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BALLOT MEASURE 30
REFERENDUM ON LEGISLATIVE REVENUE PLAN

Introduction

On December 3 the Secretary of State certified that enough valid signatures had been submitted to refer major elements of House Bill 2152 to voters in a statewide election. The certification triggers implementation of HB 2825. This measure establishes a February 3, 2004 date for the election. Implementation of HB 2152's referred components will be suspended until the outcome of the election is known.

HB 2152 forms the core of the 2003 Legislature's revenue package for balancing the 2003-05 General Fund budget. The elements of the bill that are referred as Measure 30 are designed to raise $802.7 million in revenue for the state in the 2003-05 budget period. Of this revenue, $779.5 million goes to the General Fund and $23.2 million is dedicated to the Oregon Health Plan.

This report outlines the state's fiscal position which led to the legislative decision to approve HB 2152. It then discusses the key components contained in the referral. Next, the report examines the referendum in the context of concurrent federal tax changes and compares it with Measure 28 in January of 2003 and the revenue package approved in 1983. An estimate of the impact of a "yes" vote on the state's overall fiscal situation and tax burden follows. Finally, the budgetary implications of a "no" vote are discussed.

Oregon's Fiscal Position

The 2001 recession and its aftermath severely damaged the fiscal position of state governments throughout the country. The west coast states suffered the largest revenue losses with general tax revenue (personal income, corporate income and retail sales) falling 15.3 % in the 2002 fiscal year. General tax revenue fell 6.3 % in fiscal year 2002 for state governments as a whole.

Two factors combined to make the fiscal crisis particularly severe in Oregon. The first was the disproportionate impact of the recession on Oregon's economy. The sharp drop-off in capital goods spending—especially technology related equipment, made Oregon's economy one of the most severely effected in the nation. A second factor was the state's reliance on the income tax. Personal and corporate income tax collections have dropped sharply around the country (including federal government revenue from these sources). Personal and corporate income tax revenue declined 12.2 % and 19.9 % respectively in FY 2002 for all states combined. Retail sales tax collections were essentially flat, rising 0.7 % for the fiscal year. Oregon's revenue system is more dependent on income taxes than any other state in the nation. Personal income taxes accounted for 71% of state tax collections in FY 2002. With these two revenue sources dropping sharply, Oregon's fiscal position was particularly vulnerable to the effects of the 2001 recession and its aftermath. The impact of the recession on the state's General Fund can be seen in Table 1.

Table 1
GENERAL FUND REVENUE
(IN MILLIONS OF $)

REVENUE SOURCE	1999-2001 BIENNIUM	2001-03 BIENNIUM	% CHANGE
PERSONAL INCOME TAX	8,737.0	7,699.5	-11.9
CORPORATE INCOME TAX	754.9	420.1	-44.4
ALL OTHERS	629.9	1,246.4	97.9
ALL GENERAL FUND REVENUE	10,121.8	9,366	-7.5

Personal income taxes made up 86 % of Oregon's General Fund in 1999-2001, with corporate income tax revenue comprising another 7.5 %. The sharp drop in these sources is responsible for the decline in overall General Fund revenue. The 7.5 % decrease in revenue marks the first biennium-to-biennium decline in Oregon's General Fund since the 1939-41 biennium and the largest percentage decline since the 1933-35 biennium. The decline would have been more severe if the Legislature had not authorized the issuance of $450 million in bond sales in the spring of 2003. The proceeds from the bond sales were counted as 2001-03 General Fund revenue. This accounts for the large jump in revenue from the "all others" category.

Assessing the impact on state expenditures is more complicated. This is because the Legislature used non-General Fund revenue sources to make up for a portion of the drop in General Fund revenue. The best way to understand the impact on expenditures is to broaden the revenue sources to include Lottery revenue as well as other non-dedicated sources such as tobacco settlement revenue and funds from the Medicaid Upper Payment Limit (MUPL). MUPL is a pass-through revenue source originating from the federal government. Combining spending from these sources with the General Fund gives a more accurate depiction of discretionary expenditures and how they were affected by the recession.

