

Oregon Legislative Fiscal Office
and
State of Oregon Budget

January 2019

Constitutional Responsibility of the Legislature: To balance the budget

Article IX, Section 2: Legislature to provide revenue to pay current state expenses and interest

The Legislative Assembly shall provide for raising revenue sufficiently to defray the expenses of the State for each fiscal year, and also a sufficient sum to pay the interest on the State debt, if there be any.

Article IX, Section 4: Appropriation necessary for withdrawal from treasury

No money shall be drawn from the treasury, but in pursuance of appropriations made by law.

Article IX, Section 6: Deficiency of funds; tax levy to pay

Whenever the expenses, of any fiscal year, shall exceed the income, the Legislative Assembly shall provide for levying a tax, for the ensuing fiscal year, sufficient, with other sources of income, to pay the deficiency, as well as the estimated expense of the ensuing fiscal year.

Oregon's Budget Policy

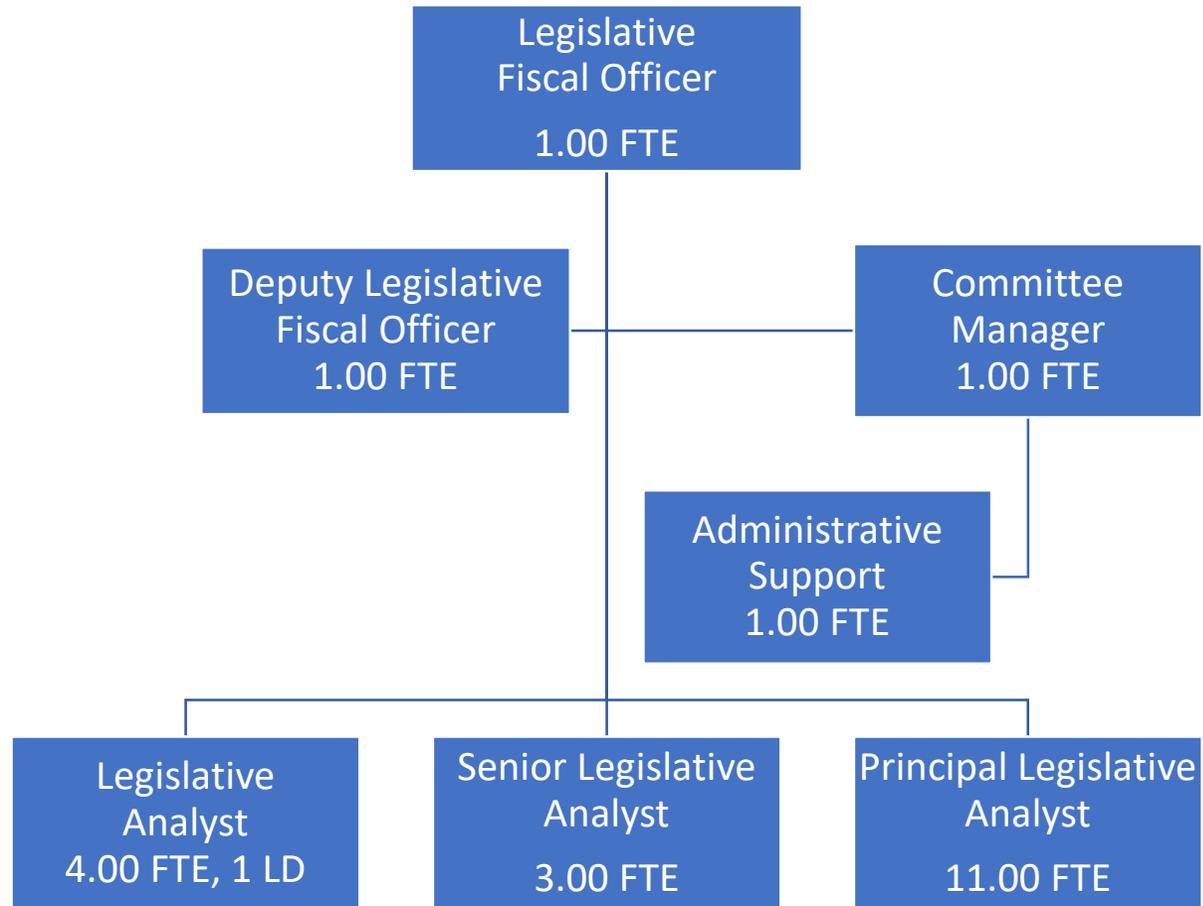
Based on principles of:

- Balancing estimated revenues and proposed expenditures
- Allocating resources to achieve desired outcomes
- Measuring program outcomes and progress toward desired outcomes
- Encouraging savings and investments that reduce or avoid future costs
- Planning for the short term and the long term, using consistent assumptions on demographics and trends
- Providing accountability at all levels for meeting program outcomes

What is the Legislative Fiscal Office (LFO)?

- Non-partisan, independent, permanent professional support staff office to the Legislature that was created in 1959
- Mission is to provide objective research, analysis, and evaluation of state expenditures, financial affairs, program administration, and agency operations; LFO also provides staffing to several legislative committees
- Staff consists of a director, a deputy, 18 analysts, a committee manager, and an administrative support
- Each analyst has a portfolio of agencies with which they work

LFO Organization Chart



LFO Analyst Responsibilities During Session

- Review agency budgets for accuracy
- Analyze fiscal and policy issues
- Examine revenue sources, expenditure limitations, expenditure patterns, staffing levels, and proposed law changes
- Review impact of budget reductions or enhancements
- Make recommendations to the Legislature related to agency budgets
- Prepare fiscal impact statements
- Respond to questions and collect information requested by legislators
- Facilitate bill amendments, budget note and budget report finalization, and presentation of Ways and Means Subcommittee decisions for the Full Ways and Means Committee
- Assist bill carriers on the House and Senate floors

Other Staffing Responsibilities

- Emergency Board is a constitutional body responsible for making certain allowable budget adjustments when the Legislature is not in session
- Joint Legislative Audit Committee is responsible for reviewing audits, conducting evaluations, and making recommendations for change based on audit findings
- Joint Legislative Committee on Information Management and Technology is responsible for establishing statewide policy on information systems and technology and making recommendations on information resource management programs and information technology acquisitions
- Transparency Oregon Advisory Commission is responsible for making recommendations to the Department of Administrative Services on the creation, contents, operations, and enhancements to the state's transparency website

Staff Responsibilities During the Interim

- Publish highlights report of session budgetary actions and detailed analysis reports of the legislatively adopted budget by agency and program
- Publish briefs and reports on budget-related topics and issues of interest to the Legislature
- Produce analysis and recommendations on agency requests for Emergency Board action
- Review state agency budget execution and operations
- Monitor agency expenditures and program implementation
- Respond to inquiries from legislators, press, agencies, citizens, NCSL, etc.

Oregon's Two-Year Budget Cycle

- Oregon budgets on a biennial basis
 - July 1st of odd-numbered year to June 30th of next odd-numbered year
 - Currently 19 months into the 2017-19 biennium; started creating the 2019-21 biennium budget in March 2018
- 2019 Legislative Session (January to June)
- 2019 Short Interim (July to January)
 - Interim Joint Ways and Means only makes recommendations
- 2020 Legislative Session (February)
 - Recommendations from Interim Joint Ways and Means or new items
- 2020 Long Interim (March to December)
 - Emergency Board
 - Budget development for next biennium

Oregon's Two-Year Budget Cycle

**In any two-year biennial budget period,
adjustments to the adopted budget
can be made in either of the annual sessions
or by the Emergency Board**

7) Legislatively Adopted Budget (LAB) is passed

1) Agencies use Allotment plan to show how LAB is spent each quarter

2) Agencies implement LAB with oversight from LFO/DAS; tentative budget for next biennium prepared

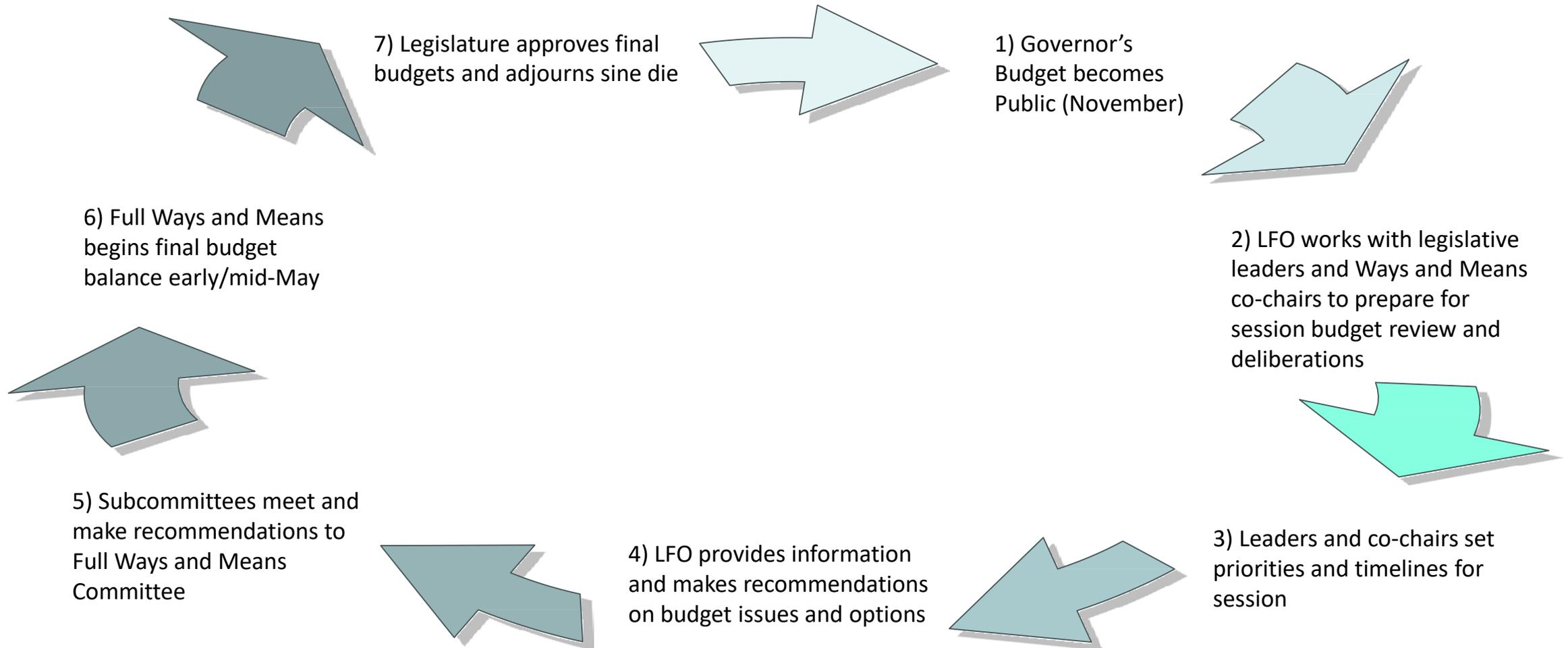
3) Agencies may request funding from Emergency Board

4) Agencies prepare Request Budget (ARB) based on LAB, interim action, and instructions

5) ARB analyzed; Governor's Budget prepared

6) Legislature reviews materials from Executive Branch and other sources; holds hearings, prepares balanced budget

