

# RESERVE FUNDS IN OREGON

## HISTORY & STATUS

# 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 collections</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

# Oregon's Current Reserve Fund Position

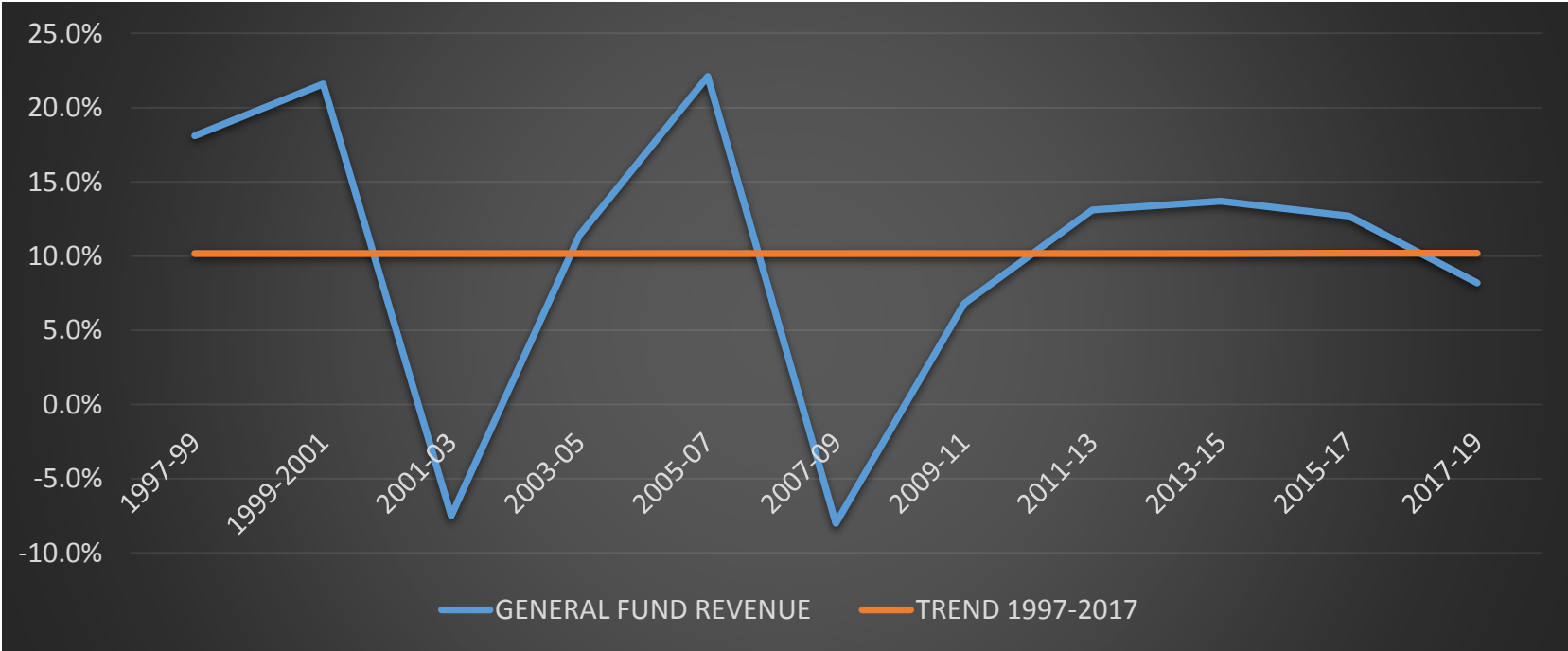
(March 2017 Revenue Forecast)

2015-17 Biennium	Education Stability Fund	Rainy Day Fund	General Fund Ending Balance*	Reserves Available
(in millions)				
Beginning Balance	\$179.4	\$211.8		\$391.1
Deposits	\$203.8	\$170.0		\$373.8
Interest	\$5.2	\$6.3		\$11.5
Withdrawals	-\$5.2			-\$5.2
Projected Ending Balance	\$383.2	\$388.1	\$204	\$975.3
% of Co-Chairs 17-19 Budget	1.9%	1.9%	1.0%	4.8%