Table 2
DISCRETIONARY EXPENDITURES
(IN MILLIONS OF $)

EXPENDITURE CATEGORY	1999-2001 ACTUAL	2001-03 ADOPTED BUDGET	2001-03 APPROVED BUDGET
EDUCATION	6,163	6,953	6,330
PUBLIC SAFETY	1,189	1,351	1,244
HUMAN RESOURCES	2,287	2,805	2,665
ALL OTHER DISCRETIONARY SPENDING	932	1,234	992
TOTAL EXPENDITURES	10,571	12,344	11,232

In response to the drop in revenue, discretionary spending was reduced by $1,112 million from the level adopted by the 2001 Legislature. However, discretionary spending remained above the 1999-2001 level.

The 2003-05 Revenue Package

Legislative actions taken during the 2003 session are expected to increase General Fund revenue by $977.2 million in the 2003-05 biennium. In addition, the Legislature took steps to increase other discretionary revenue sources such as Lottery and tobacco tax revenue dedicated to the Oregon Health Plan. These steps included legislation to allow an additional video poker machine at each location (expected to raise $22.8 million in 2003-05) and a task force to enforce cigarette tax laws (expected to net $25 million in 2003-05)

The revenue package agreed to at the close of the 2003 session is detailed in Table 3.

Table 3

REVENUE PACKAGE

(REVENUE IMPACT IN MILLIONS OF $ FOR 2003-05 BIENNIUM)

	REVENUE	BILL
PERSONAL INCOME TAX		
GRADUATED INCOME TAX ASSESSMENT*	544.6	HB 2152
MEANS TEST ELDERLY MEDICAL DEDUCTION	42.0	HB 2152
SUV DEPRECIATION ADDBACK	4.7	HB 2152
CORPORATE INCOME TAX		
INCREASE CORPORATE MINIMUM TAX	73.5	HB 2152
REDUCE CORP SUBSIDIARY DIVIDEND DEDUCTION*	38.4	HB 2152
DISCONNECT FROM EXTRATERRITORIAL INCOME	18.0	HB 2152
20% REDUCTION IN CORPORATE CREDITS*	16.4	HB 2152
PROPERTY TAX		
REDUCE EARLY PAYMENT DISCOUNT TO 1.5%	43.0	HB 2152
LOTTERY		
TRANSFER EDUCATION STABILITY FUND REVENUE	108.0	HB 3642
EXPAND NUMBER OF VIDEO TERMINALS	14.3	HB 3159
UNSPECIFIED ACTIONS TO INCREASE NET REVENUE	70.2**	HB 3159
BUSINESS CHARGES & FEES		
SECURITIES FEE	16.1	HB 3656
CORPORATE FILING FEE	11.7	HB 3656
OTHER REVENUE ACTIONS		
TOBACCO ENFORCEMENT TASK FORCE	25.0	HB 2368/HB 2532
TRANSFER PORTION OF MEDICAL PROVIDER TAX	12.5	HB 2747
FUND SHIFTS***	123.4	HB 2148
TOTAL FROM REVENUE PACKAGE	1,161.8	

* 3-year temporary measure.
** Includes $17.5 million in additional transfer from the Education Stability Fund.
*** Includes transfer of Other Fund balances and reduced PERS assessments for Other Fund agencies.

The referred elements of HB 2152 accounted for $779.5 million or 67% of the revenue package. Also included in Measure 30 is extension of a 10 cent per pack excise tax on cigarettes. This provision was set to expire on December 31, 2003 without legislative action. The extension was included in the Governor's budget submitted at the beginning of the legislative session. The 10 cent cigarette tax extension is expected to raise $23.2 million in the 2003-05 biennium. This revenue is dedicated to the Oregon Health Plan.

The specific components of the referral are:

Personal Income Tax

The key piece of the revenue package is the graduated personal income tax assessment. The assessment varies from 0 to 9% of tax liability (not taxable income) depending on the adjusted gross income of the taxpayer. It applies to the 2003, 2004 and 2005 tax years. The 2005 assessment is automatically eliminated if the General Fund revenue forecast increases sufficiently. The graduated assessment is expected to generate $544.6 million in additional General Fund revenue for the 2003-05 biennium. The impact of the assessment across income groups is shown in Table 4.

