

**State of Oregon
Legislative Fiscal Office**

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2023-25 General Fund/Lottery Funds Tentative Budget

As required by ORS 291.210, the Legislative Fiscal Office (LFO) and the Department of Administrative Services (DAS) Chief Financial Office (CFO) have worked together to develop a projected tentative General Fund/Lottery Funds budget for the 2023-25 biennium.

The purpose of the tentative budget is to give policymakers an idea of the state's relative fiscal position for the coming two-year budget period if the state continues all currently approved programs at their current law approved funding levels, adjusted for inflation, compensation roll-up costs, program phase-ins and phase-outs, and projected mandated caseload levels. This is commonly referred to as the current service level (CSL). Revenues for the current tentative budget are based on the December 2022 economic and revenue forecast, while the expenditures consider actions taken by the Legislature during the 2022 session and through the September 2022 meeting of the Emergency Board. As directed by ORS 291.210, the tentative budget consists of "the estimated revenues under ORS 291.342 for the next biennium and a preliminary estimate of the projected costs of continuing currently authorized programs for the next biennium."

The tentative budget for the 2023-25 biennium will change with each of the remaining quarterly economic and revenue forecasts that will occur before the start of the next biennial budget period, as well as any legislative actions that take place prior to that time. It should also be emphasized that the tentative budget, as a current service level projection, only represents an estimate of the costs of continuing currently approved programs for the next two-year budget period; it does not represent a guarantee of funding for any agency or program or include costs for any program currently not included in the state's budget.

The current tentative budget for the 2023-25 biennium assumes the following statewide factors:

- Revenue growth is based on the Office of Economic Analysis (OEA) December 2022 economic and revenue forecast.
- State personal services growth for ongoing positions is projected at approximately 6% for the biennium, including step increases, roll-up of current collective bargaining agreements and management salary packages, health benefit costs, Pension Obligation bond payments, an increase in the advisory PERS rate, and the state's Paid Family and Medical Leave contribution.
- Standard biennial inflation of 4.2% for services and supplies, 6.2% for medical costs, and 8.8% for non-state employee personnel costs (contract providers).
- Debt service payments are built into agency budgets based on current repayment schedules, which increases the tentative budget by a combined \$241.9 million General Fund and Lottery Funds.
- A projected \$50 million General Fund and \$15 million Lottery Funds is included for potential bond issuances early in the 2023-25 biennium.
- An Emergency Fund of \$50 million General Fund is included; no special purpose appropriations to the Emergency Board are assumed except for \$14 million for fire severity resources.

- A compensation adjustment of \$349.9 million General Fund (and a reserve of \$7.9 million Lottery Funds) is included primarily to address future collective bargaining agreements; the General Fund is for state employees (\$329.9 million) and non-state employees (\$20 million), or home health care workers.
- An ending balance of 1% of expenditures is assumed due for the Rainy Day Fund deposit requirement and a Lottery Funds balance of \$25 million to mitigate revenue fluctuations.

Tentative budget projections for 2023-25 program area expenditures also assume the following:

- The State School Fund (SSF) current service level budget is estimated to grow by 2.3% over the 2021-23 legislatively approved level, increasing to \$9.5 billion total funds. Combined General Fund and Lottery Funds account for \$8.737 billion and the remainder is supported with Corporate Activities Tax (CAT), marijuana tax, and other revenues. This growth is based on:
 - The 2023-25 estimated PERS weighted-average net contribution rate for school and education service districts of 15.16% (July 2022), which factors in side account contributions and the portion of employee contributions redirected to fund pension benefits.
 - The Legislative Revenue Office current estimate of 2023-25 local revenues.
 - Biennial payroll growth for school district employees of 5.45%.
 - Increases in health benefits of 3.4% each year as outlined in ORS 243.866.
- The estimated CSL for Ballot Measure 98 programs totals \$310.2 million total funds (\$172.2 million General Fund and \$137.9 million of CAT revenues), which is based on the statutorily required formula. These funds are distributed to school districts for Career and Technical Education (CTE), college-level education opportunities or accelerated learning, and drop-out prevention.
- The 2023-25 current service level budget for state support of Public Universities is estimated to grow by a combined \$51.2 million General Fund and Lottery Funds to \$1.6 billion, including an increase of \$58.2 million in debt service payments on behalf of public universities. State support for Community Colleges is estimated to grow by \$73.3 million General Fund and Lottery Funds to \$868.8 million, including an increase of \$9.7 million in debt service payments on behalf of community colleges.
- Human services mandated caseload increases for the 2023-25 biennium are based on the Fall 2022 forecasts for the Oregon Health Authority and the Department of Human Services.
- Oregon Health Plan costs are inflated 3.4% per year, consistent with the state's federal waiver agreement over the last several years.
- Full implementation of the Healthier Oregon Program across all age categories by 2023-25 biennium.
- Mandated correction populations for the 2023-25 biennium are based on the DAS Office of Economic Analysis October 2022 forecasts for the Department of Corrections and Oregon Youth Authority.
- General Fund needed to backfill 2021-23 one-time funds or account for programs that change funding sources between the two biennia is projected to total \$2 billion, including:
 - Restoration of \$1.3 billion General Fund to the Department of Corrections, Oregon Youth Authority, and Oregon State Hospital for the one-time American Rescue Plan Act (ARPA) State Fiscal Recovery Funds and CARES Act Coronavirus Relief Funds (CRF) used to support the provision of public safety services in 2021-23.
 - An increase of \$926.4 million General Fund in the Human Services program area for reductions in Federal Medical Assistance Percentage (FMAP) rates due to the anticipated end of the COVID-19 public health emergency and annual adjustments.