\*Projected 2017-19 ending balance from Co-chairs Framework Budget

# GENERAL FUND REVENUE

PERCENT CHANGE FROM PRIOR BIENNIUM



# Reserve Fund Trigger History

2001-03 through 2007-09

Forecast	Employment	Revenue	Forecast	Employment	Revenue	Forecast	Employment	Revenue
2001:Q3	Yes	Yes	2004:Q2	Yes	Yes	2007:Q1	No	No
2001:Q4	Yes	Yes	2004:Q3	No	Yes	2007:Q2	No	No
2002:Q1	Yes	Yes	2004:Q4	No	Yes	2007:Q3	No	No
2002:Q2	Yes	Yes	2005:Q1	No	Yes	2007:Q4	No	No
2002:Q3	Yes	Yes	2005:Q2	No	No	2008:Q1	No	No
2002:Q4	Yes	Yes	2005:Q3	No	No	2008:Q2	No	No
2003:Q1	No	Yes	2005:Q4	No	No	2008:Q3	No	No
2003:Q2	Yes	Yes	2006:Q1	No	No	2008:Q4	Yes	Yes
2003:Q3	Yes	No	2006:Q2	No	No	2009:Q1	Yes	Yes
2003:Q4	Yes	No	2006:Q3	No	No	2009:Q2	Yes	Yes
2004:Q1	Yes	Yes	2006:Q4	No	No			

# Reserve Fund Trigger History

2009-11 through 2013-15

Forecast	Employment	Revenue	Forecast	Employment	Revenue	Forecast	Employment	Revenue
2009:Q3	Yes	No	2011:Q4	No	Yes	2014:Q1	No	No
2009:Q4	Yes	No	2012:Q1	No	Yes	2014:Q2	No	No
2010:Q1	Yes	Yes	2012:Q2	No	No	2014:Q3	No	No
2010:Q2	Yes	Yes	2012:Q3	No	No	2014:Q4	No	No
2010:Q3	Yes	Yes	2012:Q4	No	No	2015:Q1	No	No
2010:Q4	Yes	Yes	2013:Q1	No	No	2015:Q2	No	No
2011:Q1	No	Yes	2013:Q2	No	No			
2011:Q2	No	Yes	2013:Q3	No	No			
2011:Q3	No	No	2013:Q4	No	No			

# History of Reserve Fund Allocations

Biennium	General Fund Forecast Deviation (millions)	% Forecast Deviation	ESF Allocations (millions)	RDF Allocations (millions)	Reserve Fund Allocation as % of Shortfall
1997-99	+\$100	+1.2%			
1999-2001	+\$210	+2.1%			
2001-03	-\$1,689	-15.3%	\$262		15.5%
2003-05	-\$301	-2.8%	\$140		46.5%
2005-07	+\$1,415	+12.5%			
2007-09	-\$1,264	-9.7%	\$394		31.2%
2009-11	-\$1,054	-7.8%	\$84	\$351	41.3%
2011-13	+\$134	+9%	\$182		
2013-15	+\$509	+3.3%			

# Summary of Reserve Fund Activity (1997-2015)

Shortfall Totals*	
Actual Compared to COS Forecast (millions)	-\$4,308
Reserve Fund Allocations** (millions)	\$1,413
Reserve Fund Allocations as % of Revenue Shortfall	32.8%
*Shortfall biennia include 2001-03, 2003-05, 2007-09, 2009-11	
** Includes \$182 million allocation in 2011-13	



# Task Force Items to Determine

## Related to Rainy Day Fund and Education Stability Fund



### Fund Size

- Do funds reflect economic volatility of state?

### Deposit Rules

- Are current limits on deposits appropriate?
- Are sources of deposits adequate?

### Withdrawal Rules

- Are limitations on expenditures from fund useful?
- Is diverting earnings from the Education Stability Fund appropriate?

