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# **Budget Kickoff Meeting**

## **March 17, 2010**

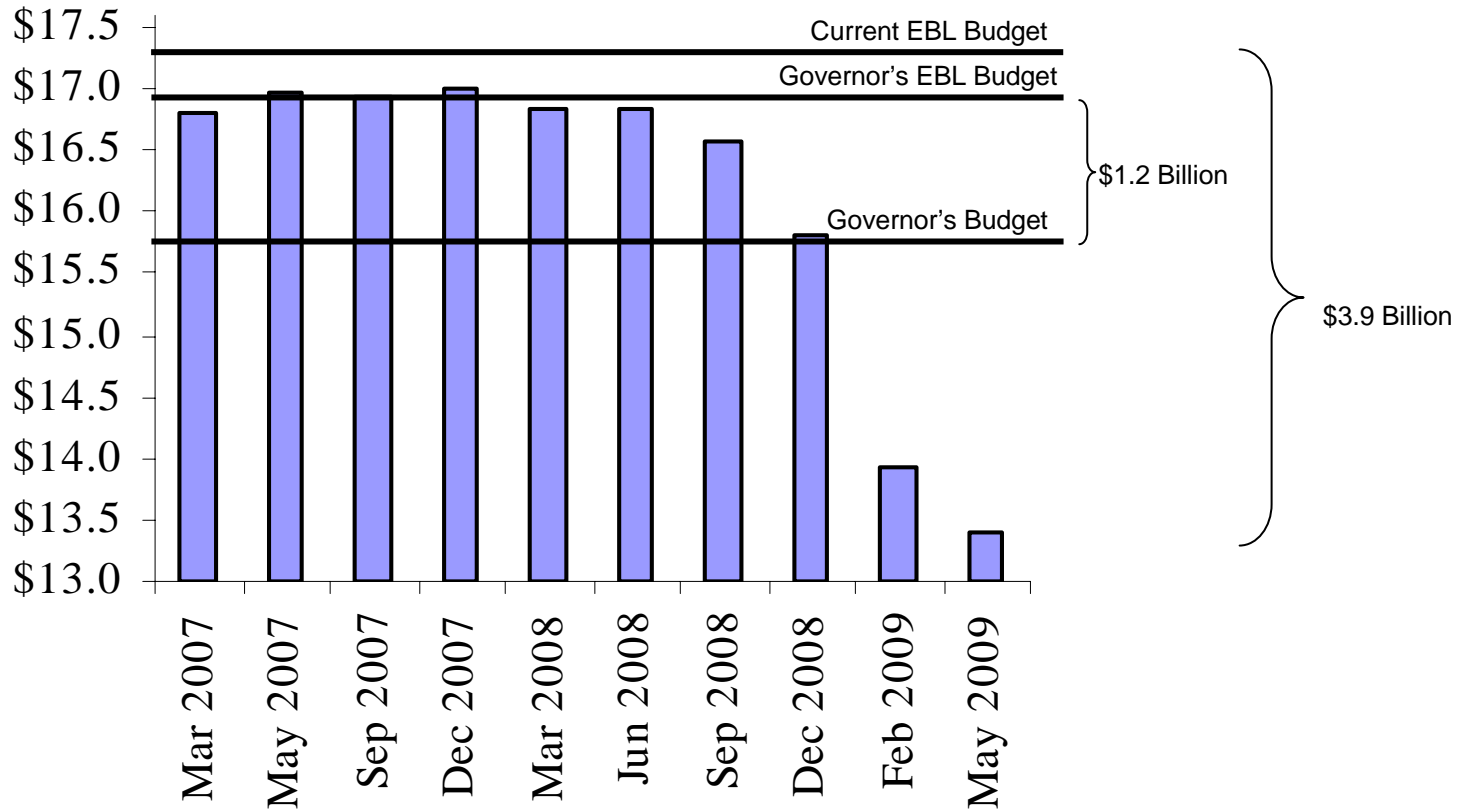
George Naughton  
Department of Administrative Services  
Budget and Management Division  
(503) 378-5460



# 2009-11 Legislatively Adopted Budget



# General Fund/Lottery Forecast Comparison and Expenditure Levels, 2009-11





# 2009-11 General Fund Revenue Forecast (Close of Session 2009 Forecast)

<b>2009-11 General Fund Resources (\$ Millions)</b>	
Beginning Balance	\$0
Projected Revenues – May 2009	\$12,474
Legislative Changes	
Increase Revenue Collections	61
Transfer from Rainy Day Fund	225
Personal Income Tax Increase	472
Corporate Tax Increase	261
Other Miscellaneous Changes	39
Net Available Resources	\$13,532



## 2009-11 General Fund Budget Projections Legislatively Adopted Budget (in Billions)

<b>Revenues</b> – Close of Session 2007 Forecast	
Beginning Balance	\$0.0
Projected General Fund Revenues	12.5
Legislative Changes	1.1
Total Resources	<u>\$13.5</u>
<b>Expenditures</b> – Legislatively Adopted Budget	
Cost of Continuing Existing Programs	\$16.1
Federal Stimulus Funds used to Balance the Budget	- 1.0
Other Cuts/Reductions to Balance the Budget	- 1.8
Total Expenditures	<u>\$13.3</u>
<b>Ending Balance</b>	<b>\$0.2</b>

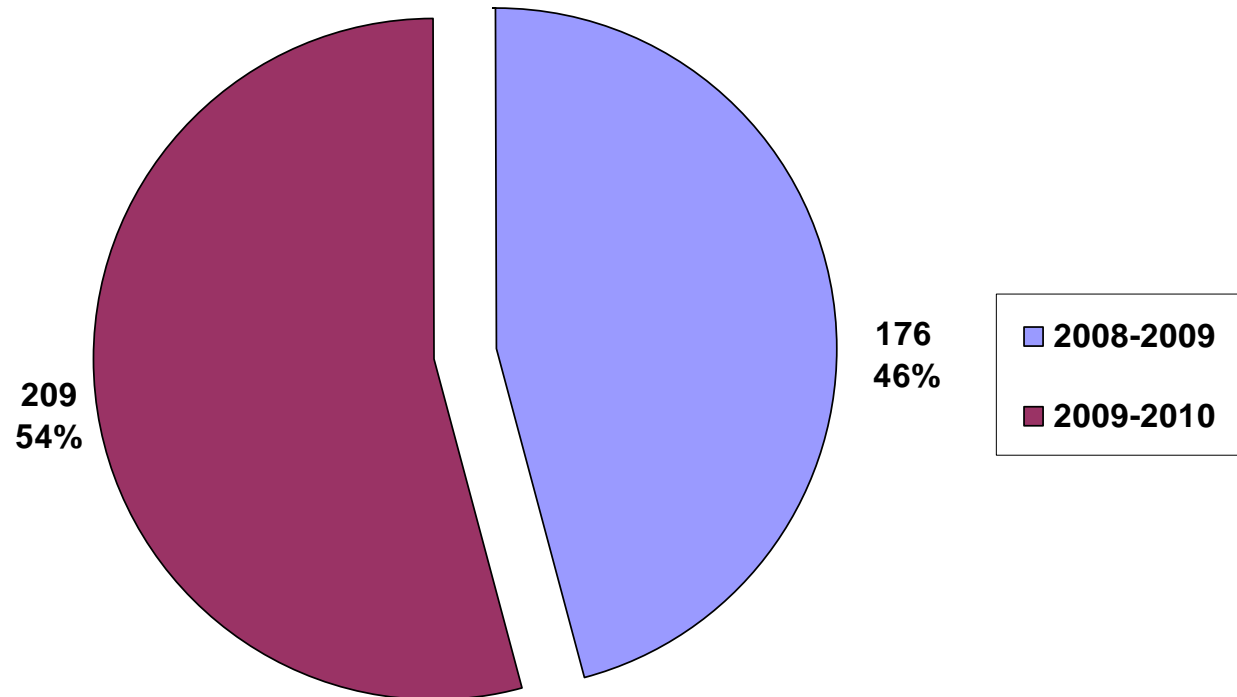


# State Government Layoffs

(through January 2010)

## 2009-11 LAYOFFS BY FISCAL YEAR

385 TOTAL LAYOFFS





# 2009-11 Legislatively Approved Budget

(Post February 2010 Legislative Session)



# February 2010 Legislative Session

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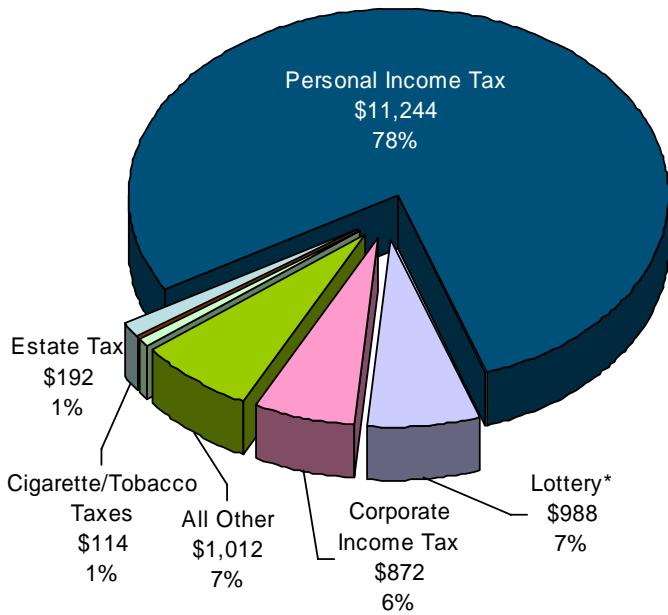
- The March 2010 Revenue Forecast showed a deficit of \$106.3 million General Fund and \$33.6 million Lottery Funds.
- In addition to the revenue shortfall, demand for social support and other programs has also continued to rise, increasing state costs by about \$34.6 million. Combining the revenue and expenditure issues, the Legislature needed to cover a deficit of \$174.1 million.
- To cover this deficit, the Legislature used a mixture of revenue solutions to generate \$174.1 million in savings.
  - Limited the Business Energy Tax Credits, saving about \$55.0 million.
  - Transferred resources out of various revenue accounts and deposited them into the General Fund. These transfers added about \$51.7 million to the General Fund.
  - Reduced the State Emergency Fund by about \$44.3 million.
  - Other miscellaneous savings, including some debt service savings from refinancing, totaled about \$23.1 million.
- Finally, the Legislature removed uncertainty for the K-12 education system by guaranteeing that state Education Stability Funds would be used to ensure a \$6.0 billion budget for K-12 Education in 2009-11.



