



REVENUE FORECASTING

OKLAHOMA TAX COMMISSION

OMES BUDGET OFFICE

Updated February 2025

PURPOSE

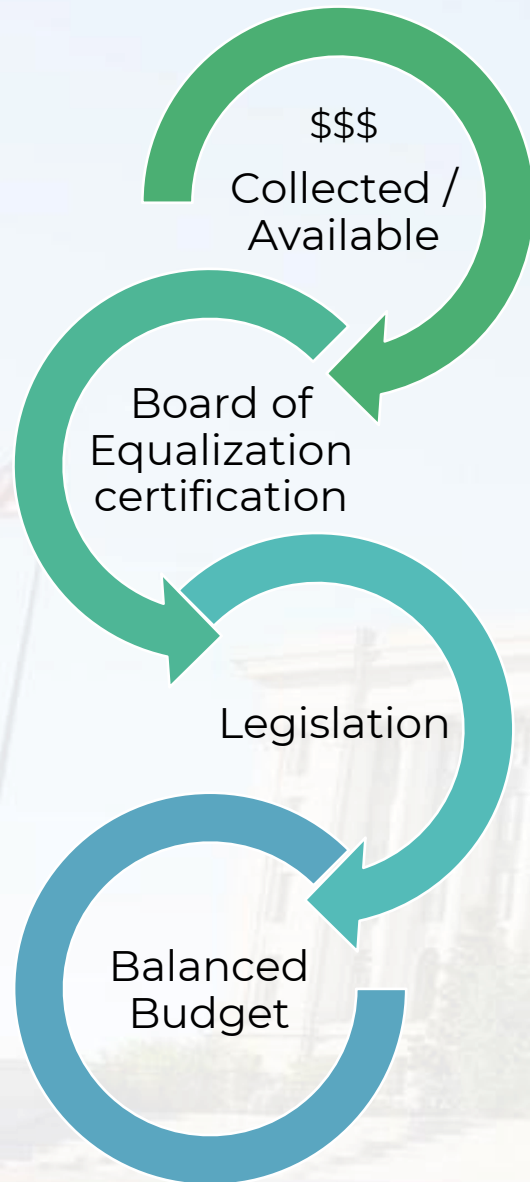
This document is designed to offer detailed information and clarity regarding the forecasting processes carried out by the Oklahoma Tax Commission (OTC) and utilized by the Office of Management and Enterprise Services (OMES). These processes are conducted in advance of the Board of Equalization meetings in December and February each year.

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BUDGET PROCESS – CONSTITUTIONAL REQUIREMENT



- **Art. 10, Section 23 of Oklahoma Constitution requires an annual balanced budget.**
- Board of Equalization (BOE) certifies amount of total revenue from prior fiscal year.
 - \$ amounts provided by OTC and OMES.
- BOE certifies the total amount of revenue expected in the upcoming fiscal year, considering economic changes.
 - Forecast provided by OTC and calculations by OMES.
- BOE certifies 95% of that amount as available for Legislature to spend in upcoming Legislative Session.
- Legislature passes laws during Session and must pass a balanced budget each year before end of Session.

STATE BOARD OF EQUALIZATION - BOE

- BOE has 7 members as set forth by the Oklahoma Constitution, Art. 10, Section 21.

Governor

Lt. Governor

State Auditor &
Inspector

Superintendent
of Public
Instruction

State Treasurer

Attorney
General

Secretary of
Agriculture

- Art. 10, § 23 requires BOE to meet in **December** and **February** to determine upcoming budget.
 - **December-** “Not more than 45 days or less than 35 days prior to the convening of each regular session of the Legislature, the BOE shall certify the total amount of revenue which accrued during the last preceding fiscal year... and shall further certify amounts available for appropriation...” (Effectively within a week of Christmas.)
 - **February** – “The BOE shall meet within 5 days after the monthly apportionment in February of each year, and at that time may adjust the certification, based upon the most current information available, and determine the amount of funds available for appropriation for that legislative session.” (Effectively within a week of President’s Day.)

PROCESS – FORECAST TO BOE CERTIFICATION

OTC develops a revenue forecast of approximately 75 tax types.

OMES calculates the \$\$\$ for General Revenue Fund and various other statutory funds.

OMES presents the \$ amounts to the BOE at the December and February meetings.

BOE certifies the total amount of revenue expected for the upcoming fiscal year to General Revenue and other funds. BOE certifies 95% of that amount for the Legislature to appropriate.

Budget passed by end of Legislative Session according to amount certified by BOE at February meeting.

BOE meets again in June, after session, to examine the budget, and re-certify, modify, or reject funds available for legislative appropriation.

OKLAHOMA TAX COMMISSION'S ROLE

What is OTC's role?

Revenue forecast of the different tax types based on historical collection trends and economic drivers.

- OTC provides the OMES Budget Office with estimates of future tax revenues that comprise most of the General Revenue Fund (GRF).
- 91%* of the GRF consists of OTC tax collections.

Why?

BOE for certification in Dec. and again in Feb, which is revenue used for budget.

- Oklahoma is a balanced budget state, i.e., the Legislature cannot appropriate more than expected revenue for the upcoming fiscal year.
- OMES utilizes OTC's estimate of apportioned tax revenue and incorporates that into its calculation of the revenue that is available for appropriation.

How?

