

2021-23 Co-Chair Budget Framework

March 2021

This document provides a framework for the 2021-23 budget and decision-making process. As noted in our previous document outlining the principles we are using to develop the budget for the upcoming biennium, there are currently fewer General Fund projected resources in the official economic and revenue forecast than are needed to cover the costs of continuing legislatively approved programs and services, despite the increased resources (net of the kicker) in the March Economic and Revenue forecast. It is the constitutional responsibility of the Legislature to balance the budget; that has always been accomplished in the past and will be accomplished this session as well, through a number of actions, including reliance on federal funds from the American Rescue Plan Act (ARPA).

The Co-Chairs are committed to appropriate communication, transparency, and time for input from stakeholders and the public before final budget decisions are made. This document is intended to provide the framework for many discussions that must occur prior to developing the final budget. Several community hearings are being planned and will be scheduled soon to discuss the 2021-23 state budget.

Assumptions in this document include:

- The State School Fund will be held harmless from cuts and, at this point, is set at \$9.1 billion total funds, an increase of \$102.5 million over the state current service level estimate.
- The Oregon Health Plan will be funded without cuts to eligibility or benefits.
- The Co-Chairs have met with the Black, Indigenous and People of Color (BIPOC) caucus to discuss resources needed to advance racial equity initiatives in Oregon. These meetings will continue through the remainder of the session and will influence the development of the final 2021-23 budget.
- The budget framework addresses costs of Ballot Measure 110, wildfire prevention and recovery, and the ongoing pandemic.
- ARPA is anticipated to send \$2.6 billion in federal fiscal recovery funds to cover state program and service costs. This budget framework relies on those funds not only to protect current programs and services from reductions but also to increase expenditures by \$780 million for critical new programs and services. It is still assumed that program areas will achieve 1% reductions in costs from the current service level to help cover other priorities including the impact of additional costs from the State School Fund and Ballot Measure 110 as noted above, and other cost increases as further identified in this document.
- It is our intent to reserve 20% (\$520 million) of the \$2.6 billion ARPA funds in recognition that the federal law assumes use of these funds through 2024. The reserve will help cover

the continuing 2023-25 costs of new programs and services initially financed with ARPA funds in 2021-23. Of note, there is a forecasted gap between costs and available revenues in the next biennium even prior to implementing new programs and services.

- The budget framework sets aside \$522.7 million for costs of ongoing programs and services that were not captured in the development of agency current service levels. Over half of this amount is due to the current forecast of Oregon Health Plan caseload and costs (\$286 million). Additional issues include the continuation of programs and services that were started after the current service level was developed (e.g. continuation of statewide alert system), debt service on bonds authorized in the second special session of 2020, and the effect of ballot measures, lawsuits, and other revenue gaps.
- Subcommittees have been asked to review and prepare lists of reductions beyond the 1% to determine if there are additional reductions that can be made with little or no impact to programs and services. Additionally, they will consider whether there are new programs and services more critically needed than those currently funded, as well as prioritize programs in case the economy suffers another downturn or if resources from the federal American Rescue Plan Act cannot be used to cover some current needs and costs. This information will be used as the budget is further refined and as new information regarding resources becomes available.
- Decisions regarding the issuance of bonds will be made considering the effects of debt service costs on future budgets; \$50 million General Fund is included for debt service for new projects to be approved for 2021-23.
- The budget framework assumes resources based on the amount needed for extension of current tax credits.
- Appropriate dedications will be made to the Education Stability Fund and the Rainy Day Fund; it is not anticipated that these funds will be used during the 2021-23 biennium.
- The budget will provide \$250 million for the Emergency Fund due to continued uncertainty regarding needs related to the pandemic or other potential emergencies, including wildfires.
- It is our policy to not take “savings” in an agency that puts off paying for mandatory costs or creates costs for other agencies or partners.
- Current service level amounts for some program areas are significantly lower than the 2019-21 legislatively approved budget amounts due to one-time funding included in that biennium that does not carry forward into the 2021-23 biennium; the use of one-time money for one-time costs is a prudent budgeting practice and will continue to be considered as final decisions are made.