Table 4

IMPACT OF GRADUATED PERSONAL INCOME TAX ASSESSMENT ON OREGON TAXPAYERS

(2003 Tax Year)

ADJUSTED GROSS INCOME	NUMBER OF OREGON RETURNS	TOTAL STATE TAX INCREASE (MILLIONS)	AVERAGE STATE TAX INCREASE	AVERAGE TAX INCREASE AFTER FEDERAL DEDUCTION
< $10K	279,540	.02	0	0
$10 TO 20K	259,353	.96	4	4
$20 TO 30K	213,580	4.2	20	19
$30 TO 40K	169,075	7.7	46	43
$40 TO 50K	134,825	9.4	69	62
$50 TO 70K	200,331	23.7	118	102
$70 TO 100K	163,415	37.2	228	187
$100 TO 200K	110,916	53.4	482	382
>$200K	30,428	71.4	2,348	1,929
ALL RETURNS	1,561,463	208.1	133	111

The above figures refer to tax liability in the 2003 tax year. These taxes would be collected when taxpayers file their returns in the spring of 2004. Measure 30 contains a provision that waives penalties for under-withholding in the 2003 calendar year. A similar distribution of tax liability would be applied to the 2004 tax year. In early 2004, the Department of Revenue would adjust the withholding tables to reflect the assessment. Measure 30 applies the assessment to the 2005 tax year as well. However, the third year of the assessment is automatically eliminated if the revenue forecast increases sufficiently by December of 2004. Specifically, Measure 30 states that if the projected ending balance in the December 2004 forecast exceeds 4 % of 2003-05 General Fund appropriations, the assessment will not be applied to the 2005 tax year. The current estimate for the ending balance (December 2003) is $135.8 million, 1.26 % of appropriations.

Measure 30 makes two other changes to state personal income tax laws that generate additional revenue. The first is modification of Oregon's expanded elderly medical deduction. Measure 30 limits the deduction in two ways. First it increases the age of eligibility from 62 to 65 over a three-year period. Secondly, it links eligibility to taxpayer income. The deduction is phased out for joint filers with adjusted gross income between $30,000 and $100,000. The expanded medical deduction will no longer be allowed for joint filers with income over $100,000. The other personal income tax change in Measure 30 disallows expensing for SUV purchases by certain businesses. The new provision requires these businesses to add back the expense and depreciation deduction allowed under federal law when computing Oregon taxable income. Vehicles used predominantly for farming, forestry and construction are exempt from the add-back.

Corporate Income Tax

Measure 30 makes a number of significant changes to Oregon's corporate income and excise tax law. The first is to establish a new corporate income tax minimum payment based on Oregon gross sales. The minimum varies from $250 to $5,000 for C-corps and $250 to $500 for S-corps. The previous corporate minimum was a flat $10 for all corporations. The measure also disconnected from a recently enacted (2000) federal exclusion of corporate extraterritorial income. This provision in federal law, designed to encourage U.S. export activity, is currently under review due to an adverse ruling from the World Trade Organization. Measure 30 also reduces the amount of dividend income from subsidiaries that can be deducted from Oregon taxable income by 50% for a three-year period. Finally, all corporate credits, with the exception of low income and farm-worker housing, are reduced by 20% for a three-year period. These credit reductions can be carried forward and applied to corporate taxes beginning in the 2006 tax year.

Property Tax

Under previous law, Oregon allowed a 3% reduction on property tax bills if taxpayers paid in full prior to November 15. Beginning with the 2004-05 tax year, Measure 30 reduces the allowable discount to 1.5 %. County tax assessors are directed to compute the increase in collections due to the lower discount and transfer the revenue to the state Treasurer for the 2004-05 fiscal year. The Treasurer then transfers 2/3 of the collections to the General Fund and 1/3 directly to the State School Fund. After 2004-05, the discount rate will remain at 1.5 % but any additional tax collections will remain with the local taxing districts, including schools and community colleges.

