

OPTIONS FOR ADDRESSING STATE BUDGET SHORTFALLS

Oklahoma has now joined the vast majority of states that are projecting shortfalls for the upcoming budget year. Most analysts are predicting that the current recession will be relatively long and deep, ensuring that the state fiscal crisis may last several years.

During the last state fiscal crisis from FY '02–FY '04, state policymakers utilized a wide array of options at their disposal to balance the budget, including tapping into the Rainy Day Fund, enacting revenue enhancements and implementing budget cuts (See Fig. 1). We project that Oklahoma could face an estimated shortfall of some \$2.4 billion in the years ahead, assuming a budget downturn comparable in magnitude to the last one. Given the more severe turbulence in the current economy, state policymakers will need to display a great deal of flexibility and willingness to utilize all the policy options at their disposal to keep the state budget afloat during the upcoming years.

The timing, extent, and terms of state fiscal relief as part of a federal economic stimulus package is the great wild card of the current budget situation. State fiscal relief of any substantial size will greatly ease Oklahoma's budget situation but is unlikely to eliminate the need for hard choices. The basic options for addressing budget shortfalls are to:

1. TAP THE RAINY DAY FUND

- The Rainy Day Fund was established to help stabilize the budget during economic downturns;
- With reserves of \$596 million, the Rainy Day Fund can partially fill anticipated shortfalls (see Fig. 2);
- Spending down reserve funds causes the least harm to the state's economy and population.

2. RAISE ADDITIONAL REVENUES

- The constitutional and political obstacles to raising taxes in Oklahoma are formidable;
- Other revenue-enhancement strategies can include raising fees, curtailing tax exemptions and incentives, or selling assets;
- The Legislature already adopted several "easy" one-time revenue-raising measures last year.

3. CUT BUDGETS

When downturns are extended and severe, cutting budgets involves harmful consequences for Oklahoma's citizens and economy:

- Vital state services and programs already face critical funding shortages;
- It is difficult to protect key agencies and services, such as education, health care, and public safety, that consume the lion's share of the state budget;
- Agencies are already struggling to absorb rising costs, new mandates, and flat funding this current budget year;
- Cutting budgets is economically harmful in a downturn, even compared to raising taxes;
- Economic downturns create increased demands for health and social services to assist vulnerable Oklahomans.

For the full length OK Policy issue brief, "What Do We Do Now? Options for Addressing State Budget Shortfalls", go to: www.okpolicy.org

Fig. 1: Measures to Address Budget Shortfalls, FY '02 - FY '04

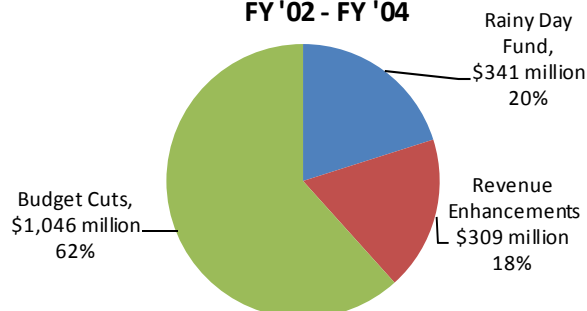


Fig. 2: Rainy Day Fund Balances, FY '01 - FY '08
(opening balance in \$ millions)

