



OSFA

What you need to know BEFORE creating a budget

April 26, 2011

Brian DeForest, Deputy Administrator
Department of Administrative Services
Budget and Management Division
(503) 378-5442

brian.e.deforest@state.or.us
<http://oregon.gov/DAS/BAM/index.shtml>



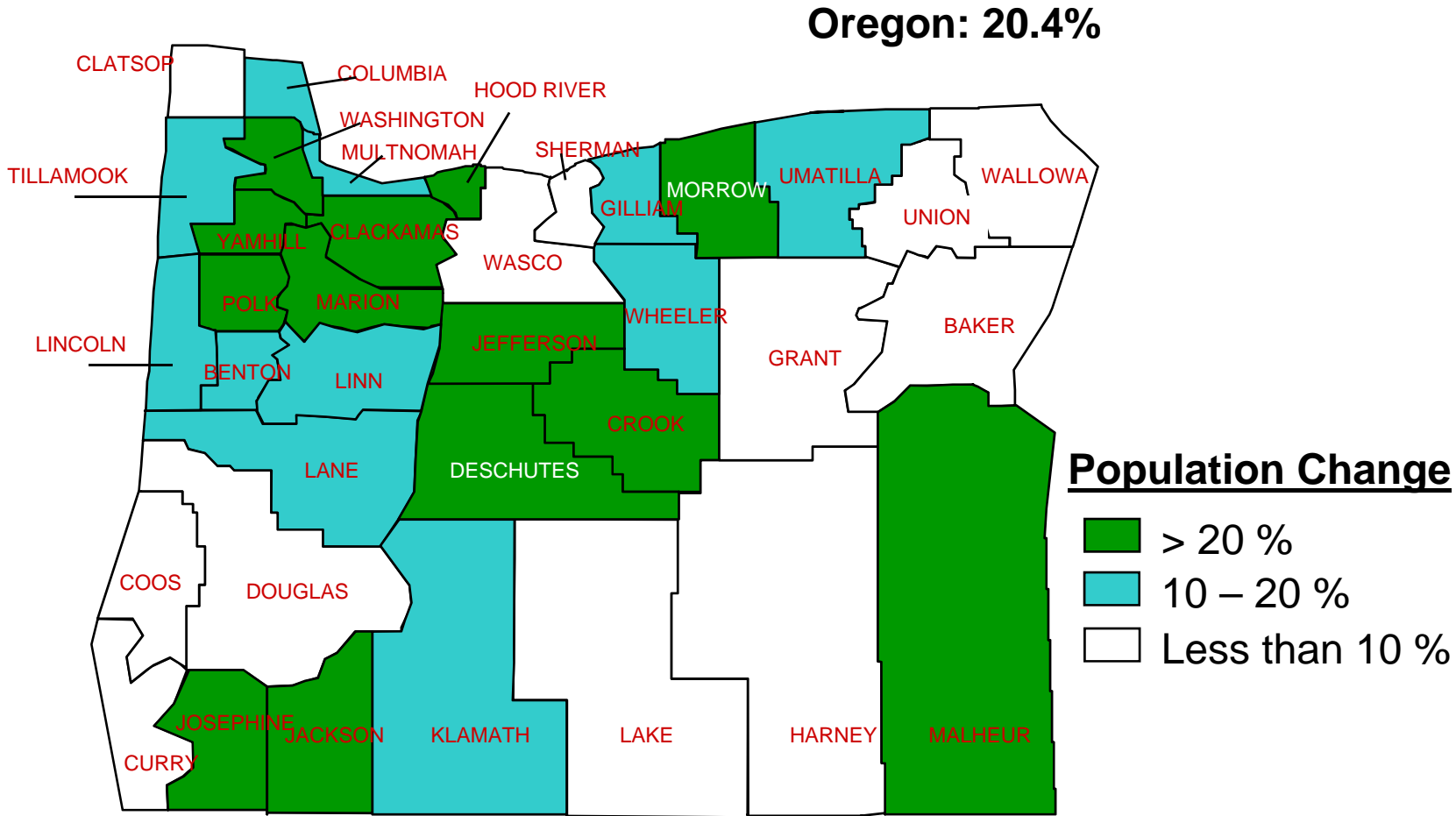
Overview

- General presentation regarding state budgeting in Oregon
 - Look at trends, drivers and enhancing your knowledge base with added perspective
- State Revenues & Expenditures
- Budget Process Overview
 - What your agency budget staff does all biennium



Oregon's Demographic Trends

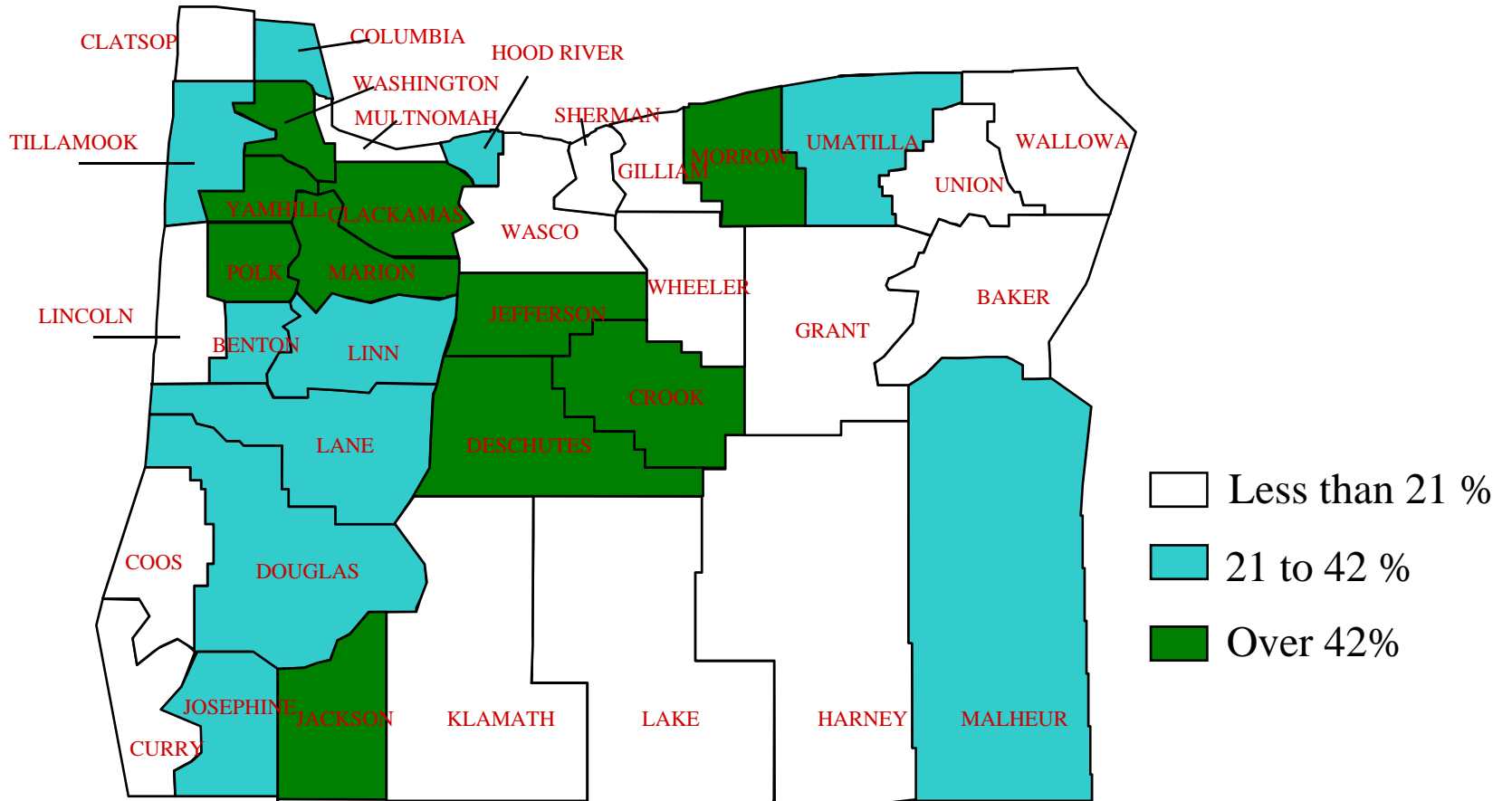
Decennial Population Growth (in percent): 1990 – 2000



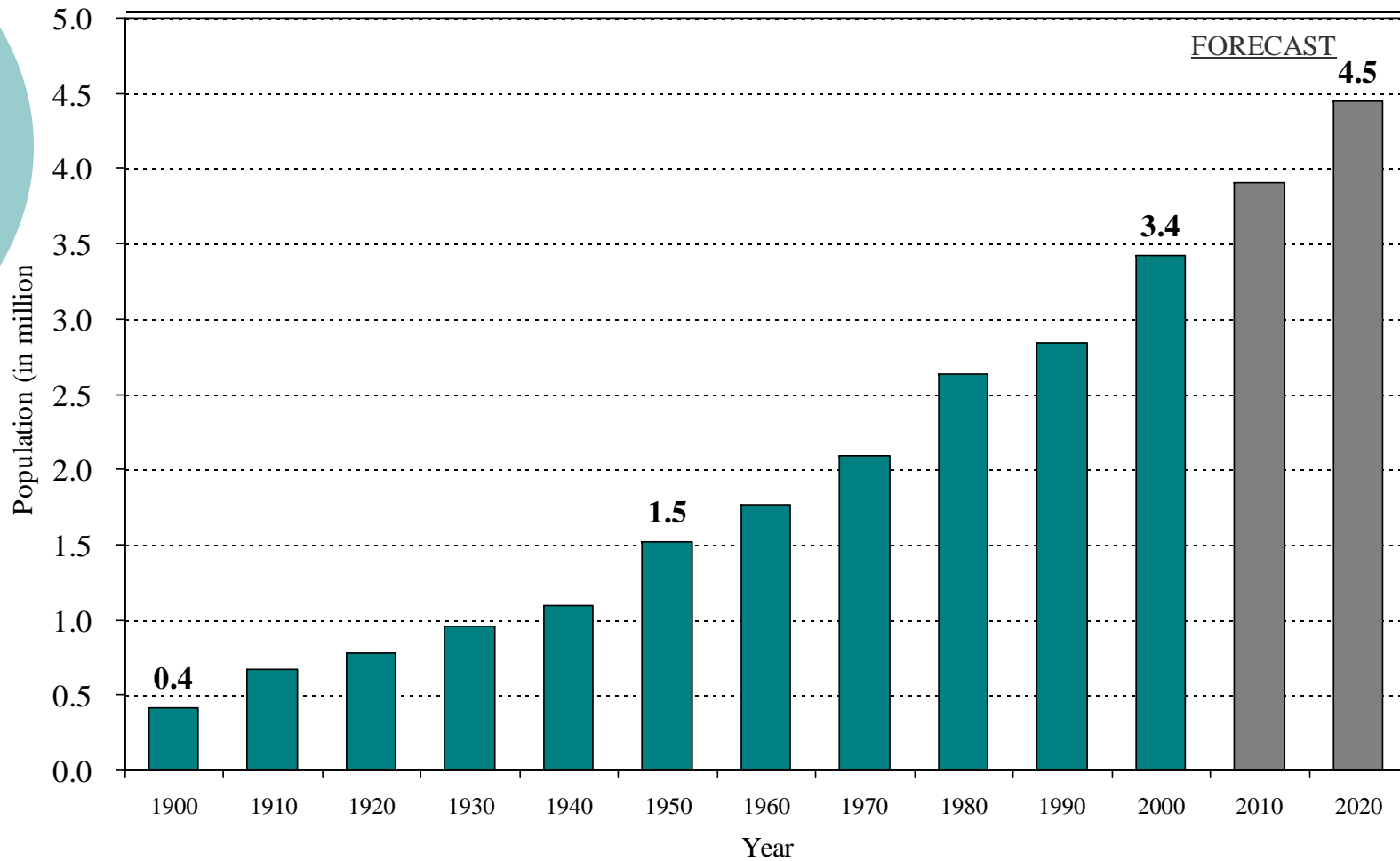
Source: U.S. Census Bureau, 1990 and 2000 Censuses

Population Change in Percent, 2000-2030

Oregon: 42.3%

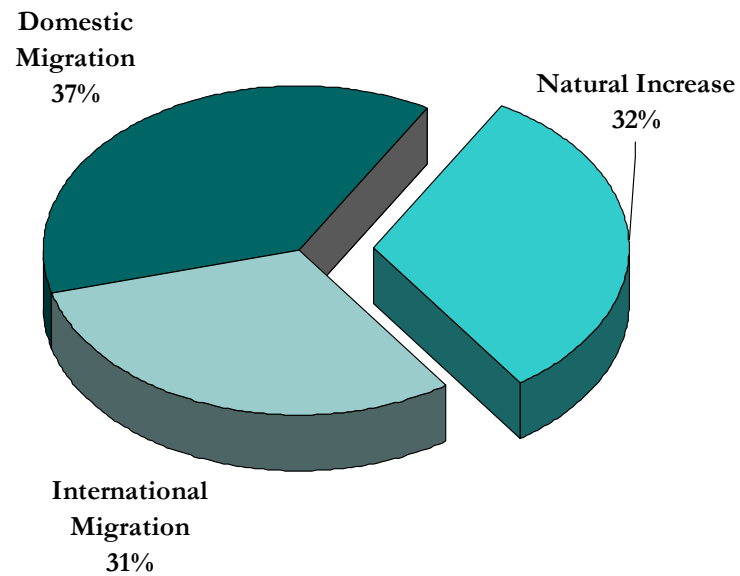


A century of growth ... and beyond (in millions)

