

Oregon 2020-21: Budgeting During COVID

Professor Mark Henkels
Western Oregon University
henkelm@wou.edu

Professor Brent S. Steel
Oregon State University
bsteel@oregonstate.edu

Abstract

Oregon in 2020 and 2021 resembled other Western states: crisis on crisis. COVID, the COVID recession, forest fires and ice storms, and polarized politics dominated the news. Despite these challenges, the state's fiscal situation turned out very positively. President Biden's American Rescue Plan and the bipartisan Infrastructure Investment and Jobs Act signed in November 2021 provided many billions to the state for 2021 and will cover diverse infrastructure needs over the next five years. This paper analyzes the surprisingly strong general fund and federal fund situations created by the COVID era and considers the political implications of the state's fiscal situation.

Introduction: The Year 2020

How bad were things in 2020? Perhaps because of a relatively strict state policy, Oregon actually has weathered the COVID pandemic quite well public health-wise so far. As of January 27, 2022, the Beaver State had the fourth-lowest rate of infections in the country at 14,353 cases per 100,000 residents and in deaths at 143 per 100,000, compared to national averages of 22,233 and 263 respectively. (Centers for Disease Control and Prevention 2022) However, Oregon's employment dropped more than the national rate between February 2020 and December 2020, with the state losing 7.8% of its jobs in that period, compared to a national loss of 6.5%. (Ettliger and Hensley, 2021) The state's GDP declined 3.1% in the first three quarters of 2020, very close to the national average of 3.4% decline. (Ettliger and Hensley, 2021)

In the Summer of 2020, Oregon also faced forest fires that killed 9, burned 1.2 million acres, and destroyed a record-breaking over 4,000 homes. (KXL Northwest News, 2022) In February 2021, Northwestern Oregon (especially the Salem and Portland areas) also suffered an ice and snow storm that caused at least 279,000 homes to lose power, many of them for multiple days and some for weeks.

Beyond the acts of nature, Oregon also faced the consequences of a highly polarized political context similar to that of the entire nation. Even with Democratic dominance in the legislature and all statewide offices, the sharp split between Democrats and Republicans and the rising militancy of conservatives roiled the state. As happened in 2019, Republican legislators walked out of the regular 2020 legislative session, but this time the Democrats simply ended the session

early since they needed at least two Republicans present in both the House and Senate to make the membership quorum. According to the Oregon constitution (Article IV, Sec. 12), “Two thirds of each house shall constitute a quorum to do business.” In the Senate, there are 30 members, which means a quorum of 20 is needed. In the House of Representatives, there are 60 members, with a quorum of 40 needed. Twenty-two of the 60 Representatives are Republicans, and in the Senate, 12 of the 30 members are Republicans. Thus, the Democratic supermajorities are meaningless if the Republicans decide not to participate, which happened during the Spring 2020 session. The Republican walk-out concerned a measure to fight climate change legislation, and the early end meant over 100 bills were never even considered. (Dake 2020)

While the legislature had successful special sessions later in 2020 in response to the COVID and forest fire crises, the 2021 regular session had an early walk-out over Governor Brown’s decision to continue her emergency powers in response to COVID. This ominous action and the Oregon State Republican Party selection of very conservative State Senator Dallas Heard (R-Grants Pass) as its chair threatened the success of the 2021 regular session. As the *US News and World Report* noted: “During a Jan. 6 demonstration by Trump supporters outside the Oregon Capitol, he (Heard) pointed at the building and shouted through a megaphone: “Don’t let any of these punks from that stone temple over there ever tell you that they are any better than you. Trust me, I work with these fools.” He followed that with, “Don’t be violent, take action, trust in God and take down these fools in 2022.” (“Far Right Lawmaker ...” 2021) All across Oregon, rural activists are pushing the idea of their communities leaving Oregon and joining Idaho (i.e., the Greater Idaho movement). (“Far Right Lawmaker ...” 2021).

You would think the state budget would be collapsing under such circumstances, but paradoxically and by many measures, the session finished very positively, and the state budget was record-breaking in size. This overview of budget developments in Oregon centers on three aspects of 2020 and early 2021: 1) the fiscal implications of the state’s economic conditions, 2) the existence of strong reserves and changed revenues sources, and 3) the COVID-related cash from the federal government.

Fiscal Implications of the COVID Era Economy

As they prepare the state’s biennial budget, Oregon legislators eagerly await the quarterly reports from the Oregon Office of Economic Analysis (OEA). The second quarter reports (May in 2021, although it is the “June” report) from odd years provide the revenue estimates and set the spending limits for keeping the biennial budgets balanced. After extremely grim news from the June 2020 quarterly report, the September and December reports trended positive, and the March 2021 revenue estimates were downright rosy. Although Oregonians still could not visit their favorite watering holes, state revenue projections went up by a shocking amount in the May 2021 forecast. In the words of Oregon Speaker of the House Tina Kotek (D-Portland), “Today’s forecast is stunning ...” (Stites and Vanderhart 2021)

How positive were the numbers? Despite Oregon having 160,000 fewer jobs in March 2021 than the previous year, and a projected \$2 billion shortfall in June 2020, the May 2021 report estimated that personal income tax revenues would exceed the original 2019 estimates by \$2,071 million (9.8%). Under Oregon’s “tax kicker” law, if actual personal income tax revenues exceed

estimated revenues by more than 2%, the entire extra income goes back to the taxpayers. A similar, but less generous system is in place for corporate income taxes. The May 2021 OEA report projects that the state will kick back a record \$1.4 billion to personal income taxpayers and \$664 million to businesses. (2, 6)

How did the revenue situation turn around so much? According to the OEA May 2021 report:

