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Oklahoma Policy Institute

SPECIAL POINTS OF INTEREST

- Recovery from the current state fiscal crisis is likely to be slow and painful.
- it is not too soon to draw lessons from this downturn that will help us manage the full length of this fiscal crisis and respond better the next time the economy falters.
- This brief sets out recommendations for:
 - Improving our forecasting capacities;
 - Strengthening our budget reserve funds;
 - Putting multi-year revenue commitments on hold;
 - Suspending and capping tax expenditures.

LEARNING FROM THE BUDGET CRISIS:

PROPOSALS TO BETTER MANAGE THIS DOWNTURN AND THE NEXT

Oklahoma is currently in the midst of what is certain to be a deep, long and painful fiscal crisis. OK Policy has developed recommendations related to four aspects of the state's budget and tax system that could leave us better equipped to manage the full length of this fiscal crisis and respond better the next time the economy falters. *For the full length OK Policy issue brief, go to: www.okpolicy.org*

1. Improve our Forecasting Capacities

Any time revenue collections fall below the certified estimate for the year, revised forecasts of current year revenue collections should be developed within 30 or 60 days, and updated no less than every three months subsequently. In addition, the state should create an official forecasting body that would issue budget estimates for at least five years beyond the coming year.

2. Strengthen our Reserve Funds

The state should increase the cap on the

Rainy Day Fund to 15 percent and allow a portion of the Fund to be accessed in any year that revenues are expected to remain below their peak of any of the four previous years. The state should also create a reserve fund specific to Gross Production Tax revenues, our most volatile and unpredictable revenue source.

3. Suspend Multi-Year Revenue Commitments

The Legislature should make all future phased-in tax cuts and earmarked revenue allocations contingent on sufficient revenue growth and a return to pre-downturn budget levels. In addition, it could adopt pay-go provisions that would require new tax cuts and spending commitments to be budget-neutral.

4. Cap and Suspend Tax Expenditures

While direct budgetary expenditures are being slashed, *tax expenditures*—exemptions, deductions, and other forms of preferential treatment—have been left

largely untouched and unscrutinized. Policymakers should consider capping the amount of some tax expenditures and suspending some in years when revenues have declined.