Oregon Budget Process – Long Legislative Session



Budget Basics – Fund Types

- 1) General Fund – appropriation
 - Primarily personal and corporate income taxes, estate and inheritance taxes, corporate excise taxes; 7% other (i.e., liquor revenue)
 - “Fungible”
- 2) Lottery Funds – allocation
 - Sale of tickets and video lottery gaming proceeds, associated interest and penalties
 - Dedicated to economic development, education, parks/salmon habitat, veterans
- 3) Other Funds – limitation
 - Fees, interest earnings, excise taxes, dedicated fee or tax revenue (9-1-1 tax, lodging tax, forest harvest tax, vehicle and gas tax, etc.), bond proceeds
 - Dedicated by law for specific purposes
 - Limited and Nonlimited
 - Nonlimited: debt service, cost of issuance, Unemployment Insurance benefit payments
- 4) Federal Funds – limitation
 - Grants, formula funds from federal agencies such as HUD, HHS
 - Dedicated by law for specific purposes
 - Limited and Nonlimited
 - Nonlimited: federally funded food and housing vouchers

Budget Basics – Expenditure Categories

- Personal Services includes personnel costs (wages, PERS, benefits, social security, etc.)
- Services and Supplies includes operation costs (travel, office supplies, rent, legal expenses, expendable property, contracts, etc.)
- Capital Outlay includes products with value of more than \$5,000, life of more than two years, used more than once
- Special Payments are transfers and payments to external entities, such as benefit payments or distributions to governmental and nongovernmental entities.
- Capital Improvement includes construction, remodel, improvement costs of less than \$1 million
- Major Construction/Acquisition (or Capital Construction) includes construction, remodel, improvement costs of more than \$1 million; established for a six-year period
- Debt Service includes principal and interest payments on bonds and certificates of participation

Budget also tracks positions and FTE (full-time equivalent)

Budget Basics – Appropriation Bills

- Appropriation bills are the budgetary control
- Appropriation bills are session law (Oregon Laws)
- Appropriation bills are by fund type and may be total agency or detailed to program within agency
- Appropriation bills are not detailed to the expenditure category level
- Budget reports accompany appropriation bills or policy bills with appropriation amendments

Budget Basics – Budget Bills

- Appropriation bills are generally agency specific (House bills = 5000 series, Senate bills = 5500 series)
- Oregon has approximately 80 agencies under budgetary control
- Range from small (\$300,000 biennial budget) to large (\$22 billion biennial budget)
- Budget for bonding and capital construction are in bills separate from agency budget bills
- Article IX, Section 7, Oregon Constitution limits appropriation bills to state current expenses (no other subject allowed)
- Final bills of session are commonly known as the Program Change bill and the Omnibus Budget Reconciliation (a.k.a. Emergency Fund) bill

Budget Basics: “Budget Math”

Agency Budget Bill

+ Policy Bills

+ Omnibus Budget Reconciliation (a.k.a. Emergency Fund) Bill

+ Capital Construction Bill

= Legislatively Adopted Budget

Budget Reports

- LFO Work Session Recommendations become the basis for the budget report
 - Key Performance Measures are reviewed and approved as part of the LFO recommendation
- Accompany appropriation bills or policy bills with appropriation amendments
- Provide details on legislative action and intent for a budget bill or a policy bill with a budgetary impact (will have expenditure category detail)
- Contain detailed information on approved Policy Option Packages
- Include position authorization and full-time equivalents

Subcommittee Role and Responsibilities

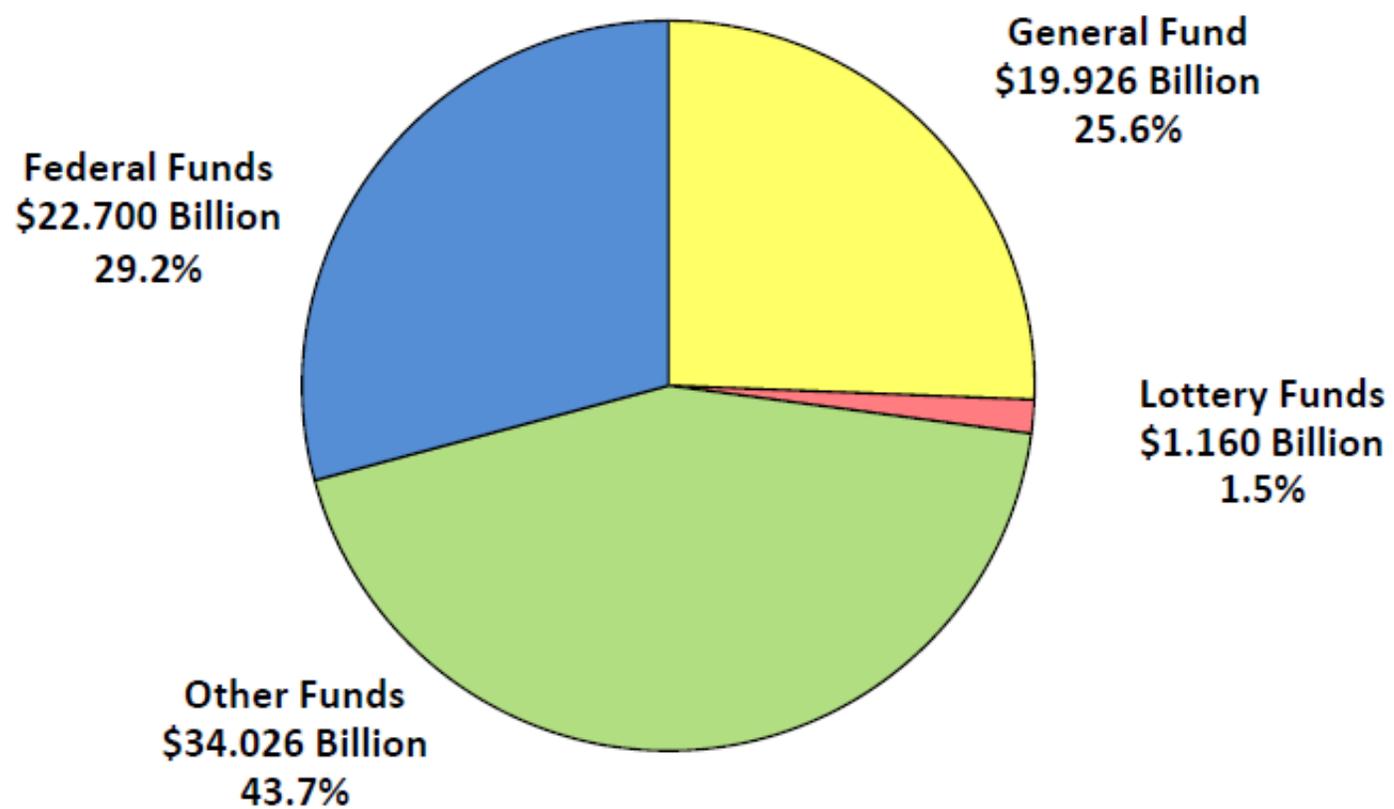
- Budget (Appropriation) Bills
- Agency Budget Presentations: Consist of Phase 1/Phase 2 (Agency Profile/Discussion of Issues) and Phase 3 (Work Session)
- Budget Notes: Included in a budget report to provide budget execution direction to agency
 - Cannot be used in lieu of legislation
 - Does not have the force of law
- Federal Grant Applications: Statute requires approval from either Joint Committee on Ways and Means or Emergency Board

Subcommittee Role and Responsibilities (cont.)

- Reports: When required by budget report, subcommittee instructions, or statute
- Fee-Related Bills: Generally tied to an agency's budget request
- Policy Bills: Directly referred to Ways and Means or subsequently referred after being heard in a policy committee; often have a financial impact or may be tied to assumptions in an agency budget

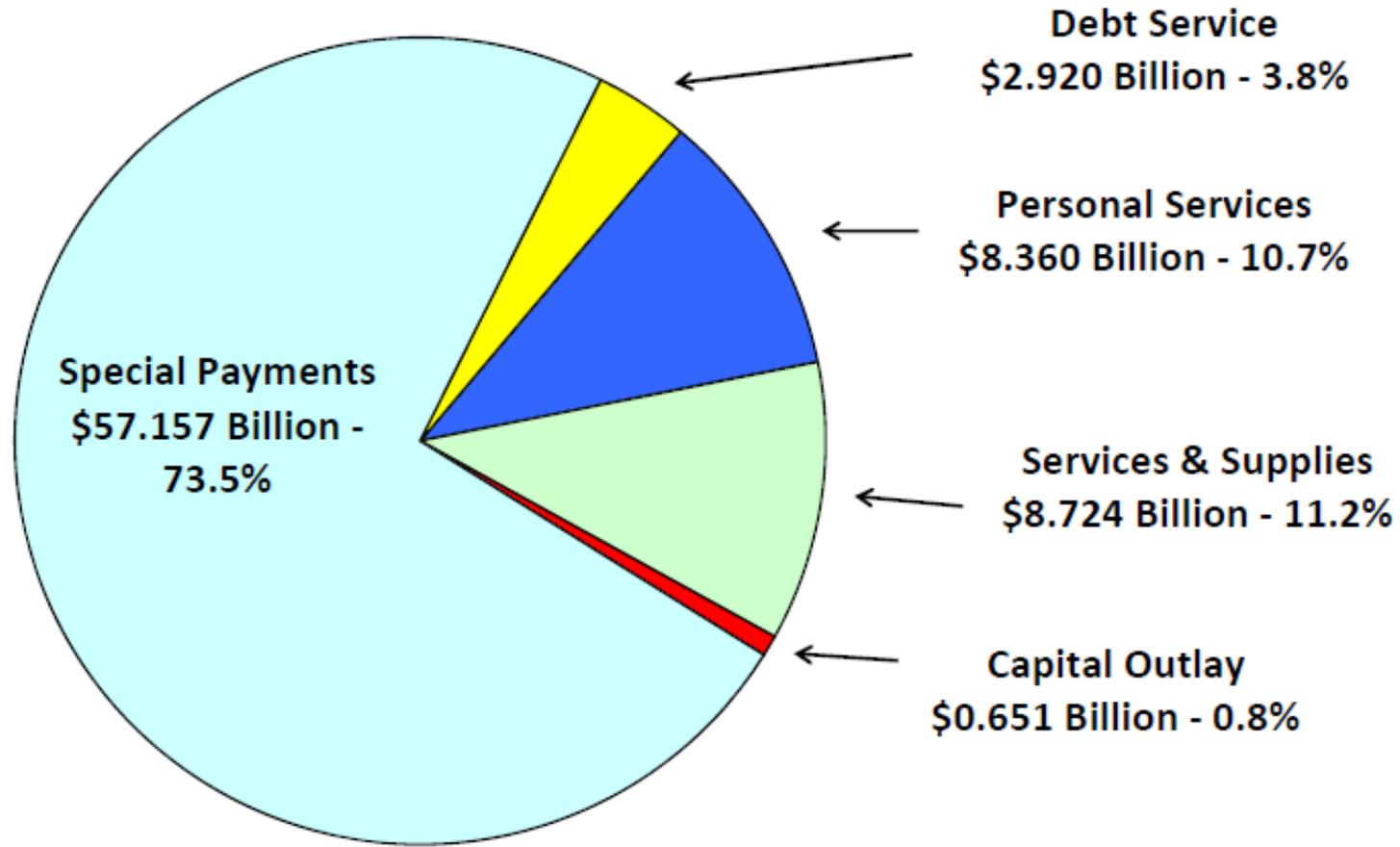
2017-19 Legislatively Approved Budget Totals \$77.812 Billion