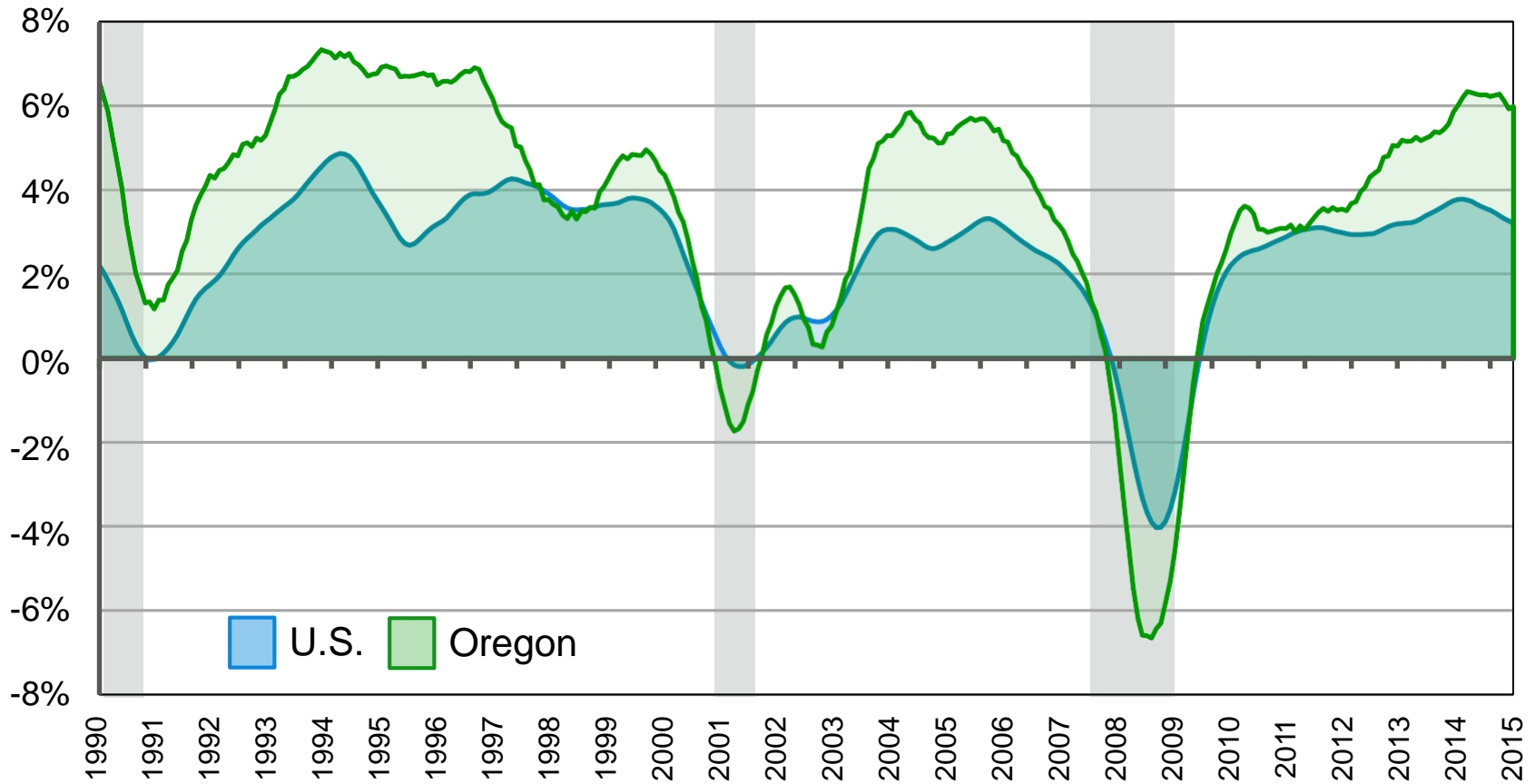
**IDENTIFY:** current provisions and statutory provisions that may need modification; new provisions that would aid in functioning of funds