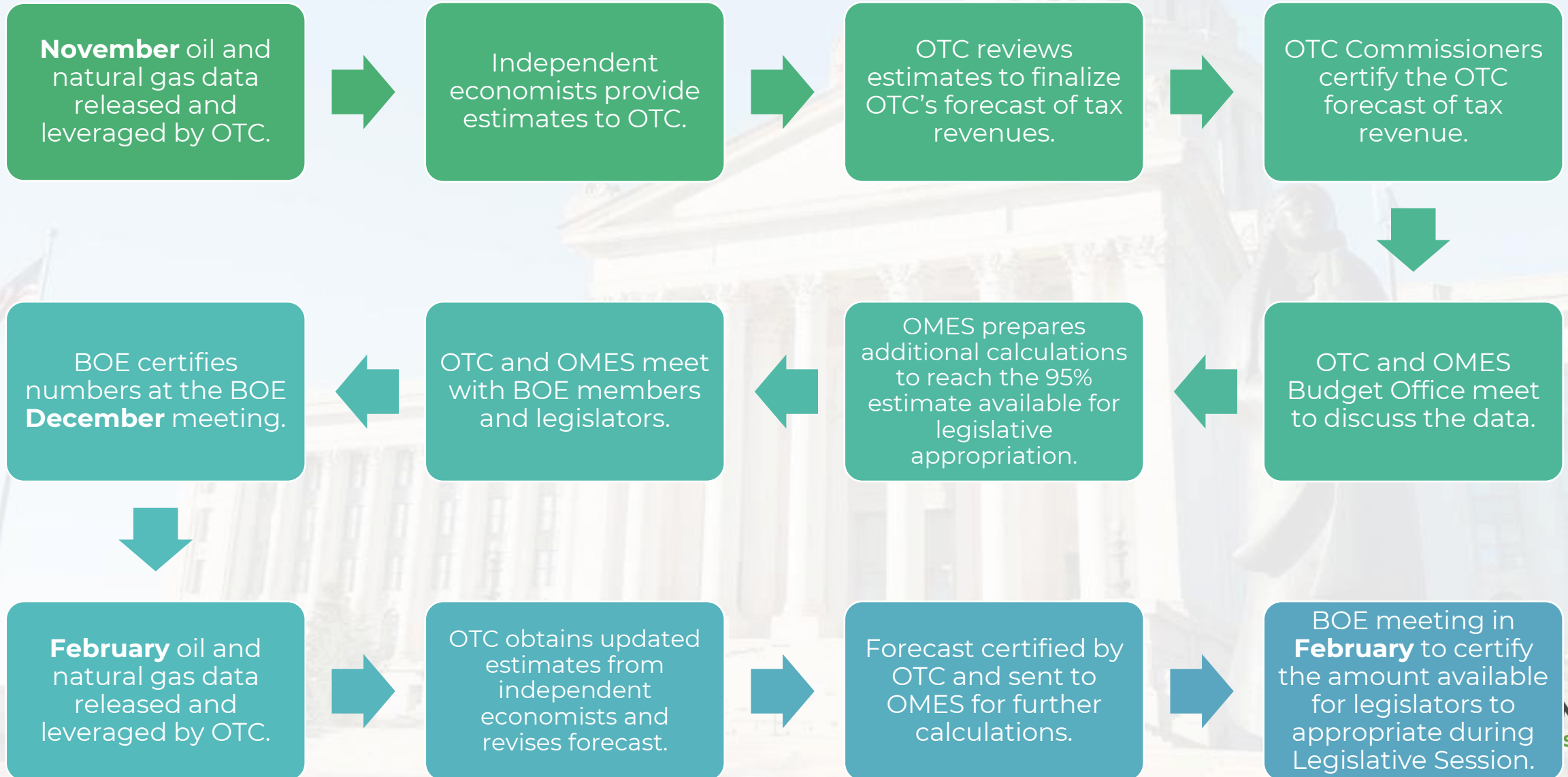
Review actual tax data.
Forecast using a balanced methodology.

- In addition to OTC's internal economists, the OTC leverages two additional independent economists as part of the forecasting process.
 - Oklahoma State University – Dr. Dan Rickman
 - RegionTrack – Dr. Mark Snead



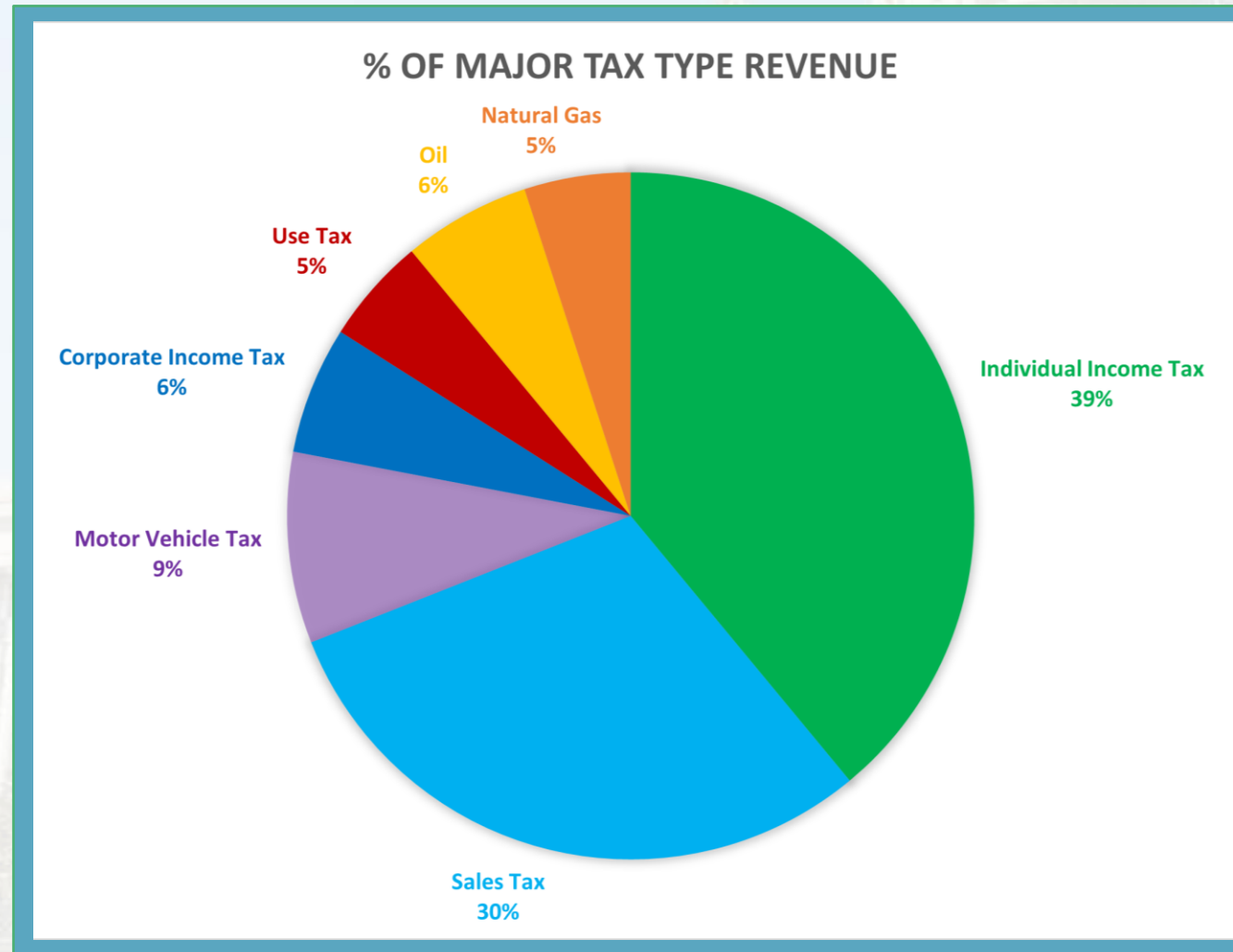
*FY24 BOE packet.

