

House Bill 2235

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SUMMARY

The following summary is not prepared by the sponsors of the measure and is not a part of the body thereof subject to consideration by the Legislative Assembly. It is an editor's brief statement of the essential features of the measure **as introduced**.

Establishes additional procedures for preparation of state budget by executive branch.
Requires creation of five-year strategic financial plan.
Requires development of capital improvement program as part of strategic financial plan.
Establishes revenue management and debt management policies.
Creates Capital Asset Replacement Fund.

A BILL FOR AN ACT

1
2 Relating to state financial administration; creating new provisions; amending ORS 291.002 and
3 291.216; and appropriating money.

4 **Be It Enacted by the People of the State of Oregon:**

5 **SECTION 1. The Legislative Assembly declares that sections 2 to 9 of this 2005 Act and**
6 **the amendments to ORS 291.216 by section 11 of this 2005 Act are intended to establish**
7 **guidelines for the fiscal stability of the State of Oregon and to provide guidance for the**
8 **Governor and state agencies.**

9 **SECTION 2. (1) The Oregon Department of Administrative Services shall develop a five-**
10 **year strategic financial plan for the state. In each biennium, the department shall review and**
11 **update the plan and shall revise the plan to incorporate changes in laws, assumptions, poli-**
12 **cies and economic conditions in the state. The department shall submit the plan not later**
13 **than November 1 of each even-numbered year to the Governor, the President of the Senate,**
14 **the Speaker of the House of Representatives, the Legislative Fiscal Officer and the Legisla-**
15 **tive Revenue Officer. The department shall hold a public hearing on the plan at least 90 days**
16 **prior to submission of the plan to the Governor for the purpose of soliciting and receiving**
17 **public comment.**

18 **(2) The purpose of the strategic financial plan is to provide the Governor and state**
19 **agencies with a framework for making decisions that will have long-term effects on the fi-**
20 **nancial condition of the state. The Governor and state agencies shall use the goals and ob-**
21 **jectives in the plan for guidance in the development of the Governor's budget report under**
22 **ORS 291.216.**

23 **(3) When developing the strategic financial plan, the department shall:**

24 **(a) Review the economic, political, demographic and social factors affecting the state.**

25 **(b) Describe the problems and opportunities that the state may encounter during the**
26 **period for which the plan is prepared.**

27 **(c) Formulate statements of the general goals for the state during the period for which**
28 **the plan is prepared.**

29 **(d) Describe specific achievements to be realized within the period for which the plan is**

NOTE: Matter in **boldfaced** type in an amended section is new; matter *[italic and bracketed]* is existing law to be omitted. New sections are in **boldfaced** type.

1 prepared.

2 (e) Formulate and recommend strategies for achieving the goals and objectives set forth
3 in the plan.

4 (f) Balance the need to keep public facilities and services at adequate levels for the
5 growing population of the state with the need to purchase land at the lowest possible cost
6 for future facilities.

7 (4) The strategic financial plan required by this section shall include:

8 (a) Long-term financial goals and objectives for the state as well as the strategies needed
9 to achieve those goals and objectives.

10 (b) Program priorities for the period for which the plan is prepared and identification of
11 funding sources for the programs.

12 (c) A determination of the appropriate levels of contingency reserves.

13 (d) A determination of the appropriate levels of capital reserves.

14 (e) Policies for the recovery of the costs of providing services to the residents of the
15 state.

16 (f) Recommended service levels and a determination of the cost-benefit ratio of those
17 services.

18 **SECTION 3.** (1) As part of the strategic financial plan developed under section 2 of this
19 2005 Act, the Oregon Department of Administrative Services shall develop a capital im-
20 provement program that includes a list of future capital construction projects and major
21 repair and maintenance projects. The department shall consult with other appropriate state
22 agencies when developing the program.

23 (2) The capital improvement program shall provide details of each project, including but
24 not limited to the estimated cost, the sources of financing, performance measures that may
25 be used to determine the success of the project, the duration, identification of the project
26 manager and a full description. The department shall also identify the continuing operation
27 and maintenance costs associated with each capital construction project. The Legislative
28 Fiscal Officer and the Legislative Revenue Officer shall each review the financial and eco-
29 nomic assumptions contained in the capital improvement program. The program shall con-
30 tain a statement that both reviews were completed.

31 (3) When preparing the capital improvement program, the department shall examine, in
32 addition to debt financing, all other practical financing methods. The department may not
33 recommend debt financing for a capital construction project unless the anticipated useful life
34 of the facility equals or exceeds the term of the debt.

