

Co-Chairs' Budget Framework 2015-17

WHERE WE ARE TODAY AND WHERE WE NEED TO BE

As we prepare for the start of the 2015 session, we are presenting a framework to provide context and set general parameters for the budget work that is about to begin. Our plan is to work closely with the Subcommittees of the Joint Committee on Ways and Means as they do their work to further identify priorities and adjust proposed funding levels through efficiencies and targeted reallocations, as well as through additional revenue if it becomes available. We intend to work within this Framework during the upcoming session and will provide future updates in response to the March 2015 economic and revenue forecast and in conjunction with the initial work from our Subcommittees.

It is important to remember that a great amount of work has been done over the past six years to hold our state together and make progress even in the midst of the financial crisis Oregon faced. We have seen doctors, nurses, hospitals, and providers across the state successfully engage in the efforts to change the way we deliver health care while increasing access and holding down costs. The public safety community also has come together to support evidence-based reforms in sentencing and increased support for mental health programs that have resulted in savings because we have been able to halt the construction of new prison cells while still keeping our communities safe. The Governor and the Legislature have struggled with the huge loss of assets and increased costs, caused by the recession, to the state pension plan.

The combined results of these changes, along with targeted investments in economic development, have allowed our state to stop the layoff of teachers and cuts to school days and programs in our K-12 schools. We have also been able to begin to strengthen early childhood education and freeze or limit tuition increases for our community college and university students after years of painful increases.

This is where we are in January of 2015. We titled the 2013-15 budget, "Oregon's Turning Point Budget," and we have turned the corner on the recession. Our state is now on the rebound and building again.

But we are still not where we need to be.

We are still far short of being able to make game-changing investments in education, and to significantly boost opportunities for Oregon families. We are far short of being able to build the reserves needed to sustain our state budget during tough economic times that will come in the future.

To prepare this framework, we reviewed current agency budgets, how much it will cost to continue current programs for those agencies, significant issues that might impact budgets,

potential changes to find savings and efficiencies and have, within available although limited resources, developed a path that balances revenues and expenditures and prioritizes investments for 2015-17.

This framework provides the outline to stabilize our K-12 budget and offer full day Kindergarten statewide. Because of limited resources, however, we cannot yet significantly reduce class sizes or add back school days. As the framework shows, we will be able to continue to increase our investments in early childhood education, but we will still not be able to reach every child in need. We can make progress in funding our community colleges and universities, finally beginning to re-invest after too many years of dis-investment in higher education.

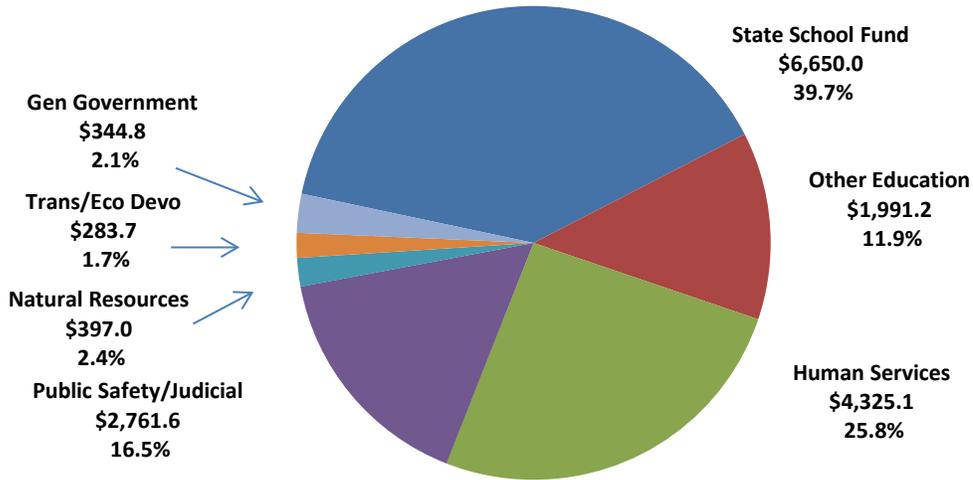
The funding targets in this framework will bring us closer to stability in Human Services and Public Safety, and give a slight boost to the many needs in the Natural Resource budgets.

