OREGON, 2006: A SPECIAL SESSION TO SHORE UP BUDGET GAPS

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Introduction and Overview

After the second longest session in Oregon legislative history ended on August 5, 2005, state legislators left Salem knowing that the biennial budget just approved was insufficient to meet the increasing needs of the state’s agencies. For most of the decade state legislators have wrangled with adequately funding two major areas of the budget: public education, K-12, and human services. These two areas have suffered $300 million in cuts since 2001 in a period in which major demands for increasing human services—especially in the area of health care—have heavily increased. In K-12 education, local school districts have been resigned to seeking other areas of revenue given the financial limits of the state to even fund at the level of support in 2001-2003. Table 1 indicates the four major areas of the state’s general fund. In looking at education and human services, it becomes obvious that these areas are under funded given the realities of 2005-2007.

Table 1
Oregon’s General Fund Budget, 2001-2007

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</thead>
<tbody>
<tr>
<td>Education</td>
<td>$6.9 billion</td>
<td>$5.7 billion</td>
<td>$6.8 billion</td>
</tr>
<tr>
<td>Human Services</td>
<td>$2.7 billion</td>
<td>$2.5 billion</td>
<td>$2.5 billion</td>
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<tr>
<td>Public Safety</td>
<td>$1.7 billion</td>
<td>$1.7 billion</td>
<td>$2.0 billion</td>
</tr>
<tr>
<td>All Other</td>
<td>$0.8 billion</td>
<td>$1.7 billion</td>
<td>$1.2 billion</td>
</tr>
<tr>
<td>Total Budget</td>
<td>$12.1 billion</td>
<td>$11.6 billion</td>
<td>$12.5 billion</td>
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The Legislature delayed for as long as possible the biennial budget for 2005-2007. Only after most of the summer of 2005 had passed did it come up with the eventual $12.5 billion it was able to justify given revenue projections at that time. So, “shoehorning” the budget to meet what the state could realistically expect to produce in revenue became the major task as lawmakers stumbled through June, July and early August, producing an inadequate biennial budget that was nowhere near what education and health care requested.

However, between August 2005 and March 2006, state revenues increased dramatically. That provided an opportunity to address some of the shortcomings of the regular session. In a state that depends on the 9% personal income tax for its major source of revenue, higher employment figures mean added revenues for the state. Interestingly, the
March 1, 2006 economic forecasts for state revenue predicted a $666 million surplus after the
2% cushion had been set aside in line with Oregon’s Kicker Law (Hammond and Cole,
March 2, 2006, A1 and A9). Legislators thought this surplus could be used to cover, in
particular, the under-funded requests in education and human services, thereby closing the
gap that knowingly existed when the biennial budget passed in August 2005.

However, because the Legislature meets only every two years, using this surplus to
meet state expenses would necessitate a special session of the Legislature as it is possible for
legislators to use the surplus for a single biennium without going to the people for support.
Being an election year there was a great deal of hesitancy on the part of incumbents to
change this practice. At the same time they were being pressured to expand coverage of
public education and health care. They were in a quandary as to what to do. The questions
were: should the state be giving money back to taxpayers in a period of serious under funding
of major programs? If so, when should a mandatory session to change the provisions of the
Kicker take place given the reality of election year politics? As talk of a possible special
session took hold, there were also suggestions to expand the session to include the possibility
of other business, and, if this is possible, what other items might be included in the special
session?

The complications surrounding the scheduling of a special session were further
complicated in March as the incumbent Governor found himself in a more competitive
Democratic primary than he had originally expected. His apparent strategy at that time was to
delay the special session until after the May primary so that he would not be hurt by a very
popular challenger who has been extremely critical of the Governor’s record. As April
approached, pressure for a special session mounted and the Governor could no longer hold
out until after the May primary. He agreed with legislative leaders to schedule the session
beginning Thursday, April 20, 2006 with the hope of it lasting only a single day.

