

# RESERVE FUNDS IN OREGON

## HISTORY & STATUS

# NCSL Definition of Budget Stabilization Funds

- Housed & administered at the state level.
- Allocations are intended for state use.
- Fund is intended for general purposes.
- Fund is intended to offset revenue shortfalls caused by cyclical downturns in the economy.

# Key Elements of Budget Stabilization Funds

- Legal Authorization
- Multiple Funds
- Methods of Deposits
- Methods of Withdrawals
- Repayment Provisions
- Fund Size

# Oregon Reserve Fund Characteristics

Elements	Education Stability Fund	Oregon Rainy Day Fund
When Created	2002	2007
Legal Authorization	Constitutional	Statutory
Methods of Deposit	18% of Lottery Earnings	<ul style="list-style-type: none"> <li>•One-Time Corporate Kicker Credit</li> <li>•GF Ending Balance up to 1% of Prior Biennium Appropriations</li> <li>•Portion of corporate income tax</li> <li>•Retains interest earnings</li> </ul>
Methods of Withdrawal	3/5 Vote in each Chamber <b>and</b> <ul style="list-style-type: none"> <li>•Revenue Forecast down 2% from COS</li> <li>•Payroll Employment Down 2 Consecutive Quarters</li> <li>•Last Session Forecast shows 3% Decline in Revenue</li> <li>•Governor Declares Emergency</li> </ul>	<ul style="list-style-type: none"> <li>•Same as Education Stability Fund except no Governor Emergency declaration</li> <li>•Withdrawals cannot exceed 2/3 of Beginning Balance for any Biennium</li> </ul>
Repayment Provisions	None	None
Fund Size	5% of Prior Biennium Revenues	7.5% of Prior Biennium Appropriations

# Lessons from the 2000s

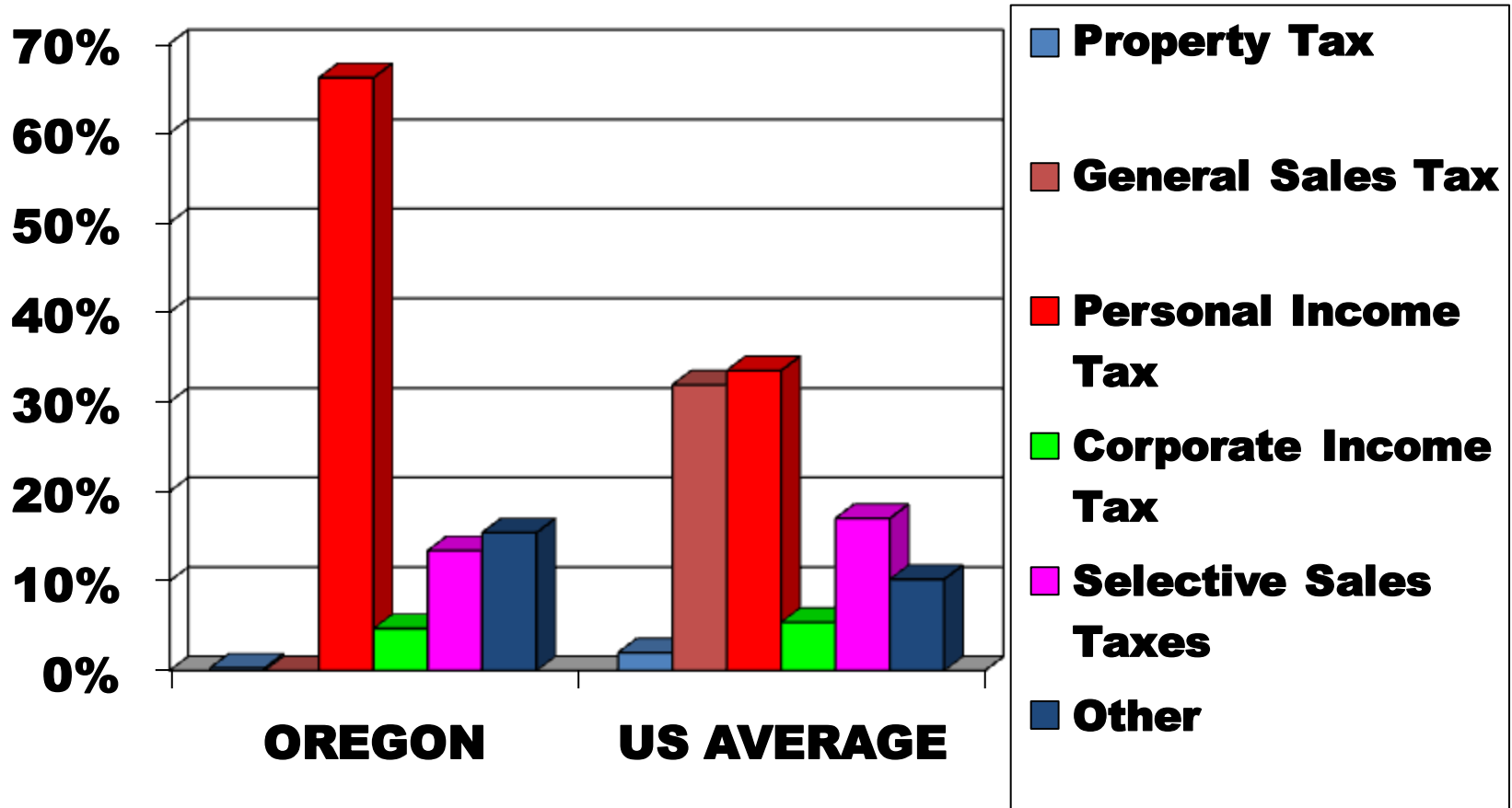
- Increasing Economic Volatility
- Slow Weak Recoveries
- Increasing Revenue Volatility
- Increasing Revenue Unpredictability