# Legislatively Approved Budget 2009-11 \*\*

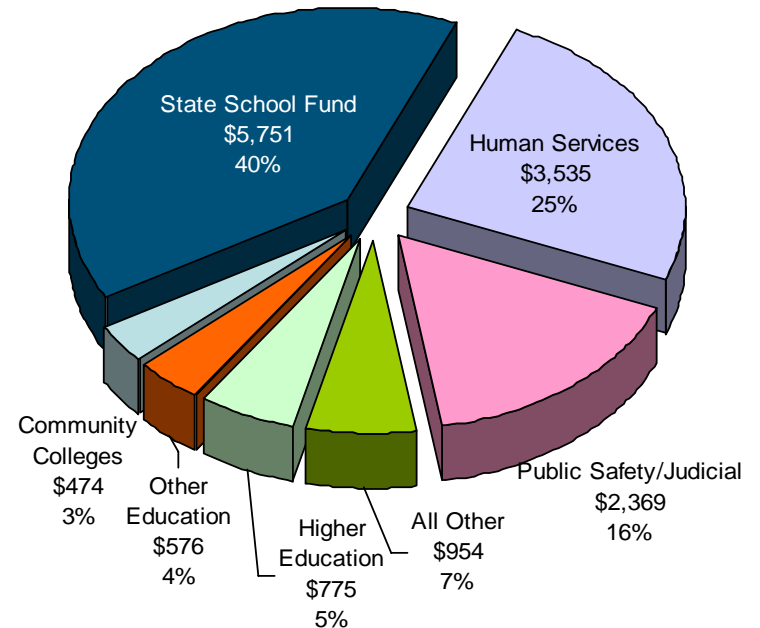
## General Fund and Lottery Funds Combined

### Resources Budgeted Total: \$14,422 Million



\* Includes beginning balance & carry forward

### Expenditures Total: \$14,434 Million



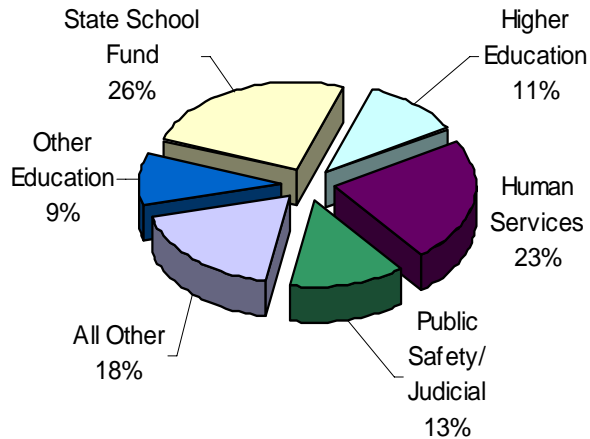
\*\* The Legislature did not reduce Natural Resource Lottery Fund Expenditures because the lottery revenues for those programs are automatically reduced. While this technically leaves a negative ending balance in lottery resources, the shortfall is automatically adjusted through the Lottery Funds allocation process.



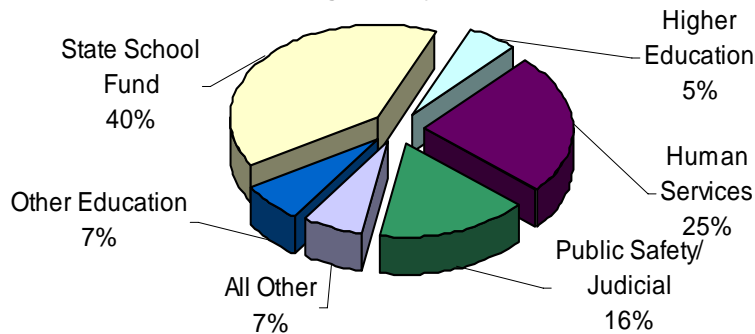
# General Fund and Lottery Funds Budget Trends

## Overall Expenditure

1989-91 Legislatively Approved Expenditures

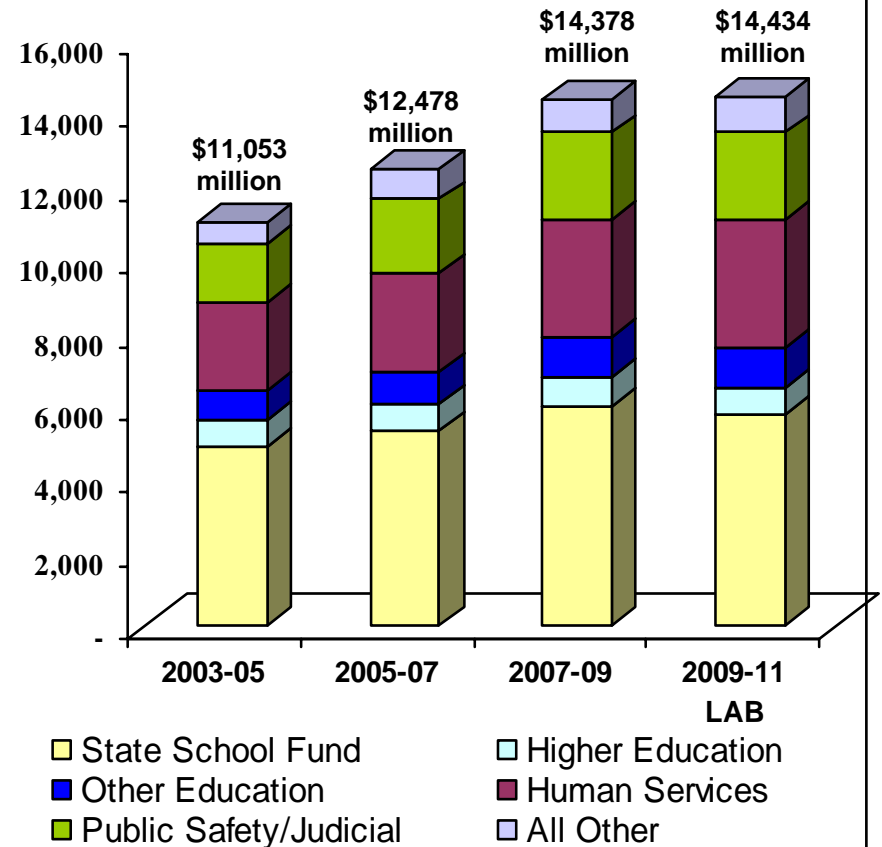


2009-11 Legislatively Approved Expenditures



## General Fund and Lottery Trends

General Fund & Lottery Funds Budgets Over Past Four Biennia





## Oregon's Budget Reserves

- Continued growth of the Education Stability Fund
  - 18% of biennial net Lottery revenues are dedicated to this reserve account
- Establishment of a Rainy Day Fund in the 2007-09 Budget
  - Seeded with Oregon's projected 2005-07 Corporate Kicker of \$319.3 million
  - All interest earnings on the Rainy Day Fund are retained in the Rainy Day Fund
  - Automatic transfer to the Rainy Day Fund of one percent of Oregon's General Fund expenditures from the State's ending fund balance at the completion of each biennium
  - Beginning in 2013, incremental growth in corporate taxes approved by the 2009 Legislature will be placed in the Rainy Day Fund (estimated at \$70 million per biennium).

<b>Projected Budget Reserves on 6/30/11</b>		
(\$ Millions)		
	<u>Close of</u> <u>Session</u>	<u>Feb 10</u> <u>Forecast</u>
Education Stability Fund	\$ 194	\$ 103
Rainy Day Fund	170	3
Ending Balance	234	7
General Purpose Emergency Fund	30	20
<b>TOTAL</b>	<b>\$ 628</b>	<b>\$ 133</b>



# Future Budget Projections



# Revenue Methodology

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- Revenues are modeled and projected based on relationships between taxable incomes and key economic variables (e.g., capital gains as a function of past and predicted stock market performance).
- Outer-year forecasts are based on long-run historical growth rates.
- OEA consults with the Council of Revenue Forecast Advisors quarterly to discuss recent trends and anticipated issues.



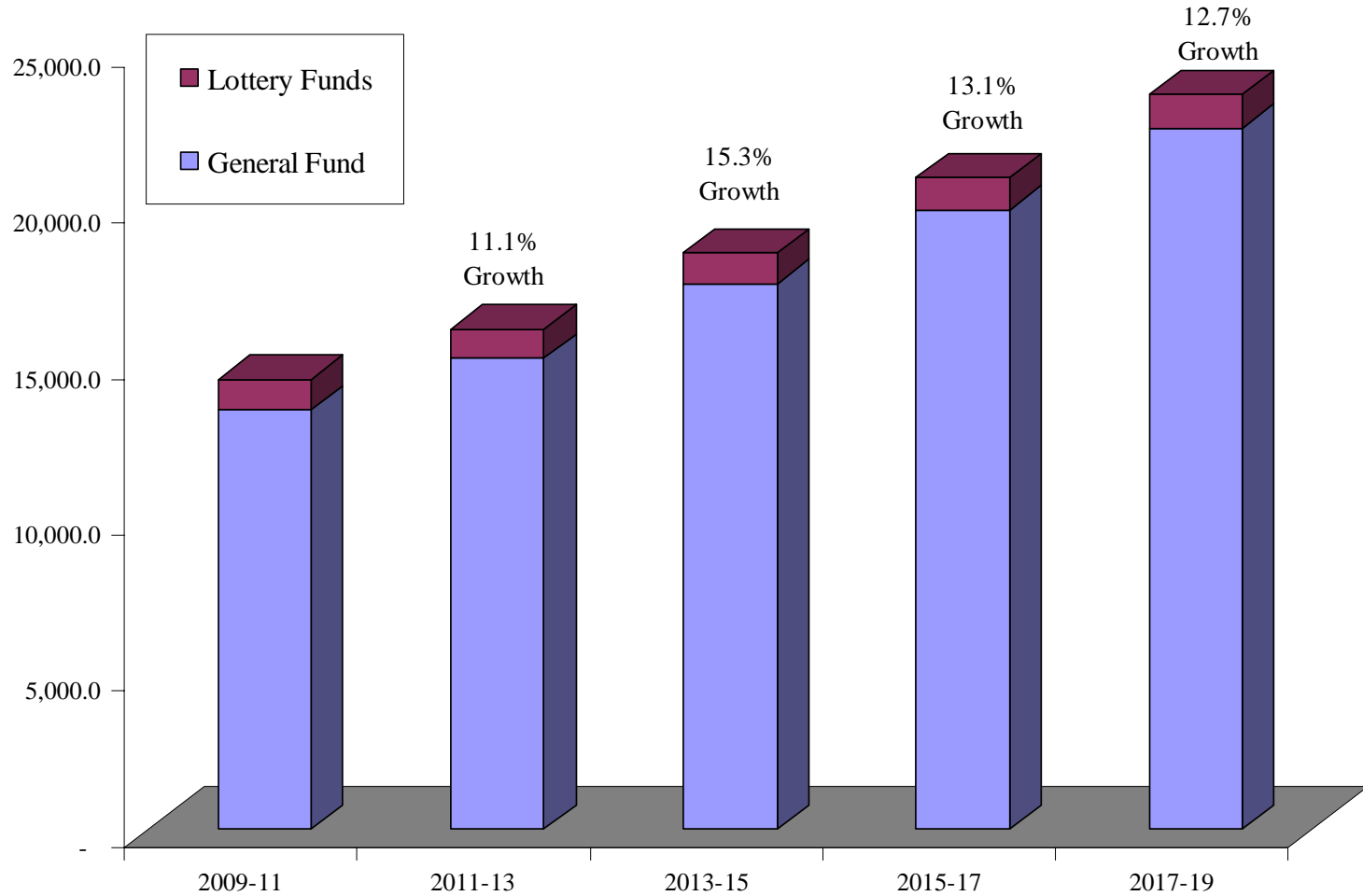
# Revenue Drivers

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- Revenue Growth Factors
  - Employment
  - Wage Rates
  - Investment Returns
  - Profit Levels
- Long term risks
  - Burgeoning retirement income erodes taxable income base.