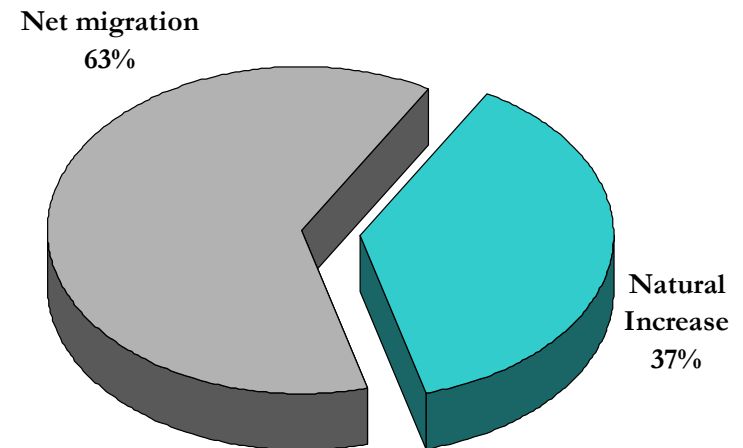


Components of population change: 2000-06 and 2015-20

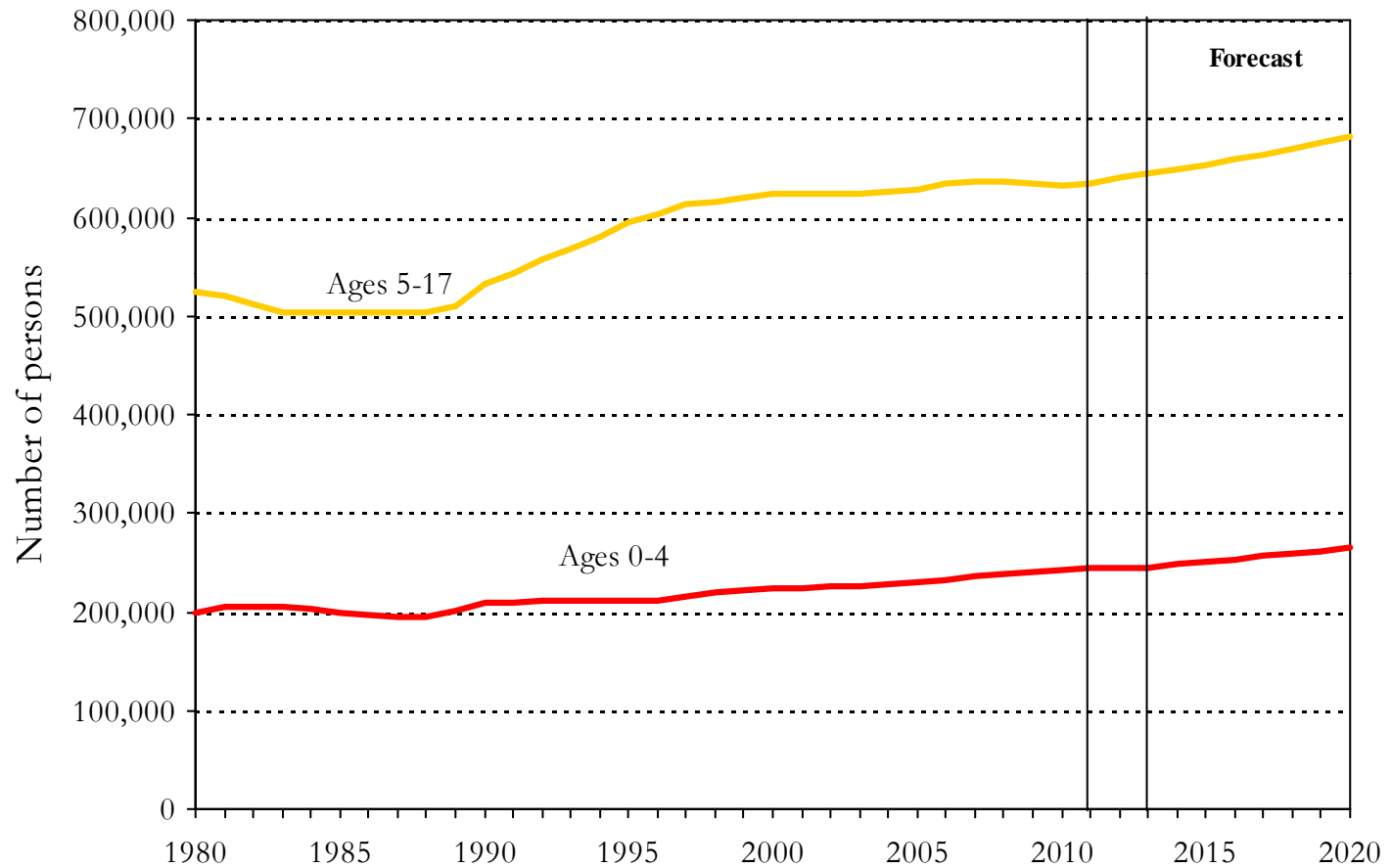
2000-2006



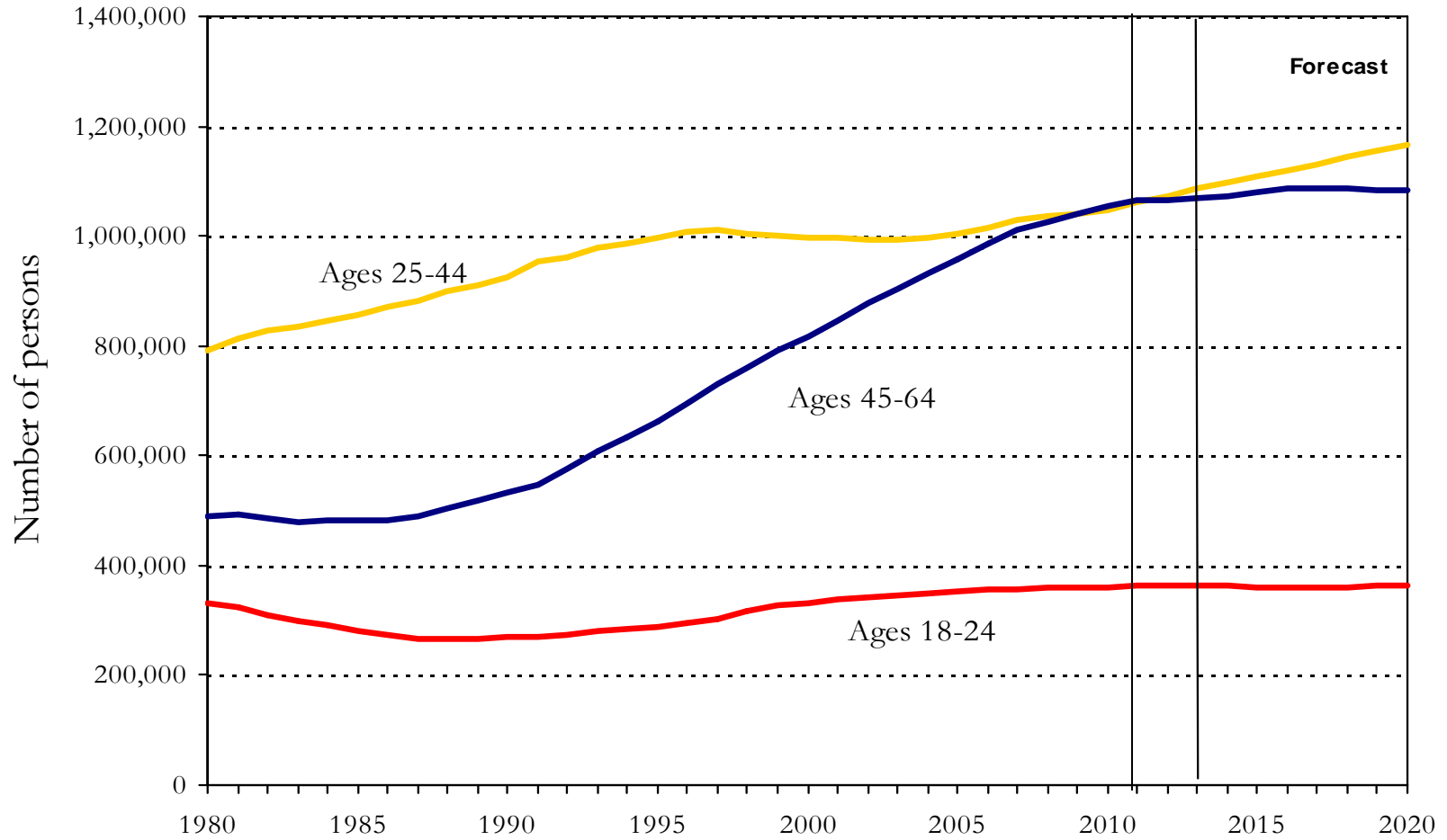
2015-2020



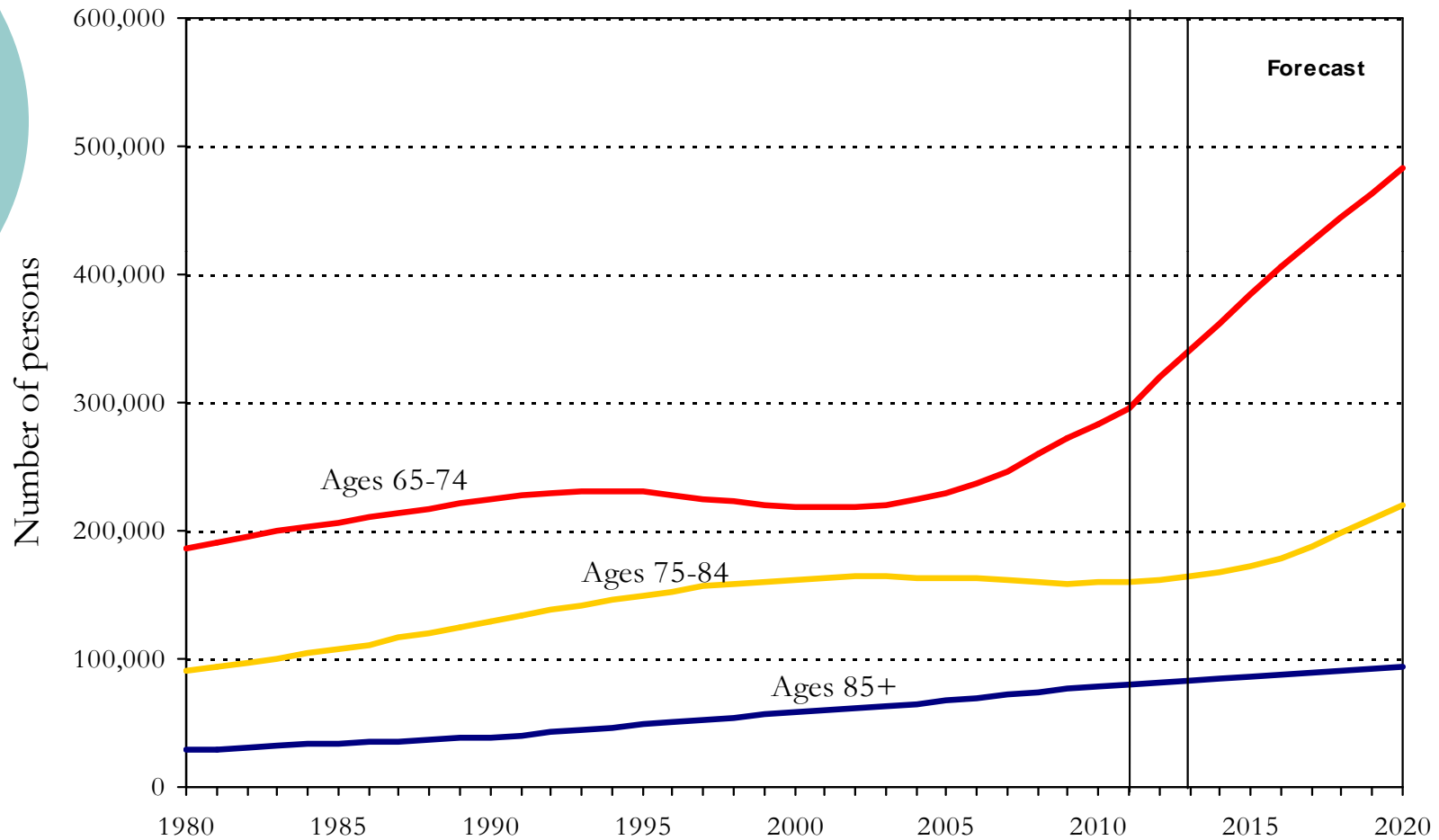
Young-age Population: 1980-2020



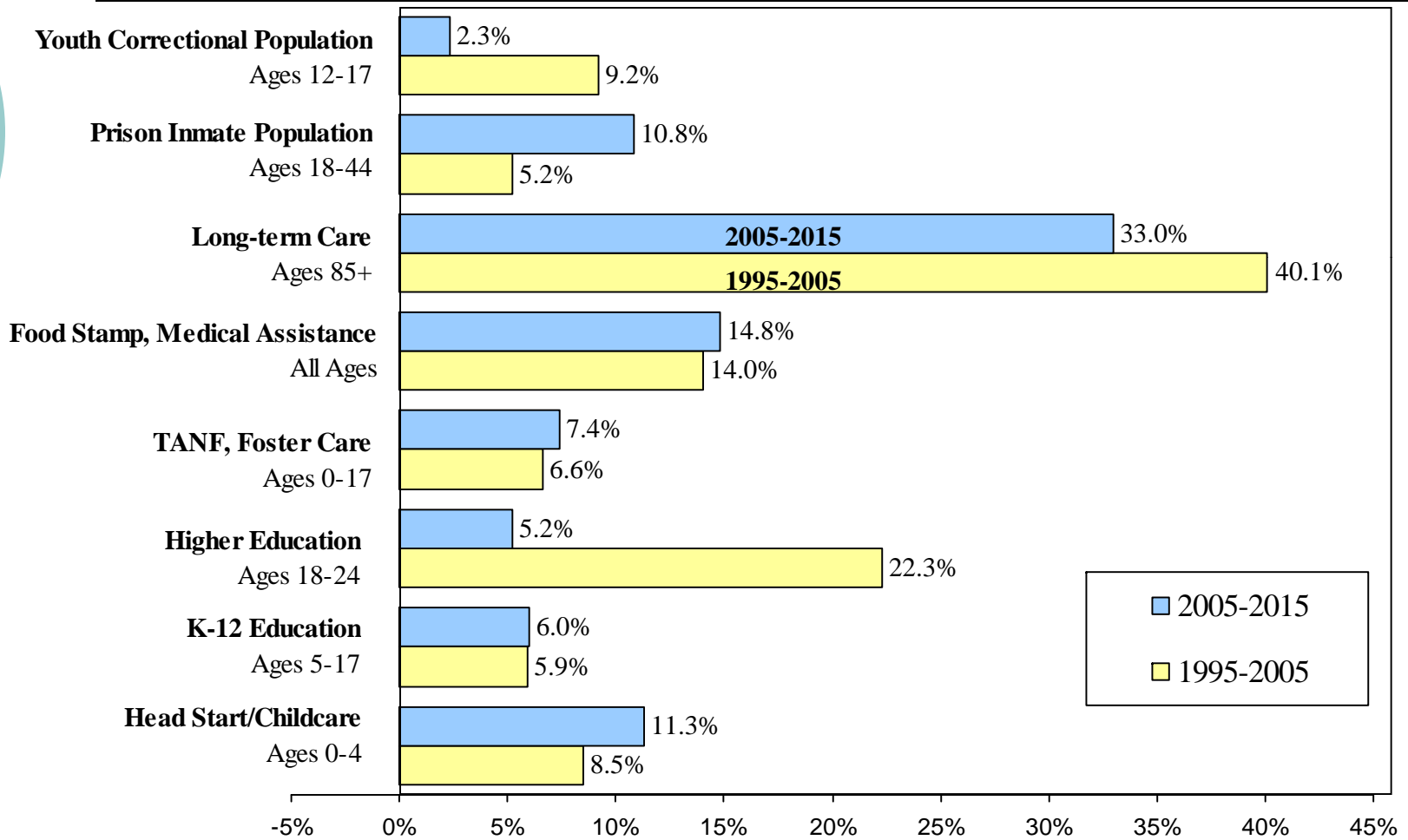
Working-age Population: 1980-2020



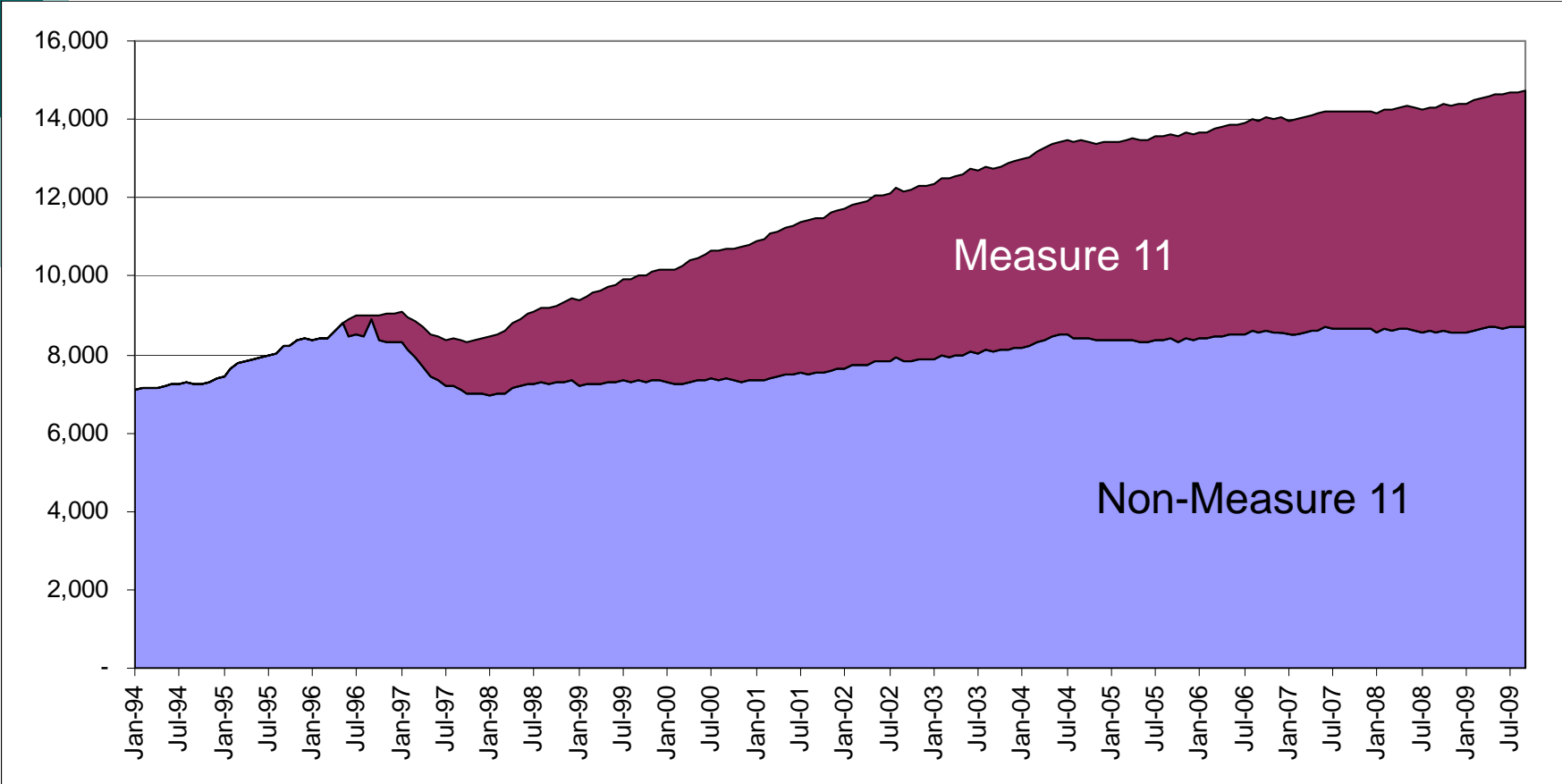
Elderly Population: 1980-2020



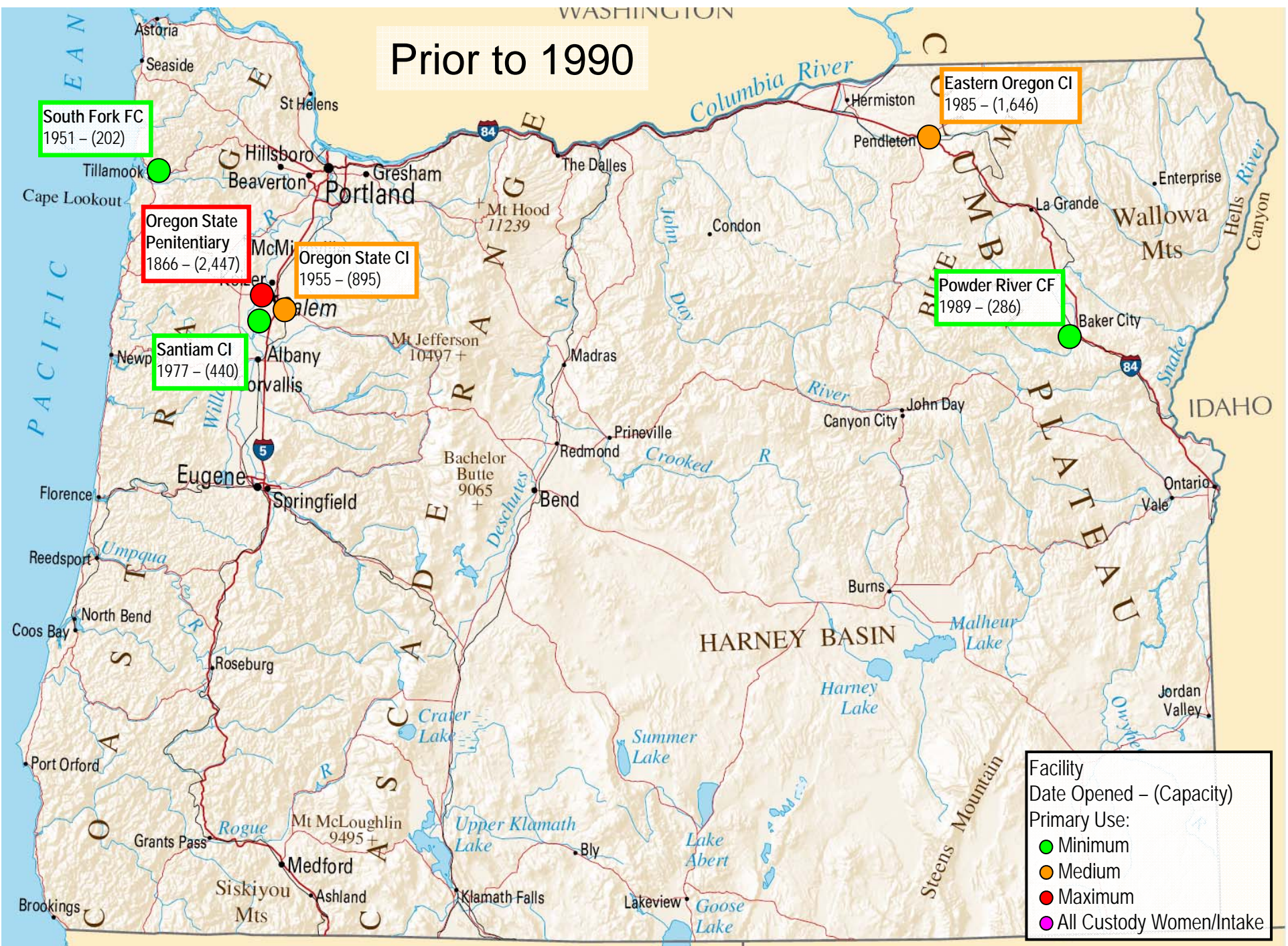
Budget Driver Populations: Past and Future Decades



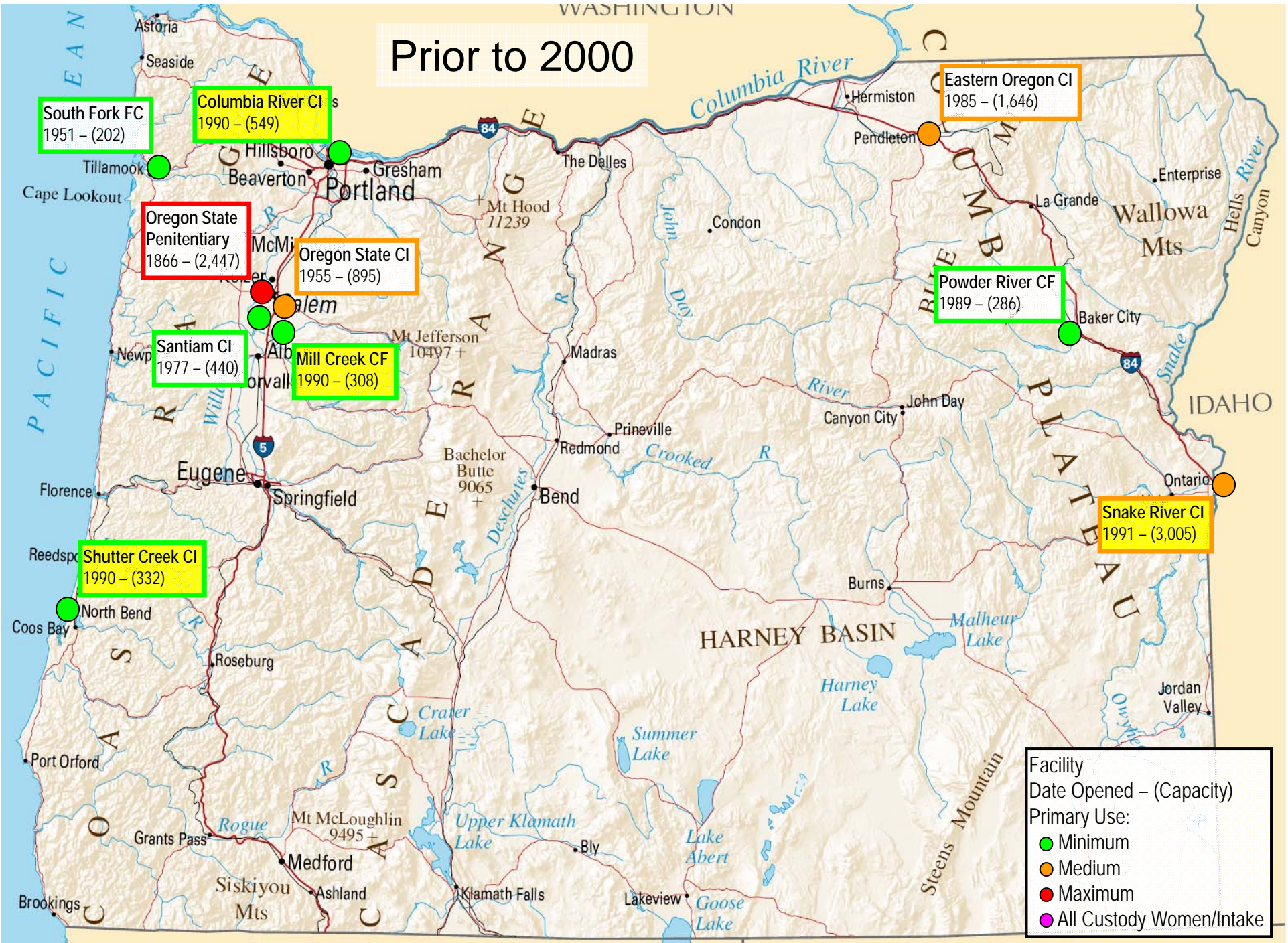
Estimated Impact of Measure 11 on Oregon's Prison System