The following documents display the current Co-Chair plan to balance the budget based on the March Economic and Revenue forecast and other current information.

- Detail on revenues, resources, and expenditures to balance the budget

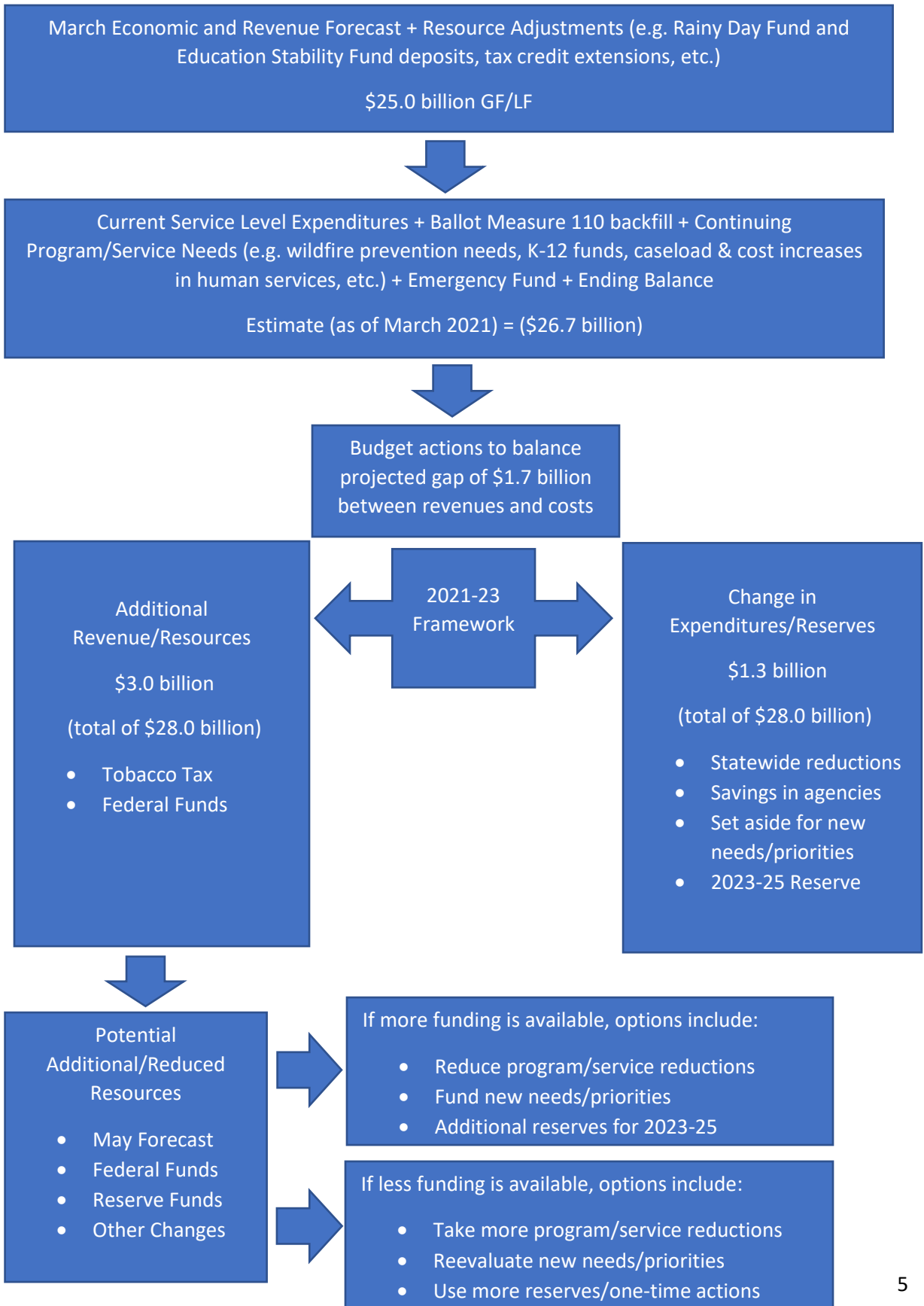
- Decision-making flow chart that shows where we are today and the process and priorities that will be used to arrive at the final balanced budget in June
- Discussion of the use of American Rescue Plan Act funds
- Program Area detail