8.3% Increase from 2015-17 Approved



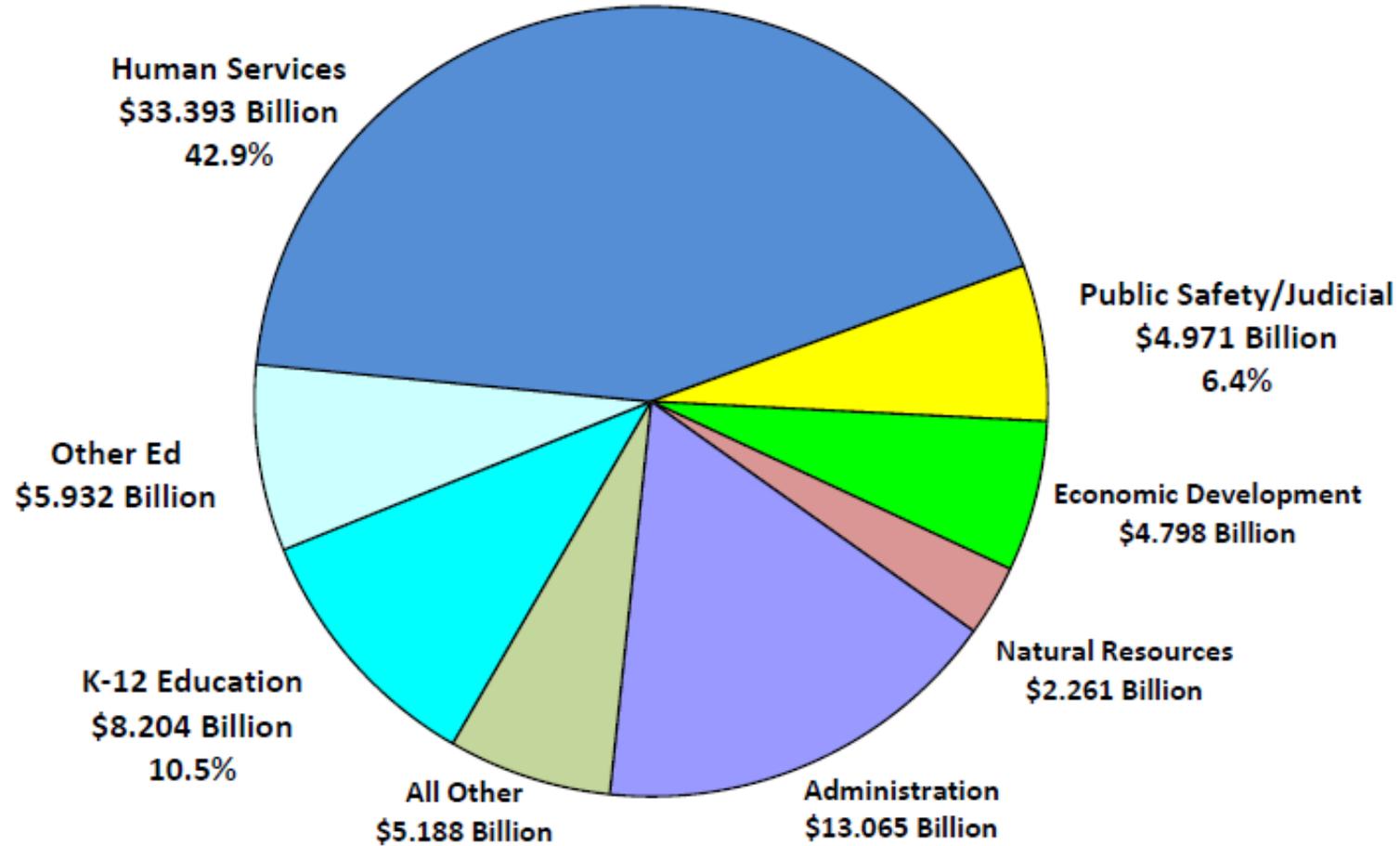
Expenditures by Category

Total Funds - 2017-19 Legislatively Approved Budget
(through December 2018; \$77.8 Billion)



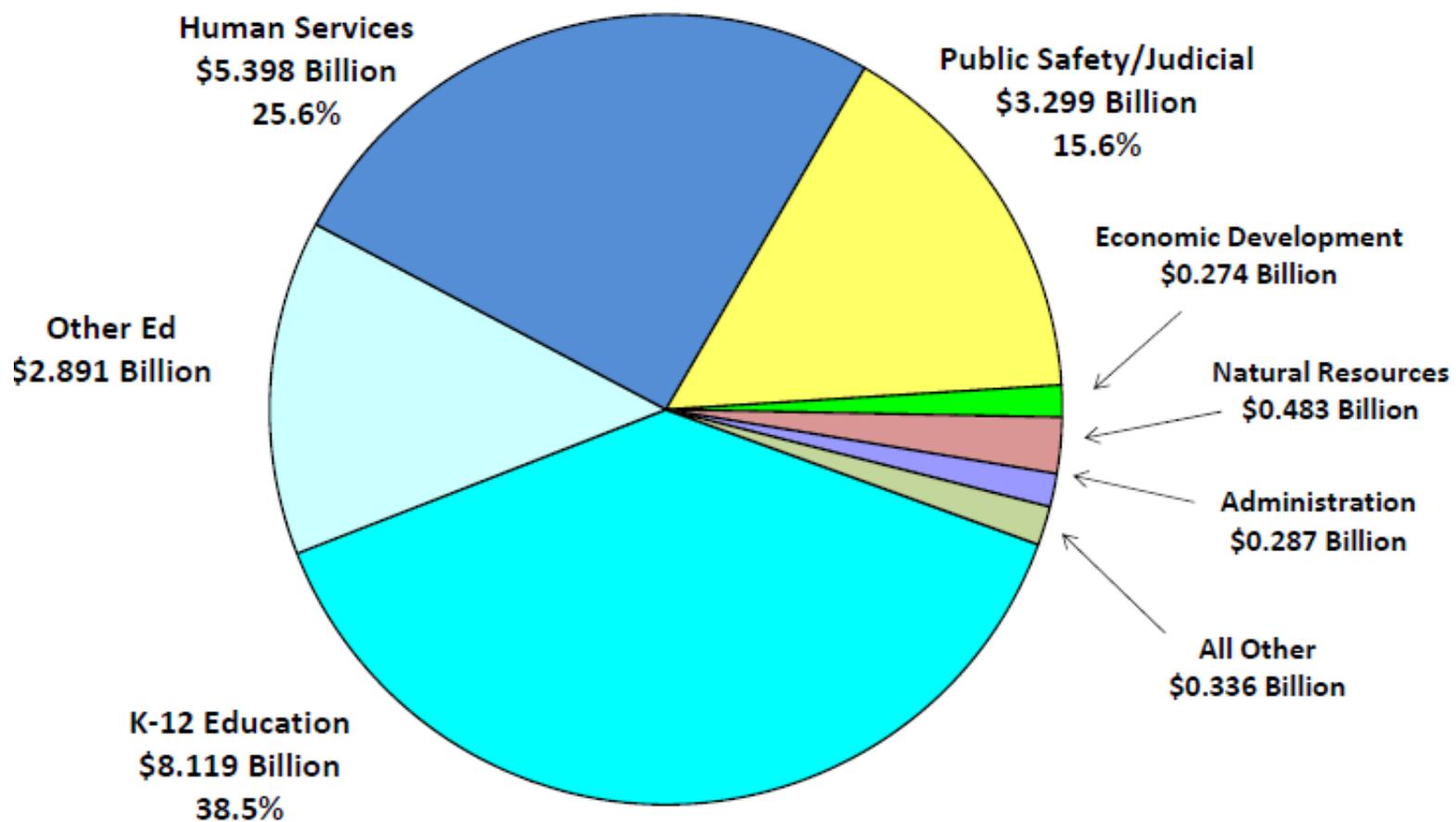
2017-19 Legislatively Approved Budget - Total Funds \$77.812 Billion

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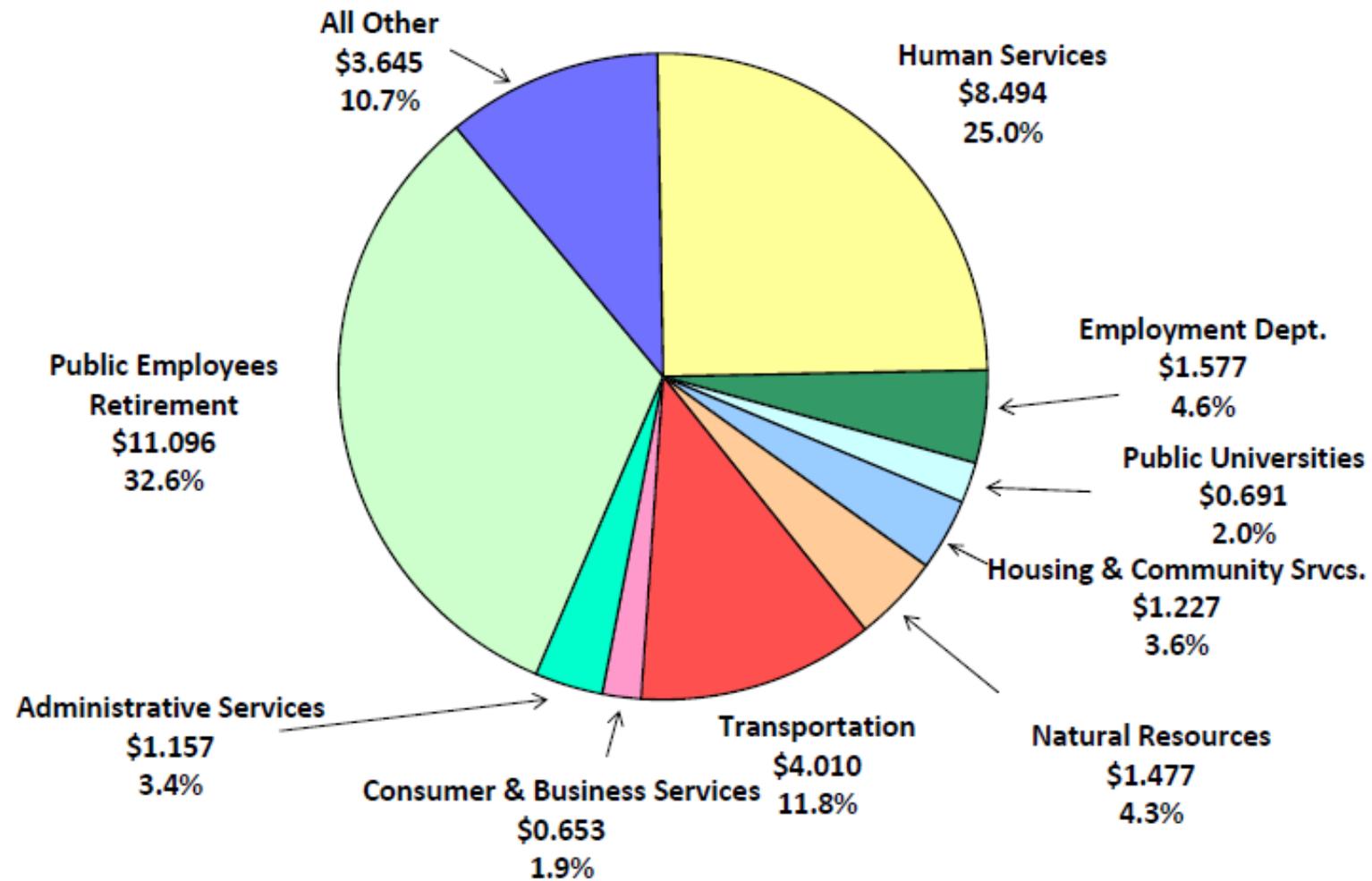