# Long Term Revenues





# What has caused General Fund expenditure growth?

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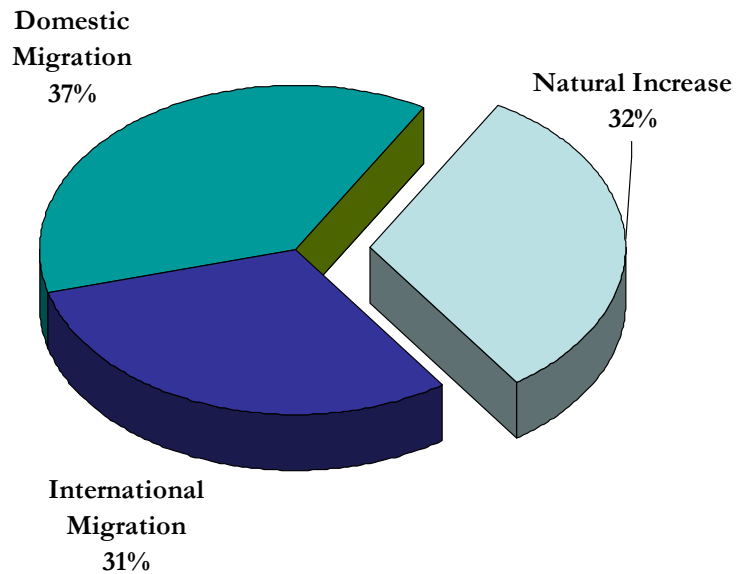
- **Primary**
  - Population
  - Voter Approved Initiatives
  - Legislative Policy decisions
  - Federal Budget Adjustments
- **Secondary**
  - Inflation
  - Lawsuits