TIMELINE (NOVEMBER - FEBRUARY)



OTC REVENUE- MAJOR TAX TYPES

- Seven major tax types make up approx. 90%* of all tax revenue collected by OTC.



OTHER REPORTING AGENCIES

In addition to OTC, 20 other state agencies report revenues contributing to state funds.

- ~10% of state fund revenue
 - Fees and industry-specific taxes, i.e. premium taxes.
 - Agencies self-report and determine estimation methodology.
- | | |
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| <ul style="list-style-type: none">• ABLE Commission• Oklahoma Attorney General• OMES• District Attorneys Council• Oklahoma Dept. of Transportation• Oklahoma Horse Racing Commission• Oklahoma Insurance Dept.• Oklahoma Dept. of Labor• Commissioners of the Land Office• C.L.E.E.T.• Oklahoma Lottery Commission | <ul style="list-style-type: none">• Board of Medical Licensure & Supervision• Oklahoma Board of Nursing• Oklahoma Dept. of Public Safety• Oklahoma Secretary of State• Oklahoma Dept. of Securities• Oklahoma Dept. of Consumer Credit• Service Oklahoma• Oklahoma Supreme Court• Oklahoma State Treasurer |
|--|--|

OTC FORECASTING– 5 MAJOR TAXES METHODOLOGY

Economists
prepare
estimates

- OTC's independent economists (OSU & Region Track) provide **low, base, and high case scenarios** for each tax type.
- The estimates from each economist generally only vary between 2-3%.

OTC
chooses
scenario

- OTC's economist reviews the scenarios from each independent economist and chooses the most likely scenario (low, base, or high) based on **economic trends, industry data, and actual collections** data.

OTC
chooses
estimates

- Once the scenario is chosen, the OTC economist reviews the estimates for that scenario from each independent economist and chooses the most likely **estimate for each tax type**, based on economic trends, industry data, and actual collections.
- The final product is the **final forecast** of the 5 major tax revenue sources.

OTC FORECASTING– SELECTION METHODOLOGY

December 2024 Major Tax Type		OSU		RegionTrack		Final Selection	
		FY25	FY26	FY25	FY26	FY25	FY26
Income Tax	Individual	\$ 4,656,063,046	\$4,872,470,600	\$4,698,314,308	\$ 4,829,025,291	\$ 4,698,314,308	\$ 4,829,025,291
	Corporate	603,725,309	601,225,620	636,840,597	616,462,349	603,725,309	601,225,620
Sales Tax		2,937,804,011	2,912,828,000	2,961,446,332	3,066,288,911	2,937,804,011	2,912,828,000
Motor Vehicle Tax		782,834,173	803,393,140	852,529,263	876,574,596	852,529,263	876,574,596
Use Tax		660,934,899	696,924,400	659,958,259	704,381,825	660,934,899	696,924,400
Sub-total		\$ 9,641,361,437	\$9,886,841,760	\$9,809,088,759	\$10,092,732,971	\$ 9,753,307,789	\$ 9,916,577,907

- **Largest tax type → Income Tax is selected first**
 - Selected **Region Track**'s estimates for **individual income tax**- estimates larger growth in FY25, aligns with 8.8% increase in withholding through Oct. 2024.
 - **OSU**'s more conservative estimate for **corporate** income tax was selected due to corporate income tax's steady downtrend in the past 2 years, to balance the optimistic choice for individual income tax, and due to corporate's known volatility.
- **2nd largest tax type → Sales Tax is selected second**
 - **OSU**'s conservative estimates selected - sales tax revenue is weak year-to-date, down 1.1% through Sept. 2024 and 4.5% through Oct. (\$308 million "grocery sales tax" cut). Motor vehicle sales tax revenue is down 16% year-to-date, due to a legislative change to allow a trade-in to reduce purchase price for calculating sales tax.
- **3rd largest tax type → Motor Vehicle Tax is selected third –**
 - **Region Track**'s higher estimates selected - aligns with year-to-date actuals that are up 8%, and to balance the lower Sales Tax estimate.
- **4th largest tax type → Use Tax is selected fourth**
 - **OSU**'s conservative estimates were selected for use tax because sales and use tax data have remained weak in the past several quarters of data.

FY25 (Dec.) - RECONCILING GROSS COLLECTIONS TO APPORTIONABLE AMOUNTS

FY25 Forecast - December 2024						
Major Tax Type	Forecast Selection	OTC Internal*	Adjusted	Off-the-Top	Refunds&Incentives	Apportionable
Income Tax	Individual		\$ 4,698,314,308	\$ (347,175,066)		\$ 4,351,139,242
	Corporate		603,725,309	(4,000,000)		599,725,309
Sales Tax		142,631,434	3,080,435,445	(312,378,786)		2,768,056,659
Motor Vehicle Tax		72,921,261	925,450,524			925,450,524
Use Tax			660,934,899			660,934,899
GP Tax - Gas			371,235,252		(1,148,092)	370,087,160
GP Tax - Oil			625,879,627		(1,001,810)	624,877,817
Total	\$ 9,753,307,789	\$ 215,552,695	\$ 10,965,975,363	\$ (663,553,852)	\$ (2,149,902)	\$ 10,300,271,609

RegionTrack Forecast
OSU Forecast

*Amounts not forecasted by OSU or Region Track (i.e., sales tax on motor vehicles, motor vehicle permits, etc.).

Parental Choice Tax Credits (Legislation)	\$175
Quality Jobs Program	\$46
Economic Development Pooled Finance	\$80
Workers Comp Assessment Rebates	\$31
Other Income Tax Legislative Changes	\$15
Affordable Housing Credit (Legislation)	\$4
Grocery sales tax (Legislation, 9 month impact)	\$308
Sales tax holiday	\$4
Total (millions)	\$663

FY26 (Dec.) - RECONCILING GROSS COLLECTIONS TO APPORTIONABLE AMOUNTS

FY26 Forecast - December 2024						
Major Tax Type	Forecast Selection	OTC Internal*	Adjusted	Off-the-Top	Refunds&Incentives	Apportionable
Income Tax	Individual		\$ 4,829,025,291	\$ (422,175,066)		\$ 4,406,850,225
	Corporate		601,225,620	(4,070,000)		597,155,620
Sales Tax		142,631,434	3,055,459,434	(423,433,466)		2,632,025,968
Motor Vehicle Tax		74,226,133	950,800,729			950,800,729
Use Tax			696,924,400			696,924,400
GP Tax - Gas			488,088,895		(17,500,000)	470,588,895
GP Tax - Oil			588,375,918		(17,500,000)	570,875,918
Total	\$ 9,916,577,907	\$ 216,857,567	\$ 11,209,900,287	\$ (849,678,532)	\$ (35,000,000)	\$ 10,325,221,755