Please remember this is a work in progress. Final decisions will be based on the May Economic and Revenue forecast, information that is developed through budget and policy hearings, updated information regarding federal funds from the American Rescue Plan Act, and public input on needs and priorities.

	2019-21 Legislatively Approved Budget GF/LF	2021-23 Current Service Level GF/LF	2021-23 Co- Chair Framework GF/LF	2021-23 Co- Chair Target
RESOURCES				
Projected Beginning Balance	2,853.6	1,837.9	1,837.9	
Projected Revenues (net of kicker)	23,099.8	23,778.2	23,778.2	
ESF Interest	42.6	5.8	5.8	
1% Appropriations to Rainy Day Fund	(198.3)	(226.6)	(226.6)	
TANS Interest Costs	(21.5)	(21.5)	(21.5)	
Tax Credit Extensions and Relief	-	(53.6)	(53.6)	
Less Dedications (ESF, County, PERS EIF)	(265.9)	(352.9)	(352.9)	
Net 2019-21 Rebalance Actions (HB 5042)	-	-	3.2	
American Rescue Plan Act (ARPA) Federal Funds	-	-	2,600.0	
Projected Tobacco Tax funds	-	-	424.8	
ESF withdrawal	400.0	-	-	
Total Resources	25,910.3	24,967.2	27,995.3	
EXPENDITURES				
Education - State School Fund (\$9.1B Total Funds)	8,299.0	8,251.1	8,353.6	102.5
Education - All Other	3,184.4	3,429.0	3,394.7	(34.3)
Human Services	6,413.7	8,121.9	8,040.7	(81.2)
Public Safety	2,819.1	2,913.8	2,884.7	(29.1)
Judicial Branch	864.1	987.8	977.9	(9.9)
Economic and Community Development	688.5	354.6	351.1	(3.5)
Natural Resources	592.1	527.1	521.8	(5.3)
Transportation	234.1	144.4	142.9	(1.4)
Consumer and Business Services	16.1	15.7	15.6	(0.2)
Administration	532.6	303.8	300.7	(3.0)
Legislative Branch	163.1	180.4	178.6	(1.8)
Total Program Area Expenditures	23,806.9	25,229.7	25,162.4	(67.3)
Emergency Fund	88.5	50.0	250.0	
Salary Adjustment	-	-	195.3	
Special Purpose Appropriations	219.1	-	28.0	
Continuing Program/Service Needs	-	-	522.7	
Ballot Measure 110 Backfill Costs	-	-	181.5	
Debt Service	-	-	50.0	
ARPA Investments	-	-	780.0	
Total Expenditures	24,114.4	25,279.7	27,169.9	
Projected Ending Balance (1%)		252.8	271.7	
ARPA Federal Funds through 2024		-	520.0	
Projected Constitutionally Dedicated LF		40.5	33.7	
Net Fiscal Position (GF and discretionary LF)	1,795.9	(605.7)	(0.0)	

*State School Fund is \$9.1 billion including General Fund, Lottery Funds, Corporate Activity Tax, and Marijuana funds

Budget Development Status and Process



Use of American Rescue Plan Act Funds

Given the economic and revenue effects of the pandemic, this budget framework relies on a significant amount of one-time funding, primarily from the American Rescue Plan Act. The use of this one-time funding for ongoing programs and services, especially those newly created in 2021-23, increases the 2023-25 current service level as shown in the table below.

