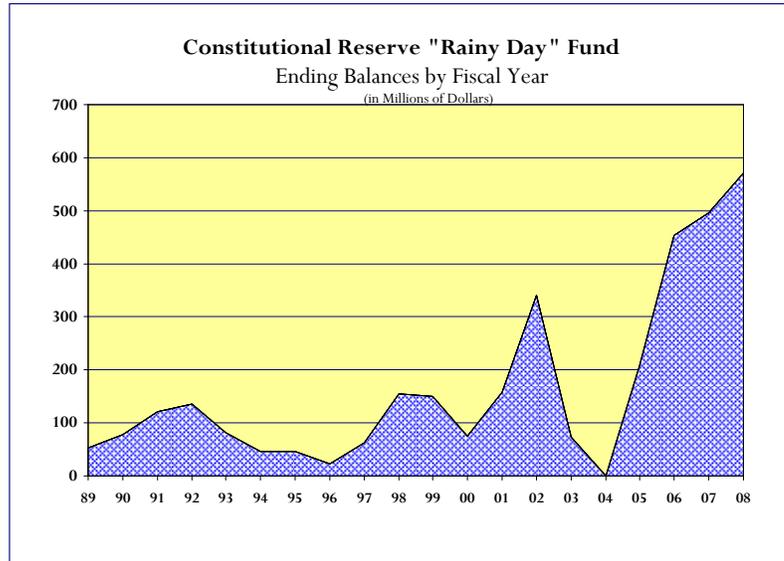
Capital Bond Issues		
1.	Transportation – Road and Bridge	\$300,000,000
2.	Higher Education – Endowed Chairs	\$100,000,000
3.	Conservation Commission – Flood Control	\$25,000,000
	Arkansas River Dam and Bridge Improvements	\$25,000,000
	Native American Cultural Center Construction	\$25,000,000
	Total – All Issues	\$475,000,000

for the Native American Cultural and Education Center furthers the state’s on-going commitment to the establishment of a first-class site highlighting Oklahoma’s Native American heritage, culture and contributions and provides the necessary funds to match available federal resources.

“RAINY DAY” RESERVES PRESERVED

Critical to maintaining the stability of state government next year, the House of Representatives took a firm stand to preserve the Constitutional Reserve “Rainy Day” Fund this session. Though an official account of the “Rainy Day” fund balance will not be determined until after the first week in July, it is known that at a minimum record-setting balance of \$571 million is available for future use. Much of the growth of the fund can be attributed to recent General Revenue Fund growth, particularly in oil and gas related tax revenue, and from the Legislature and the Governor agreeing not to access the fund over the past several years. During fiscal emergencies, up to one-quarter of the “Rainy Day” Fund’s balance may be appropriated upon an declaration by the Governor and two-thirds of the House and Senate or by a joint declaration of an emer-

gency by the Speaker of the House and President Pro Tempore of the Senate with concurrence of three-fourths of the House and Senate.



“...took a firm stand to preserve the Constitutional Reserve “Rainy Day” Fund this session”

Governor and two-thirds of the House and Senate or by a joint declaration of an emer-

The “Rainy Day” Fund may also be used for budget stabilization purposes. Stabilization may take place under two conditions. First, up to three-eighths of the balance may be appropriated for the forthcoming fiscal year, if the certification of the General Revenue Fund for that year is below the certification for the current fiscal year. The amount that can be appropriated is limited to the difference between the two certifications. Second, up to three-eighths of the balance may be appropriated for the current fiscal year, if a revenue shortfall has occurred with respect to the General Revenue Fund.

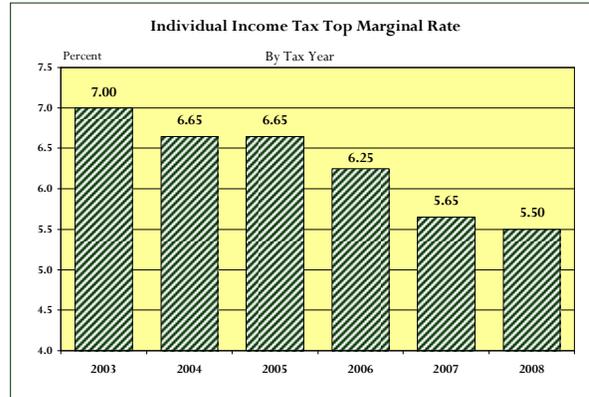
TAX RELIEF PHASE-IN CONTINUES

During the past three sessions, the Legislature passed significant tax reductions, many with decreases being realized in 2008 and in future years. The reductions include:

- Individual Income Tax - An all-time low maximum income tax rate of 5.5 percent is currently applied, down from 7.0 percent in 2003. The top rate will drop to 5.25 percent subject to state revenue targets. In 2008, the standard deduction increased from \$5,500 to \$6,500 for taxpayers filing jointly and from \$2,750 to \$3,250 for single taxpayers. The deduction continues to increase annually until it equals the federal level in 2010. This tax year an alternative child credit may be chosen by taxpayers with children not claiming the child-care credit.
- Estate Tax - Currently, estates of those dying on or after January 1, 2008, are allowed an exemption of \$2 million for all

heirs . On January 1, 2009, the exemption is increased to \$3 million and effective January 1, 2010 the estate tax is repealed.

- Franchise Tax - In 2008 the exemption of



franchise tax payments has increased. For domestic corporations with capital of \$200,000 or less (increased from \$8,000 or less) filing Oklahoma franchise tax returns due January 1, 2008, or later, no franchise tax is due.