2017-19 General Fund & Lottery Funds Approved Total \$21.086 Billion

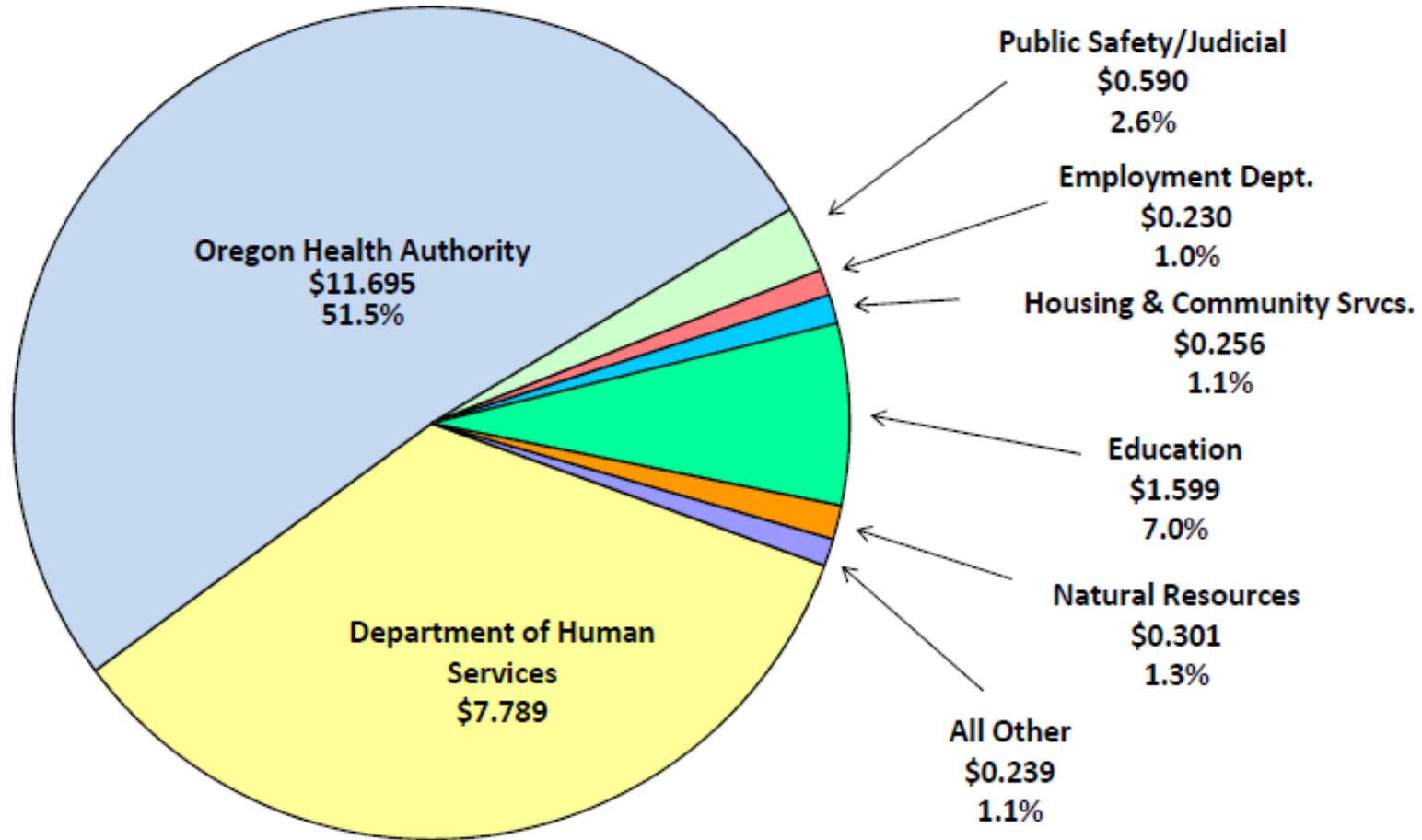
11.2% Increase from 2015-17 Approved
(through the Dec. 2018 Emergency Board Meeting)



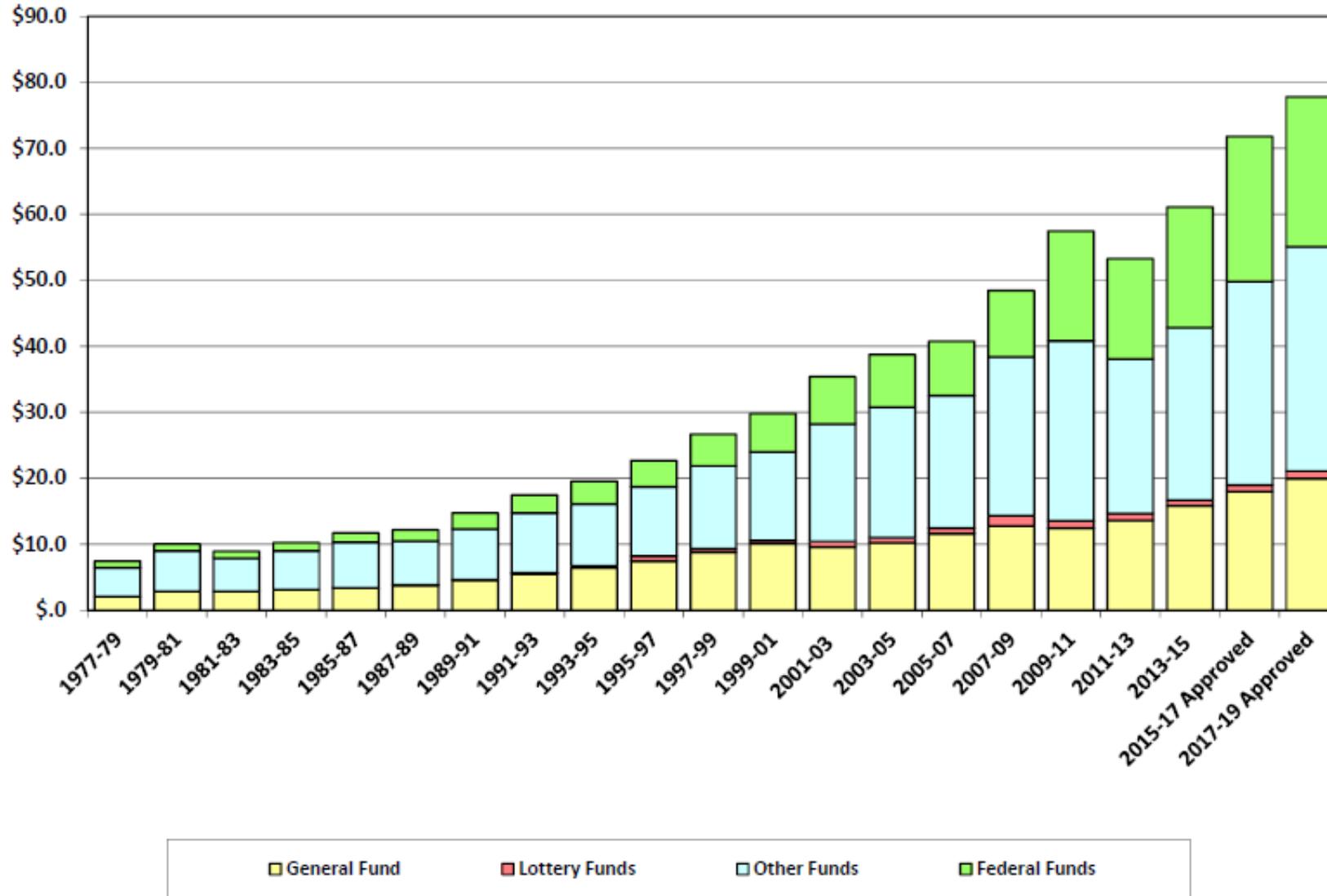
2017-19 Other Funds Total \$34.026 Billion
10.4% Increase from 2015-17 Approved Expenditures
(Billions of Dollars/Percent of Total; through Dec. 2018 Emergency Board Meeting)



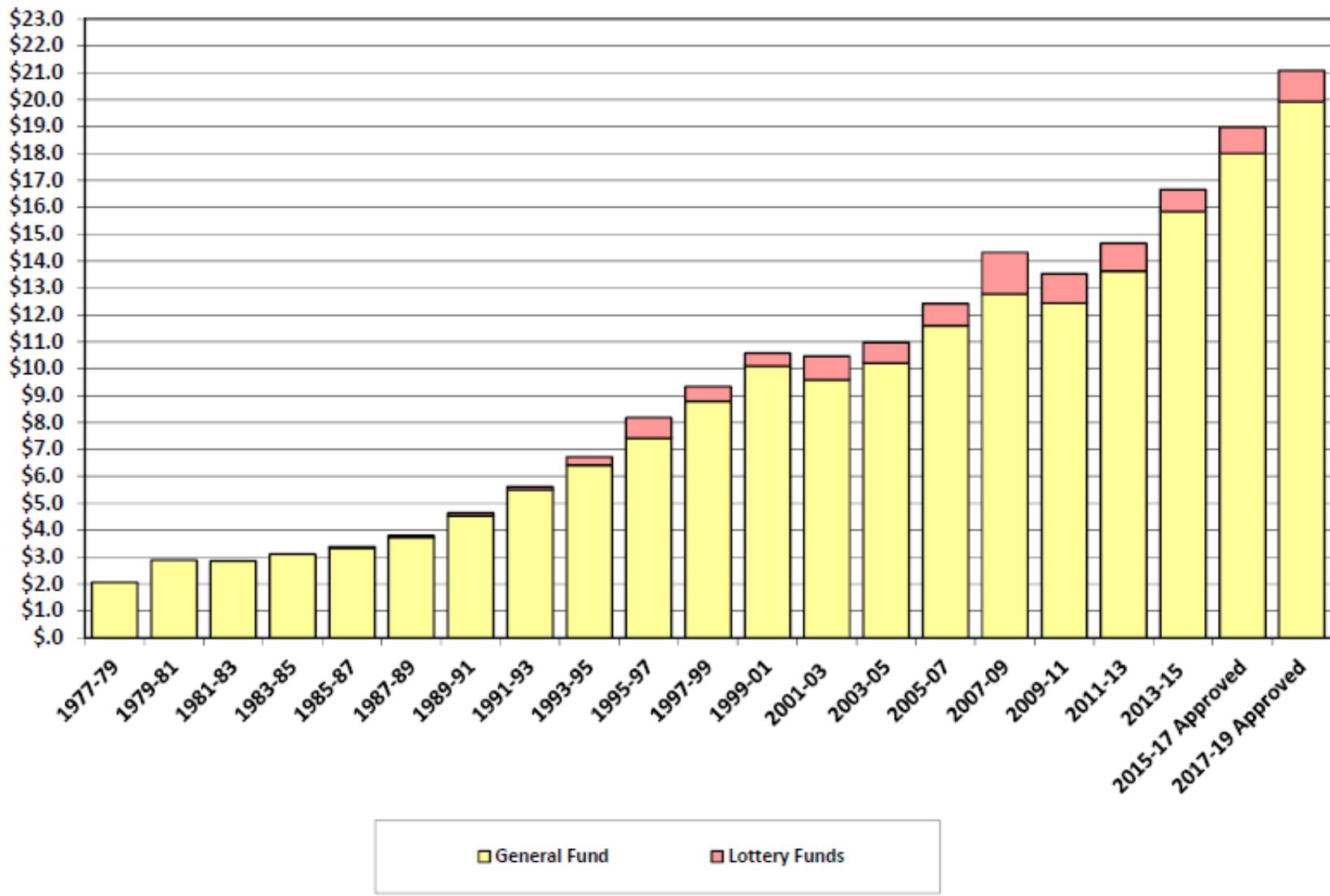
2017-19 Federal Funds Total \$22.700 Billion
3.0% Increase from 2015-15 Approved Expenditures
(Billions of Dollars/Percent of Total; through Dec. 2018 Emergency Board Meeting)



