

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"> •One-Time Corporate Kicker Credit •GF Ending Balance up to 1% of Prior Biennium Appropriations •Portion of corporate income tax collections
Methods of Withdrawal	<p>3/5 Vote in each Chamber and</p> <ul style="list-style-type: none"> •Revenue Forecast down 2% from COS •Payroll Employment Down 2 Consecutive Quarters •Last Session Forecast shows 3% Decline in Revenue •Governor Declares Emergency 	<ul style="list-style-type: none"> •Same as Education Stability Fund except no Governor Emergency declaration •Withdrawals cannot exceed 2/3 of Beginning Balance for any Biennium
Repayment Provisions	None	None
Fund Size	5% of Prior Biennium Revenues	7.5% of Prior Biennium Appropriations

Oregon's Current Reserve Fund Position

(March 2015 Revenue Forecast)

2013-15 Biennium	Education Stability Fund	Rainy Day Fund	General Fund Ending Balance	Reserves Available
(in millions)				
Beginning Balance	\$7.4	\$61.9		\$69.3
Deposits	\$171.2	\$148.6		\$319.8
Interest	\$1.1	\$1.5		\$2.6
Withdrawals	-\$1.1			-\$1.1
Projected Ending Balance	\$178.6	\$211.9	\$347.7	\$738.2

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

Is General Fund Prepared for Next Recession?

(Current Projections Compared to Historical Risk)

Reserves	2015-17 Projection	2017-19 Projection
	(in millions)	
Rainy Day Fund	\$396	\$652
Education Stability Fund	\$355	\$548
Total Reserves	\$751	\$1,200
GF Risk at 1 std. (p=15.8%)	\$1,283	\$1,389
Reserve Shortfall	-\$532	-\$189
GF Risk at 2 std. (p = 2.3%)	\$2,566	\$2,777
Reserve Shortfall	-\$1,815	-\$1,577

PEW Charitable Trusts: Reserve Fund Recommendations

- Require regular studies to identify specific drivers of volatility and present appropriate policy solutions.
- Tie budget stabilization fund deposits to observed volatility.
- Establish fund size targets that match the state's experience with volatility.

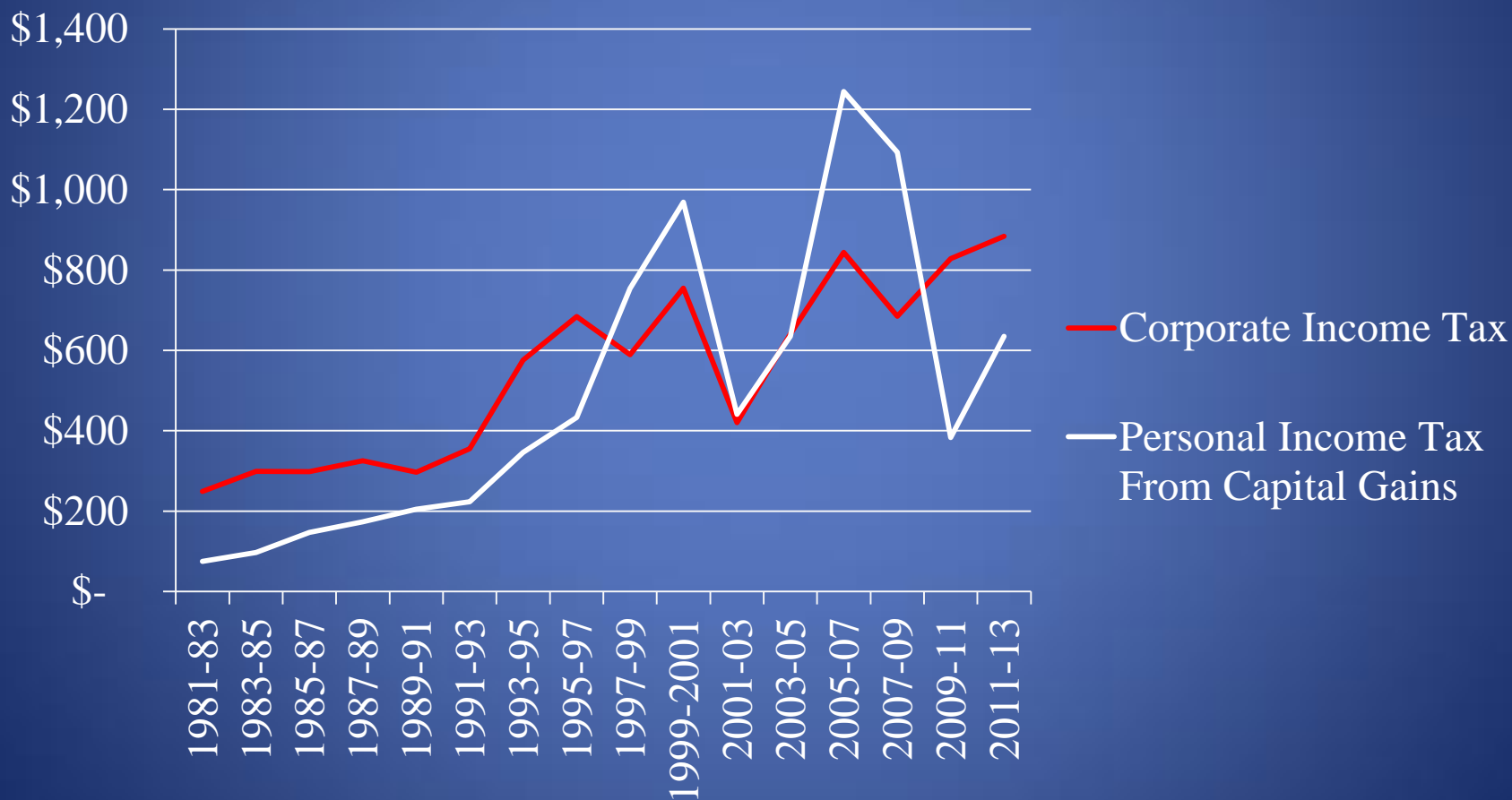
Forecast Deviation by Component

(Based on Biennia from 1981-83 through 2011-13)

Biennial Revenue	Forecast Compared to Actual: % Standard Deviation
General Fund	7.2%
Non Corp General Fund	6.1%
Corporate General Fund	29.9%
Personal Inc. Tax from Capital Gains	41.2%
General Fund Minus Capital Gains	5.7%
Non-Corp GF Minus Capital Gains	4.5%

Volatile Revenue Sources

(Biennial Revenue in Millions)



Lessons from the 2000s

- Increasing Economic Volatility
- Slow Weak Recoveries
- Increasing Revenue Volatility
- Increasing Revenue Unpredictability
- Fiscal Impact of Recessions Spread over Multiple Biennia