

Oregon faces steep drop in income taxes, seeks federal aid

By Peter Wong
Oregon Capital Bureau

Even as a legislative panel prepares this week to draw from the state's emergency fund, Oregon faces a steep drop in income taxes that the state government relies on to aid schools and to pay for services, and the state may need federal help.

Estimates of tax losses are still being developed. But Oregon and all other states are likely to require billions in federal aid that may dwarf the amounts given during the Great Recession a decade ago — and far more than Congress has approved so far to counter the economic downturn prompted by the coronavirus pandemic.

While Oregon Sen. Ron Wyden and the Democratic majority in the U.S. House have made aid to states a priority, Treasury Secretary Steven Mnuchin says it's more likely such aid will take a backseat to replenishing federal help for small businesses, which already have exhausted the \$350 billion Congress made available for them.

Wyden was more optimistic: "We are trying to work out an agreement to address all of these issues."

But one expert said Congress will have to do more for states.

"States face massive budget shortfalls that will be more severe than they saw during the Great Recession," said Michael Leachman,

senior director for state fiscal research for the Center on Budget and Policy Priorities, a progressive-leaning think tank.

"Those cuts will make an already-weak economy even weaker and will hurt families and communities when we are already vulnerable," said Leachman, who once worked for the Oregon Center for Public Policy.

More than 90% of Oregon's general fund, which represents its most flexible state spending, comes from just two sources: personal and corporate income taxes. The state's next quarterly economic and revenue forecast is scheduled May 20.

"We are being impacted by a loss of revenue because there are fewer people working," Gov. Kate Brown said last week. "The needs are great in terms of our public health capacity and for our safety net. Of course, unlike the federal government, the state has to balance our budget."

In addition to almost 300,000 Oregonians filing unemployment claims in the past few weeks as a result of business shutdowns and curtailments linked to the COVID-19 pandemic, demands have increased for public health, state-supported health insurance under the Oregon Health Plan and other services during the downturn.

Slowdown accelerates

State Economist Mark McMullen warned in several recent forecasts that Oregon's

economy was likely to slow, despite continued growth in jobs and tax collections, as the national economic expansion passed a record 10-year mark.

The 2019 Legislature set a total of \$23.7 billion for the current two-year budget from general taxes and lottery proceeds, with an ending balance of about \$600 million. Total state spending for 2019-21 is \$85.8 billion, but more than 70% consists of federal grants or other restricted funds, such as fuel taxes and vehicle fees earmarked for highway and bridge work.

While there are no official projections yet of how much less state tax collections will fall short, Sen. Betsy Johnson, D-Scappoose, said some of the early numbers are scary: losses between \$2 billion and \$3 billion during the rest of the current two-year cycle ending in mid-2021, and between \$1 billion and \$5 billion in the next cycle.

"We have been told by the state economist it is awful," said Johnson, a Senate co-chairwoman of the Legislature's joint budget-writing committee. "Other than observations at 100,000 feet, I do not know what to tell you."

The Legislative Emergency Board, whose members make budget decisions between sessions, was preparing this week to tap the state emergency fund that is now down to around \$50 million. But only the full Legislature, not the board, can spend other funds or move money from already approved agency budgets.

Oregon does have two big

reserve funds with a total of \$3 billion, almost 14% of the general-fund budget, which puts the state in a better position than during the last downturn. A lottery-based reserve can go to education, and a second reserve can be tapped for other purposes. But only the full Legislature can approve those transfers — and the laws creating the funds bar lawmakers from spending all of the money in a single budget cycle.

The governor does have authority to cut most agency budgets by 2% without legislative approval. Brown said she has instituted a partial hiring freeze — there are exemptions, such as the Employment Department adding staff to process a record number of claims — and barred non-essential travel.

Johnson said lawmakers agree with Gov. Brown that any special session should await the next economic/revenue forecast and an updated analysis of how Oregon benefits from the myriad programs that Congress approved in the \$2 trillion CARES Act. Federal agencies are still writing rules for how the money is spent.