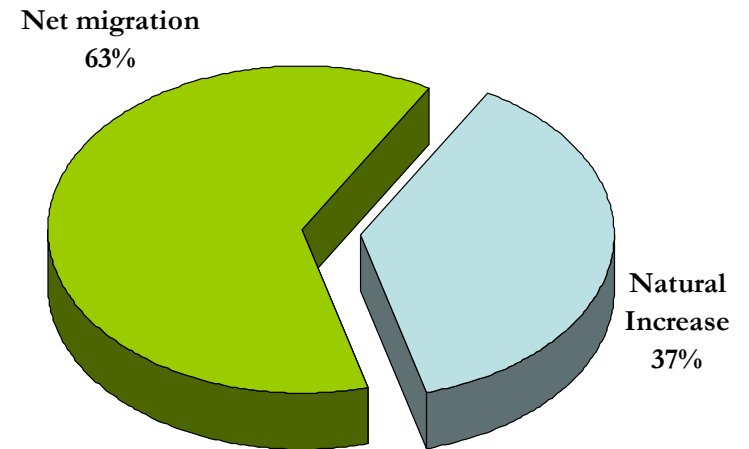


# Components of population change: 2000-06 and 2015-20

2000-2006

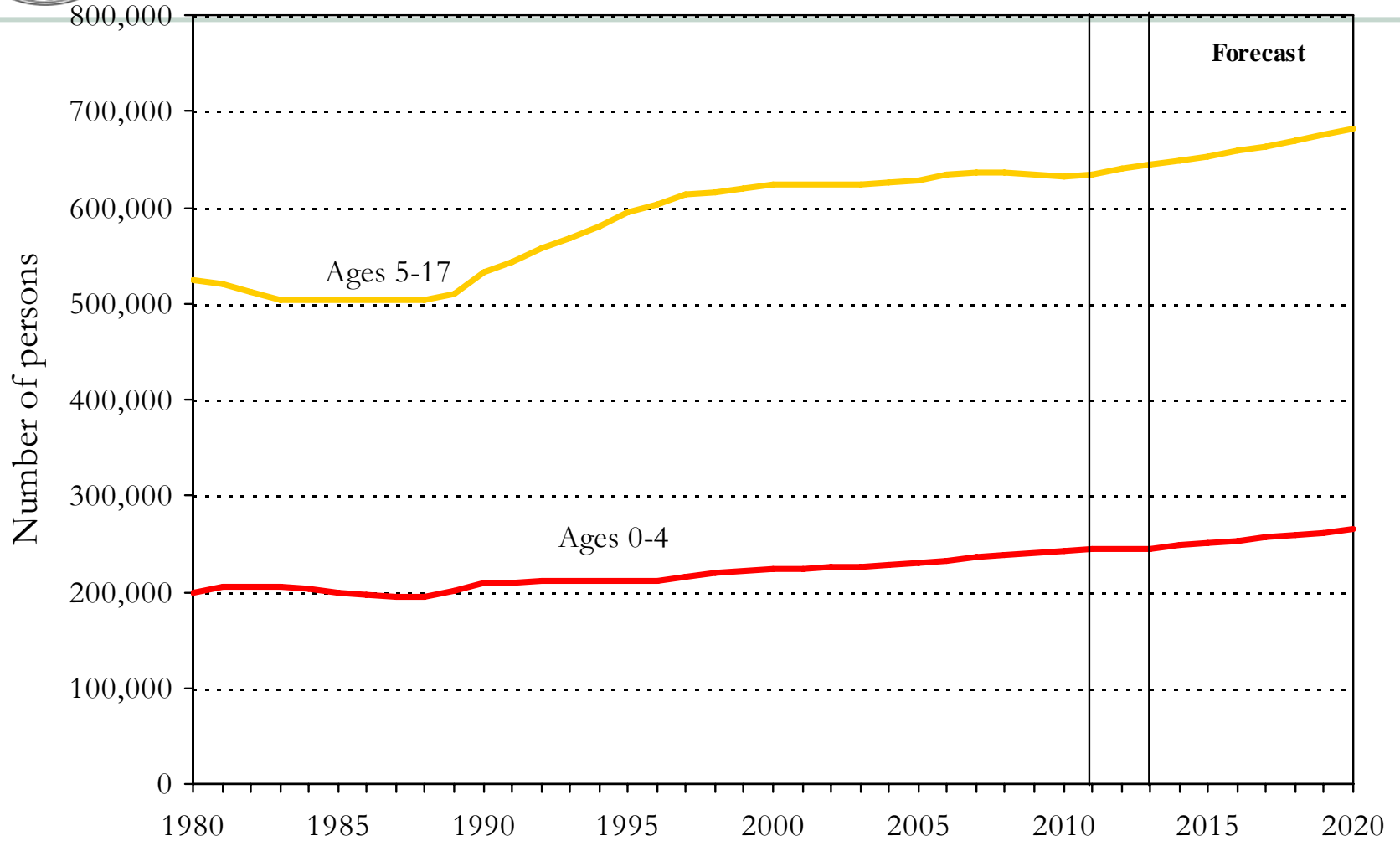


2015-2020



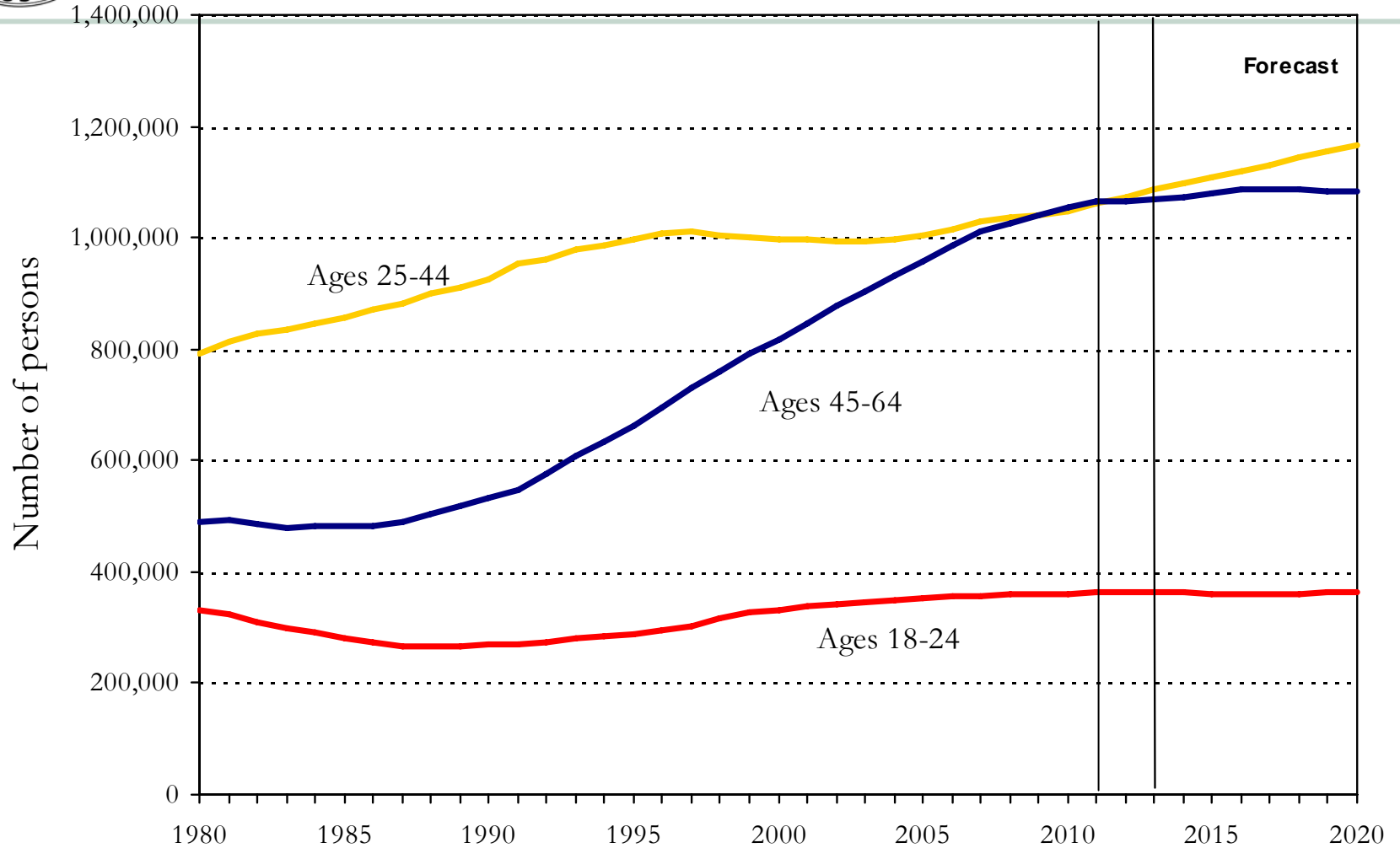


# Young-age Population: 1980-2020



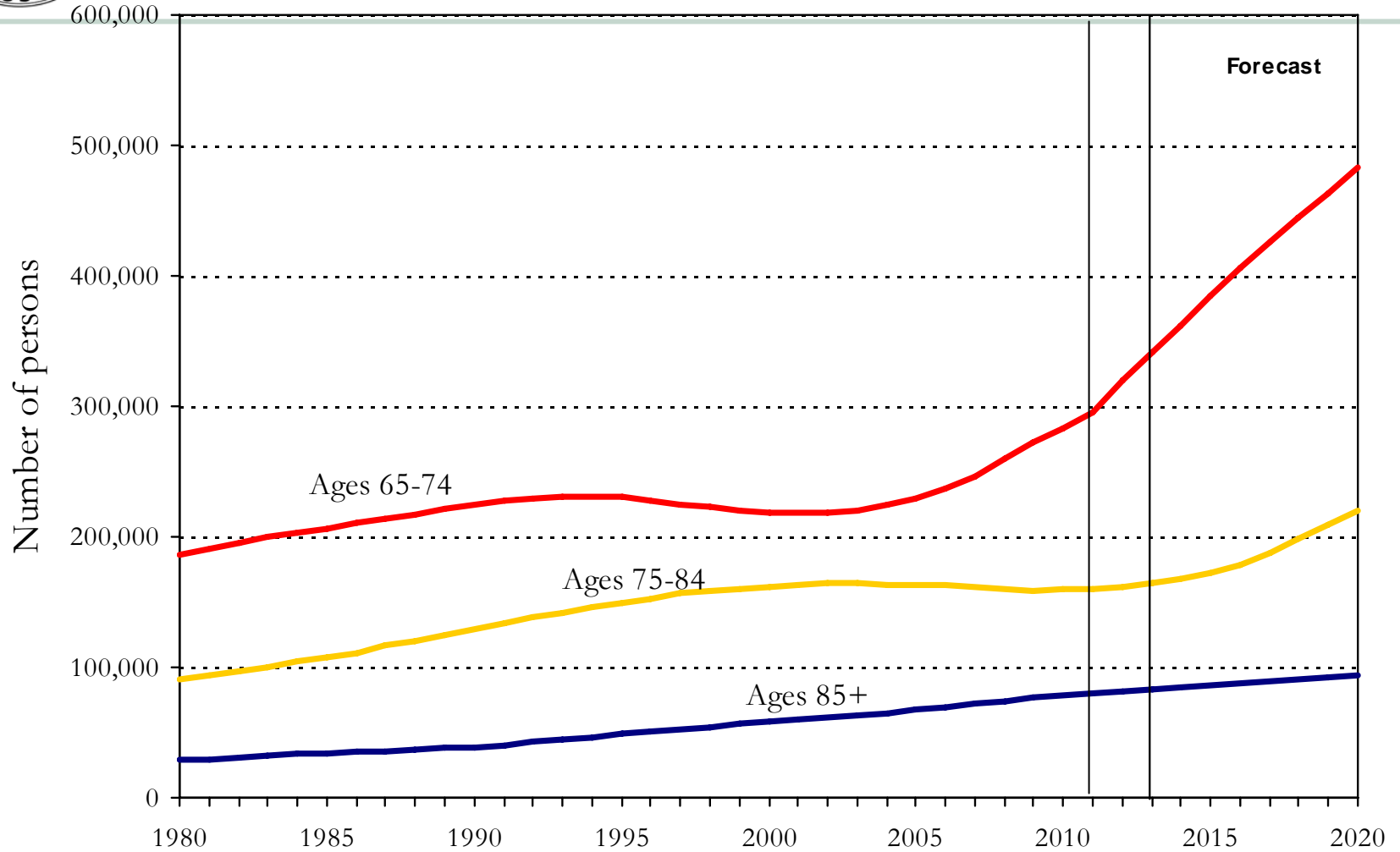


# Working-age Population: 1980-2020



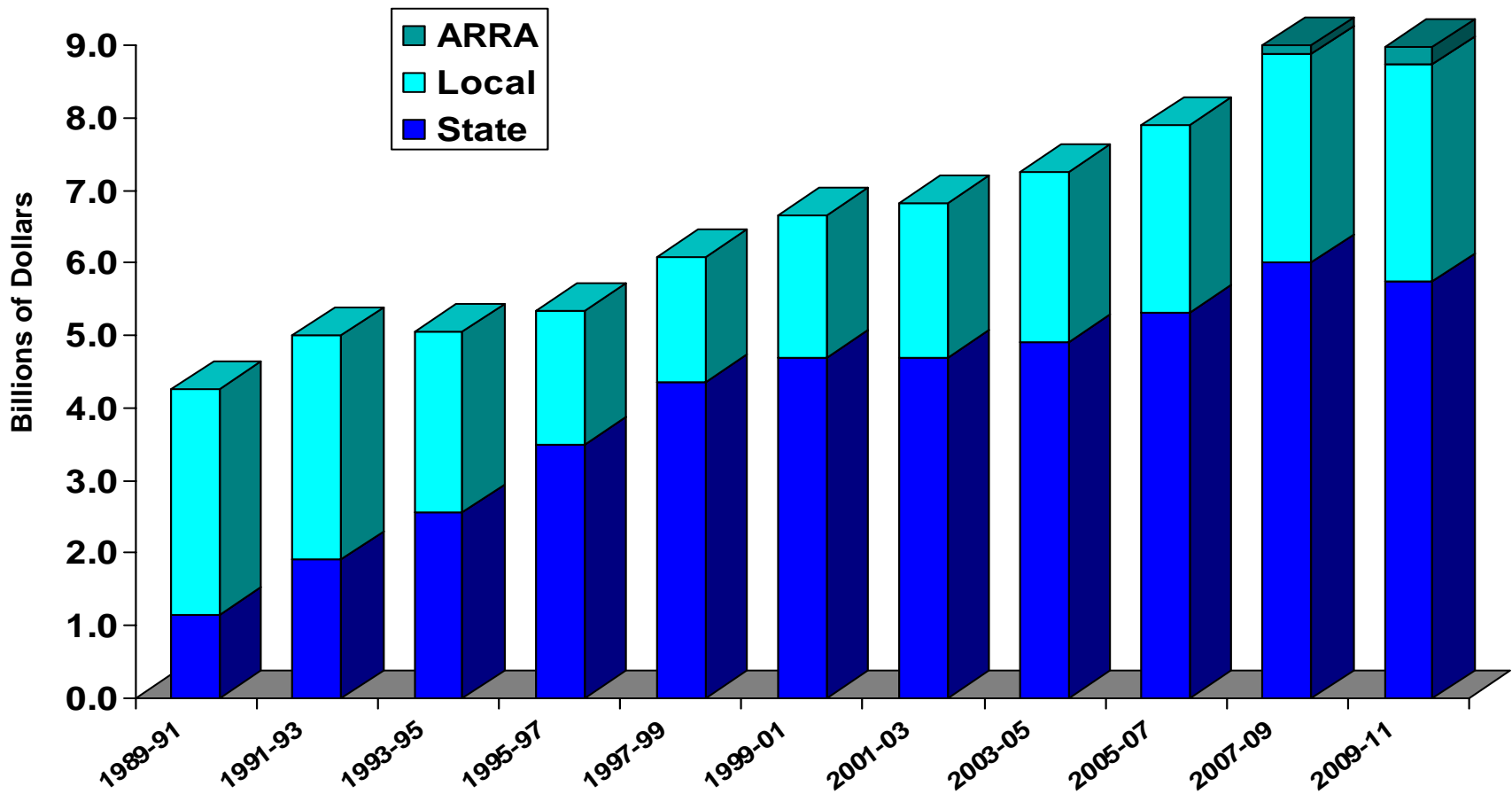


# Elderly Population: 1980-2020





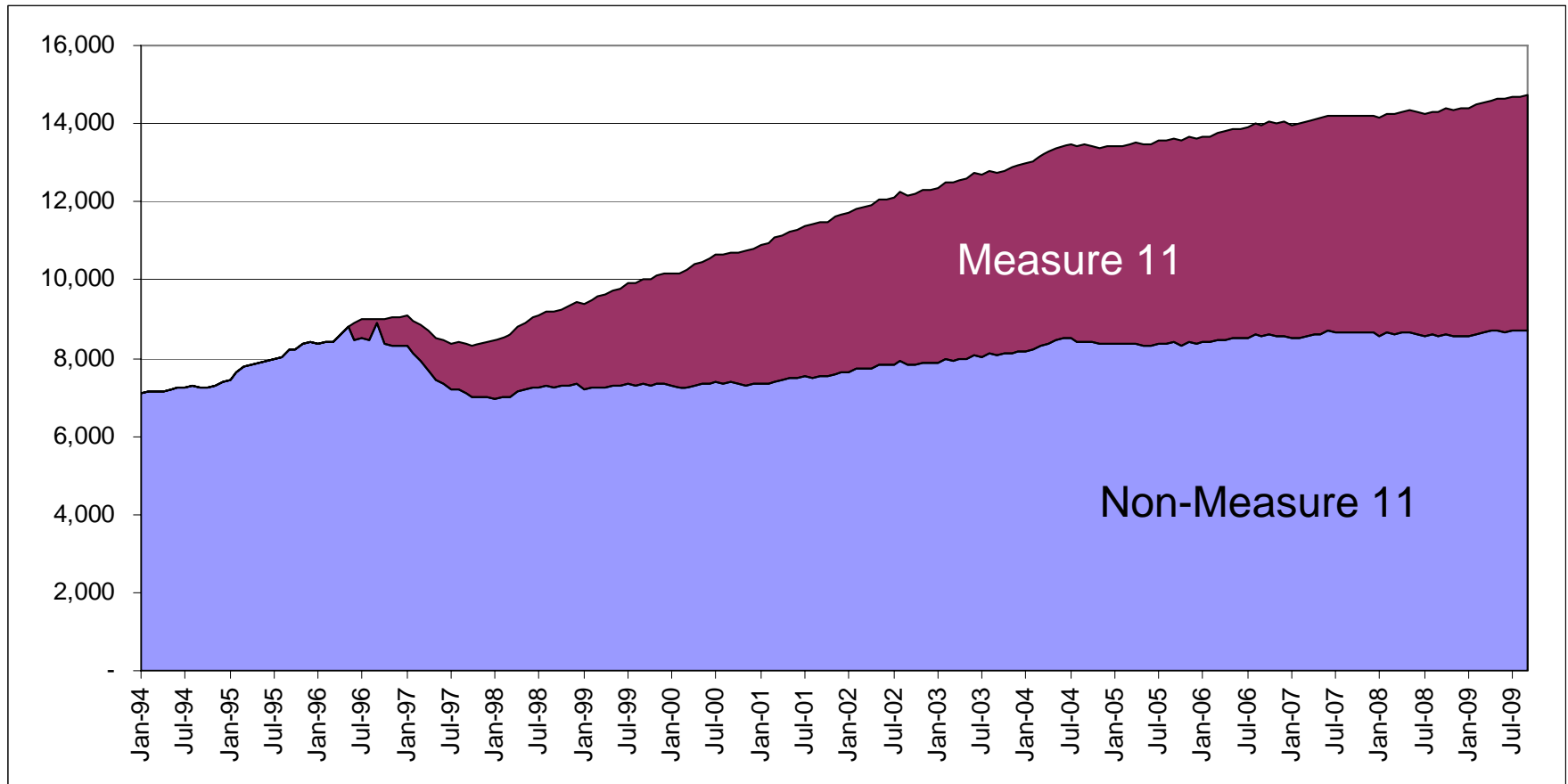
# State and Local Resources for K-12 School Funding



