

# STATE OF OREGON BUDGET DEVELOPMENT PROCESS

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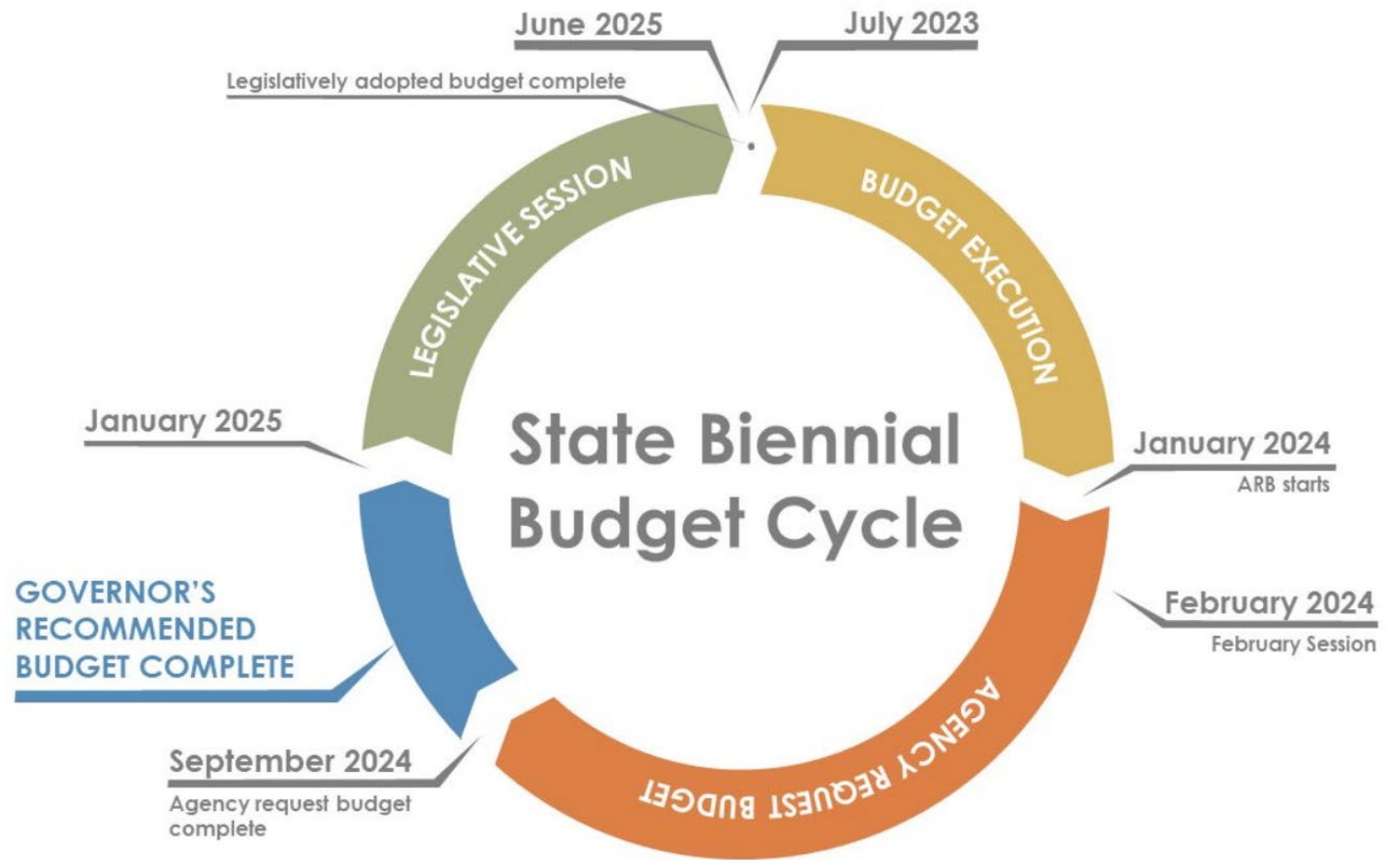
# Budget Overview

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- Legislature has a constitutional responsibility to balance the state budget.
- Oregon budgets on a biennial basis: July 1<sup>st</sup> of odd-numbered years to June 30<sup>th</sup> of next odd-numbered year.
- State budget is developed based on the following principles:
  - Balancing estimated revenues and proposed expenditures.
  - Allocating resources to achieve desired outcomes and measuring progress toward desired outcomes.
  - Providing accountability at all levels for meeting program outcomes.
  - Encouraging savings and investments that reduce or avoid future costs.
  - Planning for the short-term and the long-term, using consistent assumptions for demographics and trends.