**RECOMMEND:** comprehensive package of constitutional or statutory changes or management practices to enhance fund

# Oregon's Economy More Volatile Than Nation

## Oregon economic performance versus United States, 1990-2015

### Year-over-year growth

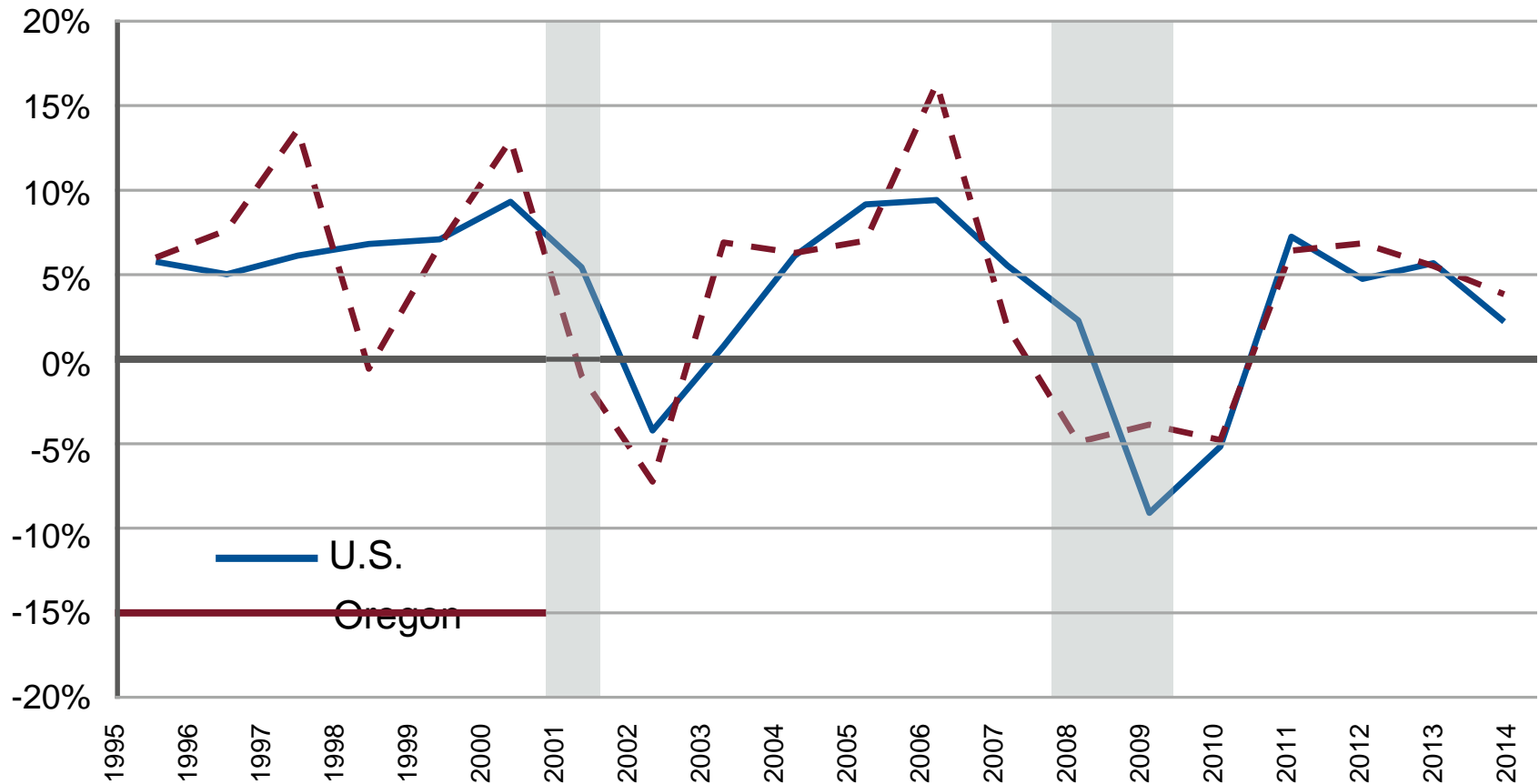


Source: State coincident index, Federal Reserve Bank of Philadelphia

# Oregon's Revenues More Volatile Than Nation

Oregon revenue performance versus United States, 1995-2014

