

C+ Oregon

Oregon's government does many things well. And it employs an impressive number of talented individuals. Unfortunately for them, all the good intentions in the world can't overcome the state's thoroughly unwieldy fiscal structure, which leaves continual concerns about whether there'll be cash in the bank next year.

Oregon has no sales tax. The vast majority of its revenue comes from personal and corporate income taxes, which are extremely volatile and tied closely to economic ebbs and flows. When fiscal doldrums set in, the state falls faster and farther than most others.

So it's no surprise that Oregon finds it difficult to estimate future revenues, hampering any effort to plan for effective long-term strategies. The state works off a two-year budget, and in the most recent cycle, actual revenues came in \$1.4 billion higher than estimated. That's not the worst problem to have, of course, but it's indicative of the uncertainty the state's leaders continually confront. They know there will be years when the estimate is wrong in the other direction, and that's the scenario they appropriately dread.

Complicating the picture even further for Oregon's budgeters is the fact that they can't use extra cash for pressing needs. By law, most surplus money has to be returned to taxpayers. Among the needs that have gone begging as a result: replacing the state's decrepit psychiatric hospital, which has not undergone a major rehab since it was used as a location for the film "One Flew Over the Cuckoo's Nest" in 1975; modernizing state information technology; or dealing with the general deterioration of infrastructure.

Infrastructure may be the most serious of the neglected categories. In 2006, a state audit concluded that deferred maintenance on state facilities had exceeded \$600 million. "Without a fully implemented statewide process to identify, prioritize and help minimize deferred-maintenance costs," the report concluded, "some high-priority maintenance may not be addressed until a costly and avoidable failure occurs."

Despite its precarious fiscal structure,

Oregon has made several strides forward when it comes to financial management. Executive branch officials and legislators now get the budget in on time, and there is finally a rainy day fund—although with a modest \$300 million in it. The state's lottery has been set up as a permanent revenue stream for schools, and by June 2009, that fund should hold about \$400 million. Pension funds are fully stocked, and benefits for the most part are relatively generous. Workforce morale was shaken several years ago, however, when the state began to move away from the traditional defined-benefit pension structure. "We still have some people who have angst," says Susan Wilson, the state personnel director.

Oregon has improved its ability to analyze the programs in its budget, and this should make a big difference when it confronts nearly inevitable future shortfalls. In the past, says Ken Rocco, the legislature's fiscal officer, "legislators did not know whether to bleed all programs equally, or pick from a list of lower-priority activities. They ended up cutting programs by a fixed percentage across the board."

That is less likely to happen in the future. Agencies now list their top priorities by program, and identify key performance measures to which they are linked, thus allowing more rational, targeted cuts. For the current biennium, cutting wasn't necessary, but the agencies went through the same prioritizing exercise to help legislators better understand what the various departments of state government actually do.

Oregon was a pioneer in the use of performance information, and after spending several years recalibrating its efforts, now has a strategy to move forward. While many states measure outcomes, not all draw clear connections between actions and results. George Naughton, the division administrator for budget and management, says connecting outcomes to operational details is "the next evolutionary step for us."

For additional data and analysis, go to pewcenteronthestates.org/gpp

Money **C+**

- Long-Term Outlook
- Budget Process
- Structural Balance
- Contracting/Purchasing
- Financial Controls/Reporting

People **C+**

- Strategic Workforce Planning
- Hiring
- Retaining Employees
- Training and Development
- Managing Employee Performance

Infrastructure **C+**

- Capital Planning
- Project Monitoring
- Maintenance
- Internal Coordination
- Intergovernmental Coordination

Information **B-**

- Strategic Direction
- Budgeting for Performance
- Managing for Performance
- Performance Auditing & Evaluation
- Online Services & Information

Population (rank): 3,700,758 (27)

Average per capita income (rank): \$24,418 (23)

Total state spending (rank): \$20,070,629,000 (28)

Spending per capita (rank): \$5,423 (20)

Governor: Ted Kulongoski (D)

First elected: 11/2002

Senate: 30 members: 18 D, 10 R, 11, 1 Vacant

Term Limits: None

House: 60 members: 31 D, 29 R

Term Limits: None