



OREGON'S 2011-13 CO-CHAIRS' BUDGET

Joint Committee on Ways and Means

**Senator Richard Devlin
Representative Peter Buckley
Representative Dennis Richardson**

March 29, 2011

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Message from the Co-Chairs of Ways & Means. In order to proceed with the important task of determining the 2011-13 Oregon state budget, and with due consideration for the recently passed constitutional amendment providing for annual sessions of the Oregon Legislature, the Co-Chairs of the Joint Committee on Ways & Means present this “2011-13 Co-Chairs’ Budget.” The Co-Chairs are utilizing a revenue-based budgeting process, instead of an expenditure-based process. In addition, this budget begins the process of ensuring adequate reserves, not just for the 2011-13 budget, but with an eye toward future biennia as well.

Revenue--\$14.650 Billion. The Oregon Constitution requires a balanced state budget with due consideration given to anticipated revenues and approved expenditures. The Oregon 2011-13 state budget shall be balanced to Oregon’s March 2011 Quarterly Revenue Forecast of \$14.650 billion, which represents the net revenue forecast after adjustments for constitutionally mandated lottery fund allotments and required Tax Anticipation Notes (TANs) payments (short term borrowing for General Fund cash flow).

Ending Balance. We are using the tool of the February session in 2012 that the voters have provided for us by setting out what comes down to a hybrid—a two year budget with a plan for significant revision, if required, in year two. By holding back \$310 million in a supplemental ending balance from the second year funding levels, we maintain the flexibility needed to address another financial downturn should it occur between June 30 of this year and the start of the February 2012 session. If revenue is stable or up, the supplemental ending balance can be returned to the funding levels for year two of the budget, with flexibility to adjust if needed to address specific needs. If revenue is down, the supplemental ending balance will serve as a financial reserve to provide stability to the state’s programs and services.

State School Fund (K-12) Budget. To enable school districts the opportunity to plan their 2011-12 school year budgets, the State School Fund (SSF) will be funded at \$5.7 billion, which includes \$100 million from the Education Stability Fund, and has certain restrictions and opportunities for enhancements that are explained in the details that follow. The SSF budget bill will be presented to the Assembly for a vote without delay.

Oregon Health Authority. The Co-Chairs support the efforts of the Governor, the Legislature, and the medical community to transform our Medicaid health care delivery system. Success of these efforts is crucial to balancing the 2011-13 budget.

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Remaining Areas of Major Concern. We recognize that there are many remaining issues to be resolved in the budget. We are particularly concerned about the Governor's recommended budget for Seniors and People with Disabilities. We will focus and direct our Subcommittee on Human Services to focus on resolving issues within this budget.

Critical Assumptions. This budget is intended to allow the Governor and his agency leaders, as well as the Legislature in the 2012 session, time to address the issue of changing how the state delivers services. Maintaining critical services will require common sacrifice. Our budget proposal assumes a freeze or reduction of the salaries and benefits of the Governor and all statewide elected officials, as well as on the Legislature and all agency management. It assumes concessions from state workers on salary, health care, and pension costs. Further, it anticipates that reimbursement rates for services performed by other public and private entities will be reduced. These contributions to the common good of our state are acknowledged and appreciated.

June Forecast. If the June 2011 Quarterly Revenue Forecast (to be released May 12, 2011) projects increases in 2011-13 state revenues, the Co-Chairs plan on using all or part of the forecasted increases over the March 2011 Quarterly Revenue Forecast amounts for enhancements to 2011-13 budgets and/or the 2011-13 Ending Balance, Supplemental Ending Balance, Education Stability Fund, or Oregon Rainy Day Fund.

Where do we go from here? We recognize that time is of the essence as we continue to deliberate on the budget. Our subcommittees have been focused on their respective budget areas and have been instrumental in the formulation of the Co-Chairs' Budget. We now need to proceed, knowing that most of our work has to be completed prior to June. While we will continue to provide for broad opportunities for public input, budgets will begin to move as quickly as the process will allow.