35 (4) Any changes to the capital improvement program made by the department must be
36 reviewed by the Legislative Fiscal Officer and the Legislative Revenue Officer.

37 **SECTION 4.** (1) The project manager of each active capital construction project shall
38 prepare regular reports on the progress of the project. This subsection does not apply to a
39 capital construction project that has an estimated total cost of less than \$_____.

40 (2) Reports required under this section shall:

41 (a) Identify problems affecting a capital construction project as early as possible in the
42 project's development; and

43 (b) Be submitted to the Governor, the Director of the Oregon Department of Adminis-
44 trative Services, the Legislative Fiscal Officer and the Legislative Revenue Officer.

45 (3) When a capital construction project is completed, the project manager shall evaluate

1 and report on the actual performance of work on the project. The project manager shall
 2 submit a final report within the time specified in the project plan.

3 **SECTION 5.** (1) The budget report submitted by the Governor under ORS 291.216 shall
 4 be developed in accordance with the goals and objectives set forth in the strategic financial
 5 plan developed under section 2 of this 2005 Act.

6 (2) The Governor shall require the director or other head of each state agency to inte-
 7 grate performance measures for operating efficiency, operating effectiveness, citizen satis-
 8 faction and human resource efficiency into the budget request for the state agency. The
 9 Governor shall also require the director or other head of a state agency to tie service levels
 10 to levels of funding requests.

11 (3) The Director of the Oregon Department of Administrative Services shall maintain a
 12 budget control system to ensure adherence to budgets approved for state agencies by the
 13 Legislative Assembly. In each calendar quarter, the director shall prepare summary reports
 14 that compare actual revenues and expenditures to the amounts appropriated for expenditure.
 15 A summary report shall also compare targeted performance levels with actual results. The
 16 summary reports prepared under this subsection shall be sent to the Governor, the President
 17 of the Senate, the Speaker of the House of Representatives, the Legislative Fiscal Officer and
 18 the Legislative Revenue Officer to keep them informed of the state's operating performance.

19 **SECTION 6.** (1) When establishing revenue management policies for the state, the Leg-
 20 islative Assembly and the Governor shall ensure that:

21 (a) Moneys in dedicated funds or trust funds are used only for the purpose for which they
 22 are collected;

23 (b) One-time revenue sources are not used to fund continuing activities of the state; and

24 (c) The state carefully and efficiently manages the collection of revenues. When neces-
 25 sary, private collection agencies, foreclosures, liens, discontinuation of services and other
 26 methods to ensure collections shall be used.

27 (2) To the extent practicable, the Legislative Assembly shall diversify the revenue system
 28 of the state so as to safeguard the operations and programs of the state from undue reliance
 29 on any single revenue source.

30 **SECTION 7.** (1) Except as authorized by the Oregon Constitution, the State of Oregon
 31 may not incur debt for the purpose of paying the operating expenses of state agencies or
 32 programs.

33 (2) Before authorizing or incurring debt, the Legislative Assembly and the Governor must
 34 examine all financial alternatives to incurring debt. Before debt is authorized or incurred, a
 35 cost-benefit analysis shall be performed for each financial alternative being considered to
 36 minimize the cost of the financing to the state. All financial analyses performed by the
 37 Legislative Assembly shall be reviewed by the Legislative Fiscal Officer and the Legislative
 38 Revenue Officer before any final decision concerning financing is made. Financial analyses
 39 performed by or for state agencies shall be reviewed by the State Treasurer.

40 **SECTION 8.** (1) The Legislative Assembly shall develop and maintain a plan that allows
 41 the state to respond to significant shortfalls in anticipated state revenues. The plan shall
 42 describe an appropriate course of action for state officers and agencies to take in response
 43 to significant differences between revenues and expenditures.

44 (2) The Legislative Assembly shall establish and maintain reserve accounts for:

45 (a) Major maintenance of state buildings and other facilities;

1 **(b) Major rehabilitation, renovation and replacement of state buildings and other facili-**
 2 **ties; and**

3 **(c) Emergency or unplanned projects.**

4 **SECTION 9. There is created within the State Treasury, separate and distinct from the**
 5 **General Fund, the Capital Asset Replacement Fund. The fund is created to provide a flexible**
 6 **funding source for financing the replacement of state improvements or facilities having a**
 7 **value exceeding \$_____ that are not included in the capital improvement program devel-**
 8 **oped under section 3 of this 2005 Act. The fund shall provide a reserve sufficient to pay for**
 9 **a replacement of a state improvement or facility when required without the need to affect**
 10 **the biennial operating budget of a state agency. The Capital Asset Replacement Fund shall**
 11 **consist of moneys credited to the fund as provided by law. The moneys in the fund are con-**
 12 **tinuously appropriated to the Oregon Department of Administrative Services to be used for**
 13 **major repairs that will prolong the useful life of a state improvement or facility or for the**
 14 **replacement of a state improvement or facility that is still required but has reached or ex-**
 15 **ceeded its expected useful life. The fund balance, annual withdrawals and transfers to the**
 16 **fund shall be included as items in the strategic financial plan developed under section 2 of**
 17 **this 2005 Act.**

