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Oregon, 2012: Addressing Budgetary Issues in The First Voter-Mandated Annual Session

Abstract: The major item to address in the 2012 Oregon Legislative session was a \$340 million shortfall in revenues that came as no surprise to the lawmakers. When the last session adjourned in June, 2011, and given the state of the economy at the time, lawmakers realized they would be returning shortly to the capitol to balance the budget for the remainder of the biennial budgetary process. Surprisingly, even though this was certainly the most important item to address in this session, it did not take long to do so, nor was it accomplished with much rancor. This budget report covers the 2012 session, its political setting, and economy's impact on the state budget.

Keywords: budget; FY 2012–2013; governor; legislature; Oregon.

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1 Introduction

For the first time in Oregon history, a voter-mandated annual session of the legislature met at the beginning of February 1. It concluded on March 5, a 35-day session that exceeded the 30-day limit legislators had set for themselves at the outset of the session. Over the past decade the Oregon legislature has had to return several times in the off years of the former bi-yearly process primarily to address shortfalls in the budget. As a result of calling special sessions between the 2-year process, both the legislature and Oregonians realized the need to have a regular shorter interim session to address budget issues that would last for no more than 35 days in even numbered years, and for a longer session from January to June in odd numbered years that corresponds with Oregon's biennial budgetary process.

As predicted, the major item in the 2012 session was a \$340-million shortfall in revenues that came as no surprise to lawmakers. When the last session adjourned in June, 2011, lawmakers realized that, given the state of the economy at the time, they would be returning to the capitol shortly to balance the budget for the remainder of the biennial budgetary process. Surprisingly, even though

this was certainly the most important item to address in this session, it did not take long to do so, nor was it accomplished with much rancor.

The reasons for the success in accomplishing the shortfall of revenue are obvious: first, the economy began to show signs of improvement as the unemployment rate dropped, and, second, the split in the House of Representatives with 30 Republicans and 30 Democrats, which had forced cooperation in the previous session, made it impossible for either party to accomplish anything without support from the other side. The slim Democratic majority in the Senate (16 Democrats and 14 Republicans) produced the same results as in the House, where neither party had the necessary support to take strict partisan stands. Thirdly, the Democratic governor working with practically no political advantage in the legislature was forced to work well with both parties if anything was to be accomplished.

During the 35-day session the legislature managed to address balancing the budget quite smoothly. However, even with the split legislature and Democrat governor both realizing that neither party had a political advantage, issues beyond balancing the budget were not easily addressed. With neither party strong enough to accomplish anything in a partisan setting, every item had to be negotiated.

After 35 days, the negotiations led to impressive results:

1. The mid-biennium adjustment to the 2011–2013 Budget closed the projected shortfall and left K-12 education intact.
2. A foreclosure reform bill passed that permits some homeowners to keep their homes.
3. A bill passed to expand enterprise zones that offer tax incentives to new or expanding companies and serve as an effective economic-development tool.
4. A transformed health care bill (greatly favored by the governor) that promises to save the state money while delivering better health care through the Oregon Health Plan was passed in the final day of the session.
5. A bill passed to improve how the state spends its limited dollars on economic development.
6. A bill passed enabling school districts to sign achievement compacts with the state that would free districts from the counterproductive effects of the federal No Child Left Behind law (Insight, A4).

These were impressive results for this shortened session – perhaps far more than anyone believed could be accomplished during the session – and legislators left Salem on the evening of March 5th with a feeling of accomplishment.

2 The Political Setting

Split government was perhaps the most important reason for the success of this session. As was obvious in the previous session, the results of the November 2010 elections forced lawmakers to come together on issues that previously had been very partisan and resulted in bickering that usually produced little or no action. As Table 1 indicates, the November 2010 elections produced a legislature with a perfect split between the two parties in the House of Representatives. In the Senate, Democrats have a slim majority of two members that hardly produced party strength in that chamber. Oregonians elected Democrat John Kitzhaber as governor, and he found little advantage from a partisan standpoint in the legislature. As a result he, like the legislators in the two chambers, quickly realized neither side had a political advantage. If anything was to be accomplished, there had to be cooperation. This political dynamic made for an interesting session.

At the outset of the session in early February, it appeared there would be very little objection to a plan to address the \$340 million in revenue shortfall for the 2011–2013 budget. Co-chairs Democrat Arnie Robian and Republican Bruce Hanna had shared House leadership in the previous session, and they would continue the practice of alternating days presiding over the House. They had served three previous terms and were familiar with the partisanship and uncivil manners that previously marked the legislature. In the first session, the co-chairs were a model of cooperation and effective leadership in split government.