2011-13 Ways & Means Co-Chair Proposed Budget

Total GF/LF					
March 2011 Forecast Revenues					
Beginning Balance	19.0				
Projected Revenues	14,892.4				
Total Resources	<u>14,911.4</u>				
Less Anticipated Administrative Actions	(23.5)				
Total Available Resources	<u>14,888.0</u>				
Dedicated Distributions					
County Economic Development	(37.1)				
Education Stability Fund	(201.0)				
	<u>-</u>				
Net Current Law Resources	14,649.9				
2011-13 Expenditures by Program Area					
	FY 2011-12	*	FY 2012-13	*	Total***
Education (All Other)	862.9		802.9		1,665.8
State School Fund	2,788.5		2,788.5		5,577.0
Human Services	1,931.5		1,797.3		3,728.8
Public Safety/Judicial	1,248.4		1,161.7		2,410.1
Transportation/Economic Development	148.4		138.1		286.5
Natural Resources	157.8		146.8		304.5
General Government	136.8		127.2		264.0
Emergency Fund	10.0		9.3		19.3
Total 2011-13 Budgeted Expenditures	<u>7,284.2</u>	**	<u>6,971.9</u>	**	<u>14,256.1</u>
Statewide Reduction Actions					
					(66.2)
Ending Balance					150.0
Ending Balance Supplement					310.0
Total Ending Balance (First Year)					<u>460.0</u>
Final Fiscal Position					(0.0)

M66/76 balance for debt service needs

TANS projected interest costs

* FY 2012-13 Expenditures budgeted at 7% below FY 2011-12 until March 2012 forecast

plus \$123 million from ESF/CSF for \$5.7b

** If forecasts are stable to up, then FY 2012-13 will be restored with up to \$310 million (except for SSF) to return to FY 2011-12 levels

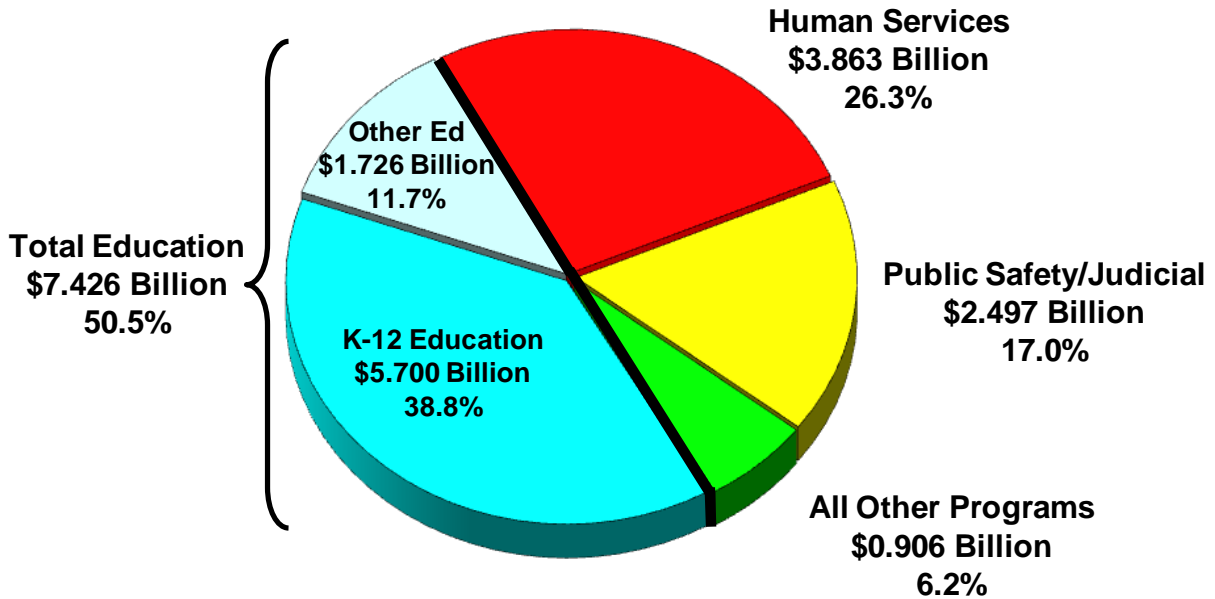
Personal services & services and supplies reductions

*** Certain statewide reduction actions will be taken that will reduce the total amount provided for the program area, but with no change to program decisions.