# Budget Process

- Budget development process includes three major phases:
  - Agency Request Budget
  - Governor's Budget
  - Legislatively Adopted Budget



*DAS Chief Financial Office 2025-27 Budget & Legislative Concepts Instructions - March 2024*

# Agency Request Budget

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- Budget development begins early in even-numbered years.
- The Department of Administrative Services Chief Financial Office provides instructions to agencies, including timelines, inflation factors, forms, and the price list of goods and services.
- Agency request budget components:
  - Current service level (CSL) budget
  - Policy option packages
- Agencies are required to submit their agency request budget documents by August 31<sup>st</sup>.

# Current Service Level

- CSL is built from the base budget plus essential packages.
  - **Base budget** is the prior biennium legislatively approved level with adjustments for the cost of permanent positions and debt service.
  - **Essential packages** adjust for program phase-ins, one-time costs, inflation, mandatory caseloads, and projected revenue shortfalls.
- Personal services growth for ongoing positions
  - Debt service adjustments
  - Phase-in the full cost of new programs that did not operate for the entire 2023-25 biennium (roll-up costs)
  - Phase-out savings for programs that will be discontinued or were approved as one-time in the prior biennium
  - Standard inflation
    - Services and supplies (4.2%)
    - Medical costs (5.6%)
    - Non-state employee personnel costs (6.8%)
  - Mandated caseload increases or decreases
  - Fund shifts
  - Technical adjustments

# Current Service Level – Personal Services

- Budget for personal services costs is based on information for each approved state position using the Oregon Position Information Control System (ORPICS).
  - Employee compensation increases for the upcoming biennium, including COLAs and steps are not included in current service level, but funded through a special purpose appropriation approved for this purpose known as the “Salary Pot.”
- In spring of even-numbered years, existing salary and other payroll expense information for individual positions is captured through a process termed “PICS Freeze.”
  - The salary for each position is adjusted for known cost of living increases (COLAs) and scheduled step increases for the remainder of the biennium.
  - Vacant positions are budgeted at the third step of the classification salary range.
  - Full 24-month cost of permanent positions funded for a portion of the prior biennium is phased-in.
  - Other payroll expenses are updated based on salary projections and current rates.
  - A vacancy savings factor of 5% of the CSL budget for salaries and wages is included for each agency.

# State School Fund Current Service Level

- State School Fund represents single largest state General Fund expenditure.
- Calculated in the same way as other state programs, with a few differences.
- As a “mandated caseload” program, calculation includes changes in school enrollment.
- Calculation is based on the “full formula,” which includes local revenues that are not in the state’s budget.

- Base budget equals current biennium legislatively approved budget, plus updated local revenue estimate
  - Legislatively directed expenditures (“carve-outs”) excluded from the base budget
- Estimate of personal services growth for school personnel
  - Includes estimate for health benefits cost growth
  - Includes estimate for PERS cost growth
  - Factors in legislative changes to personnel-driven costs (e.g., paid family leave, unemployment insurance changes, etc.)
- Standard inflation
  - Services and supplies (4.2%)
- Mandated caseload increases or decreases
- Fund shifts between state/local sources

# SSF CSL – Calculation

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- Base budget is established (current biennium budget, updated local revenues, less carve-outs).
- Personal services are estimated using the Oregon Department of Education (ODE) compensation model and applied to 85% of total base budget.
- Services and supplies costs are estimated using the statewide inflationary factor and applied to 15% of total base budget.
- Enrollment changes are applied using average daily membership, weighted (ADMw) projections.
- Factors are applied to each year of the biennium, in sequence.
- State share of formula revenue is adjusted based on projected local revenues.
- Carve-outs are added back.



# SSF CSL – Personal Services

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- School district employees are not state employees, so personnel costs are estimated differently. Assumption is that 85% of the SSF supports employee costs.
- Future costs are projected using a statistical model. Future costs are based on:
  - Actual salary and benefits costs for teachers, administrators, and classified staff, as reported by districts to ODE.
  - Changes in health care benefit costs (statutorily capped at 3.4% annually).
  - Changes in PERS costs, using rates set by the PERS board in September in even numbered years.
  - Legislative changes to other personnel costs (e.g., Paid Family Leave) factored in.
- Result is a blended compensation increase.
- Differs from the state calculation since state employee compensation increases are not included CSL but assumed to be covered with the Salary Pot.

