



2019
STATE OF OKLAHOMA
EXECUTIVE BUDGET
SUBMITTED BY MARY FALLIN, GOVERNOR
TO THE SECOND SESSION OF THE 56TH OKLAHOMA LEGISLATURE



FY-2019

Executive Budget

**Governor
Mary Fallin**

February 5, 2018



Mary Fallin
Office of the Governor
State of Oklahoma

To the Citizens of the Great State of Oklahoma and the Oklahoma Legislature:

It is my pleasure to submit for your consideration the FY-2019 executive budget. The plan I have put forward is part of a long-term blueprint for more reliable revenue estimating and greater legislative control over limited government resources to better govern for the needs of the day.

The success of this fiscal blueprint relies on our ability to address structural deficiencies within the budget-making process. As outlined in the executive summary of this budget book, the state of Oklahoma currently faces substantial budget challenges.

The budget I have proposed charts a realistic, responsible way forward for the state of Oklahoma. It asks our lawmakers to take on the serious challenges inherent in fixing a budget process in need of an overhaul. Finally, it maintains prior year cuts to some areas of government while boosting resources necessary to pursuing critical improvements. I humbly ask your support for these priorities as we move into the 2018 legislative session.

Sincerely,

A handwritten signature in black ink that reads "Mary Fallin".

Mary Fallin
Governor

Denise M. Northrup
Director



Mary Fallin
Governor

February 5, 2018

Governor Fallin:

Please accept this, your executive budget for the FY-2019 budget year. The budget is balanced as required by law.

The budgets of all state agencies, boards and commissions were thoroughly reviewed in the preparation of this budget. State agency administrators and their staff provided information necessary for this budget review. They also made suggestions to improve the efficiency and effectiveness of the delivery of services by their agencies. Our examination included a review of management efficiencies and innovations, alternative funding methods, tax policies, expenditures and revenue enhancement proposals.

The budget development process was inclusive of many interested parties, including you and representatives of your staff who joined in meetings with agencies and offered ideas and suggestions.

Thank you for all of your time and attention in the development of the budget. To others involved in this process, I extend my appreciation for their input. I also want to thank analysts with the Budget Division for their diligence, hard work and dedication.

Respectfully,

Denise M. Northrup

Director

OKLAHOMA OFFICE OF MANAGEMENT AND ENTERPRISE SERVICES

February 5, 2018

**Citizens of the State of Oklahoma
Members of the Second Regular Session
of the Fifty-Sixth Legislature**

“FY-2019 EXECUTIVE BUDGET and HISTORICAL INFORMATION”

Governor Mary Fallin’s FY-2019 budget consists of her budget recommendations to the 2018 Legislature, as well as a discussion of state revenues, a summary of her proposed budget and explanations of budget recommendations for state agencies. This document is available on the Internet. It can be viewed by accessing the Oklahoma Home Page, the Home Page of the Office of the Governor, or the Home Page of the Office of Management and Enterprise Services. The Oklahoma Home Page address is: <http://www.ok.gov>

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Executive Summary

Executive Summary

During her tenure as CEO of the State of Oklahoma, Governor Fallin has recommended common sense reforms to create stability and predictability in the revenue estimation and budgeting process. She has also recommended government modernization efforts to create efficiencies and save the state millions of dollars. Some of those are now law, but many remain just ideas and the uncertainty and volatility surrounding funding state government remain realities. Recently, a nonpartisan group of business, civic and community leaders came together to develop the Step Up Oklahoma plan. This plan represents yet another approach to stabilize state revenue and reform government to increase efficiency and cut abuse, all while funding core services and providing a long overdue teacher pay raise.

As such, Governor Fallin's FY 2019 Executive Budget recommends implementing these bold reforms and revenue measures, repairing the structural deficit that currently exists in Oklahoma state government. To begin reversing the detrimental trend of diverting revenues off-the-top for specific purposes, most new revenues proposed in this executive budget would be directed to the General Revenue Fund for discretionary appropriation by elected officials. The FY 2019 Executive Budget is balanced and proposes appropriations of \$7.28 billion. When adjusted for inflation, this budget is still over \$1 billion less than the FY 2009 appropriated budget. Further, this budget includes \$289.5 million for a \$5,000 teacher pay raise.

