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SHORT- TERM OPTIONS

(10-16-08)

Draft list of recommendations.

Key Finding: The state revenue system is highly dependent on the volatile personal income tax. This makes the state fiscal situation particularly vulnerable to economic downturns. In order to protect investments in key program areas such as education, public safety and health care, the state needs to ensure that reserve funds are adequate. While the state currently has the Education Stability Fund, which serves as a reserve for general education support (kindergarten through university), it is limited to 5% of the General Fund and does not support the remaining 40% of General Fund programs; and the Rainy Day Fund established by the 2007 Legislature to support the remainder of General Fund programs does not provide an adequate funding mechanism for the future.

Concept: Establish methodology for more reliable forecasting and more prudent budgeting; direct ending balances into the rainy day fund.

Recommendation: Develop constitutional amendment with following elements:

- Place Rainy Day Fund in constitution
- Require Governor to develop both a point estimate for corporate income tax revenue and all other General Fund revenue and a range for both estimates.
- Specify that the range is based on historic forecasts compared to actuals.
- Require all revenue above the top of the forecast range to be returned to taxpayers
- Require revenue that exceeds the point estimate up to the top of the range to go into the Rainy Day Fund unless fund is full.
- Increase cap on Rainy Day Fund from 7.5% of General Fund revenue in the prior biennium to 10% of General Fund revenue in the prior biennium.
- Specify that when cap is reached, revenue above cap is returned to taxpayers. When making deposits into the fund, corporate income tax revenue above the point estimate is calculated first then all other General Fund revenue.
- Put current statutory Rainy Day Fund triggers in constitution.

- Put 2/3 withdrawal limit in constitution but change date from beginning of biennium to beginning of fiscal year.
- Put statutory ending balance calculation (up to 1% of prior biennium appropriations) into constitution.

Key Finding: The state’s income tax dominated revenue system is projected to generate sufficient revenue to fund current programs over the long-term. However, adoption of new unfunded programs and measures that reduce revenue through the voter initiative process, have knocked the state fiscal system out of balance for extended periods in the past, and represent a risk to the state budget in the future.

Concept: Apply a “balanced budget” rule to ballot initiatives.

Recommendation: Develop statute with the following elements:

- Require ballot title to declare if an initiative will have a significant unbudgeted fiscal or revenue impact that will require eliminating or reducing funding for current programs and services.
- Include enforceability provisions.
- Incorporate financial impact statement into ballot title where appropriate.
- Establish \$ amount (indexed for inflation) for what constitutes “significant unbudgeted fiscal or revenue impact.”

Key Finding: In contrast to the state, the local city and county revenue system, dominated by the property tax, is stable but not very responsive to economic growth or inflation over the long-term. This means that the local revenue system is likely to consistently lag behind increases in the cost of providing services. Local fiscal problems are particularly acute currently due to a recent resurgence in inflation and uncertainty over federal timber payments to counties.

Concept: Reduce restrictions on local government’s ability to raise revenue and refrain from approving any new property tax expenditures or state level mandates on local governments.

Recommendations to legislative committees:

- Revenue Committees
 - No new property tax expenditures unless offsetting revenue included.
 - No new preemptions of potential local revenue sources.
 - Review existing local preemptions for possible modification or repeal.
- Ways & Means Committee
 - No new expenditure mandates for local governments.
 - Fully fund (at 100% of estimated impact) any new property tax expenditures with appropriations to the Property Tax Expenditure Account.

Key Finding: Although the state’s discretionary budget benefits from a strong revenue source over the long-term, new spending programs and infrastructure needs can destabilize the system for extended periods if not systematically planned for.

Concept: Develop systematic long-term budgeting process including long-term capital spending plan.

Recommendation: Governor include in the 2009-11 Governor’s Recommended Budget and the Legislature approve a statute for future biennia that requires:

- 10-year revenue projections for General Fund & Lottery
- Breakdown of General Fund/Lottery budget into functional categories

- 10-year projections for major General Fund program areas based on projections for inflation and demographic trends.
- 10-year forecast for state's capital needs.

Key Finding: The state has immediate needs in the transportation and health care area that are not adequately funded in the short-term.

Concept: Develop adequate revenue sources to meet state's immediate critical needs.

Recommendation: Top fiscal priorities for 2009 legislative session:

- Balance 2009-11 budget.
- Develop funding package for modernization & expansion of state's transportation system.
- Renew and restructure expiring health care provider taxes