2011-13 General Fund & Lottery Funds Total \$14.691 Billion

Co-Chair Budget - includes \$123 million for SSF from ESF and CSF

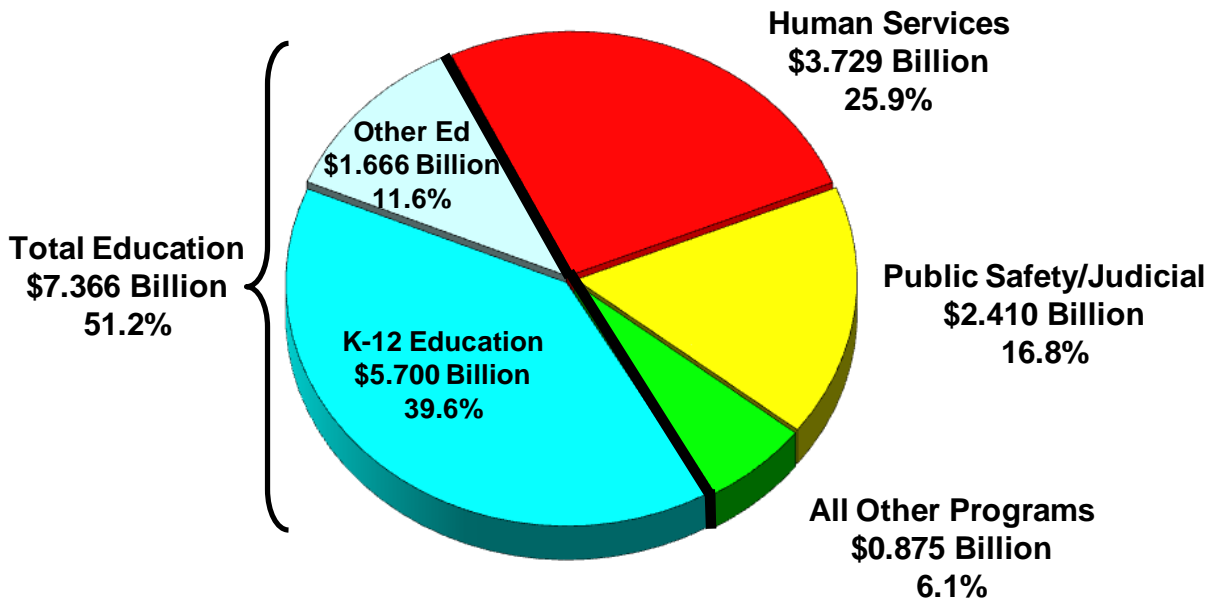
Reflects \$150 million Ending Balance



2011-13 General Fund & Lottery Funds Total \$14.380 Billion

Co-Chair Budget - includes \$123 million for SSF from ESF and CSF

Reflects Additional \$310 million Ending Balance Supplement from Budgets



EDUCATION – STATE SCHOOL FUND

General Fund/Lottery Funds Target	\$5,577 million
plus Education Stability Fund	+\$100 million
plus additional Common School Fund	+\$ 23 million
Net Appropriation	\$5,700 million

Major Budget Decisions/Issues for the State School Fund

- Assumes the use of \$100 million from the Education Stability Fund and an additional \$23 million distribution from the Common School Fund over amounts included in the Governor’s recommended budget.
- Sets 2011-12 school year funding at \$2.85 billion, or \$33 million above 2010-11 levels.
- Assumes 2012-13 school year funding at \$2.85 billion unless state revenue forecast increases.
- In the event the March 2012 revenue forecast projects 2011-13 revenues to exceed the 2011 close-of-session forecast, additional funds may be allocated to bring the 2011-13 State School Fund budget to currently existing levels of funding for the 2009-11 biennium (\$5.756 billion).
- SSF level assumes similar personal services reductions and inflationary freeze anticipated for the state budget.
- Assumes administrative salary freeze for school districts.
- Further review to ensure that school districts will work toward developing efficiencies, cost reductions, and reforms (such as district consolidation and transportation efficiencies) with an emphasis on maintaining class sizes and maintaining and restoring school days.