In summary, the revenue provisions contained in Ballot Measure 30 are expected to raise $802.7 million in the current 2-year budget period. These same changes are expected to generate $412.8 million in the 2005-07 biennium, $91 million of this total is local revenue. The measure has both permanent and temporary changes to Oregon tax law. Temporary changes are expected to raise $621.6 million of the $802.7 million total in the 2003-05 biennium.

Ballot Measure 30 and Federal Law Changes

The federal government has pursued an aggressive anti-recessionary policy since the fall of 2001. Federal spending has risen sharply at the same time that federal taxes have been reduced. Federal taxes have now fallen to 16.5 % of gross domestic product—the lowest percentage since 1959. The federal government budget has gone from a surplus of $236 billion in Fiscal Year 2000 to a deficit of $374 billion in Fiscal Year 2003.

Federal fiscal policy has important implications for Oregon's citizens and its overall economy. Oregon citizens pay more than twice as much in federal taxes than do in state and local taxes combined. This means that changes in federal tax policy generally have a larger impact on Oregonians overall tax burden. In recessionary times, changes in federal taxes can have a considerable impact on the Oregon economy because they are not necessarily matched by offsetting changes in expenditures as is the case for state and local government taxes. In the case of lower taxes and higher spending, the state economy is clearly being stimulated.

Federal fiscal policy is also particularly important for Oregon because of the state's reliance on the income tax. Federal changes in the income tax base generally filter through and impact Oregon through its connection to federal law. This has particularly been the case over the past two years with federal changes to capital depreciation allowances.

The President signed the "Jobs and Growth Tax Relief Reconciliation Act of 2003" in May. This measure provides tax relief for individual income tax payers and businesses through both personal and corporate income tax provisions. Personal income tax relief is provided primarily through rate reductions and expansion of the child credit. The key business provisions are expansion and extension of the bonus depreciation allowance for capital expenditures and an increase in the amount of capital expenditures that can be expensed when purchases are made. The depreciation and expensing components filter through to Oregon's tax code. They are expected to reduce General Fund revenue by $38.5 million in the 2003-05 biennium.

Table 5
IMPACT OF FEDERAL TAX CUTS ON OREGON TAXPAYERS
(2003 Tax Year)

ADJUSTED GROSS INCOME	NUMBER OF OREGON RETURNS	TOTAL FEDERAL TAX CUT (MILLIONS)	AVERAGE FEDERAL TAX CUT
< $10K	279,540	1.2	4
$10 TO 20K	259,353	8.2	31
$20 TO 30K	213,580	18.5	87
$30 TO 40K	169,075	29.7	176
$40 TO 50K	134,825	42.1	313
$50 TO 70K	200,331	99.7	498
$70 TO 100K	163,415	194.3	1,189
$100 TO 200K	110,916	257.6	2,323
>$200K	30,428	349.9	11,499
ALL RETURNS	1,561,463	1,001.3	641

Oregon personal income taxpayers are expected to see about a $1 billion reduction in their federal tax liability for the 2003 tax year. Federal withholding tables were adjusted to reflect lower rates at mid-year while beneficiaries of the increased child credit received direct checks this past summer. The remainder of the tax cuts will accrue to taxpayers when they file 2003 returns in the spring of 2004.

In addition to the personal income tax reductions, federal taxes collected from Oregon businesses are expected to decline $127.6 million and $396 million in the 2003 and 2004 tax years, respectively. These reductions are the result of the bonus depreciation and expensing provisions in the federal tax reduction legislation.

Ballot Measure 30 Compared to Other Revenue Raising Measures.

The Legislature referred a temporary personal and corporate income tax rate increase to the voters in the 5th special session of 2002. This became Measure 28 which was defeated by voters in January of 2003. The most recent major budget balancing revenue package that became law was approved in 1982 by a special session of the legislature. This package was not referred to voters by the Legislature or through a referendum petition.

The graduated income tax assessment is similar in size to Measure 28. (For a detailed description of Measure 28 see Research Report 10-02). However, Measure 30 with its multiple components is a far broader revenue package. Unlike Measure 28, it contains permanent changes to the tax code. Measure 28 called for a three-year increase in the top marginal personal income tax rate and a comparable increase in the corporate income tax rate. Under the measure, the highest personal income tax rate would have risen from 9% to 9.5 %. The corporate income tax rate was scheduled to increase from 6.6 % to 6.93 %.

