

State Budgets &
The Economy

Presentation to the National Association of State
Auditors, Comptrollers and Treasurers

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Economic Outlook for FY 2008

- The last quarter of FY 2007 ended with an optimistic note. Consumer spending is looking up and shortly after the end of the quarter the stock market hits its highest point since 2002 and a record high.
- The first quarter of FY 2008 looks more positive now but not as strong as last year. The positives seem to be that risks are lower but housing will remain weak, gasoline prices high and consumer spending will grow modestly. (Source: Wachovia Economics Group)

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Bright Spots for 2008

- Spending for energy production is up as well as employment in that sector;
- Investment in Bio Fuels is strong;
- Information Technology spending is rebounding strongly;
- Slower consumer spending should cut some demands for import goods and the introduction of expensive capital goods like the Boeing 787 Dreamliner should all work to improve the nation's trade deficit (Source: Wachovia Economics Group)

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National Economic Outlook for State Budgets

- State budget conditions have been strong throughout the nation in fiscal 2007;
- Spending has been above historical averages;
- Only 3 states were forced to cut enacted budgets in 2007 and by a total of only \$170 million;
- By comparison in the recession years of '02 and '03 37 states were forced to cut budgets by aggregate amount of \$12.6 and \$11.7 billion respectively. (Source: June 2007 NSABO)

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Fiscal 2007 State Spending

- 2007 State Spending was strong – growing by 8.6% on average – 2 points above the 29 year historical average.
- 2008 expenditures are anticipated to drop to 4.2 % growth based on Governor’s recommended budgets
- Total year end balances and the balances in budget stabilization funds are \$50.4 billion (8.2%) in 2007 and while decline to \$38.7 billion (6%) in 2008. (Source: June 2007 NSABO)

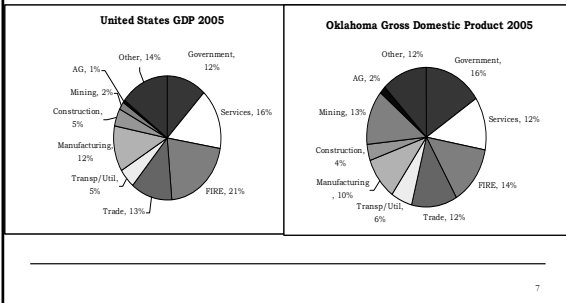
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Oklahoma’s Economy



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Oklahoma: Comparison of National GDP and State GDP (formerly GSP)



Oklahoma Employment and Income

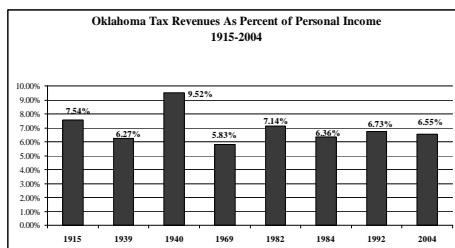
Personal Income

- Oklahoma's Per Capita Personal Income is on the rise
 - Oklahoma's Per Capita Income increased 5.4% from 2004-2005 which ranks Oklahoma 7th in the nation
- Oklahoma's PCPI is currently \$29,908
- Final 2005 figures show Oklahoma's PCPI to be 87% of the national average – Ranking Oklahoma 39th

Employment

- More than 95,000 new jobs have been added to Oklahoma's economy since the 2003 recession
- Oklahoma's current unemployment rate remains among the lowest in the nation at 3.8%
- The national unemployment rate is 4.4%

Oklahoma Taxes As Percent Of The Economy



While there was a sharp increase in 1940, Oklahoma taxes as a percent of Personal Income have remained relatively stable representing on average 7% of personal income.