# Impact of Great Recession on State and Local Taxes

State & Local Tax Collections	2007: Q4 (in billions of \$)	2009:Q2 (in billions of \$)	Percent Change
<i>All State Taxes</i>	759.9	712.5	-6.2%
Individual income	271.8	243.9	-10.3%
Corporate Income	50.5	43.7	-13.5%
General Sales	240.5	229.5	-4.6%
Property Taxes	12.7	12.8	+0.9%
<i>All Local Taxes</i>	514.9	533.5	+3.6%
Individual Income	20.0	18.6	-6.9%
Corporate Income	9.0	6.1	-31.8%
General Sales	64.7	63.0	-2.6%
Property Taxes	390.4	415.0	+6.3%

# State Taxes by Source

(Percent of State Tax Collections in Fiscal Year 2010)



# COMPARISON OF US & OREGON ECONOMIES

(2011)

## US GROSS DOMESTIC PRODUCT BY SECTOR

## OREGON GROSS STATE PRODUCT BY SECTOR

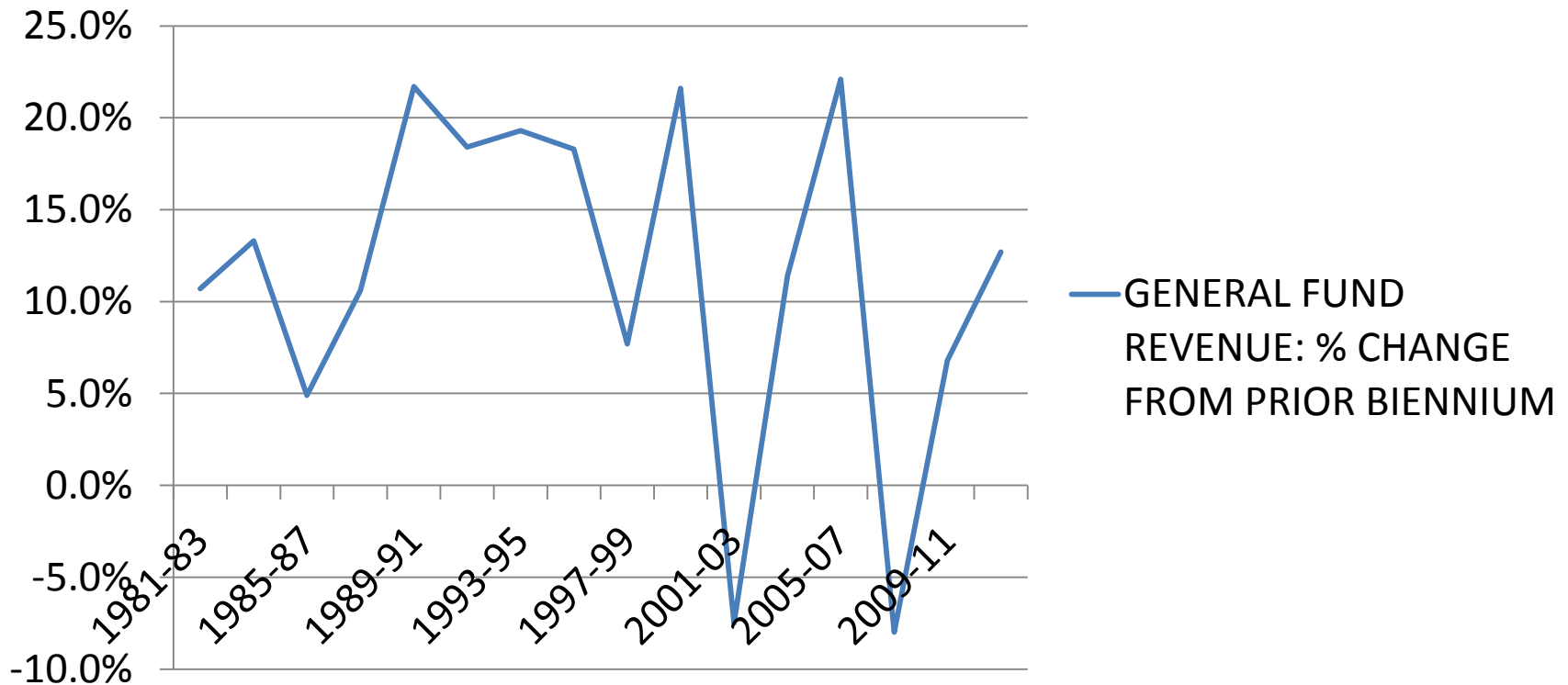
SECTOR	% OF GDP
AGRICULTURE	1.2%
MIN,UTIL,TRANS	6.4%
CONSTRUCTION	3.5%
MANUF.-DURABLES	6.6%
MANUF.-NON DUR.	5.7%
FINANCE+REAL EST	20.1%
PRO,TECH&INFO SERV.	12.2%
HEALTH CARE	7.7%
TRADE	11.8%
OTHER SERVICES	12.4%
GOVERNMENT	12.6%

SECTOR	% OF GSP
AGRICULTURE	1.7%
MIN,UTIL,TRANS	3.5%
CONSTRUCTION	3.3%
MANUF.-DURABLES	26.1%
MANUF.-NON DUR.	2.6%
FINANCE+RE	16.0%
PRO,TECH&INFO.	7.7%
HEALTH CARE	7.6%
TRADE	10.2%
OTHER SERVICES	10.0%
GOVERNMENT	11.5%