On Thursday, April 20th, the Legislature met for a single day and managed to find
$174.4 million to increase funding for education and human services. By January of 2006,
the estimated under-funding of human services had reached approximately $175 million.
However, when the Legislature met in special session, it approved $132.2 million for human
services based on newer and lower estimates than earlier in the year. Also funded was public
education K-12, with an additional $42.2 million to shore up the Portland public schools. In a
state that experienced very high unemployment for the past six years, human services has
been hit hard and political leaders realized there was no possibility to ignore increasing this
area of the General Fund Budget (Cole, January 19, 2006). With additional money for K-12
education, school districts—especially Portland—would not have to levy a county tax to
close the gap in school funding for the next three years (Cole and Hammond, April 21, 2006
B1 and B5).

Though the state managed to get through this round of budgeting with a relatively
easy solution, there are several interesting events that will manage to garner much attention
between now and the November elections, and then the next budgeting cycle. For the first
time in this decade the state will enter a budgetary cycle with positive revenues to address
some of the ever increasing demands. Yet, even with the prospect of additional funding, it
will still be very difficult for the Legislature to make up for cuts in the major areas of the past three biennial budgets. Only now are budget directors beginning to estimate what their divisions lost in the era of cuts, so the expectations for the next biennium will be interesting and substantial. Given the uncertainty of the politics of Oregon in the coming fall elections and the future of the Kicker, the next biennium could be quite different from anything the state has experienced in recent memory.

The Kicker

The Oregon Kicker came through a citizens’ initiative in 1979, and it became a part of the state constitution in 2000. It basically states that all revenues in excess of 2% of the estimated revenues for the biennium budget are to be returned to taxpayers, both individuals and as well as corporations. Five times since 1979 Oregonians have enjoyed receiving Kicker checks just before Christmas, making this a very popular practice among taxpayers. Furthermore, in the era of term limits the Kicker was viewed as another check on the perceived wild spending habits of state legislators.

Because of the downturn in the economy, Oregonians have not had a Kicker rebate since 1999, so news of surplus revenues provided a sense of euphoria throughout the state. The first quarter’s economic forecast this year was extremely positive. As of March 1, 2006 state revenues had produced about $13.3 billion. With the budget’s estimate of $12.5 billion and with the 2% reserve the state may keep beyond projected revenues, the surplus accounts for $666 million. Broken down, this surplus amounts to $461 million for the personal income taxpayers or a rebate of approximately $150. An additional $205 million from corporations will also produce healthy rebates for them in the form of tax credits (Hammond and Cole, March 2, 2006, A9).

The Governor was quick to react to this wonderful news. In a year when he is up for reelection and was being challenged in the primary by James Hill, a former State Treasurer, even suggesting that individual taxpayers would not get a rebate would have political ramifications for his reelection. One day after the announcement of the possibility of a Kicker, Governor Kulongoski suggested that the estimated $205 million corporate portion of the Kicker might be used to provide for the ever widening gap in health care. (Hammond and Mapes, March 3, 2006, A1). In doing so, the Governor thought that he insulated himself from individual voters by not going after their portion of the rebate, and, at the same time, provided some limited increases in human services, especially health care, areas that he highlighted as priorities in his State of the State Address on January 22, 2006 (Esteve, January 23, A1).

Legislators were much less enthusiastic about any tinkering with the Kicker. Yet each has been pressured by their constituencies to bolster education and health services, and some have not been bashful about suggesting that the entire surplus be used to meet deficiencies in the present budget. Recent estimates suggest that there are approximately 600,000 Oregonians without health care, accounting for over 25% of the population and for the state to refund revenue surpluses under these conditions is reckless (Cole, February 27, B1). The
only concrete suggestion from legislative leadership has been to authorize a study to verify these statistics and to propose increases for the 2007 session of the Legislature.

In the three months since the possibility of a Kicker rebate emerged, forecasts for the estimated surplus have continued to grow. As of June 1, 2006, there is the possibility of a $1 billion surplus by the end of this year if the Oregon economy continues to thrive. Newer estimates for the individual rebates are $230 for a family making $25,000 a year and corporations would get a 52% credit on their 2007 taxes (Hammond, June 2, 2006, A1 and A10). As Oregon moves into a new legislative session in 2007, there will be the prospect of increasing revenues for the first time in this century, the conflict between refunding those surpluses through the Kicker, or using the surplus to shore up major areas of the General Fund Budget.

