



Senator Frank Morse 2009 Session Update

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Taxes & The Budget

"I contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle." ~ Winston Churchill

"The only difference between a tax man and a taxidermist is that the taxidermist leaves the skin." ~ Mark Twain

By the end of this session, I hope we have something more than skin and a handle left. As the session begins its final weeks, the overshadowing issue is the budget: how big and who pays. In the context of the worst economy since the Great Depression, two schools of thought have emerged. As would be expected, (though unfortunate), they are partisan. One is represented by Democrats, the other by Republicans.

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The Democrat school of thought is to begin with what is called the Essential Budget Level as determined in the Governor's Recommended Budget which was prepared in 2008, long before the full depth of this recession was known. The EBL assumes a roll up of all costs to continue existing programs, plus the costs of what is known as policy option packages to add new services and programs. When "cuts" are mentioned in the Democrat plan, they represent cuts from the EBL and not cuts from existing spending. Further, the Democrat plan calls for \$800 million in new taxes from businesses and high income taxpayers. It is important to remember that raising the personal income tax from 9% to 11% for the 31,000 taxpayers who have incomes above \$125,000 is mostly a tax on small businesses who are incorporated as Sub S, LLC's and partnerships.

On the other hand, the Republican school of thought is to begin with the Legislatively Adopted Budget for 2007-09 as the starting point and then add targeted increases based on the most critical needs. The Republican "Back to Basics Budget" plan proposes to increase spending by 5% over the 07-09 Legislatively Approved Budget and assumes that a combination of reducing costs and utilizing the very un-transparent Other Fund Reserves is preferable to raising taxes. One of the most obscure parts of state government is the reserves held by fee supported regulatory agencies. The Republicans believe the use of these reserves is much preferred to raising taxes.

Generally, there is a very basic difference in philosophy between the parties. There is the belief within the Democrat plan that businesses and high income taxpayers do not pay their fair share; therefore, raising taxes on these groups is the equitable thing to do. Republicans believe that businesses and the private sector are the foundation of our economy and that increased taxes will lead to fewer jobs. The Legislative Revenue Office has determined that the result of \$400 million in increased taxes will "result in an estimate of 5,865 less jobs due to the short-term demand side effects of the tax increase". The Democrat proposed \$800 million tax increase would result in nearly 12,000 estimated fewer jobs. The Republicans believe it makes little sense on the one hand to spend money to stimulate jobs and then on the other hand to tax money out of the economy that results in fewer jobs.

Additionally, businesses will be faced with legislatively mandated insurance cost increases of an additional \$250 million. (Premium tax to insure more uninsured, increased mandates and Oregon Medical Insurance Pool increased assessment). Republicans believe that putting a \$1 billion + stress on business is not only unwise, it is dangerous at this particular time.

Obviously, there are no easy decisions to be made. What follows is the Back to Basics Budget as proposed by the Senate and House Republicans. I welcome your comments.

Back To Basics Budget Highlights – Updated on May 21, 2009

- The Back to Basics Budget is a fundamental shift in the way Oregon begins its budget process. Rather than starting with a number based on unsustainable growth the budget starts with what state agencies are spending today. The budget recognizes Oregon is a different place than it was in 2008 when the “Essential Budget Level” was set.
- The Back to Basics Budget does not rely on \$800 million in new taxes.
- The Back to Basics Budget provides \$6.245 million to K-12 education.
- The Back to Basics Budget makes an additional \$500 million investment in human services for the upcoming budget cycle.
- The Back to Basics Budget funds voter approved Ballot Measure 57 (2008) with savings proposed by groups including the Oregon District Attorneys Association.

Background

The Ways and Means Co-Chairs recently released a budget based on a potential \$4 billion shortfall from Essential Budget Level (EBL). The EBL is based on numbers from May 2008. Much has changed since the number was released and the EBL is clearly unsustainable. In the Back to Basics Budget we are basing our recommendations on the 07-09 Legislatively Adopted Budget (LAB). This is the budget that was approved in 2007. From the 07-09 LAB we are then asking agencies to justify any increases.

The attached spreadsheet is a roadmap to a 2009-11 balanced budget without the need for tax increases. It is based on the 2007-09 LAB, the use of federal stimulus and some state reserve funds along with a hard look at the ending fund balances in agencies that use other fund dollars. The Back

to Basics Budget is a bridge through the current economic downturn and does not rely on tax increases from Oregon families. It allows agencies to continue current operations at current levels.

Starting Point

The Back to Basics Budget is based on the 2007-09 Legislatively Adopted Budget. We begin by holding services such as K-12 Education, colleges and universities, public safety agencies and human service providers harmless from cuts. The groups will have the same amount of money for the 2009-11 budget cycle that was approved in 2007.