Potential 2023-25 Impact of how American Rescue Plan funds are spent in 2021-23				
	Scenario 1	Scenario 2	Scenario 3	Comments
Existing Programs	1,300.0	1,300.0	1,300.0	Used for current program and services
New Ongoing Programs	780.0	0.0	390.0	Used to establish new programs (starting July 1, 2022) that will create rollup costs in 2023-25
One-time Investments	0.0	780.0	390.0	Used on one-time investments/costs
2023-25 CSL Problem	3,117.4	1,417.0	2,267.2	2023-25 CSL problem (including 9% inflation adjustment)
2024 Reserve	520.0	520.0	520.0	2021-23 Reserve amount
Net 2023-25 Problem	2,597.4	897.0	1,747.2	2023-25 after 2024 reserve amount

While decisions regarding the use of one-time funds have not yet been made, given the potential 2023-25 related budget impacts shown above, we have made it a priority to set aside \$520 million of the American Rescue Plan for the next biennium and to preserve the Rainy Day and Education Stability Funds.

In addition, while we know federal funds are coming, the details are not yet clear, therefore, the following issues will be considered as we make final decisions:

- Some of the funding will have strings attached, such as a match or maintenance of effort requirement, that need to be understood before a final spending plan is agreed to.
- The funding is expected to cover the period from now through 2024 so we need to reserve some portion for the 2023-25 biennium.
- In addition to the \$2.6 billion coming to the state, there is additional funding going directly to agencies, local governments, and other organizations serving Oregonians; we need to work together to ensure we are using all of the funds as efficiently and effectively as possible.

The 2021-23 budget framework assumes that \$520 million of the \$2.6 billion in federal fiscal recovery funds will be reserved for the 2023-25 biennium. The rest of the American Rescue Plan funds are anticipated to be used in 2021-23 for current services and programs, as well as making critical new investments, some of which will be one-time in nature and some of which will be ongoing. As funding decisions are made, we will consider how the use of the funds will help preserve and stimulate economic growth in order to generate additional revenue in the future that will help cover ongoing budget costs.

PROGRAM AREA DETAIL (Dollars in Millions)

Education Program Area - State School Fund

2019-21 Legislatively Approved Budget	\$8,299.0 GF/LF
2021-23 Current Service Level	\$8,251.1 GF/LF
2021-23 Co-Chair Target	\$8,353.6 GF/LF + \$746.4 OF

The Co-Chair target for the State School Fund makes no reductions and adds funds to achieve a total of \$9.1 billion, including \$8.4 billion in General Fund and Lottery Funds. The additional \$746.4 million comes from Corporate Activity tax and Marijuana revenues (assumes Student Success Act funds remain dedicated to their original purpose).

Education Program Area - Excluding State School Fund

2019-21 Legislatively Approved Budget	\$3,184.4 GF/LF
2021-23 Current Service Level	\$3,429.0 GF/LF
2021-23 Co-Chair Target	\$3,394.7 GF/LF

The Co-Chair target for the Education program area of \$3.3 billion is 1% less than the 2021-23 General Fund and Lottery Funds current service level. That target is to be reached assuming the following:

- Review K-12 grant-in-aid programs to determine if any can be adjusted or eliminated based on their effectiveness or redundancy.
- Examine early learning programs and their delivery system to determine if there is duplication and opportunities for increased efficiency.
- Review agency operations to determine if there are opportunities to reduce administrative costs or to redistribute resources from administration to programs and services.
- It is our intent that some programs and services, including Oregon Opportunity Grants, support funds for public universities and community colleges, and early learning programs will be continued at the current service level. There may be a need to add or enhance programs and services in the Education program area; in that case, reductions of more than 1% may be needed in other Education program area agencies to cover those costs.