The Politics of a Special Session

Even though in March it appeared the Governor would call a special session to determine the details of the Kicker, there was not a lot of support for this from the Legislature. But with the reality that human services were so drastically under funded, it became difficult to ignore the ever increasing pressures for human services. Given the economic circumstances of unemployed Oregonians through 2005, human services—an area of the state’s expenditures that has major demands for assistance with high unemployment rates—still managed to be cut in each biennial budget. Political leaders realized that dramatically cutting services to the poor was no longer an option in filling what was determined, at the time, to be a $172 million deficit. It became fairly obvious that a special session of the Legislature was necessary to prevent state agencies from being unable to provide the most basic of human services (Cole, January 9, 2006, A1). This session, though, would only address the shortfall in human services and, at best, it would last no more than a day or two.

However, given the politics of an election year, by late January incumbents voted against a special session. In the Senate, 19 of the 30 senators voted against a special session (12 Democrats and 7 Republicans). In the House 28 representatives voted against the special session (19 Democrats and 9 Republicans). By law legislators can call themselves back to Salem if there is a majority in both Houses—16 senators and 31 representatives (Cole, January 31, 2006, B5). The first call for a special session ended with incumbents in no mood for it nor was the Governor about to call for a special session while faced with a tough Democratic primary.

Within a day of the good news of a budget surplus, lawmakers warmed up to the idea of a special session that would not only address human services, but education as well. Eventually, lawmakers even suggested adding state regulation of payday loan services, and several other issues that would be popular in an election year (Cole, March 4, 2006 A1). However, the timing of the session was crucial so as not to jeopardize any one’s political future. Most, including the Governor, did not want it before the May primaries. We are
reminded of the senior Richard Daley’s remark when asked if he was for reform of the city of Chicago. He said “Yes, but not too soon!”

As March passed and there were still approximately six weeks before the May primaries, the Governor and legislators found little encouragement from Oregonians in delaying a special session. Human services were in dire need of additional funding with increasing cost in the foster care of children from methamphetamine households. These needy children could not wait for politicians to find an appropriate date for the session that would least affect their futures. Also, school districts were preparing budgets for the next year. Laying off teachers is never a popular issue, providing pressure for the state to cover some of their expenses so as to avoid further cuts in education. Thus, there was an agreement that the special session would begin on April 20th, and it would only be a day in length or two at the most. To assure that the session would not last any longer, the state had contracted a major electoral upgrade in the capitol to begin Friday, April 21st, and any delay would cost the state $48,000 per day (The Oregonian, April 17, 2006, p. A1 and A. 7).

As the Legislature completed its special session, the 2005-07 biennium budget for Oregon was completed. Much of the uncertainty of early spring diminished as the special session concluded. The Governor and legislators made it through the primaries, only to look toward the November elections that still hold the possibility of great change for a state where neither party holds great majorities. More interestingly, though, is a proposal to move the biennial legislative session to April rather than January. Given the uncertainty of economic predictions in December and March, lawmakers argue that it would make sense to delay the session until April, thereby postponing three months of positioning and reacting to the Governor’s Budget until reliable economic forecasts are ready in May (Hogan, March 7, 2007, B1 and B10). Whether this proposal gains momentum and becomes an issue for the next legislative session to decide is, at this point, unknown. Yet, the fact that past regular sessions have been very unproductive until late spring does warrant some attention. Rather than frustrating legislators to provide a budget by June, which has not been the case for several sessions, this would make more sense. In a state that prides itself in not changing institutional structures, though, this possibility seems highly unlikely.

**Conclusion**

Oregon has a budget in place that should provide the most basic of services through this year. As elections for the Governor and the Legislature produce the next political team for the state, for the first time in over twenty years, there is the possibility of a Democratic House and Senate and a Republican Governor. If this should occur, the next cycle of budgeting could be very different with a more liberal legislature and a more conservative executive office. The politics of the next administration could prove very interesting given Oregon’s recent history of split government with Democratic governors and, for the most part, Republican legislatures. The dynamics of state budgeting would be certainly different.

Coupled with a change in the political atmosphere is a strong indication of a very positive economy that would provide revenues in amounts the state has not seen in many
years. The temptation to merely limp through the budgetary process will certainly change. An atmosphere in which revenues are sufficient is not something Oregon has been used to, and this could certainly provide many opportunities to especially address education and human services.

**Sources Cited**