Revenue Changes

Recurring revenues for appropriation proposed in Governor Fallin's FY 2019 budget are:

Cigarette Tax

\$231.7 million

Smoking remains the number one preventable cause of death in Oklahoma, killing more people than AIDS, alcohol, car accidents, illegal drugs, murders and suicides combined. Increasing the price point of cigarettes is the single most effective strategy to reduce tobacco consumption, especially among youth. Oklahoma's annual health care costs caused by smoking are \$1.62 billion. Oklahoma currently ranks 36th in the nation with a rate of \$1.03 per pack and this budget proposes a \$1.50 increase, which would bring us to 13th in the nation.

Gross Production Tax on Oil and Natural Gas

\$126.7 million

All wells currently taxed at 2% will be increased to 4% and all future wells will begin at 4% for the first 36 months and move to 7% after.

Little Cigars and Chewing Tobacco

\$12.2 million

The proposal is to tax products falling within the little cigar category at the same tax rate as cigarettes. The current tax rate for little cigars is \$0.036 per little cigar. The new rate would be \$0.0515. The amendment would conform Oklahoma law to federal law that now taxes all little cigars at the same rate as cigarettes (effective April 1, 2009). The proposal also levies an additional 10% tax on chewing tobacco.

Motor Fuel Tax

\$163.4 million

Oklahoma currently ranks 49th in the country for both gasoline tax at \$0.17 per gallon and for diesel tax at \$0.14 per gallon, and ranks lowest in the region for motor fuel tax rates, which averages at \$0.2014 cents per gallon for gasoline and \$0.2050 per gallon of diesel. An increase of \$0.06 per gallon, as proposed, keeps Oklahoma's motor fuel tax rates well below the national average of over \$0.3356 per gallon for gasoline and \$0.3536 for diesel. Further, this proposal maintains the 8-year plan.

Gross Production Tax on Wind

\$19.2 million

Including the Zero-Emission Income Tax Credit, the Investment / New Jobs Income Tax Credit, a Sales Tax Exemption for manufacturing companies, and an Ad Valorem Tax Exemption, this industry has been incentivized sufficiently to now be a major player in the Oklahoma energy industry, and a major winner of now unnecessary incentives. As such, Governor Fallin proposes to begin taxing the production of wind energy at \$1 per *MWh* produced.

Transferable/Refundable Income Tax Credits

\$13.9 million

This proposal repeals the transferability and cash refundability for corporations eligible for coal, wind and railroad tax credits.

Simplification of Individual Income Tax

\$129.2 million

Per the Step Up Oklahoma Plan, reform components of this compromise include:

1. Caps itemized deductions at \$22,500, with no cap on charitable contributions.
2. Two intermediate rates are added, currently taxed at 5.00 percent:
 - a. 4.60% on taxable income between \$7,200 to \$17,999 (single) and between \$12,200 and \$35,999 (joint/head of household).

- b. 4.80% on taxable income between \$18,000 and \$49,999 (single) and between \$36,000 and \$99,999 (joint/head of household).
- 3. Offers a three-tiered per return credit, for returns with adjusted gross income (AGI) of:
 - a. Less than \$16,000 - \$70.00 credit (non-refundable).
 - b. Less than \$32,000 - \$65.00 credit (non-refundable).
 - c. Less than \$50,000 - \$50.00 credit (non-refundable).
- 4. Reduces standard deduction amounts and disallows personal exemption.

This component of the Step Up Plan causes no change to the top marginal rate of 5.0%, while causing 55% of filers to see a reduction or no change in tax liability.

Gaming Modernization

The Step Up Oklahoma Plan includes a reform to allow Indian casinos to use balls and dice in their craps and roulette games, which will likely increase the state’s revenue from exclusivity fees. However, neither the Oklahoma Tax Commission nor of the Office of Management and Enterprise Services will provide a revenue estimate, and as such the Governor’s budget does not include an impact from this change. It would be in the state’s best fiscal interest to consider this proposal, via the Tribal and State Gaming Compact. These efforts will maximize projected revenues for the State of Oklahoma.

Expenditure Changes

Governor Fallin’s budget makes \$431.7 million in targeted expenditure increases across 11 agencies for FY 2019, as well as providing one-time appropriations for four agencies. Further, the FY 2019 Executive Budget assumes that the three agencies impacted by the Supreme Court ruling 2017-63, which overturned the revenue raising measures of SB 845, receive the additional \$66.5 million to make their FY 2018 budgets whole.

