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To: CAS DeanStaff; CAS Unit Leaders; Salem Update Listserv
Subject: [Salem Update] Two weeks and counting . . .
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Uncertain revenue forecast

Although the next official revenue forecast is not due until mid-March, wafting through the hallways of the Capitol are rumors that future forecasts will be flat, if not declining. Should the rumors pan out in March, legislators will have a hard job ahead of them -- as if the job isn't hard enough already.

Even based on the optimistic December forecast, in order to balance his budget the Governor proposes three taxes, including an increase on the cigarette tax, a new tax on car insurance premiums, and an increase in the corporate minimum tax. If all 31 House Democrats vote for these measures – not a certain prospect – passage will require an additional five Republicans to join their ranks – even less certain.

In the best of worlds -- the tax package is successful and the revenue forecast holds true to continuing increases beyond those projected in December -- legislators still disagree over whether to direct those increases to a number of holes in the Governor's budget or to invest them in a rainy day fund. The latter course has been advocated by Ways and Means co-chair Senator Kurt Schrader (D-Canby).

In the worst of worlds – revenues decline, and increased taxes fail – legislators will be faced with apportioning reductions across state agencies and leaving a number of holes unfilled. How big are the "holes"? K-12 education advocates have suggested the Governor's $6 billion budget needs to be increased by $200K to 300K -- to the neighborhood of $6.2 to $6.3 billion. With the worst case, pundits suggest that K-12 will cut and run with the Governor's $6 billion in March, leaving the shortfalls to be balanced among the remaining interests, including higher education.

Compounding consternation over declining revenues is a rumor that Wall Street is considering a decrease in Oregon's bond rating due to concerns over the state's unstable revenues and level of debt. In fact, Oregon relies more heavily on the most volatile source of revenues – the income tax – than does any other state.

A lower bond rating would increase the interest expense of such financial instruments

as Article XI-G bonds used to finance higher education construction projects. Facing an increased cost of borrowing, legislators may be reluctant to undertake a number of the significant investments called for in the Governor's budget, including the Linus Pauling Institute/Chemistry building at OSU. Nevertheless, in the history of those bonds, Oregon lawmakers have never turned down an Article XI-G financed project when a university has a committed source of funding to meet the bond's matching requirement.

Legislature moves to annual sessions

Building upon recommendations from a special commission that studied the legislative process over the interim, last week both the Senate and House approved Senate Concurrent Resolution 1 (SCR-1) which establishes deadlines for this session and calls for a special session in February 2008.

It is important to remember that SCR-1 does not result in annual budgets for state agencies. This session, the legislature will still adopt a biennial budget, based on the May economic forecast for the next two years. One of the strongest arguments in favor of annual sessions is that they can reduce the uncertainty created by two-year revenue forecasts that seek to predict state income tax revenues. (Did I already mention that income taxes are the most volatile source of revenue for states and Oregon relies on them more than any other?)

Under Oregon's kicker law, when forecasts underestimate revenues by more than two percent, the difference is refunded to taxpayers. As a result, regardless of the state's spending needs, come this November due to a faulty prediction in May 2005, $1 billion will be transferred from the state treasury to Oregon taxpayers. When revenue forecasts overestimate the economy, we face special legislative sessions to pare state spending – as was done during the 2001-03 biennium when the projection was off by some 25%. Annual sessions will help to improve the accuracy of the revenue forecasts only if budgets are also conducted on an annual basis. Biennial budgets and annual sessions, don't solve the problem of a volatile tax structure, and they could subject agencies to possible budget reductions during the biennium.

So, how will a February 2008 legislative session affect the way legislators make budget decisions this year? Given uncertainty over the forecast, one likely scenario is that legislators set aside funds to be allocated next year following the December 2007 forecast. This could affect funding packages that rely on future trends. For example, some lawmakers may argue to hold back a portion of the funding the Governor has proposed to address university enrollment increases, waiting to see what the fall 2007 enrollment numbers bring in. Similar provisions could be applied to human services caseloads and corrections.

The earliest possible budget cycle the legislature could actually move to apply annual budgets won't happen until following the 2009 session, because it won't be until then that the legislature will refer the necessary constitutional amendments to voters for consideration. Meanwhile legislators hope to use this session to prove they can

conduct the state's business in a timely manner between January and June. It remains to be seen if this will convince voters that they will be better off when lawmakers are in session more frequently.