First, an unprecedented amount of federal aid has far outstripped the size of economic losses. As a result, personal income is up sharply in Oregon despite job cuts. Second, during the typical recession, Oregon has lost a tremendous amount of revenue associated with sharp declines in investment and business income. This time around, asset markets and profits have remained at or near record highs. The baseline outlook prior to the recession called for income growth to slow. A tight labor market was expected to weigh on growth, and asset prices and profits were expected to return to sustainable levels. None of this came to pass, leading to an expected personal income tax kicker of \$1.4 billion and a corporate tax kicker of \$664 million. (23)

The OEA's March 2021 report noted how the very large federal stimulus activity has translated into about \$1.5 billion in Oregon tax revenues. Many Oregonians were dismayed to find they must pay income tax on their stimulus and unemployment checks, but it certainly helps the legislature balance its budget. The COVID recession disproportionately hurt the lowest income earners, while the earnings and asset appreciation for most in the middle and upper income levels actually did quite well. As a result, personal income tax revenues were not so greatly hurt by the downturn. (1)

Reserves and Notable Revenue Source Shifts in 2021

In June 2020, the OEA made a grim assessment: "The sudden stop in economic activity has led to the largest downward revision to the quarterly forecast that our office has ever had to make. In the baseline (most likely) scenario, General Fund and other major revenues have been reduced relative to the March forecast by \$2.7 billion in the current biennium and \$4.4 billion in the 2021-23 budget period."(OEA June 2020) As noted above, however, this gap was eclipsed by increased business income and positive developments in the inherently volatile and unpredictable personal income tax revenues due to federal COVID stimulus spending. Four other revenue factors distinguish the budget picture in 2021: 1) the existence of significant "rainy day funds"; 2) the creation in 2019 of a new Corporate Activity Tax (CAT) to significantly supplement K-12 funding; 3) loss of Oregon Lottery (gambling) revenues; and 4) complex growth in the small but always noteworthy cannabis tax.

By June 2021, when the 2021-2023 budget was finally approved, the "rainy day funds" did not seem so important, but their existence provided the legislature many options for responding to the COVID recession when it appeared to be laying the state budget to waste. The size of the reserves made it uncontroversial to consider tapping them, although positive developments meant the legislature did not need to make full use of them. Oregon has two reserve funds. The Oregon Education Stability Fund was projected to grow to \$801 million by the end of the 2019-2021 budget, but the Legislature spent about \$400 million during a 2020 August special session

called in response to the COVID situation.(LFO October 2020, 4) Besides money reserved for education alone, there is the Oregon Rainy Day Fund (ORDF), which has not been tapped into since 2010 and was projected to have a balance of \$949.3 million at the end of the 2019-2021 budget term.(LFO October 2020, 6) For a state so heavily dependent on personal income taxes, this buffer gave legislators some confidence that radical cuts might be forestalled, even without the major rescue operations by the federal government. The June 2021 OEA report projects that at the end of the 2021-2023 budget Oregon will have a total of \$1.94 billion in total reserves, about 8.3% of revenues. This is the highest reserve the state has ever had.(31)

The 2019-2021 state budget also featured a key new source of revenue: the Corporate Activity Tax (aka “CAT”). For 2019-2021, General Fund spending on K-12 Education was approved for \$8.25 billion, or almost 35% of state General Funds. The General Fund budget itself rose overall by 12.2% from 2017-2019, while the K-12 component rose only 1.6% from 2019-2021’s \$8.12 billion. General Fund allocation to K-12 funding was actually 5% short of the current service level funding between the two biennia (Oregon Legislative Fiscal Office(“LFO”) September 2019, 4-6) In Oregon, the education lobby is very powerful, as in most Democratic states, and such a budget cut would be nearly unthinkable in the good times of 2019. But the Democratic majority compensated for the General Fund shortfall for K-12 Education by passing HB 3427, the “Oregon Student Success Act,” which created the CAT, a relatively large (over \$1 billion per year) new revenue source dedicated entirely to K-12 programs.

HB 3427 “Oregon Student Success Act” features spending requirements that Democrats say ensure that the money will not be siphoned off to support non-productive educational spending, such as to support Oregon’s expensive Public Employee Retirement System (PERS). Besides creating the new CAT, the Student Success Act cut the income tax rate for the three lowest tax brackets by .25%, to 4.75%, 6.75%, and 8.75%. The top income tax rate, which kicks in at individual incomes of \$125,000, was left unchanged at 9.9%.(LFO January 2021) The first allocations of CAT funds actually went to the General Fund to fill in the \$423 million lost due to tax provisions included in HB 3427, plus \$20 million to fund the High Cost Disability program, and \$200 million to be allocated according to the existing school revenue formula.(LFO September 2021, 34-35)

