

Oregon Education Investment Initiative

Joint Committee on Tax Reform

May 4, 2017

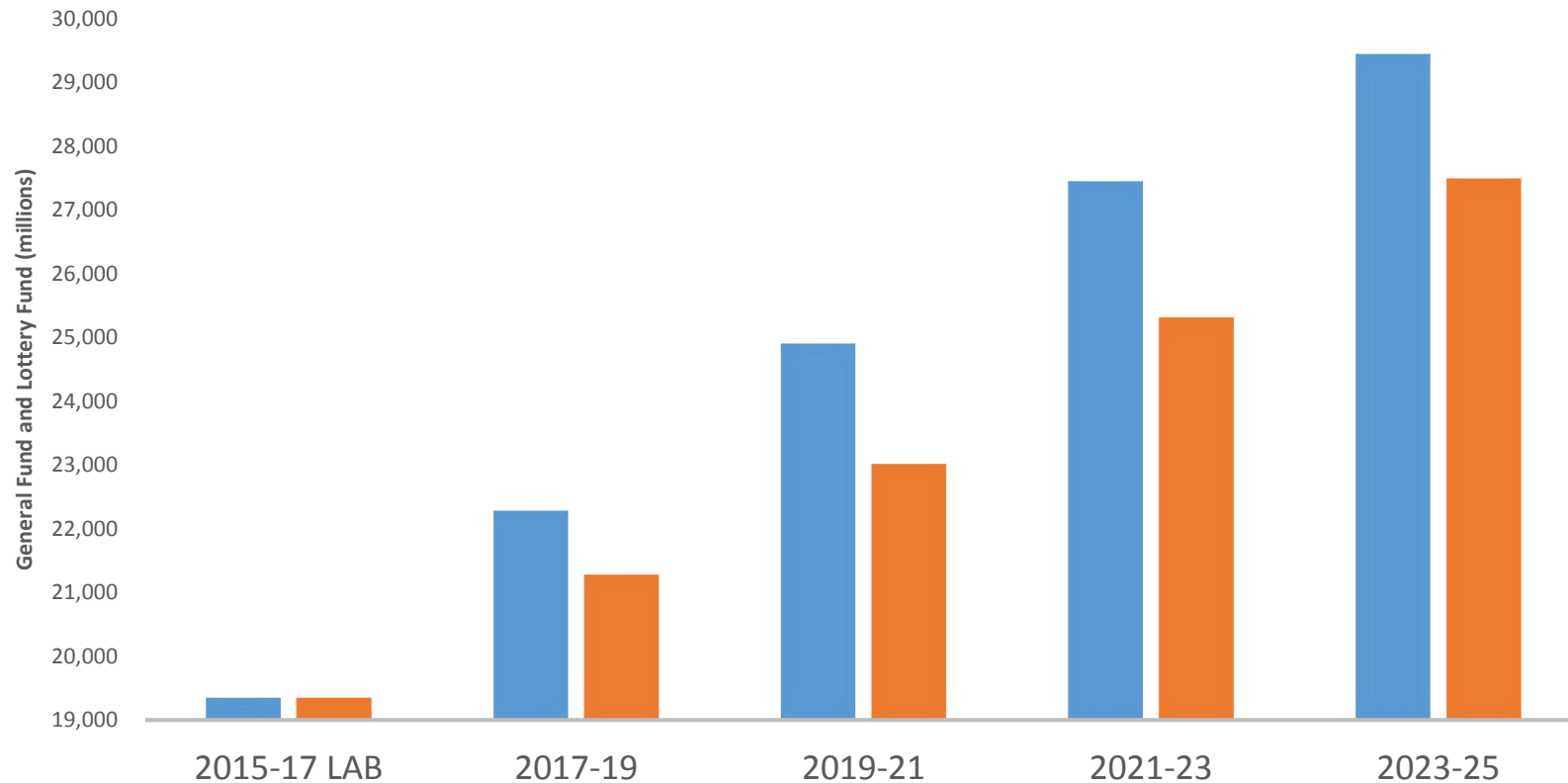
Speaker of the House Tina Kotek

Representative Nancy Nathanson, Co-Chair, Joint Committee on Ways & Means

Representative Phil Barnhart, Chair, House Committee on Revenue

PROJECTED: EXPENDITURES VS. REVENUE

■ Current Law Spend ■ Current Revenue Anticipated



Notes:

- Existing spending includes current OHP caseloads and November 2016 ballot measures (\$357m plus roll-up for M96 Veterans Services, M98 CTE, and M99 Outdoor School)
- Revenue anticipated assumes increased provider assessments for OHP caseload
- Reserves continue to accumulate

