



2005 Market Street, Suite 2800 215.575.9050 Phone
Philadelphia, PA 19103-7077

901 E Street NW 202.552.2000 Phone
Washington, DC 20004
www.pewtrusts.org

Support for SB 800 submitted by Robert Zahradnik
Director of State and Local Policy
The Pew Charitable Trusts
March 9, 2015

Chair Hass and members of the Finance and Revenue Committee, I am writing to share The Pew Charitable Trusts' support of Senate Bill 800.

My name is Robert Zahradnik and I'm a director of state and local policy at the Pew Charitable Trusts. Pew is a public charity that engages in research and technical assistance at the local, state and federal levels.

Across the country, volatility in state revenue is growing more dramatic. These swings, whether up or down, can confound the best efforts of state officials to forecast revenue and keep budgets in balance. To help states better manage uncertainty, The Pew Charitable Trusts recommends that policymakers periodically study their state's economic and revenue volatility. Such analyses will help you develop policies for rainy day funds that can smooth budgets throughout the business cycle and align with states' individual objectives and characteristics.

SB 800 establishes the Task Force on Reserve Funds ("the Task Force") to review whether: Oregon's reserve funds reflect the volatility of the state, current limits on deposits into the fund are appropriate, and the deposits to the fund are adequate. The proposal also calls for the Task Force to make recommendations to improve the effectiveness and performance of the funds.

SB 800 is consistent with Pew's research that state rainy day fund policies should be connected to the state's experience with volatility. This proposal provides Oregon with an opportunity to identify sources of volatility and identify appropriate policy solutions. The work of the Task Force will give policymakers the ability to answer important questions such as:

- How much revenue volatility is the result of changes to state tax policy?
- Which taxes contribute the most to volatility?
- How much revenue volatility is caused by fluctuations in federal funds?

Our research has found that other states have gained important insights by asking and answering these questions. For example, a Legislative Analyst’s Office study in California concluded that major industries sensitive to the economic cycle, such as technology and housing, are one reason for the state’s above average revenue volatility.

This bill provides an opportunity for Oregon legislators to consider long-term trends. State budgets are often debated in the context of the previous year’s collections and spending, but this approach can fail to take into account underlying changes in the economy, particularly the areas that are subject to state taxation. By examining tax collections relative to longer term trends, policymakers can better understand to what degree revenue has become more volatile over time and which individual revenue sources have become more or less volatile. For example, the Minnesota state economist studies volatility in the areas of the economy that are subject to taxation in order to determine how much the state should save to weather future downturns.

The review of volatility and long term revenue trends will inform the recommendations to improve the effectiveness and performance of the funds. This is consistent with best practices in other states. For example, policymakers in Utah used their statutorily required revenue volatility study to evaluate the adequacy of their rainy day fund and ultimately adjusted the maximum allowable balances. In addition, the volatility study can also include an analysis of the past performance of the rainy day deposit mechanism compared to alternatives to ensure the fund is working as intended.

If this bill passes, Pew is available to assist the Task Force with its work. Our State Budget Policy project provides technical assistance to states such as:



2005 Market Street, Suite 2800 215.575.9050 Phone
Philadelphia, PA 19103-7077

901 E Street NW 202.552.2000 Phone
Washington, DC 20004

www.pewtrusts.org

- Developing metrics for analyzing revenue volatility that accounts for tax policy changes;
- Modeling alternative rainy day fund deposit rules that are tied to volatility based on practices in other states;
- Analyzing the optimal size of the state's reserves based on the states experience with the volatility;
- Providing analysis of rainy day fund withdrawal rules used in other states.

In conclusion, this Task Force will ensure that data and evidence are used to inform how to best structure Oregon's savings accounts – the Education Stability Fund and the Oregon Rainy Day Fund.