ECONOMIC DEVELOPMENT EFFORTS STRENGTHENED

In March, the citizens of Oklahoma City approved a sales tax extension providing \$121.6 million for improvements to a downtown arena in an effort to increase the city's chances of attracting a professional sports franchise. Soon after the citizens of Oklahoma City approved the sales tax extension and just as the National Basketball Association (NBA) was deciding whether to allow a team to locate in Oklahoma City, the Legislature passed SB 1819 expanding the state's Quality Jobs Program to include professional sports franchises. This bill specifically provides incentives to attract an NBA team to Oklahoma. The intention of the state incentives is to generate economic growth and increase the positive perception of the state nationwide. Currently, there are approximately 500 companies participating in the Quality Jobs Program.

The legislation provides a rebate for a portion of the withholding taxes paid by the team, based on its payroll. The incentives are expected to

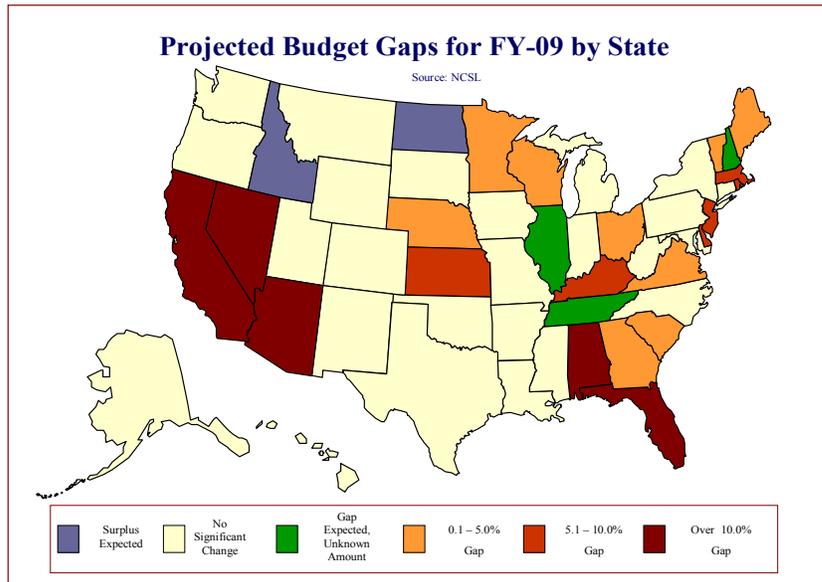
create 170 jobs with a \$74 million payroll, resulting in a rebate of about \$4 million a year, or a total of \$60 million over the 15-year life of the incentive. The presence of an NBA team in the state will result in increases in sales, income, and ad valorem tax revenue, and improve the state's visibility and stature. A side benefit is that the presence of an NBA franchise in the state will conceivably reduce the amount of money presently lost to other states when Oklahomans attend out-of-state NBA games.

SB 1288 provides funding from excess unclaimed property fund reserves to governmental subdivisions for the acquisition of property in the vicinity of Tinker Air Force Base, for the purchase of an airplane hanger to be utilized by the aviation education program at Southwest Technology Center, for the fulfillment of an airline service contract between the city of Lawton and Delta Airlines and for continued development of bio-fuels.

THE STATE BUDGET FROM A NATIONAL PERSPECTIVE

While a “maintenance of effort” budget may not appear flashy and does leave several meritorious programs and services unfunded, Oklahoma’s budget status far exceeds that of other states nationwide. According to a National Conference of State Legislature (NCSL) report released in April, over 16 states must address budget shortfalls totaling nearly \$12 billion in their FY-08 budgets. Worse, the NCSL document reveals that 23 states report budget gaps that total over \$26 billion in their FY-09 budgets.

general sales tax collections fell below forecast, 12 states report personal income tax collections failed to meet projections, and 16 states, including Oklahoma, show corporate



To balance state ledgers, at least 16 states are reducing agency budgets or eliminating programs, six states are accessing “Rainy Day” reserve funds, and eight states are considering tax increases.

“23 states report budget gaps that total over \$26 billion”

Other options under consideration include privatizing lotteries, selling unclaimed property, and imposing tolls on some state roads.

In the NCSL report, 16 states indicate that

income tax collections that prove lower than estimated. Nationwide, 23 states describe themselves as “concerned” about the FY-09 revenue outlook, ten states label themselves as “stable,” four states are “pessimistic,” and only one state characterizes itself as “optimistic” about its revenue outlook in FY-09.

Among those states surrounding Oklahoma, Kansas, Colorado, New Mexico, and Arkansas are characterized as “concerned” about projected budget gaps in FY-09. Texas, Louisiana, Missouri, and Oklahoma are identified as “stable.”

FISCAL OUTLOOK FOR FY-10

As soon as the 51st Oklahoma Legislature adjourns, discussions concerning the fiscal outlook used in developing the FY-10 budget will begin. Will revenues remain relatively flat (3 percent growth rate or less) in energy producing states, or will Oklahoma experience the economic slowdown felt by much of the rest on the nation? Assuming energy prices hold to current industry estimates, the Oklahoma economy will not be as adversely affected by the current housing and credit crises affecting much of the nation, as the Oklahoma housing market has remained stable, with median prices having actually risen in the past year.

Even if the state’s economy remains stable, the 52nd Oklahoma Legislature will face seri-

ous challenges and difficult decisions when funding state government. Legislative leaders will be confronted with a variety of issues including rising health care costs, pressing infrastructure needs related to roads, bridges, state facilities, and prisons, and affordable access to educational opportunities. Another key factor will be how a new administration at the national level addresses federal expenditures. Will the state continue to see a shift of federal expenditures to the state level and, if so, to what extent? All of these variables will impact actions the 52nd Legislature will consider to ensure that state services can continue to be provided efficiently and effectively to all Oklahomans.

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