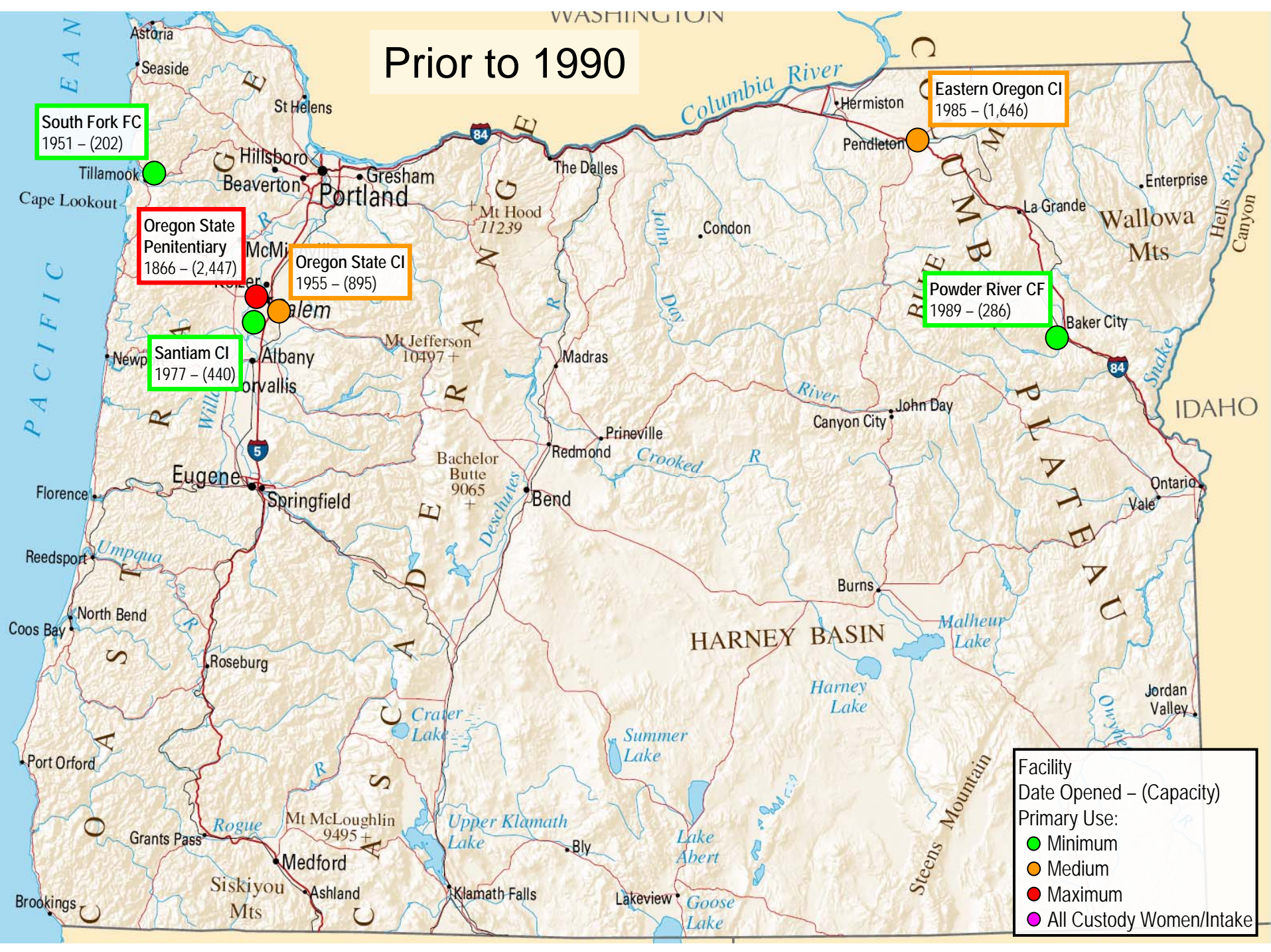
Note: 2009-11 does NOT include the "triggered" \$200 M.



# Estimated Impact of Measure 11 on Oregon's Prison System



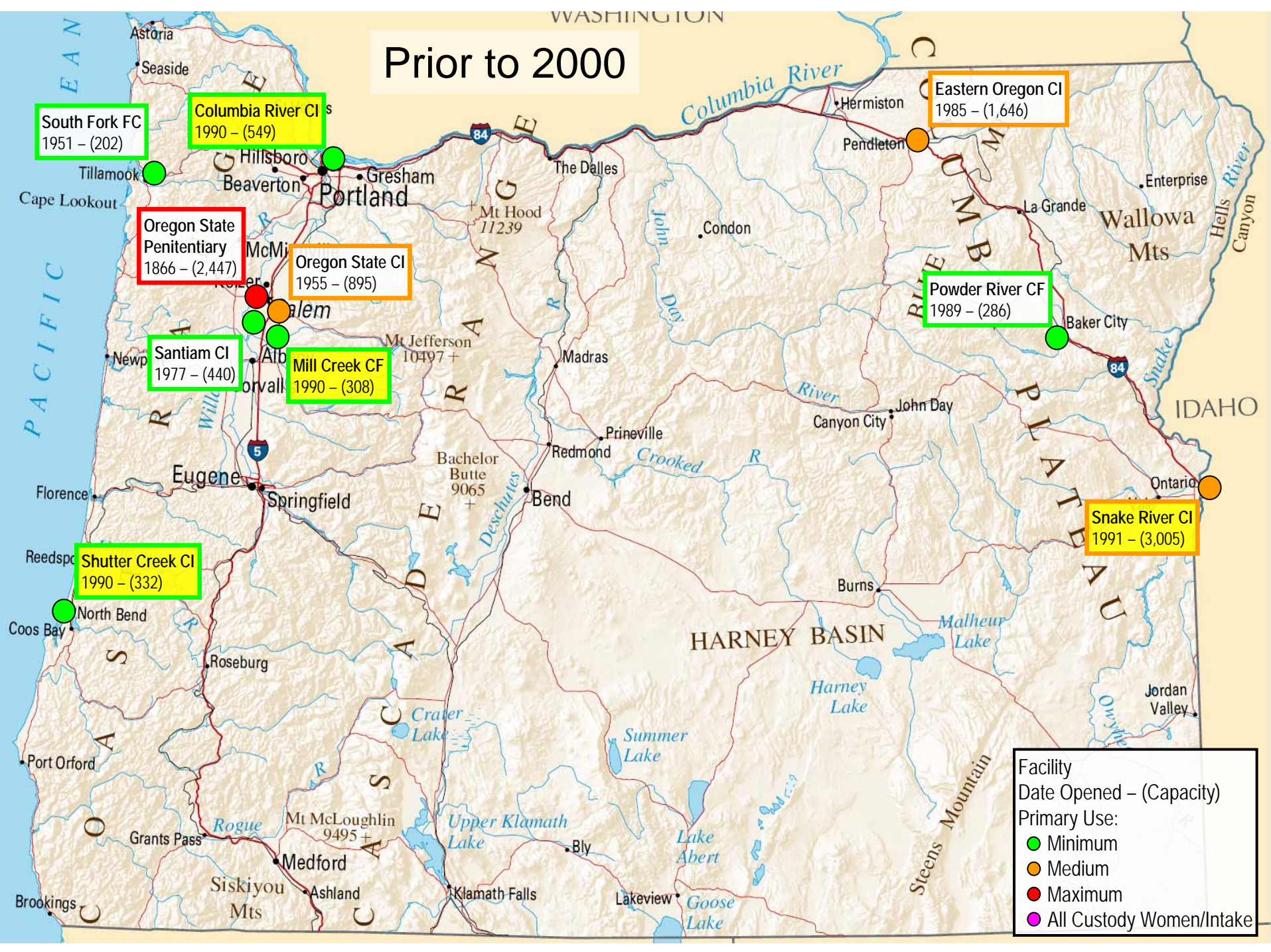
# Prior to 1990



Facility  
Date Opened – (Capacity)  
Primary Use:

- Minimum
- Medium
- Maximum
- All Custody Women/Intake

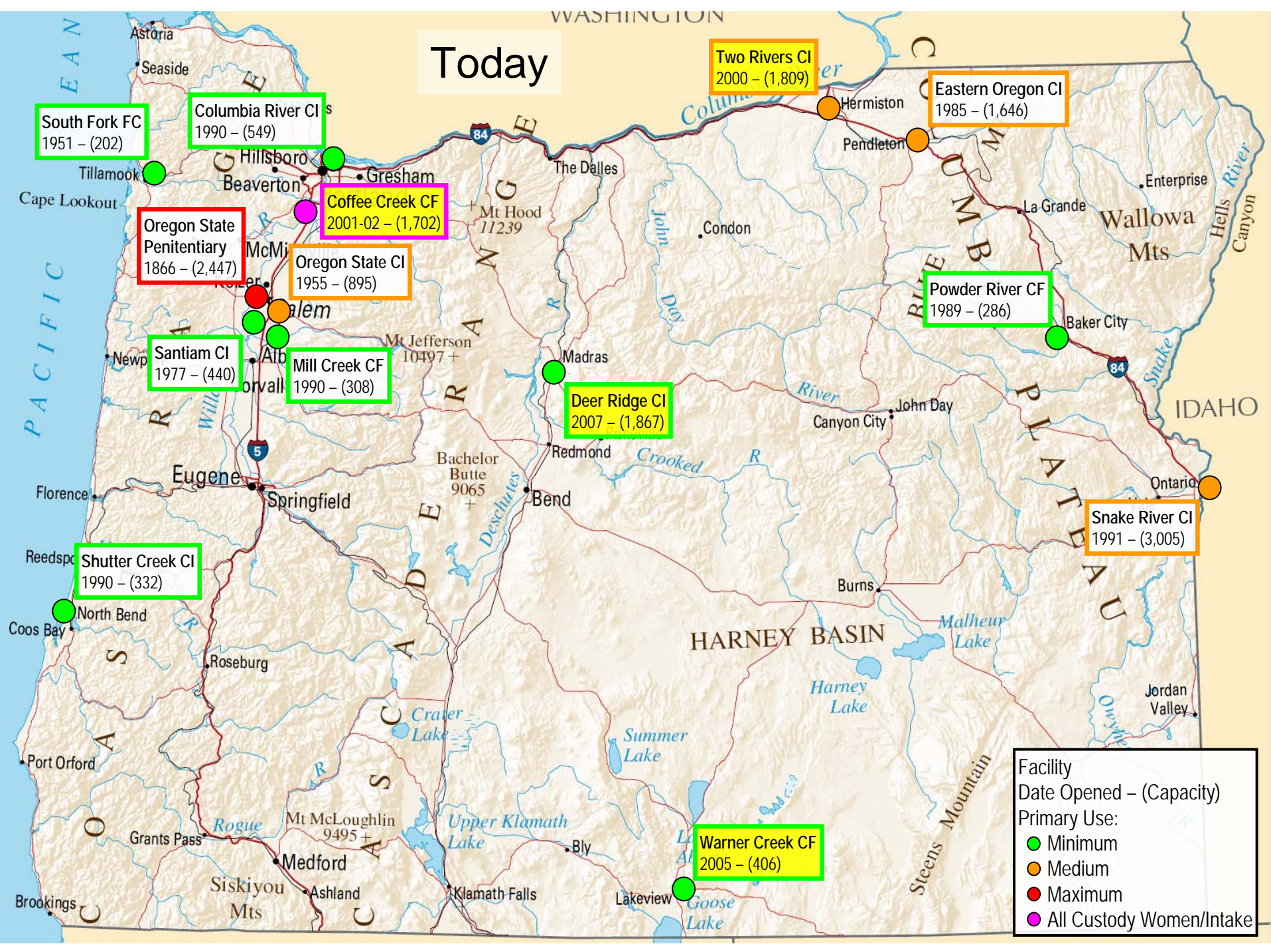
# Prior to 2000



Facility  
Date Opened – (Capacity)  
Primary Use:

- Minimum
- Medium
- Maximum
- All Custody Women/Intake

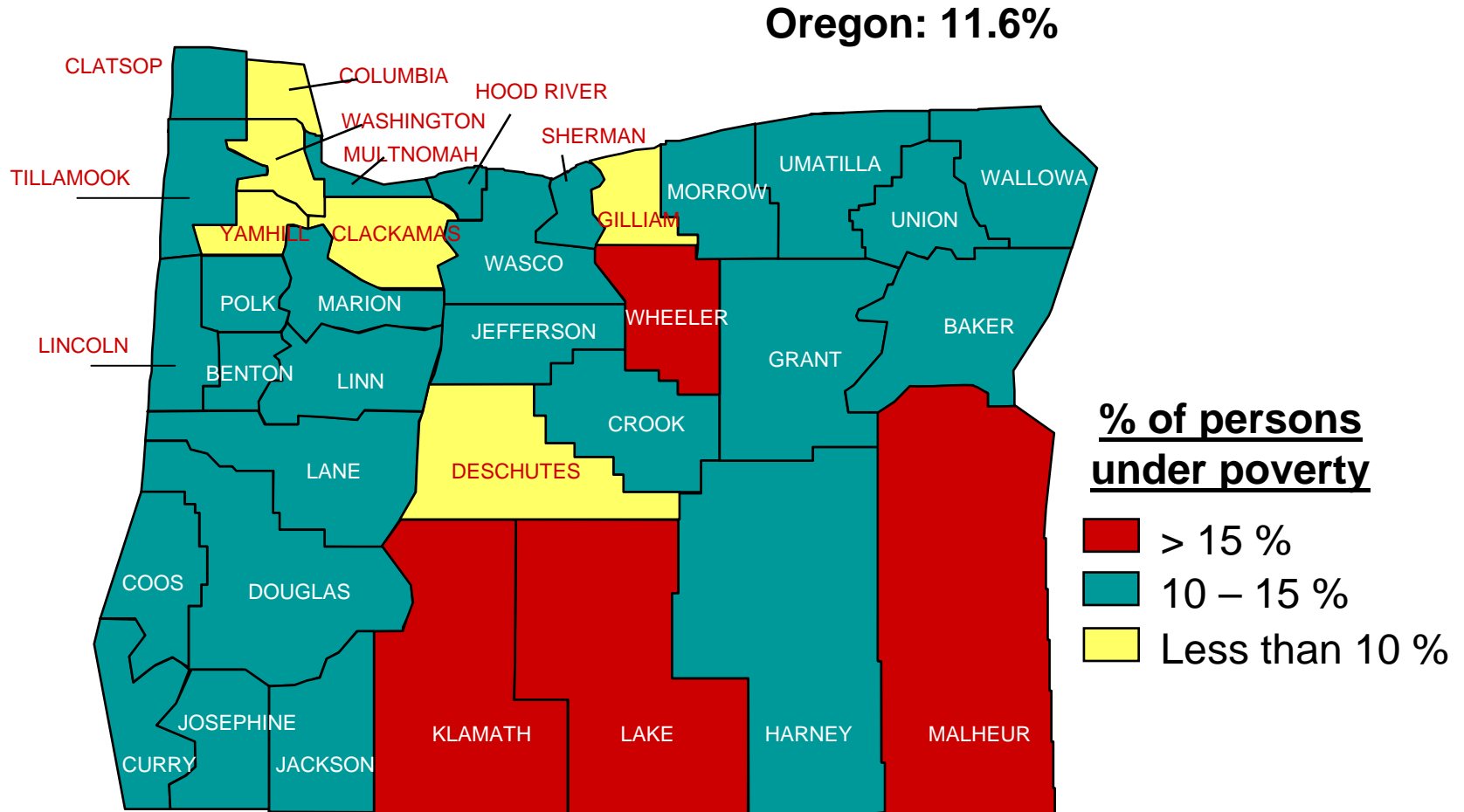
# Today



Facility	Date Opened - (Capacity)	Primary Use:
<span style="color: green;">●</span>		Minimum
<span style="color: orange;">●</span>		Medium
<span style="color: red;">●</span>		Maximum
<span style="color: magenta;">●</span>		All Custody Women/Intake

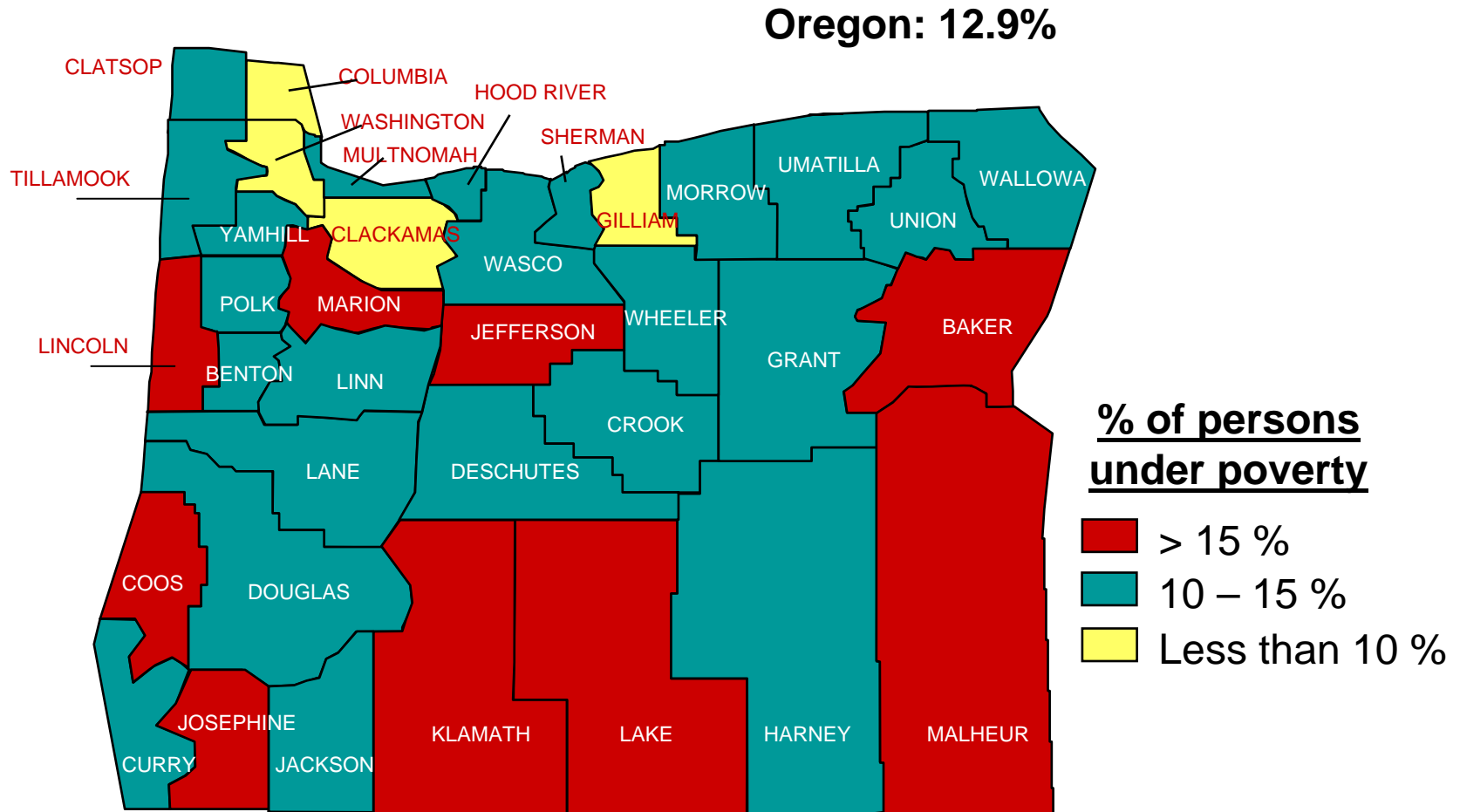


# Poverty Rate, 1999



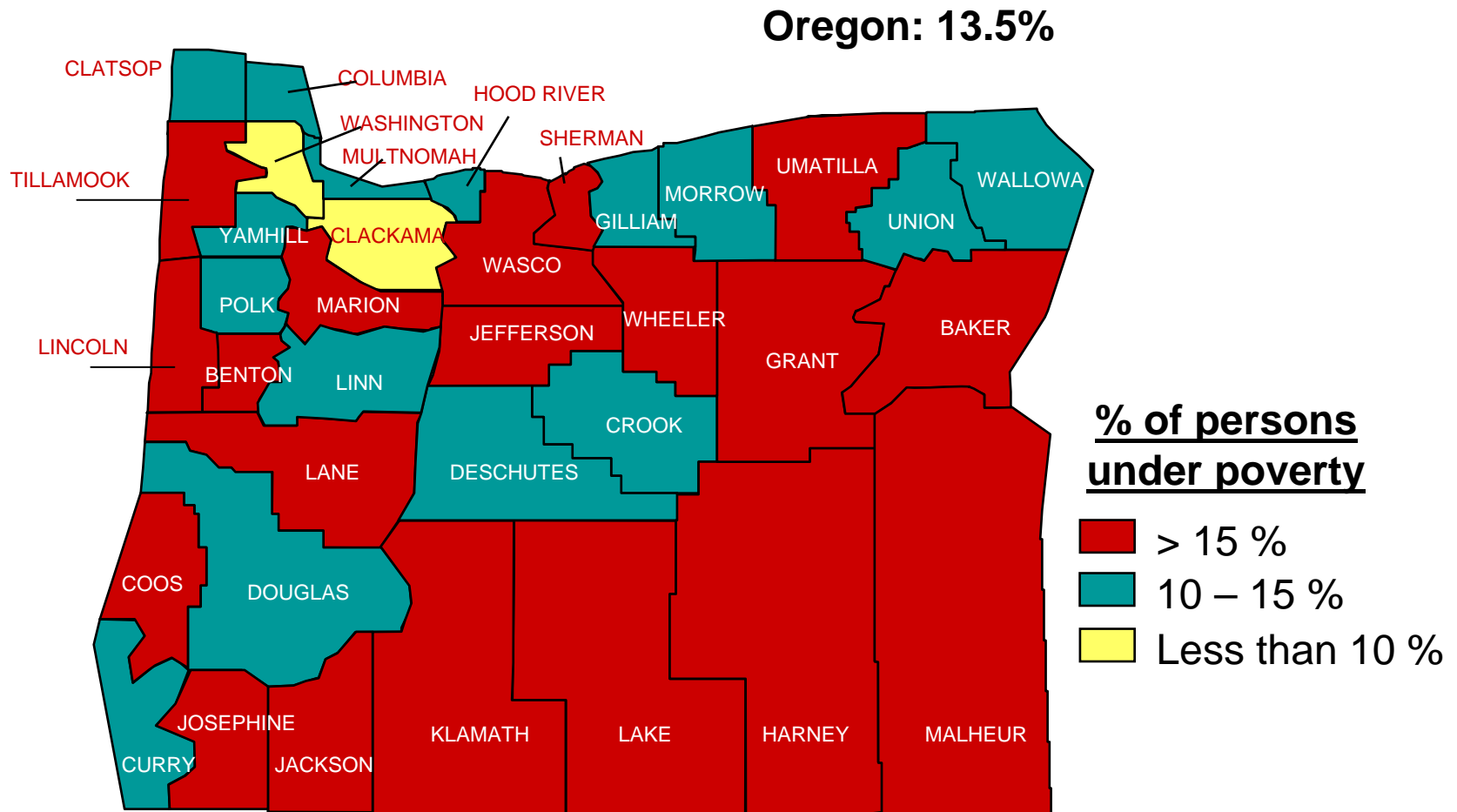


# Poverty Rate, 2004





# Estimated Poverty Rate, 2008





# Expenditure Methodology

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## Current Service Level (CSL) Approach