We will not get to where we believe we need to be, especially in education and building adequate reserves, without significant revenue reform. Both of us have worked on the state budget for a number of years now, and we have been part of the reform efforts listed above. It is clear to us that our state cannot have the education system it needs or the sustainable budget it needs without changes to our current revenue system.

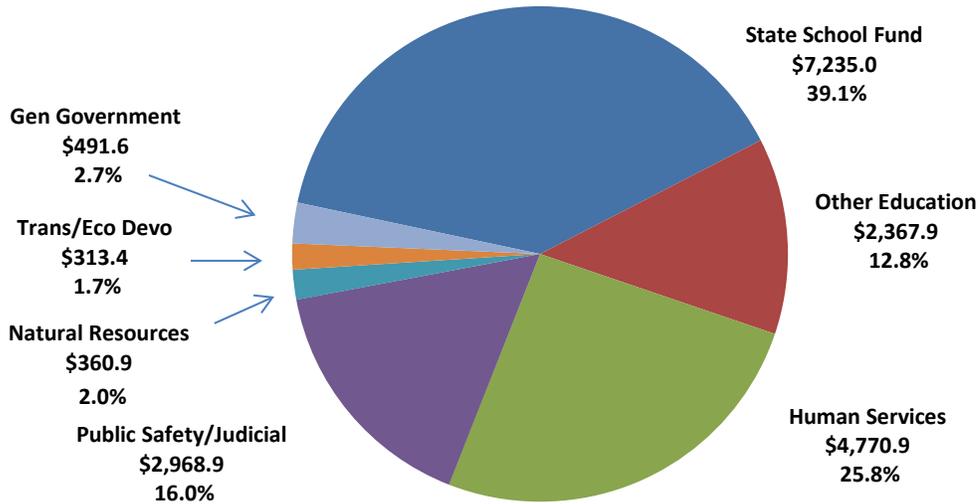
STATEWIDE TOTAL - ALL PROGRAM AREAS

2013-15 Approved Total GF/LF Budget (millions)	2015-17 Proposed Total GF/LF Budget (millions)	2013-15 Approved Percent of Total GF/LF Expenditures	2015-17 Proposed Percent of Total GF/LF Expenditures
\$16,753.4	\$18,508.6	100.0%	100.0%

2013 -15 Leg Approved Budget - General Fund & Lottery Funds \$16,753.4 Million
(dollars in millions)



2015-17 Co-Chair Framework - General Fund & Lottery Funds \$18,508.5 Million
(dollars in millions)



EDUCATION PROGRAM AREA

2013-15 Approved Total GF/LF Budget (millions)	2015-17 Proposed Total GF/LF Budget (millions)	2013-15 Approved Percent of Total GF/LF Expenditures	2015-17 Proposed Percent of Total GF/LF Expenditures
\$8,641.2	\$9,602.9	51.6%	51.9%

Priorities and targeted investments:

- The combined General Fund/Lottery Funds (GF/LF) amount allocated to the State School Fund (SSF) grows from \$6.65 billion in 2013-15 to \$7.24 billion for 2015-17 and assumes \$220 million for implementing full-day Kindergarten and a \$34 million increase (current amount is \$36 million) for resources to assist school districts in providing educational services through high cost disability grants
- The Co-Chairs propose adding \$20 million to the SSF in the final budget should additional revenue become available
- General support for Community Colleges will increase by \$70 million from \$465 million in 2013-15 to \$535 million for 2015-17
- General support for the independent Public Universities increases from \$521.5 million in 2013-15 to \$635 million for 2015-17 and includes funding required to pay the costs of Shared Services
- The Co-Chairs propose increasing the Community College Support Fund by \$15 million and support for independent Public Universities by \$15 million in the final budget should additional revenue become available
- Maintains current program levels for the Ag Extension Service, Experiment Station, Forest Research Lab, and the other state government service programs
- The current service level is maintained for the medical school, nursing school and other programs at the Oregon Health and Sciences University (OHSU) and the framework includes resources to fund the state’s commitment for the development of the new cancer research center
- Increases access to post-secondary education through Community Colleges and four-year institutions by increasing funding for the Oregon Opportunity Grant program to \$137 million
- The Co-Chairs propose adding \$5 million for the Oregon Opportunity Grant program in the final budget should additional revenue become available
- Funding for strategic investments implemented as part of the 2013-15 budget are generally maintained at the current service level

