

# Legislative Fiscal Office

**Ken Rocco**  
Legislative Fiscal Officer

**Daron Hill**  
Deputy Legislative Fiscal Officer



900 Court Street NE  
H-178 State Capitol  
Salem, Oregon 97301  
503-986-1828

## Budget Information Brief / 2010-3

### The Tentative Budget and Current Service Level

As governments transition between executing the current budget and planning for the next budget, the first question generally asked is where is the next budget in terms of projected revenues and expenditures, or, “is there a budget gap, and, if so, how big is it?”

To address this question, Oregon’s practice has been to develop a “tentative” budget for the next biennial budget period. This tentative budget is required by state law<sup>i</sup> and is cooperatively determined by the Legislative Fiscal Office (LFO) and the Budget and Management Division (BAM) of the Department of Administrative Services (DAS).

#### **What is the Tentative Budget?**

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 assuming the continuation of all current law programs and services. The tentative budget has two major pieces – a projection of available General Fund and Lottery Funds revenues and a projection of expenditures by program area and major agency. The revenue portion is developed through the quarterly economic forecast process conducted by the Office of Economic Analysis of DAS. The expenditure portion is developed by LFO and BAM analysts through agency level calculations that project the total costs to the agency if the state continued all currently approved programs and their currently approved funding levels, adjusted for inflation, salary roll-up costs, program phase-ins and phase-outs, and projected mandated caseload increases for the next two-year budget cycle. In budgeting parlance, this expenditure calculation is referred to as the “current service level,” or the CSL.<sup>ii</sup> The difference between the revenue projection and the CSL determines the relative fiscal position for initial budget planning purposes, and provides the answer to the budget “gap” question.

#### **How is the CSL Used?**

The CSL represents a starting point for budget analysis and decision-making. It is a benchmark tool used by those interested in the budget to measure proposed policy changes against. The CSL can assist in determining what resources are needed to continue currently authorized programs or whether these resources should be used toward proposed policy changes. It is also useful for comparing rates of growth among program areas. The CSL does not represent an entitlement or a guarantee of funding for a program. A decision to not continue an existing program results in a reduction to the CSL. The CSL is useful as a means to identify differences between the costs of continuing existing programs and the costs of new policy changes that are ultimately included in the budget. For example, in the case of the Medicaid program where changes in the number of individuals served and in the nature of the services are frequently occurring, it is useful for policymakers to know how much of the proposed budget is the result of mandated caseload changes (a part of the CSL) and how much is due to policy changes (not part of the CSL).

#### **How is the CSL Calculated?**

The CSL is built agency by agency. The calculation starts with the agency’s base budget which is the combination of the legislatively approved budget for the previous biennium (including any Emergency

<sup>i</sup> See ORS 291.210.

<sup>ii</sup> The term “Essential Budget Level,” or EBL, was used in Oregon instead of CSL between 2002 and 2009; there is no difference in definition between the two terms.

Board actions, special session actions, and other administrative changes), allowable personal services changes for the next biennium, debt service changes as required for existing commitments, and elimination of any one-time capital construction expenditure authority. To this base budget, the CSL calculation adds decision units, called essential packages, to adjust the base budget for the estimated costs of removing other one-time expenditures; program phase-in and phase-out changes; position vacancy experience calculations and other personal services cost changes; inflation for services, supplies, and medical costs; fund shifts; and mandated caseload changes.<sup>iii</sup>

### **Does the CSL or Tentative Budget Change?**

The current service level budget is generally not changed significantly after its initial calculation unless there are major developments in certain specific components, such as mandated caseload projections or final calculated personnel costs. Since the CSL is a point-in-time estimate of the costs of continuing all programs and services authorized in current law, a current law change is generally required to affect the CSL, with the noted exception of changes in caseload projections.

This does not mean, however, that the building block elements of the CSL must be included in the budget ultimately approved by the Legislature. During the budget development process in the Legislature's Joint Committee on Ways and Means, it is possible for programs and costs in either the base budget or the CSL to be eliminated as part of the final adopted budget. Agencies are generally required to produce reduction options to identify programs and services that could be eliminated or changed, along with the service consequences of such elimination or modification. The percentage of the budget requested in the form of reduction options varies depending on the state's fiscal situation, but the minimum amount required by state law is 10%.<sup>iv</sup> In addition, the Legislature can decide to eliminate or reduce certain elements of the CSL calculation in its determination of the final budget, such as denying fund shifts or reducing the amount of allowable inflation included in the budget.

The tentative budget, which is the combination of the anticipated revenues and the projected expenditures, tends to change as updated revenue forecasts are generated. The Office of Economic Analysis produces a quarterly projection of available General Fund and Lottery Funds revenues for the current biennium and for the biennium included in the tentative budget. Depending on the magnitude of changes in the projections of available revenues, the tentative budget is subject to modification on the revenue side, which would have a resultant effect on the estimate of the state's relative fiscal position for the next budget cycle.

**For additional information, contact: Ken Rocco, Legislative Fiscal Officer, 503-986-1844**

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<sup>iii</sup> More detail on the base budget and each of the essential packages can be found on pages 22-30 of the *2011-13 Budget & Legislative Concepts Instructions* found on the BAM website. <http://www.oregon.gov/DAS/BAM/docs/Publications>

<sup>iv</sup> See ORS 291.216 (12).