18 **SECTION 10.** ORS 291.002 is amended to read:

19 291.002. As used in ORS 291.001 to 291.034, 291.201 to 291.222, 291.232 to 291.260, 291.261,
 20 291.307 and 291.990 **and sections 2 to 9 of this 2005 Act**, unless the context requires otherwise:

21 (1) "Classification of expenditures" means the major groups or categories of expenditures for the
 22 purpose of budget-making and accounting that are established as provided in ORS 291.206.

23 (2) "Department" means the Oregon Department of Administrative Services.

24 (3) "Director" means the Director of the Oregon Department of Administrative Services.

25 (4) "Dedicated fund" means a fund in the State Treasury, or a separate account or fund in the
 26 General Fund in the State Treasury, that by law is dedicated, appropriated or set aside for a limited
 27 object or purpose; but "dedicated fund" does not include a revolving fund or a trust fund.

28 (5) "Legislatively adopted budget" means the budget enacted by the Legislative Assembly during
 29 a regular session.

30 (6) "Legislatively approved budget" means the legislatively adopted budget as modified by the
 31 Emergency Board or by the Legislative Assembly meeting in special session.

32 (7) "Revolving fund" means a fund in the State Treasury, established by law, from which is paid
 33 the cost of goods or services furnished to or by a state agency, and which is replenished through
 34 charges made for such goods or services or through transfers from other accounts or funds; and
 35 specifically includes funds derived from receipts by the State Board of Higher Education of tuition,
 36 fees, dormitory earnings, student activity receipts and sales of products and services incident to
 37 education functions.

38 (8) "Trust fund" means a fund in the State Treasury in which designated persons or classes of
 39 persons have a vested beneficial interest or equitable ownership, or which was created or estab-
 40 lished by a gift, grant, contribution, devise or bequest that limits the use of the fund to designated
 41 objects or purposes.

42 (9) "State agency" or "agency" means every state officer, board, commission, department, insti-
 43 tution, branch or agency of the state government, whose costs are paid wholly or in part from funds
 44 held in the State Treasury, except:

45 (a) The Legislative Assembly, the courts and their officers and committees;

1 (b) The Public Defense Services Commission; and

2 (c) The Secretary of State and the State Treasurer in the performance of the duties of their
3 constitutional offices.

4 (10) "State officer" means any elected or appointed state officer, including members of boards
5 and commissions, except the members and officers of the Legislative Assembly, the courts, the Sec-
6 retary of State and the State Treasurer in the performance of the duties of their constitutional of-
7 fices and the members of the Public Defense Services Commission.

8 **SECTION 11.** ORS 291.216 is amended to read:

9 291.216. (1) Not later than November 10 of each even-numbered year the Governor shall cause
10 the budget report to be compiled and prepared for printing.

11 (2) The budget report shall include a budget message prepared by the Governor, including rec-
12 ommendations of the Governor with reference to the fiscal policy of the state government for the
13 coming biennium, describing the important features of the budget plan, embracing a general budget
14 summary setting forth the aggregate figures of the budget report so as to show a balanced relation
15 between the total proposed expenditures and the total anticipated income, with the basis and factors
16 on which the estimates are made, the amount to be borrowed, and other means of financing the es-
17 timated expenditures for the ensuing biennium, compared with the corresponding figures for at least
18 the last completed biennium and the current biennium.

19 (3) The budget plan shall be supported by explanatory schedules or statements, classifying the
20 expenditures reported therein, both past and proposed, by organization units, objects and funds, and
21 the income by organization units, sources and funds, and the proposed amount of new borrowing as
22 well as proposed new tax or revenue sources, including a single comprehensive list of all proposed
23 increases in fees, licenses and assessments assumed in the budget plan.

24 (4) The budget plan shall be submitted for all dedicated funds, as well as the state General Fund,
25 and shall include the estimated amounts of federal and other aids or grants to state agencies or
26 activities provided for any purpose whatever, together with estimated expenditures therefrom.

