

Revenue forecast dramatically higher than expected

About \$770M more than previous forecast

By Mark Miller
Oregon Public Broadcasting



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House Speaker Tina Kotek, D-Portland, signals her vote on the House floor at the Capitol in Salem. In a bill Kotek introduced Thursday, May 16, roughly half of the estimated \$1.4 billion tax rebate would be kept by the state and spent on a set of transportation initiatives the speaker argues will benefit public safety, air quality, and job creation.

Oregon has come into an unexpected windfall, and now it's up to lawmakers to figure out what to do with it.

Personal and corporate income tax collections during the 2019 tax filing season were dramatically higher than state economists expected, according to a report released May 15. While much of that money will go back to taxpayers next year in the form of Oregon's unique "kicker" rebate, the new forecast gives legislative budget-writers about three-quarters of a billion dollars more to work with as they decide how Oregon will spend its money over the next two years.

They aren't getting too excited, though.

"It may seem strange, but the revenue forecast does not change the method in which we're budgeting," said state Rep. Dan Rayfield, D-Corvallis, who co-chairs the budget writing committee. "We are still looking at reduction options. We are still being cautious and prudent about how we spend the resources that the state has."

Decisions on agency spending touch practically every Oregonian.

Between general and lottery funds, state economists project that Oregon has \$24.8 billion to spend over the next two years. That's up about \$770 million from the previous forecast.

Ken Rocco, legislative fiscal officer, advises lawmakers on how much their spending ideas would cost the state. His office concluded the state would need to spend about 14% more than the current two-year, \$21 billion budget just to keep in place services now being provided, because of the impact of inflation, pay raises and cost hikes in sup-

plies and services.

That calculation doesn't take into account the larger cash reserves that Rayfield and his fellow co-chairs, Sens. Betsy Johnson, D-Scappoose, and Elizabeth Steiner Hayward, D-Beaverton, want the state to have by the end of 2021. It also doesn't include any new programs or projects that the Legislature approves or jobs it adds.

"I think we're probably much closer to being able to fund the current service level, but that doesn't mean that the co-chairs, for every agency, they're going to do that," Rocco said. "They're still looking at making some current service level reductions."

That hasn't stopped key people in the Capitol from tossing out ideas for how the newfound \$770 million should be spent.

Gov. Kate Brown said she expects some of the extra money to go toward mitigating tuition costs for community colleges and universities, as well as investing in foster care and law enforcement.

"I have some key invest-

ments that I think need to be made," Brown said.

Brown and House Speaker Tina Kotek, D-Portland, have also suggested putting some of the windfall into affordable housing, a priority they share.

"The more we can do for housing with the additional resources, we should try," Kotek said.

But Rayfield and some of his fellow Democrats in the Legislature are leery of any new spending that would have to be covered in future budgets.

"You use one-time money for one-time purposes," Rayfield said.

Sen. Chuck Riley, D-Hillsboro, who sits on the Senate Finance and Revenue Committee, responded cautiously to Brown's wish list.

"Those are all good things, and yeah, OK, sure, we can always use money in those places," Riley said. "But I'm a bit of a realist and understand we're going to have that (economic) downturn. We need to make sure that we have everything covered for that downturn."

Riley and his committee chairman, Sen. Mark Hass,

D-Beaverton, want to put as much as they can into the state's reserves.

"In public finance, when you have a temporary phenomenon — a historic windfall — the position is you sock it away," Hass said after reviewing Wednesday's report.

Oregon has run up about \$27 billion in PERS debt. Pension costs are growing as more public employees reach retirement age. While there's no way for the state to erase its debt with a single move, the Legislature could put some of the overage toward paying it down.

It's "very likely" the budget will include extra money for the PERS fund to help pay down the debt, Kotek said Friday. That would be an appropriate use of the windfall, Hass and Rayfield agreed.

Brown and Kotek also floated a less likely idea: diverting money from the personal income tax kicker itself.

At \$1.4 billion, next year's kicker would be the largest in state history.

Kotek has proposed

spending about half of it on transportation initiatives, including grants to replace or refit old diesel engines to reduce pollution, seismic upgrades to the Interstate 205 bridge between Oregon City and West Linn, and a new program to build electric vehicle charging stations and other infrastructure for low-emission vehicles.

Brown hasn't embraced Kotek's kicker proposal, House Bill 3440. She said Thursday that if the kicker were diverted, it should be for something that benefits the entire state.

The Legislature usually leaves the kicker alone. Oregon only cashes the rebate out to taxpayers in good economic times, when tax collections over a two-year period are at least 2% higher than economists expect.

Brown said she'd support using kicker money to pay down more of the PERS debt, if the Legislature can cobble together a plan that has bipartisan support.

"I think that is good fiscal sense," said Brown.

"We're in a really interesting opportunity, because the kicker is so large," Kotek said. "We haven't had this opportunity in the past, where the personal income tax kicker rightly should be going out to taxpayers. Here, we have an interesting situa-

at the end of a recession, when lawmakers decided to use the money to help cover state spending.

Since then, voters have made it harder for the Legislature to dip into the kicker. They passed a constitutional amendment in 2000 that requires the approval of 40 state representatives and 20 senators to shift money away from the automatic rebate.

That's a tall order. Even if Democrats were united, they would need two Republicans to agree to the plan in both the House and the Senate — and Republican leaders fiercely oppose any changes to the kicker.

"Any attempt by Democrats to take their hard-earned kicker away from working Oregonians and squander it all on growing government or rewarding their campaign donors will be met with strong opposition by House Republicans," House Minority Leader Carl Wilson, R-Grants Pass, warned May 15.

Rayfield said budget writers should focus on the extra money in the general and lottery funds instead. His take is that the Legislature "has no control" over the kicker, despite its record size.

"We have absolutely zero ability to touch that, unless

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House Minority Leader Carl Wilson, R-Grants Pass,

you had a two-thirds vote in the House and Senate and the governor signing it," Rayfield noted.

Rayfield, Johnson, Steiner Hayward and other members of the Joint Ways and Means Com mit-tee are con-

tinuing work to shape state agency budgets for the next two years.

Rocco said the goal is to have the budget pieced together within the next three to four weeks. The Legislature must approve a balanced budget by the end of June for the biennium that starts July 1.

Budgets aside, Ways and Means also has more than 360 policy bills to consider.

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