Human Services Program Area

2019-21 Legislatively Approved Budget	\$6,413.7 GF/LF
2021-23 Current Service Level	\$8,121.9 GF/LF
2021-23 Co-Chair Target	\$8,040.7 GF/LF

The Co-Chair target for the Human Services program area is 1% less than the 2021-23 General Fund and Lottery Funds current service level. That target is to be reached assuming the following:

- Funding for the Oregon Health Plan will continue current benefits and eligibility.
- Look for reductions that save General Fund while still maximizing the state's ability to match and draw down federal funds.
- Minimize disruptions in the continuum of care in core programs that serve Oregon's most vulnerable citizens.
- Ensure the budget is flexible enough to reprioritize spending and modify reductions based on updated caseloads and costs per case.
- Evaluate workload models, caseload forecasts, inflation, and other growth components built into current service level for possible adjustment to cover other problems in the budget or to fund other priorities.

Public Safety Program Area

2019-21 Legislatively Approved Budget	\$2,819.1 GF/LF
2021-23 Current Service Level	\$2,913.8 GF/LF
2021-23 Co-Chair Target	\$2,884.7 GF/LF

The Co-Chair target for the Public Safety program area is 1% less than the 2021-23 General Fund and Lottery Funds current service level. That target is to be reached assuming the following:

- Includes resources to mitigate the effects of the Governor’s decision to close Mill Creek, Shutter Creek, and Warner Creek correctional facilities.
- Identify options to shift costs being paid for with General Fund to another revenue source, including establishing or raising fees.
- Review programs and services for opportunities to reduce current program and service funding levels in order to use those funds for improvements in our policing and justice systems that are designed to provide equity to all Oregonians.
- Evaluate emergency preparedness programs and funding to determine if improvements can be made within current funding levels and consider investments in the context of the overall state plan and strategy for responding to all regions of Oregon as well as all types of emergencies including wildfires, ice storms, earthquakes, floods, etc.
- Address current service level needs in the budget resulting from the passage of Ballot Measure 110.
- Monitor federal and state court decisions and caseload changes related to the U.S. Supreme Court’s decision in Ramos v. Louisiana (unanimous jury trials).
- Recognize caseload savings from the decriminalization of certain offenses and the decline in death penalty cases.

Natural Resources Program Area

2019-21 Legislatively Approved Budget	\$592.1 GF/LF
2021-23 Current Service Level	\$527.1 GF/LF
2021-23 Co-Chair Target	\$521.8 GF/LF

The Co-Chair target for the Natural Resources program area is 1% less than the 2021-23 General Fund and Lottery Funds current service level. That target is to be reached assuming the following:

- Identify options to shift costs being paid for with General Fund to another revenue source, including establishing or raising fees.
- Maintain the Department of Geology and Mineral Industries as a separate state agency but continue to evaluate opportunities to improve the delivery and administration of its programs and services.
- Examine community financial support for programs and whether statutory financial requirements are being met as General Fund subsidies for programs are considered.
- Look at non-core activities and determine if there are higher priorities that should be funded.
- Examine programs to prevent severe wildfires and ensure there are funds set aside for future wildfire costs.
- Maintain constitutionally dedicated Lottery Fund supported programs at levels commensurate with available funding.

Economic Development Program Area

2019-21 Legislatively Approved Budget	\$688.5 GF/LF
2021-23 Current Service Level	\$354.6 GF/LF
2021-23 Co-Chair Target	\$351.1 GF/LF

The Co-Chair target for the Economic Development program area is 1% less than the 2021-23 General Fund and Lottery Funds current service level. That target is to be reached assuming the following:

- Examine return on investment on state expenditures and investment accounts to determine if the expenditure will generate economic growth and additional revenue in future biennia.
- Reduce or eliminate smaller programs/projects that have limited support and are not economic catalysts.
- Identify opportunities to reduce General Fund and Lottery Funds by shifting costs to another revenue source.
- Evaluate proposals for new investments in the context of potential revenue generation or job creation.
- Identify strategic partnerships that have the potential to leverage additional investment and/or mitigate proposed reductions.
- Ensure that decisions are transparent so that local partners in service delivery can proactively manage projects to expected resource levels.