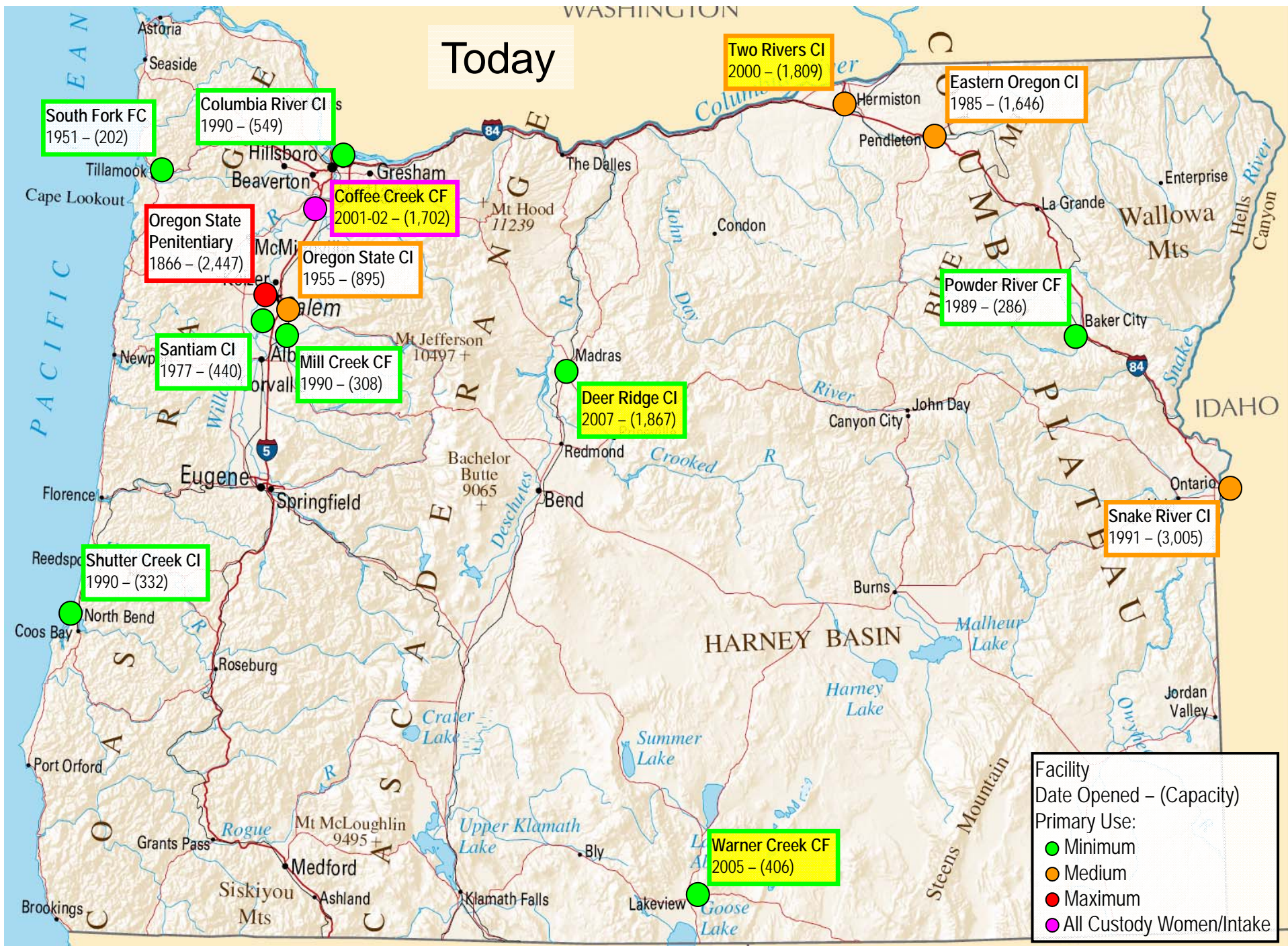
Prior to 1990



Prior to 2000

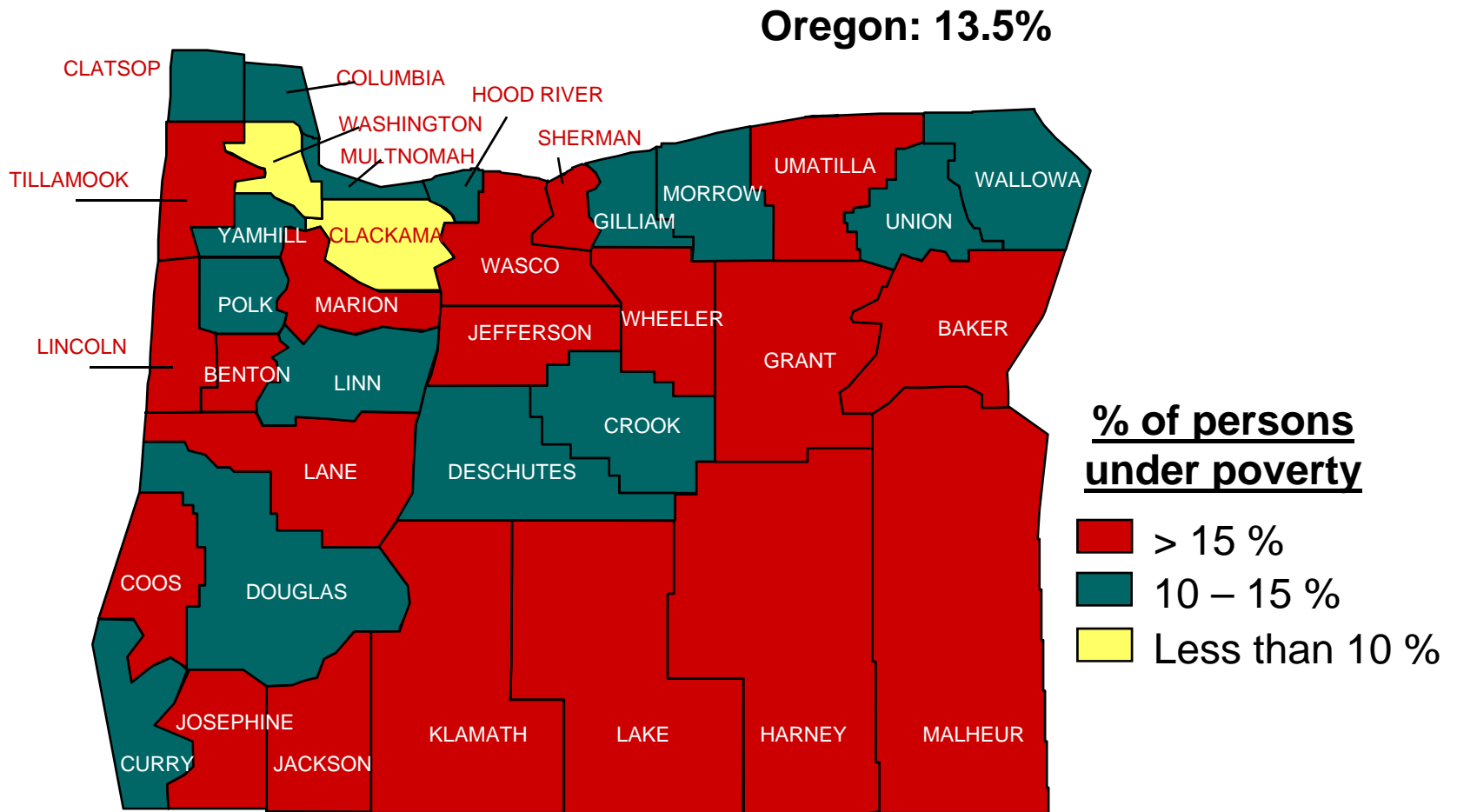


Today



Facility	Date Opened - (Capacity)	Primary Use:
● (Green)		Minimum
● (Orange)		Medium
● (Red)		Maximum
● (Pink)		All Custody Women/Intake

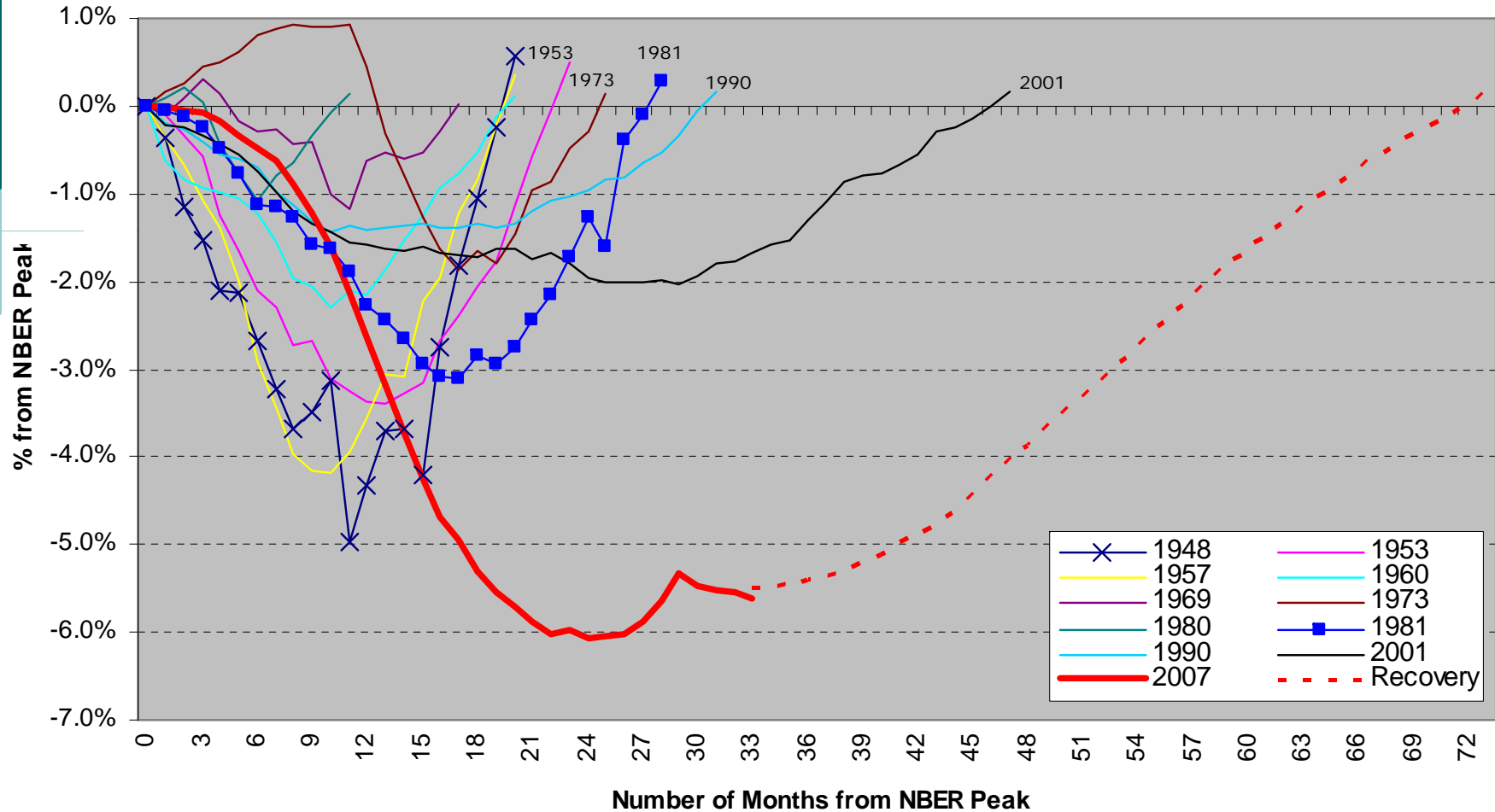
Estimated Poverty Rate, 2008



Source: U.S. Census Bureau, Small Area Estimates Branch

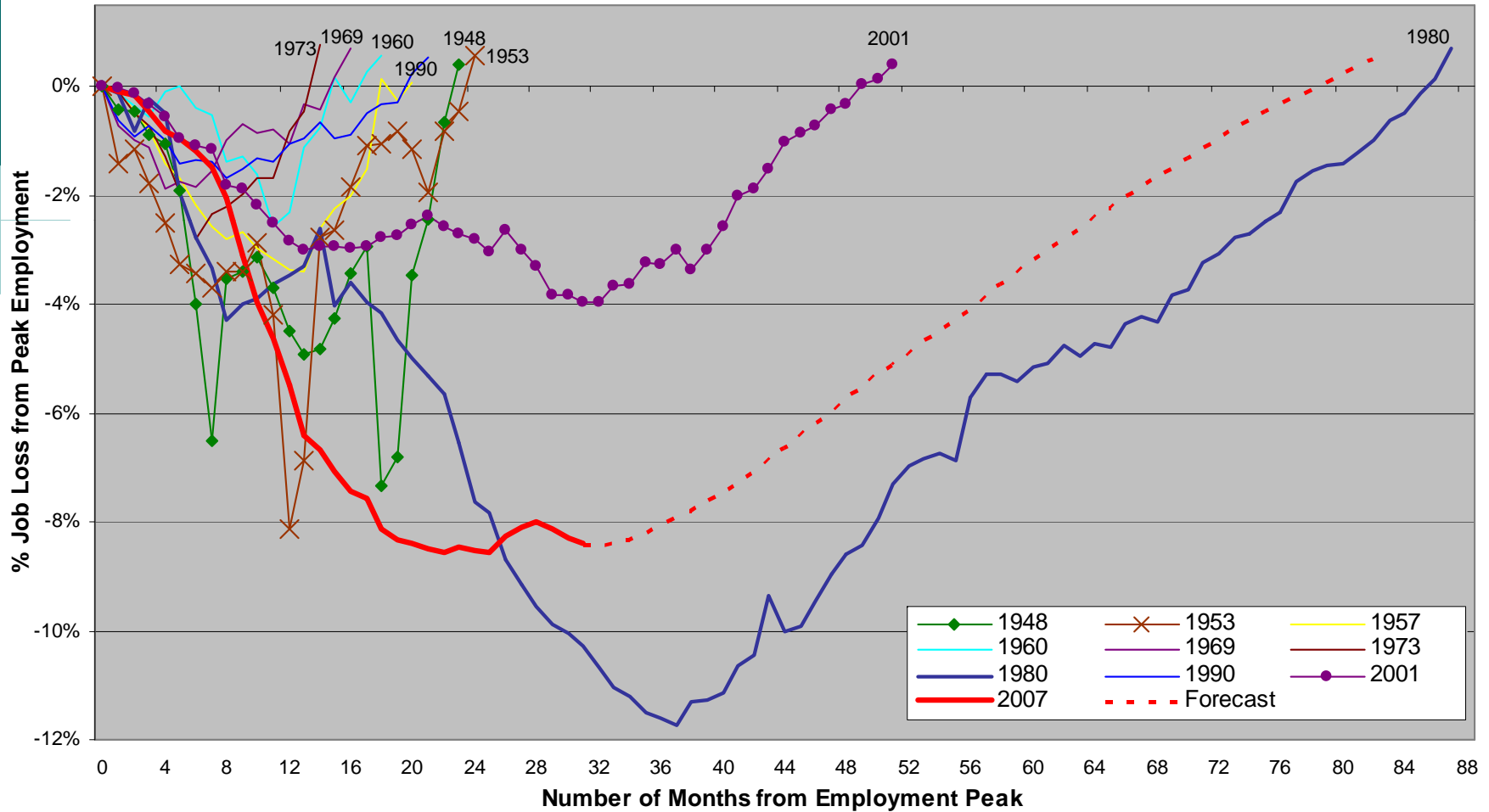
Employment Losses (through September 2010)

U.S. Recession Employment Losses



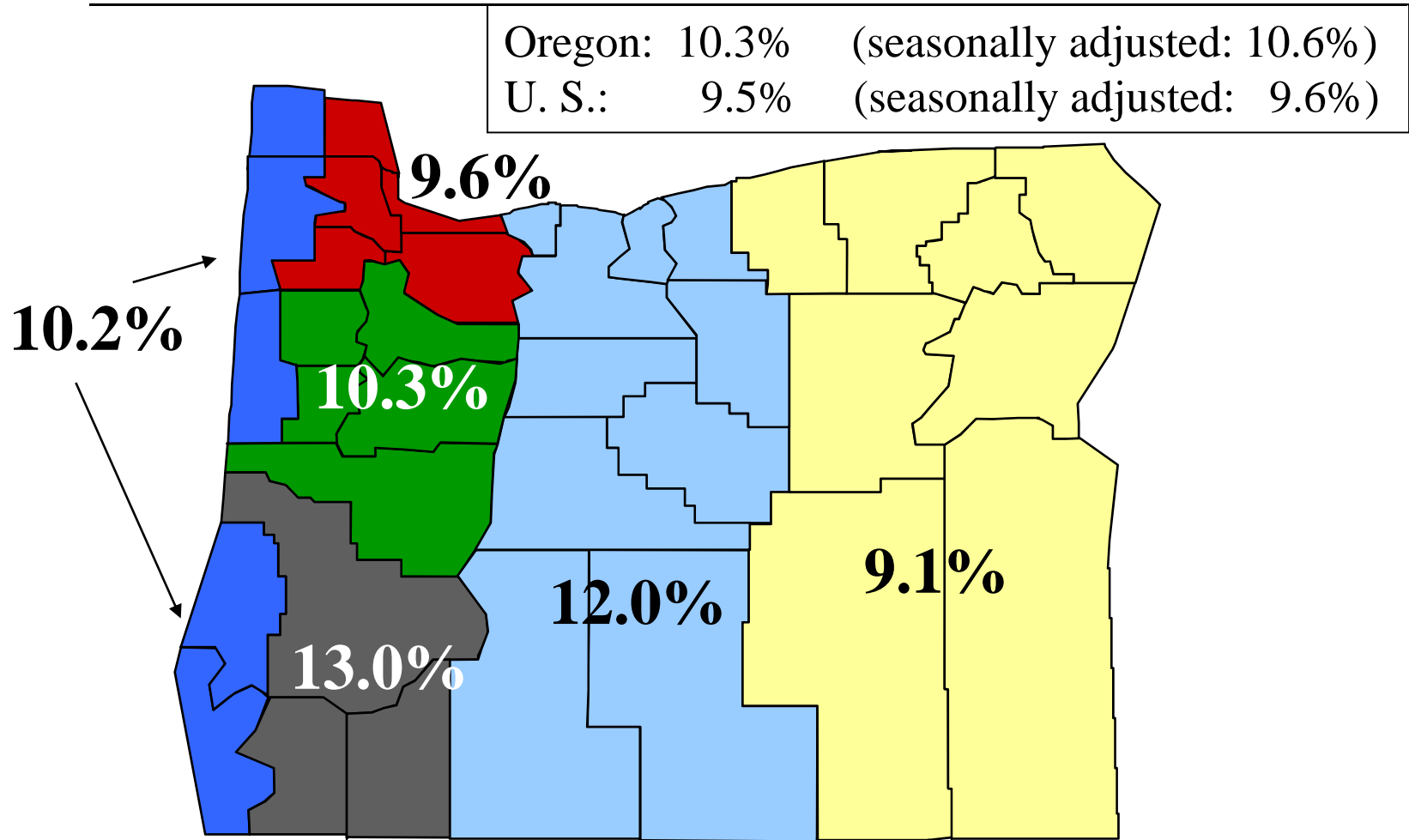
Historical Comparison (through September 2010)