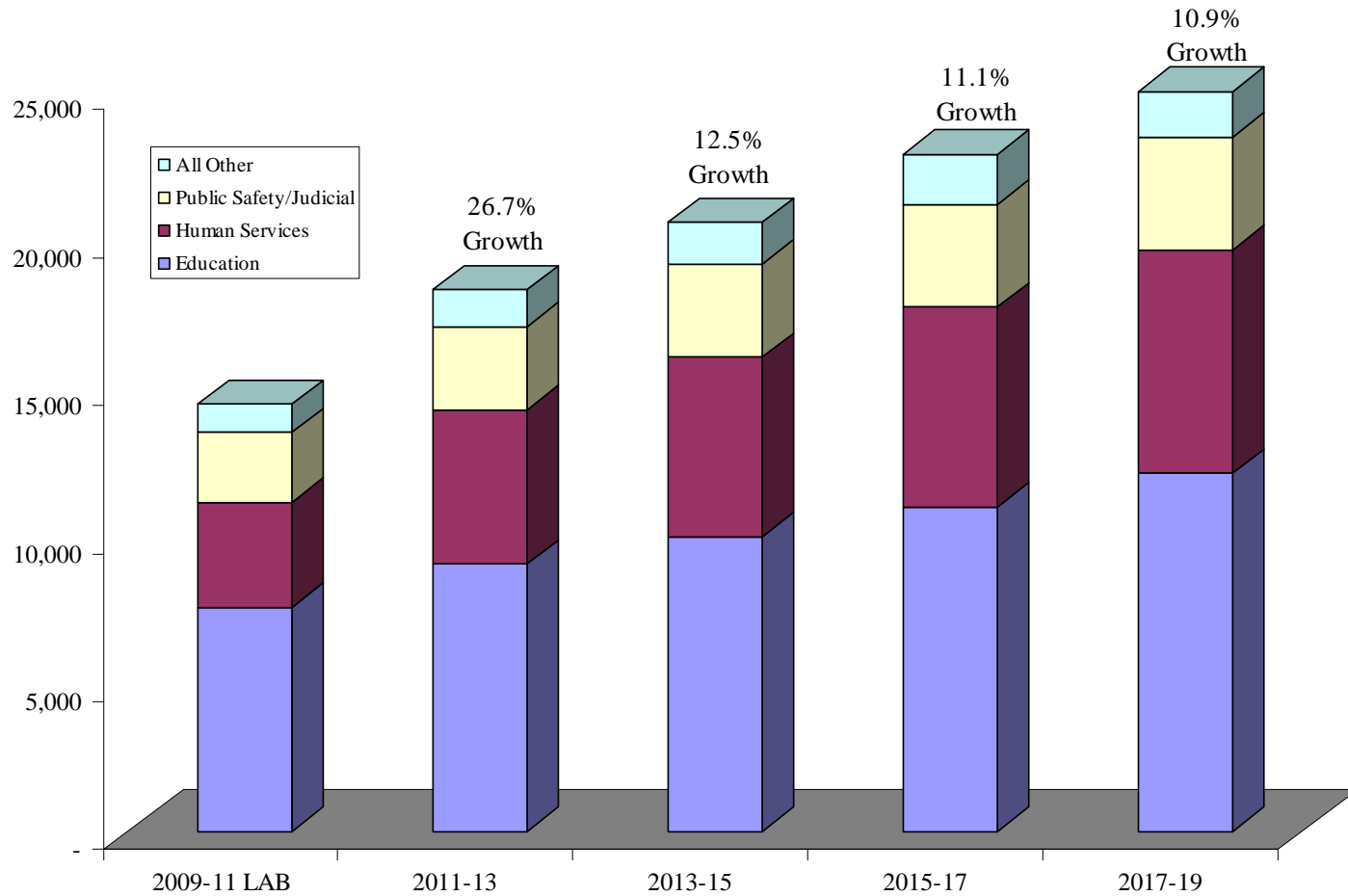
- Phased in/out Legislatively Approved Programs that were starting or ending in 2009-11
- Added Projected Inflationary Increases (general and medical)
- Adjusted Mandated Caseload programs for population changes
- Adjusted Mandated Caseload programs for projected federal funding changes and replacing \$1.6 billion of one-time funds used in 2009-11
- Includes debt service to state bond capacity