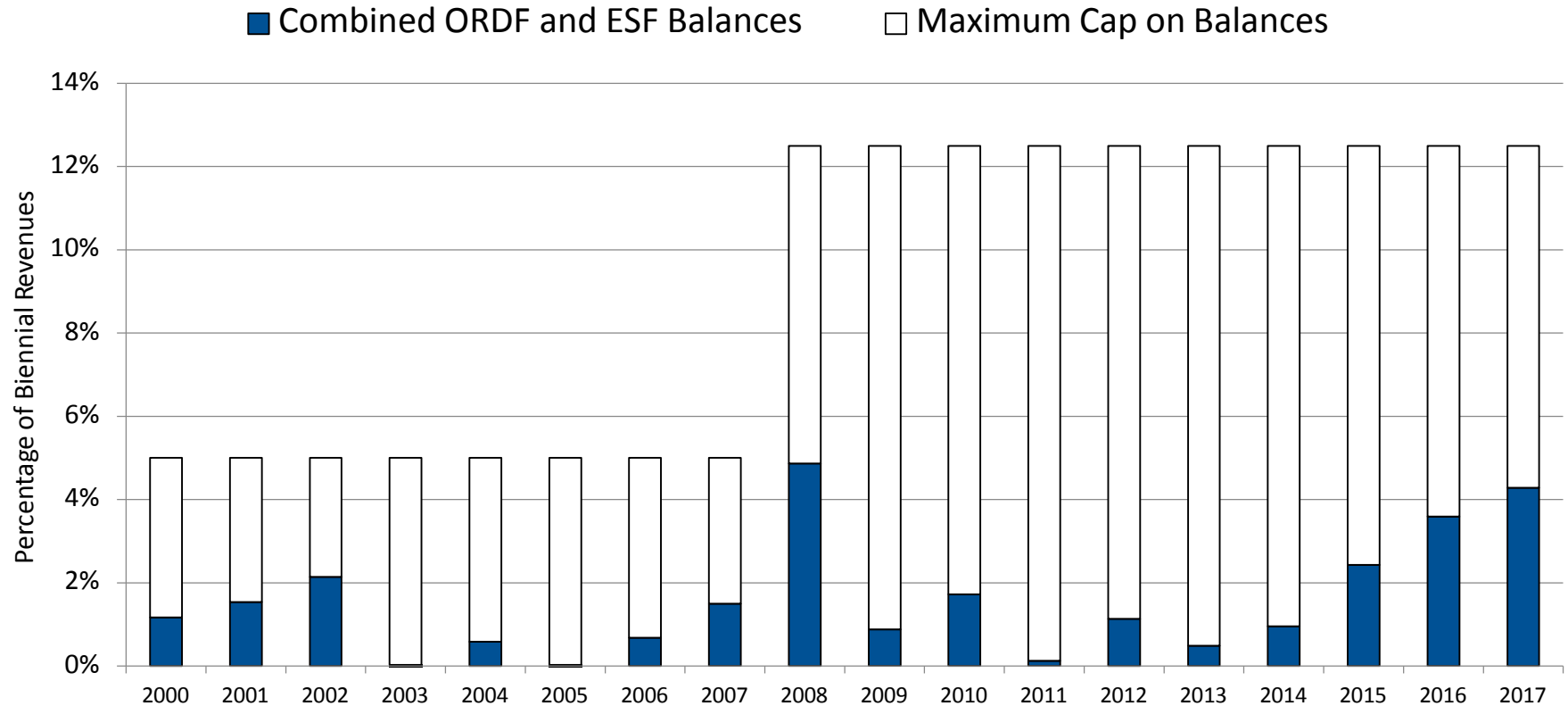
Year-over-year growth



Source: Census State Annual Tax Collections, Adjusted for Tax Policy Changes by NCSL State Tax Action Reports

# Oregon's Budget Stabilization Funds

## Education Stability and Rainy Day Funds total balance and caps, 2000-2017



Source: Pew analysis of Oregon Office of Economic Analysis data  
Note: does not include General Fund Ending balance