Oregon Employment Loss by Recession



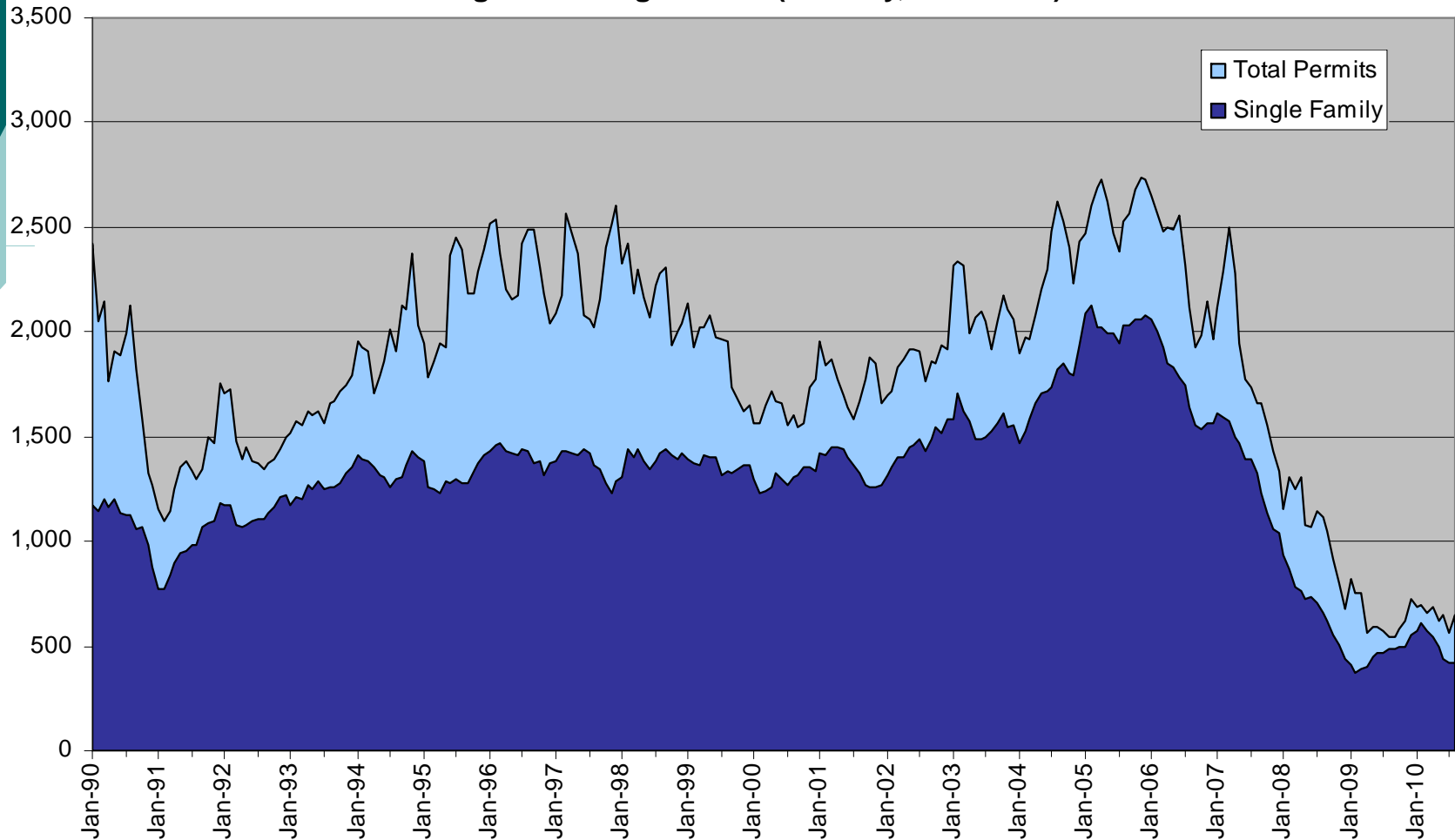
Unemployment Rate by Region, August 2010

(Not seasonally adjusted for counties)



Oregon Housing Permits (through August 2010)

Oregon Housing Permits (Monthly, SA 3 MMA)





State Revenue Trends



Revenue Methodology

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

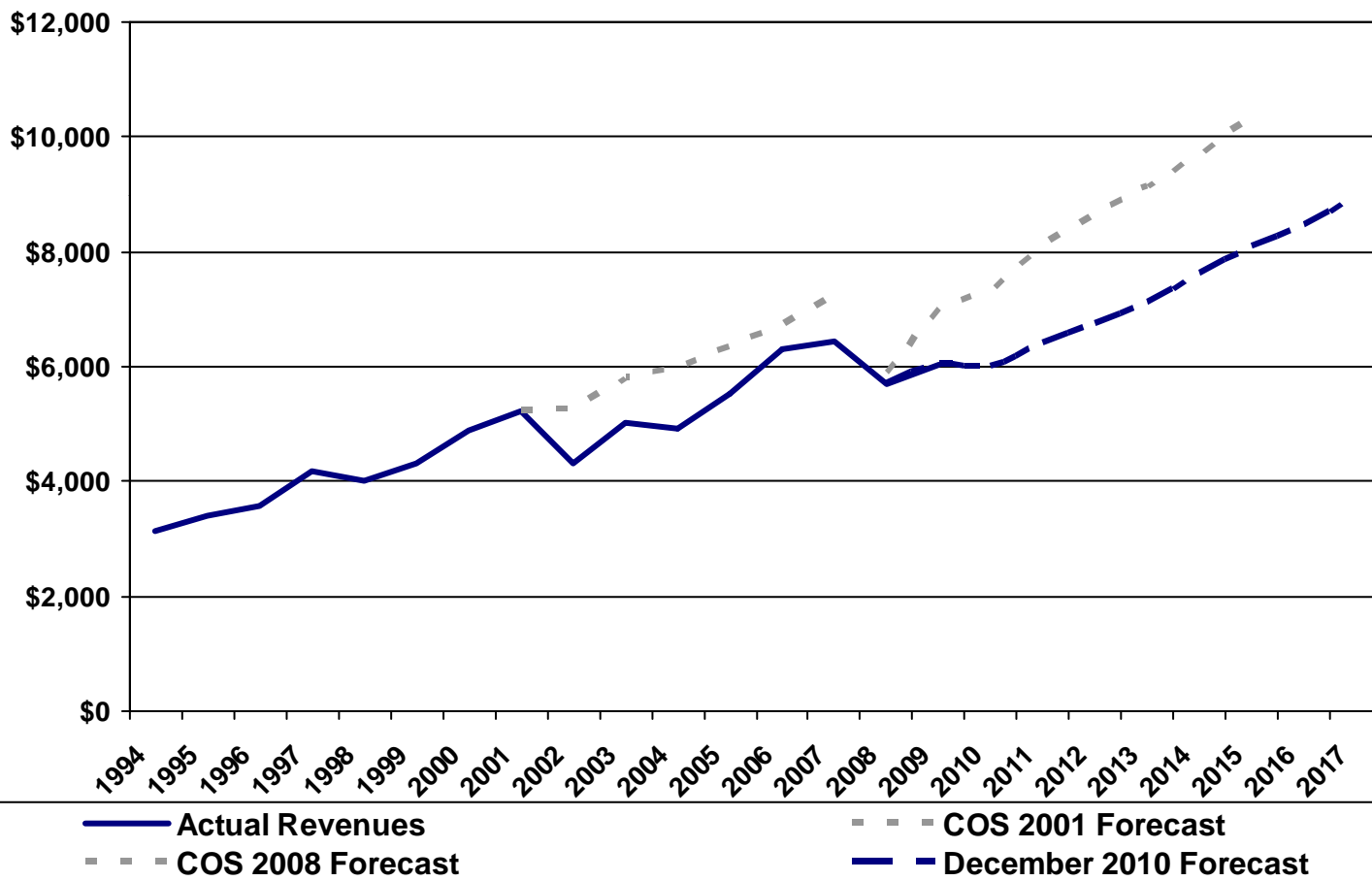
- Revenue Growth Factors

- Employment
- Wage Rates
- Investment Returns
- Profit Levels

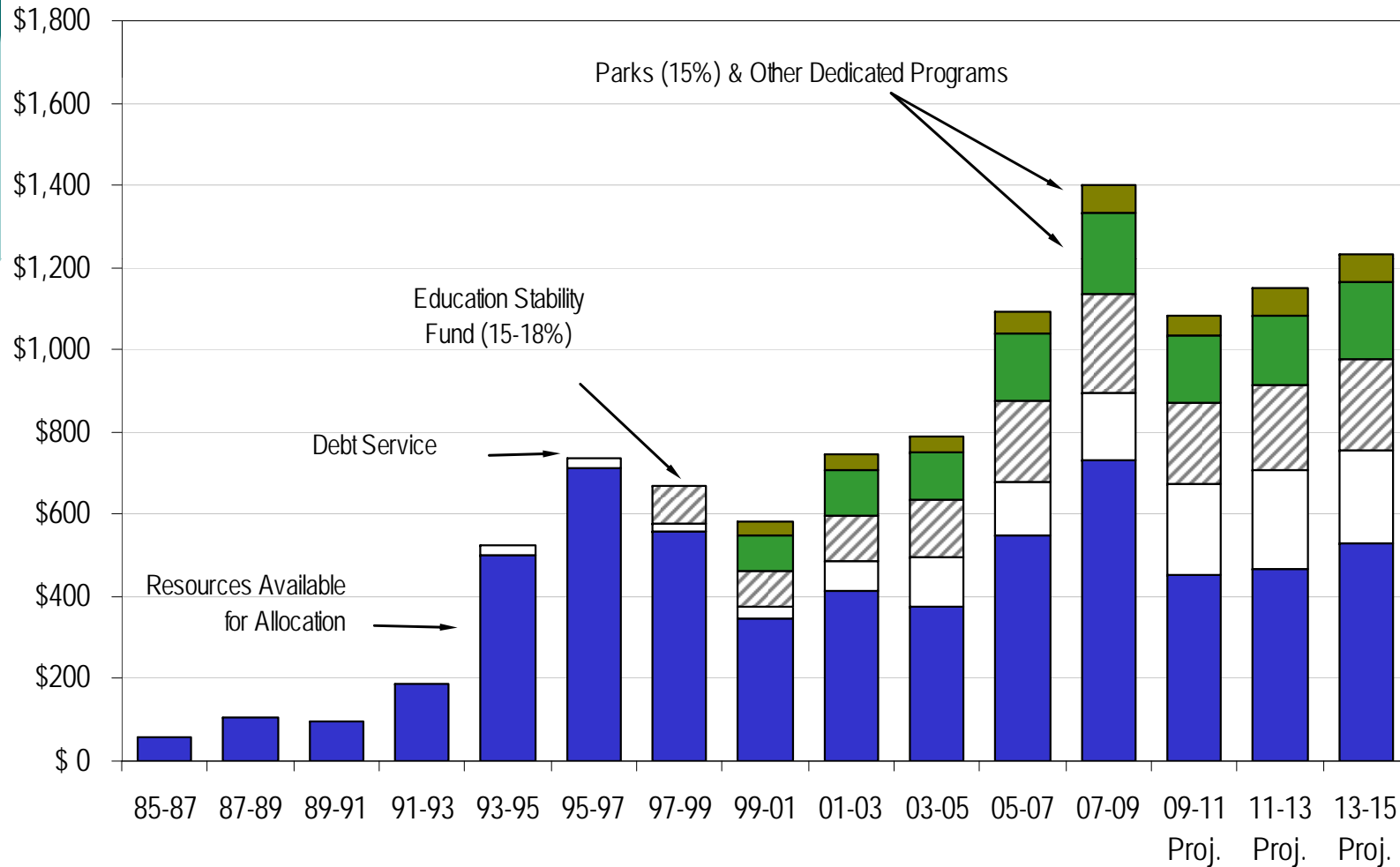
- Long term risks

- Burgeoning retirement income erodes taxable income base.

General Fund Forecast Comparison Fiscal Years, in Millions



Lottery Resources Available to the State (Millions)



Note: Resources do not include Video Lottery proceeds dedicated to the Counties. Beginning balance is included. 2003-09 debt service figures do not reflect any Education Endowment Fund or reserve earnings designated for debt service on education bonds.



State Expenditure Trends and Budget Drivers



What has caused General Fund expenditure growth?

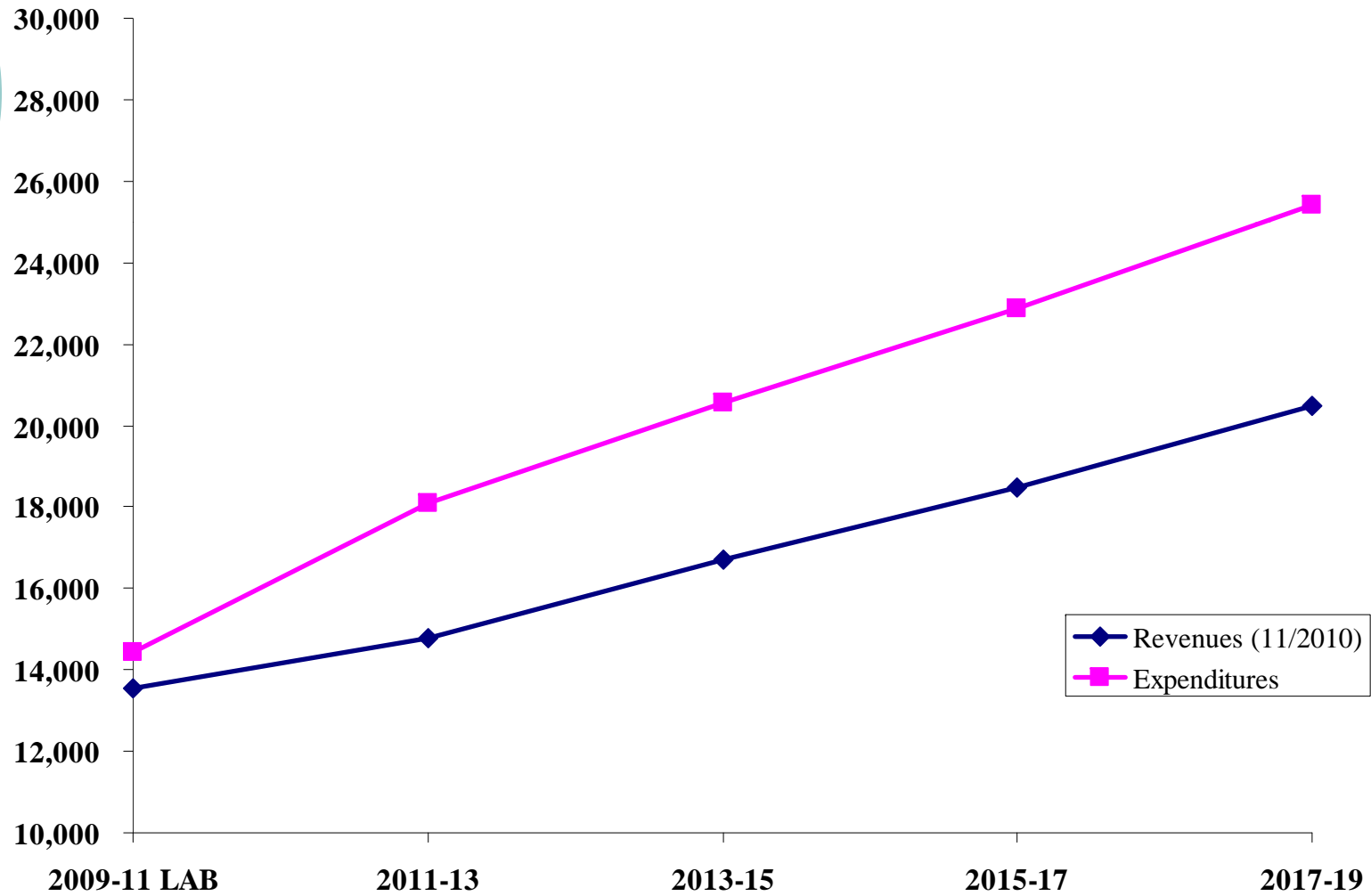
○ **Primary**

- Population
- Voter Approved Initiatives
- Legislative Policy decisions
- Federal Budget Adjustments

