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## Oklahoma Policy Institute

### A NEW FISCAL REALITY FOR OKLAHOMA:

### THE STATE BUDGET OUTLOOK, 2011-2014

#### SPECIAL POINTS OF INTEREST

- Oklahoma will face prolonged constraints on the state budget, even as the economy and state revenues recover;
- Our forecasts suggest that even by FY '14, it is unlikely that revenues and spending will return to pre-downturn levels under current policies;
- The FY '12 budget shortfall looks to be nearly \$400 million compared to FY '11 ;
- Agencies have already enacted deep cuts and facing growing costs and needs.
- Faced with a new fiscal reality, the state needs to create a revenue structure that better supports public services, make smarter expenditure decisions, and create a budget process that supports sound and responsible fiscal management and planning.

The first two years of the state budget crisis have made clear that our budget system is not up to the challenge. Thus far, we have failed to anticipate the severity and the length of the revenue loss, made repeated budget cuts without fully considering impacts on services and staffing, and plugged holes with one-time fixes.

Even as the economy and state revenues recover, Oklahoma faces prolonged constraints on the state budget. Our projections, based on a variety of forecasting techniques suggest that:

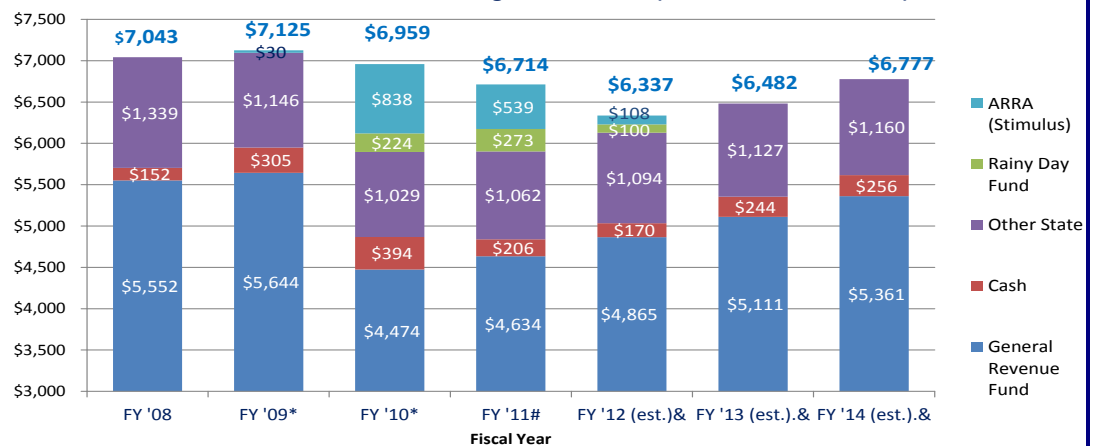
- Oklahoma can expect to experience at least seven years with revenue below pre-downturn levels. Even by FY '14, it is unlikely that revenue will return to the FY '08 peak under current policies;
- In the absence of new revenue-generating measures, the overall budget in FY '12 will be nearly \$400 million less than in FY '11 and nearly \$800 million, or 11 percent, less than in FY '09.

- The budget may remain below FY '09 levels through FY '14, far less than what is needed to meet growing costs and demands for services.

This new fiscal reality requires a fresh perspective and new strategy. We must look at revenue options - including deferring further tax cuts, doing away with inefficient tax breaks, and creating new revenue streams for health care, prevention and treatment—that will support core public services. We must make smarter expenditure decisions that focus on essential public functions and help reduce future costs by consolidating agencies and services where savings can be expected and prioritizing prevention and surveillance over detention. At the same time, we must create new budget processes and structures that support responsible financial planning and management and help us anticipate and prepare for the next downturns.

*For the full-length issue brief and related materials , go to: <http://okpolicy.org/new-fiscal-reality>*

Actual and Estimated Total State Budgets, FY '08 - '14 (all amounts in \$ millions)



\* FY '09 and FY 10 are final, after mid-year cuts

#FY '11 is original budget

& FY '12-14 assume middle forecast for GRF, 3% growth for other state funds. See issue brief and technical memorandum.

**Better Information, Better Policy**