From: salem_update-bounces@lists.oregonstate.edu on behalf of Mills, Jock
To: CAS DeanStaff; CAS Unit Leaders; Salem Update Listserv
Subject: [Salem Update] Ways & Means weighs in on the salary pool and looksat changes in budgeting
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In a three hour meeting today, the Joint Committee on Ways and Means

- outlined its plans for developing a legislative budget in anticipation of the 2009 legislative session,
- reviewed the recent revenue forecast, and
- considered the release of the $125 million salary pool.

Prospects for a 2009-11 budget recommended by the Legislature.

As the state heads into an uncertain 2009 legislative session, Co-chairs Sen. Kurt Schrader (D-Canby) and Rep. Mary Nolan (D-Portland) discussed with the Committee their desire for the legislature to be more engaged and involved in the *development* of state agency budgets rather than the current status where the legislature merely *reacts* to whatever budget the Governor proposes. Noting the "creative tension" between the executive and legislative branches when it comes to writing budgets, members indicated their interest in providing guidance to state agencies with the continued use of "performance indicators." They expressed interest in focusing on a number of issues, including information technology.

In the coming weeks and months, we will see more regarding a legislative effort to develop its own budget. How it will fit with the process currently used by the Governor has yet to be determined. At this point, it is difficult to predict whether, or how, a legislatively prepared budget would treat higher education any differently than a budget recommended by the Governor. Stay tuned. The committee is scheduled to meet September 18, October 16, and November 20, 2008.

Impacts of the current revenue forecast on the release of the $125 million salary pool

Last week, following a revenue forecast that showed that ending fund balances would improve by more than $100 million compared to the March 2008 forecast, and on the basis of previous assurances by one of the co-chairs that the entire salary pool would be released if the forecast remained "flat," I indicated that I would be surprised if the legislature did not release the full amount it appropriated last year for state agency salaries.

Surprise! Legislators have very little confidence in the staying power of that forecast, primarily because of an anomalous one-time increase in capital gains receipts. In their minds at best, it is flat, and it certainly is not reliably up, and depending on what you count may be even a little bit down.

In addition to having concerns regarding the forecast, the last thing legislators want to

do is go into a special session if future forecasts show additional revenue declines. As a result, a number of members, including both co-chairs indicated they want to be extremely cautious before making any decisions regarding the salary pool. While the hearing today was before the Ways and Means Committee, the decision to release the funds is actually to be made by the Joint Legislative Emergency Board. Many members serve on both.

The Committee reviewed four options prepared by the legislative fiscal office that ranged from no release, a 25% release, a 50% release, and a 75% release. Although the Governor has urged releasing all of the funds, that option was not addressed in the LFO analysis. In response to questions from some members, the co-chairs agreed that it was not completely off the table. What determines the amount to be released appears to be guided at least three factors:

- Vacancies. Although vacancies are hard to track, if agencies show a lot of vacancies over the biennium, perhaps they do not need their original allotment.
- Savings. If agencies have shown that they haven't spent money to the degree expected, their projected "ending fund balances" will have increased. Legislators have indicated that these may be used to justify reductions in the salary pool.
- Impacts. If agencies can show the impact of withholding the salary pool, the legislature may provide them with more. At today's hearing committee members expressed significant concerns regarding the impacts to the Department of Corrections resulting from withholding 25% of the salary funds.

What is OSU's situation?

Vacancies: It is not clear that there is any good information on vacancies, so it is not possible to determine if vacancies have resulted in any perceived savings.

Ending fund balances: Although OSU continues to operate well within the guidelines established by OUS, not surprisingly our balances have increased since the February revenue forecast showed a $150 million decline and the legislature deferred release of the salary pool. Simply put, academic units deferred spending when the bad news arrived. There are a number of obvious arguments against using the ending fund balance as a justification for reducing our salary pool allocation, including:

- It punishes prudent financial management decisions and creates a perverse incentive to spend funds.
- Slowing spending doesn't mean that the need for the items deferred has disappeared. By eliminating salary pool funds, the legislature is ensuring that the need will remain unmet for the remainder of the biennium.
- Any decision to with hold a portion of the salary pool will disrupt the education continuum. If the legislature needs to rebalance the state budget due to declining revenues using the salary pool is inequitable and a poor substitute for a deliberative process that can use a variety of tools to blunt the impact of budget cuts.
- Any reductions in the salary pool will result in programmatic cuts regardless of

the ending fund balances.

Impacts:

- At OSU, a 25% cut in our salary pool allotment will result in the elimination of positions and deferred hiring. At risk are at least 13 academic FTE. This will result in 90 fewer sections being taught. Given conventional section sizes at OSU, 90 fewer sections will prevent thousands of students from enrolling in the classes they need next year to complete their degrees on time. That means a longer time for them to graduate, a higher cost to the state to support those students while they are enrolled, more financial aid, and more tuition and debt to be borne by students.
- We also anticipate having to reduce supplies, services, and capital outlays by $500,000, resulting in fewer library and instructional materials, deferred upgrades to instructional and research infrastructure, and decreases in technology investments.

The amounts to be released will be subject to a series of negotiations between state agencies and LFO, and between the Governor and legislative leaders. The E-Board meets on June 26-67.

I will keep you posted as I learn more. Don't hesitate to contact me if you have questions or concerns.

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