Measure 28 was projected to raise $313 million in the 2001-03 biennium and $412 million in the 2003-05 biennium for a total of $725 million over the 2001-05 period. Measure 30 is expected to increase state and local revenue by $1,216.2 million over the four year period beginning with the 2003-04 fiscal year.

In 1982, the Legislature met in special session to rebalance the state General Fund budget in the wake of the 1981-82 recession. The cornerstone of the approved revenue package was a one-year increase in personal income tax rates. At that time, Oregon had 7 personal income tax rates (4 to 10% at one percent increments). These rates were increased to 4.2%, 5.3%, 6.5%, 7.6%, 8.7%, 9.8% and 10.8%. The rate increase was expected to generate $79 million in the 1981-83 biennium. The overall revenue package, which included a speed up in withholding payments, a cigarette tax increase and enhancement of income tax enforcement efforts was expected to raise $189.2 million in the 1981-83 biennium. In addition, the property tax relief program, counted as a state expenditure, was reduced by $17.8 million for the biennium.

The 1982 revenue package approved in special session is most analogous to the special session revenue measures approved by the Legislature during the 2002 special sessions. The most appropriate comparison for the 2003 revenue package is the package approved during the regular 1983 session to balance the 1983-85 budget. This revenue package largely represented a continuation of measures enacted during the 1982 special session. It raised an estimated $419.7

million in the 1983-85 biennium. Its major components were a two-year extension of the income tax rate increase described above ($215 million), conversion of the personal exemption deduction to a credit ($67 million), disconnection from federal accelerated depreciation rules ($67 million) and extension of a temporary cigarette tax ($65.3 million).

Table 6
COMPARISON OF MEASURE 30 WITH 1983 REVENUE PACKAGE

	MEASURE 30	1983 REVENUE PACKAGE
REVENUE RAISED FOR COMING BIENNIUM	$802.7 MILLION	$419.7 MILLION
REVENUE AS % OF GENERAL FUND	7.7 %	13.2 %
REVENUE AS % OF TOTAL OREGON PERSONAL INCOME	.38 %	.64 %

Table 6 shows that although Measure 30 is nearly twice the size of the 1983 revenue package, it is smaller relative to both contemporary General Fund resources and the total personal income of Oregon residents. It should be noted that Measure 30 is not the entire revenue package approved by the Legislature. Overall General Fund revenue was increased by $977 million of which $780 million is embedded in Measure 30. Including these additional revenue actions does not alter the conclusion that the 2003 revenue package was considerably larger than the 1983 package in dollar terms but smaller relative to both the General Fund budget and the economy as measured by resident personal income.

Implications of a Yes Vote on Measure 30

A “yes” vote on Measure 30 confirms the revenue package passed by the 2003 Legislature. State revenue is expected to be $802.7 million higher in the 2003-05 biennium if voters approve the measure. Passage of Measure 30 means that 2005-07 state revenue will be an estimated $322.5 million higher. Local revenue is essentially unaffected by the measure in the 2003-05 biennium. It will be an estimated $91.1 million higher in 2005-07 if Measure 30 passes.

A yes vote on Measure 30 increases personal income tax revenue by an estimated $591.3 million in the 2003-05 biennium. This is all General Fund revenue. Personal income tax collections would be 6.7 % greater as a result of the measure. Corporate income tax collections are expected to increase $146.2 million in the 2003-05 biennium as a result of the provisions in Measure 30. This represents an increase of 33.4% in corporate income tax revenue compared to the projection without Measure 30. Overall General Fund resources (projected revenue plus beginning balance) are expected to be $10,875 million if voters approve Measure 30, $10,095 million if they reject it, a difference of 7.2 %.

The budget approved by the 2003 Legislature is based on the revenue estimate which includes the revenue expected to be raised by Measure 30. The most appropriate comparison is the discretionary budget. The discretionary budget is made up mostly of General Fund (91.6%) but includes revenue sources often used interchangeably with General Fund. These sources include

Lottery, revenue from the national tobacco settlement and MUPL payments received indirectly from the federal government.