# Finding Adequate Reserve Fund Size



## Modeling Two Different Recession Scenarios

### Scenario 1: Average Recession

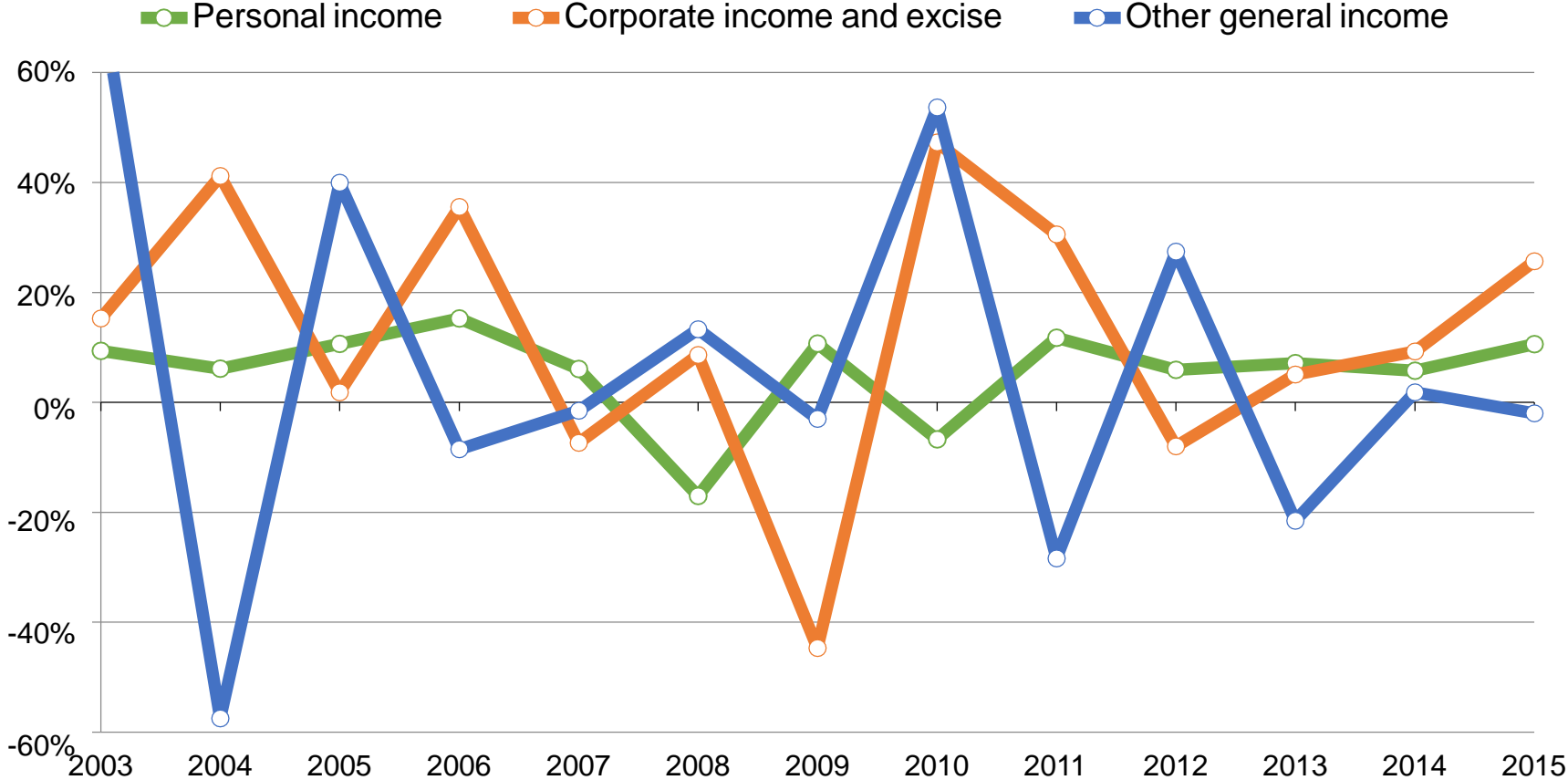
- Revenues fall below normal by a typical amount
- Revenues take 5 years to return to normal growth levels
- Need enough reserves to cover all of revenue below normal

### Scenario 2: Severe Recession

- Revenues fall below normal by a severe amount
- Revenues take 5 years to return to normal growth levels
- Need enough reserves to cover all of revenue below normal