Oregon Budget History -- All Funds (Billions \$)



Oregon Budget History -- General Fund and Lottery Funds
(Billions \$)



Oregon 2019-21 Budget Information

Budget Issues

Key Drivers of Budget Change:

- Population Growth
- Demographics
- Inflation
- Health Care Costs
- Mandated Caseloads
- Federal Policy Changes
- Lawsuits
- Initiatives
- Rollup Costs
- Public Employees Retirement System
- Replacement of One-Time Revenues
- State Policy Decisions

Budget Issues Facing 2019 Legislature

- Rebalancing the 2017-19 budget
- Revenue forecast changes
- Potential difficulty continuing current General Fund programs and services
- Governor and other stakeholder budget proposals
- Potential Issues (e.g., lawsuits, decreased federal funding)
- State employee and non-state employee compensation
- Responding to successful ballot initiatives
- 2021-23 tentative budget and revenue forecast

Current Service Level Budget Adjustments

- Personal Service adjustments for 2019-21
- Debt Service adjustments
- Program phase-in costs for new programs that did not operate for the entire biennium
- Program phase-out savings for programs that will be discontinued or were one-time
- Inflation for most services, supplies, capital outlay, professional services
- Mandated caseload increases or decreases
- Fund shifts – replace one-time funds

General Government Subcommittee
2019-21 Current Service Level
Budget Information

General Government Subcommittee

The General Government program area is comprised of 15 budget measures covering 20 separate agencies: the Department of Administrative Services, the Department of Revenue, the Public Employees Retirement System, the Governor's Office, the Secretary of State, the State Treasurer, the Employment Relations Board, Government Ethics Commission, State Library, Advocacy Commissions, Construction Contractors Board, the Board of Accountancy, the Board of Tax Practitioners, Legislative Branch agencies (6), and the Emergency Board.

Agency Overview

Agencies in this Subcommittee provides services to state agencies and local governments. Such services include: central administration and support of agencies, retirement administration, labor relations, government ethics and lobby regulation, library services, income and property tax administration, regulation of construction contracting, among others. Additionally, it includes the Governor's Office, financial, performance, and information technology auditing, elections, and records management by the Secretary of State, and cash management, bonding, and investment activities of the State Treasurer, and Legislative Branch activities of the Assembly, administration, law, revenue, fiscal, and the Commission on Indian Affairs. Lastly, it includes state pass-through funding for Oregon Public Broadcasting, state and county fairs, and the Oregon Historical Society.

Subcommittee Budget Summary

GENERAL GOVERNMENT SUBCOMMITTEE				
	2015-17 Actual	2017-19 Legislatively Approved*	2019-21 Current Service Level	2019-21 Governor's Budget
General Fund	323,052,074	390,943,047	380,504,430	494,920,183
Lottery Funds	20,076,042	23,425,644	29,505,236	29,353,416
Other Funds	1,279,607,189	1,467,366,740	1,340,472,926	1,437,517,997
Other Funds (Nonlimited)	10,056,977,783	11,125,218,842	12,628,553,030	12,628,553,030
Federal Funds	6,016,556	18,474,357	10,464,985	10,637,376
Total Funds	11,685,729,644	13,025,428,630	14,389,500,607	14,600,982,002
Positions	3,476	2,470	3,321	3,492
FTE	3,153.13	2,229.24	3,147.57	3,296.43
* Includes Emergency Board and administrative actions through December 2018.				

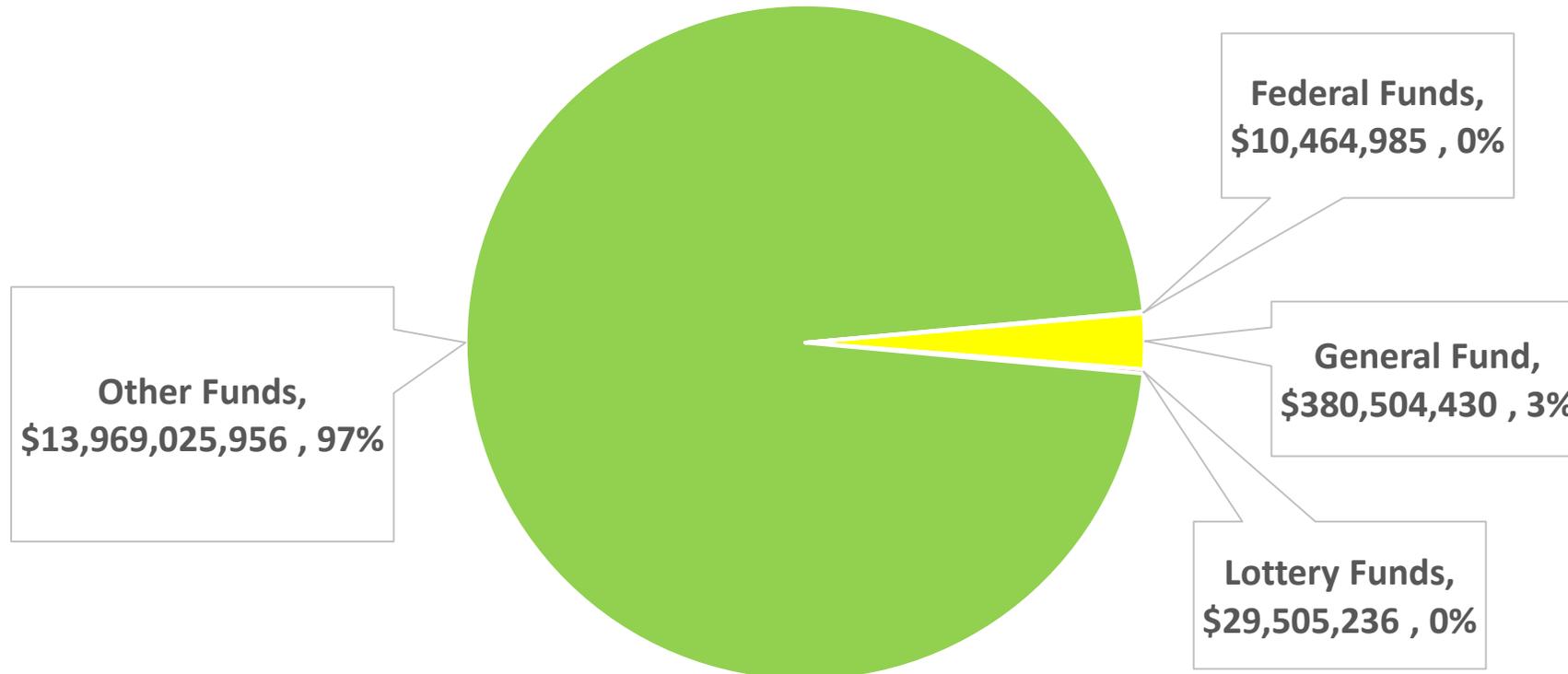
All Funds Comparison to the Statewide Budget



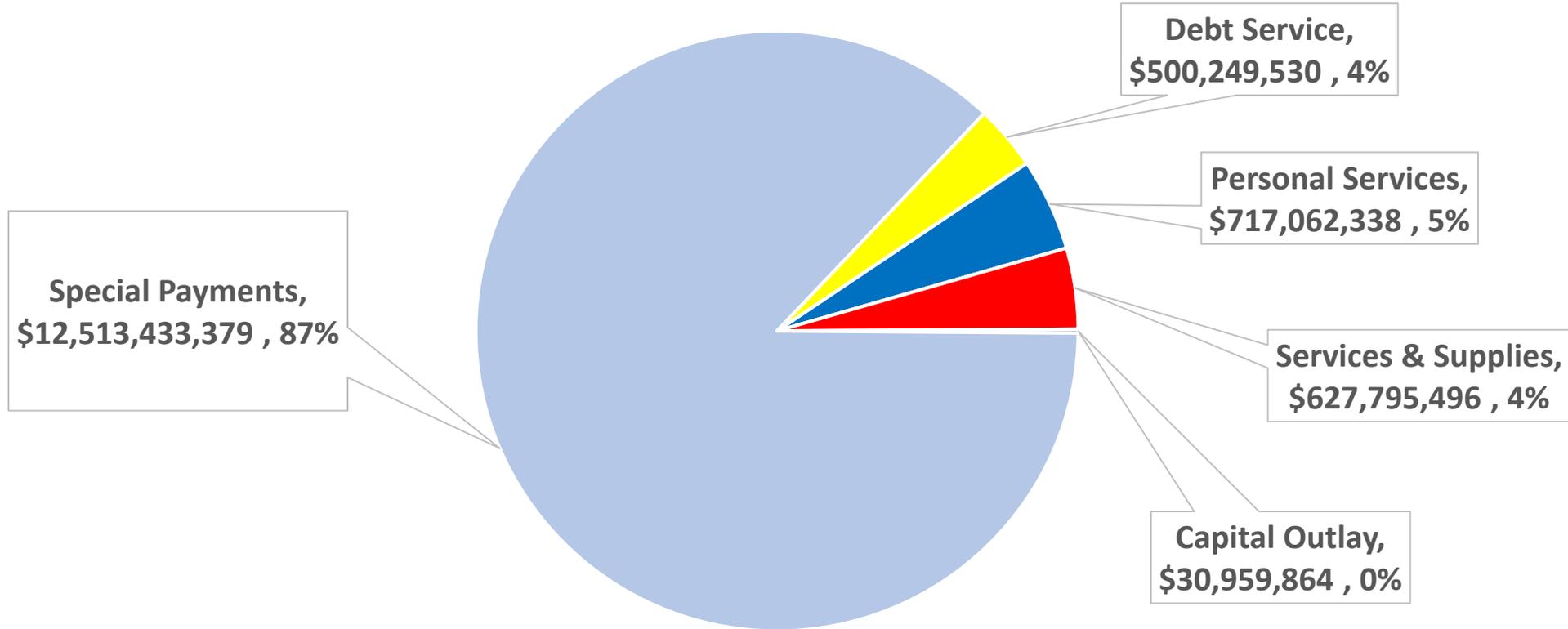
General/Lottery Fund Comparison to the Statewide Budget