## Does not Include Policy Adjustments

- Impact of Federal Health Care Reform

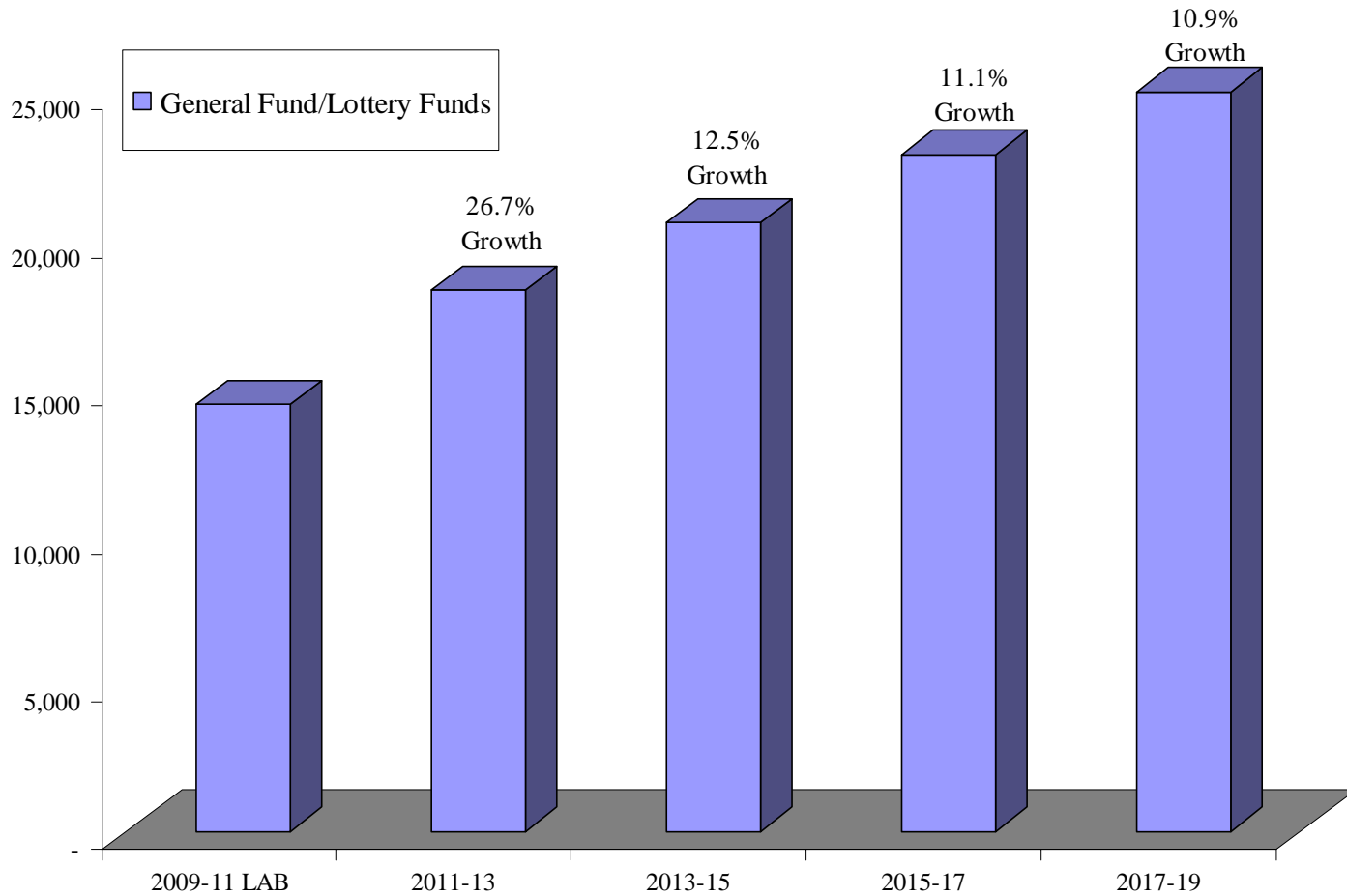


# Long Term Expenditures



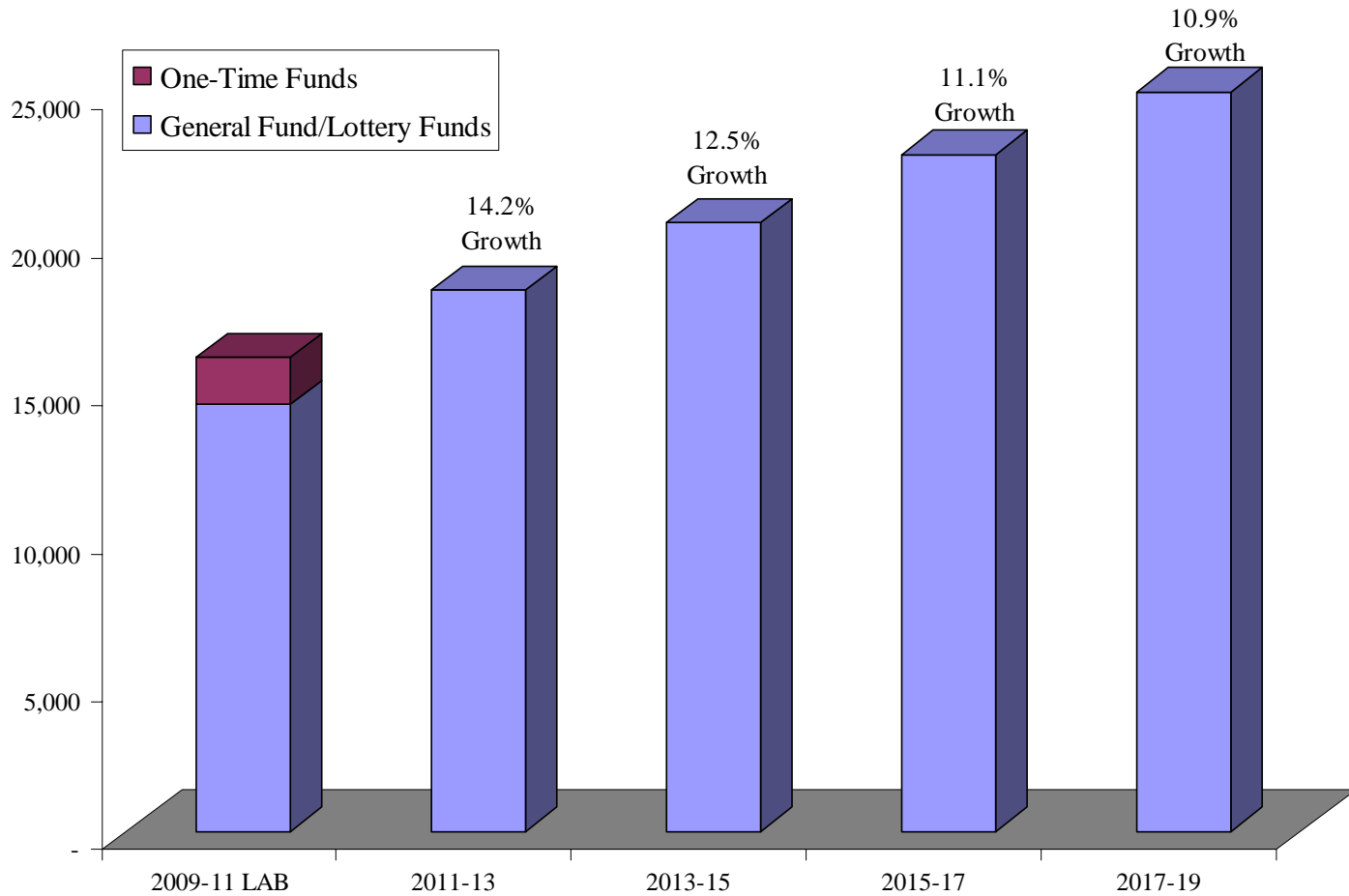


# Long Term Expenditures





# Long Term Expenditures





# Expenditure Assumptions

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## Overall

- General and medical inflation factors developed based on national projections
- Used standard current service level assumptions for program expansions.
- Existing Debt Service schedules built in for agency budgets, and an overall adjustment made that assumes full debt capacity used each biennium.
- One-Time Funds used to balance the budget in 2009-11 are replaced with General Fund in 2011-13

## Education

- State School Fund and Community Colleges budgets were projected to grow using a CSL model.
- No enrollment growth included for OUS and Community Colleges
- Opportunity Grants increased only by standard inflation.
- State School Fund and Community College growth was offset by projected growth in local property taxes.



# Expenditure Assumptions (cont)

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## Human Services

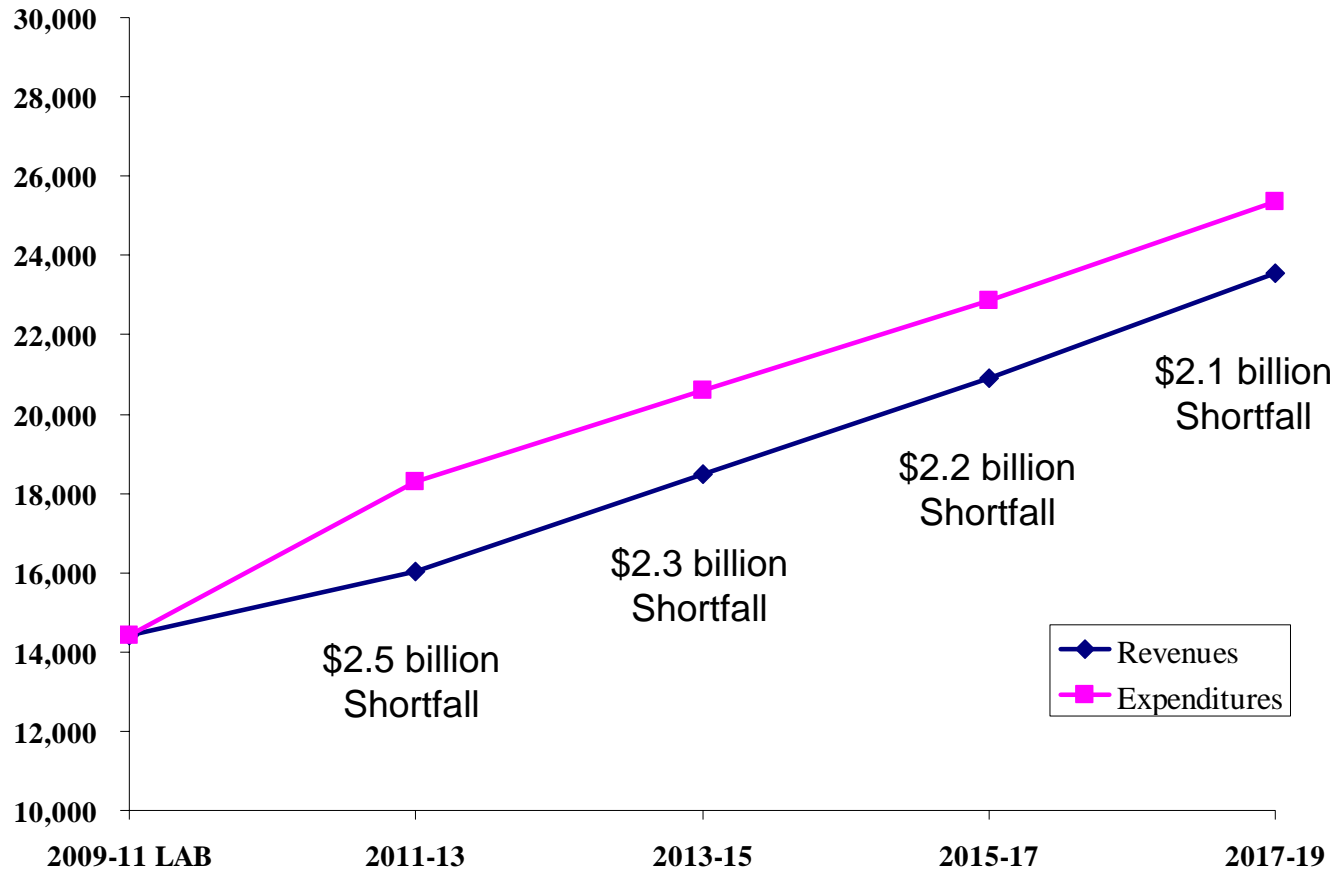
- Human Service caseloads were projected to increase based on the demographic growth of the client population.
- Oregon Health Plan cost growth was assumed at about 13% per biennium.
- Assumes that programs funded with Other Funds in 2009-11 will continue to be funded by those revenue sources in 2011-13 and beyond.
- Includes funding changes related to flattened tobacco tax revenue projections and changes in federal match rates.
- Includes construction and operation of new state hospital facilities.

## Public Safety

- Caseload growth for public safety programs based on October 2009 prison population forecast, which includes implementation of Ballot Measure 57.
- Includes funding for Junction City prison construction in 2011-13, becoming fully operational in 2013-15.
- Includes debt services for the Oregon Wireless Interoperability Network.

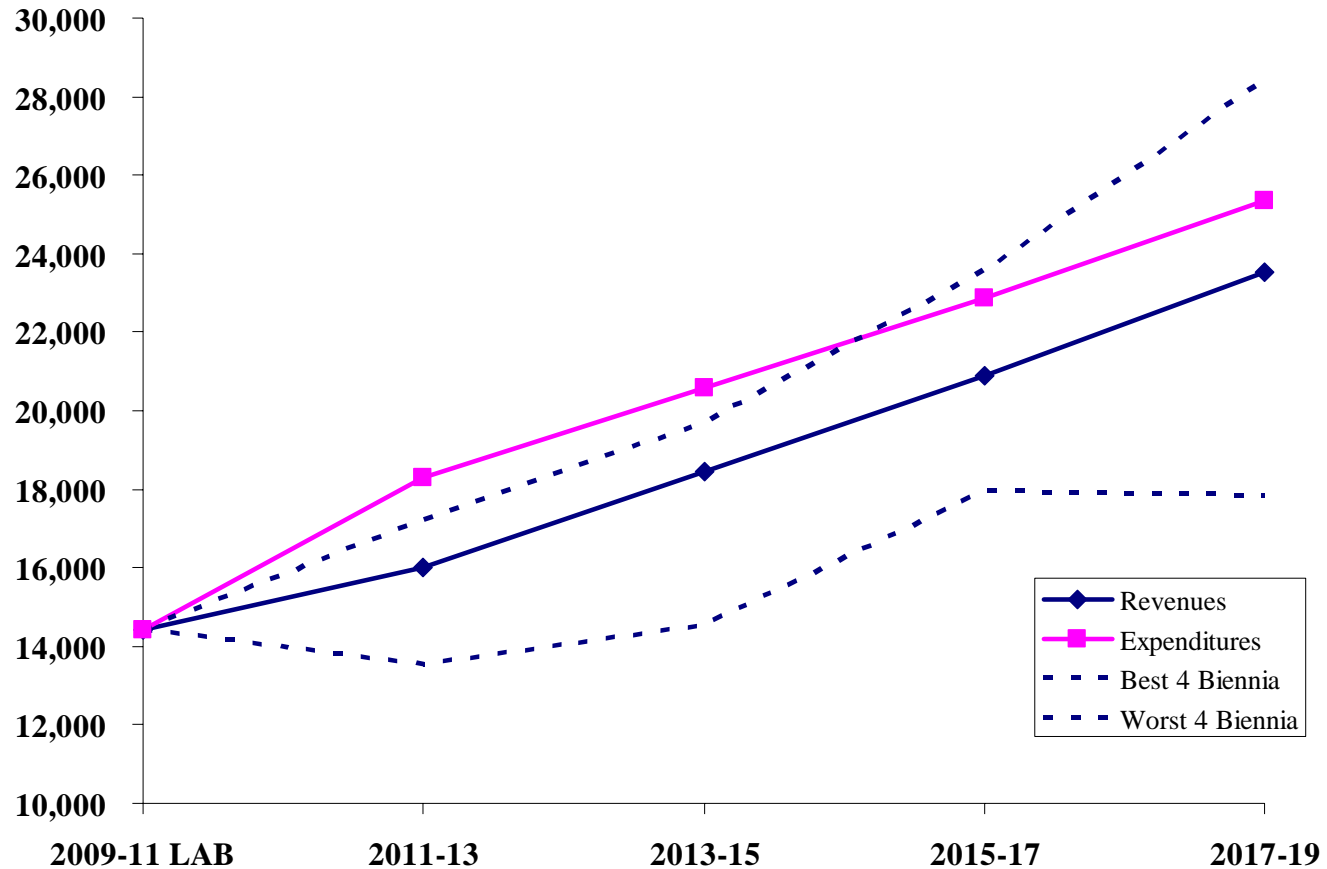


# Long Term Budget





# Long Term Budget





# Summary

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## **Next Steps will be difficult**

- A \$2.5 billion shortfall equals about 13 percent of the CSL budget.
- Revenue Options will be limited
  - Economy could outperform expectations, but probably won't solve the problem
  - Federal Government may provide some relief, but likely not enough
  - More new state revenue ideas are not likely to find support after the passage of Ballot Measures 66 and 67.
- Reserve Funds have already been tapped
- Structural Deficit runs into the foreseeable future.