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Budget Information Brief / 2006-5

Initiative Petitions – 2006
IP #6 – Spending Limit

Oregon currently has a statutory spending limit that was passed by the 2001 Legislative Assembly and is codified in ORS 291.357. The existing spending limit ties expenditures for governmental activities to Oregon personal income. Oregon's spending limit specifically excludes expenditures of federal funds and donated moneys from the limitation. Appropriations subject to the spending limitation are limited to no more than 8% of projected personal income for the same biennium. For additional details on Oregon's statutory spending limit, please refer to the Legislative Fiscal Office Budget Information Brief entitled "Oregon's Statutory Spending Limit" (#2004-4).

On July 7, 2006, signatures for Initiative Petition #6 were submitted to the Secretary of State to place a new spending limit proposal on the November 2006 general election ballot. While Initiative Petition #6 has not yet been certified for inclusion on the November ballot, the Legislative Fiscal Office has received a number of questions regarding the effect of the measure on the state budget. The purpose of this Budget Information Brief is to provide answers to some of these questions. It is anticipated that a more in-depth analysis of this and other initiatives affecting the state budget will be completed once they have been certified for the ballot by the Secretary of State.

How does the initiative limit state spending?
The initiative is a constitutional change designed to limit the rate of growth in state spending to the rate of growth of population plus inflation. The allowable rate of growth is determined by the change in population and inflation (defined as the Consumer Price Index, all urban consumers, for Portland, Oregon) in the two calendar years preceding the start of the biennium. For the 2007-09 budget, which starts in July 2007, the growth factor would be based on the change in population and inflation between calendar years 2004 and 2006.

What spending is covered by the initiative?
The initiative defines "total spending" as all disbursements made by acts of the Legislature authorizing the expenditure of public funds except for federal funds, money voluntarily donated to state agencies, proceeds from the sale of bonds specifically approved by voters, and proceeds from the sale of real property at real market value to non-governmental entities. Also excluded are several other items that are not normally considered to be part of state expenditures such as money to fund emergency or "rainy day" funds, money returned to taxpayers in the form of "kicker payments," and money to fund tax and other refunds. Further analysis is needed to estimate the amount of "Other Funds" revenue available to the state that is subject to the initiative's spending limit. Other Funds are resources that state agencies use from a variety of sources such as fees, charges for services, loan programs, bond sales, and other non-General Fund and non-federal sources. The term "disbursement" is not typically used in the

Oregon budget system, but is assumed to refer to money that is paid out or expended by the state.

What is the estimate of the effect of the initiative on the 2007-09 state budget?

Based on data from the official June 2006 Economic and Revenue Forecast on available General Fund and Lottery Funds for 2007-09 and on estimates of other spending subject to the initiative, the spending limit could result in approximately $1.5 to over $2 billion of revenue that would be collected but not be available for expenditure. The increase over the 2005-07 budget that is subject to the limitation would be capped at about 8.24% based on currently projected rates of population and inflation growth. The estimated effects of the initiative on the state's budget depend not only on the projected amount of General Fund and Lottery Funds available for the biennium, but also on what assumptions are used about the rate of growth in Other Funds spending. For example, the 16-year average growth in Other Funds spending that is subject to the initiative's language is about 14.6%, while the more recent 10-year average is 16.2%. Individual biennia since 1991-93 have ranged from 1% growth to over 33% growth.

Who will make an official estimate of the fiscal impact of the initiative?

Based on ORS 250.125, a five-member committee comprised of the Secretary of State, the State Treasurer, the Director of the Department of Administrative Services, the Director of the Department of Revenue, and a local government representative prepares an estimate of the financial impact of each measure to be voted on at the 2006 General Election. This group is known as the Financial Estimate Committee. The committee will meet in July and August to prepare an estimate for inclusion in the voter's pamphlet.

When will the initiative take effect if it is passed by the voters in November 2006?

According to constitutional provisions, ballot measures take effect 30 days after the election, if passed. The measure does not indicate any intention to delay operation of the proposed spending limit or to apply it only to biennia that begin after the effective date. Since the initiative language states that "any increase in total spending by the state from one biennium to the next shall be no greater than the percentage increase in state population, if any, plus inflation, if any, over the two calendar years immediately preceding the start of the biennium," it is not clear whether or not the spending limit would apply to the current biennium's budget. If it does apply, adjustments would need to be made by the Legislature to the legislatively approved budget for 2005-07 based on the allowable growth between calendar years 2002 and 2004. This is currently estimated at 6.19% and could mean a required reduction in spending approved for the current budget period, to be taken from funds not yet expended, during the remaining six months of the biennium.

Does the initiative replace the existing statutory spending limit?

No. If the initiative is passed by the voters in November 2006, the existing statutory limit tied to personal income levels would remain in effect.

Can the Legislature exceed the spending limit established by the initiative?

Yes. The initiative's language allows the Legislature to exceed the total spending limit for a biennium if the amount in excess is approved by two-thirds of each house of the Legislative Assembly and is then referred to and approved by a majority of voters in a general election. The initiative is silent concerning what occurs between the vote of the Legislature to exceed the spending limit and the next general election, and on what occurs if the voters reject the referral at the next general election.

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