

**FUND BALANCES AVAILABLE TO THE LEGISLATURE: 2007-09 BIENNIUM**

**ENDING FUND BALANCE**

Close of Session (June 2007) Forecasted Ending Fund Balance .....	\$184.2 million
Accumulated General Fund Revenue Losses through the February Forecast .....	(\$155.4 million)
February Special Session Expenditures & Adjustments .....	(\$12.3 million)
Transfers from Lottery .....	\$20.0 million
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Current Forecasted Ending Fund Balance.....	\$36.5 million

**OTHER FUNDS POTENTIALLY AVAILABLE TO THE LEGISLATURE\***

1. Emergency Fund .....	\$30.0 million
2. State Salary Package .....	\$125.0 million
3. Unallocated lottery balance .....	\$5.8 million
4. Education Stability Fund.....	\$356.0 million
5. Rainy Day Fund .....	\$335.0 million

\*Pages 2-3 contain notes that explain these other funds

**Conclusions:**

1. If the legislature does not go into a special session and wants to maintain a balanced budget, it has no choice but to reduce the state salary package dollar for dollar, for every dollar the June forecast shows falling more than \$36.5 million beyond the February 2008 forecast. (For example, if the June forecast shows a reduction of revenues of \$50.0 million beyond the February forecast, the state salary pool would have to be reduced by \$13.5 million.)
2. If the June 2008 forecast shows a revenue loss of \$167.3 million beyond the February 2008 forecast, the legislature must convene a special session in order to balance the state budget. (\$36.5 million ending fund balance + 125.0 million salary package + 5.8 million unallocated lottery funds = \$167.3 million)



## Notes on Other Funds

1. Emergency Fund. The legislature establishes the Emergency Fund each session to be expended if necessary by the Emergency Board between legislative sessions. These funds are typically held for use in emergencies such as natural disasters, unanticipated program increases, and other events. The further along in the biennium, the more apt the legislature may be to allocate these funds. The legislature has yet to make any appropriations from the Emergency Fund for this biennium.
2. State Salary Package. As it did in the 2005 session, the legislature established a State Salary Package during the 2007 session to provide funding for state agencies to cover salary increases. Last biennium the legislature released these funds in April 2006. This biennium, the legislature chose not to release these funds during the February 2008 supplemental session. Budget leaders indicated they would wait until the June 2008 forecast before making any decisions. Since all state agencies have already raised salaries, withholding these funds in June will result in programmatic reductions, reduced levels of service, increased vacancies, etc. Salary levels for state employees will be unaffected by a legislative decision to withhold these funds.

The Emergency Board may exercise discretion in releasing these funds. It may choose to: make across-the-board reductions applied proportionately to state agencies, release the funds to some agencies but not others, or not to release any of the funds. Some state agencies have more pressing problems than others. For example, withholding significant funding from the State Department of Corrections may result in releases of prisoners during a time when voters are considering two ballot measures calling for mandatory prison sentences. The legislature may choose to release proportionately more of the funds to Corrections to prevent or reduce the number of prisoners released.

Some agencies may have access to other funds, such as fees or tuition revenues. The Emergency Board may approve actions to enable agencies to increase these funds in order to balance reductions in an agency's general funds.

If the June forecast is significantly below the February forecast, the Emergency Board may release the entire salary package even if doing so would result in the state's budget becoming "un-balanced". Doing so in a financially responsible manner would require the legislature to indicate its intent to subsequently meet in a special session to balance the budget. Deliberate actions taken that result in budget deficits with no course of correction may negatively affect the state's bond rating.

The Emergency Board may not reallocate the salary package funds for other purposes. Nevertheless, differentially releasing the salary package among state agencies may have the effect of targeting budget reductions among agencies. Explicitly reallocating the salary package funds to other purposes can only be accomplished in a special session.

3. Unallocated Lottery Revenues. Some lottery funds are currently estimated to be available through the remainder of the biennium for purposes that may be specified by the legislature. Devoting these funds to any particular purpose can only be achieved in a special session. Estimates of unallocated revenues are subject to change, based on the degree to which lottery revenues rise and fall during the remainder of the biennium.
4. Education Stability Fund. This fund was established in the Constitution by the voters in 2002 and is funded with 18% of lottery proceeds. The Education Stability Fund can be used for "public education." Figures include expected growth in the fund through September 2008. Releasing the Educational Stability Fund requires a 3/5 vote in each chamber (18 votes in the Senate, 36 votes in the House) and meeting one of the following triggers:
  - a. The final revenue forecast for the current biennium indicates revenues in the next biennium will be at least 3% less than appropriations for the current biennium. *(It will not be possible for the legislature to meet this trigger for the current biennium in a special session because the final revenue forecast for the current biennium will not occur until the Legislature is in regular session in 2009.)*

- b. Employment has dropped for two or more consecutive quarters in the last 12 months. *(In June, it will not be possible to determine if this trigger has been met. While seasonally adjusted employment has now dropped for one quarter, information for the next quarter will not be available until July.)* OR
- c. A quarterly revenue forecast that projects general fund revenues in the current biennium will be 2% below the forecast used for the current budget. *(In order to meet this trigger in the current biennium before September, the June 2008 forecast would have to be down by \$129.4 million over the February 2008 forecast.)*

The Education Stability Fund may also be released if the Governor declares an emergency and there is a 3/5 vote in each legislative chamber.

- 5. Rainy Day Fund. As adopted by the legislature in 2007, the rainy day fund has no available balances in the current biennium. The current statute requires the funds be available at the *beginning* of the biennium in which withdrawals occur. Since the corporate kicker was not transferred into the new fund until after the biennium began, it is not available in the current biennium. However, the statute can be modified with a simple majority vote (16 votes in the Senate, 31 votes in the House).

Releasing the rainy day fund in future biennia requires a 3/5 vote in each house of the legislature and the same triggers as the Education Stability Fund, with the exception that there is no option for the Governor to declare an emergency.

The rainy day fund statute (HB 2707) also provides that after the end of the biennium an amount not to exceed 1% of the previous biennial general fund appropriations shall be transferred into the rainy day fund. If the ending balance doesn't equal 1%, then whatever amount is in the ending balance gets transferred. This amount was forecasted to be roughly \$140 million for 2007-09, but now amounts to only \$36.5 million. The actual amount of ending balance available to be transferred into the rainy day fund will not be known until the books close on the 2007-09 biennium in January of 2010.

*Prepared by the Office of Government Relations, Oregon State University, with assistance from the Legislative Revenue Office.*