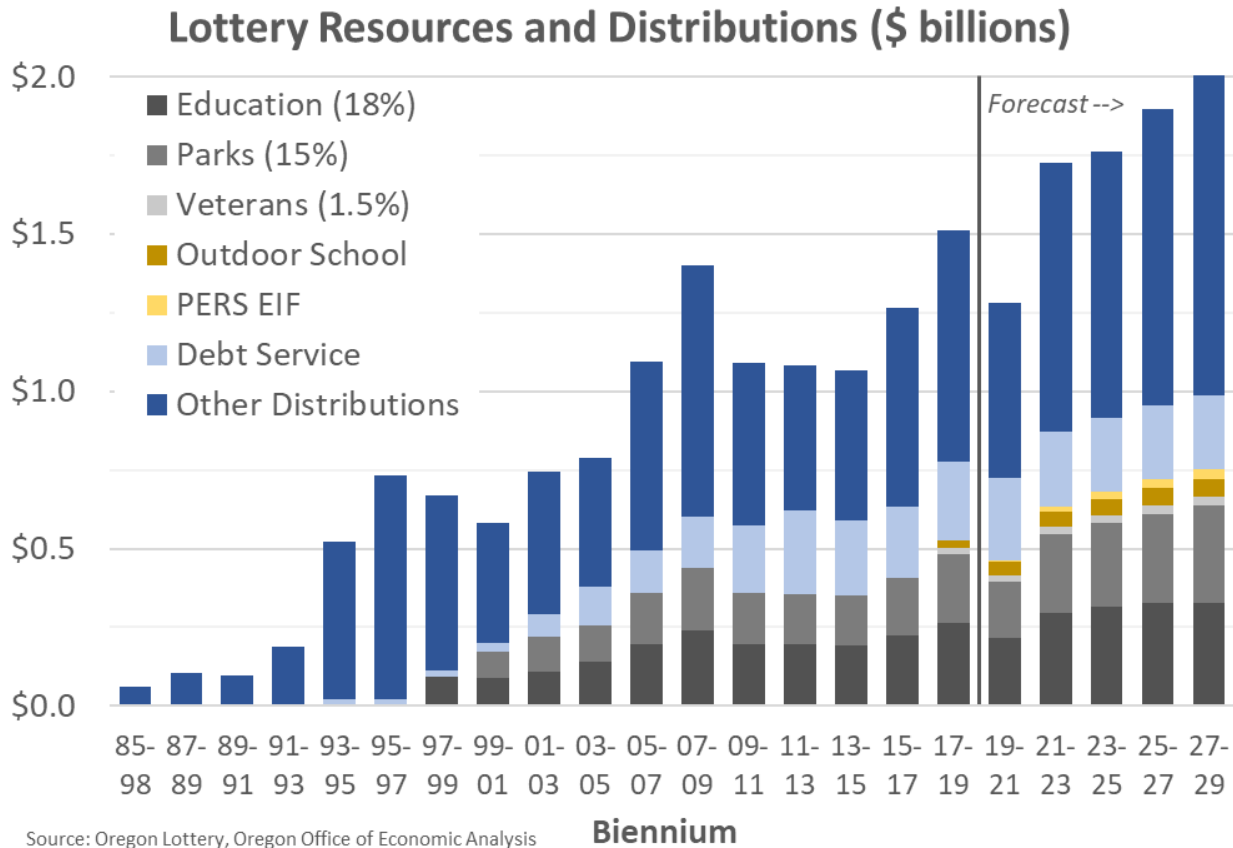
The real significance of CAT is demonstrated by the projected future revenues. The CAT is predicted to steadily increase. For 2021-2023 it is projected to bring in \$2.29 billion and in 2023-2025, \$2.60 billion (OEA March 2021, Table B-12) Although there are many moving parts in the state’s K-12 total budget, the addition of the CAT revenues, which started in 2020, helped raised total K-12 spending by 9.9% over the 2017-2019 amount. Incidentally, the state’s share of the total K-12 state/local spending increased slightly to 67.8%.(OEA March 2021, 60-61)

COVID seems to have affected two smaller revenues streams in interesting ways. First, Lottery revenues for 2019-2021 were down greatly. While the public often thinks of Lottery money as coming primarily from “scratch-it” tickets and big drawings like Powerball, the real money here, over 70%, comes from video gambling in bars scattered across the state. COVID-related health restrictions helped to reduce projections of the state’s net earnings in this area by about \$272 million to roughly \$1.8 billion for 2019-2021.(OEA, March 2021, p. 22) However, Oregon’s economic recovery powerfully affected consumer spending in 2021, and there were record-

setting levels of gaming in the first half of 2021. The impact of this increased gaming on the 2019-2021 budget is minimal since the money from the second quarter transfers into the 2021-2023 budget. As figure 1 shows, Lottery revenues went through two canyons of reduced revenues before returning to basically the same track they were on before the COVID crisis.

Figure 1: Video Lottery Sales, 2020-2023

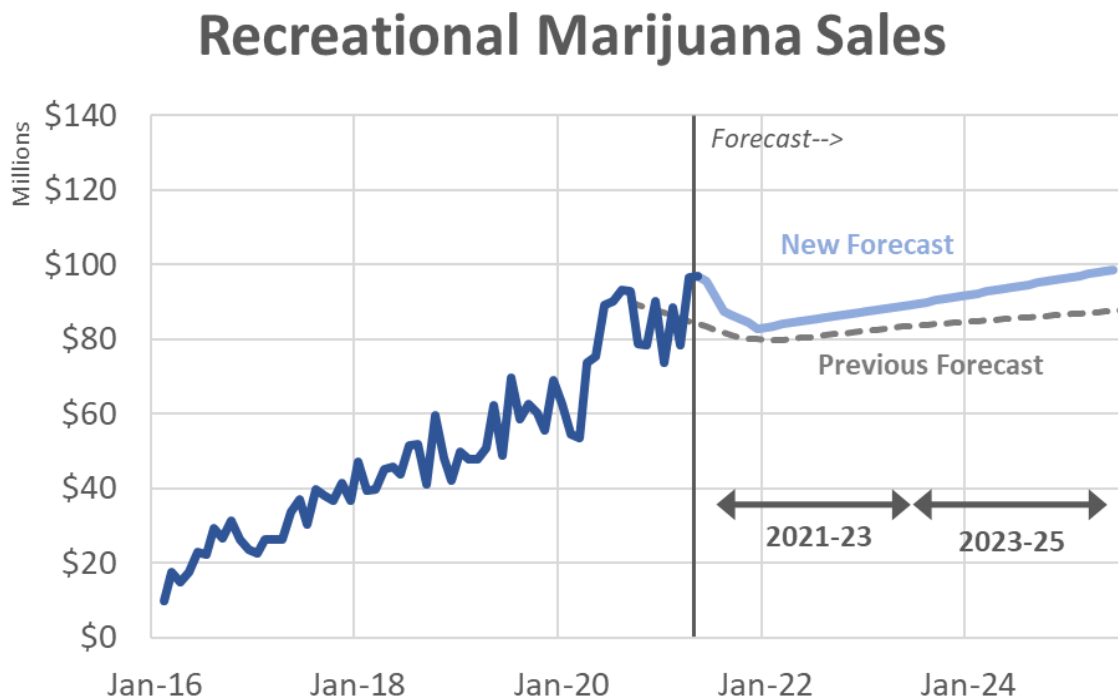
(Oregon Office of Economic Analysis, *Oregon Economic and Revenue Forecast May 2021*, 29.)



