From: salem_update-bounces@lists.oregonstate.edu on behalf of Mills, Jock
To: CAS DeanStaff; CAS Unit Leaders; Salem Update Listserv
Subject: [Salem Update] Corrections
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With thanks to an astute reader, and with help from the Legislative Fiscal Office, I'd like to provide two corrections to my recent update, the second of which is probably more than you may ever want to know:

1. Seats in flux
My list of retiring candidates should have also included Reps. Jerry Krummel (R-Wilsonville) and Brian Boquist (R-Dallas). When you add their names to the list in my report, you actually get the 13 open seats I mentioned in the opening paragraph.

2. A tutorial on the Rainy Day Fund -- and other funds.
In my discussion of the February supplemental session I indicated that some legislators would likely seek to use the rainy day fund in the event that the revenue forecast crashes and burns. They may seek that route, but the rainy day fund was configured last session to prohibit its use until next biennium -- and then only under specific circumstances. So -- the legislature cannot simply tap into the rainy day fund -- currently some $345 million -- in February for the current biennium. Of course, the rainy day fund is a creature of statute. When the legislature is in session, it can rewrite statutes. Nevertheless, given the work that went into configuring the fund last session, it is highly unlikely that the same legislators who created these provisions would undertake such a move.

The creation of the rainy day fund, however, does lessen the pressure on other funds that have historically been available to meet emergencies and address uncertainties that occur over a biennium. There are basically three such funds -- the ending balance, the emergency fund, and the education stability fund. Knowing that the rainy day fund is there, legislators may be freer and looser with these funds:

The ending balance: The difference between the funds the legislature appropriates and the revenues it expects to receive over the current biennium is the "ending balance." This balance is carried as a prudent reserve in the event of unforeseen circumstances to protect the state, including its bond rating. These funds are not designated for any purpose and could be used to bail out programs in February in the event of an economic turn down. Based on the September forecast, the ending balance is currently about $185 million. (For comparison, the ending balance when the legislature set the budget for the last biennium was $114 million.) Of course if revenues fall, the ending balance falls as well, since the balance is merely the difference between what the legislature thought it would collect and what it appropriated to spend. By doing nothing when expected revenues fall, in essence the legislature is spending the ending balance.

The Emergency Fund: When the legislature adjourned in June, it also designated $30 million to a general purpose emergency fund -- available to the Emergency

Board during the current biennium, also to meet unforeseen needs across state government. (The Emergency Fund includes another $125 million designated to be distributed among state agencies for state employee salary increases.) The Emergency Fund last biennium was also $30 million.

The Education Stability Fund: This fund was created by the legislature to help fund education efforts, primarily K-12 -- but also community colleges and higher education -- in the event of an economic downturn. There are specific conditions that must be met before the legislature can tap into this fund, which currently stands at about $350 million. And the legislature can only take two-thirds of this fund. Once the conditions are met, there is nothing to prevent the legislature from tapping these funds, devoting them to education, and then backing out general funds previously devoted to education for other purposes.

Given the $345 million in the Rainy Day fund, come February it would not be unusual to see legislators looking at both the Emergency Fund ($30 million) and the Ending Balance ($185 million) to address shortfalls. Combined, however, these funds account for about 1.5% of the state's $14.1 billion general fund budget.

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