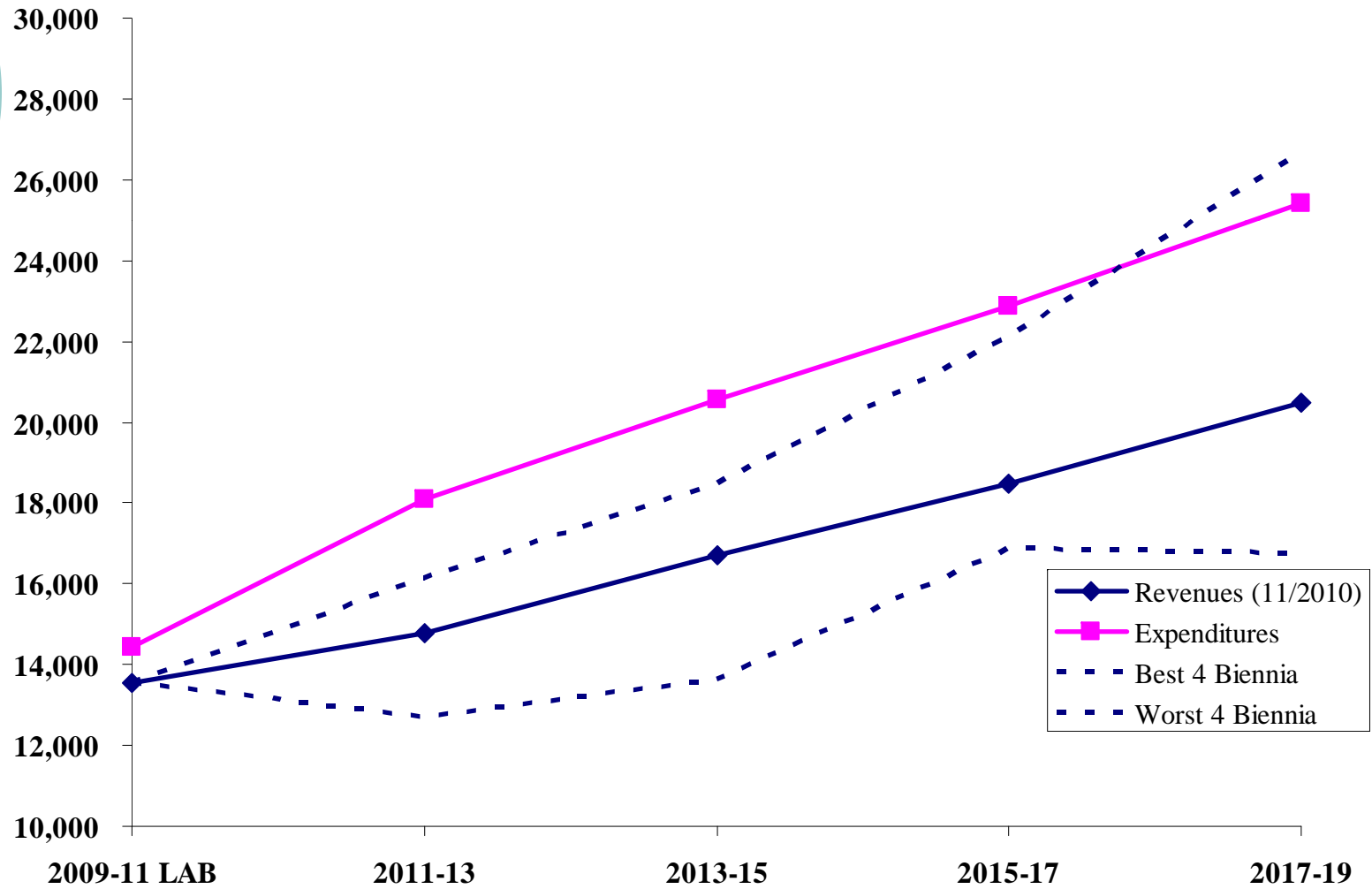
○ **Secondary**

- Inflation
- Lawsuits

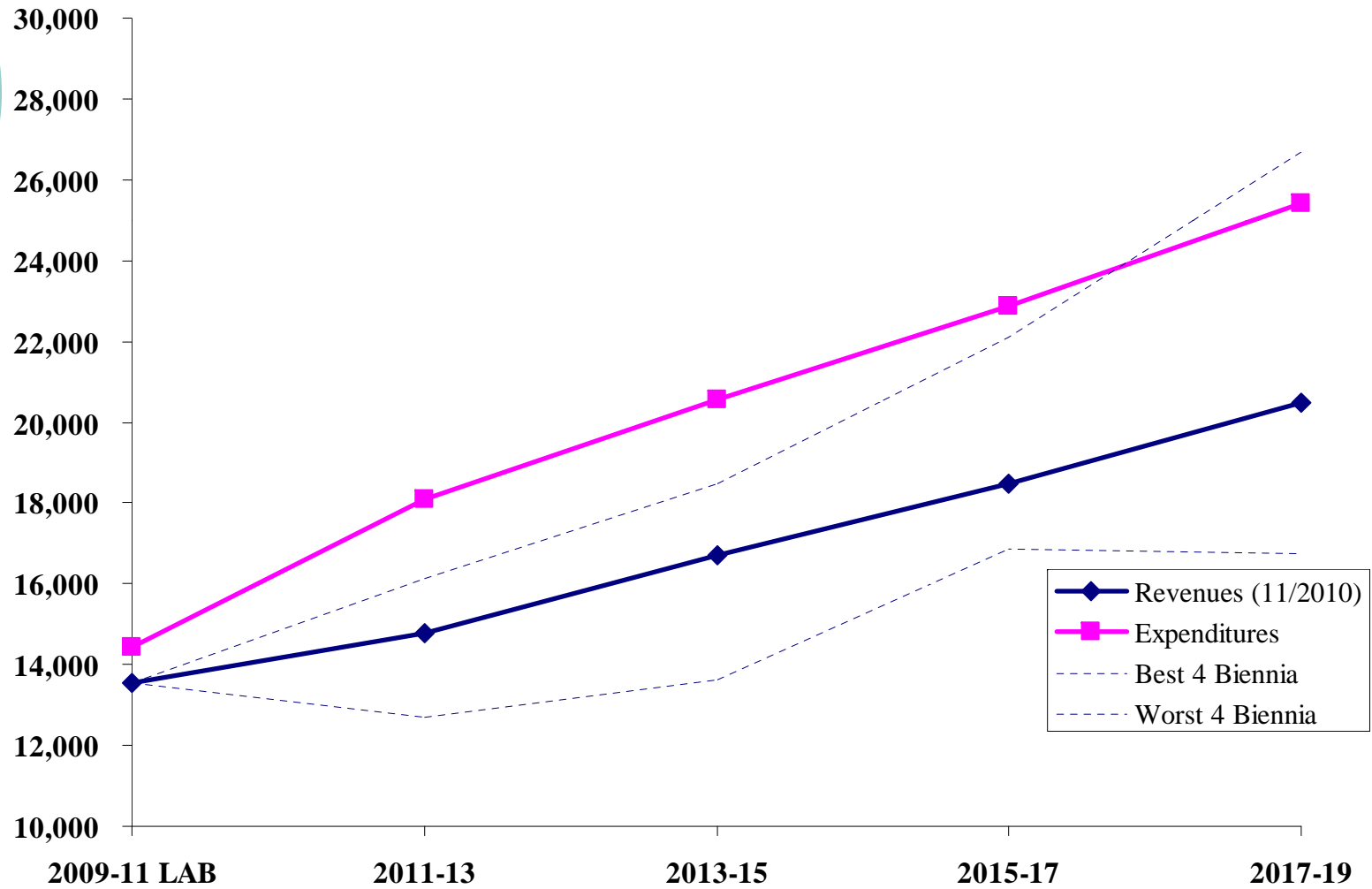
Long Term Budget



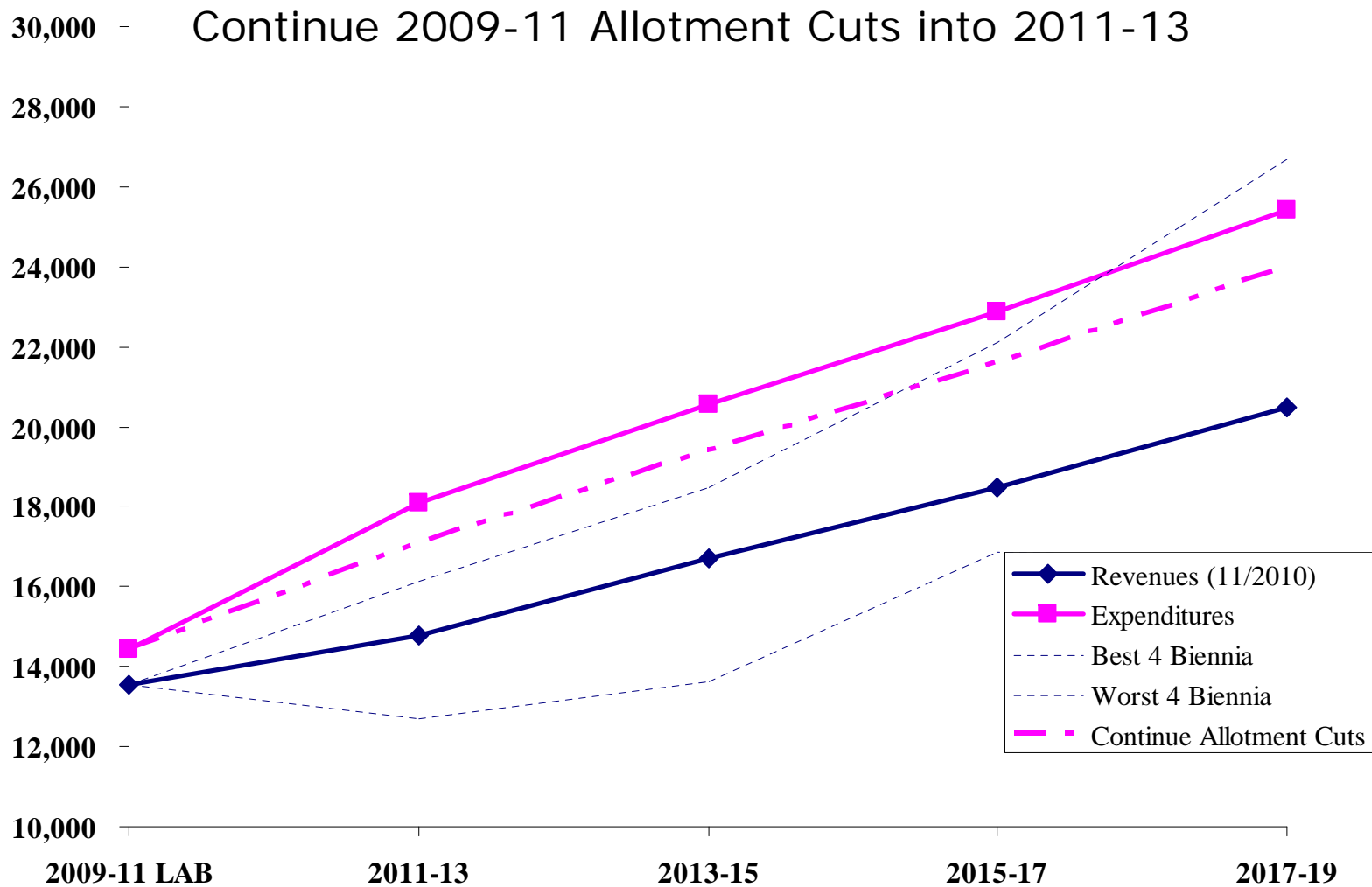
Long Term Budget



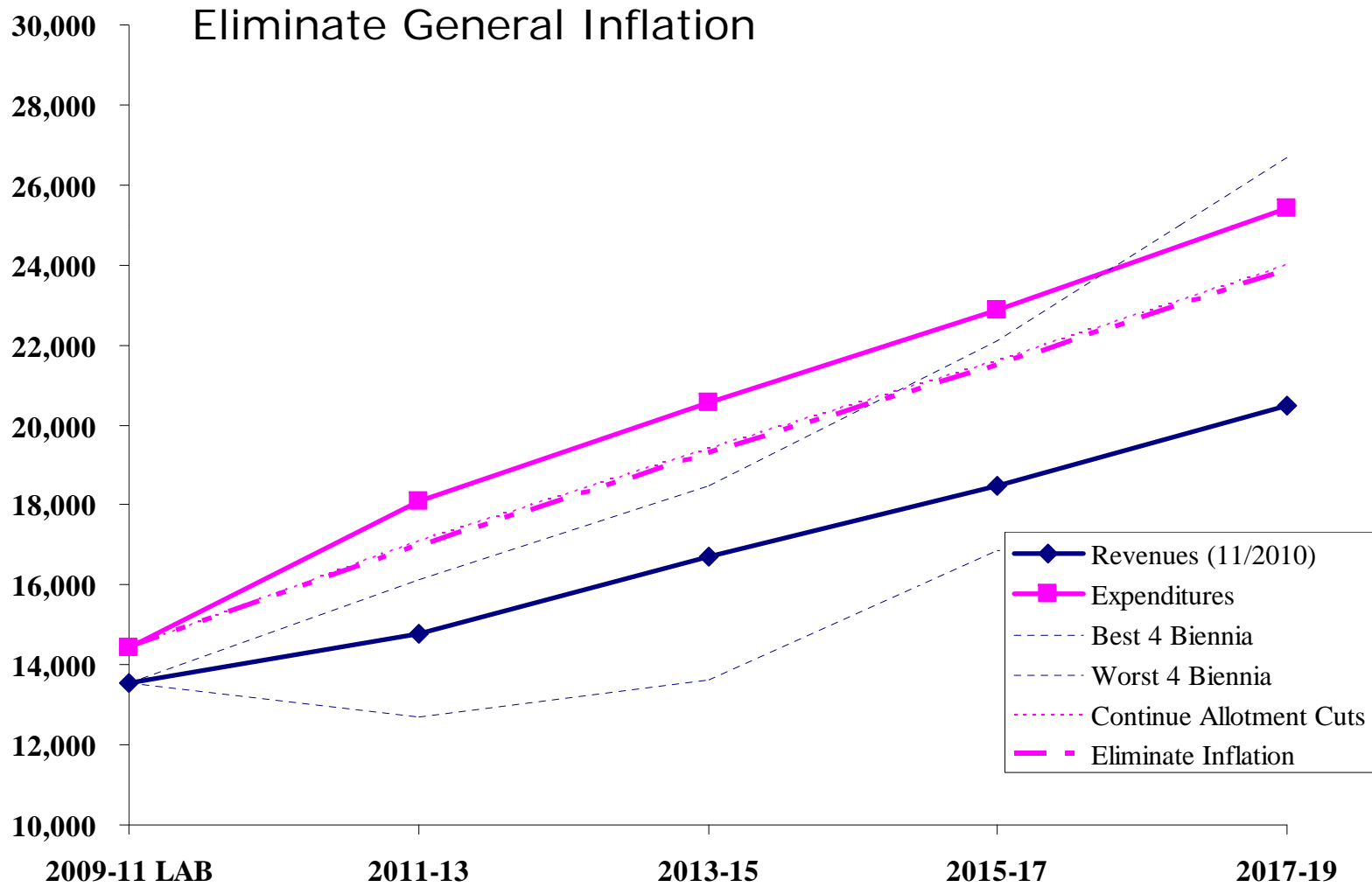
Long Term Budget



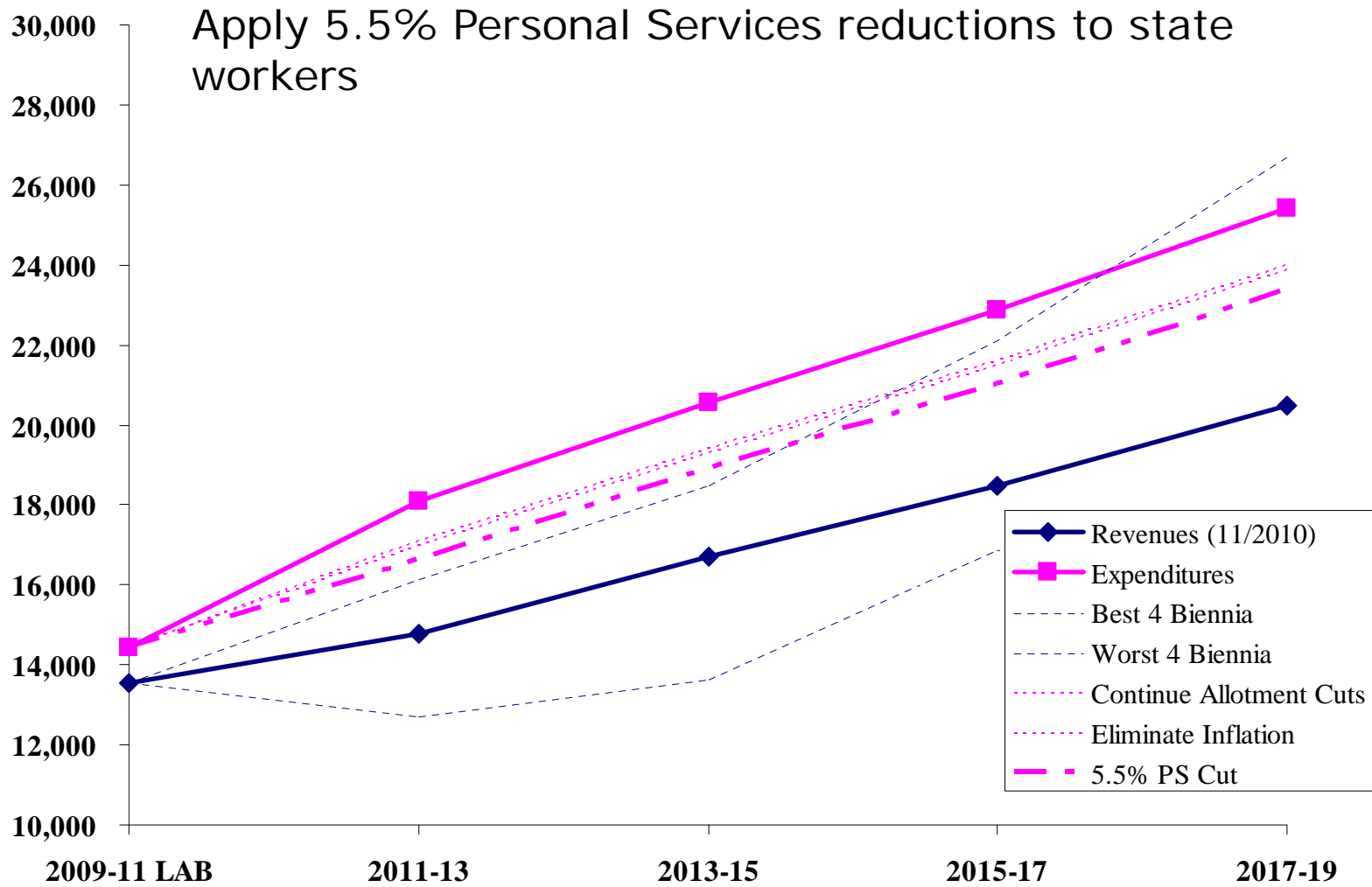
Long Term Budget



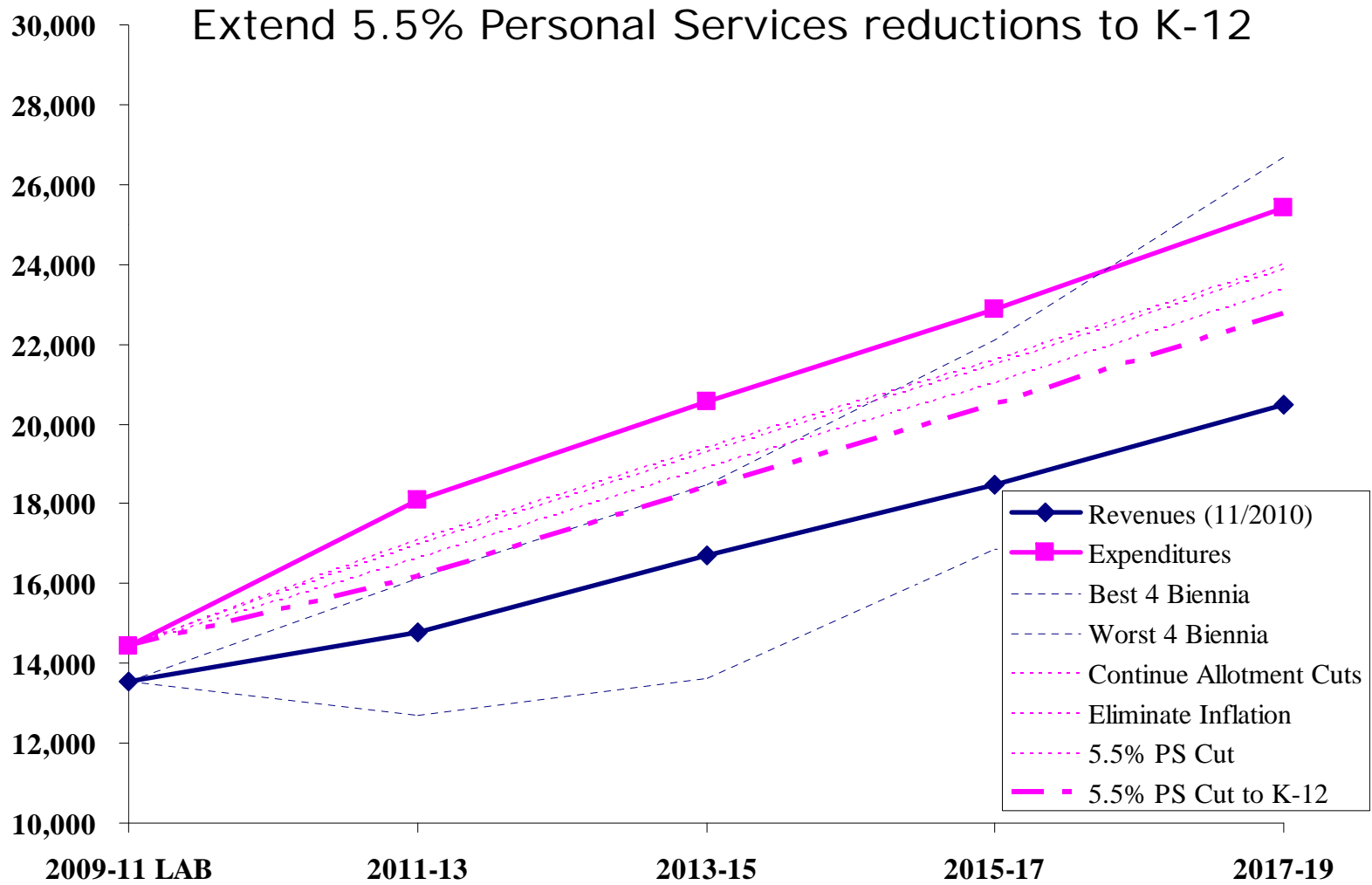
Long Term Budget



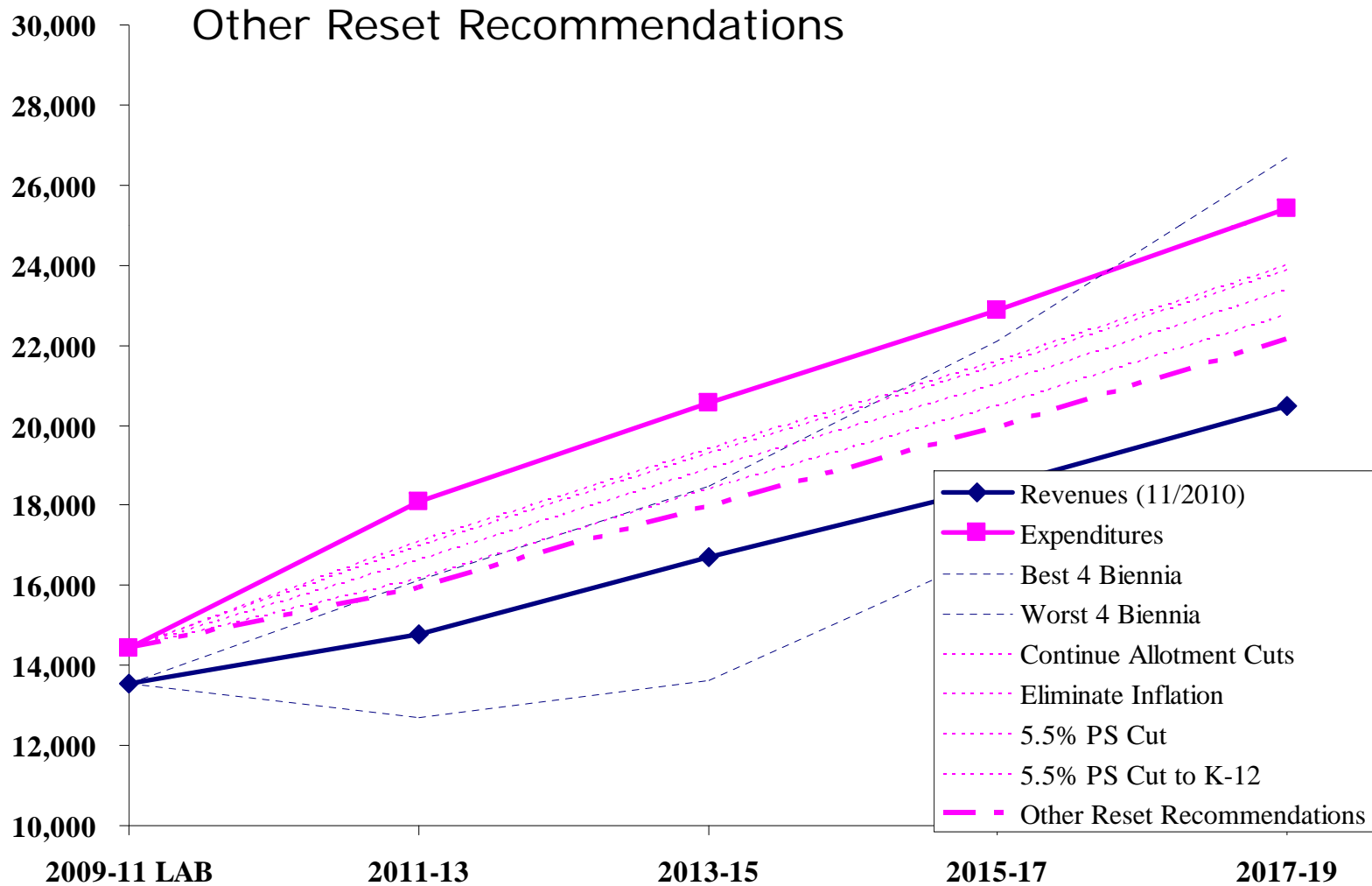
Long Term Budget



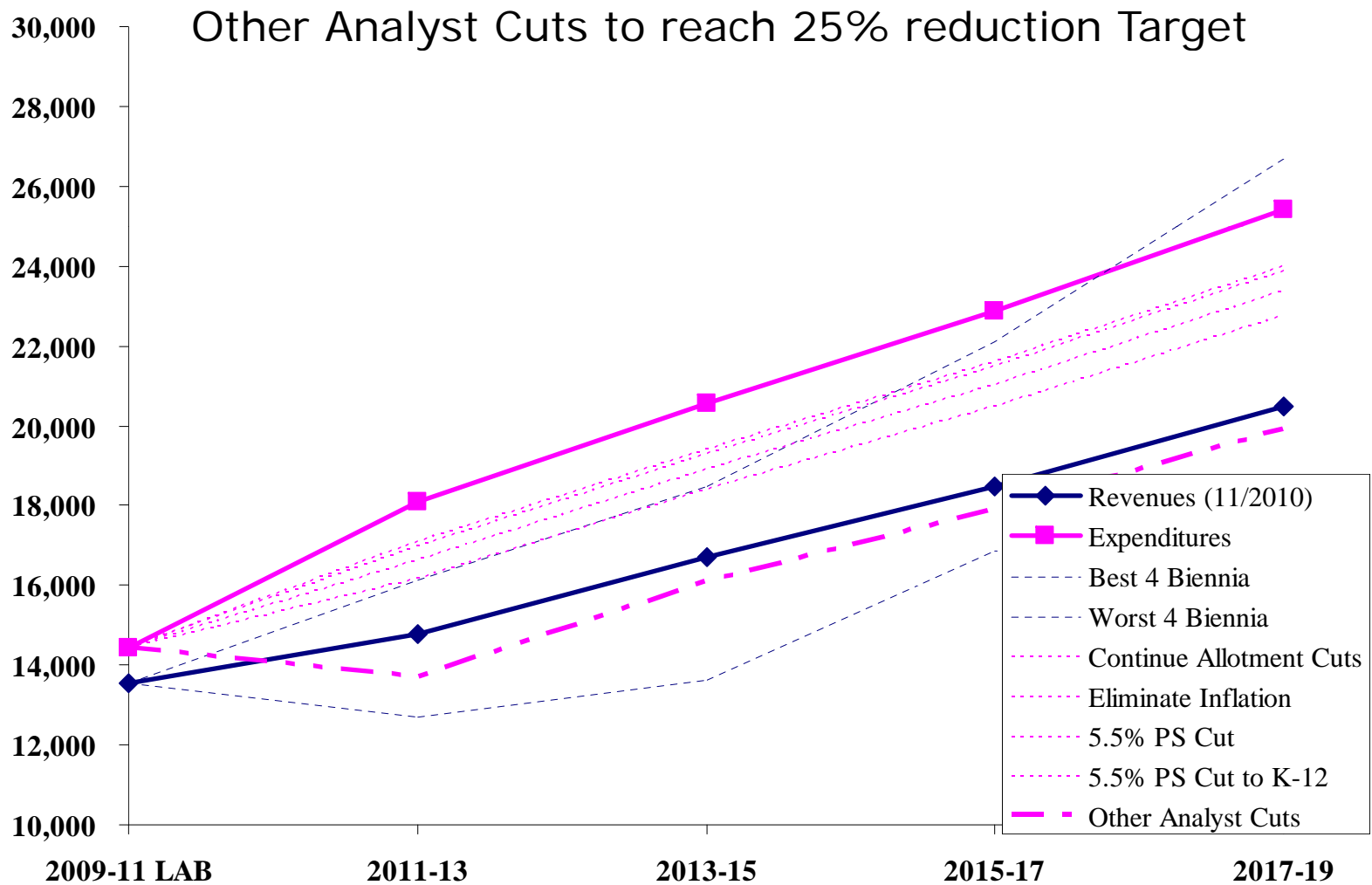
Long Term Budget



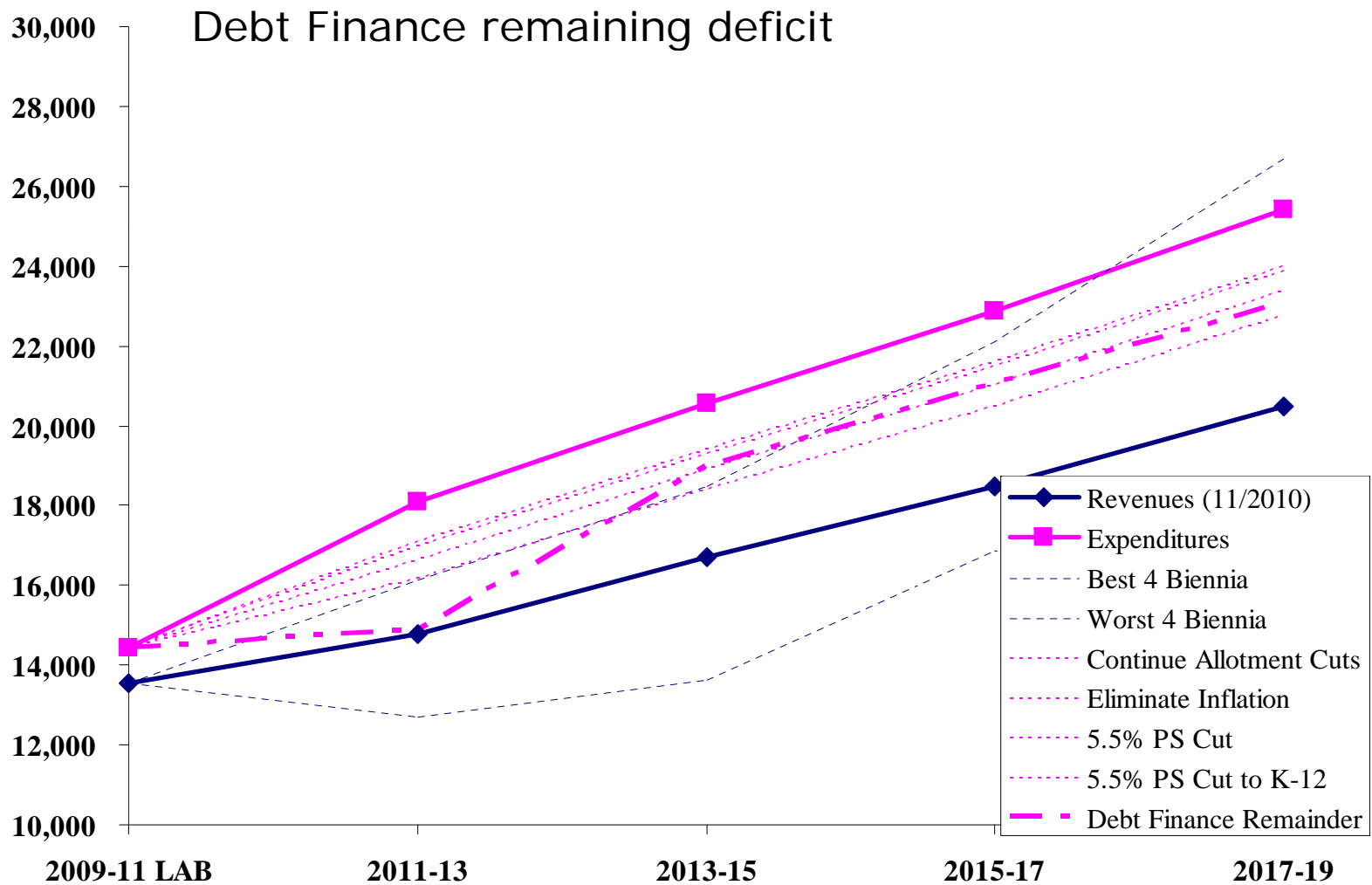
Long Term Budget



Long Term Budget



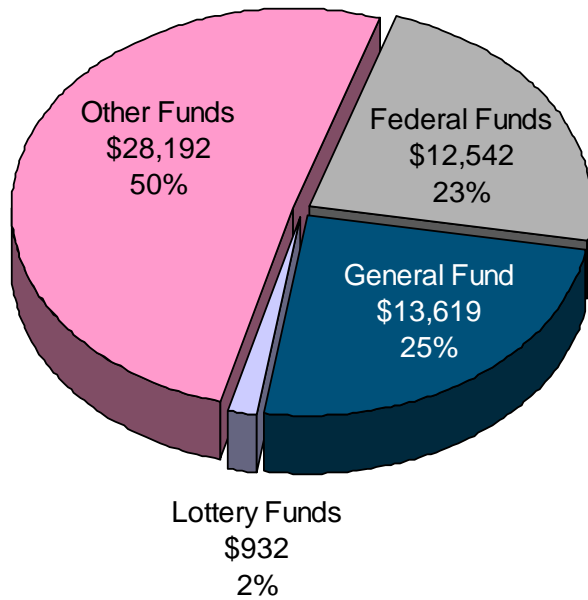
Long Term Budget



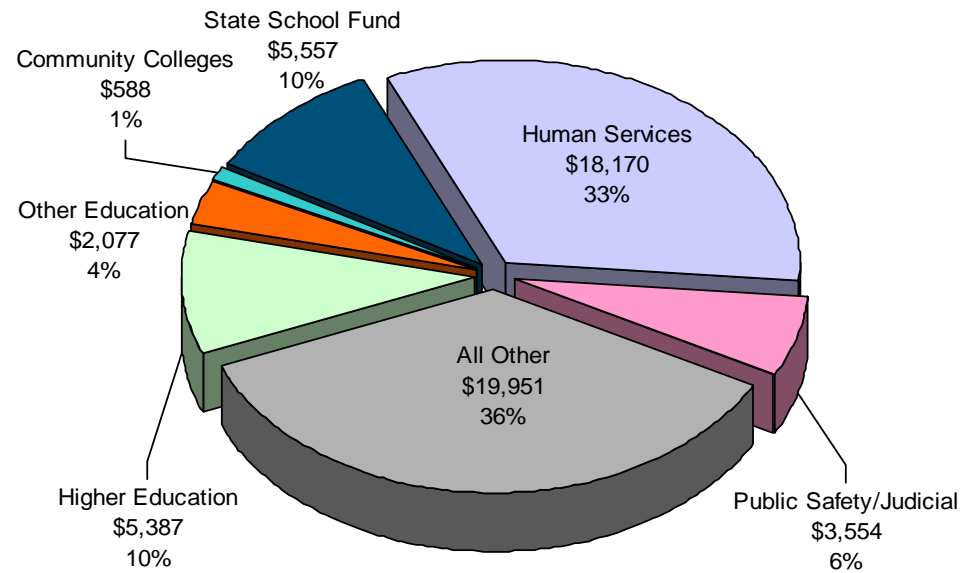
Governor's Recommended Budget 2011-13