Cannabis revenues seem to have been affected by COVID as well. Initially, marijuana tax revenues jumped significantly from the original predictions for the 2019-2021 biennium, up \$63 million in the December 2020 OEA projection to a total of \$301.6 million net revenue. However, the March 2021 projection for 2019-2021 declined from the December 2020 estimate. While a \$5.3 million cut is not great, it was the first time an estimate of revenue from this source was ever reduced from a previous prediction.(OEA March 2021, 51) But this stall in sales seems to have been overcome by the roaring economy and the continuing limitations on alternate recreational activities associated with COVID, so the May 2021 projection of cannabis revenues forecasts a recovery of the market and restoration of projections for a stable, slowly increasing market.

Figure 2. Oregon Recreational Marijuana Sales

(Oregon Office of Economic Analysis, *Oregon Economic and Revenue Forecast May 2021*, p. 32.)



Latest Data: April 2021 | Source: OLCC, Oregon Dept of Revenue, Oregon Office of Economic Analysis

Federal COVID Relief and the State Budget

The federal government powerfully influenced state economies and budgets in the 2020-2021 COVID era. Widespread panic about the economic impacts of the pandemic itself and the shut-down policies adopted in response forced states to confront an instant recession. Estimates of the impact of COVID on state revenues were particularly grim in Spring 2020, as Congress crafted the Coronavirus Aid, Relief, and Economic Security Act (“CARES” Act). But even in late Autumn, authorities such as Pew Research made very dire predictions, and many states anticipated double-digit drops in general fund revenue from pre-pandemic projections. Extrapolating from official revenue projections in 27 states, Lucy Dadayan of the Urban Institute estimated on July 1 that the 50 states are likely to face a total tax revenue shortfall of \$125 billion in fiscal 2021 compared to pre-recession forecasts. (Rosewicz et al 2020) Oregon itself anticipated a \$2.5 billion shortfall in May 2020. (Vanderhart “Oregon has lost ...” 2020)

Although the really big money came to Oregon from the CARES Act, Oregon received significant money from two earlier federal bills. Each of these bills is extraordinarily complex, and their complete fiscal impact on Oregon cannot be captured usefully here, but there are some

specific distinctive points relevant to Oregon’s state finances. The first law—the Coronavirus Preparedness and Response Supplemental Appropriation Act—passed on March 6, 2020, provided at least \$1.05 billion to state and local governments, primarily dedicated to COVID surveillance, testing, contact tracing, and health care responses. Much of the public COVID public health work was started with this funding. Soon after, Congress passed the “Families First Coronavirus Response Act” on March 18, 2020. This law sought to help states finance some readily identifiable challenges states faced in the impending pandemic, such as unemployment and increased health care demands. (Oregon Legislative Fiscal Office(LFO) October 2020) Among other things, the Families First Act increased the federal government’s match for its basic Medicaid funding (not the Medicaid expansion funds) by 6.2%. This increase lasts until the president withdraws the emergency declaration. For Oregon, this meant its Federal Medical Assistance Percentage (FMAP)—the proportion that the federal government compensates the state for each \$100 spent on Medicaid—increased from roughly 61% to 67.2%.(Congressional Research Service (CRS) 2020, 17)

The 2020 federal law that properly gets the most attention is the CARES Act. Besides the tremendous macroeconomic impact of this \$2 trillion legislation on the Oregon economy, and therefore, on state revenues, this law features the \$150 billion Coronavirus Relief Fund (CRF) intended to support state, local, and tribal efforts to cope with the pandemic and its economic impacts. Of this amount, an estimated \$1.64 billion made its way to Oregon’s state and local governments. Portland, Multnomah County, and Washington County received a total of \$247 million of this amount, leaving the state \$1.39 billion.(LFO, October 2020, 1) The state decided to distribute CRF funds through the Legislative Emergency Board, the legislative committee that manages fiscal affairs between full sessions. The Emergency Board is a joint bipartisan committee that includes Senate President Peter Courtney (D-Salem) and House Speaker Tina Kotek (D-Portland). The Board has a majority of Democrats, in reflection of the legislature’s composition. Since March 2020, the Emergency Board has doled out the CARES Funds. The heaviest spending of the CARES funds, through October 2020, has predictably gone to major social programs of Medicaid (\$487.6 million) and SNAP(\$350.9 million), but other major allocations include the Oregon Health Science University (\$47 m) for provider relief compensation, CDC Testing (\$86.9 m) K-12 funding (\$92.4) and the Governor’s Fund (mostly for education and \$32.5).(LFO October 2020)

The recovery of the economy, and state revenues alongside, opened room for challenging the need for President Biden’s expansive “American Rescue Plan”, signed in March 2021. The bill, a centerpiece of Biden’s inaugural agenda, faced seemingly intransigent opposition from Republican legislators as Congressional Democrats forced the bill through. How much of this opposition was simply the reflexive and inevitable obstructionism that characterizes Republican national strategy towards all Democratic initiatives cannot be definitively determined, but at least one Republican criticism appears worthy of consideration: was the \$350 billion targeted to help state and local governments cope with their budget crisis still justified?

