



Rainy Day Fund: House Bill 2707

Rep. David Edwards fulfills his campaign promise by Presenting
the Rainy Day Fund to the House Floor
House Floor Speech

February, 26, 2007

Introduction of Committee Report

Mr. Speaker, esteemed colleagues and assembled guests, I rise to recommend we approve the House Revenue Committee report on House Bill 2707.

By way of preamble, let me say that our votes on this report and the associated bill represent our most challenging tests of political principle to date. With these votes, we will plant the flag of our convictions over a large domain—a domain that includes our state's revenue structure and economy as well as the welfare of our most vulnerable citizens during periods of recession. Throughout today's discussion, I urge you to keep the overarching principles behind House Bill 2707 foremost in your thoughts. In my view, we can ill afford to lose all the beneficial effects and great advantages of this bill for want of agreement on a few details.

House Bill 2707 comes to you from the House Revenue Committee where it passed on a vote of five to four. The main purpose of the bill is to establish the Oregon Rainy Day Fund, hereafter referred to as the ORDF. Like a savings account, the ORDF sets aside surplus revenue during periods of economic growth for use in times of budget shortfalls. The fund will smooth out the highs and lows of our tax system, and create a more stable fiscal structure over time by allowing us to balance the state budget without having to constantly change our tax system or spending priorities.

The key requirements of the Oregon Rainy Day Fund around deposits and withdrawals include the following:

- **Deposit requirements.** House Bill 2707 institutes the following strictures regarding deposits into the ORDF:
 - Establishes 1% of the General Fund ending balance as a permanent, on-going source of revenue for the fund;
 - Provides for a one-time constitutional exemption to redirect all corporate kicker credits for the 2005 – 2007 biennium into the fund;

- Sets a cap for the ORDF equal to 10% of the prior biennium's General Fund revenue; and
 - Directs any revenue above the cap into a newly created Education Capital Construction Account for public education capital construction.
- **Withdrawal requirements.** House Bill 2707 institutes the following provisions regarding withdrawals from the ORDF:
 - Allows access to the fund with a majority vote if the last quarterly forecast for the biennium projects revenue will be 3% or more below current General Fund appropriations, non-farm payroll declines for two consecutive quarters, or the General Fund revenue forecast falls 2% or more below the close of session estimate;
 - Allows access to the fund with a three-fifth vote and the Governor declares an emergency; and
 - Limits the amount of the withdrawal in any one biennium to two-thirds of the fund balance.

The effect of this measure for budget development purposes would be to reduce the amount of revenues available for expenditure in the following biennium. In the case of the 2007 – 2009 Governor's recommended budget, the measure would leave only \$6.6 million as a General Fund beginning balance for 2009 – 2011 budget development, compared to the current law estimate of \$145 million.

The most recent estimate from state finance posits an ending fund balance transfer of \$138.4 million following the 2007 – 2009 biennium based on the appropriations level and projected ending balance in the Governor's recommended budget. In addition, a corporate kicker credit of \$275 million is projected for the 2007 tax year under current law. Combined, the two new uses of General Fund revenue specified by House Bill 2707 would mean an initial deposit of \$413.5 million into the ORDF.

Rainy Day Funds are just one of the tools states have at their disposal to reduce the negative effects of economic downturns; but their importance becomes apparent once you examine the alternatives closely. Independent studies show that cyclical variability in state revenues—as opposed to expenses—accounts for a greater share of the responsibility for state government financial crises. House Bill 2707 properly concentrates our efforts as a legislative body on ensuring adequate resources over the business cycle and a majority of the House Revenue Committee recommends we approve their report on it.

Opening Comments

Mr. Speaker, esteemed colleagues and assembled guests, I rise in support of House Bill 2707.

To paraphrase the 18th-century English conservative Edmund Burke, history may be considered a great volume unrolled for our instruction, drawing the materials of future wisdom from past errors and old infirmities of thought. The recent, tumultuous history of Oregon's economy furnishes us with this lesson: establishing a rainy day fund is essential to secure the welfare of our state.

During the 1990s, the state budget grew at a rate that was unsustainable given our economic and tax structures. The state spent at an alarming rate as though an economy borne of 'irrational exuberance' would continue indefinitely. This spending proved to be a chain we fastened on ourselves when the economy worsened, plunging us into the most severe fiscal crisis since the Great Depression. The five special legislative sessions in 2001 and 2002 made matters worse. We papered over the gaps in the budget with one-time revenues instead of lightening our load by making the stern, hard decisions necessary in a recession.

Rainy day funds are an important part of a responsible state budget process for a simple reason: taxes and public spending operate on different cycles. During periods of economic growth, tax collections can exceed a state's spending needs—creating a short-term budget surplus. When the economy slows down, tax collections generally decline—but the need for vital public services, especially services for low- and middle-income families, continues unabated, resulting in short-term deficits.