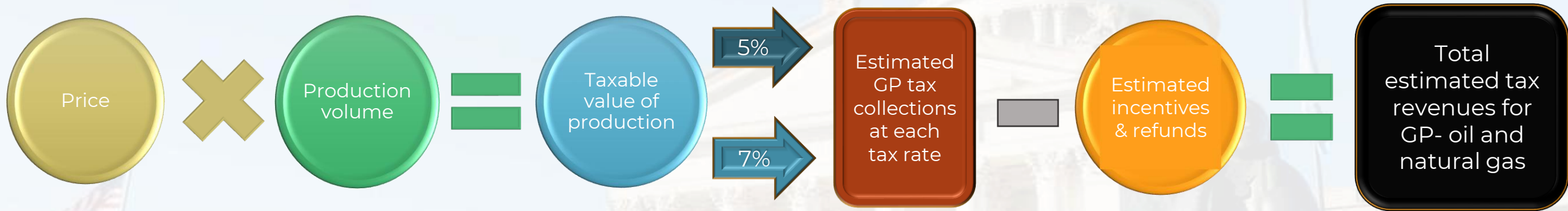
RegionTrack
Forecast

OSU
Forecast

*Amounts not forecasted by OSU or Region Track (i.e., sales tax on motor vehicles, motor vehicle permits, etc.).

Parental Choice Tax Credits (Legislation)	\$250
Quality Jobs Program	\$46
Economic Development Pooled Finance	\$80
Workers Comp Assessment Rebates	\$31
Other Income Tax Legislative Changes	\$15
Affordable Housing Credit (Legislation)	\$4
Grocery sales tax (Legislation, 12 month impact)	\$419
Sales tax holiday	\$4
Total (millions)	\$849

METHODOLOGY FOR GROSS PRODUCTION FORECAST



Price is multiplied by the estimated **production** to estimate the **taxable value** of oil and natural gas.

The appropriate **tax rate** is applied to the projected taxable value to **estimate the gross production tax collections** for the upcoming fiscal year.

- 5% for first 36 months
- 7% thereafter
- (68 O.S. § 1001)

Estimated **incentives and refunds** that will be paid in the fiscal year are subtracted.

OIL & GAS TAX REVENUE FORECAST METHODOLOGY

Price

OTC reviews **benchmark prices** provided by **US Energy Information Admin (EIA)***.

- West Texas Intermediate (oil)
- Henry Hub (natural gas)

Calculates **average difference** between benchmark prices and historical Oklahoma average price information (oil & nat. gas).

The average difference is applied to EIA's forecasted price to calculate an estimated **Oklahoma price** for oil & nat. gas.

Production (Volume)

OTC reviews **EIA's production data** and **OTC's production data** to calculate an average growth rate.

Apply the growth rate to prior year data to **estimate future production**.

Historical OTC data reviewed to determine production at **different tax rates** (5% and 7%).



Note: The basis for the OTC's gross production taxes is information from the **U.S. Energy Information Administration (EIA)**. EIA is a principal agency of the U.S. Federal Statistical System responsible for collecting, analyzing, and disseminating energy information to promote sound policymaking, efficient markets, and public understanding of energy and its interaction with the economy and the environment. EIA programs cover data on coal, petroleum, natural gas, electric, renewable and nuclear energy. EIA is part of the U.S. Department of Energy.

TIMING & ASSUMPTIONS

FY25

Initial forecast
December 2023
(19 months out)

Updated – FY25
Budget
February 2024
(17 months out)

Re-estimated
December 2024
(current FY)

Re-estimated
February 2025
(current FY)

FY26

Initial forecast
December 2024
(19 months out)

Updated – FY26
Budget
February 2025
(17 months out)

Re-estimated
December 2025
(current FY)

Re-estimated
February 2026
(current FY)

Key Assumptions

Energy prices
Interest rates
GDP

Inflation Rates
Jobs Report
Income



TIMING OF DATA USED IN FORECAST

- The OTC leverages the latest data available.
- Data typically lags several months depending on the type of data and the reporting requirements.

Major Tax Type	Information Type	DECEMBER BOE Data <i>as-of (through..)</i>	FEBRUARY BOE Data <i>as-of (through..)</i>
Income Tax (Individual/Corporate)	Employment data	November reports (data <i>through</i> October)	January (<i>through</i> December.)
	Gross Domestic Product (GDP) data	September (<i>through</i> Q2 (June))	December (<i>through</i> Q3 (Sept.))
	Personal Income data	September (<i>through</i> Q2 (June))	December (<i>through</i> Q3 (Sept.))
	Actual Collections data	November (<i>through</i> October)	February (<i>through</i> January)
Sales/Use Tax	Personal Income data	September (<i>through</i> Q2 (June))	December (<i>through</i> Q3 (Sept.))
	Inflation data	November (<i>through</i> October)	January (<i>through</i> December)
	Actual Collections data	November (<i>through</i> October)	February (<i>through</i> January)
Motor Vehicle Tax	Inflation	November (<i>through</i> October)	January (<i>through</i> December)
	Interest Rates	November	January
	Personal Income	September (<i>through</i> Q2 (June))	December (<i>through</i> Q3 (Sept.))
Gross Production Tax	Energy prices	November	February
	Weather/Energy demand	November	February
	Rig Counts	November	February