The partisan assertion that Democratic states simply wanted bail-outs for excessive spending can be analyzed elsewhere, but the contention that things were already going fine for states like Oregon merits some thought. At its most partisan, the argument, as made by U.S. House Minority Leader Kevin McCarthy (R-CA) in a *New York Times* article, is that the 2021 relief bill

should not include “blue-state slush funds that are not needed.” The same article notes how Idaho’s Republican Governor is encouraging Idaho’s Congressional delegation to oppose no-strings federal dollars to bail out mismanaged states.(Walsh 2021)

Ignoring the fact that neither party has really shown any real commitment to balancing the federal budget for decades, was Biden’s big plan as critical for states as supporters asserted? In an analysis posted in February 2021, Lucy Dadayan and Kim Reuben argue that despite the notable recoveries, revenue recovery has varied greatly among the states and that the existing situation is worse for local governments. After observing that state and local employment is down 5% over the year, with about 1.3 million jobs cut, they write:

Those who did best include states that have progressive income taxes, those that tax groceries, and those that enacted tax rate increases for fiscal year 2020. States with these characteristics saw some growth in overall tax revenues.

However, 28 states reported declines in overall state tax collections during this period, with seven reporting double-digit declines. The steepest were in states with a relatively high reliance on services and tourism or fossil fuel production, or those that rely heavily on sales tax revenues and do not have an income tax.

Dayadan and Reuben’s numbers were outdated for Oregon, stating it lost 10.5% of state revenues between April and December 2020, but Oregon’s relatively progressive income tax driven system fits their larger assertions. The justifications for the major federal bail-out remained relevant through the first quarter of 2021 in part because all economic assertions were risky at that time. For example, quarterly estimates of Oregon’s revenues in 2020 fluctuated from the original June 2019 projection of \$21.2 billion to a low of \$19.5 B to a new high of \$22 B in 2021. The positive state of Oregon’s economy and its extremely flush budget times in June 2021 were in part directly related to the immediate and anticipated impact of the 2021 American Rescue Plan.

Biden and the Democrats sought to go big, even with no Republican votes, reflecting his agreement with liberal economists like Paul Krugman, that a small package would create a sluggish rebound from the recession. Janet Yellen also influenced Biden with the argument that pockets of poverty require the massive bill. (“Yellen’s Encore ...” 2021) For the Oregon budget, Biden’s plan was both directly and indirectly beneficial. As the March 2021 OEA forecast indicated, “the combination of recovery rebates and expanded unemployment insurance benefits means total personal income today is higher than it was prior to the start of the pandemic, despite significant job losses.” (OEA March 2021, 3)

The Final Legislatively-Adopted 2021-2023 Budget

The overall impact of the accelerating economy and revenue combined with the various forms of federal stimulus meant that Oregon legislators were truly blessed with abundant revenues when finally determining the 2021-2023 budget. The size and complexity of the approved total budget were so great that even in February 2022, the Legislative Fiscal Office could not produce the typical reports that normally come out in September of the year the budget is approved.

As in most states, the structure of the Oregon 2021-2023 state budget has various significant funds that deserve specific attention. This report focuses on the operating funds, those which finance specific operations or transfers within the two-year budget. In Oregon, monies in the operating budget are grouped under the title of “All Funds Budget.” The components of the All Funds Budget are “Federal Funds”, “General Funds”, “Lottery Funds”, and “Other Funds”. The Total Funds budget for Oregon in 2021-2023 was approved at \$112.8 billion. According to the Legislative Fiscal Office, the great expansion of federal funds in the actual 2019-2021 cycle meant that total spending for the 2021-2023 budget did not increase as dramatically as General Funds.(LFO “2021-23 Legislatively Adopted ...” 2021)

Table 1: Oregon’s Legislatively Approved 2021-2023 Total Funds Budget: The Operating Budget

2021-23 Legislatively Adopted Budget by Program Area and Fund Type						
Program Area	General Fund	Lottery Funds	GF&LF Total	Other Funds	Federal Funds	Total Funds
State School Fund	7,988,195,518	589,526,746	8,577,722,264	722,277,736	-	9,300,000,000
Education - Post Secondary	2,491,512,552	122,327,240	2,613,839,792	810,983,354	151,133,824	3,575,956,970
Education - Other	987,837,420	-	987,837,420	2,688,161,399	3,379,188,598	7,055,187,417
Human Svcs - Oregon Health Authority	3,483,809,469	18,641,986	3,502,451,455	9,600,625,992	17,047,663,519	30,150,740,966
Human Svcs - Dept. of Human Services	4,636,217,279	-	4,636,217,279	810,415,179	10,047,189,176	15,493,821,634
Human Services - Other	20,412,076	-	20,412,076	1,968,109	17,612,064	39,992,249
Public Safety	2,249,498,385	11,647,516	2,261,145,901	2,123,765,621	1,425,732,490	5,810,644,012
Judicial Branch	906,831,193	-	906,831,193	193,257,936	1,476,446	1,101,565,575
Natural Resources	517,460,371	251,728,450	769,188,821	1,642,274,283	345,399,927	2,756,863,031
Economic Development	767,074,971	197,028,053	964,103,024	8,941,262,917	2,075,861,284	11,981,227,225
Consumer and Business Services	32,744,618	261,416	33,006,034	775,417,191	121,293,920	929,717,145
Transportation	36,021,393	122,894,228	158,915,621	4,863,169,446	156,097,817	5,178,182,884
Administration	380,170,813	48,571,456	428,742,269	15,378,926,768	2,642,609,519	18,450,278,556
Legislative Branch	188,007,476	-	188,007,476	15,253,192	-	203,260,668
Miscellaneous (Emergency Fund)	761,297,482	-	761,297,482	-	-	761,297,482
Total	25,447,091,016	1,362,627,091	26,809,718,107	48,567,759,123	37,411,258,584	112,788,735,814