# THE GENERAL FUND REVENUE STREAM

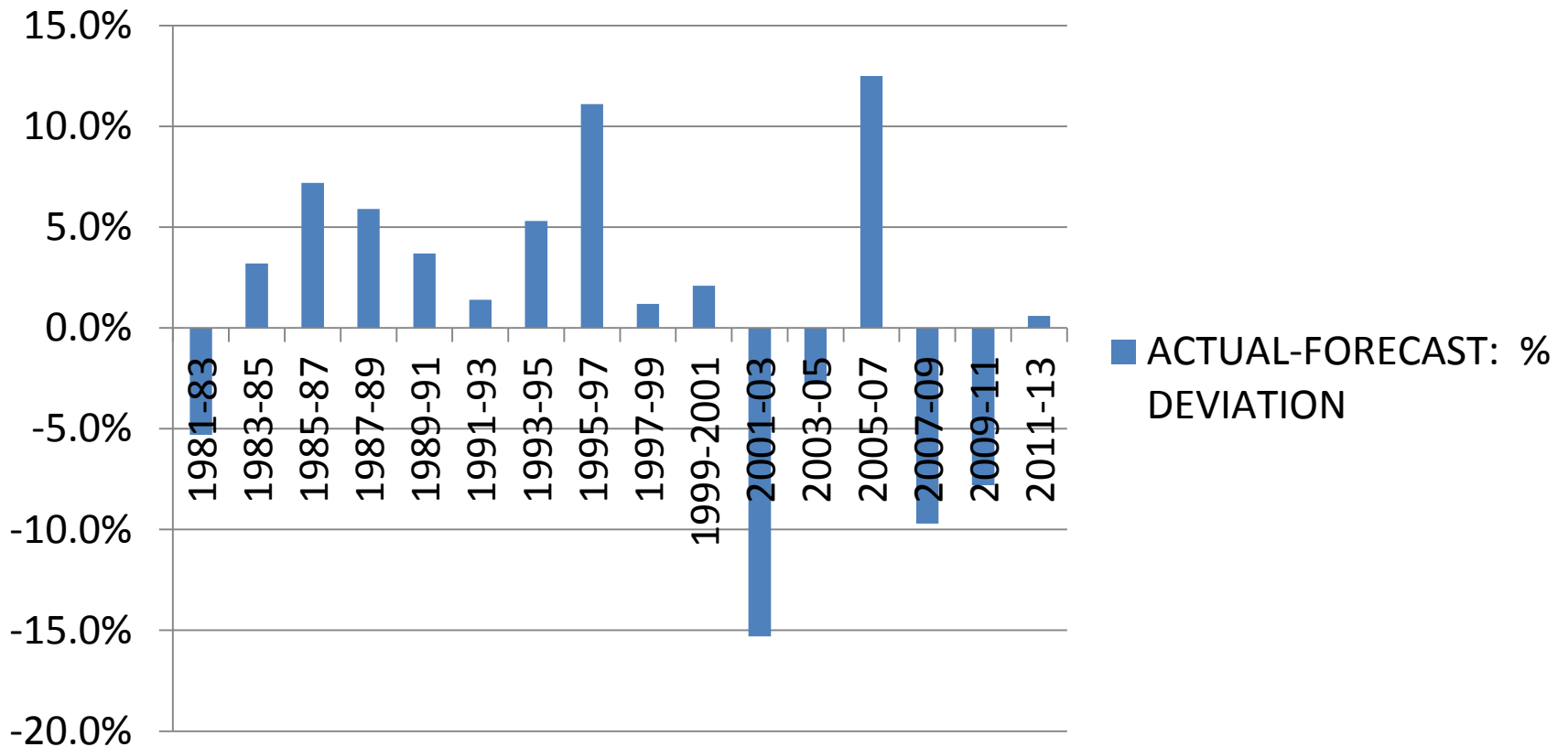
## GENERAL FUND REVENUE: % CHANGE FROM PRIOR BIENNIUM



# PREDICTING THE GENERAL FUND REVENUE STREAM

(CLOSE OF SESSION FORECAST COMPARED TO ACTUAL GENERAL FUND)