CHALLENGES IN FORECASTING

Policy Changes

Economic
Uncertainty

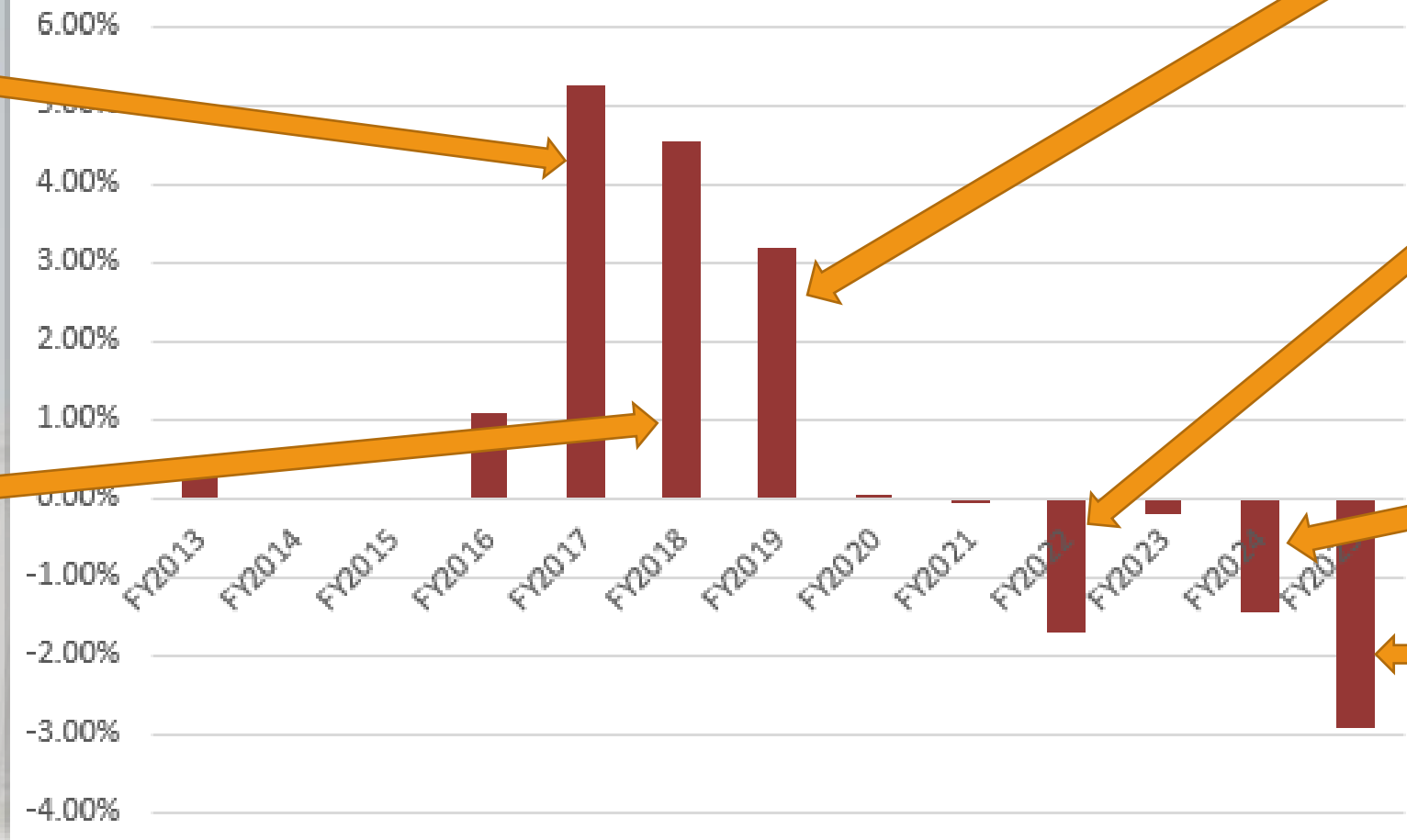
Reliance on Oil &
Gas

Corporate
Income Tax
Volatility



CHALLENGES – POLICY CHANGES

Legislative Impacts as a Share of Revenue



FY2017

SB1604- Earned Income Tax Credit became non-refundable.

SB1606- Requires add back of federal deduction to eliminate income tax double deduction.

SB1577- Rebate for economically at-risk oil/gas leases limited and capped.

FY2018

HB2433- Imposed a 1.25% sales tax on MV.

HB2429- Increase GP tax from 1% to 4%.

HB2428- Freeze state income tax standard deduction to same as federal deduction.

FY2019

HB1010xx - GP tax rate increase from 2% to 5%.

HB1011xx - Imposes \$17,000 cap on itemized deductions to calculate taxable income.

FY2022

HB2962 - Income tax rate reduced by .25%; Earned Income Tax Credit reverted to refundable.

FY2024

HB1934 - Parental Choice Tax Credit, cap of \$150 million.

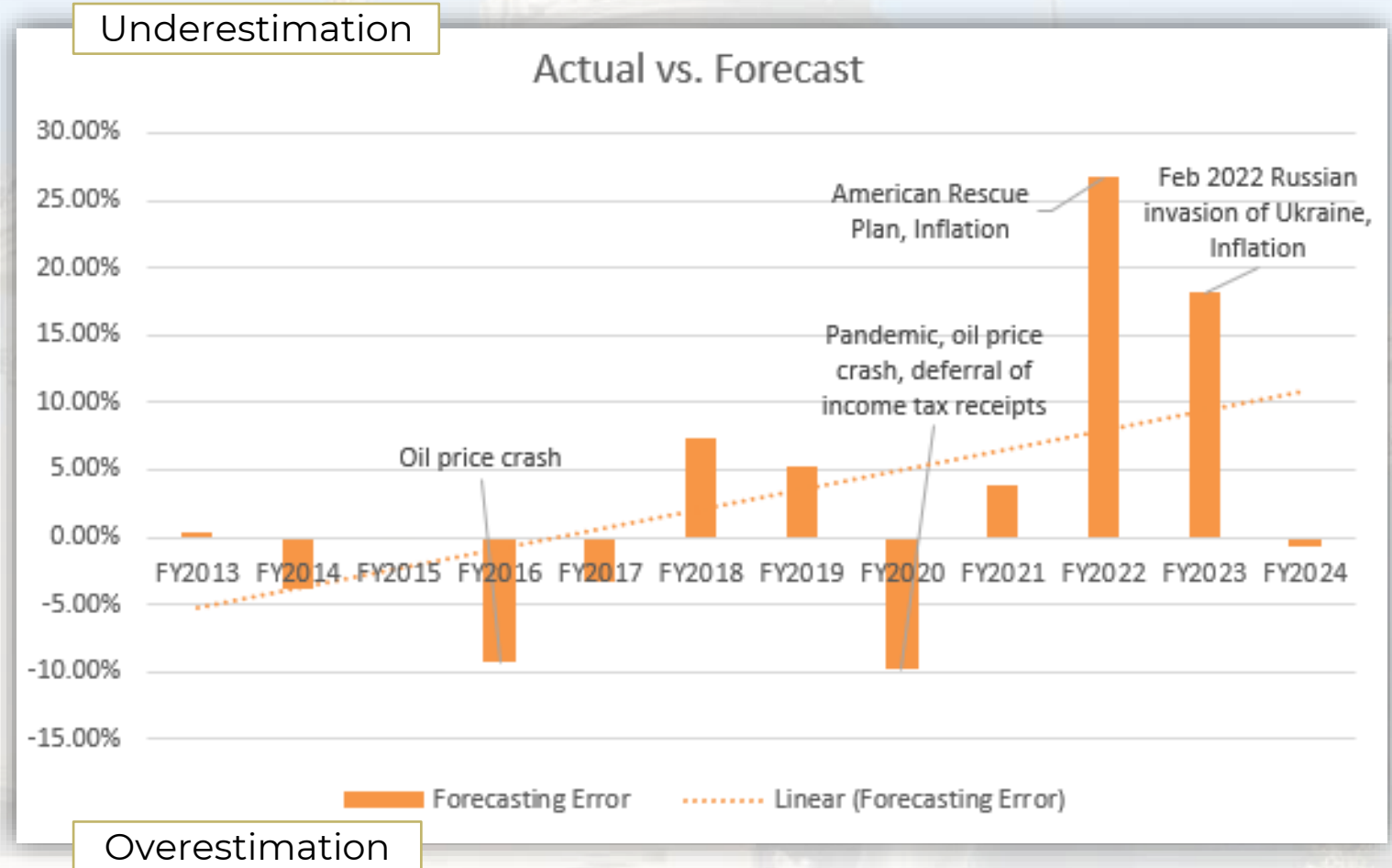
FY2025

HB1955 - Reduced state tax rate on "groceries".