- The shift of \$468.1 million General Fund to local property tax revenues for the State School Fund and Community College Support Fund as estimated property taxes grow faster than estimated General Fund sources.

It is important to note that the tentative budget does not include the continuation of significant one-time investments approved in the 2021-23 biennium. The phase-out of investments supporting housing and homelessness response, behavioral health, long-term care, education and workforce development, justice reinvestment, wildfire response and recovery, economic and community development, among other programs, results in a reduction in the percentage change between the 2021-23 and 2023-25 budgets across multiple program areas.

Based on these assumptions, the current 2023-25 tentative budget reflects total available revenues of \$28.845 billion General Fund and \$1.625 billion Lottery Funds, for a total of \$30.470 billion of General Fund and Lottery Funds resources. Projected expenditures at tentative budget levels consist of \$29.207 billion General Fund and \$1.506 billion Lottery Funds, for a total of \$30.712 billion of expenditures. With the inclusion of a 1% General Fund and \$25 million Lottery Funds ending balance, the current projected gap between available resources and estimated expenditures for the 2023-25 biennium is \$559.2 million.

This information will continue to be revised as economic and revenue projections and estimated costs are updated. Additional costs above the tentative budget estimate will also include the roll-up of any actions approved at the December 2022 meeting of the Emergency Board; the impact of the Oregon Health Authority's five-year Medicaid Waiver renewal (2022-27); the Medicaid redetermination process, which has been delayed due to the extension of the public health emergency; and funding that may be needed to support the public defense crisis.

Additional details are included in the table on the following page.

Tentative Budget Projections

December 2022 Forecast

	Legislatively Approved Budget 2021-23			Projected Tentative Budget 2023-25			% chg.
	GF	LF	Total	GF	LF	Total	
Revenues							
Projected Beginning Balance	4,082.5	136.8	4,219.3	4,140.6	158.3	4,298.8	
Projected Revenues (net of personal kicker)	28,139.8	1,810.3	29,950.2	25,017.4	1,780.8	26,798.3	-11%
ESF Interest	-	35.9	35.9	-	67.3	67.3	
1% Appropriations to Rainy Day Fund	(220.7)	-	(220.7)	(278.6)	-	(278.6)	
TANS Interest Costs	-	-	-	(21.5)	-	(21.5)	
Tax Credit Extensions	-	-	-	(13.3)	-	(13.3)	
Less Dedications							
Education Stability Fund	-	(323.8)	(323.8)	-	(320.2)	(320.2)	
County Economic Development	-	(54.2)	(54.2)	-	(60.9)	(60.9)	
Total Resources	32,001.6	1,605.0	33,606.6	28,844.6	1,625.3	30,469.9	-9%
Expenditures							
Education - State School Fund*	7,890.6	650.5	8,541.1	8,090.7	646.5	8,737.2	2%
Education - All Other	3,943.1	139.9	4,083.0	3,909.0	129.4	4,038.4	-1%
Human Services	8,763.1	19.7	8,782.8	11,028.0	26.6	11,054.6	26%
Public Safety	2,332.5	11.9	2,344.4	3,313.8	12.2	3,326.0	42%
Economic Development	1,255.2	195.6	1,450.8	296.8	180.0	476.8	-67%
Natural Resources	944.0	255.9	1,200.0	425.4	275.6	701.0	-42%
Transportation	79.8	122.1	201.9	16.9	136.1	153.1	-24%
Consumer & Business Services	55.9	0.3	56.1	24.1	-	24.1	-57%
Administration	986.9	50.9	1,037.8	299.4	76.2	375.6	-64%
Legislative Branch	417.5	-	417.5	195.8	-	195.8	-53%
Judicial	1,065.8	-	1,065.8	1,142.6	-	1,142.6	7%
Total Expenditures	27,734.4	1,446.7	29,181.1	28,742.6	1,482.6	30,225.2	4%
Emergency Fund	37.6	-	37.6	50.0	-	50.0	
Salary Adjustment SPA	-	-	-	329.9	7.9	337.8	
Non-State Employee Bargaining SPA	-	-	-	20.0	-	20.0	
Forestry Fire SPA	7.9	-	7.9	14.0	-	14.0	
Other SPAs	81.1	-	81.1	-	-	-	
Additional Debt Service	-	-	-	50.0	15.0	65.0	
Total Expenditures	27,861.0	1,446.7	29,307.8	29,206.5	1,505.5	30,712.0	5%
1% RDF Deposit / LF Ending Balance				292.1	25.0	317.1	
Net Fiscal Position	4,140.6	158.3	4,298.8	(653.9)	94.7	(559.2)	

*Total State School Fund for 2021-23 also includes approximately \$758.9 million in Other Funds from Corporate Activity Tax, Marijuana Tax, and other sources for a total of \$9.3 billion. The 2023-25 CSL includes \$780.5 million Other Funds for a total of \$9.5 billion.