



OBA Economic Crisis Taskforce

The OBA Board of Directors commissioned the taskforce to develop a comprehensive budget and revenue proposal for 2009-11 biennium.

Taskforce Members:

Matt Chapman – Chair, NWEA
Len Bergstein, Northwest Strategies
Nik Blosser, Celilo Group Media
Julia Brim-Edwards, Nike
Carol Dillin, PGE
Jill Eiland, Intel
Dan Heagerty, David Evans Enterprises
Phil Keisling, Corsource Technology Group
Gary Reynolds, Perkins & Company
Jonathan Williams, Intel

Included in the taskforce report:

1. Economic Principles
2. Budget Recommendations
3. Business Contribution to Budget Shortfalls



OREGON BUSINESS ASSOCIATION Economic Crisis Taskforce

Economic Principles

Due to the rapidly worsening economic situation and the steep decline in projected revenues, the Legislature is faced with the task of rebalancing the current 2007-09 biennial budget prior to making final decisions on the budget for the next two year period, the 2009-11 biennium.

OBA supports the following principles for dealing with both budget shortfalls:

- To the greatest extent possible, focus on the impacts of decisions on the state's business climate recognizing that private sector job retention and creation will be the engine that drives Oregon out of the current recession.
- Protect against legislation and measures that creates disincentives for job creation in private sector.
- Require sustainability of budgetary decisions. Any revenue enhancement or program reduction should be taken with a long-term perspective as well as immediate budget needs and contribute to private sector job growth.
- Maximize the use of federal dollars wherever possible, including any receipts from the pending federal economic stimulus package.
- Require transparency in all areas of budgeting and in the negotiating of state contracts, including local entities such as school districts that receive state funds as part of this process.
- Recognize the long-term costs of dismantling vital programs knowing that those programs will need to be rebuilt at some point in the future.
- Recognize that the current economic crisis should be used as an opportunity to fix structural problems that are the legacy of past policy decisions and ballot measures.
- All segments of the economy, whether private or public sector, should participate in the revenue enhancement and cost reduction that are required to achieve the required balance in the upcoming fiscal year. The burden should be shared.
- Increases in revenue should be made with simple changes to tax structure and all increases on businesses and individuals triggered by the current economic crisis should be made temporary.



KEY DECISIONS ON BALANCING THE 2009-11 GENERAL FUND/LOTTERY BUDGET

OVERVIEW

The state economist's **March forecast leaves a \$3.3 billion shortfall** in the 2009-11 General/Lottery Fund relative to the so-called Essential Budget Level (EBL). OBA's

Economic Crisis Team proposes a mix spending cuts and the use of stimulus, reserves, and new revenue to balance the budget.

In the event the budget pictures worsens in the May forecast or thereafter, OBA would support a temporary surcharge to the personal income tax. The Economic Crisis Team recommends the Legislature proceed with two, single-year budgets and reassess the economic and fiscal climate prior to Fiscal Year 2011.

EXPENDITURES

The following assumptions **reduce spending by \$1.2 billion**--from \$17.2 billion to \$16.0 billion

Education (-\$0.3 billion)

- Fund enrollment growth at K-12, university, and community college levels; K-12 growth is flat; Postsecondary enrollment is assumed to increase at 3 percent annually
- Assume staff salaries are frozen at all levels
- Assume the per capita cost of health benefits increase at 5.5 percent annually
- Call on the state to request waivers that maximize the flexibility of stimulus funds, particularly Title I and IDEA funds

Oregon General/Lottery Fund 2009-11 Positions-Essential Budget Level and OBA Crisis Team (amount in millions)

	EBL	OBA
Revenue		
GF/Lottery Resources	13,842	13,842
Federal Stimulus	0	990
Education Stability Fund	0	432
Rainy Day Fund	0	366
New Revenue	0	233
Total Resources	13,842	15,863
Expenditures		
Education		
K-12 State School Fund	6,545	6,245
Higher Education	1,046	1,046
Comm Colleges	517	542
Other Education	561	561
Total Education	8,669	8,394
Human Services	4,339	3,847
Public Safety/Judicial	2,787	2,740
All Other Programs	1,378	986
Total Expenditures	17,173	15,968
Deficit/Surplus	-3,331	-104
Source: ECONorthwest using March 2009 Forecast		

Human Services (-\$0.5 billion)

- Accept Governor's Recommended Budget Levels for Health Services (assumes an expanded provider and tobacco taxes can generate \$400 million in general fund savings)
- Fund Seniors and People and Disabilities at or near Essential Budget Level (funding at a lower level could put federal stimulus at risk)
- Accept Governor's Recommended Budget Levels for Children, Adult, and Families programs and all other DHS programs.

Public Safety (-\$0.1 billion)

- Accept Governor's Recommended Budget Level

All Other Programs (-\$0.4 billion)

- Accept Governor's Recommended Budget Level

FEDERAL STIMULUS AND STATE RESERVES

- Assume state makes full use the federally-fund state stabilization funds and enhanced Medicaid matching dollars (+\$1.0 billion)
- Assume state uses all liquid resources in the Rainy Day and Education Stability Funds by the end of biennium (+\$0.8 billion)

NEW REVENUE

- Enact a permanent increase to corporate minimum tax with a simple structure tied to gross receipts for administrative simplicity (+\$0.1 billion)
- Enact a temporary surcharge on the corporate income tax rate (+\$0.1 billion)
- Double the corporate filing fee from \$50 to \$100
- Permanently redirect corporate kickers to the Rainy Day Fund

MAY BUDGET FORECAST

In anticipation of a May State Budget Forecast that could see the budget deficit grow by an additional \$1.4 billion, OBA would support a Temporary Personal Income Tax Surcharge to maintain the level of services and expenditures outline in OBA proposed budget.

Temporary Personal Income Tax	FY 2009-10	FY 2010-11	FY 2011-12	Total
Increase All Rates 1% (6,8,10%)	740	801.9	865.3	2407.2

*DRAFT PROPOSAL***Business contribution to budget shortfall: 2009-2012****Corporate Minimum**

C-Corp \$250-\$25,000
 S-Corp \$250 Flat Fee
 (See Reverse Side - Appendix A)

\$77 Million**Double Corporate Filing Fee**

From \$50 to \$100

\$14 Million**Temporary Oregon Disconnect**

Bonus Depreciation
 Net Operation Loss
 Section 179 Expensing
 (Reconnect July 1, 2011)

\$69 Million
\$6 Million
\$3 Million

Temporary Surcharge on Corporate Tax Rate

2009-11: Raise Rate from 6.6% to 7.6%
 2011-12: Rate falls to 7.1%
 2012: Rate Returns to 6.6%

\$114 Million in 2009-11
\$57 Million in 2011-13

Total Non Kicker '09 -'12= \$340 Million**Permanent Redirect of Corporate Kicker**

\$114 Million – average biennium

Business Support for Tapping Rainy Day Fund

(Tapped on Jan. 1st, 2010)

\$366 Million total in RDF
(\$319 from '07 Corporate Kicker)

Total with '07 Kicker Contribution = \$659 Million**Agreement:**

1. This package will be the total new tax contribution on business for the 2009-2011 budget.
2. Use of the above generated funds would be utilized to fund Oregon Inc., ETIC, 4 targeted investments in workforce development and solidifying K-20 Education Enterprise.
3. Legislative leadership agrees to not move forward on legislation attached as appendix B.