Leadership in the Senate was in the hands of the popular Peter Courtney, completing his fifth term as President of the Senate. Courtney has developed a reputation for getting things done, and he continued throughout this session to uphold that reputation. In his closing remarks to the last session he said the members of that session “...were alone! They had no friends...They were a band

Table 1: Political Makeup of the Oregon Legislature 2000–2010.

Year	House of Representatives		Senate	
	Democrats	Republicans	Democrats	Republicans
2000	25	35	18	12
2002	27	33	15	15
2004	25	35	18	12
2006	31	29	18	11+1*
2008	36	24	18	12
2010	30	30	16	14

*Independent.

of brothers and sisters...that's all they had" (Mapes, *The Oregonian* June 13, 2011, A1). His reference to the "band of brothers and sisters" reflects well the spirit in the Senate and in the House for two consecutive sessions.

With capable and cooperative leadership in the House and Senate, the governor found himself in a political atmosphere that was different from his two previous terms as governor a decade earlier. He, too, realized he had to work differently with the legislature, and from his inauguration demonstrated a softer, more conciliatory manner of leadership than he was known for in his first two terms as governor. Half-way through the session, and with daily meetings with the Ways and Means co-chairs, he proposed "strategic reductions" throughout state government to help balance the \$14.7 billion budget (Esteve, *The Oregonian*, and February 16, 2012, A1 and A4).

Two other chairs exercised leadership positions of significance. Again, because of the even split in the House, Democratic Peter Buckley and Republican Dennis Richardson became co-chairs of the House Ways and Means Committee. Both are seasoned legislators who understood their parties positions in divided government and were very aware that whatever plan they came up with for the \$340 million shortfall had to be acceptable to both sides. Sometimes referred to as the "odd couple," the liberal Democrat and conservative Republican managed to forge a plan that worked to address the shortfall.

Referring to their partnership, Buckley observed, "I used to think, I don't like the way things are done in Oregon. That's transformed to Ok, what exactly do we need to do to change things?" and Richardson responded, "Over time, you learn every issue is not a moral issue. You learn politics is a team sport." (Esteve, *The Oregonian*, February 12, 2012, A1 and A14). This easing of partisanship from two of the most partisan individuals of earlier years indicates well what split government produces when two very different individuals realize they have to come together if anything is to be accomplished. Democrats in the Senate selected Richard Develin to chair the Senate's Ways and Means Committee, and together these men forged a plan to balance the budget in the very first days of the session.

3 Oregon's Economy in 2012

Oregon was no different from most other states this year in terms of its economy. Into the 4 years of high unemployment in a state that depends on a 9% income tax as its major source of revenue, there was hope that significant changes in the unemployment rate would generate additional revenue that would make up the \$340 million shortfall. By February 1, 2012, there was some improvement in

the number of Oregonians working, and lawmakers could hope for even better returns in the personal income tax in the coming year. Table 2 indicates the changes in unemployment rates during the period in which the 2011–2013 budget was prepared and in the subsequent months since it was adopted in June 2011.

Legislators came to Salem with the good news that unemployment had dropped to 8.8% in the state, but it was still 0.5% above the national unemployment rate. During the previous month Oregon had added 5400 jobs, the largest seasonally adjusted rate since January, 2011 when 6900 jobs were added. It appeared Oregon had added approximately 25,000 jobs in 2011, which translated into more revenue. Because Oregon is so dependent on the personal and corporate income tax for revenue, any fluctuation in unemployment results in serious shifts to revenue projections.

The slightly improving monthly unemployment rates during the session initially provided hope that revenues would increase as a result of more Oregonians working (Read, *The Oregonian*, and February 29, 2012). The unemployment rates were approximately 3% higher than 2007 when the unemployment rate was 5.4%. State revenues exceeded a billion dollars resulting in Kicker refunds the state by law returns to taxpayers when the surplus exceeds revenue expectations by 2%. Fluctuations in unemployment rates mean millions of additional dollars in Oregon, and for every 0.5% of unemployment the state gains or loses approximately \$300 million.

The 2009–2011 biennial budget and the 2011–2013 budget were prepared when the state had an unemployment rate of 12.1% in 2009 and 10.1% in 2011. With little hope for improving employment rates very soon, lawmakers put together a budget that had to be adjusted four times in the years between 2009 and 2011, and once again during this session it would have to make adjustment to make up for the predicted shortfall of \$340 million. Because the shifting rates of employment are so closely related to the major sources of revenue, lawmakers have found it almost impossible to provide budgets that would be balanced and adequate. In this atmosphere of budget shortfalls every surplus account in

Table 2: Oregon Seasonally Adjusted Unemployment Rates January 11, 2011–January 2012.

Month	2011	2012
January	10.1%	
March	9.6%	
June	9.6%	
September	9.4%	
January		8.8%

the state was game for balancing the budget along with new sources of revenue, usually in the form of increased and new fees.