# Evaluating Volatility to Analyze Reserve Size

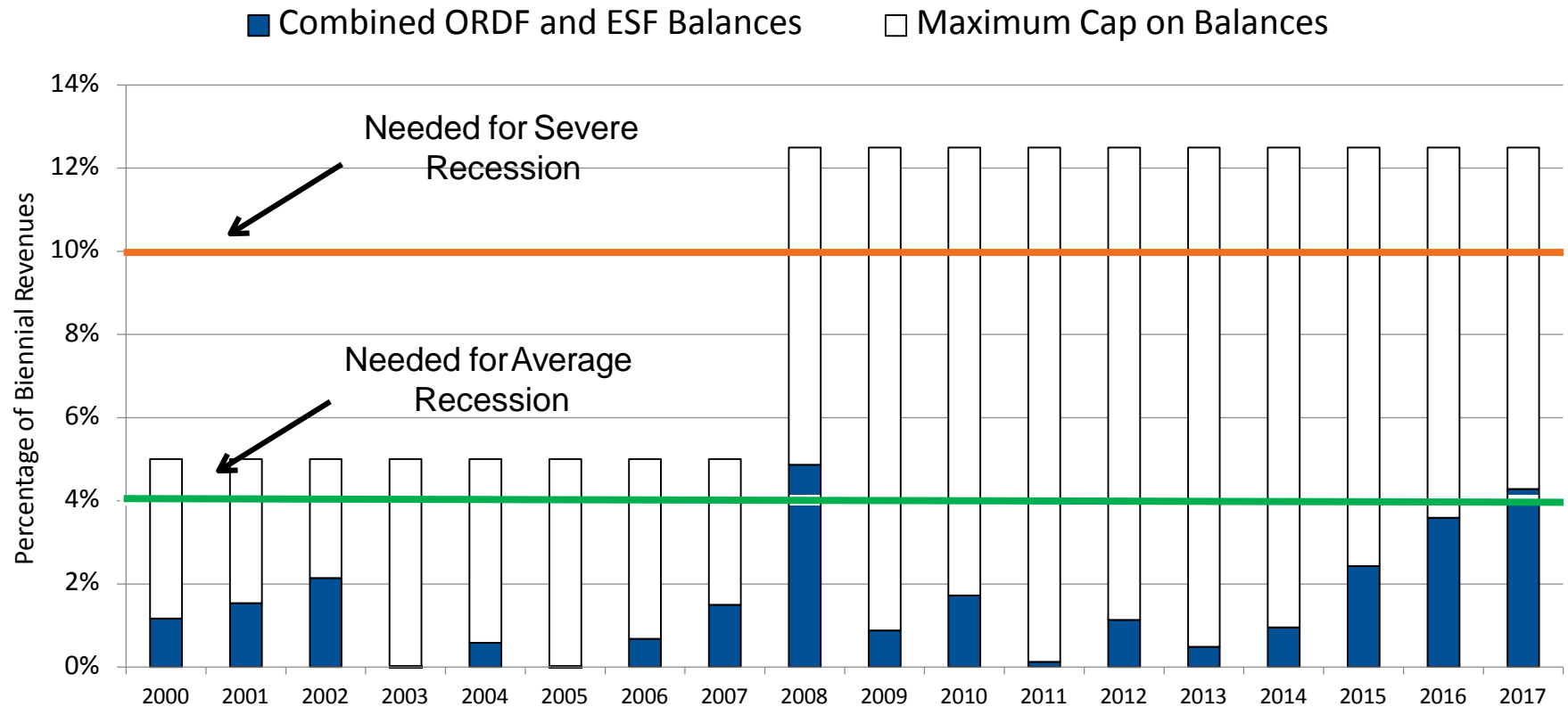
## Looking at revenue fluctuations, recovery, and correlations