27 (5) The budget report shall embrace the detailed estimates of expenditures and revenues. It shall
28 include statements of the bonded indebtedness of the state government, showing the actual amount
29 of the debt service for at least the past biennium, and the estimated amount for the current
30 biennium and the ensuing biennium, the debt authorized and unissued, the condition of the sinking
31 funds and the borrowing capacity. It shall contain the Governor's recommendations concerning tax
32 expenditures identified under ORS 291.214. It shall also contain any statements relative to the fi-
33 nancial plan which the Governor may deem desirable or which may be required by the legislature.

34 (6) The budget plan shall use the estimated revenues under ORS 291.342 for the fiscal year in
35 which the plan is submitted as the basis for total anticipated income under subsection (2) of this
36 section, subject to such adjustment as may be necessary to reflect accurately projections for the
37 next biennium.

38 (7) As supplemental information to the budget report, the Governor shall publish an existing
39 level tentative budget plan for the two fiscal years for which the budget report is required. This
40 summary budget shall reflect only existing revenues estimated under subsection (6) of this section;
41 subject to such adjustment as may be necessary to reflect accurately projections for the next
42 biennium. The supplemental information to the budget report shall be submitted at the same time
43 as the budget report.

44 (8)(a) The budget report shall present information regarding the expenses of the state in the
45 following categories:

1 (A) Personnel expenses, including compensation and benefits for state employees, but excluding
 2 costs of services contracted out and temporary service costs.

3 (B) Supplies, equipment and the costs of services contracted out.

4 (C) Capital construction.

5 (D) Capital outlay.

6 (E) Debt service.

7 (b) For each category described in paragraph (a) of this subsection, the report shall show actual
 8 expenditures to date.

9 (c) For each category described in paragraph (a) of this subsection, the report shall show:

10 (A) The amount of merit increases for the existing workforce.

11 (B) Increases for the cost of replacement and repair of supplies and equipment.

12 (C) Increases for the costs of new construction or major remodeling.

13 (D) Increases for the cost of inflation.

14 (d) The report shall show the total increase in the cost of salaries and benefits for all state
 15 positions.

16 (9) The budget report shall include:

17 (a) The total number of positions included in the budget.

18 (b) The average vacancy rate in the present biennium.

19 (c) The number of permanent, full-time equivalent vacancies, excluding academics, as of July 1
 20 of even-numbered years.

21 (10) The budget report shall include computations showing budget figures as a percentage of the
 22 total General Fund, federal fund, fee or other source category, as may be appropriate.

23 (11) The budget report shall include, in a format that provides side-by-side comparison with the
 24 State Debt Policy Advisory Commission report of net debt capacity, a six-year forecast, by debt type
 25 and repayment source, of:

26 (a) That portion of the capital construction program required to be reported by ORS 291.224 that
 27 will be financed by debt issuance.

28 (b) The acquisition of equipment or technology in excess of \$500,000 that will be financed by
 29 debt issuance.

30 (c) Other state agency debt issuance for grant or loan purposes.

31 (12) As supplemental information to the budget report, the Governor shall prepare an alternative
 32 budget plan for the two fiscal years for which the budget report is required and shall provide the
 33 alternative budget plan to the President of the Senate, the Speaker of the House of Representatives
 34 and the majority and minority leaders in the Senate and the House of Representatives. The alter-
 35 native budget plan shall establish funding for each state agency's programs and activities at 90
 36 percent of the appropriations requested for the state agency in the budget report, excluding appro-
 37 priations that are not made to fund recurring activities. For each state agency, the Governor shall
 38 describe the 10 percent reduction in appropriated moneys in terms of the activities or programs that
 39 the agency will not undertake. The activities or programs that are not undertaken as a result of the
 40 reductions in appropriated moneys made in the alternative budget plan shall be ranked in order of
 41 importance and priority on the basis of lowest cost for benefit obtained.

42 **(13) The budget report shall include performance measures that show progress made to-**
 43 **ward accomplishing the goals and objectives of the strategic financial plan required by sec-**
 44 **tion 2 of this 2005 Act.**

45 **(14) The budget report shall include a budget plan that:**

1 **(a) Leaves unobligated an amount that is not less than five percent of the General Fund**
2 **revenues, including net proceeds from the Oregon State Lottery, for the immediately pre-**
3 **ceding biennium. The unobligated reserve required by this paragraph may be used to avoid**
4 **cash-flow interruptions and reduce the need for short-term borrowing.**

5 **(b) Establishes an operating contingency reserve for state funds and accounts other than**
6 **the General Fund to provide for unanticipated and nonrecurring expenditures or to meet**
7 **unexpected increases in service delivery costs. An operating contingency reserve described**
8 **in this paragraph may not be more than five percent of the original revenue estimate for the**
9 **fund or account for the biennium.**

10