One-Time Appropriation Increases

- | | |
|--|-----------------|
| • Health Care Authority for loss of federal funding for teaching hospitals | \$141.8 million |
| • State Board of Education for Ad Valorem Reimbursement | \$92.7 million |
| • Long-Range Capital Planning Commission for infrastructure | \$37.7 million |
| • Capitol Bond Debt Service | \$13.9 million |

Targeted Appropriation Increases for FY 2019

Governor Fallin’s budget includes the following targeted appropriation increases:

- Department of Education
 - \$289.5 million for \$5,000 teacher pay raise.
 - \$22.6 million for annual flexible benefit allowance increase.

- Department of Transportation
 - \$55.5 million to restore State Transportation Fund to December Board of Equalization estimate.
- Department of Mental Health and Substance Abuse Services
 - \$25 million for Oklahoma Justice Reform initiatives.
- Department of Corrections
 - \$5.5 million for lease increase at Sayre Facility.
 - \$5 million for Oklahoma Justice Reform initiatives.
- Department of Human Services
 - \$17.0 million for Pinnacle Plan.
- Department of Commerce
 - \$5 million for the Closing Fund.
- Department of Emergency Management
 - \$3 million for the State Emergency Fund.
- Legislative Services Bureau
 - \$2 million for Agency Performance and Accountability efforts.
- Pay for Success Contract
 - \$500,000.
 - Legislation passed in 2014 authorized the state to contract for Pay for Success programs, and in 2017 the state entered into a contract with Tulsa’s Family and Children’s Services to partner with their Women in Recovery program to reduce incarceration rates for women. Over the next several years, the success of that program will be evident and the bills for various milestones will be payable. OMES manages that contract.
- Court of Criminal Appeals
 - \$307,000 for operations.
- Pardon and Parole Board
 - \$1.2 million for increased staffing costs to support Oklahoma Justice Reform Initiatives.

The governor also acknowledges that agency costs are increasing, while appropriation levels remain flat or have decreased. To that end, and to help address the rising costs of health insurance that exceed the current benefit allowance agencies receive, this budget includes \$5.9 million for appropriated agencies to address increased health insurance costs.

	FY-2018 Appropriation	Final FY-2019 Budget Book	\$ From FY-2018 to FY-2019	% From FY-2018 to FY-2019
Governor	\$1,641,031	\$1,641,031	\$0	0.00%
TOTAL GOVERNOR	\$1,641,031	\$1,641,031	\$0	0.00%
Lt. Governor	\$372,730	\$372,730	\$0	0.00%
TOTAL LT. GOVERNOR	\$372,730	\$372,730	\$0	0.00%
Agriculture, Department of Conservation Commission	\$23,566,136 \$9,706,643	\$23,566,136 \$9,706,643	\$0 \$0	0.00% 0.00%
TOTAL AGRICULTURE	\$33,272,779	\$33,272,779	\$0	0.00%
Commerce, Department of Labor, Department of	\$20,817,997 \$3,517,371	\$25,817,997 \$3,517,371	\$5,000,000 \$0	24.02% 0.00%
TOTAL COMMERCE	\$24,335,368	\$29,335,368	\$5,000,000	20.55%
Career Technology Education Education, State Department of Educational Television Authority Education Quality & Accountability, Office of Higher Education, Regents for Physician Manpower Training Science and Math, School of	\$112,515,558 \$2,448,399,829 \$2,699,927 \$1,619,898 \$773,597,660 \$3,314,840 \$6,121,709	\$112,515,558 \$2,760,473,764 \$2,699,927 \$1,619,898 \$773,597,660 \$3,314,840 \$6,121,709	\$0 \$312,073,935 \$0 \$0 \$0 \$0 \$0	0.00% 12.75% 0.00% 0.00% 0.00% 0.00% 0.00%
TOTAL EDUCATION and WORKFORCE DEVELOPMENT	\$3,348,269,421	\$3,660,343,356	\$312,073,935	9.32%

