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Oklahoma Policy Institute

STATE BUDGET SHORTFALLS: FY '10 AND BEYOND

How Can Oklahoma Weather the Crisis?

SPECIAL POINTS OF INTEREST

- The severe recession has contributed to nearly a 30 percent drop in state revenues and has compromised the state's ability to provide effective public services.
- OK Policy forecasts indicate that FY '10 revenues may be 14 percent below the budgeted amount.
- Improved forecasting, Rainy Day Fund appropriations, and using new resources to balance the budget can ease the damage in FY '10.
- It likely will be FY '13 before state revenues rebound to pre-downturn levels.
- The state should improve forecasting, plan for the fiscal impacts of major decisions, and create better reserve policies to improve long-term fiscal stability.

The current economic recession is the longest and deepest in 50 years. While there are signs that the national economy is beginning to rebound, state revenues will likely continue to remain low through a slow recovery, and state services will continue to deteriorate.

To estimate the length and depth of the current downturn on Oklahoma state revenues, OK Policy developed revenue forecasts for the remainder of this fiscal year and for the next three years.

The forecasts reveal that this year's shortfall is likely to approach \$700 million. The Rainy Day Fund can minimize the severity of cuts resulting from the shortfall.

Extending the forecasts out for three more years indicates that revenue may begin to rebound in FY '11, but likely will not return to FY '08 levels until FY '13, at which point inflation will have reduced the value by 15-20 percent. (See graph below.)

To address the current recession and prepare for future downturns, OK Policy recommends immediate as well as long-term action.



Short-term recommendations for state leaders:

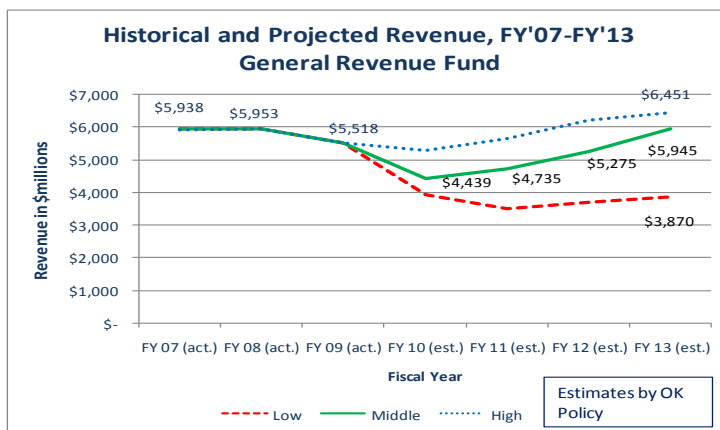
- Develop and publicize quarterly forecasting.
- Host public hearings for agency officials and citizens to discuss the effects of cuts in services.

- Define and announce a plan to use the Rainy Day Fund to limit further budget cuts.

Long-term recommendations for state leaders:

- Develop ongoing multi-year revenue estimates that extend two years beyond the current year.
- Assemble a group of stakeholders to guide the forecasting process rather than one agency.
- Raise the cap on Rainy Day Funds and lift restrictions on the use of the funds so that they can be accessed until revenues return to pre-downturn levels.
- Reevaluate tax exemptions and incentives that erode essential public services in times of economic downturn.

For the full length OK Policy issue brief, "State Budget Shortfalls: FY '10 and Beyond, How Can Oklahoma Weather the Crisis?" go to: www.okpolicy.org/fy-10-budget-information.



OK Policy's estimates are based on six different forecasts using four methods of forecasting.