- Funding directed at the Network for Quality Teaching is maintained at approximately the same level as the current biennium, ensuring programs such as teacher mentoring and school district collaboration continue
- The Co-Chairs' framework has identified early childhood programs, as identified above, as a priority for a targeted investment of \$10 million if revenues allow when the final budget is adopted
- Continues the Sports Action Lottery funding, adjusted in a similar manner as in our current budget, to sustain the athletics programs at each of our universities
- Resources are included to meet anticipated debt service needs for state-issued debt for projects at Community Colleges and Public Universities

Additional issues to be resolved:

- The Co-Chairs' framework includes \$60 million (a 107% increase above 2013-15) for increased investments in Early Childhood Hubs, home visit programs, other early learning programs, early literacy programs, Career Technical Education (CTE) grants, Science, Technology, Education, Math (STEM) related grants, and school to work programs, amongst others, with this funding being available to be used, in part, to fund increases in the Oregon Pre-Kindergarten, Early Intervention and Early Childhood Special Education, and other education programs if the need arises (final decisions on programs to be funded and at what level will be made during the Ways and Means process)
- The implementation of full day kindergarten may require capital expenditures by school districts, which may require the Legislature to consider a limited and temporary capital assistance program to ensure the implementation occurs over the next few years

HUMAN SERVICES PROGRAM AREA

2013-15 Approved Total GF/LF Budget (millions)	2015-17 Proposed Total GF/LF Budget (millions)	2013-15 Approved Percent of Total GF/LF Expenditures	2015-17 Proposed Percent of Total GF/LF Expenditures
\$4,325.1	\$4,770.9	25.8%	25.8%

Priorities and targeted investments:

- Preserves core services and prior investments made in senior programs
- Maintains 2013-15 reimbursement rates and covers increased costs for seniors and people with disabilities
- Reinvests a portion of Temporary Assistance to Needy Families (TANF) caseload savings into TANF redesign
- Supports statewide early learning initiatives by strengthening the Employment Related Day Care program
- Protects child welfare investments in Differential Response and Strengthening, Preserving and Reunifying Families programs
- Makes permanent Oregon Project Independence services expanded to people with disabilities
- Funds forecasted client caseload levels and projected cost per case changes
- Funds backfill of 2013-15 one-time revenue sources to maintain current programs
- Supports health system transformation efforts, including continuing investment in Coordinated Care Organizations, with growth capped at 3.4% per member per year
- Provides health care coverage for low-income Oregonians by continuing to fund Medicaid expansion under the Affordable Care Act
- Provides improved access to community mental health by continuing investments made during 2013-15 for the full 2015-17 biennium
- Funds the opening of the Junction City state hospital in a phased approach
- Supports the expansion of the coordinated care model to the Public Employees' Benefit Board, limiting cost growth to a set, sustainable rate
- Prioritizes services within available resources, with intent to reprioritize as needed based on updated caseloads or statewide budget variances
- Continues hospital assessment, which is currently set to sunset September 2015
- The Co-Chairs propose adding \$40 million to Human Services for targeted investments should revenue be available when the final budget is adopted

Additional issues to be resolved:

- Proposed funding level does not support substantial new investment in human services programs

PUBLIC SAFETY PROGRAM AREA (includes JUDICIAL BRANCH)

2013-15 Approved Total GF/LF Budget (millions)	2015-17 Proposed Total GF/LF Budget (millions)	2013-15 Approved Percent of Total GF/LF Expenditures	2015-17 Proposed Percent of Total GF/LF Expenditures
\$2,761.6	\$2,968.9	16.5%	16.0%

Priorities and targeted investments:

- Funds the Department of Corrections’ (DOC) Community Corrections mandated caseload, including the re-mix of security levels resulting from sentencing reform legislation
- Covers DOC operations mandated caseload and Health Services extraordinary inflation and the start-up of DOC health records conversion to electronic format
- Manages adjustments to the Oregon Youth Authority (OYA) budget to mitigate changes and decreases in the Behavior Rehabilitation Services rate, the Title XIX Medicaid federal match rate, child support collections, Random Moment Sampling rate, medical inflation, Vocational Education Services for Older Youth exceptional inflation, and nutrition funding
- Maintains current service level for the Oregon Military Department
- Provides necessary funding for Department of Justice (DOJ) programs, including child support, defense of criminal convictions, district attorney assistance, victim assistance, crime victims’ compensation, organized crime-related law enforcement, and consumer protection and education services
- Provides \$20 million for Criminal Justice Commission (CJC) Justice Reinvestment grants and backfills final stimulus funds
- Maintains Oregon State Police (OSP) core patrol, criminal investigations, and forensic lab functions, as well as the Law Enforcement Data System and the State Fire Marshal
- Accommodates salary increases approved in 2014 and increased risk management charges for District Attorneys
- Funds debt service for the Department of Public Safety Standards and Training for academy campus construction
- Provides sufficient funding to the Board of Parole and Post-Prison Supervision (BPPPS) to continue current services
- Within the Judicial Branch, maintains current levels of case processing and access to justice in Oregon’s state court system, as well as allowing courts to operate every business day
- Funds final implementation of the Oregon eCourt system in all remaining counties and provides funds for training and support of the system