	FY-2018 Appropriation	Final FY-2019 Budget Book	\$ From FY-2018 to FY-2019	% From FY-2018 to FY-2019
Corporation Commission	\$9,686,724	\$9,686,724	\$0	0.00%
Environmental Quality, Department of	\$5,695,766	\$5,695,766	\$0	0.00%
Mines, Department of	\$737,987	\$737,987	\$0	0.00%
Water Resources Board	\$5,247,261	\$5,247,261	\$0	0.00%
TOTAL ENERGY and ENVIRONMENT	\$21,367,738	\$21,367,738	\$0	0.00%
Auditor and Inspector	\$3,463,220	\$3,463,220	\$0	0.00%
Land Office, Commissioners of	\$8,538,600	\$8,538,600	\$0	0.00%
Management and Enterprise Services	\$33,433,288	\$34,601,436	\$1,168,148	3.49%
Merit Protection Commission	\$361,235	\$361,235	\$0	0.00%
Tax Commission	\$44,025,648	\$44,025,648	\$0	0.00%
Treasurer	\$2,678,333	\$2,678,333	\$0	0.00%
TOTAL FINANCE, ADMINISTRATION and INFORMATION	\$92,500,324	\$93,668,472	\$1,168,148	1.26%
TECHNOLOGY				
Children and Youth, Commission	\$1,658,129	\$1,658,129	\$0	0.00%
Disability Concerns, Office of	\$233,683	\$233,683	\$0	0.00%
Health Care Authority*	\$1,025,516,034	\$1,025,516,034	\$0	0.00%
Health, Department of	\$53,083,790	\$53,083,790	\$0	0.00%
Human Services, Department of*	\$699,912,926	\$716,908,926	\$16,996,000	2.43%
J.D. McCarty Center	\$3,858,654	\$3,858,654	\$0	0.00%
Juvenile Affairs	\$91,531,914	\$91,531,914	\$0	0.00%
Mental Health & Substance Abuse*	\$327,990,166	\$352,990,166	\$25,000,000	7.62%
OSU Medical Authority	\$10,848,447	\$10,848,447	\$0	0.00%
Rehabilitation Services, Depart.	\$29,563,631	\$29,563,631	\$0	0.00%
University Hospitals Authority	\$37,669,106	\$37,669,106	\$0	0.00%
TOTAL HEALTH and HUMAN SERVICES	\$2,281,866,480	\$2,323,862,480	\$41,996,000	1.84%

	FY-2018 Appropriation	Final FY-2019 Budget Book	\$ From FY-2018 to FY-2019	% From FY-2018 to FY-2019
Military, Department of	\$9,969,071	\$9,969,071	\$0	0.00%
TOTAL MILITARY	\$9,969,071	\$9,969,071	\$0	0.00%
ABLE	\$2,457,982	\$2,457,982	\$0	0.00%
Attorney General	\$10,069,185	\$10,069,185	\$0	0.00%
Corrections, Department of	\$486,011,555	\$496,511,555	\$10,500,000	2.16%
District Attorneys and DAC	\$32,789,853	\$32,789,853	\$0	0.00%
Emergency Management	\$479,112	\$3,479,112	\$3,000,000	626.16%
Indigent Defense System	\$15,960,193	\$15,960,193	\$0	0.00%
Investigation, State Bureau of	\$11,892,347	\$11,892,347	\$0	0.00%
CLEET	\$2,770,481	\$2,770,481	\$0	0.00%
Medicolegal Investigations	\$10,970,946	\$10,970,946	\$0	0.00%
OBND	\$2,940,729	\$2,940,729	\$0	0.00%
Pardon and Parole Board	\$2,182,281	\$2,489,281	\$307,000	14.07%
Public Safety, Department of	\$95,381,531	\$95,381,531	\$0	0.00%
TOTAL SAFETY and SECURITY	\$673,906,195	\$687,713,195	\$13,807,000	2.05%
Science & Technology, Center for	\$13,422,892	\$13,422,892	\$0	0.00%
Space Industry Development Auth.	\$290,324	\$290,324	\$0	0.00%
TOTAL SCIENCE and TECHNOLOGY	\$13,713,216	\$13,713,216	\$0	0.00%
Election Board	\$7,838,014	\$7,838,014	\$0	0.00%
Ethics Commission	\$703,723	\$703,723	\$0	0.00%
Libraries, Department of	\$4,386,780	\$4,386,780	\$0	0.00%
TOTAL SECRETARY OF STATE	\$12,928,517	\$12,928,517	\$0	0.00%