"We're still waiting to understand what the federal (CARES) bill means for Oregon so that we do not do anything that makes it harder to use the federal money," Johnson said. "That will give all the certifiably smart people in Oregon a chance to digest all the different streams coming from the federal government."

Aid proposals

One expert says the key to

how much aid states will need is the length of the economic downturn that will persist once business activity resumes after the worst of the coronavirus pandemic.

"The length is not independent of the (pandemic) event," said Susan Wachter, codirector of the Penn Institute for Urban Research, who spoke on a conference call sponsored by the Volcker Alliance. "The longer this persists, the deeper it will be for state and local governments. State and local cuts, which are beginning and are planned to go deeper, will contribute to the downturn."

During the Great Recession a decade ago, Oregon and other states got aid in several forms, some money as general assistance and some as increased federal shares of Medicaid, the joint program of health insurance for low-income people. It's known in Oregon as the Oregon Health Plan, although Medicaid goes to some nursing-home care.

"By letting states reduce their own contributions to Medicaid, we have seen this step provide flexible funding they can use to address their own budget gaps," said Aviva Aron-Dine, vice president for health policy at the Center on Budget and Policy Priorities.

But she said Congress will have to raise the federal share by far more than it did a decade ago, when the increase was about 12 percentage points.

One of the recent congressional aid packages did raise the federal Medicaid share, but only until the current public health emergency is declared

over by the Health and Human Services Department.

Aron-Dine said a good starting point is a proposal by the Democratic majority in the U.S. House to raise the federal Medicaid share by 5 points for every 1 percentage point that a state exceeds its historic unemployment rate. Based on that proposal, she said, the projected state budget shortfalls would drop by about two-thirds — and Congress could do something else to offset the rest.

States — and local governments with more than 500,000 people, such as Multnomah and Washington counties — also got a separate source of aid in the congressional package. Other urban counties do not qualify. For Oregon, the total is about \$2.4 billion, about \$1.6 billion of it for state government.

"We cannot use that to backfill the revenue we have lost," Brown said last week. "That is a frustration shared by governors around the country."

Led by Maryland Republican Larry Hogan and New York Democrat Andrew Cuomo, the National Governors Association called on Congress and President Donald Trump to approve up to \$500 billion in aid to states.

"The challenge that all the governors are having is the strings that were put on earlier federal resources," Brown said. "Whether we are Republican or Democrat, red or blue states, we would all like to see much greater flexibility to support the financial needs in our states."

Sen. Wyden seeks infrastructure money in next stimulus package

By Peter Wong
Oregon Capital Bureau

U.S. Sen. Ron Wyden says he is for adding federal money for public works projects to stimulate a national economy in free fall as a result of the coronavirus pandemic.

But the Oregon Democrat said the greatest political leverage on a Republican president and Republican majority in the Senate will have to come from the Democratic majority in the House and Speaker Nancy Pelosi.

"I am all in, and I hope Nancy Pelosi will jump-start this," Wyden said Wednesday, April 15, during a conference call with the Westside Economic Alliance, a business-advocacy group serving primarily Washington County. "The president at one point said he wanted to do it. But we haven't heard much back."

Wyden's reference was to

a general overture on infrastructure financing by President Donald Trump, who has said publicly he would like to resume some semblance of public life and business activity by May 1. Trump said he will talk Thursday with state governors, many of whom say they will set their own timetables for emerging from the pandemic.

Wyden is the top Democrat on the tax-writing Senate Finance Committee.

Infrastructure financing plans have been offered by Oregon Reps. Earl Blumenauer of Portland, a member of the tax-writing House Ways and Means Committee, and Peter DeFazio of Springfield, chairman of the House Transportation and Infrastructure Committee.

Some economists say the United States is heading into a recession anyway, with consumer demand down in many sectors.



Eagle file photo

U.S. Sen. Ron Wyden, D-Oregon, answers questions from Grant County community members during a town hall Oct. 7 at Prairie City School.

The Trump administration has asked Congress for \$250 billion more for the Small Business Administration to offer aid to businesses of fewer than 500 workers. Republicans sought a no-strings-attached plan, but Democrats rejected that on a

Senate vote April 9. Democrats are seeking to add aid to hospitals and state and local governments.