Total Funds

Resources Budgeted Total: \$55,284 Million*



Expenditures Total: \$55,284 Million

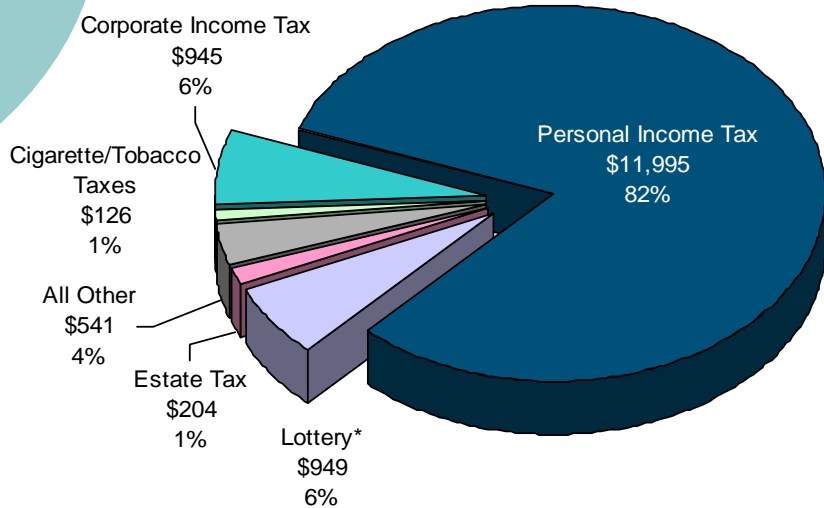


* Does not foot because of rounding

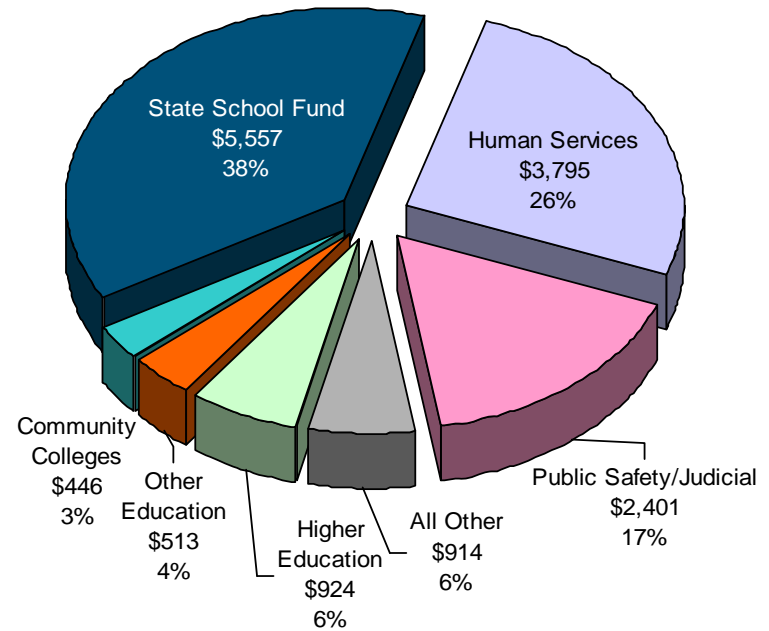
Governor's Recommended Budget 2011-13

General Fund and Lottery Funds Combined

Available Resources
Total: \$14,760 Million



Expenditures
Total: \$14,550 Million

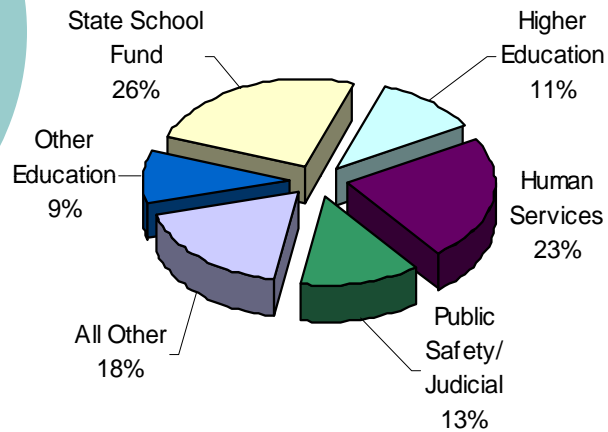


* Includes beginning balance & carry forward

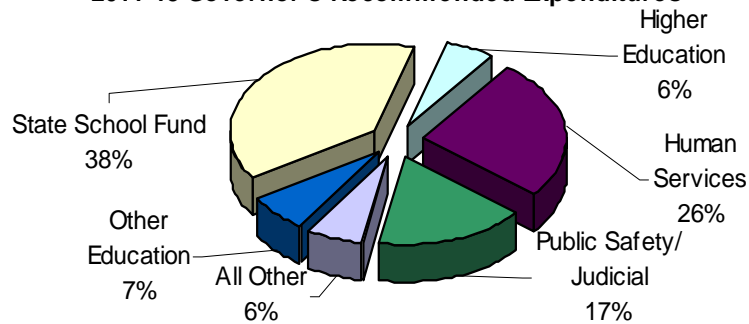
General Fund and Lottery Funds Budget Trends

Overall Expenditure

1989-91 Legislatively Approved Expenditures

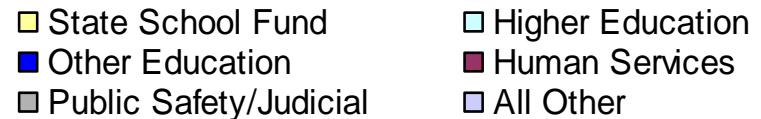
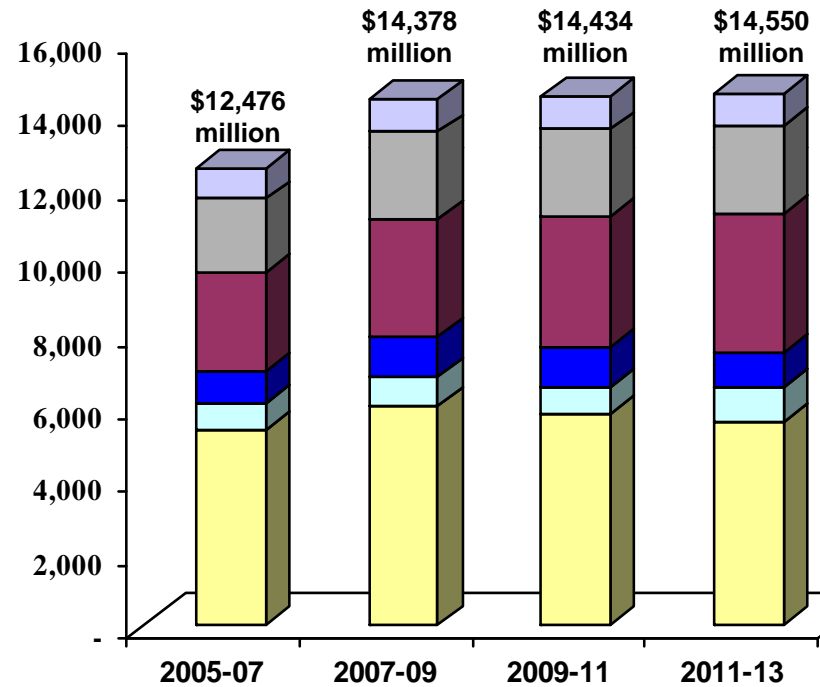