	FY-2018 Appropriation	Final FY-2019 Budget Book	\$ From FY-2018 to FY-2019	% From FY-2018 to FY-2019
Arts Council	\$2,795,181	\$2,795,181	\$0	0.00%
Historical Society	\$10,905,904	\$10,905,904	\$0	0.00%
J.M. Davis Memorial Commission	\$230,612	\$230,612	\$0	0.00%
Tourism and Recreation, Department	\$16,491,208	\$16,491,208	\$0	0.00%
TOTAL TOURISM	\$30,422,905	\$30,422,905	\$0	0.00%
Transportation, Department of **	\$155,047,956	\$210,216,767	\$55,168,811	35.58%
TOTAL TRANSPORTATION	\$155,047,956	\$210,216,767	\$55,168,811	35.58%
Veterans Affairs, Department of	\$30,846,072	\$30,846,072	\$0	0.00%
TOTAL VETERANS AFFAIRS	\$30,846,072	\$30,846,072	\$0	0.00%
House of Representatives	\$11,888,612	\$11,888,612	\$0	0.00%
Legislative Service Bureau	\$13,795,585	\$15,795,585	\$2,000,000	14.50%
Senate	\$8,880,811	\$8,880,811	\$0	0.00%
TOTAL LEGISLATURE	\$34,565,008	\$36,565,008	\$2,000,000	5.79%
Court of Criminal Appeals	\$3,604,788	\$4,104,788	\$500,000	13.87%
District Courts	\$54,615,000	\$54,615,000	\$0	0.00%
Supreme Court	\$14,745,465	\$14,745,465	\$0	0.00%
TOTAL JUDICIARY	\$72,965,253	\$73,465,253	\$500,000	0.69%
REAP	\$9,187,761	\$9,187,761	\$0	0.00%
Total Appropriation	\$6,847,177,825	\$7,278,891,719	\$431,713,894	6.30%

FY-2019 Certified Revenues		\$6,906,936,854
Revenue Adjustments		
Commissioners of the Land Office Excess Certification		-\$722,046
TOTAL FY-2019 REVENUE FROM STEP UP OKLAHOMA PLAN		\$696,341,155
Total Revenue		\$7,602,555,963
FY-2018 Baseline Appropriation		\$6,847,177,825
FY-2019 Appropriation Adjustments		
\$5,000 teacher pay raise		\$289,465,935
State Transportation Fund Restoration**		\$55,168,811
Criminal Justice Reform		\$30,000,000
SDE Flexible Benefit Allowance Increase		\$22,608,000
Pinnacle Plan		\$16,996,000
State Employee Health Insurance Increase***		\$5,868,000
Sayre Lease Increase, Department of Corrections		\$5,500,000
Closing Fund, Department of Commerce		\$5,000,000
Emergency Fund		\$3,000,000
Agency Performance and Accountability		\$2,000,000
Pardon and Parole Board		\$1,168,148
Pay for Success Contract		\$500,000
Court of Criminal Appeals		\$307,000
Total FY-2019 Operating Budget		\$7,284,759,719
One Time Funding Adjustments		
Loss of CMS / GME Revenue		\$141,814,630
Ad Valorem Reimbursement		\$92,700,000
Long Range Capital Planning Commission		\$37,677,044
Capitol Bond Debt Service		\$13,864,662
Total Expenditures		\$7,570,816,055
Total Difference		\$31,739,908

*These amounts reflect original funding levels for FY-2018, which are higher than what the agencies have actually received from state appropriations to date. The Governor intends to fully fund those agencies, and the increases in funding to achieve those levels are as follows:

Health Care Authority*	\$	29,421,879
Human Services, Department of*	\$	15,523,237
Mental Health & Substance Abuse*	\$	21,505,017

As this recommended budget is statutorily geared toward FY-2019, and the Governor's expanded call for the Second Special Session of the Legislature hasn't yet been acted on, the Governor would encourage the Legislature to pass the Step Up Oklahoma plan as early as possible in February in the Second Special Session, causing some of the proposals to have a positive fiscal impact in FY-2018. Absent that, the Executive Budget recommends utilizing the \$53.5 million of Prior Year Certified General Revenue, as reflected in the December Board of Equalization packet for FY-2019 Certified Revenues, to shore up the majority of this funding gap. That action would leave DHS and ODMHSAS at full FY-2018 intended funding levels, while OHCA would still require an influx of \$12.9 million to be funded at the original FY-2018 level.

**The FY-2018 Budget transferred \$53.5 million from the State Transportation Fund to the Special Cash Fund (SB 860, Section 146). The Executive Budget provides the Department of Transportation with the full estimate of the State Transportation Fund, as included in the December 2017 Board of Equalization packet. This funding level will ensure the agency can operate throughout FY-2019, including fully funding increased debt service costs the agency is will incur for Series 2016.

***This cost is an estimate based on total state spend for state funded health insurance costs at appropriated agencies and estimated benefit increases. As such, it has not been applied to any agency in this budget, but would be appropriated to agencies based on increased benefit costs for actual employees.