Consumer and Business Services Program Area

2019-21 Legislatively Approved Budget	\$16.1 GF/LF
2021-23 Current Service Level	\$15.7 GF/LF
2021-23 Co-Chair Target	\$15.6 GF/LF

The Co-Chair target for the Consumer and Business Services program area is 1% less than the 2021-23 General Fund and Lottery Funds current service level. That target is to be reached assuming the following:

- Identify opportunities to reduce General Fund and Lottery Funds by shifting costs to another revenue source.

Transportation Program Area

2019-21 Legislatively Approved Budget	\$234.1 GF/LF
2021-23 Current Service Level	\$144.4 GF/LF
2021-23 Co-Chair Target	\$142.9 GF/LF

While there is a 1% target for reductions to the current service level for the Transportation program area, General Fund and Lottery Funds in this program area are for debt service costs which must be paid; however, it may be possible to identify fund shifts or adjustments that achieve the target amount. If no reductions can be made in this program area, the amount may be found in reductions beyond 1% in other program areas.

Administration Program Area

2019-21 Legislatively Approved Budget	\$532.6 GF/LF
2021-23 Current Service Level	\$303.8 GF/LF
2021-23 Co-Chair Target	\$300.7 GF/LF

The Co-Chair target for the Administration program area is 1% less than the 2021-23 General Fund and Lottery Funds current service level. That target is to be reached assuming the following:

- Continue support for the collection of state-owed debts.
- Identify opportunities to reduce General Fund and Lottery Funds by shifting costs to another revenue source, including establishing or raising fees.
- Evaluate the effectiveness of subsidies to non-state agencies and potentially reduce/eliminate subsidies.
- Review and potentially reduce assessments on state agencies.
- Examine the sufficiency of the Department of Administrative Services Risk Fund to cover emerging risks.
- Examine revenue generation opportunities for distilled spirits and privilege taxes.
- Evaluate opportunities to encourage additional deposits into Public Employees Retirement System "side accounts," to reduce the Unfunded Actuarial Liability and offset a portion of the contributing employer's contribution rate.

Judicial Branch Program Area

2019-21 Legislatively Approved Budget	\$864.1 GF/LF
2021-23 Current Service Level	\$987.8 GF/LF
2021-23 Co-Chair Target	\$977.9 GF/LF

The Co-Chair target for the Judicial Branch program area is 1% less than the 2021-23 General Fund and Lottery Funds current service level. That target is to be reached assuming the following:

- Maintain access to justice as the court and public defense systems begin to recover from the effects of the pandemic.
- Monitor new civil and criminal cases arising from the pandemic that could strain future court and public defense systems.
- Evaluate the effectiveness and cost-efficiency of recent changes to the public defense system, including juvenile representation.
- Monitor federal and state court decisions and caseload changes related to the U.S. Supreme Court's decision in *Ramos v. Louisiana* (unanimous jury trials).
- Recognize caseload savings from the decriminalization of certain offenses and the decline in death penalty cases.
- Continue support for the court-generated General Fund revenues and collection efforts.
- Consider opportunities to reduce state administrative costs through operational efficiencies, shifting costs from General Fund to Other Funds, and establishing or raising fees.
- Evaluate the effectiveness of subsidies to non-state agencies and potentially reduce/eliminate subsidies.

Legislative Branch Program Area

2019-21 Legislatively Approved Budget	\$163.1 GF/LF
2021-23 Current Service Level	\$180.4 GF/LF
2021-23 Co-Chair Target	\$178.6 GF/LF

The Co-Chair target for the Legislative Branch program area is 1% less than the 2021-23 General Fund and Lottery Funds current service level. That target is to be reached assuming the following:

- Consider opportunities to reduce administrative costs through operational efficiencies and align ongoing resource levels with forecasted program and operational needs.
- Includes funds for debt service and other necessary costs related to the Capitol Accessibility, Maintenance, and Safety project; additional phases of the project are not anticipated to be considered during the 2021-23 biennium.
- Includes adjustments for pay equity and classification adjustments approved during the 2019-21 biennium.