Discretionary expenditures are expected to be $11,718 million under the budget approved by the 2003 Legislature. This represents an increase of 4.3 % compared to the legislatively approved budget for the 2001-03 biennium. The 2001-03 approved budget incorporates the reductions made during the 2002 special sessions and during the regular 2003 session. The 2003-05 approved discretionary budget is 5.1 % below the 2001-03 budget approved during the regular 2001 session. For details of the 2003-05 budget see “Budget Highlights” published by the Legislative Fiscal Office.

Approval of Measure 30 implies an increase in the state tax burden. How would this increase affect Oregon’s state tax burden compared to other states? This question cannot be addressed directly because complete data on the states is not available. However, data is available for all states in 2001-02 fiscal year. This means that Oregon’s estimated tax burden for 2003-04 can be compared with other states relative tax burden in 2001-02. Table 7 makes this comparison for both a yes and a no vote scenario for Measure 30.

Table 7

OREGON’S STATE TAX BURDEN WITH AND WITHOUT MEASURE 30

	2001-02 ACTUALS	ESTIMATED 2003-04 ASSUMING MEASURE 30 PASSES	ESTIMATED 2003-04 ASSUMING MEASURE 30 FAILS
STATE TAX BURDEN AS % OF INCOME	5.3 %	5.9 %	5.6 %
NATIONAL AVERAGE TAX BURDEN*	6.1 %	6.1 %	6.1 %
OREGON RANK	44	34	39

* Assumes no change from 2001-02 in tax burden for other states.

Oregon’s state tax burden at 5.3 % of personal income in 2001-02 ranked 44 among the states. This means that 43 states had a higher tax burden and 6 had a lower tax burden. Oregon’s tax burden is expected to rise even if Measure 30 is defeated. This is because several non-recurring factors held income tax revenue particularly low relative to income in 2001-02. Most importantly, a recovery is projected for the 2003-04 fiscal year. Income tax revenue, particularly corporate income tax revenue, increases faster than overall income during an economic recovery. It also decreases faster than income in a recession. Secondly, personal income tax revenue was reduced in 2001-02 by payment of a 2 % surplus kicker refund in the fall of 2001 and a legally required refund for previous taxes collected on federal pension income. These factors account for the projected increase to 5.6 % of income in the absence of legislative action.

If Measure 30 becomes law, Oregon’s tax burden is expected to rise to 5.9 % of total state personal income. This is below the national average of 6.1 % in the 2001-02 fiscal year. It would leave

Oregon's tax burden ranked 34 among the states if the other states tax burden remains at its 2001-02 level. This is highly unlikely. Preliminary figures for the 2002-3 fiscal year show that states overall raised revenue in order to balance their budgets. This means that the tax burden of at least some states is likely to be higher in 2003-04 than it was in 2001-02. In addition, states with income taxes are likely to see a bigger bounce back similar to what is expected in Oregon.

Implications of a No Vote on Measure 30

A no vote in the February 3 election would prevent the major elements of HB 2152 from becoming law. This means that the state revenue projection for 2003-05 would fall by $802.7 million compared to the current forecast. The General Fund forecast would be $779.5 million lower as a result of the measure's failure. The latter figure includes $14.3 million in estimated transfers directly from property tax collections to the State School Fund. This revenue is part of the $43 million in additional property tax collections expected to result from lowering the discount for early payment. The additional $23.2 million in lost state revenue is due to the sunset of the 10 cent per pack cigarette tax. This revenue is dedicated to health care.

Table 8 shows a comparison of the state's fiscal situation with and without the revenue from Measure 30.

Table 8
THE STATE FISCAL SITUATION WITH AND WITHOUT MEASURE 30
(IN MILLIONS OF $)

	2001-03 ACTUALS	2003-05 WITH PASSAGE OF MEASURE 30	2003-05 WITH FAILURE OF MEASURE 30
GENERAL FUND RESOURCES	9,729	10,875*	10,095
DISCRETIONARY BUDGET	11,232	11,718	11,052

* Includes $14.3 million scheduled to be transferred directly from property tax collections to the State School Fund.