## ACTUAL-FORECAST: % DEVIATION



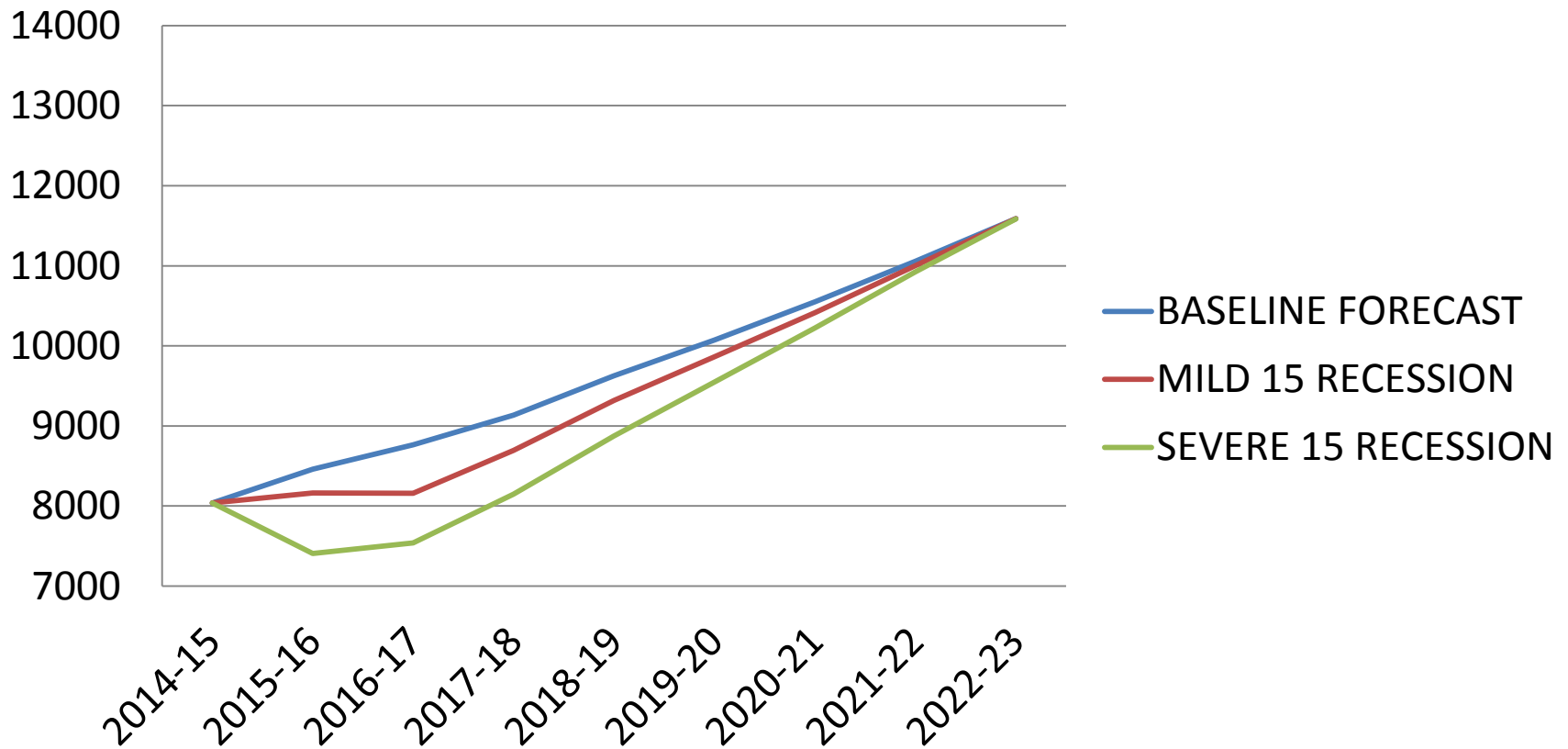
# ASSESSING GENERAL FUND REVENUE FORECAST DEVIATIONS

## 1981-83 THROUGH 2011-13 BIENNIUMS

% DEVIATION: ENTIRE PERIOD	-0.6%
AVG DEVIATION PER BIENNIUM	5.9%
STD DEVIATION	7.5%
2 STD DEVIATIONS APPLIED TO 2013-15 GF FORECAST (95% CONFIDENCE INTERVAL FOR NORMAL DISTRIBUTION)	<b>+ OR - \$2.3 BILLION</b>

# ANTICIPATING THE NEXT RECESSION

## ALTERNATIVE GENERAL FUND REVENUE FORECASTS



# RESERVE POSITION GOING INTO THE 2013-15 BIENNIUM

	EDUCATION STABILITY FUND	RAINY DAY FUND	UNALLOCATED GENERAL FUND	RESERVES AVAILABLE
	(IN MILLIONS)			
BEGINNING BALANCE	\$7.6	\$61.8	-----	\$69.4
DEPOSITS	178.2	\$182.6		\$360.8
INTEREST	----	\$2.0		\$2.0
PROJECTED ENDING BALANCE	\$185.8	\$246.4	\$130.2	\$562.4

# Reserve Fund Issues Going Forward

- Rebuilding Reserves
- Adequate Size of Reserves
- Future Role of Federal Fiscal Policy
- Ability to Distinguish Between Cyclical and Structural Revenue Trends