HB3388 - Parental Choice Tax Credit, cap increase to \$250 million.

CHALLENGES – ECONOMIC UNCERTAINTY

- FY23 – Russian invasion of Ukraine caused oil/gas price increase, which resulted in an ~18% underestimation in revenue.
- FY22 – Stimulus payments and inflation increased revenue 25% more than estimated.
- FY20 – the year of Covid, which deferred income tax filings, resulted in almost 10% lower than expected revenue.



CHALLENGES – RELIANCE ON OIL & GAS (SEVERANCE TAX REV.)

Among individual states, those that experienced the largest revenue forecast errors were states that are heavily reliant on the oil and gas industry—and consequently on severance tax revenues. These states face two kinds of heightened volatility: (1) their economies are volatile, reflecting variability in oil and gas prices and production, and (2) their tax structure heavily depends on these volatile economic elements. Both factors significantly complicate revenue forecasting.

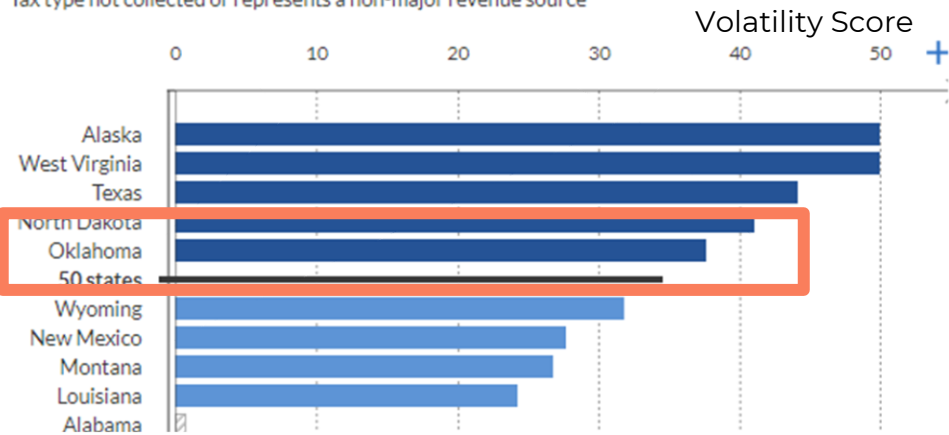
Lucy Dadayan, *Beyond the Crystal Ball: State Revenue Forecasts before, during, and after the COVID-19 Pandemic*, Urban Institute, Urban Brookings Tax Policy Center, June 2024, at 18.

Severance Tax Revenue Volatility by State

Volatility scores based on collections during 15 years ending fiscal year 2022, adjusted for tax policy changes

■ More than 50-state total ■ Less than 50-state total

▨ Tax type not collected or represents a non-major revenue source

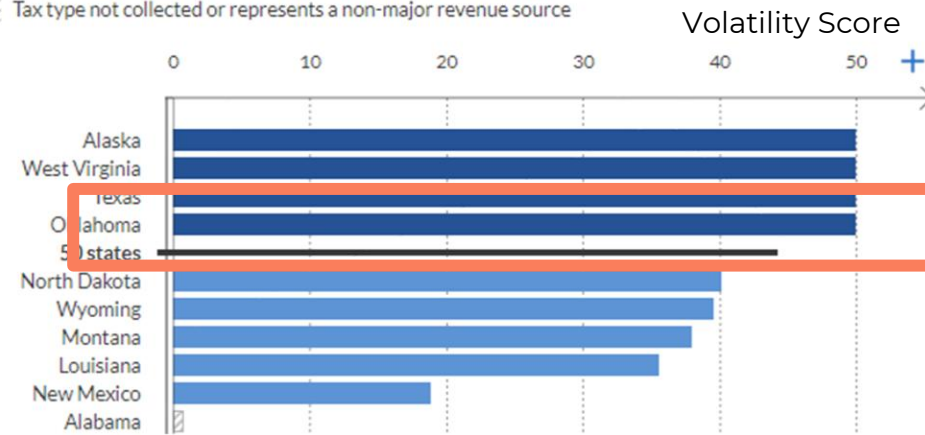


Severance Tax Revenue Volatility by State

Volatility scores based on collections during 5 years ending fiscal year 2022, adjusted for tax policy changes