Additional Funds

The Back to Basics Budget relies on two types of additional funds. The budget uses \$941 million in Federal Stimulus money and \$436 million in Rainy Day and Education Stability Funds (state reserves). The Federal Stimulus money does come with Maintenance of Effort (MOE) requirements meaning we cannot reduce state support to certain programs without jeopardizing federal money. To comply with these requirements the Back to Basics Budget prioritizes those programs within education and Human services which have MOE requirements.

Spending

The Back to Basics Budget is based on spending levels from the 2007-09 Legislatively Adopted Budget. The plan holds services like K-12 education harmless from cuts. Targeted increases include \$28 million to fully fund the new Oregon State Police Troopers which were phased in over the 2007-09 budget cycle. The budget also increases spending on human services by more than \$500 million to compensate for increased caseloads based on the economic downturn.

For reference, total program area spending (after budget reductions) for the 2007-09 biennium was \$14.373 billion.

To fund Ballot Measure 57 (2008), in which voters demanded increased prison time for those who commit property crimes, we are implementing cost savings measures proposed by groups including Oregon's District Attorneys. With these cost savings Ballot Measure 57 can be implemented in a cost-neutral manner.

Other Sources of Savings or Enhancements

The Back to Basics Budget contains \$529 million in funds based on an attached list of targeted savings. The budget also uses \$500 million from the ending balances of agencies that receive "Other Funds." On June 30, 2009 those accounts are projected to have more than \$2.5 billion that was not used during the 2007-09 budget cycle. The Legislative Fiscal Office has confirmed we can use \$500 million to help with the 2009-11 budget.

2009-2011 Budget Proposal Comparisons

	Co-Chairs Proposed Budget	Back to Basics Budget
<i>AVAILABLE RESOURCES</i>		
Expected Revenue (Current Forecast)	13,660	13,660
Dedicated Lottery Funds	(233)	(233)
Available General & Lottery Fund Revenue	13,427	13,427
Federal Stimulus	941	941
Use of Rainy Day Fund & Education Stability Fund	-	436
Total Funds Available	14,368	14,804
<i>PROPOSED SPENDING</i>		
K-12	5,600	6,245

	Education-Other	1,826	2,013
	Human Services	4,210	4,000
	Public Safety/Judicial Branch	2,458	2,462
	Economic & Community Development	135	182
	Natural Resources	324	400
	Administration	195	194
	All Other	216	179
	Program Area Subtotals	14,964	15,675
	Supplemental Appropriation for Health Benefits	32	-
	Projected New 09-11 Debt Service	70	70
	Measure 57 Implementation	75	75
	Program savings to offset M57 Implementation	-	(75)
	Total Miscellaneous Spending	177	70
	Total Proposed 2009-11 Spending	15,066	15,745
	Initial Surplus (Deficit)	(698)	(941)

OTHER SOURCES OF FUNDS

Tax Increases	800	-
Program Area Savings & Co Chairs "Add'l Resources"	127	556
Ending Fund Balance Reserves	-	500
	927	1,056
Net Fiscal Position	229	115

REMAINING SAVINGS

Remaining Education Stability & Rainy Day Funds*	157	131
Final Fiscal Position	386	246

* Co-Chair number assumes the use of \$400 million set aside for K-12

Other savings or offsets include (\$556 million in total):

- **\$250 Million** – Eliminate the pay raises granted by the Governor without legislative input.
- **\$78.7 Million** – Redirect the ending fund balance from the Public Employees Benefit Board to the General Fund. The money is currently being held in case PEBB decides to self-insure state workers (based on email from PEBB).

- **\$50 Million** – Other Fund savings resulting from Senator Jackie Winters' work on the Department of Administrative Services Budget. This Other Fund savings would be realized through DAS rate reductions to General Fund agencies.
- **\$50.0 Million** – Redirect half of the money currently in the Risk Assessment Account. This account is used to cover lawsuits against the state and we are not aware of any large pending suits (based on money currently in account).
- **\$50 Million** – Money identified by the Co-Chairs that includes a decrease in attorney general rates and service and supply reductions based on inflation that is lower than expected.
- **\$30 Million** – Reduce General Fund revenue going to the Attorney General. His General Fund Budget is up more than \$100 million since 2005-08.
- **\$27 Million** – Savings and/or revenue identified by the Co-Chairs at the Department of Revenue, OLCC and miscellaneous General Fund savings.
- **\$20 Million** – 10% cut to administration, not programs, at the Department of Human Services. In 2007-9 this budget was more than \$200 million.