- Current service levels are maintained for the Public Defense Services Commission (PDSC) and the Commission on Judicial Fitness and Disability
- The Co-Chairs propose adding \$30 million to Public Safety for targeted investments should revenue be available when the final budget is adopted

Additional issues to be resolved:

- DOC technology needs including an upgrade of the Corrections Information System from the legacy COBOL program and telephony conversion from analog to digital/voice over internet protocol
- DOC need for additional positions to improve employee health, and compliance with the Prison Rape Elimination Act
- DOC and OYA deferred maintenance backlog
- OYA capital needs related to their 10-year strategic facilities consolidation plan to support Youth Reformation System development and implementation
- Oregon Military Department pay gap for firefighter positions at the Kingsley and Portland Air Bases, need for additional positions at the Portland Air Base, and continued capital construction support
- DOJ issues include Defense of the Master Tobacco Settlement, a projected revenue shortfall in the Criminal Injuries Compensation Account, phase-II funding for the Child Support Enforcement Automated System replacement and continuation of support for the Oregon Titan Fusion Center
- The Department of Fish and Wildlife can no longer support 17 Fish and Wildlife Troopers
- OSP Springfield office move
- Resources for BPPPS to meet the requirements of HB 2549 Sex Offender classifications and decrease its backlog of hearings
- Judicial salary increases
- Replacing reduced Justice and Municipal Court funding for local courthouse security
- Permanent Treatment Court funding
- Support for state and county capital construction and capital improvement projects
- Expanded support for family law and self-represented litigants
- Compensation increase requests for public defenders and for private attorneys providing public defense services, and for hourly-paid public defense attorneys and investigators
- Quality assurance improvements for public defense contractors
- Expanding the model Parent Child Representation Program
- Compensation increase requests and additional office space for PDSC employees

NATURAL RESOURCES PROGRAM AREA

2013-15 Approved Total GF/LF Budget (millions)	2015-17 Proposed Total GF/LF Budget (millions)	2013-15 Approved Percent of Total GF/LF Expenditures	2015-17 Proposed Percent of Total GF/LF Expenditures
\$397.0*	\$360.9	2.4%*	2.0%

* Extraordinary forest fire costs are initially not budgeted and assumed to be part of the Emergency Fund. Appropriations to cover these extraordinary costs for the 2013 and 2014 fire seasons (about \$60 million General Fund) are included in this total. Since fire costs for the 2015 and 2016 fire seasons are unknown, funds are included as part of the Emergency Fund and reflected in the General Government totals in the 2015-17 Co-Chairs' Budget Framework. The 2013-15 GF/LF adopted budget for Natural Resources was \$330 million, or 2.0% of the statewide total adopted budget prior to the inclusion of payments for fire costs. The Natural Resource program area budget has averaged approximately 2% of the GF/LF budget in recent biennia.

Priorities and targeted investments:

- Addresses the Department of Fish and Wildlife's revenue problem due to increasing costs, regulatory mandates, and a declining base of voluntary fee payers
- Continues fish management reforms enacted in 2013 for the Columbia River
- Protects Oregon's water quality with new General Fund investments
- Ensures the Department of Forestry has adequate administrative capacity to support the Department's various programs
- Addresses adequate public notifications through investments in the Forest Electronic Notification System at the Department of Forestry
- Protects Oregon's air quality with continued investments in monitoring
- Ensures the Department of Agriculture's laboratory meets federal guidelines and has the capacity to meet testing demands
- Adds resources for administrative functions at the Department of Agriculture to ease the burden on fee payers and reduce future fee increases
- Provides the Department of Geology and Mineral Industries with a two year budget and additional support to backfill revenue shortfalls
- The Co-Chairs' propose adding funds to the Natural Resources program area for targeted investments should revenue be available when the final budget is adopted