This session, though not overwhelmingly optimistic in revenue predictions, did take some consolation in the modest improvement in Oregonians working. Legislators quickly realized the majority of the \$340 million shortfall could be made up with a single percentage decrease in the unemployment rate in the coming year. But legislators also realized they could leave nothing to chance given the high unemployment history of the state for the past 5 years.

4 The 2011–2013 Budget

When Governor Kitzhaber presented his 2011–2013 budget to Oregonians, he began by saying, “We have an opportunity this year to set Oregon on a course to a bright future.” Then he pointed out that he believed it would be perhaps the most difficult budgetary session in the state’s history, and it was important to approach it correctly. According to the governor, the state would be most concerned with human needs. He cautioned legislators that rather than patching up a dilapidated house, they needed to rebuild the house to accommodate present needs, not those of a century ago. He then listed five priorities the state must set for itself and lawmakers must protect and enhance if Oregon is to have a brighter future. These priorities were 1) early childhood programs that would ensure children are prepared to enter school and be successful; 2) job creation and getting Oregonians back to work in jobs that involve public/private partnerships that convert university research into market-ready projects; 3) stable funding for K-12 schools that reflects consolidation to eliminate waste and expanded access to community colleges and state universities; 4) health care that retains the state’s long-time commitment to a sufficient, accessible plan for all Oregonians; and 5) public safety that guarantees the quality of life Oregonians expect and addresses the increasing amount of money spent on corrections. Initially, these priorities seemed similar to those that governors had set for the past two decades. However, Kitzhaber cautioned there would probably be no significant job growth for the rest of the decade; the personal income of most Oregonians would not grow; and, in too many cases, it might actually shrink. He then presented a budget that was smaller than the previous biennium budget knowing that even his reduced expenditures would be difficult to fund.

As the session began, Kitzhaber found himself testifying at a hearing to reform schools amid boisterous protests by Occupy demonstrators (Esteve and Cole, *The Oregonian*, February 2, 2012, A1 and A6). He made it clear that he

expected lawmakers to address the shortfall without touching public schools, closing prisons, laying off large numbers of state workers, or reducing funding for the Oregon Health Plan. Rather, he suggested tapping reserve funds, withholding some funds for higher education, and saving on reforms in public education K-12 (Esteve, *The Oregonian*, February 16, 2012 A1 and A4). Lawmakers were expected to balance the budget and observe the governor's parameters. The governor was confident savings could be found in state offices by using fewer expensive consultants and in a reformed education plan where state universities had more independence to set tuition rates and manage their own finances.

As the Joint Ways and Means Committee began looking at the budget's projected revenue and appropriations, a plan was quickly put in place that basically upheld the revenue projections of the previous budget. The committee believed additional funding could be found, especially by tapping into some of the state's reserved funds. Table 3 indicates the lowered revenue expectations proposed by the governor in an economy that simply would not produce funds as it had in better economic times. Unable to increase revenue projections, the only option was to cut expenditures.

Given the willingness of both parties to address the budget shortfall early on in the session, Oregonians thought the session would be shorter than the 35 days allowed, and a plan would be in place quickly to balance the budget. That was not the case. In the 1 week of the session, the governor began pressing lawmakers to pass legislation in health care and school reform that, if done according to his plan, would save the millions of dollars needed to balance the budget. As the session progressed, these two topics became the focus of lawmakers and other budget issues became secondary.

In terms of school reform, the governor already had put in place a new leadership structure and launched reforms to ensure that children are ready

Table 3: General Fund Revenues, 2001–2011.

	2001– 2003	2003– 2005	2005– 2007	2007– 2009	2009– 2011	2011– 2013
Personal Income Tax	\$9.00	\$9.78	\$9.95	\$11.20	\$13.10	\$12.00
Corporate Income Tax	\$0.900	\$0.410	\$0.456	\$0.648	\$0.878	\$0.945
Lottery Income	\$0.532	\$0.673	\$0.772	\$1.10	\$1.50	\$0.949
Cigarette Taxes		\$0.112	\$0.107	\$0.88	\$0.107	\$0.126
Other Taxes	\$0.621	\$0.621	\$0.580	\$0.580	\$0.562	\$0.541
Other Income		\$0.111	\$0.124	\$0.161	\$0.186	
Beginning Balance	\$0.465			\$1.40		
Total	\$11.50	\$11.66	\$12.00	\$15.01	\$15.98	\$14.76

Figures in Table 3 are in billions.

to learn when they start school and stay in school long enough to earn at least a high school diploma. In health care, he had already begun the process of restricting Medicaid by establishing coordinated organizations to care for some 600,000 people on the Oregon Health Plan. By focusing more on preventative care, this new organization is projected to save an estimated \$3 billion in the next 5 years (Cole, *The Oregonian*, January 14, 2012, A1 and A6). But lawmakers were not willing to give the governor the authority he needed to implement his reforms, nor were willing to recognize the savings the governor projected for his programs. In the 1 week of the new session the governor faced strong opposition from a group of lawmakers who had initially appeared to be conciliatory.