Provisions in SCR-1 call for the legislature to finish its work by the end of June this year, with a two-thirds vote needed to amend these rules. Regardless of the two-thirds requirement to suspend the deadline for adjournment, the legislature can't adjourn without a majority vote by *both* houses.

Legislators are taking the deadline seriously. That makes it difficult to both adopt significant changes in programs and to adopt budgets promptly after the May forecast. Can they hold to the deadlines AND adopt significant changes in health care and land use programs – which are both rising to the top of most legislative "to do" lists? Maybe not. The deadlines also will highlight the importance of the March forecast as a bellwether for budgets more so than in previous sessions.

Any significant restructuring of Oregon's tax structure, such as a consumption tax as advocated by a number of Senators, will likely wait for development over the interim, even though most players agree this is the fundamental problem facing the legislature.

Oregon Student Association priorities

In hearings held by both the House and Senate Education Committees, the Oregon Student Association (OSA), highlighted its four legislative priorities:

1. Revise student grants (the "Shared Responsibility Model");
2. Increase general fund investments for post-secondary education;
3. Increase funding for the Aspire program which seeks to reach out to encourage high school students to seek a college education; and

4. Enable resident tuition for the children of undocumented workers.

Unlike previous sessions, OSA and OUS are in concert on tuition levels for the next biennium, with both supporting increases that match projected increases in the median family income. As a result, there are no obvious fights between universities and students over finances in Salem this session.

One element in the Governor's budget that students have taken on is the $19 million in general funds he proposes to eliminate from the OUS budget due to a decision to provide access to the interest that accrues from tuition. Students characterize it as a shell game. Currently interest from tuition paid by students accrues to the general fund, not to the universities. With one hand, the Governor has agreed that interest earned on tuition should accrue to the universities, and has proposed legislation that would accomplish this goal. With the other hand, students complain, he has also reduced appropriations to the universities by the amount of interest expected to flow to the system.

Students object to the reduction and point out that if the legislature agrees to reduce the general fund reduction this time, why would it not also reduce future earnings when the interest on tuition also increases?

House Higher Education Subcommittee

The House has created a subcommittee to consider issues specific to higher education. Although the committee has not fully identified what issues it will address during the session, Committee Chair, Peter Buckley is interested in increasing the status of higher education in the state's budget. Buckley represents Ashland, home to Southern Oregon University which is experiencing significant budget challenges. Among the 50 states, Oregon ranks 46th in the appropriations it allocates to public universities. Here is a link to a Sunday Oregonian editorial regarding the subcommittee:

http://www.oregonlive.com/oregonian/stories/index.ssf?/base/editorial/116926353526560.xml&coll=7

In a related effort to support higher education, four legislators have written to their colleagues urging them to join a "higher education caucus" to track legislative progress and seek additional support for higher education. The four leaders include a Democrat and Republican from each of the two chambers: Senators Ryan Deckert and Frank Morse, and Representatives Phil Barnhart and Tom Butler.

Odds and Ends

Extension testifies in Salem on Federal Secure Rural Schools funding. John Punches, OSU Extension staff chair from Douglas County, testified last Thursday before the House Agriculture and Natural Resources Committee to outline the potential impacts to Extension programs in Douglas County and across the state that would result if Congress fails to renew the Federal Secure Rural Schools Act. The federal program has provided funding to a bulk of Oregon counties in lieu of property taxes and to compensate for decreased timber receipts due federal forest restrictions.

Oregon legislators at both the state and federal level are working to renew the funding, but chances of success appear to be diminishing. Punches told the Committee that the impacts could be disastrous for local programs and could carry implications overall for K-12 funding in Oregon, as well as support for Extension.

Legislative tracking. Heather Bené Hollon is cranking away at sorting through the hundreds of bills already introduced this session and dozens of hearings that have been scheduled. We are doing our best to keep all of the various colleges and departments on campus and across the state aware of bills and legislative action. If there are particular bills you want tracked, please do not hesitate to contact Heather: heather.bene@oregonstate.edu .

OUS report. I have attached the legislative report for last week prepared by the Oregon University System.

<<LegisBulletin_week2.pdf>>

As always -- Contact me if you have questions, concerns, etc.

Jock

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