Source: Pew Analysis of Oregon Department of Revenue Data

# Oregon's Budget Stabilization Funds

## Education Stability and Rainy Day Funds Total Balance and Caps, 2000-2017

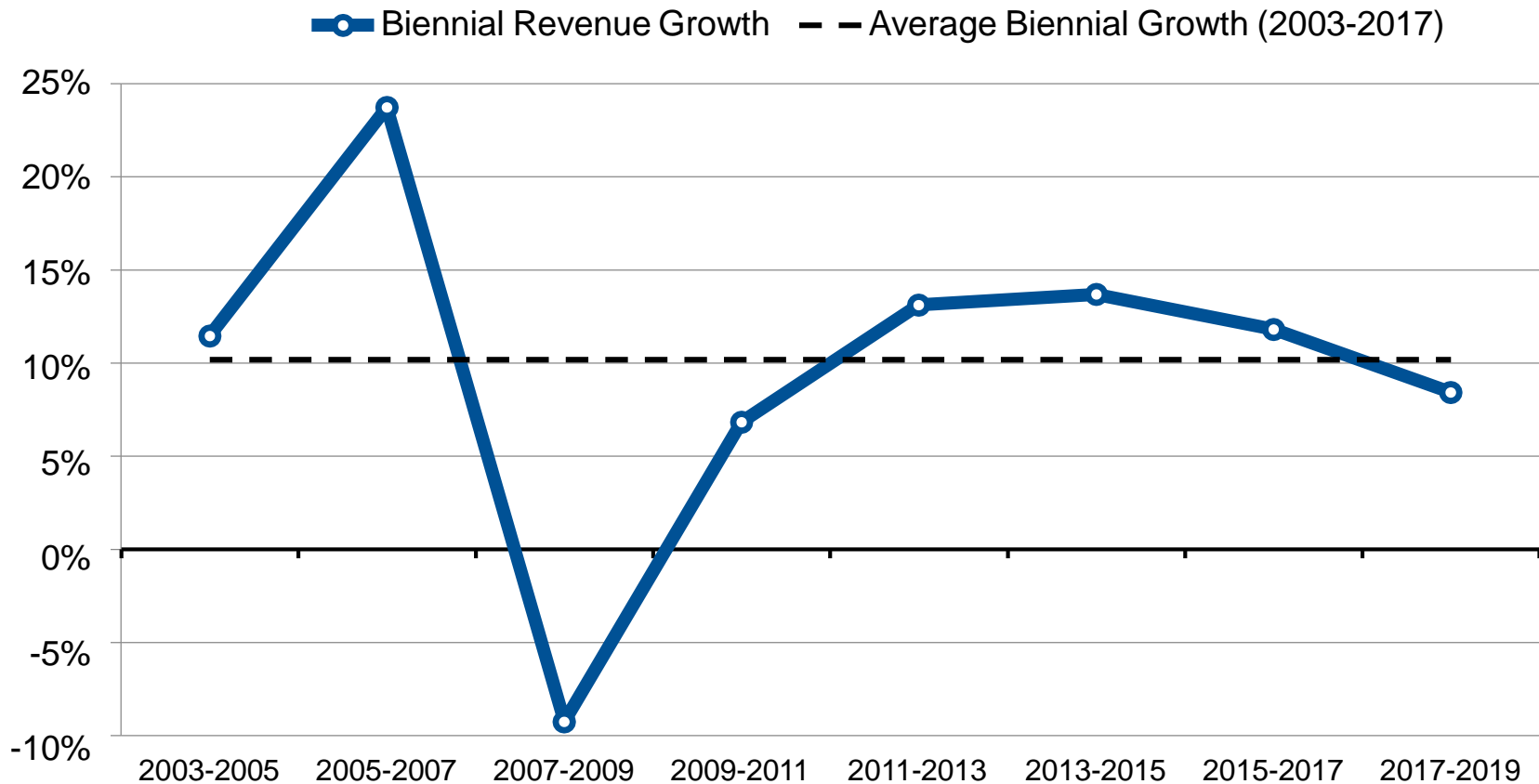


Source: Pew analysis of Oregon Office of Economic Analysis data  
Note: does not include General Fund Ending balance

# Improving Oregon's Deposit Rules



## Tying Fund Use to Volatility: When is Revenue Above-Normal?



Source: Pew Analysis of Oregon Department of Revenue Data



# Pew Findings and Recommendations

## Improving Oregon's Management of Volatility



Consider “above-trend revenue” when saving

Re-evaluate appropriate trigger level for projected revenue declines for next biennium

Current maximum levels for reserves (ORDF and ESF) appear adequate

# Volatile Revenue Sources

(Biennial Revenue in Millions)