Failure of Measure 30 is expected to reduce General Fund resources by an estimated $779.5 million. This would leave General Fund resources at $10,095 million. This would still be an increase of 3.8 % compared with the 2001-03 biennium. This reflects the expectation of a modest economic recovery in the state.

Discretionary spending is expected to drop below the 2001-03 level in the event of Measure 30's failure. This is because a number of one-time non-General Fund revenue sources were used in 2001-03 to offset some of the decline in General Fund revenue. These sources are not available to the same extent in the 2003-05 biennium.

The decrease in the estimate of discretionary spending depends on a number of factors. HB 5077, approved by the 2003 Legislature, spells out reductions in state budgets if HB 2152 is referred and defeated at the polls. HB 5077 specifies reductions in the case of a partial referral of HB 2152 and a full referral of the entire bill. Since Measure 30 excluded the long-term care and health care provider charge portion of the bill, the spending cuts in the case of a partial referral come into play.

The cuts contained in HB 5077 total $544.6 million. These cuts are divided roughly proportional to their share of the General Fund budget. The cuts would be divided as follows:

- Education: $298.9 million.
- Human Services: $187.6 million.
- Public Safety & Courts: $58.1 million.

Education, specifically K-12 education, would absorb another $14.3 million in cuts because additional property tax collections would not be available for direct transfer to the State School Fund. In addition, spending on the Oregon Health Plan would be reduced $23.2 million due to sunset of the 10 cent per pack cigarette tax. While this revenue is not General Fund, it is subtracted from discretionary spending in Table 8 above.

Based on the December 2003 revenue forecast, the General Fund would be out of balance after the $544.6 million in cuts contained in HB 5077. Assuming no further legislative action, the Governor would have the authority to make additional cuts to rebalance the budget. In the absence of legislative approval in a special session, these cuts must be across-the-board. Since the December 2003 revenue forecast projects an ending balance of $135.8 million, additional General Fund cuts of $84.8 million would be needed to restore budget balance. These General Fund cuts are calculated after removing $14.3 million from the State School Fund due to lower property tax collections.

Total budget reductions resulting from the failure of Measure 30 would be:

- Education: $363.7 million.
- Human Services: $230.5 million.
- Public Safety & Courts: $68.5 million.
- Other $3.7 million.

This would leave a total spending reduction of $666.4 million and no projected ending fund balance. The lack of a projected General Fund ending balance means that additional reductions would be required if there are decreases in future revenue forecasts.

The cuts laid out in HB 5077 translate into a $284.6 million reduction to the K-12 budget. The State School Fund would also lose $14.3 million in property tax collections. Including the K-12 share of the $84.8 million in remaining across-the board reductions would cut an additional $39 million from schools. Overall the K-12 budget would decline $337.9 million. This translates into an estimated reduction of $503 per weighted student in the 2004-05 state school fund allocation. These estimates are based on statewide assumptions regarding enrollment growth and they include education service districts.

The above scenario is based on the December revenue forecast (the forecast is updated every three months) and no special legislative session. Either the Governor or the Legislature can call a special session. A special session could alter the allocation of cuts listed above, enact new revenue raising measures, borrow or transfer funds from other non-General Fund accounts. The 2003 Legislature, under HJR 42 has already called itself into special session to address the state's tax system. This special session is scheduled to start within 5 days of May 31, 2004.

Other Legislative Reports Related to Measure 30

Legislative Revenue Office, "The Graduated Personal Income Tax Assessment: Frequently Asked Questions" (Research Brief 3-03, September 2003)

Legislative Revenue Office, "Changes in Oregon's Medical Deduction for Seniors Incorporated in the 2003 Revenue Package" (Research Report 5-03, October 2003)

Legislative Revenue Office, "Revenue Measures Passed by the 2003 Legislature" (Research Report 4-03, October 2003)

Legislative Fiscal Office, "Budget Highlights: 2003-05 Legislatively Adopted Budget" (September 2003)