Although the size of Federal Funds in the 2021-2023 Oregon budget appears less impressive following the huge influx of federal money in the 2019-2021 cycle, compared to the 2017-2019 Federal Funds budget of \$24.2 billion, the \$37.4 billion in 2021-2023 is remarkably large. (LFO 2017) In addition to residual effects of earlier stimulus packages, the impact of the federal government’s two 2021 major spending bills merit attention. The American Rescue Plan of 2021 provides highly flexible money that can be used to backfill for lost revenues. These funds can be used to cover expenses related to economic and public health impacts of COVID-19. This money infused nearly all state programs. In order to spend this extra cash and to help foster a more collaborative institutional atmosphere, legislative leaders promoted a policy giving each state member of the House of Representatives \$2 million to spend as they wish in their district, while giving state senators \$4 million. In this way, the American Rescue Plan reached all parts of the state and reduced partisan tensions. (VanderHart and Stites 2021) State legislators chose to spend their discretionary fund in a plethora of ways, ranging from harbor improvements on the South Coast to major YMCA renovations in Salem to an upgrade of the Sumpter Tourist railway in Northeastern Oregon.(Joint Ways and Means 2021)

According to the Oregon State Treasurer's Office, just over 80 percent of Oregon's \$2,648.0 million Rescue Act money will be spent in 2021 and 2022, with the balance going forward.(2021) The second major federal spending initiative affecting the state was the 2021 Infrastructure Act passed in November 2021. The Infrastructure Act ensures Federal Funds will remain unusually high for the next five years due to the stretched out distribution of over \$3.4 billion. Beyond the state's allocation, this bill sends large funds to various local governments. (Stites "How Will Oregon ..." 2021) Still, beyond these construction funds, Federal Funds should decline over time as various COVID-related federal programs phase out, unless Biden's "Build Back Better" legislation should come back from near death in 2022.

The Other Funds part of the Oregon 2021-2023 budget had no major surprises. This category covers a wide range of programs with dedicated revenues and spending obligations. The legislature generally must pass special legislation to change these funds. For example, the Other Funds includes the fuel tax program that funds transportation programs. Any changes in this program would require new legislative action.

One notable element of the Other Funds is Oregon's Public Employee Retirement System (PERS). This is the largest single component of the Other Funds budget, comprising 33.7% of the original 2019-2021 legislatively approved budget.(LFO September 2019, 17) Like the retirement funds of many states, Oregon's PERS liabilities outstrip its immediate resources, creating pressure for action. Although the positive budget environment did not lead to any large legislative contribution to the fund, the PERS investment fund's return of over 11% in recent years has outperformed the assumptions, helping reduce the overall liability of \$24.3 billion. In July 2021, the PERS Board changed the anticipated investment fund earnings from 7.2% to 6.9%. Using the lower return rate means that the state and the over 900 local government participants will have to contribute \$715 million more per biennium starting in 2023.(Sickinger 2021)

The revenue picture for the Lottery Budget in Oregon has been covered earlier in this paper. The fund had no major changes in 2021. For 2021-2023, the Lottery Budget is anticipated to have \$1.36 billion in revenues. While this money is often simply lumped in with General Funds in descriptions and analyses of the Oregon budget, only about 40% of Lottery Funds can be freely spent by the legislature. The rest is dedicated to a wide range of programs such as the Education Stabilization Funds, Park, Natural Resources, and Veterans programs.(LFO September 2019, 11)

The General Funds budget is the core of the political budget since it is where legislators have the most money combined with the most discretion. The superb revenue projections for 2021-2023 mean that the legislature could spend rather freely, and the total budget increased by about 13.5% from the 2019-2021 General Fund budget. This increase builds on the 2019-2021 General Fund's 12.6% increase over the 2017-2019 cycle, a very impressively consistent growth in this area.(LFO September 2021, 1)

The most proportional significant shift in General Fund spending in 2021-2023 was the increase in Human Services, which was offset by reductions in the percentages going to Public Safety/Judicial Spending, K-12 Education and various minor programs. The increase in Human Services is largely driven by the legislature's commitment to continue Medicaid coverage at least

the same level without any fee increases despite inflation in medical care, and to expand access to the system for undocumented immigrants.(Botkin 2021) Mental health programs were also enhanced.

Table 2: Percentage of General Fund Spending for Major Spending Categories

	K-12 Education	Other Education	Human Services	PublicSafety/Judicial
2019-2021	34.9	13.6	27.9	15.4
2021-2013	32	13.4	35	12.8

The largest area of General Fund Spending is always K-12 basic school support. When combined with Other Funds, K-12 Education reached a record total of \$9.3 billion and Democratic legislative leaders resisted pressures to go further.(VanderHart “Oregon Lawmakers ...” 2021) The relative decline in Public Safety Judicial spending reflects Governor Brown and various legislators’ interest in sentencing reform and prison consolidation, as well as the temporary use of early releases and less incarceration in response to COVID.(VanderHart “Gov. Kate Brown’s ...” 2021)

Although their proportionate share did not increase, Higher Education in Oregon benefitted strongly in the 2021-2023 final budget, partially because it could harvest diverse federal monies. According to the Higher Education Coordinating Commission (HECC), the state’s overseeing body, “In general, postsecondary education and workforce experienced promising growth in key program areas in the 2021-23 budget. Support for community college operations increased 10.5 percent from 2019-21 LAB, and state support for public university operations increased 8.1 percent. These are the funding levels the institutions requested to accommodate actual cost growth and are expected to be sufficient to mitigate tuition increases during the biennium.”(Higher Education Coordinating Committee 2021)

Conclusion: Political Implications of the Fiscal Situation

Innumerable issues can be considered when looking at the legacy of Oregon’s budgeting for 2021-2023. One that always deserves thought is whether budget commitments made in flush times are sustainable. Can Oregon, for example, continue in its extraordinary commitment to expanding health care? Certainly, the size of the state’s reserve funds provides some security, but changes in federal commitment to Medicaid, and the state’s sustained economic growth, must be watched in this respect. The state may have missed an opportunity to pay down the long-term obligations to its public employee retirement system a bit, which would help reduce the bite the program takes from the budgets of hundreds of state and local government agencies each cycle. But probably Oregon’s most visible political issue is its rural-urban divide. Could money help bridge this?