**EDUCATION (ALL Except SSF)
Program Area**

General Fund/Lottery Funds Target	\$1,726 million*
less Ending Balance Supplement	-\$ 60 million*
Net Appropriation	\$1,666 million*

Major Decisions/Budget Issues in the Education Program Area

- Moves Governor’s recommended Early Learning Council funding back to originating agencies with an opportunity to revise the budget for the second fiscal year of the 2011-13 biennium during February 2012 session upon legislative consideration of the plan submitted by the Governor’s Early Learning Council design team.
- Requires additional consideration of the Governor’s recommended investments in education programs.
- Includes partial restoration of reductions in Governor’s recommended budget for Agricultural Experiment Station, Extension Service, and Forest Research Laboratory within the Oregon University System.
- Sets goal of funding the Oregon University System and the Community College Support Fund near or above the Governor’s recommended budget.
- Requires further review of level of funding for Opportunity Grants in the Oregon Student Assistance Commission.
- Requires further review of level of funding for the Child Development and Rehabilitation Center, nursing, and rural health programs at the Oregon Health and Science University.

*Certain statewide reduction actions will be taken that will reduce the total amount provided for the program area, but with no change to program decisions.

HUMAN SERVICES Program Area

General Fund/Lottery Funds Target	\$3,863 million*
less Ending Balance Supplement	-\$134 million*
Net Appropriation	\$3,729 million*

Major Budget Decisions/Issues in the Human Services Program Area

- The Co-Chairs support the efforts of the Governor, the Legislature, and the medical community to transform our health care delivery system. Success of these efforts is crucial to balancing the 2011-13 budget as well as to lowering costs for the state, for our businesses, and for our families.
- Moves Governor's recommended Early Learning Council funding back to originating agencies with an opportunity to revise the budget for the second fiscal year of the 2011-13 biennium during February 2012 session upon legislative consideration of the plan submitted by the Governor's Early Learning Council design team.
- Need to address the Governor's recommended budget assumption in the Oregon Health Authority of General Fund savings from 19% reductions to provider rates and from long-run system transformation.
- Need to address Governor's recommended budget holes such as the failure to include debt service roll-ups for the Oregon State Hospital, assumed savings in the community mental health system that either did not exist or that assumed the continuation of budget cuts that had not been made, the failure to provide funding for operating costs of the Behavioral Health Integration Project necessary to provide an electronic health record and hospital management system for the Oregon State Hospital, and the assumption of fee increases or fee establishment to replace General Fund in the drinking water program, emergency medical services program, and the Long Term Care Ombudsman office.
- Review specific areas of concern including proposed cuts in provider rates and assumed savings from long-run system transformation in the Seniors and People with Disabilities budget.

*Certain statewide reduction actions will be taken that will reduce the total amount provided for the program area, but with no change to program decisions.

PUBLIC SAFETY/JUDICIAL BRANCH
Program Area

General Fund/Lottery Funds Target	\$2,497 million*
less Ending Balance Supplement	-\$ 87 million*
Net Appropriation	\$2,410 million*

Major Budget Decisions/Issues in the Public Safety/Judicial Program Area

- Restores funding for 200 close custody beds at the Oregon Youth Authority from the 475 bed reduction included in the Governor's recommended budget.
- Includes General Fund resources instead of the Highway Trust Fund to finance all Patrol Division troopers. Assumes the 49 positions left vacant through the 2009-11 allotment reduction process are not funded.
- The Public Defense Services Commission and the Oregon Judicial Department are funded at higher levels than in the Governor's recommended budget.
- Resources for the defense of the state's position in litigation with major tobacco companies and increased funding for Crime Victims' programs over the Governor's recommended budget will need to be absorbed in the current resources of the Department of Justice.
- A workgroup of legislators is working on potential sentencing and other changes to offset the need for General Fund resources in the Department of Corrections and other public safety agencies.