BUDGET GAP in millions

2015-17	1
2017-19	(1,000)
2019-21	(1,885)
2021-23	(2,137)
2023-25	(1,949)

RESERVES (Rainy Day + ESF) in millions

2015-17	771
2017-19	1,216
2019-21	1,720
2021-23	2,221
2023-25	2,687

Savings from Cost Containment Proposals

- Proposals are being priced, and there is a leadership commitment to making the cost of state government more sustainable, including targeted cuts.
- Potential savings from:
 - PERS – future cost-sharing with employees
 - PEBB/OEBB – merge the plans for efficiencies, implement price controls on non-primary care charges
 - Public Safety Savings – avoid the need for new prison beds before 2025
 - Administrative – no inflation adjustment on services and supplies when building current service level, manage vacancies/new FTEs more effectively

GOAL: \$400 million in cost containment and \$250 in targeted cuts in 2017-19

Budget Gap Before and After Cost Containment

There is a gap between the cost of essential services and anticipated revenue. The cost trend is reduced if containment strategies can be implemented. These numbers assume \$650 million less in 2017-19 and \$600 million less in each biennium through 2025.

<u>ESTIMATED</u>	2017-19	2019-21	2021-23	2023-25
Before Cost Containment	-1,000	-1,885	-2,137	-1,949
After Cost Containment	-350	-1,285	-1,537	-1,349

Band-Aid or A Brighter Future?

Even with cost containment, the next three biennia still require gap funding to maintain essential services, from education to health care to senior services. We could patch the current gap for 2017-19 with one-time resources and program cuts, but does that move the state to a brighter future?

The Problems with Another Band-Aid:

- Realities of a “current service level” budget:
 - K-12 budget remains inadequate – short school year, large class sizes
 - The cost of higher education gets worse
 - People still struggling despite the economic recovery and different supports are needed (e.g., rise in homelessness)
- Uncertainty of federal budget
- Kicking the can down the road, to the next shortfall in 2019-21

We Have A Choice to Make . . .

Another Band-Aid and mediocre outcomes?

OR

New investments in education?

What Could New Revenue Do?

New Revenue = \$2 Billion in 2017-19

EDUCATION INVESTMENT	\$1.4 billion
BALLOT MEASURES (M96, M98, M99)	\$350 million
INVEST IN ESSENTIAL SERVICES	\$250 million

What Could New Revenue Do?

EDUCATION (PRE-K THRU COLLEGE)

\$1.4 billion

K-12 NEW INVESTMENT = \$1.0 billion

K-12 State School Fund - \$800 million

- Add two weeks to school year, reduce class sizes K-5
- SSF in 2017-19 could be \$8.4 to \$8.8 billion

K-12 Strategic Initiatives - \$200 million

- Teacher mentoring, focus on equity, school nurse in every school, support for English learners, improve graduation rates and reduce chronic absenteeism, school nutrition

What Could New Revenue Do?

EDUCATION (PRE-K THRU COLLEGE)

\$1.4 billion

EARLY CHILDHOOD NEW INVESTMENT = \$150 million

- Expand Head Start and Preschool Promise
- Increase access to home visiting supports
- Strengthen early intervention/early childhood special education

HIGHER EDUCATION NEW INVESTMENT = \$250 million

- Reduce tuition increases
- Increase need-based financial assistance
- Fund Oregon Promise

Oregon Education Investment Initiative

Effective 1/1/18

	2017-19	2019-21	2021-23	2023-25
Corporate Activities Tax @ 0.95 % above \$5 million in Oregon sales	3,024	4,687	4,923	5,158
Motor fuel sales to the highway fund	50	76	80	83
Eliminate Corporate Income Tax	(660)	(1,054)	(1,107)	(1,149)
Personal Income Tax Reductions to Low- and Middle-Income Households (estimate - details TBD)	(200)	(300)	(330)	(360)
<i>Subtract Motor Fuel Sales (goes to Highway Fund)</i>	<i>(50)</i>	<i>(76)</i>	<i>(80)</i>	<i>(83)</i>
Total General Fund Impact	2,164	3,333	3,486	3,649

Now Is the Time to Invest in Education

- **Invest in Education** – commit 75% of revenue generated through business tax reform to education and design a guarantee to ensure that commitment continues
- **Stability** – long-term cost containment and more predictable business tax revenue will get us out of the boom-and-bust budgeting of the last 20 years
- **Now Is the Time** – even though the state economy is strong, there are storm clouds on the horizon and now is the time to stabilize the budget and invest in Oregon's top priorities