Wyden said, even if the small-business aid is eventually approved without add-ons, there will be another opportu-

nity to add spending to the \$2 trillion plan Congress approved at the end of March.

Wyden responded to a question during the conference call by Stephen Roberts, director of the Washington County Land Use and Transportation Department, who said the money could advance public works projects ready for construction.

Wyden had a hand in the \$787 billion economic aid plan Congress approved in 2009 during the Great Recession. His Build America Bonds raised a total of more than \$181 billion in bonds — about \$1 billion issued in Oregon — for public works projects between February 2009 and December 2010. The program paid part of interest costs, resulting in \$20 billion in savings for state and local governments, and offered tax credits that bondholders could use to reduce taxes owed.

Some said the 2009 plan

should have proposed more in direct federal spending for public works projects, given the depth of that recession.

In an interview last week, Wyden said Trump would have found bipartisan support if the newly elected president had advanced public works financing, rather than tax cuts, as Trump's top priority in 2017. He said he and Orrin Hatch, the Utah Republican who then led the Finance Committee, told Trump the votes were there to spend part of the "repatriated" money that corporations returned to the United States after Congress cut corporate tax rates. The tax cuts passed both chambers without a single Democrat in favor.

"Democrats have long been in favor of infrastructure spending," Wyden said. "I thought it was malpractice by the Trump administration not to make infrastructure its first bill of 2017."

Record number of Oregonians lose jobs during pandemic but pace slowing

By Dick Hughes
For the Oregon Capital Bureau

Record numbers of Oregonians have lost their jobs during the coronavirus pandemic, but the pace is slowing, the state Employment Department reported Thursday.

About 53,800 people initially filed for unemployment last week, compared with a total of 243,000 during the previous three weeks. The biggest proportion of claims is from people who were employed in the leisure and hospitality sector, including hotels and restaurants.

"But all sectors are seeing record numbers right now," Anna Johnson, senior economic analyst, said in a

department video posted Thursday.

Large-scale public health measures aimed at slowing the spread of COVID-19 began during the week of March 15. From then through April 4, 58% of unemployment claims were filed by workers with a high school education or less.

"This is likely a reflection of the industries that have been hardest hit, such as leisure and hospitality, construction, retail and manufacturing," regional economist Damon Runberg wrote on Thursday.

He added that workers ages 25 to 34 were particularly hard hit, accounting for 30% of the jobless claims during that period despite making up only 23% of the workforce. About 23% of

35- to 44-year-olds filed claims.

Lincoln and Clatsop counties both lost more than 10% of the local workforce to layoffs during those three weeks. Other significant workforce losses included roughly 8% in Deschutes County; about 7% in Union, Coos, Crook and Tillamook counties; and around 6% in Multnomah, Lane, Jackson and Douglas counties.

The state paid out \$97 million in unemployment benefits last week. However, many people have not been able to receive payments due to the agency's lack of staff and outdated technology.

Despite quadrupling the claims-handling staff, the department answered only 801 of the 2,206 calls received on

Wednesday, and the average wait time was about two hours.

Communications Manager Gail Krumenauer said additional staff are still being hired. With record unemployment up through early March, the agency had a small staff handling claims. It has gone from 106 personnel then to 450 now, with a goal of 800.

"It's hard to overstate what an incredible change this has been in almost no time for Oregonians and for the department," she said.

Computer systems are being reprogrammed to handle the federal Pandemic Unemployment Assistance program, which will allow many self-employed, contract or gig workers to receive unemployment ben-

efits for the first time.

But she said it will take 4,000 hours to reprogram computers to eliminate the one-week wait before people are eligible for benefits. Because the reprogramming will take staff away from existing work, the department is focusing first on getting the most money to the most people.

"The agency has prioritized doing what we can to get the most benefits to the most affected workers, the fastest," she said in a department video. "We've already seen the total benefits paid went from \$25 million in one week to about \$100 million in the next. That's real money right now in people's pockets, so that's been our first priority."

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