



Community Action Project  
 717 S. Houston, Suite 200  
 Tulsa, OK 74127  
<http://www.okpolicy.org>

Phone 918.382.3200  
 Fax 918.382.3213  
[publicpolicy@captc.org](mailto:publicpolicy@captc.org)

***State Ballot Question Issue Brief #2***  
**SQ 708: Tapping the Rainy Day Fund**

**In a Nutshell**

**SQ 708 would amend how money in the state’s Rainy Day Fund can be expended. It would allow a portion of the fund’s balance to be spent to meet current year revenue shortfalls while decreasing the amounts that can be spent for upcoming year shortfalls and upon declaration of an emergency.**

**Current Law**

The use of the Constitutional Reserve Fund, or the Rainy Day Fund (RDF), is outlined in Article 10, Section 23 of the Oklahoma Constitution. When General Revenue collections exceed the amount that the State Board of Equalization (BOE) estimated would be collected, those “surplus funds” are put into the RDF. The RDF may grow to be as large as 10% of the prior year’s General Revenue Fund.

Money may be spent from the RDF in two ways. First, up to 1/2 of the RDF balance may be appropriated to stabilize revenue at the beginning of a fiscal year *if* the BOE certifies a General Revenue Fund amount for the upcoming year that is less than the current year’s certified amount. A “stabilization” appropriation may not exceed the difference in the two certification amounts.

Second, up to 1/2 of the RDF balance may be appropriated for “emergencies.” There are two methods for declaring an emergency: The Governor, with the agreement of 2/3 of each the House of Representatives and the Senate, can declare emergency conditions exist; or the Speaker of the House and the President Pro Tempore of the Senate, with the agreement of 3/4 of each the House and Senate, can jointly declare emergency conditions exist without the Governor’s consent.

**The Proposal**

HB 1249 allows SQ 708 to ask voters to approve three changes to the way the RDF can be appropriated. First, it would reduce from 1/2 to 3/8 the amount of the RDF that may be appropriated to stabilize revenue. Second, it would reduce from 1/2 to 1/4 the amount of RDF that may be appropriated for emergencies. (The proposal does not alter the method by which emergencies are declared.) Third, it creates a new way to appropriate funds from the RDF, allowing up to 3/8 of the fund to cover gaps created when actual revenue collections for the current fiscal year do not match appropriations. In this instance of “revenue failure,” the RDF may be used to satisfy appropriations made to any state governmental entity up to the amount of their initial appropriation for that year.

**Amount of Rainy Day Fund Subject to Appropriation, by Appropriation Method**

<b><i>METHOD</i></b>	<b><i>CURRENT</i></b>	<b><i>PROPOSED</i></b>
Declaration of Emergency	Up to 1/2 of the RDF	Up to 1/4 of the RDF
Revenue Stabilization (for upcoming year)	Up to 1/2 of the RDF	Up to 3/8 of the RDF
Revenue Failure (for current year)	No provision	Up to 3/8 of the RDF

**Fiscal Impact**

The intent of SQ 708 is to restrict use of the Constitutional Reserve Fund during years when revenue collections exceed expectations while easing access to the Fund during years when revenue collections come

in under expectations and state agencies would otherwise be required to make cuts. Past use of the Fund indicates that since at least FY '97 the state has come to rely on spending almost the entire amount allowed under the emergency conditions provision – half the balance – even when there is no revenue failure. The actual amount appropriated for “emergency” spending has varied from \$22.7 million for FY '97 to \$170.3 million for FY '03. Revenue stabilization, in contrast, has triggered an appropriation from the RDF only once since its creation in 1985, and that was for \$98.2 million for FY '03.

By FY '04, the amount of RDF available for emergency purposes had fallen under \$100,000. Reducing the amount available for emergencies would slow the bleeding of the fund. At the same time, the provision limiting the size of the RDF to 10% of General Revenue means that, in FY '05 for example, the RDF can grow no larger than \$452 million. The Constitution is silent on what happens to funds once the RDF has reached the 10% limit. SQ 708 would not affect how deposits are made to the RDF.

**Some Pros and Cons of SQ 708**

Pros	Cons
<p>Passage of SQ 708 would help limit spending from the Rainy Day Fund during revenue growth years, thus leaving more funds available to shore up the budget during years when revenues decline.</p> <p>Having a larger Rainy Day Fund at the onset of budget downturns assumes added importance if voters approve SQ 713. This would eliminate the triggers that currently suspend tax cuts when revenues decline and thus provide the state with additional revenue to help address budget shortfalls.</p>	<p>While the amendment will keep the state from spending RDF money in the absence of a revenue shortfall, the fund will still be capped under the Constitution at 10% of General Revenues (about \$450 million based on the FY '05 budget). This amount would still have been insufficient to deal with the severe budget shortfalls of FY '02 - FY'04.</p>

**State Question 708**

This measure amends the Oklahoma Constitution. It amends Section 23 of Article 10. This section involves the Constitutional Reserve Fund also known as the Rainy Day Fund. This measure changes the amount which could be spent from the Rainy Day Fund. The State Board of Equalization would decide if the taxes the state collects each fiscal year will be less than predicted. This is called revenue failure. If this happens, up to three-eighths (3/8) of the Rainy Day Fund could be spent. The total amount spent from the Rainy Day Fund for revenue failure could not exceed the amount of the funds shortage predicted by the State Board of Equalization. The Rainy Day Fund can be used now if the prediction about state tax collections for the current year is less than the prediction made the year before. One-half (1/2) of the fund can be spent now if this occurs. If this measure passes, that amount would change to three-eighths (3/8). Money can now be spent from the Fund for certain emergencies. One-half (1/2) of the Fund can now be spent for these emergencies. This measure would change that amount to one quarter (1/4).

These issue briefs are intended to help Oklahoma voters make informed decisions on the issues before them. For more information, contact Monica Barczak at (918) 382-3354 or [mbarczak@captc.org](mailto:mbarczak@captc.org)  
[www.okpolicy.org](http://www.okpolicy.org)

Community Action Project (CAP) is a comprehensive anti-poverty agency whose mission is to help individuals and families achieve economic self-sufficiency. CAP’s public policy department aims to promote policies that will benefit low-income Oklahomans through research, education, and advocacy.