■ More than 50-state total ■ Less than 50-state total

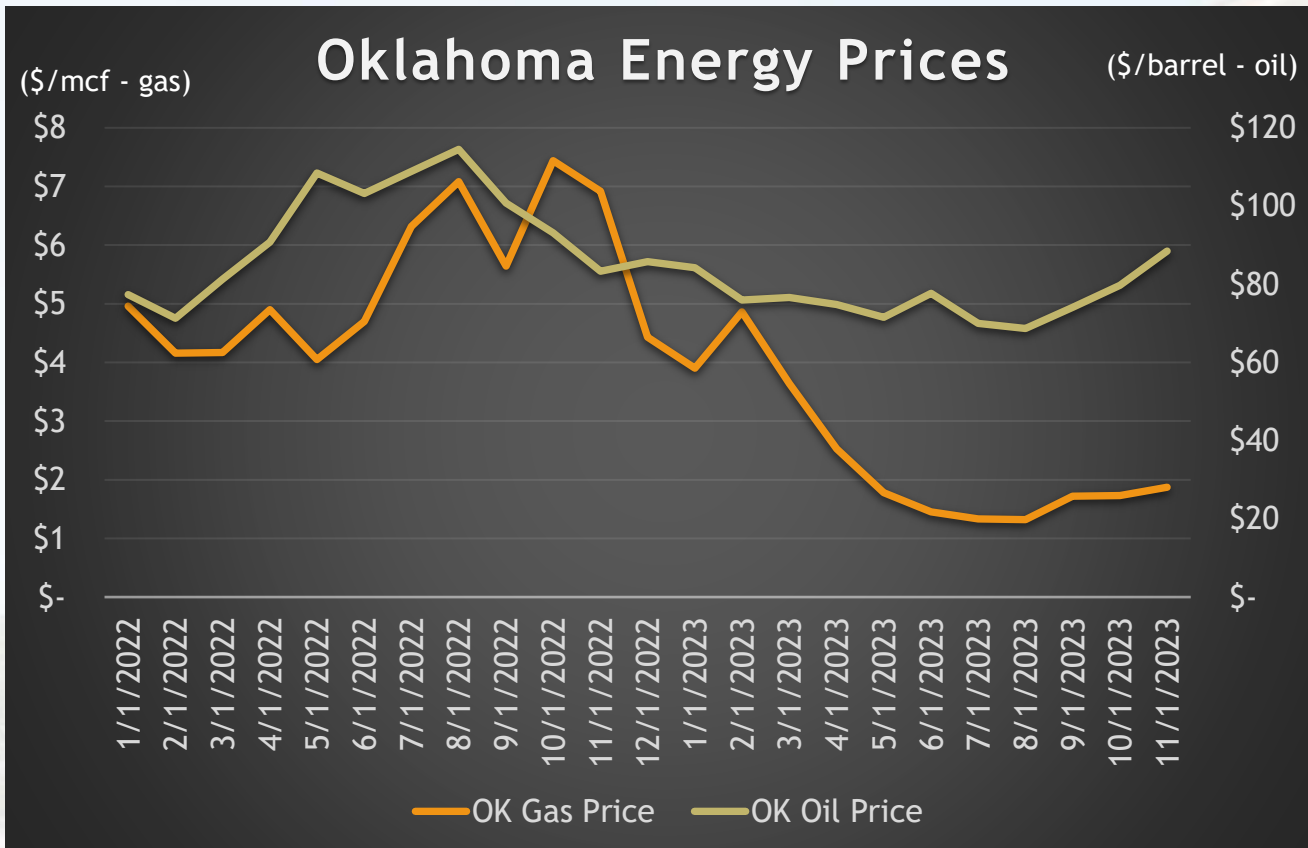
▨ Tax type not collected or represents a non-major revenue source



Volatility Score is the measure of variation in year over year percentage changes, based on a standard deviation calculation. Low score = similar growth rates High score = growth rate varies

CHALLENGES – RELIANCE ON OIL & GAS

- Energy prices are volatile, and a one-month fluctuation can have a large impact on forecasted revenue.



Dec 2022 Forecast	FY 24 (estimate to GRF)	
Oklahoma Oil	\$85.12	\$493,580,000
Oklahoma Natural Gas	\$4.27	\$701,239,000
		\$1,194,819,000

Feb 2023 Forecast	FY 24 (estimate to GRF)	
Oklahoma Oil	\$73.77	\$413,954,000
Oklahoma Natural Gas	\$2.76	\$468,803,000
		\$882,757,000 (-26%)

Nov 2023 Forecast	FY 25 (estimate to GRF)	
Oklahoma Oil	\$86.75	\$512,856,000
Oklahoma Natural Gas	\$2.33	\$489,568,000
		\$1,002,424,000

Dec 2023 Forecast	FY 25 (estimate to GRF)	
Oklahoma Oil	\$75.39	\$373,543,000
Oklahoma Natural Gas	\$1.98	\$341,584,000
		\$715,127,000 (-29%)

CHALLENGES – CORPORATE VOLATILITY

- Corporate income tax volatility can be attributed to various factors, including economic conditions, federal tax reforms, and corporate behavior.

Corporate income taxes are the hardest to estimate

Nowhere is volatility greater than with corporate income tax revenue. The data showed that the median forecasting error rate over the 27 years was 2.8 percent for the corporate income tax compared with 1.8 percent for the personal income tax and 0.3 percent for the sales tax. Of the three, corporate taxes make up the smallest share of state revenue; personal income taxes make up the largest.

Managing Volatile Tax Collections in State Revenue Forecasts, March 10, 2015, Pew Charitable Trusts.

OTC HISTORICAL ACCURACY

December & February Forecasting Accuracy Rates (last 7 yrs)

Major Tax Type	Avg. Revenue \$	December	February
Individual Income Tax	\$ 3,738,321,529	90%	92%
Sales Tax	\$ 2,807,886,984	93%	94%
Motor Vehicle Tax	\$ 829,302,092	97%	97%
GP Tax- Oil	\$ 596,465,844	61%	65%
Corporate Income Tax	\$ 538,826,012	56%	57%
GP Tax- Gas	\$ 497,719,541	37%	52%
Use Tax	\$ 473,707,589	91%	92%
Total	\$ 9,482,229,591	88%	90%