Most of Oregon’s revenue is generated by the metro areas, where over 80 percent of the people live. And these metro areas fund massive statewide expenditures such as public education and state roads, highways, and bridges. Claire Withycombe and Aubrey Wieber of the Oregon Capital Bureau provide an analysis of this situation:

The state already uses a mix of local and state funds to have uniform per-pupil funding in schools throughout the state, but some schools might have only 20 students, making it impossible to pay for a building, staff and materials, said Mike Wiltfong, the state Education Department's director of school finance and school facilities. Wiltfong said \$95 million per year in additional funds are dedicated to those rural schools. The Oregon Department of Transportation has budgeted \$78.3 million from the state's transit payroll tax to road projects throughout the state." Seventy-four percent of that money is spent in the state's most urban areas, despite those hubs housing more than 80 percent of the state's population. (2021)

Most of the House and Senate Republicans represent rural and less populated districts, while Democrats overwhelmingly represent metro areas. The disparity in revenue generation and expenditure has the potential to increase polarization, especially with the continued use of the two-thirds quorum requirement to pass legislation. Oregon Democrats are now pondering a change in the quorum requirement, which could also exacerbate incivility and polarization in the legislative process.

The surprisingly large amount of funds available for the 2021-2023 budget could be seen as an opportunity for the Democratic majority to be magnanimous and extend even more explicit support to the more rural Republican-dominated areas. One example of where this happened was with the distribution of the federal Recovery Act funds, where each state representative was given \$2 million and each state senator \$4 million to basically spend as they wished. Other programs also contained significant support for rural initiatives and priorities, as demonstrated by this quote from a press release by two eastern Oregon legislators:

Senator Findley (R-Vale) and Representative Mark Owens (R-Crane) announced today they secured over \$54 million in state and federal aid for Senate District 30 and House District 60. This is the highest amount of support ever approved for the region in one singular session.

Senator Findley said, "This is great news for Senate District 30. The opportunities that will come from funding these projects will help our communities immensely, and will provide a path towards more sustainable economic, cultural and infrastructure development."

The support package is a combination of funds from the federal American Rescue Plan Act of 2021 (ARPA), the general fund budget and Lottery Bond sales.(Findley and Owens 2021)

It seems the 2021-2023 financial situation was so positive that many of the long-term troubles of Oregon politics such as the rural-urban split could be papered over, especially with the help of a Ways and Means Committee leadership that was notable for working with both sides of the aisle.

But the fight here may not be about money, or at least not all Oregonians view Salem’s work the same way. In November 2021, long after the legislature settled this budget, Harney County voted by 63% to join seven other counties in investigating the possibility of joining a “Great Idaho” that better reflects their local values and priorities. (Cuthill 2021)

References

Botkin, Ben. 2021. "Oregon Lawmakers Pump Money, Oversight into Health Care." The Lund Report. July 9. https://pamplinmedia.com/ht/117-hillsboro-tribune-news/514830-410904-oregon-lawmakers-pump-money-oversight-into-health-care?wallit_nosession=1

Centers for Disease Control and Prevention. 2022. *COVID Data Tracker*. January 26. <COVIDCDC.gov>

Congressional Research Service. 2020. "Medicaid's Federal Medical Assistance Percentage (FMAP)." July 29. <<https://fas.org/sgp/crs/misc/R43847.pdf>>

Cuthill, Meagan. 2021. "Another Oregon county signals support to join 'Greater Idaho'". Oregon Public Broadcasting. November 3. <https://www.opb.org/article/2021/11/03/another-oregon-county-signals-support-to-join-greater-idaho/>

Dake, Lauren. 2020. "Oregon's 2020 Legislative Session Ends With Little To Show After Republican Walkout." Oregon Public Broadcasting. March 5. <https://www.opb.org/news/article/oregon-2020-republican-walkout-legislative-session-ends/>

Dayadan, Lucy and Kim Reuben. 2021. "Why States and Localities Need More Federal Aid". Tax Policy Center, Urban Institute/Brookings. February 22. <<https://www.taxpolicycenter.org/taxvox/why-states-and-localities-need-more-federal-aid>>

Ettlinger, Michael and Jordan Hensley. 2021. "COVID 19 Economic Crisis: by State", University of New Hampshire Carsey School of Public Policy. January 27. <<https://carsey.unh.edu/COVID-19-Economic-Impact-By-State>>

"Far-Right Lawmaker Takes Over Oregon GOP in Larger US Shift." 2021. *US News and World Report/AP*. February 22. <https://www.usnews.com/news/politics/articles/2021-02-22/far-right-lawmaker-named-head-of-oregon-republican-party>

"Findley, Owens Secure Unprecedented \$54 Million in Funding for Eastern Oregon Counties." 2021. Press release from State Senator Lynn Finley and State Representative Mark Owens. July 6. [https://www.oregonlegislature.gov/owens/Documents/Sen%20Findley%20Rep%20Owens%20Secure%20Unprecedented%20\\$54%20Million%20in%20Funding.pdf](https://www.oregonlegislature.gov/owens/Documents/Sen%20Findley%20Rep%20Owens%20Secure%20Unprecedented%20$54%20Million%20in%20Funding.pdf)

