



## ISSUE BRIEF: Oil And Gas Budget Stabilization Fund

### UNDERSTANDING THE ISSUES: BUDGET STABILIZATION FUND

Revenue from Oklahoma state taxes is extremely volatile. In fact, Oklahoma's year-to-year change in total state tax revenues is the third highest in the nation. Nearly all other states that are heavily dependent on oil and natural gas tax revenue have created budget stabilization funds to boost state budget priorities as well as insulate them from the cyclical and volatile nature of the energy economy.

An oil and gas budget stabilization fund places a percentage of existing tax revenue from oil and natural gas production into an investment fund. Income from the fund is then placed in a state's general revenue fund every year to protect the state budget from drastic cuts in bad economic times and supplement state budget priorities in good times.

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### DIFFERENCE BETWEEN A BUDGET STABILIZATION FUND AND THE STATE'S RAINY DAY FUND

State "Rainy Day Funds" are distinct and different than oil and gas budget stabilization funds. A Rainy Day Fund is designed to serve as a safety net for the state budget. It acts like a savings account for the state by capturing excess tax revenue in good time (until a maximum limit is reached) and making it available to be spent when there are revenue shortfalls.

An oil and gas budget stabilization fund operates more like a long-term endowment for a state by continuing to provide revenue every year to supplement and stabilize a state's budget. In this way, Rainy Day Funds and budget stabilization funds work together to make sure that a state has a solid fiscal foundation in both good and bad economic times.

### WHAT OTHER STATES ARE DOING

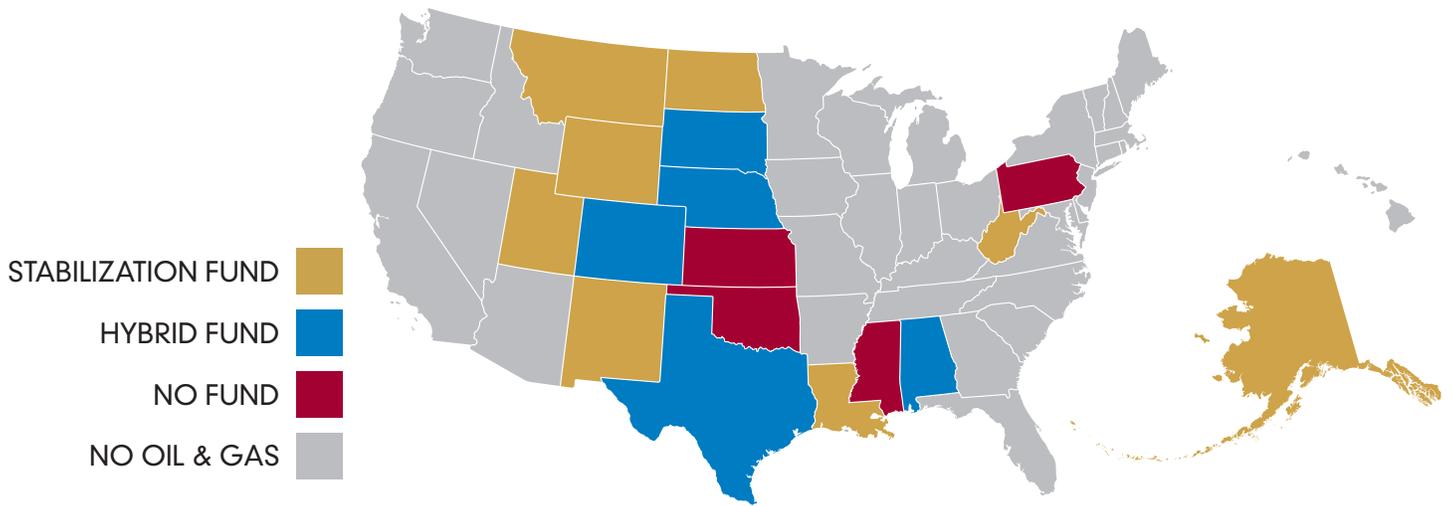
Currently, eight states have an oil and gas stabilization fund. Four of those states are highlighted below.

North Dakota established their Legacy Fund in 2009. Thirty percent of total revenue derived from taxes on oil and gas production or extraction must be transferred to the Legacy Fund. As of November 30, 2018, the [current balance of the Legacy Fund](#) was \$5.8 billion.

Alaska's Constitutional Budget Reserve Fund (CBRF) was established in 1990. All money received by Alaska after July 1, 1990, through resolution of mineral-related income disputes, must be deposited into the CBRF. The CBRF had a [balance of \\$1.71 billion](#) as of December 31, 2018.

Wyoming's Budget Reserve Account (BRA) gets its revenue from federal mineral royalties and state severance taxes. The BRA may also receive minor revenue from inheritance taxes and miscellaneous items. [The BRA had a balance of \\$165.6 million](#) as of December 18, 2018.

New Mexico's Tax Stabilization Reserve Fund gets its revenue from two sources. First, operating reserves exceeding 8% of the ongoing appropriations are transferred to the tax stabilization reserve fund. Second, **additional funds are deposited into the tax stabilization reserve from the oil and gas emergency tax** if annual revenue exceeds the five-year average income. As of March 2018, New Mexico's Tax Stabilization Reserve Fund was projected at that time to reach \$15.5 million by FY 2019.



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