December

Data 20 to 24 months out

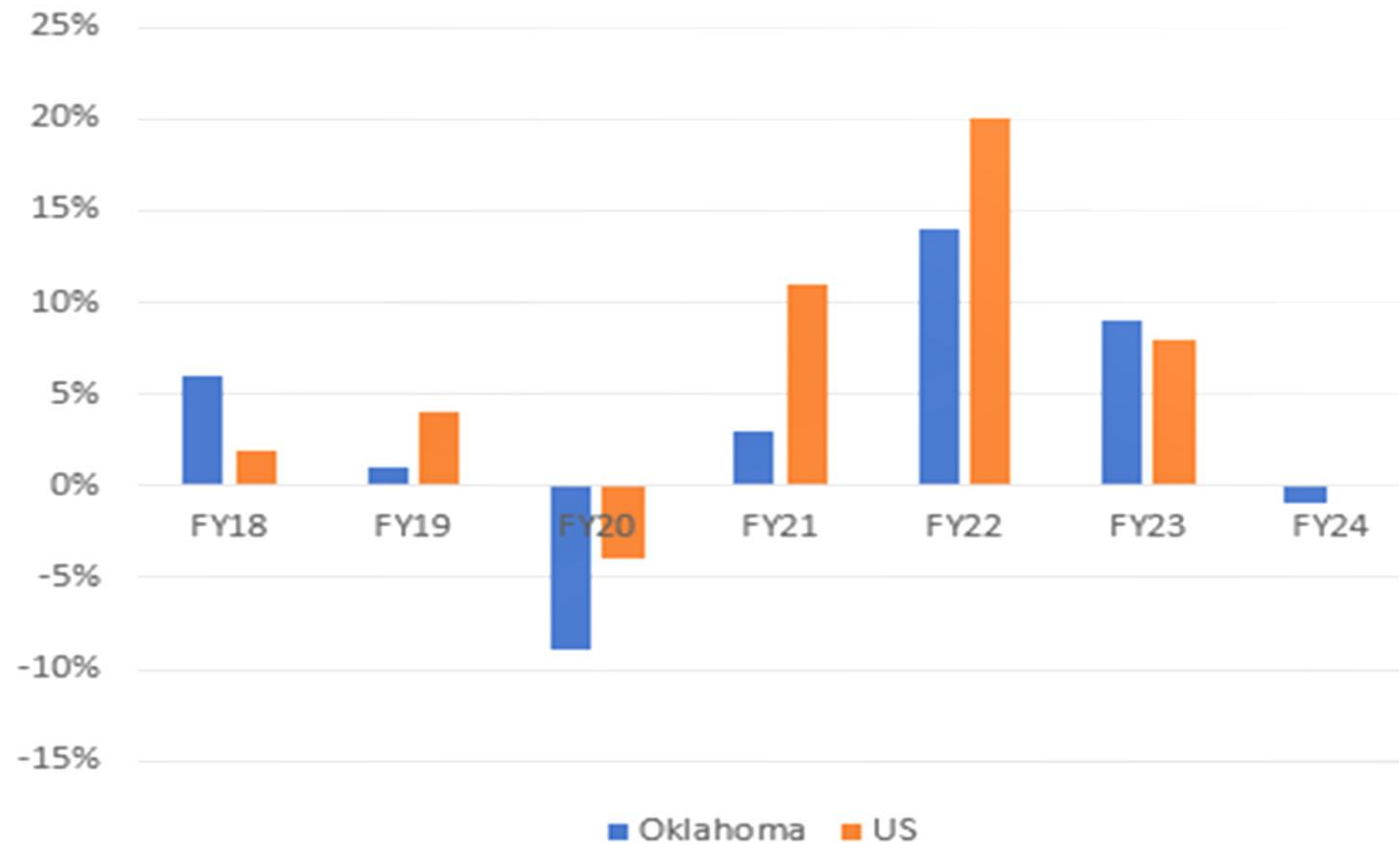
February

Data 18 to 22 months out

- Corporate income tax and gross production tax tend to have greater variability.
- Individual income tax, sales tax, and motor vehicle tax (averages almost 80% of total major tax revenue) tends to have less variability.

ACCURACY COMPARISON – OKLAHOMA v. ALL STATES

Oklahoma v. All States Median Forecasting % Error Rate for Income Tax & Sales Tax



FY25 FORECAST (December 2024)

FY25 Revenue Forecast (December Re-Estimate)

Tax Type	Revenue Forecast Fiscal 2025		Gross Variance		Legislative Changes	Net Variance	
	As of Feb. 2024	As of Dec. 2024	\$ Var.	% Var.		\$ Var.	% Var.
Individual Income	\$ 4,292,039,000	\$ 4,351,139,000	\$ 59,100,000	1.4%	\$ -	\$ 59,100,000	1.4%
Corporate Income	588,459,000	599,725,000	11,266,000	1.9%		11,266,000	1.9%
Sales	3,287,275,000	2,768,057,000	(519,218,000)	-15.8%	(338,097,000) (A)	(181,121,000)	-5.5%
Use	700,170,000	660,935,000	(39,235,000)	-5.6%		(39,235,000)	-5.6%
Motor Vehicle	858,620,000	925,451,000	66,831,000	7.8%	48,000,000 (B)	18,831,000	2.2%
Gross Production - Nat Gas	439,748,000	370,087,000	(69,661,000)	-15.8%		(69,661,000)	-15.8%
Gross Production - Oil	662,776,000	624,878,000	(37,898,000)	-5.7%		(37,898,000)	-5.7%
Total	\$ 10,829,087,000	\$ 10,300,272,000	\$ (528,815,000)	-4.9%	\$ (290,097,000)	\$ (238,718,000)	-2.2%

(A) Impact of reducing state portion of "grocery sales tax" to 0% for 3/4 of fiscal year (\$308M) + motor vehicle trade-in value reducing purchase price for sales tax levy (\$30M).
 (B) Impact of allowing biennial vehicle registration (increase of \$48M).

Energy Prices

Natural Gas	\$2.66*	\$2.39	\$ (0.27)	-10.2%
Oil	\$75.42	\$73.05	\$ (2.37)	-3.1%

*Previously reported \$1.70 on a "taxable basis" (deducting marketing costs).

Benchmark Energy Prices

Henry Hub (Natural Gas)	\$2.85	\$2.51	\$ (0.34)	-11.9%
West Texas Intermediate (Oil)	\$77.08	\$75.00	\$ (2.08)	-2.7%

FY26 FORECAST – COMPARISON WITH FY25 - (December 2024)

FY26 Revenue Forecast							
Tax Type	Revenue Forecast as of Dec. 2024		Gross Variance		Legislative Changes	Net Variance	
	FY 2025	FY 2026	\$ Var.	% Var.		\$ Var.	% Var.
Individual Income	\$ 4,351,139,000	\$ 4,406,850,000	\$ 55,711,000	1.3%		\$ 55,711,000	1.3%
Corporate Income	599,725,000	597,156,000	(2,569,000)	-0.4%		(2,569,000)	-0.4%
Sales	2,768,057,000	2,632,026,000	(136,031,000)	-4.9%	(110,751,000) (A)	(25,280,000)	-0.9%
Use	660,935,000	696,924,000	35,989,000	5.4%		35,989,000	5.4%
Motor Vehicle	925,451,000	950,801,000	25,350,000	2.7%		25,350,000	2.7%
Gross Production - Nat Gas	370,087,000	470,589,000	100,502,000	27.2%		100,502,000	27.2%
Gross Production - Oil	624,878,000	570,876,000	(54,002,000)	-8.6%		(54,002,000)	-8.6%
Total	\$ 10,300,272,000	\$ 10,325,222,000	\$ 24,950,000	0.2%	\$ (110,751,000)	\$ 135,701,000	1.3%

(A) Impact of reducing state portion of "grocery sales tax" to 0% for full year (additional 3 months impact as compared to FY25 (\$110,751,000)).

Energy Prices

Natural Gas	\$2.39	\$3.16	\$ 0.77	32.2%
Oil	\$73.05	\$67.98	\$ (5.07)	-6.9%

Benchmark Energy Prices

Henry Hub (Natural Gas)	\$2.51	\$3.32	\$ 0.81	32.3%
West Texas Intermediate (Oil)	\$75.00	\$69.75	\$ (5.25)	-7.0%



OKLAHOMA
Tax Commission

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