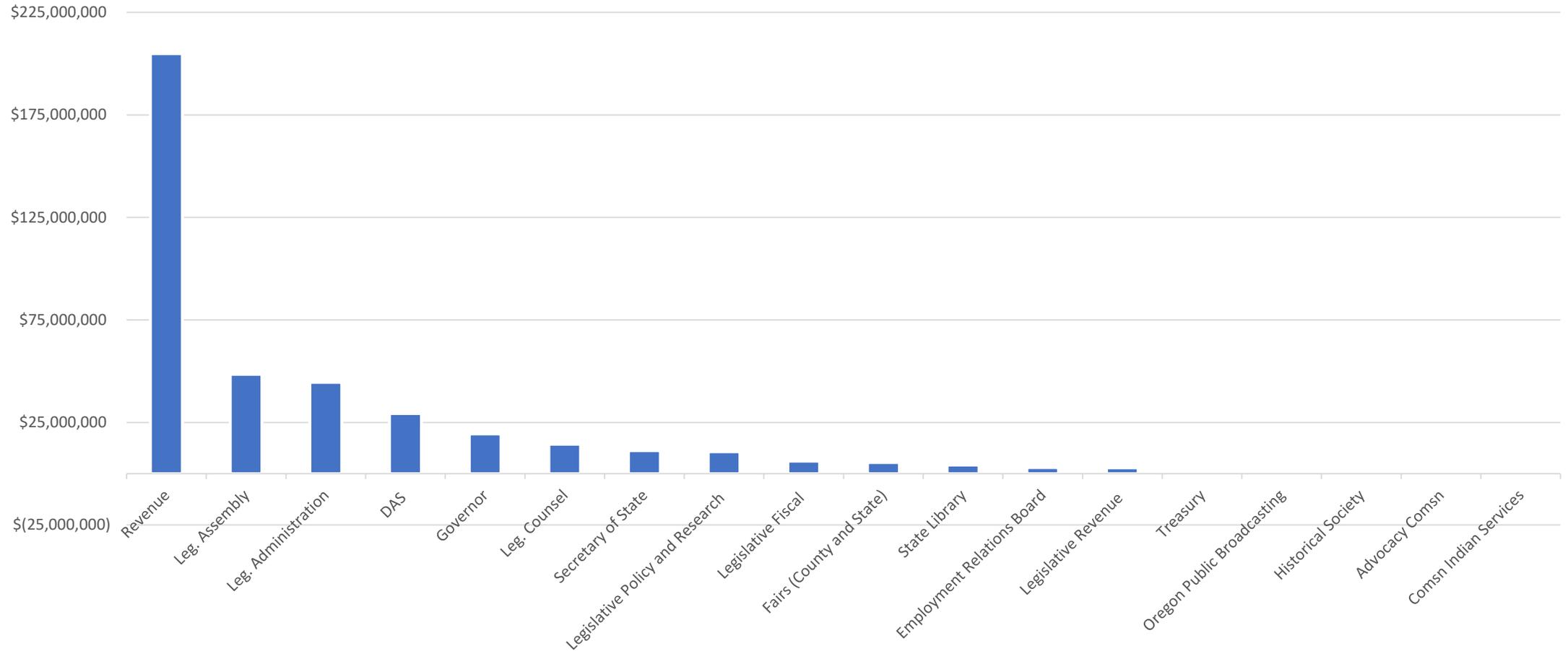
Subcommittee Budget by Fund-Type



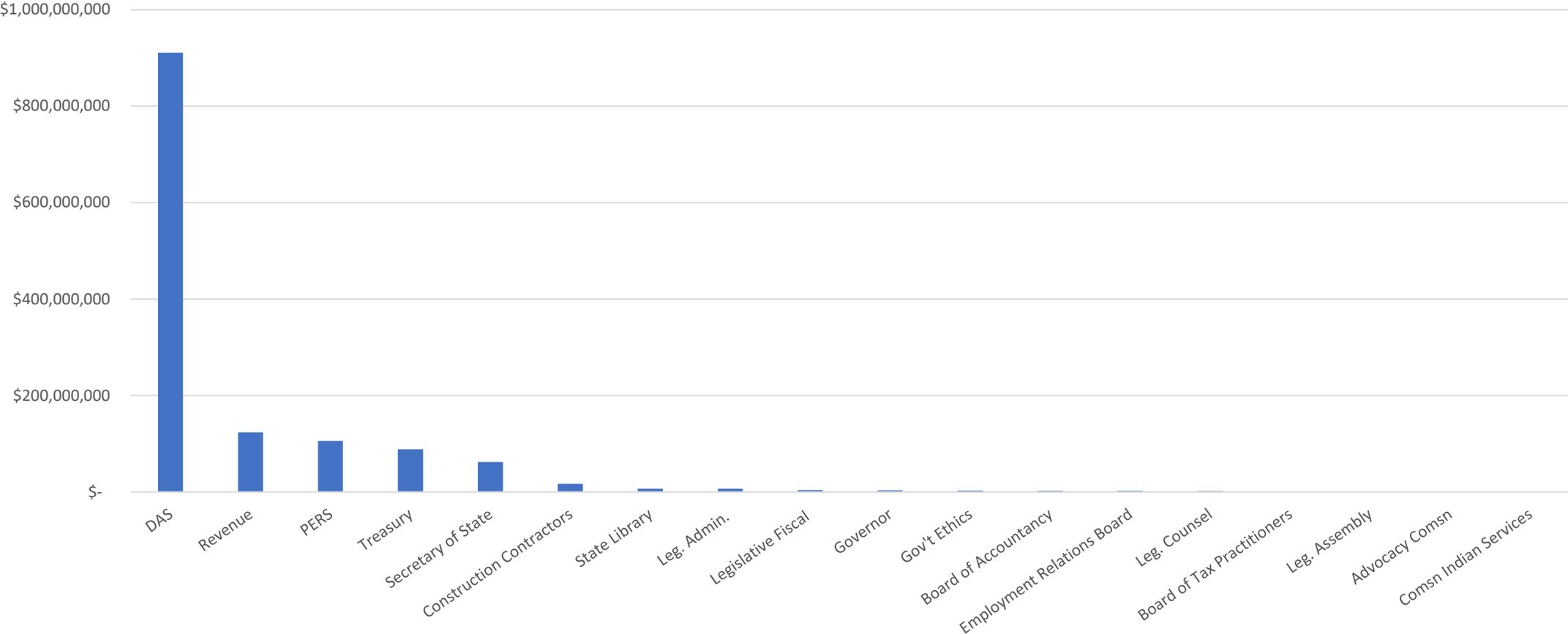
Expenditures by Budget Category



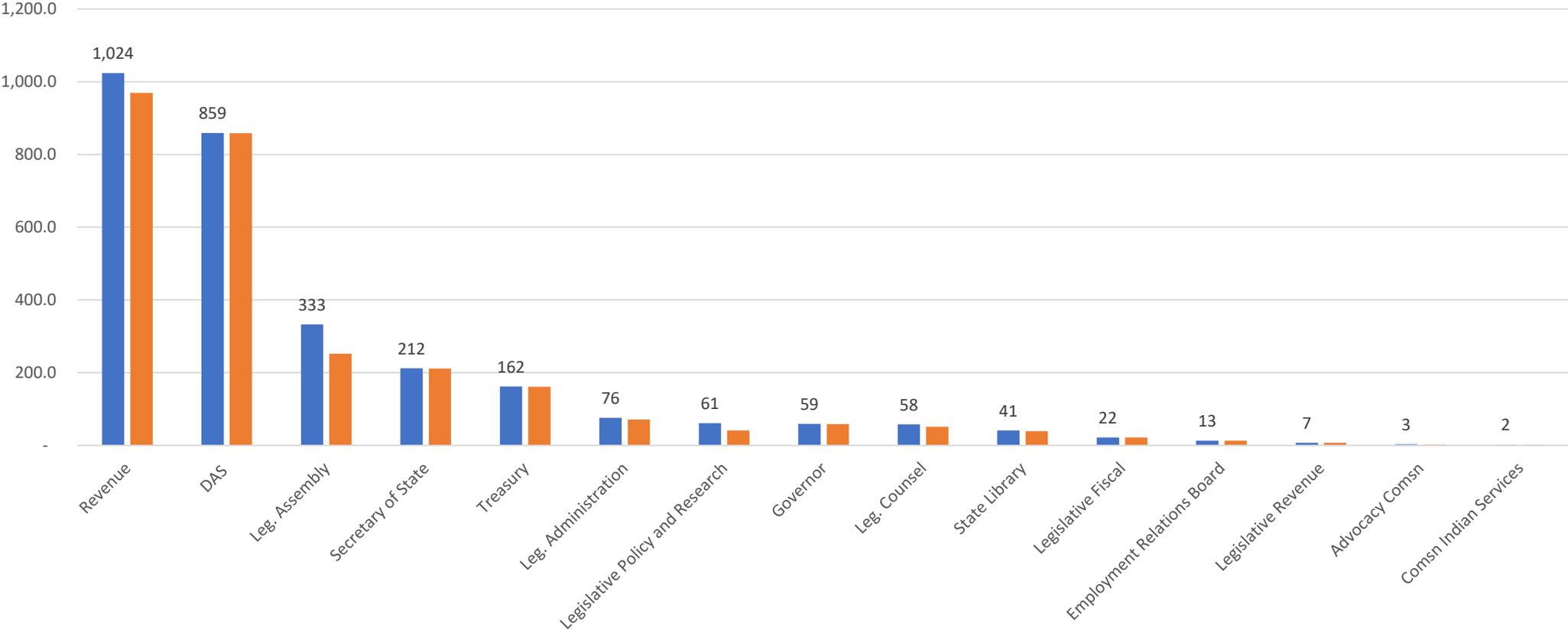
General and Lottery Funds by Agency/ Non-Governmental Units