*Certain statewide reduction actions will be taken that will reduce the total amount provided for the program area, but with no change to program decisions.

NATURAL RESOURCES
Program Area

General Fund/Lottery Funds Target	\$316 million*
less Ending Balance Supplement	-\$ 11 million*
Net Appropriation	\$305 million*

Major Decisions/Budget Issues in the Natural Resources Program Area

- Restores the 50:50 base fire protection funding split in the Department of Forestry, undoing the 45:55 split assumed in the Governor’s recommended budget.

- Funds an Emergency Board Special Purpose Appropriation for Fire Severity for the Department of Forestry that was omitted in the Governor’s recommended budget.

- Continues funding for the current Marine Reserves program at the Department of Fish and Wildlife.

- Includes the Governor’s recommended use of Pacific Coastal Salmon Recovery Fund federal monies to continue natural resource agency programs.

- Requires additional review of the constraints from new limitations on direct state agency expenditures of Lottery Funds passed in Ballot Measure 76.

- Need to consider the number of requested fee increases in the Natural Resource program area and the amount of funding that would be generated.

*Certain statewide reduction actions will be taken that will reduce the total amount provided for the program area, but with no change to program decisions.

TRANSPORTATION/ECONOMIC DEVELOPMENT
Program Area

General Fund/Lottery Funds Target	\$297 million*
less Ending Balance Supplement	-\$ 10 million*
Net Appropriation	\$287 million*

Major Budget Decisions/Issues in the Transportation/Economic Development
Program Area

- Includes balanced support for investments within the Oregon Business Development Department to promote job creation and retention, and to foster innovation in Oregon's economy.
- Maintains the level of General Fund/Lottery Funds included in the Governor's recommended budget for the Department of Veterans' Affairs, the Housing and Community Services Department, and the Bureau of Labor and Industries.
- Requires further review of the need for an \$8 million capitalization of the Credit Enhancement Fund included in the Governor's recommended budget for the Oregon Business Development Department.
- Provides General Fund/Lottery Funds for debt service requirements in the Department of Transportation budget.

*Certain statewide reduction actions will be taken that will reduce the total amount provided for the program area, but with no change to program decisions.

GENERAL GOVERNMENT Program Area

General Fund/Lottery Funds Target	\$274 million*
less Ending Balance Supplement	-\$ 10 million*
Net Appropriation	\$264 million*

Major Budget Decisions/Issues in the General Government Program Area

- Consider which investments, if any, to make in the Department of Revenue toward generating additional resources and/or maintaining the state's revenue stream.
- Consider appropriate level of support for a \$1.9 million fund shift from General to Other Funds (local government assessment) in the Governor's budget for the Employment Relations Board.
- Consider to what extent changes in the budget for the Department of Administrative Services will drive General Fund or Lottery Funds savings in agencies.

*Certain statewide reduction actions will be taken that will reduce the total amount provided for the program area, but with no change to program decisions.

GENERAL GUIDANCE FOR SUBCOMMITTEES

- Additional reductions from the Governor's recommended budget level to fill holes and address funding issues, potentially including:
 - Personal services reductions that assume actions across all three branches of government to freeze salaries at current levels, including no merit increases and no cost-of-living adjustments for the 2011-13 biennium, and to have state employees pay toward health benefit and PERS costs, as well as other actions necessary to reach the reduction target including furloughs and reductions in force, subject to collective bargaining agreements.
 - Services and supplies reductions that assume the elimination of standard inflation in agency budgets as well as a review of all other above standard inflationary increases and other levels of services and supplies expenditures.
- Review and analyze all vacant positions in agency budgets. The goal is to eliminate positions that are not necessary for the agency to achieve desired program outcomes; all other vacant positions (both management and represented) will be eliminated and funding removed from the budget.
- Review of potential resources not included in the official March 2011 revenue forecast that can be utilized as additional sources of funding for high priority programs.
- Review and analyze additional resources and efficiencies within agency budgets that can be identified by the Ways and Means subcommittees as offsets to reductions to higher priority programs.