Additional issues to be resolved:

- Sage Grouse conservations proposals
- Additional investments in Regional Solutions Teams
- Funding for the Working Farms and Forests plan
- Expansion of current programs for natural hazards planning
- Additional Predator Control funding
- Continued funding of LIDAR mapping

**TRANSPORTATION/ECONOMIC DEVELOPMENT PROGRAM AREA
(includes CONSUMER and BUSINESS SERVICES)**

2013-15 Approved Total GF/LF Budget (millions)	2015-17 Proposed Total GF/LF Budget (millions)	2013-15 Approved Percent of Total GF/LF Expenditures	2015-17 Proposed Percent of Total GF/LF Expenditures
\$283.7	\$313.4	1.7%	1.7%

Priorities and targeted investments:

- Continues Oregon InC initiatives, as well as Regional Solutions and West Coast Strategies program staffing under the Oregon Business Development Department (OBDD)
- Maintains current operating support levels for most current OBDD programs, including small business assistance programs
- Continues, at reduced levels, one-time OBDD funding enhancements, including support for the Oregon Manufacturing Extension Program, Regional Accelerator Innovation Network, and Grow Oregon
- Maintains current service level support for Emergency Housing Assistance, State Homeless Assistance, Low Income Rental Assistance, the Oregon Hunger Response Fund (formerly General Fund Food Program) and the Court Appointed Special Advocates (CASA) program
- Maintains current service level support for Veterans Services and Conservatorship programs, and for payments to County Veterans' Service Officers and national service organizations
- Provides \$5 million in funding for passenger rail
- Maintains transportation infrastructure investments as much as possible in light of declining revenues from fuel taxes
- Maintains existing Bureau of Labor and Industries (BOLI) programs
- The Co-Chairs propose adding additional funds to the Economic Development program area for targeted investments should revenue be available when the final budget is adopted

Additional issues to be resolved:

- Restoration of reduction in Strategic Reserve Fund support
- Request for Lottery Funds support of Regional Solutions projects
- Oregon Growth Fund support
- Transformative Technology Grant program
- Federal small business innovation grant matching funds support
- Increased Regional Solutions program staffing

- Bond requests for various programs, including Seismic Rehabilitation Grants, Special Public Works Fund, Brownfields Revolving Loan Fund, Infrastructure Opportunity Program, Working Forest and Farms Program, Regional Solutions projects, and the Alternative Fuels Lab
- Continuing foreclosure counseling associated with the mediation program
- Continuing Emergency Housing Assistance and State Homeless Assistance Program enhancements that were funded in 2013-15 on a one-time basis
- An administrative position for CASA and additional support for CASA grants
- Maintaining a training position for County Veterans' Service Officers established last May and continuing an extended outreach grant for County Veterans' Service Officers approved in 2013-15 on a one-time basis
- Administrative and IT needs for the Oregon Department of Veterans' Affairs
- Requested Passenger Rail investments
- Repayment of Highway Fund debt service payments for the State Radio Project (\$10 million)
- Lottery bond funding for *ConnectOregon* multimodal transportation investments
- Expansion of BOLI employer technical assistance

**GENERAL GOVERNMENT PROGRAM AREA
(includes ADMINISTRATION, LEGISLATURE, and EMERGENCY FUND)**

2013-15 Approved Total GF/LF Budget (millions)	2015-17 Proposed Total GF/LF Budget (millions)	2013-15 Approved Percent of Total GF/LF Expenditures	2015-17 Proposed Percent of Total GF/LF Expenditures
\$344.8	\$491.6*	2.1%	2.7%*

*Resources to cover extraordinary forest fire costs and salary adjustment appropriations are included in this total because they are initially part of the Emergency Fund.