2011-13 Governor's Recommended Expenditures



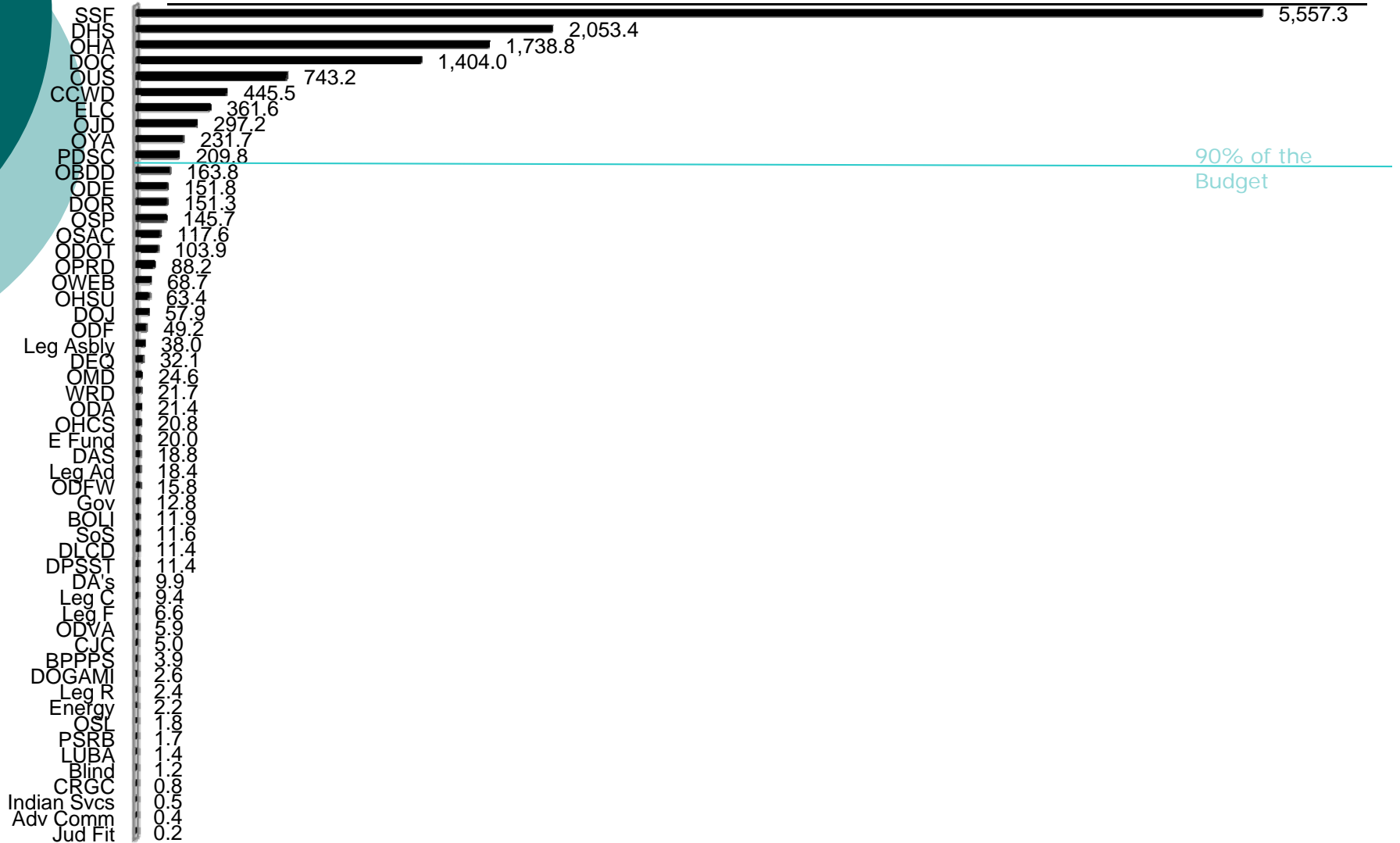
General Fund and Lottery Trends

General Fund & Lottery Funds Budgets Over Past Four Biennia



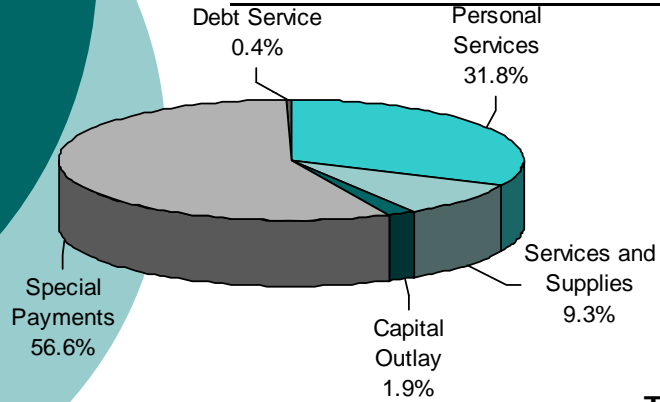
General Fund and Lottery Funds

Governor's Budget by Agency

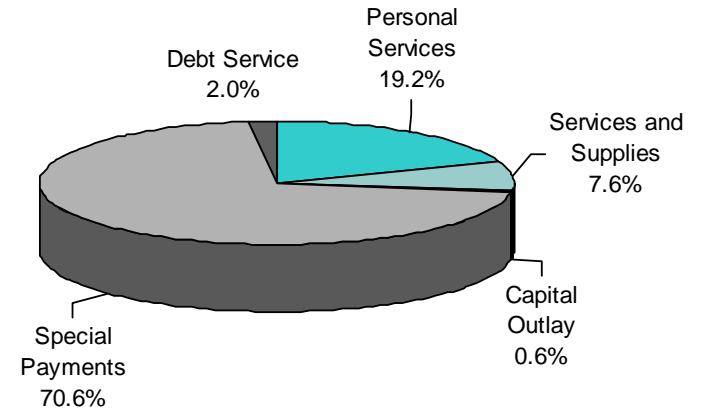


General Fund and Lottery Funds Expenditures by Category

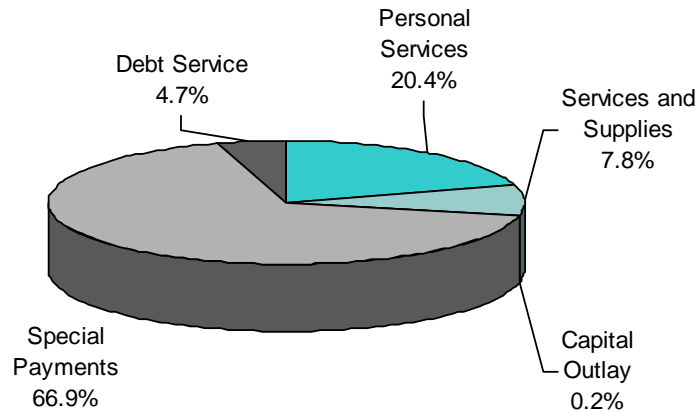
1989-91
Total: \$4,804.6 Million



2001-03
Total: \$11,973.9 Million



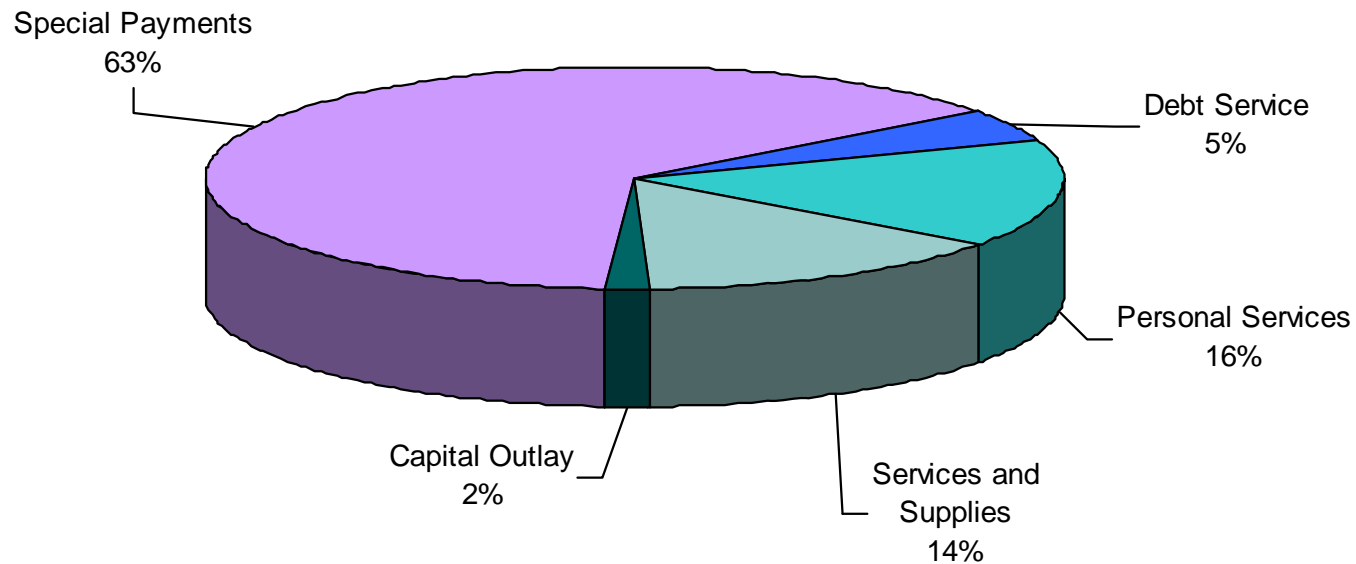
2011-13
Total: \$14,550.5 Million



Expenditures by Category

Total Funds

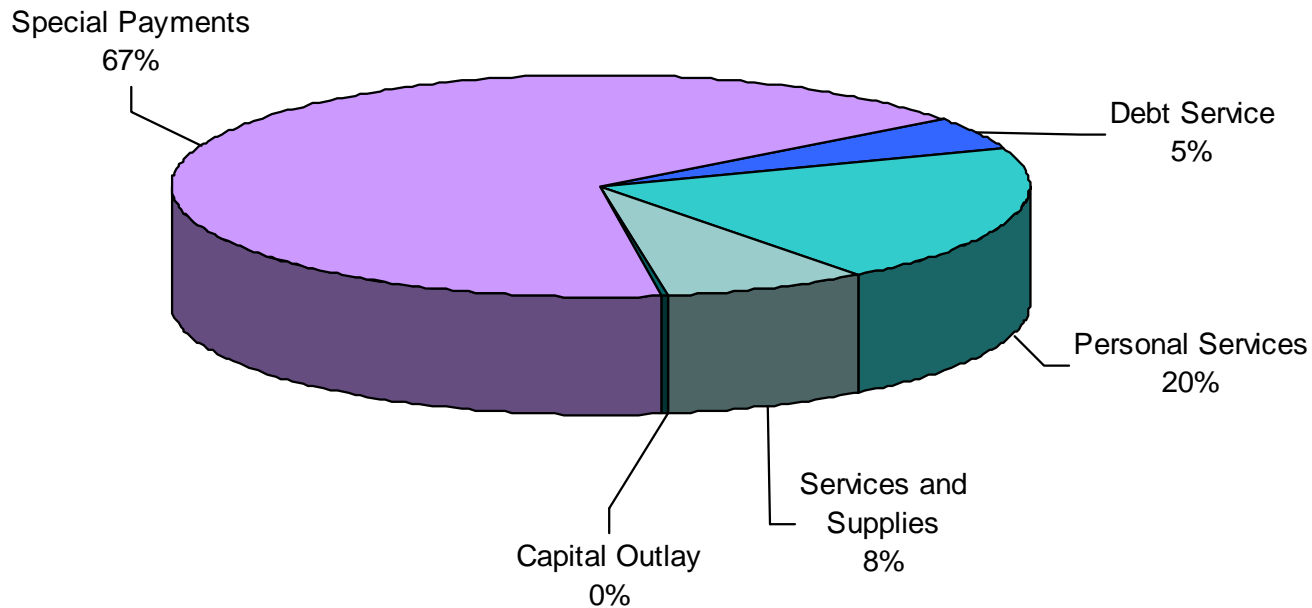
2011-13 Governor's Recommended Budget
Total: \$55,284 million



Expenditures by Category

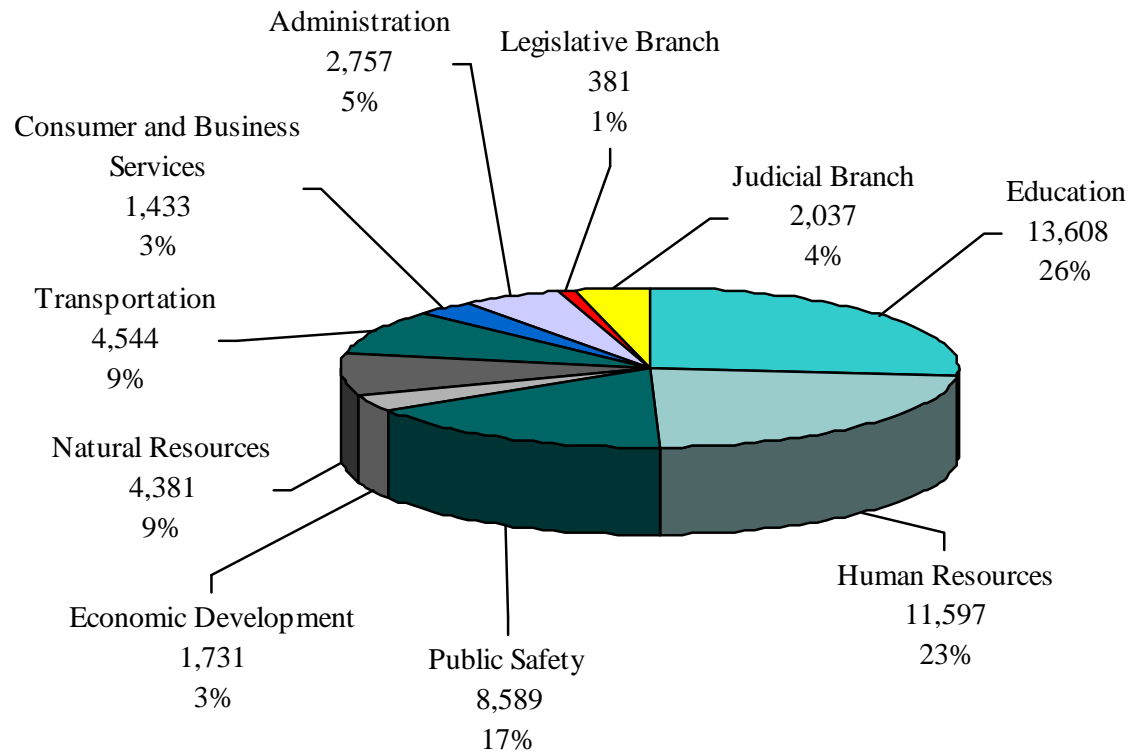
General Fund and Lottery Funds

2011-13 Governor's Recommended Budget
Total: \$14,550 million



2011-13 Full-Time Equivalent Positions

Total: 51,056*



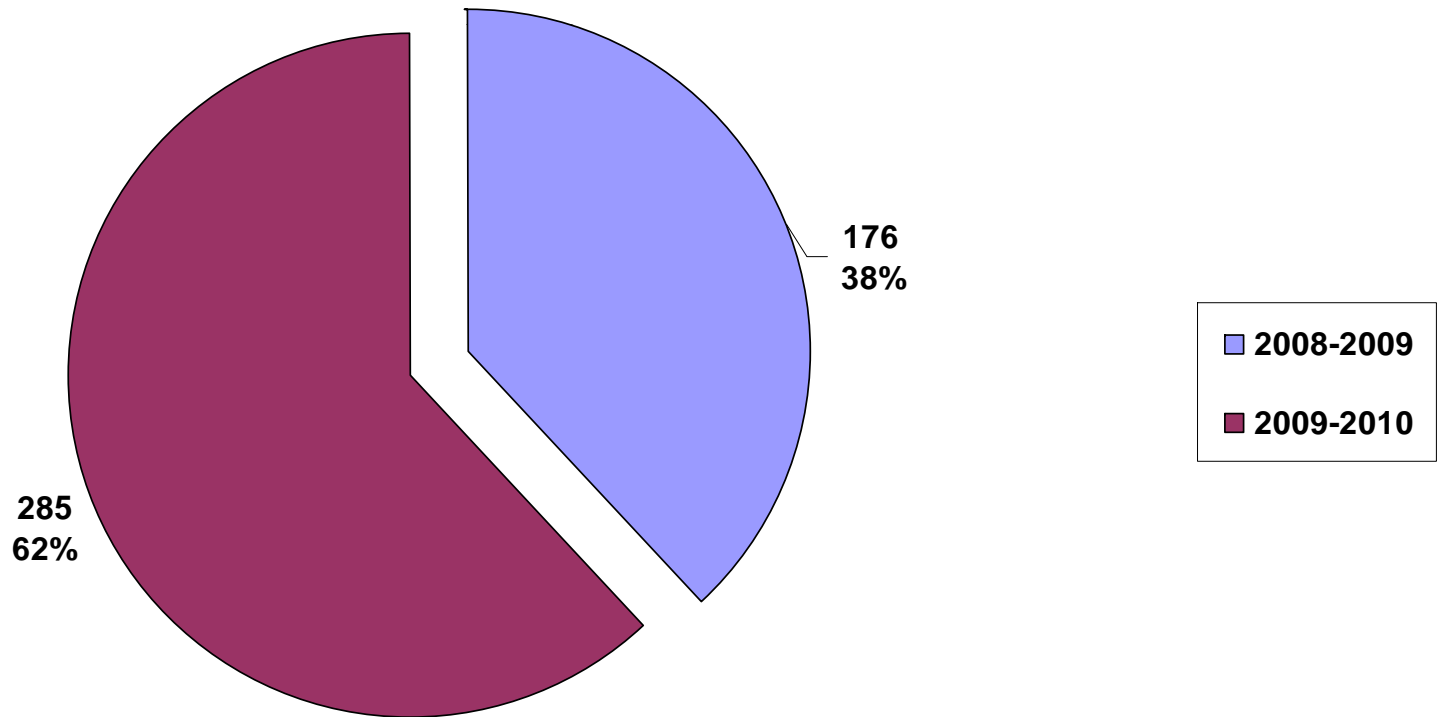
* Does not foot because of rounding

State Government Layoffs

(through September 2010)

2009-11 LAYOFFS BY FISCAL YEAR

461 TOTAL LAYOFFS



2011-13 General Fund and Lottery Resources (Governor's Recommended Budget)

2011-13 General Fund and Lottery Resources (\$ Millions)	
Beginning Balance	\$47.4
Projected Revenues – Dec 2010	\$14,748.3
Governor's Recommended Changes	
Continue Liquor Bottle Surcharge	26.4
Additional Dept of Revenue Auditors	14.7
Capital Gains Relief	- 25.0
Tax Credit Extensions/Adjustments	- 53.4
Other Miscellaneous Changes	- 5.1
Net Available Resources	\$14,753.3



2011-13 General Fund Projections Governor's Recommended Budget (in millions)

Revenues – December 2010 Forecast	
Beginning Balance	\$47.4
Projected General Fund Revenues	14,748.3
Governor's Recommended Changes	- 42.4
Total Resources	\$14,753.3
Expenditures – Governor's Recommended Budget	
2009-11 Spending Level after Allotment Cuts	\$13,455.4
Reinvestments above 2009-11 Spending	1,075.1
Emergency Fund	20.0
Total Expenditures	\$14,550.5
Ending Balance	\$202.8

Oregon's Budget Reserves

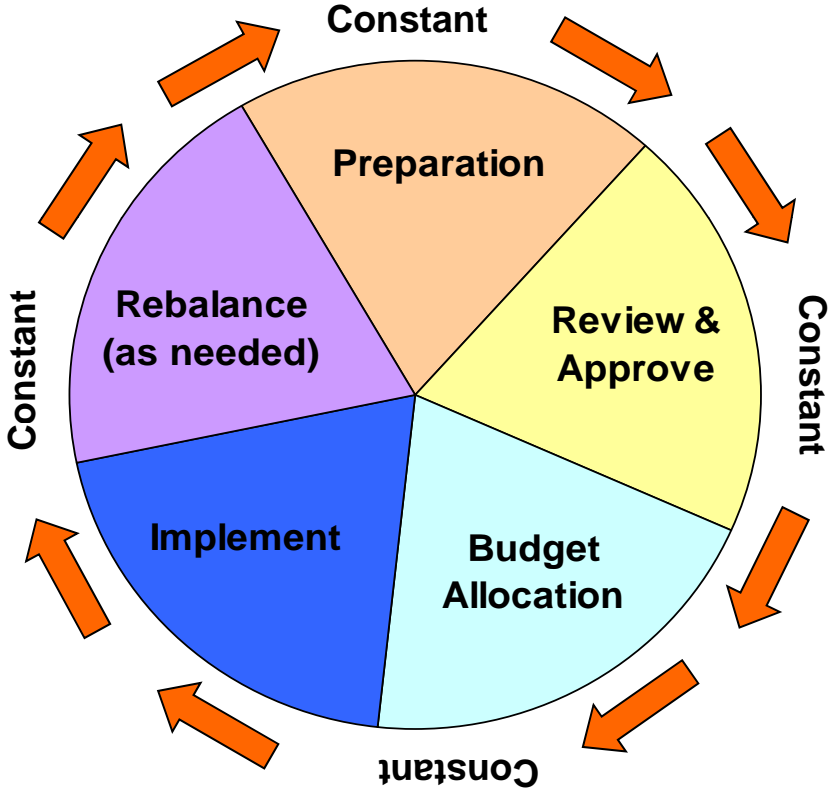
- Continued growth of the Education Stability Fund
 - 18% of biennial net Lottery revenues are dedicated to this reserve account
- Establishment of a Rainy Day Fund in the 2007-09 Budget
 - Seeded with Oregon's projected 2005-07 Corporate Kicker of \$319.3 million
 - All interest earnings on the Rainy 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).