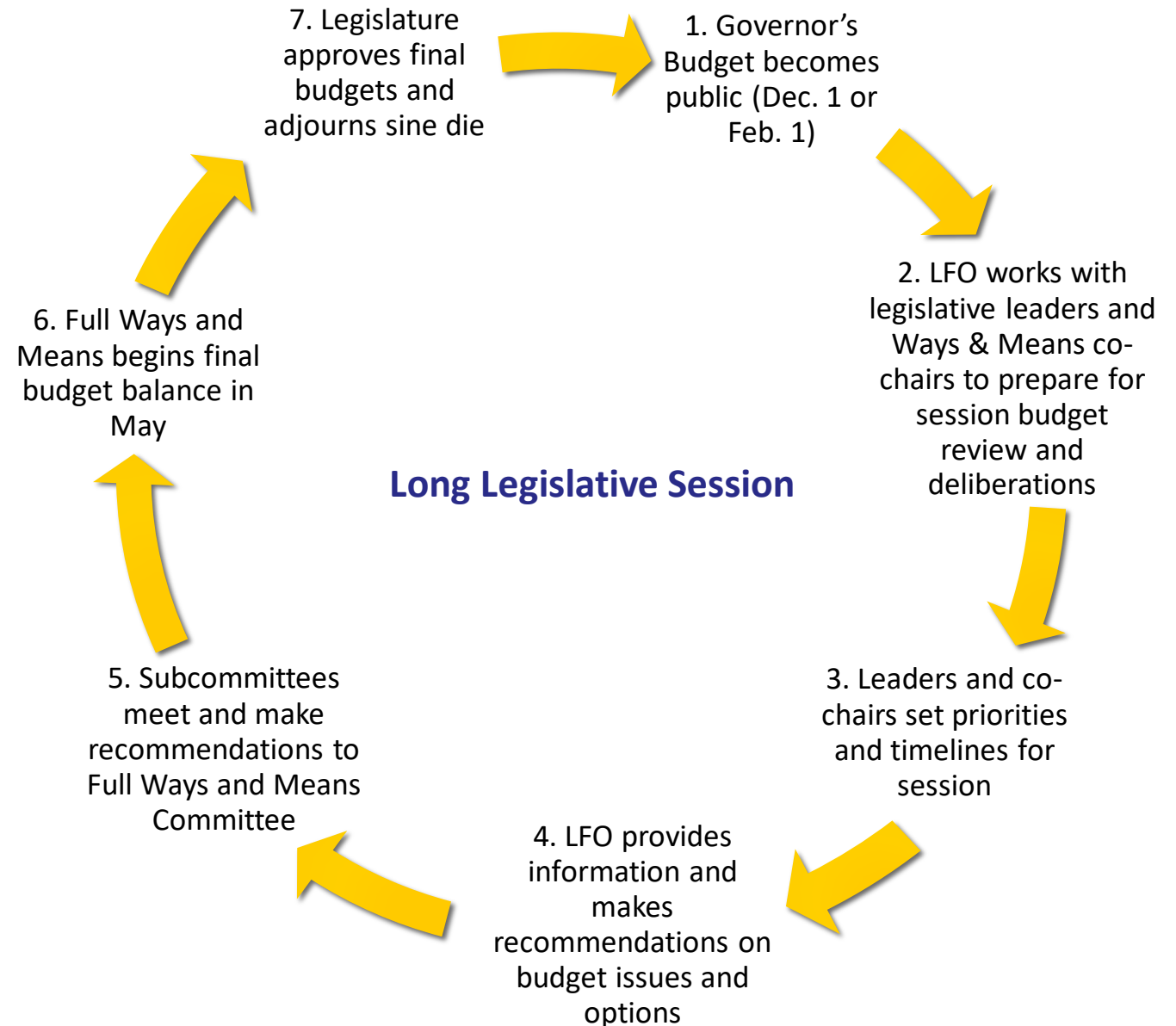
# Governor's Budget

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- Requirements for the Governor's Budget are outlined in ORS 291.216 and include:
  - Message from the Governor describing recommendations and important features of the budget, with reference to the fiscal policy of the state.
  - Budget summary that shows total expenditures are balanced to available revenues.
  - Explanatory schedules or statements classifying expenditures by program units, objects, and funds; income by organization units, sources and funds; and the proposed amount of new borrowing, taxes, or other revenues.
- Governor's Budget is balanced based on the DAS Office of Economic Analysis December revenue forecast released in even-numbered years.
- The Governor's Budget is required to be transmitted to the Legislature by December 1 of even-numbered years. In the case of a new Governor-elect, the transmittal date is delayed to February 1.

# Legislatively Adopted Budget

- Biennial state budget is adopted during the long legislative session.
- Adopted budget is balanced based on the DAS Office of Economic Analysis May revenue forecast released in odd-numbered years.
- Final legislatively adopted budget is the total of agency budget bills, omnibus budget bills, and policy bills with an appropriation.



# Questions?