The salutary effects of rainy day funds are well-known and unequivocal. Briefly, creating such a fund will accomplish the following:

- Stabilize our state's fiscal structure and improve our investment climate;
- Raise our general obligation bond rating and so, make it easier to borrow money for financing long-term capital investments; and
- Allow us to avoid fiscal policy decisions that can worsen economic downturns, such as tax hikes or spending cuts.

Without a rainy day fund, the cyclical 'boom and bust' pattern will persist, making Oregon one grand casino and our fellow citizens unwilling gamblers. As it stands now, the fate of our economy rests largely on speculation and chance. And worst of all, in periods of recession, the

system is rigged against our most vulnerable citizens—children, the elderly and infirm, the working poor—anyone who relies on essential public services when times are tough.

We all came to politics differently. For my part, no single, catalytic event prompted me to enter politics. But the plight of the working poor first moved me to abandon my college plans to become either a filmmaker or a professor of English literature. I received my bachelor's and first master's degrees from the University of Southern California. As you may know, the campus is located in South Central Los Angeles, an area nearly synonymous with economic blight and urban decay. The stark contrast between the freedoms of campus life and the struggles of the working poor caused me to reconsider my life path.

This situation, together with my Catholic upbringing and its emphasis on bold and generous action on behalf of the common good, inspired me to take politics more seriously. Christ calls on us “to do unto the least of these” for a reason. House Bill 2707 represents our first opportunity in this session to better ensure a strong and predictable economy, to give Oregonians the means to make the most of their lives, and most importantly, to protect the least and the last from the worst consequences of future recessions. To deny this opportunity is to treat our fellow citizens as nothing more than a mere aggregate of atoms.

Oregon's reputation for pioneering sensible, forward-thinking legislation has suffered in recent years. We are one of only five states without a rainy day fund. Experience has taught us that no one party has the power or the wisdom to solve all of our state's problems. Let us stand here today, together, and take this important step towards a brighter, more secure economic future. I urge your 'Aye' vote on this bill, so we can once again say of Oregon what Pericles said of ancient Athens: “We do not imitate—for we are a model of others.”

Closing Comments

The proper fulfillment of our duties here depends on a keen awareness of the fact that we all, in an inescapable sense, live in a community of generations. As members of this legislative body, we are the executors of a social compact that extends from the dead to the living and further, to those who have yet to be born. This fixed compact, sanctioned by God and His creation, links one generation to the next in moral and spiritual union. The principal demand of the compact is three-fold: to honor the past, to improve the present and to secure the promise of the future. In order to make good on this generational compact, we must often subordinate our temporary interests to a greater cause. I submit that House Bill 2707 is such a cause.

We come to our tasks as legislators with varying skills and talents; in those, we may fail to always be our best, but we cannot fail in our faith—our faith in each other and in our common progress. Our mutual faith will achieve more than mere political force. We will succeed in this chamber to the degree we respect our generational compact and engage in heartfelt negotiations; we will prosper to the degree we distinguish between the superficial and the substantial, the ornamental and the enduring. We should not allow our simple differences to overshadow this historic opportunity. We should not sunder the people’s hopes for the sake of some imagined political advantage. We should not—we cannot—cast the future of this state into further doubt, subject to the whims and accidents of history, with little recourse in the worst of times.

In large measure, your vote on House Bill 2707 will determine the course this legislative session takes and the public’s perceptions of our purpose. When the people we serve finally arbitrate the wisdom of our deeds, their judgment will fall on all of us. We will strengthen or weaken the public’s trust, together. What’s more, we cannot expect the public’s trust if we cannot trust each other. I speak these words with an eye toward the future: we are in more agreement on this issue than expedient politics may suggest. Do not make a prison-house of this place with a ‘Nay.’ Face this measure freely and fairly. Good sense and every enlightened constituency recommend a mighty ‘Yes.’

Now more than ever, Thomas Jefferson’s words ring true and loud: “Every difference of opinion is not a difference of principle.” I have no doubt all of us believe we should repay the generosity of our forbears by better providing for our heirs. This is the first and supreme principle embodied in House Bill 2707—a principle far above and beyond its material benefits. In this moment, we must cast aside our slight shades of difference and stay faithful to our generational compact. We must elevate our thoughts to match the public trust with which Providence has accorded us.

Oregon is a promise as much as a place. Our ancestors mapped their dreams on this rugged landscape and by their lights, showed us the way forward. And so from generation-to-generation, from light-to-light, we make our way through the darkness, together, promising and binding, combining our might when the cause demands it. If we remember we are one people, one Oregon, one community of generations united in spirit, this chamber can be as separate as fingers, but as one in the hand that raises the light of hope.

So, with a shared commitment to the welfare of our grandparents and parents, our children and grandchildren, and generations we will never know, let us cast an 'Aye' vote for House Bill 2707.