Projected Budget Reserves on 6/30/11		
(\$ Millions)		
	<u>2009-11</u> <u>Projected</u> <u>Balance</u>	<u>2011-13</u> <u>Projected</u> <u>Balance</u>
Education Stability Fund	\$ 102	\$ 296
Rainy Day Fund	11	11
TOTAL	\$ 113	\$ 307



Budget Development Process

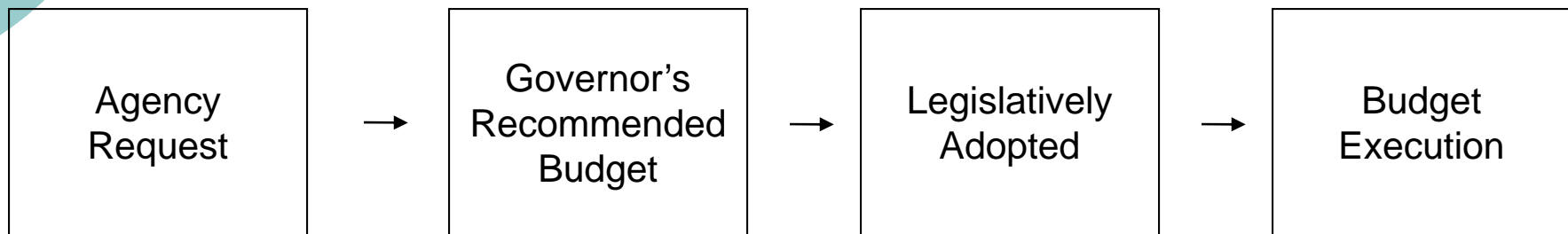
Continuous Development





Budget Process Overview

The budget process has four major cycles:





Budget Instructions

- Budget instructions to agencies during February of even numbered years incorporate:
 - Information on Governor's priorities and expectations.
 - Appropriate modified zero-based directions.
 - Expected deliverables on performance measures and outcomes.
 - Specific data requests.
- Includes a discussion of the General Fund revenue forecast for the upcoming biennium.
- Identification of absolute expenditure requirements – e.g., debt service.



Modified Zero-Based Budget

- Legislatively Approved Budget through April 2010 by Agency Program.
 - Includes 2010 Supplemental Session actions
- Base Budget adjustments:
 - Salary and benefit increases
- Essential packages:
 - Phase-ins/phase-outs/one-time expenditures
 - Inflation increases
 - Mandated caseload adjustments for some programs.

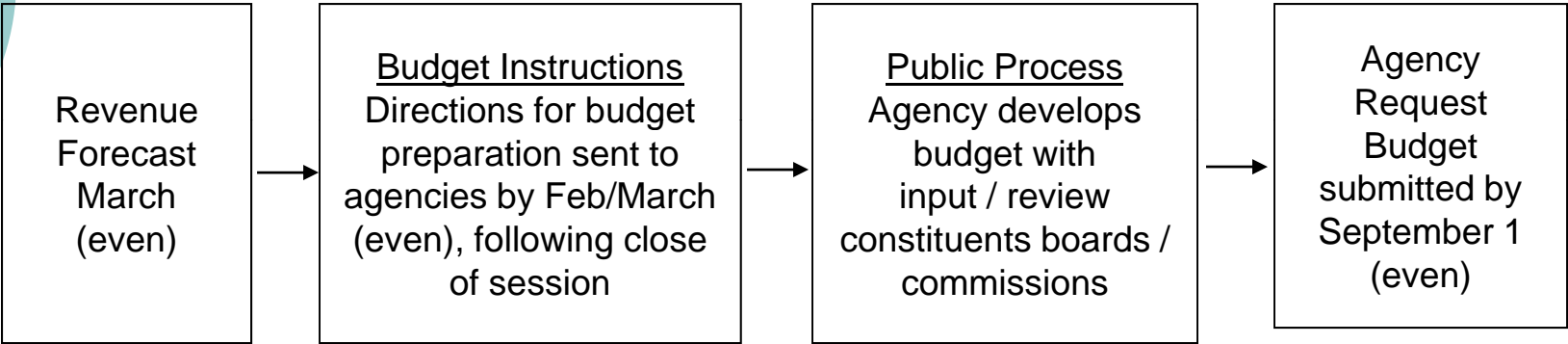


Modified Zero-Based Budget (cont)

- Policy packages:
 - Other Funds and Federal Funds expenditure reductions required by declining revenues.
 - Adjustments due to legislative action after April 2010.
 - Policy and program changes:
 - New or expanded programs.
 - Increased funding for existing programs.
 - Funding to support legislative concepts.
 - New capital construction and information technology projects.
 - Debt service on new projects.



Budget Process Overview

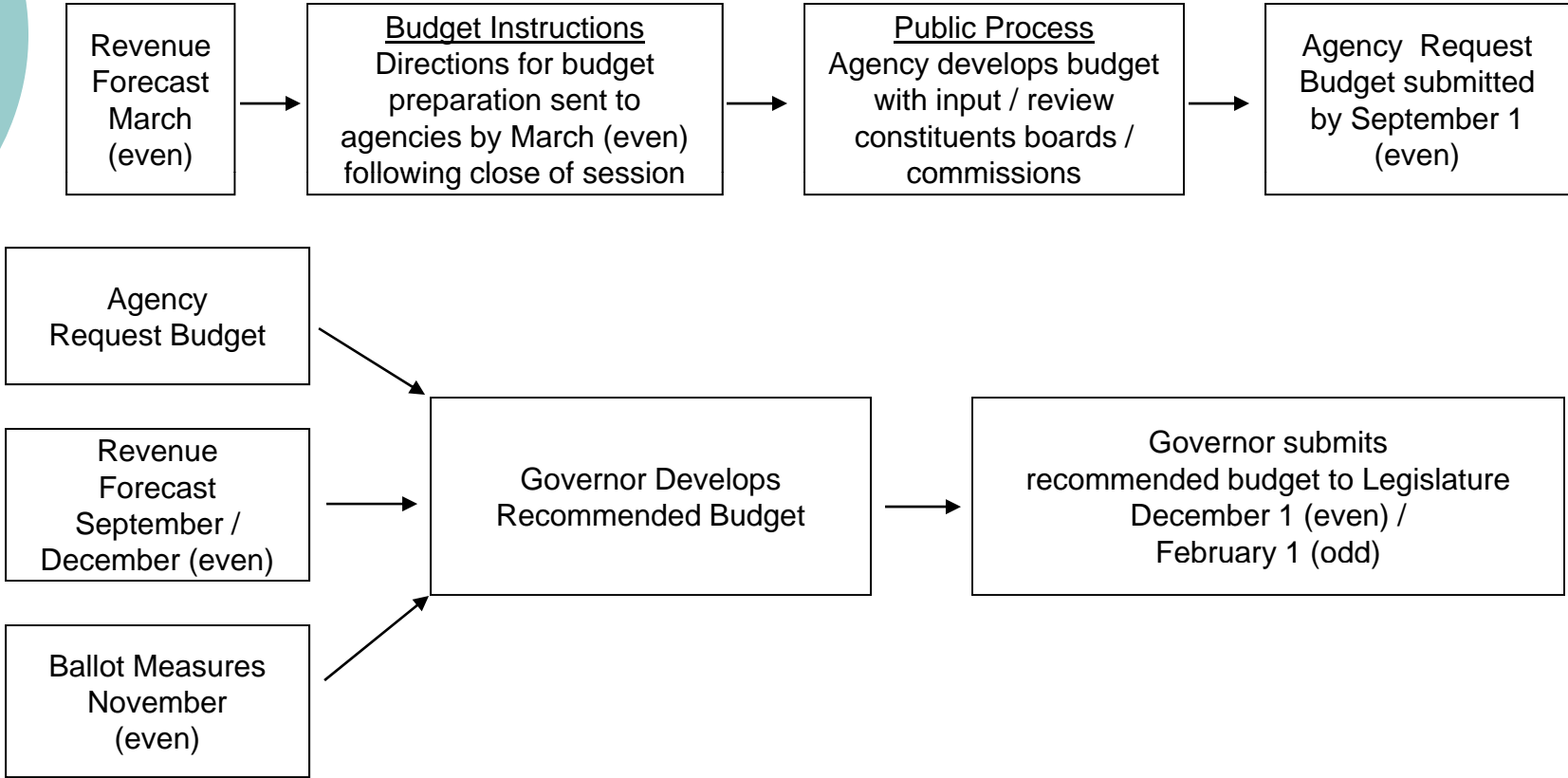




Agency Request Budget

- Between April through August, 2010.
 - Develop Policy Packages and reduction options
 - Legislative concepts with fiscal impacts require policy packages.
 - 10% reduction options for all fund types required by HB 3182 in agency request narrative.
 - Agencies should be prepared to provide additional General Fund reductions if requested.
 - Agency Request Budget data entry and audits.
- By September 1, 2010
 - Agency Request Budget Document Due.
 - Complete narrative.
 - Information technology management plan.
 - Performance measures report.
 - Other forms and schedules.
 - ORBITS support documents.

Budget Process Overview





Governor's Recommended Budget

- Between September and December, 2010.
 - Governor's Recommended Budget preparation.
 - Analyst recommendations.
 - Agency budget appeals and adjustments.
 - Final Governor's decisions.
 - Printed budget document delivered to the legislature.
 - Agency appropriations bills filed.
 - Agency budget documents updated in December and January.



Governor's Recommended Budget

- Must be balanced to current revenue forecast – start with the question how much money is available under current law?
- Must fulfill all legally required expenditures first – e.g., debt service on outstanding issuances.
- Allocate remainder based on priorities and evaluation of minimum dollar amount needed to meet expected performance level.
- Governor must identify separately from the balanced budget any priorities for increased expenditure and identify the proposed revenue source.
- Governor must identify the lowest priority items that could be reduced if resources go down or the legislature chooses other priorities.

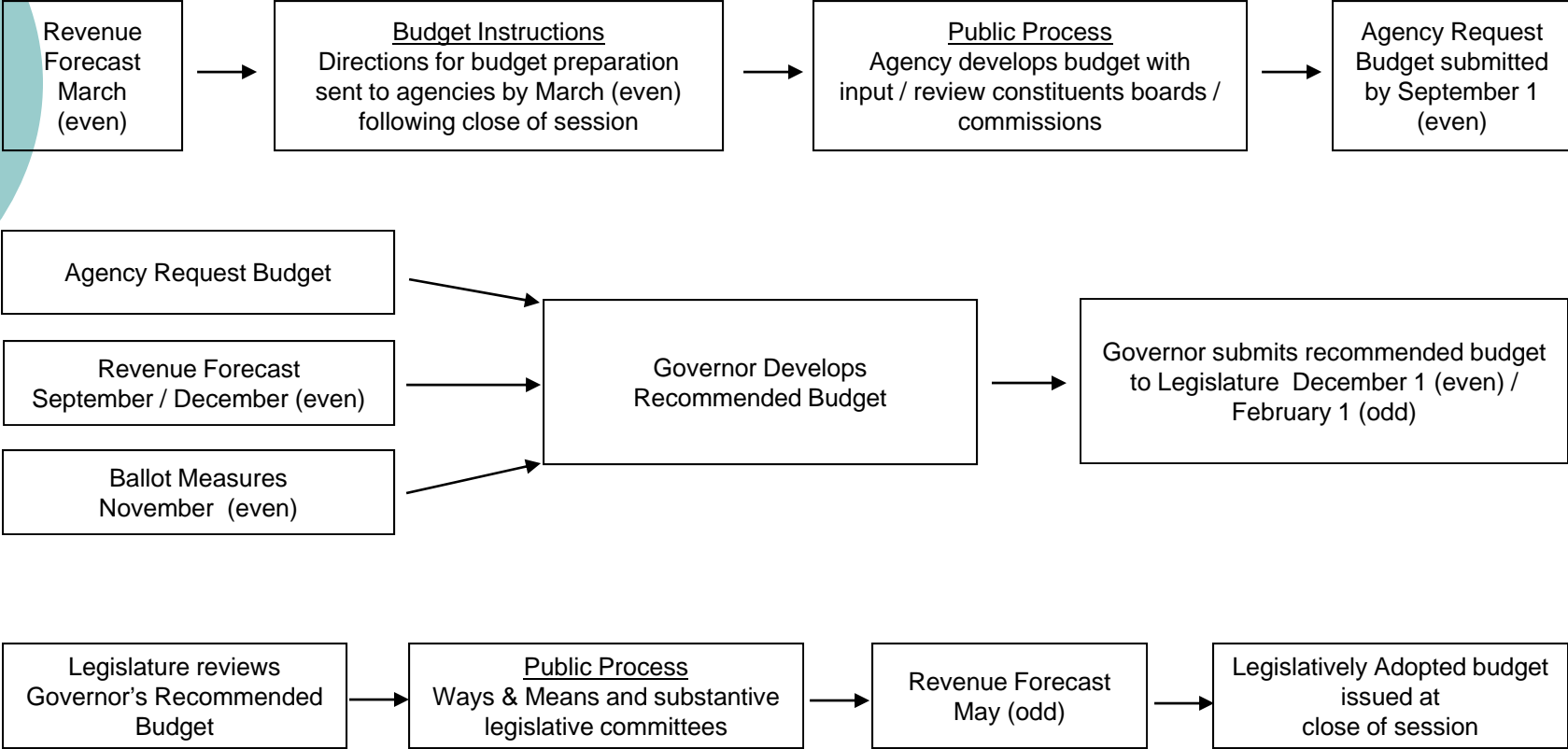


Budget Framework

Principles that Transcend Administrations

- Start with mandatory items.
- Implement core missions:
 - Focus on the essentials.
 - Emphasize programs with widely-distributed benefits.
- Target investment where it will provide the most impact in the long run:
 - Focus on prevention.
- Reduce overhead costs.

Budget Process Overview

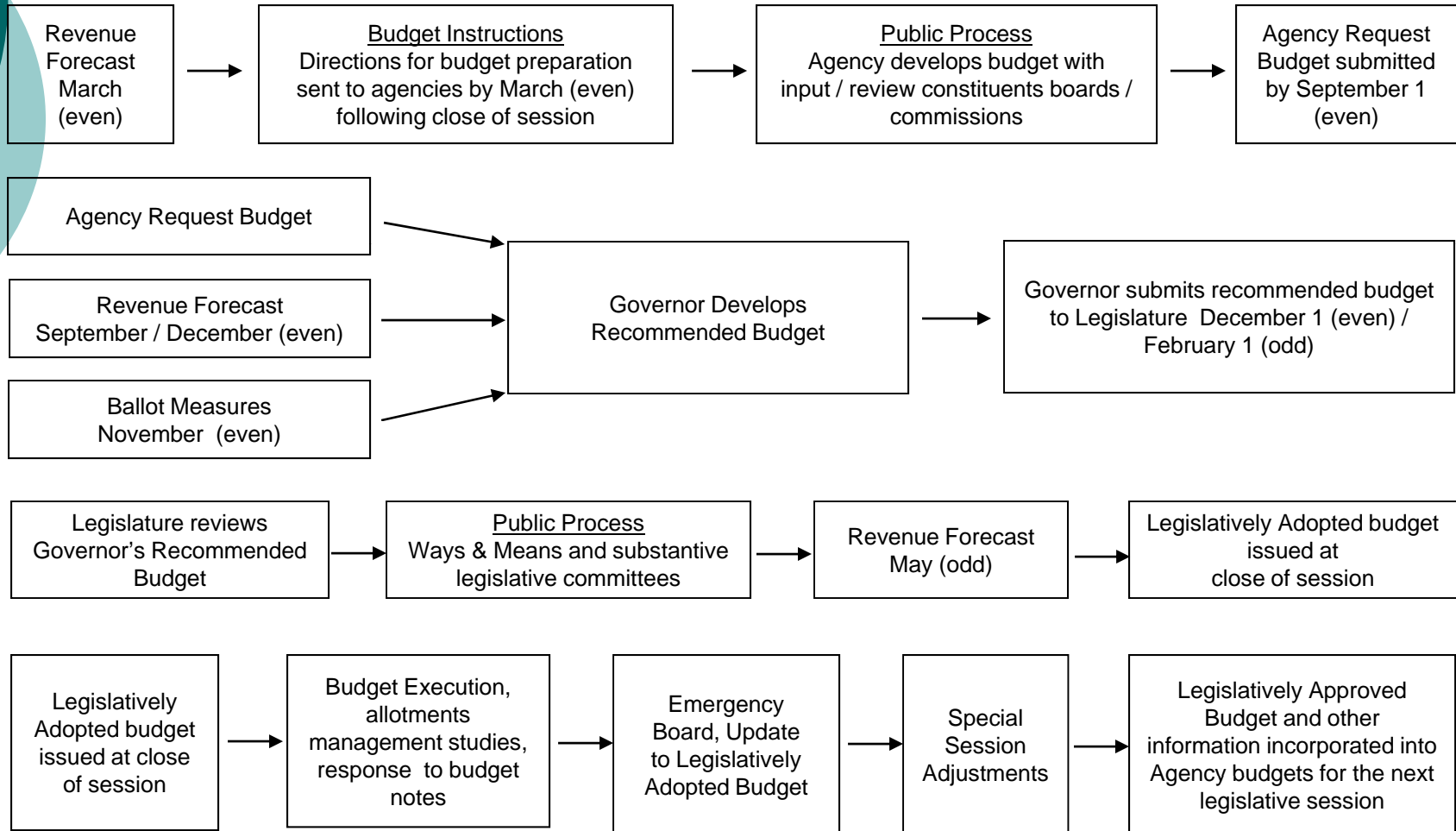




Legislatively Adopted Budget

- Between January and July, 2011.
 - Approval of Legislatively Adopted Budget.
 - Presentation of Governor's Recommended Budget to Ways and Means.
 - Legislative approval of appropriation bills and other legislation with a fiscal impact.
 - Agency budget documents updated to reflect legislative action.

Budget Process Overview





Other Issues

- **Reserves/other fund balances**
- **General risk**
- **PERS/labor**
- **Kicker**
- **Additional lawsuits**
- **Bond rating**
- **Credit markets**
- **Housing market**
- **Financial markets**
- **Accountability/oversight vs. reduced administration**
- **Regulatory reform**
- **Economic growth/downturn**
- **Pent-up budget demand**
- **Potential initiatives**
- **One-time revenues**
- **H1N1 flu**
- **Annual sessions**



Questions?