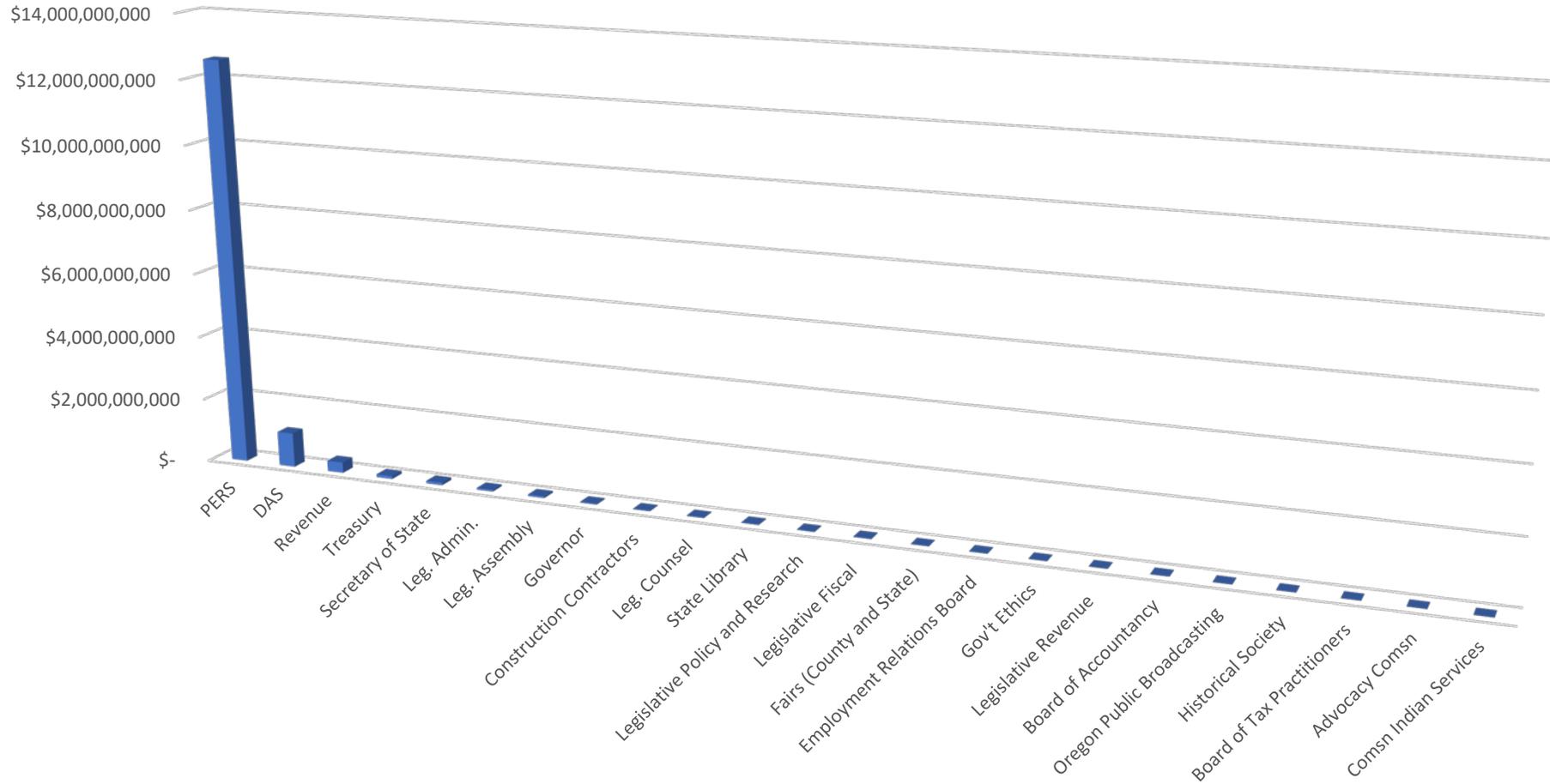
Other Funds Limited by Agency



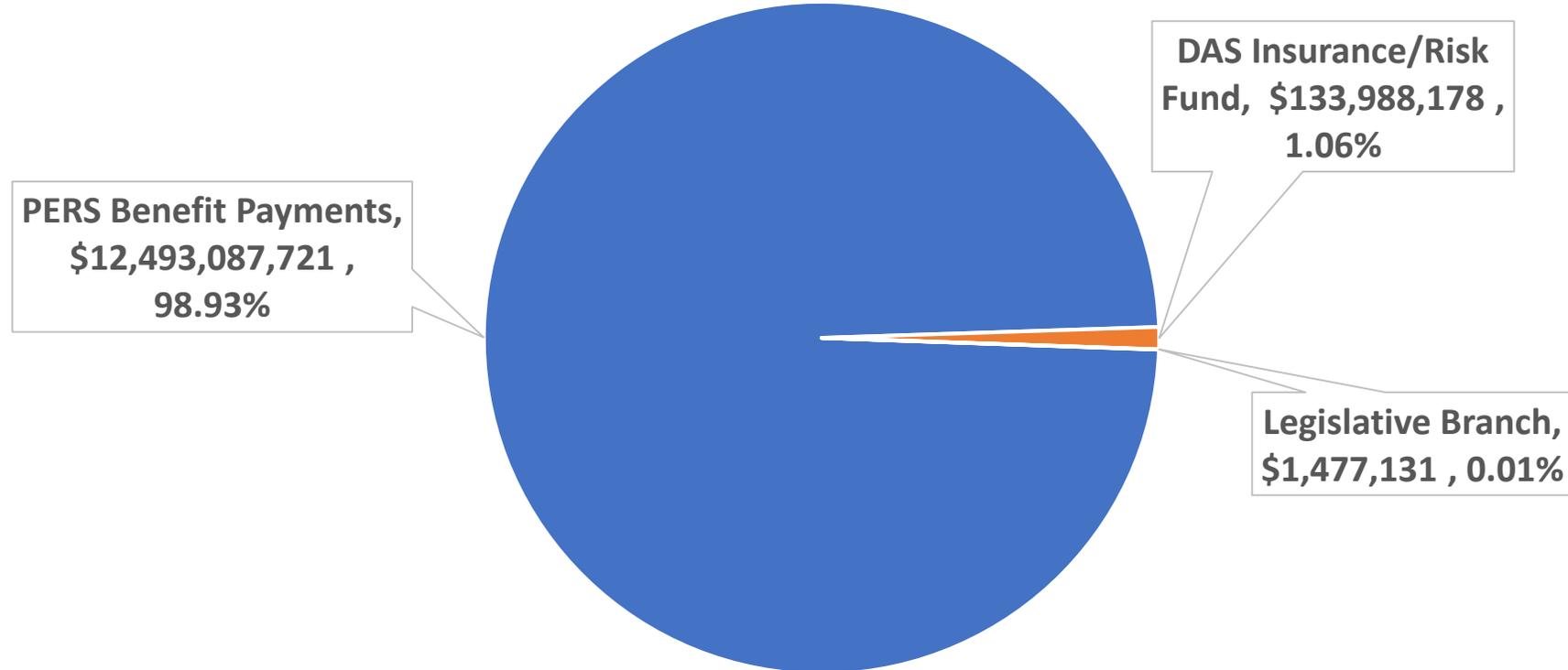
Positions and Full-Time Equivalency



Total Budgets by Agencies



Nonlimited Expenditures



Total Budget vs. Operating Budget

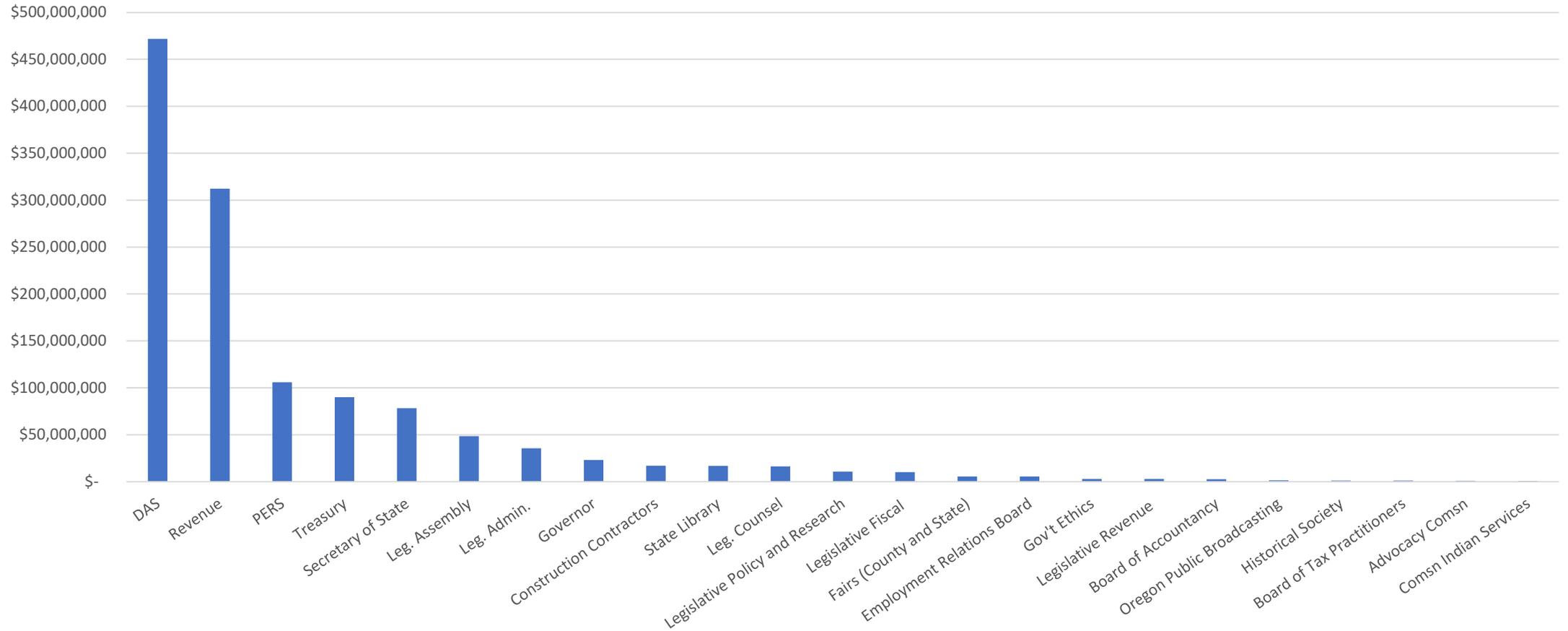
Total Funds Budget

- Includes four fund types (General Fund, Lottery Funds, Other Funds, Federal Funds) and Other Funds limited and non-limited.
- Nonlimited expenditures are expenditures for legislatively defined purposes but which are generally outside an agency's control.
- Contractually mandated Debt Service payments.