Priorities and targeted investments:

- Provides necessary funding for income and property tax administration, labor relations, library services, the Governor’s Office, the Secretary of State and other government administrative services
- Funds shortfall in the Department of Revenue’s County Assessment Function Funding Assistance Account, which is used for determining statewide property tax assessments
- Provides second year of funding for the State Library
- Adds information technology support for the Secretary of State
- Includes \$120 million for state employee compensation adjustments in 2015-17

Additional issues to be resolved:

- Phase-II funding for the Department of Revenue’s Core Systems Replacement project
- Enhanced fraud detection for the Department of Revenue’s tax programs
- Disposition of the Salem Hospital North Campus property
- Support for the State Fair
- Increases in the Department of Administrative Services’ rates and assessments
- Moving the Office of Administrative Hearings from the Employment Department to the Department of Administrative Services
- Outsourcing and upgrading the Secretary of State Election Division’s ORESTAR system

2015-17 Co-Chair Budget Framework	
Includes Dec. 2014 Forecast	GF/LF TOTAL
Revenues	
Beginning Balance	267.8
1% Appropriation to Rainy Day Fund	(159.1)
Adjustments	
<i>Projected TANS interest costs for 2015-17</i>	(20.2)
Projected Revenues	18,794.9
<i>Shared Services Fund (Gain Share)</i>	(94.9)
<i>ESF Interest Earnings</i>	12.2
Distributions: Education Stability Fund/Counties	
<i>Education Stability Fund</i>	(194.9)
<i>County Economic Development</i>	(39.0)
Revenue enhancements/(reductions):	
<i>2013-15 E-Fund balance</i>	28.7
<i>OLCC Bottle Surcharge</i>	14.8
<i>PEBB Stabilization Fund</i>	120.0
<i>SEDAF (Employment Dept.)</i>	37.9
<i>CFA Costs Compared to Forecast</i>	(10.3)
Tax Credits	(14.0)
2013-15 Rebalance Issues	
<i>Remaining Issues (primarily DOC)</i>	(43.9)
Total Resources	18,700.0
2015-17 Program Area Co-Chair Expenditures	
Education	2,367.9
Education - State School Fund	7,235.0
Human Services	4,770.9
Public Safety	2,272.9
Economic & Comm. Dev.	164.1
Natural Resources	360.9
Transportation	137.2
Consumer & Business Svcs.	12.1
Administration	240.1
Legislative	98.4
Judicial	696.0
Subtotal Program Area Expenditures	18,355.5
Emergency Fund	
Salary Adjustment	123.0
Emergency Fund - General Purpose	30.0
Total Expenditures	18,508.5
Ending Balance (1% of GF expenditures, plus LF)	191.5
Net Gap (including projected ending balance)	0.0
Priority Enhancements (if additional resources are available)	
Education - State School Fund	20.0
Education - Public Universities	15.0
Education - Community College Support Fund	15.0
Education - Pre K-12	10.0
Education - Opportunity Grants	5.0
Human Services	40.0
Public Safety	30.0
Economic Development/Natural Resources	15.0
Subtotal Priority Enhancement Expenditures	150.0

BUDGET FRAMEWORK STATEWIDE ISSUES

Tax Credits

We call on our legislative revenue committees to find ways to cover the majority of the costs to extend tax credits scheduled to sunset, as well as the Governor's proposed working family tax credit to address the "benefits cliff," by ending other tax credits or adjusting other areas of the current revenue system. At present, the budget framework assumes a total of \$14 million General Fund is available to manage tax credit issues.

Priorities for Capital Construction

The process for determining the state's priorities for capital construction is underway. There is much work to be done and this framework does not attempt to identify those priorities. However, the framework is based on most new capital construction projects using state-backed bonds not requiring funding until late in the biennium. There are only a few projects that may require funding in the first year of the biennium.

Ending Balance and Reserves

This budget framework includes 1% of our General Fund projected expenditures to be held in the ending balance and targeted to go into the Rainy Day Fund. It also includes a prudent Lottery Funds reserve to protect against potential declining lottery revenues.

- Rainy Day Fund projection by June 2017: \$394,800,000
- Education Stability Fund projection by June 2017: \$351,800,000
- Total of \$746,600,000

If the 1% of currently projected General Fund expenditures is again placed into reserves in 2017, by June 30, 2019, we will have reserves of approximately \$1.2 billion. While this path to an increased level of reserves is a step forward, this is still not enough to avoid significant cuts in future budgets in the event of even an "average" recession.

Ongoing Budget Work

We will continue to work with our colleagues and the executive branch to develop a balanced budget with the right priorities for Oregon, with consideration of adjustments that will need to be made over the next six months. This framework is the starting point, and we look forward to the work ahead to get to where we need to be.