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Governor Vetoes Senate Bill 1022 and House Bill 4056

On August 7, 2002, the Governor vetoed Senate Bill 1022 and House Bill 4056, passed during the third special session held in June 2002. These two bills were key components of the legislative plan to balance a statewide budget shortfall as described below.

The June 2002 economic and revenue forecast produced by the Department of Administrative Services, Office of Economic Analysis projected 2001-2003 General Fund revenues to be an additional \$545 million below the March 2002 forecast. In addition, voters' rejection of HJR 80 in May 2002 added \$200 million to the gap. This measure would have transferred \$220 million from an Education Stability Fund to offset a \$200 million General Fund reduction made in the State School Fund in the second special session held in February-March 2002. The Governor had also vetoed portions of the second special session rebalance plan, creating an additional \$81 million deficit. Finally, the Department of Human Services reported additional needs of \$33 million due to recession-related increases in caseload requirements. Thus, going into its third special session, the Legislature faced a potential gap of \$859 million. Also, interest was expressed in restoring a portion of the \$112 million reduction in school funding taken during the second special session.

In the third special session, the Legislature adopted a combination of expenditure reductions and shifts as well as revenue changes to address the gap. The legislative plan included SB 1022 - providing for a shift of \$267 million in state expenditures for K-12 schools and community colleges from the 2001-03 biennium to the 2003-05 biennium, and HB 4056 - providing \$50 million for K-12 schools from bonds backed by cigarette tax revenues. A total of \$317 million General Fund was disappropriated from the budgets for K-12 schools and community colleges in separate legislation to implement SB 1022 and HB 4056.

Although the Governor vetoed these two bills, he did not line item veto the related disappropriations. As a result, K-12 schools and community colleges will experience budget reductions in the 2001-03 biennium. Following is a summary of the vetoed bills and the resultant effects without overrides by the Legislature.

SB 1022

SB 1022 would modify the statutory distribution schedule for State School Fund payments to school districts and education service districts, beginning in July 2003, by doubling the July payment from 8 1/3% to 16 2/3% and eliminating the subsequent June payment. It would also delay a portion of the final 2001-03 payment, which is to be made in May 2003. For the 2002-03 fiscal year, payments would be distributed until May 2003 as if there were no reduction in the State School Fund budget that was adopted during the 2001 regular session. In May 2003, the payment would be reduced by approximately \$211 million based on actual funds available. Districts, however, would be able to accrue a portion of their first 2003-04 payment, to be made in July 2003, as revenue for the previous fiscal year in order to balance their 2002-03 budgets. SB 1022 would allow districts to make similar accruals in subsequent years. The accrual would be limited to 9.1% of the amount received as a State School Fund grant for the fiscal year for which the revenues are to be accrued.

SB 1022 would also modify the distribution schedule of Community College Support Fund payments to community college districts. By rule of the State Board of Education, four equal distributions are currently made to community college districts each fiscal year. The last payment is made in April. SB 1022 would eliminate the April 2003 payment, leaving three payments to districts during the 2002-03 fiscal year. The bill would, however, allow community college districts to apply a portion of the subsequent July 2003 payment as accrued revenue for the 2002-03 fiscal year. The amount that community college districts could accrue equals one-third of the amount actually received from the state in 2002-03. The effect of this is to allow colleges to accrue four payments for the 2002-03 fiscal year even though the fourth payment would not actually be paid until the July after the fiscal year (and state biennial budget period) has ended. SB 1022 would allow community college districts to make similar accruals in subsequent years.

The bill would also extend the maturity date – from 12 to 13 months – for debt obligations of school districts, education service districts, and community college districts issued in anticipation of grants, taxes, or other revenue. This would allow these districts to borrow against state funds to be received in the succeeding fiscal year. The bill would also temporarily allow school districts and education service districts on the cash basis of accounting to have negative ending fund balances.

In HB 5091, the Legislature disappropriated \$56 million of 2001-03 funding to the Community College Support Fund – the value of the April 2003 payment that SB 1022 delays until July 2003. The effect of the Governor's action to veto SB 1022, but to not veto the disappropriation in HB 5091, is to reduce state support to community college districts by \$56 million (or 25% of the original funding level for the 2002-03 fiscal year) but to not allow community colleges to use any of the July 2003 Community College Support Fund payment to meet their 2002-03 year operating costs. Colleges would therefore need to make expenditure reductions in the current fiscal year. SB 1022 would make these reductions unnecessary.

K-12 districts are affected similarly – in the amount of \$211 million. Also, without this legislation, these districts would not have the borrowing capability that the bill provides. Thus, collectively, K-12 districts would have to reduce their 2002-03 budgets by \$211 million in the absence of cash reserves or other types of borrowings (which may be at higher interest costs). State School Fund payments distributed to school districts in 2002-03 would be reduced pro rata, beginning with the August 2002 payment, since the base on which the periodic payments are calculated is reduced from \$2.4 billion to \$2.2 billion without this legislation.

HB 4056

HB 4056 would authorize the State Treasurer to issue revenue bonds backed by cigarette tax revenues. The net proceeds from the sale of the bonds would be deposited in the State School Fund. These proceeds would offset a \$50 million General Fund disappropriation (made in HB 5091) from the budget for the State School Fund. The bill would also provide for issuance of up to an additional \$175 million in bonds if certain criteria were to be met regarding subsequent Oregon economic and revenue forecasts for 2001-03 General Fund revenues. Proceeds would be deposited in the State School Fund, which would experience an additional disappropriation equal to the net bond proceeds deposited. This provision for the corresponding disappropriation is contained in HB 5091, but only takes effect if HB 4056 becomes law.

Without this legislation, the State School Fund would be reduced by \$50 million for the 2002-03 school year. Additionally, there would be no "safety net" for the statewide budget should subsequent forecasts indicate a deficit of \$50 million or more in the 2001-03 General Fund ending balance.

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