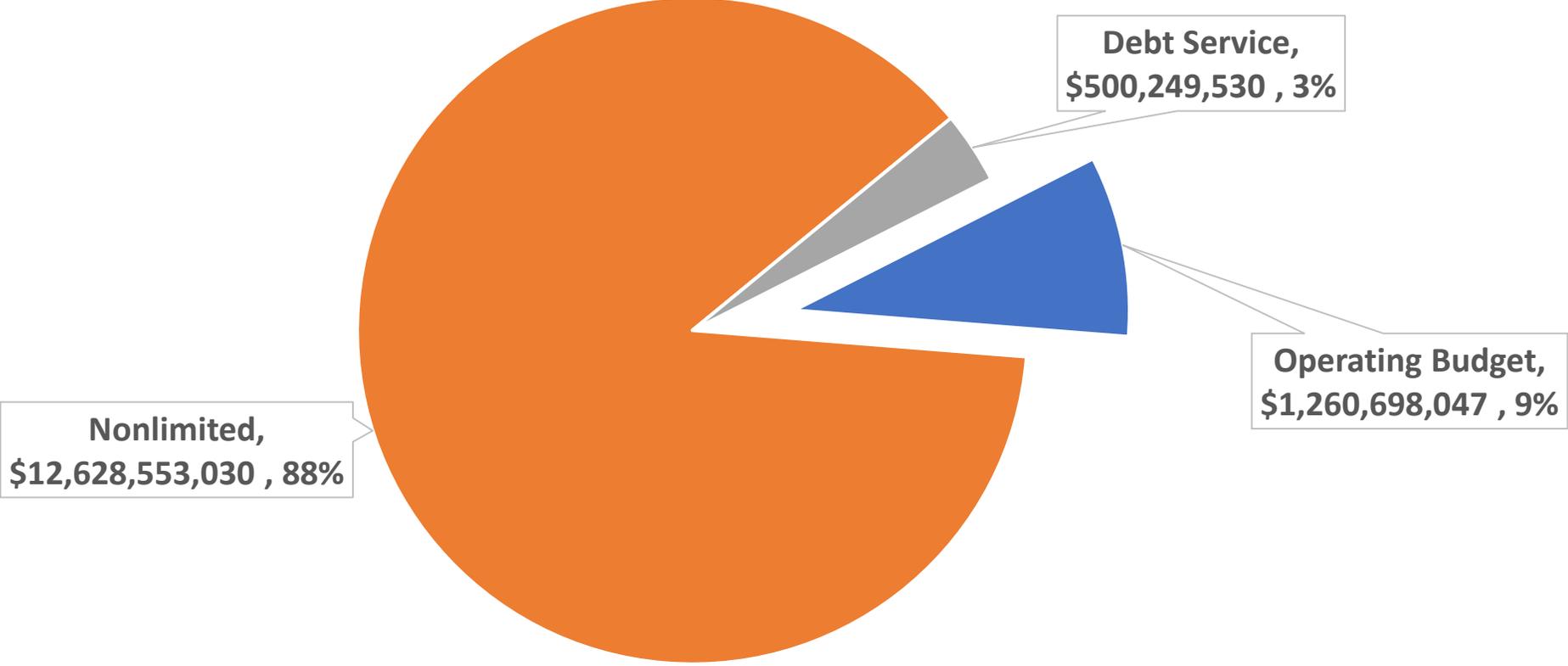
Operating Budget

- Includes four fund types (General Fund, Lottery Funds, Other Funds, Federal Funds).
- Excludes non-limited funds and contractually mandated Debt Service.
- Provides for focus on General Fund appropriations, Lottery Fund allocations, and Other and Federal Funds expenditures ***subject to expenditure limitation***.

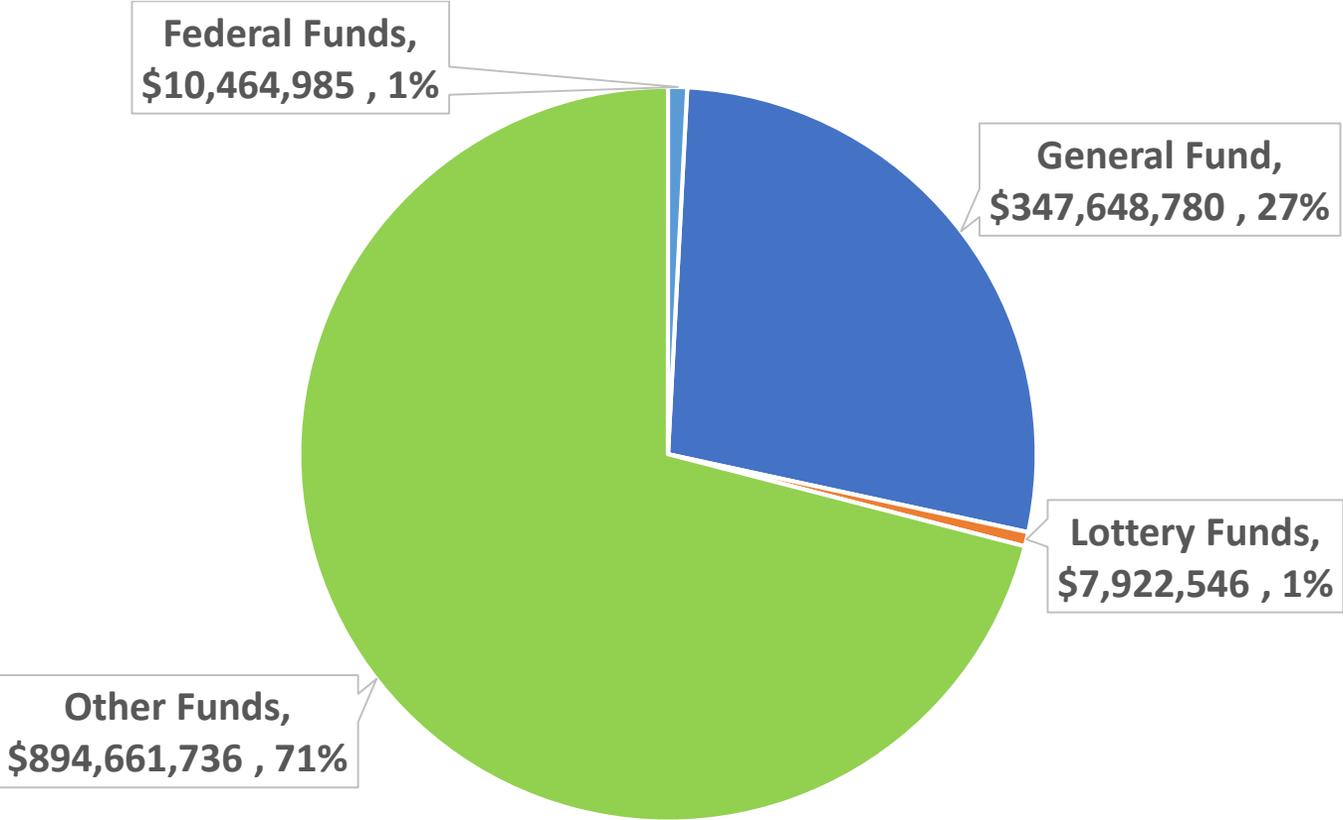
Operating Budget by Agency



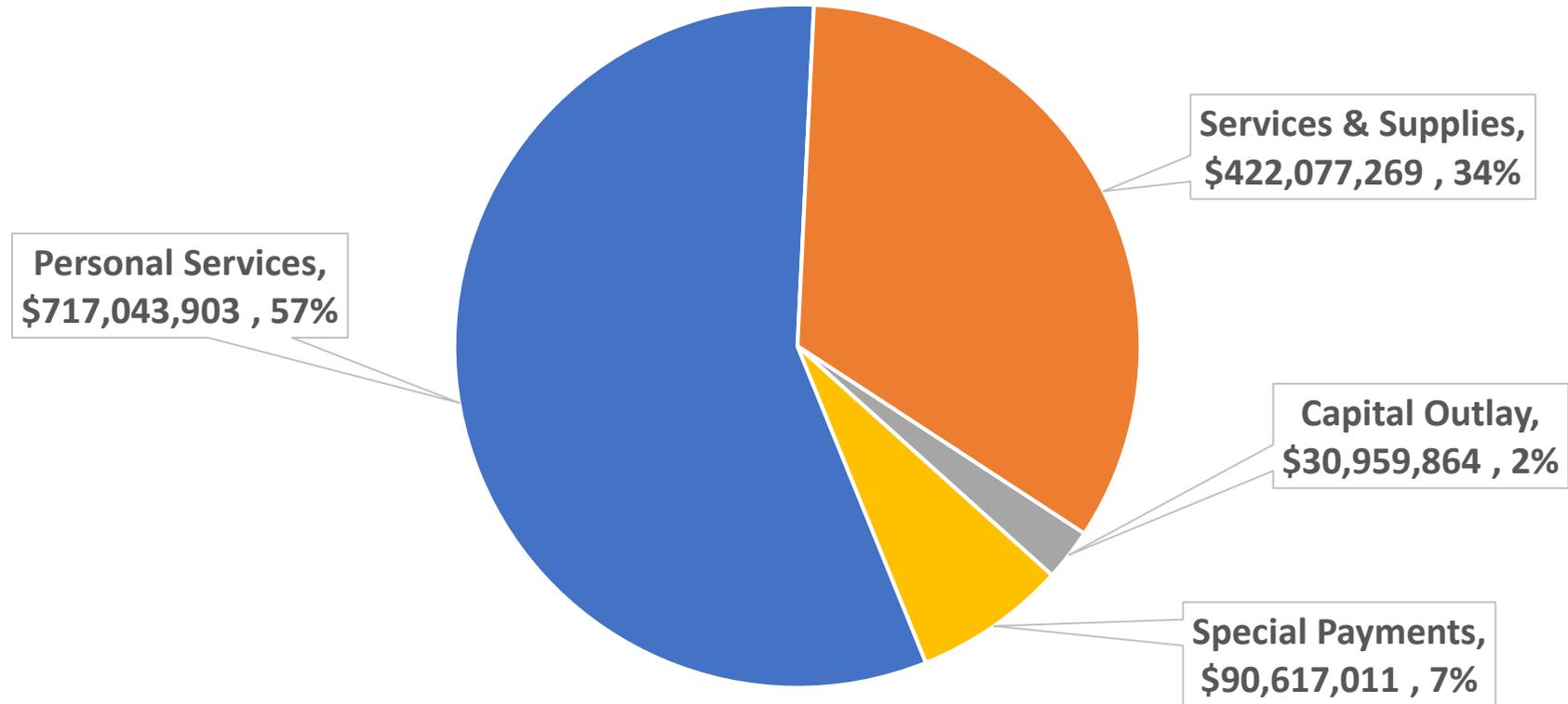
Nonlimited/Debt Service vs. Operating Budget



Operating Budget by Fund-Type



Operating Budget by Budget Category



Budget Issues Facing the Subcommittee

- Potential difficulty continuing current General Fund programs and services
- Revenue shortfalls
- State agency assessments
- Revenue collections
- Funding critical investments above the current service level

Legislative Review Process - Phased Approach

Phase	Timeframe	Purpose	Who
Phase-I	Late January through late March to Early April	Public hearings/public testimony – LFO overview, agency presentation of its mission, organization, budget, performance metrics, and reduction options; and CFO summary of the Governor’s budget.	All agencies
Phase-II	Upon completion of Phase-I through Early May	Public hearings for in-depth discussion of major budget issues/decision points/policy packages.	Select agencies
Phase-III	May be conducted as soon as agency hearings are completed	Agency work session	All agencies

Phase I Primer

- Review materials posted to OLIS
- Focus on the agency's strategic plan
- Understand agency operations, budget drivers, staffing, and performance metrics rather than budget requests
- Identify the intersection between agency operations and the agency's current law budget
- Identify interdependencies with other agencies or entities
- Focus on understanding revenue and the source of Other Funds
- Evaluate administrative costs and how such costs are split between fund-types
- Evaluate agency responsiveness to prior legislative direction and audits findings
- Note issues or programs for the co-chairs that require more in-depth follow-up during Phase II

Next Week's Schedule

Monday, January 28

WORK SESSION: Review of Semi-Independent Agencies Report

Tuesday, January 29

Department of Administrative Services - Development of Assessments and Rates

Department of Justice - Development of Legal Services Rates

Wednesday, January 30

Department of Administrative Services - INVITED TESTIMONY ONLY

Thursday, January 31

Department of Administrative Services - INVITED TESTIMONY ONLY

Thank You