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Summary:

The official estimate for Oregon's looming budget deficit was determined by subtracting expected revenue from "wished for" spending. Such a large "deficit" can be avoided by facing reality and rejecting some very costly assumptions that the legislature has the power to ignore.

Word Count 786

"…[A]s of now state officials believe that they will have $1.2 billion more to spend through the General Fund in the next two-year period than in this one."

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The Fallacy of a $3.5 Billion State Budget Deficit

By Steve Buckstein

$3,500,000,000. That's the latest official state estimate for what is described as a looming deficit in Oregon's General Fund Budget for the upcoming 2011-13 biennium. Ask the average Oregonian what this means, and he or she is likely to say that the state must cut its spending by $3.5 billion, increase taxes by that amount, or do some combination of the two. In reality, such stark choices are not necessary because the deficit is not what it appears.

Read almost any news article about the budget crisis and you would think that state revenue will be lower in the next biennium than it is in this one, which ends in June. Actually, current official estimates peg this biennium's General Fund and lottery resources at $13.54 billion, while projecting $14.76 billion in the next biennium. Although both these estimates are down from earlier projections, note that as of now state officials believe that they will have $1.2 billion *more* to spend through the General Fund in the next two-year period than in this one.

So why isn't everyone breathing a sigh of relief? Because they know that to continue providing all the services the state does now, the same way it provides them now, will require spending over $18 billion in the next two-year cycle just to stay even. That's called the Current Service Level (CSL), and it's the reason everyone is focused on that $3.5 billion "deficit" number instead of the $1.2 billion revenue increase.

Why is $5 billion more revenue needed to maintain current services? Because the state is making some very costly assumptions. Quoting directly from the latest state document on the subject, those assumptions include:

- 13.4% increase in personal services costs (furlough and benefit restoration roll-ups, step increases, Pension Obligation Bond payments, 6% PERS rate increase)
- 2.5% cost-of-living-adjustment (COLA) in the first year and a 2% COLA in the second year
- 9% per calendar year increase in flexible health benefits
- 2.4% increase in standard inflation for services and supplies and 3.9% for medical costs
- Backfill of one-time funds used in the 2009-11 budget (mostly Federal Funds) of $1.3 billion
- Human services caseload growth of $466 million
- Debt service increases for already issued debt of $172 million
- Phased-in program costs of $239 million

Bad news indeed, if these assumptions were cast in stone. But, again quoting from the same current services document:

"The expenditure side of the CSL calculation is based on a number of assumptions [above], ***none of which are required to be included in the final budget*** adopted by the Legislature." (emphasis added)

To repeat, **none of these assumptions are required to be included in the final budget.**

As stated in Cascade's recent state budget document, ***Facing Reality***, we reject the $3.5 billion deficit number because it is determined by subtracting expected state revenue from "wished for" state spending. The Legislative Fiscal Office that generated the $3.5 billion deficit number is a non-partisan creature of the legislature, but it is using assumptions that many people in the legislative and executive branches of state government want Oregonians to accept. If we accept them, then the pressure to raise revenue, i.e., tax us more, becomes almost overwhelming.

The official assumptions assume we will continue to do almost everything the state is doing now, in the same manner it is doing them now. This is not only a recipe for a huge deficit, but it is also a recipe for shortchanging everyone who has a right to expect that their state government will focus on its core responsibilities and do so in a fiscally responsible manner.

As set forth in ***Facing Reality***, we identify a number of ways the state can reform how it performs certain services, how it pays for them, and how it can spin off or end other services to reduce costs and/or improve service. Included are items such as privatizing liquor distribution and sales and the DMV, reducing corrections costs, eliminating a number of costly tax credits and new programs, and targeted reductions in public employee compensation. All together these reforms could save some $2 billion in the upcoming biennium.

In ***Facing Reality*** we also propose a reasonable limit on the future growth of state expenditures, and the reduction or elimination of perhaps the most damaging symbol of Oregon's perceived unfriendliness to business and entrepreneurship: the highest-in-the-nation 11 percent capital gains tax.

State budgeting details can be daunting. But you don't have to be an accountant or economist to realize that the touted $3.5 billion budget deficit is a fallacy. The sooner we reject it, the sooner we can put our state back on the path of fiscal responsibility.

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