Recent Major Tax Cuts

- 2005 Session dropped rate from 6.65% to 6.25%
- 2006 Regular Special Sessions
- Dropped tax rate from 6.25% to 5.65% in 2007
- 5.55% in 2008
- 5.50% in 2009
- And if state revenues continue to grow at least 4% the top rate will drop to 5.25% in 2010

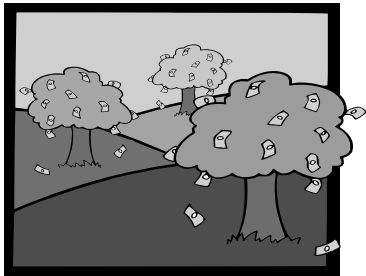
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Oklahoma and Energy Prices

- Chesapeake Energy's July estimate for the average price of gas for the year ending in December of 2006 was \$7.57/mcf natural gas
- \$8.68/mcf was the 12 month average price used for the state's fiscal year budget estimate – current price is \$7.42/mcf – have seen fluctuations up and down from estimate
- Mild weather this past winter left natural gas inventories at high levels – 626 billion cubic feet more than the average for the last 5 years
- According to the U.S. Energy Information Agency September 28th report natural gas prices have dropped sharply again on the spot market- about 11% - current prices are below the estimate
- Natural gas consumption is expected to increase by 9.7% in the 2006-07 heating season given a return to normal winter temperatures

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Where does all the money come from?



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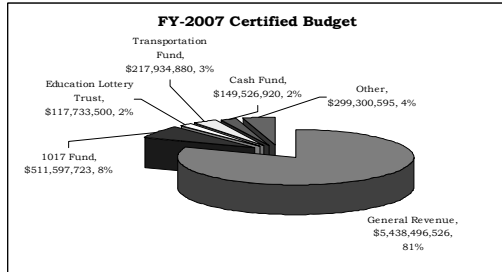
National Picture: Proposed State Revenue Actions

- Personal Income (\$3.017 billion)
- Corporate Income \$3.701 billion
- Cigarettes and Tobacco \$1.22 billion
- Fees \$ 42 million
- Motor Fuels \$92.9 million

Source: NASBO June 2007

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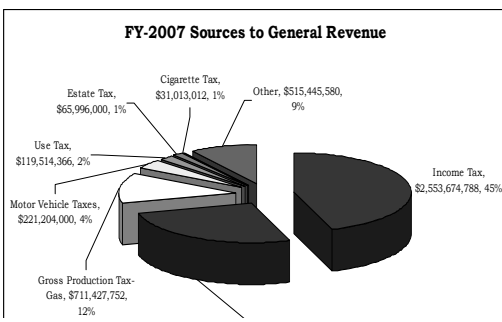
State Certified Budget FY-2007 - \$6.735 Billion



•FY-2008 Certified Budget is \$7.0 Billion
 •\$277 million or 4.1% growth from FY-2007

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General Revenue Fund Sources FY-2007



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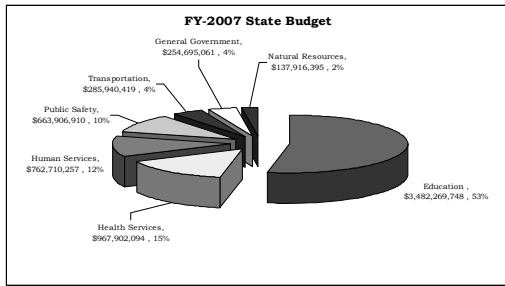
National Picture: State Spending

- \$585 billion in general fund spending nationwide from general fund sources
- Elementary and Secondary Education 35.1%
- Medicaid 18.1%
- Higher Education 11.4%
- Corrections 7%
- Public Assistance 2.1%
- Transportation .8%
- Other 25.5%

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FY-2007 State Budget

\$6.555 Billion (does not include Supplementals)



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FY-07 Top Appropriated Agencies

1	Department of Education	\$2,359,760,489	36%
2	Regents for Higher Education	\$938,533,880	14%
3	Health Care Authority	\$701,964,163	11%
4	Department of Corrections	\$480,004,876	7%
5	Department of Human Services	\$541,188,324	8%
6	Department of Transportation	\$385,411,848	6%
7	Mental Health	\$194,703,800	3%
8	CareerTech	\$147,287,358	2%
8	Office of Juvenile Affairs	\$104,219,585	2%
10	Department of Public Safety	\$93,702,809	1%
11	Department of Health	\$71,234,131	1%
	Total	\$6,018,011,263	92%

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