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To: CAS DeanStaff; CAS Unit Leaders; Salem Update Listserv
Subject: [Salem Update] The revenue forecast, the budget endgame,and what are we watching?
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In this issue . . . the revenue forecast, the budget endgame, and what are we watching?

The Revenue Forecast

Next week the Office of Economic Analysis will issue the May 15th Revenue Forecast which the legislature will then use to cast state budgets for the 2007-09 biennium. Most Salem insiders gossip that state income tax receipts may be up a few million over the March forecast – but in terms of a $14 billion general fund enterprise – that is mere decimal dust and not enough to make a dent in the budgetary challenges facing the Ways and Means Committee. The wags say lottery receipts are anticipated to be up by as much as $30-40 million – and that has the various entities circling around in an effort to qualify as legitimate users for lottery funding, which is targeted for education, economic development, and parks. Not one of those? No worries. Maybe you can convince the legislature to take general funds away from somebody who does, and they can be held harmless with lottery funds. It's not like that hasn't ever happened before . . .

Those interested in catching the action next week can watch a joint session of the House and Senate Revenue Committees on Tuesday morning at 8:45 in Hearing Room A: http://www.oregonchannel.org/rams.htm

A summary of the forecast will be available at this website: http://www.oregon.gov/DAS/OEA/index.shtml (click on "most recent economic forecast" – but if you do that before Tuesday, you'll get the March forecast.)

The budget endgame

If the revenue forecast won't solve Oregon's budget woes, what will? The short answer is nothing this biennium. We have been driven up a box canyon. Most Republican legislators contend that with the forecasted 20% increase in revenues this biennium, higher education merely needs to join them in taking back some of the $200 million the Ways and Means Co-Chairs shuttled off to K-12. First, a measured approach might consider that a 20% increase from one biennium to the next needs to account for the 2001-03 biennium when revenues plummeted by some 20%. And second, we don't expect legislators to back out of the box canyon by siphoning money away from K-12.

Under the expected revenue forecast there will not be sufficient revenues to address

all of the programs – human services, public safety, and higher education – that were placed on a lower priority in the co-chairs' budget. But there may be some reasonable floor sweepings here and there that may make a difference. For example, there appears to be confusion over what is in the "rainy day fund" and what is in the "ending fund balance." Or maybe we don't need both.

- A simple fix for higher education would be passage of HB 2198 as it would give OUS access to the interest earned on tuition deposits. Passage of that bill would provide a $19 million fix to the $35 million problem presented by the co-chairs' budget.

Can the corporate minimum tax save us? Ever since the issuance of the co-chairs' budget in March, Democrats have pointed to an increase in the corporate minimum tax as the *"deus ex machina"* that will deliver us from this box canyon we are in. This week, business leaders and House Democrats began a Kabuki dance over possible increases in the corporate minimum tax. First – how much should it produce? Second – where will the money be used?

The Governor's budget relied on some $85 million in new revenues from increasing the corporate minimum tax. The co-chairs' budget had none. A short-lived bi-partisan agreement in February that included the House Republican Leader included a $150 million increase in corporate taxes. Although a number of Democrats have indicated a number significantly higher than the failed $150 figure, it seems reasonable that IF any changes to the corporate minimum tax are adopted, the funding will likely produce somewhere between $85 and $100 (or so) million. But that will take 36 votes in the House that have yet to materialize. Many Senate members have given up hope.

So, IF they get the votes, what are the increased revenues going to be used for? Changes in the corporate minimum tax are not a budget panacea. Many deserving programs will still go un- or under-funded. But business interests who will face the increases are not going to agree to a carte blanche increase without an agreement on where the funding will go. The bargaining puts the legislators in the position of asking the business community – "so what programs are you willing to buy back?" Additional funding for K-12 is not likely to be one of the answers. Nevertheless, most public finance experts agree that tying increased revenue streams to specific programs is a recipe for disaster in future years. It simply is not good tax policy. Nevertheless, higher education is frequently cited as a primary recipient.

Your guess is as good as mine as to what will unfold in the coming six weeks. And if you hear an endgame strategy that gets us out of the box canyon, at this point it's probably just a guess. We will keep you posted in the coming weeks as the impending "end of June" date nears. Following the May 15th revenue forecast, the next big date is May 29th when the Joint Ways and Means Education Subcommittee is tentatively slated to start work on the OUS budget.

With 6 weeks left, what are we watching?

First – is it really going to be the end of June? Yes . . . It really is . . . so far. I have worked in or around Oregon's Legislative Assembly in one capacity or another since 1983. I have heard all of the closing date deadline lines: "We'll be done by pea picking time." "My granddaughter is due in July and I want to go be a grandmother." But never has the "end of June" been such an incessant drumbeat. If they can't get the people's work done in six months, they won't ever convince the people that annual sessions are a good idea.

Overall, our priorities are seeking to recover the significant general fund reductions to the education enterprise that have been proposed in the co-chairs' budget. In addition, we are seeking to recover the disastrous reductions that have been taken on capital spending. If the co-chairs' proposal for capital spending is retained by the legislature, we face the possibility of leaving $31 million in privately raised funds on the table – unable to spend funds because the legislature would not authorize the Article XI-G bonds needed to finance the Linus Pauling/Chemistry building on the OSU campus. We are currently in a good place: thanks to the work of State Senator Ryan Deckert, Chair of the Senate Revenue Committee – authorization for the building has been retained in the OUS capital bill (SB 5516). But that bill is now in the Ways and Means Committee.

Other priorities in the closing weeks include sweeping up all of the bits and pieces that remain unresolved in the budget bills. These bits and pieces range from securing $250K in roll-up costs for the Institute for Natural Resources headquartered at OSU, to recovering the $10 million reduced from the Governor's budget for the Engineering Technology Industry Council budget and the $18 million reduced from the budget for the Oregon Innovation Council package in the Department of Economic and Community Development budget. Finally – we are working with the support of 64 legislators who signed onto a "dear colleague" letter seeking to recover the $15 million increase recommended by the State Board of Higher Education for OSU's statewide public service programs – the Agricultural Experiment Station, Forest Research Laboratory and Extension Service.

Questions, comments or concerns? Don't hesitate to send them my way.

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