Kitzhaber's proposal to revamp Medicaid by bringing it under the Oregon Health Plan immediately drew attention from doctors and hospitals over rules affecting the overhaul and from Republicans demanding curbs on medical malpractice law suits (Budnik, *the Oregonian*, February 3, 2012, A1 and A6). Republicans claimed half way through the session that they had the votes necessary to block the health bill unless malpractice suits were limited to \$570,000 (Budnick, *the Oregonian*, February 14, 2012, A1 and A6). For the remainder of the session, health care reform seemed stalled, but the governor did not give up. Republicans did not have the votes in the House or Senate to prevent the bill from coming to the floor (Cole and Esteve, *The Oregonian*, February 23, 2012, A1 and A9). Finally in the last days of the session, the bill passed the Senate and the House. However, it was not an easy time for anyone in Salem, and the cooperative spirit that began the session was tarnished (Cole and Esteve, *The Oregonian*, March 1, 2012, A1 and A7).

Balancing the budget, which appeared easy in the early collaborative days at the beginning of the session, remained basically a handshake between legislators in the final days. Only after the governor won the reforms he asked for in education and health that would produce significant savings did the session end with positive results. In the end Republicans dug in when it came to health care and education reform. But the governor and the legislature realized they could not leave Salem without addressing the deficit. After much bickering, name calling, and one legislator telling another to "shut his mouth," the dust settled and the session returned to a more normal, civil atmosphere.

At the end of the session very little had been changed from the previously adopted biennial budget. The only change of significance was a 3.5% cut in funding for state universities that provided additional resources for community colleges. Table 4 illustrates the major areas of expenditures in the 2011–2013 budget.

Table 4: Oregon's Biennial Budget 2011–2013.

	2007– 2009	2009– 2011	2011– 2013
Schools K-12	\$6.60	\$6.90	5.70
Other Education	\$1.30	\$1.59	\$1.73
Public Safety	\$2.50	\$2.73	\$2.40
Human Services	\$3.50	\$3.62	\$3.80
Natural Resources	\$0.377	\$0.364	\$0.316
All Other	\$0.500	\$0.453	\$0.598
Total	\$15.10	\$15.85	\$14.70

Figures in Table are in billions.

5 The Final Agreement

One of the major goals of the session was to address the shortfall without further drastic cuts to budget items that experienced severe cuts in the previous year. The final result of this session did exactly that. The bottom line was not what was being cut, but what was not being cut. By deftly maneuvering one-time windfalls (some Philip Morris money), borrowing from the rainy day fund, and promising future reductions in the ranks of agency managers, the \$14.7 billion spending plan was maintained without touching K-12 public education and most social service programs, all of which would be able to operate at the same level as the year before. The final agreement even leaves a comfortable \$200 million reserve in case the economy tanks again (Esteve, *The Oregonian*, February 25, 2012, A1 and A6). All in all it was a good outcome.

The optimistic note on which the session began was fractured in the 1 week, a victim of haggling over the governor's health care and education reforms. As the session progressed, Republicans dug in over the governor's strong stance on the reforms, and it almost appeared to be a tug of war between the legislature and the governor over who had oversight over agencies, especially health care and education. Republicans eventually were content to believe the annual sessions would provide oversight of many agencies over which the governor appears to have great influence (Cole, *the Oregonian*, February 19, 2012, A1 and A16).

In the final days of the session several members of the House of Representatives wanted to attend a dinner in Portland hosted by the Chinese Consulate General that had been planned earlier for Oregon lawmakers who had gone on a trade mission to China last year. Senate President Peter Courtney criticized House leaders for adjourning before noon on one of the last days of the session (Esteve, *The Oregonian*, March 2, 2012, A1 and A6. That pettiness began to surface

is not surprising considering the long-standing partisan stands on these sensitive issues.

The acrimonious atmosphere of the last days was a result of a great deal of pressure for both parties. Democrats, pressured by the governor to support his reforms realized they could get nothing done without some Republican support. Republicans were subject to under severe pressures from Tea Party individuals and Occupy Oregon demonstrators who spent time in Salem during the session. Both parties, caught in difficult positions, resorted to posturing. However, at session end, a calmer day did return, and legislators were able to adjourn on March 5th with major accomplishments. The budget was balanced with a modest surplus; the state got major reforms in health care and education that should enable more effective use of state funds. All in all, it was a good session.

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