Higher Education Coordinating Commission. August 2021. *Legislative Summary: Key Post-Secondary Education Budget and Policy Bills*. <https://www.oregon.gov/highered/policy-collaboration/Documents/Legislative-Resources/Budget/HECC-2021-LEG-SUMMARY-FIN.pdf>

Joint Ways and Means Committee. Oregon State Legislature. 2021. *HB 5006 Budget Report and Measure Summary*. <https://olis.oregonlegislature.gov/liz/2021R1/Downloads/CommitteeMeetingDocument/246418>

KXL Northwest News. 2020. “Oregon Wildfire Recap: 9 Deaths, 1.2 Million Acres Burned, 4K Homes Destroyed, 25K Claims Filed.” December 16. <https://www.kxl.com/pacific-nw-wildfires-2020/>

Oregon Legislative Fiscal Office (LFO). September 2017. *2017-2019 Oregon Budget Highlights*.

Oregon Legislative Fiscal Office (LFO). September 2019. *2019-2021 Budget Highlights*.

Oregon Legislative Fiscal Office (LFO), 2021. *2021 Oregon Public Finance, Basic Facts: Research Report #1-21*. January 27.

Oregon Legislative Fiscal Office (LFO). July 2021. *2021-23 Legislatively Adopted Budget General Fund/Lottery Funds – Summary*.
<https://www.oregonlegislature.gov/lfo/Documents/2021-1%20LAB%20Summary%202021-23.pdf>

Oregon Legislative Fiscal Office (LFO). October 2020. *A Summary of Federal Coronavirus Funding for Oregon*.

Oregon Legislative Fiscal Office (LFO). September 2020. *Budget Information Brief, 2020-3 UPDATE: Oregon Budget Reserve Funds*.

<<https://www.oregonlegislature.gov/lfo/Documents/2020-3%20Budget%20Reserve%20Funds%20UPDATE.pdf>>

Oregon Office of Economic Analysis(OEA). June 2020. *Oregon Economic and Revenue Forecast, June 2020*, Vol. XL, No. 2.

<https://www.oregon.gov/das/OEA/Documents/forecast0620.pdf>

Oregon Office of Economic Analysis(OEA). March 2021. *Oregon Economic and Revenue Forecast, March 2021*, Vol. XLI, No. 1.

Oregon Office of Economic Analysis(OEA). May 2021. *Oregon Economic and Revenue Forecast, May 2021*, Vol. XLI, No. 2.

Oregon State Treasurer Office. 2021. *State and Local Fiscal Recovery Funds 2021 Report*. August 6. <https://americanrescueplan.oregon.gov/pages/performance-report.aspx>

Rosewicz, Barb, Justin Theal and Alexandre Fall. 2020. “COVID-19 Abruptly Ends Decade of State Tax Revenue Growth”. Pew Trust. September 4.
<https://www.pewtrusts.org/en/research-and-analysis/articles/2020/09/04/covid-19-abruptly-ends-decade-of-state-tax-revenue-growth/>

Sickinger, Ted. 2021. “PERS Board lowers key investment earnings assumption.” *The Oregonian*. July 24.

Stites, Sam. 2021. “How Will Oregon Spend Funds from the Federal Infrastructure Package?”, Oregon Public Broadcasting. November 5. <https://www.opb.org/article/2021/11/05/us-infrastructure-spending-plan-oregon-transportation-odot-wildfires-drought/>

Stites, Sam and Dirk VanderHart, 2021. “Oregon’s latest “stunning” forecast shows tax revenues continue surging.” Oregon Public Broadcasting. May 19. <https://www.opb.org/article/2021/05/19/oregon-economy-state-tax-revenues-taxpayers-refund/>

VanderHart, Dirk. 2020. “Gov. Kate Brown’s budget proposes prison closures and cuts to healthcare providers”. Oregon Public Broadcasting. December 1. <https://www.opb.org/article/2020/12/01/oregon-governor-kate-brown-budget-proposal/>

Vanderhart, Dirk, 2020. “Oregon Has Lost a Greater Share Of Revenue Than Most States Due To COVID-19”, National Public Radio. August 3. <https://www.npr.org/2020/08/03/895385004/oregon-has-lost-a-greater-share-of-revenue-than-most-states-due-to-covid-19>

VanderHart, Dirk. 2021. “Oregon lawmakers pass \$9.3 billion budget for K-12 schools.” Oregon Public Broadcasting. June 3. <https://www.opb.org/article/2021/06/03/oregon-lawmakers-pass-9-billion-dollar-budget-for-k-12-schools/>

VanderHart, Dirk and Sam Stites. 2021. “Oregon Lawmakers Conclude 2021 Session in a Crush of Bills.” Oregon Public Broadcasting. June 26. <https://www.opb.org/article/2021/06/26/oregon-lawmakers-conclude-2021-legislative-session/>

Walsh, Mary Williams. 2021. “Virus Did Not Bring Financial Rout That Many States Feared.” *New York Times*. March 1.

Withycombe, Claire and Aubrey Wieber. 2021. “The rural-urban divide widens as climate and economic policy remain at Oregon’s forefront.” *The Blue Mountain Eagle*. March. https://www.bluemountaineagle.com/capital_bureau/the-rural-urban-divide-widens-as-climate-and-economic-policy-remain-at-oregon-s-forefront/article_6371bd12-b7c7-11e9-a16c-63e195ccfc1b.html

“Yellen's encore: Lending economic heft to Biden's virus plan.” 2021. Associated Press. February 27. <<https://apnews.com/article/janet-yellen-virus-relief-plan-63e2ad33b7257912394744db4bb4f14e>>