

**State of Oregon
Legislative Fiscal Office**

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2019-21 General Fund/Lottery Funds Tentative Budget

As required by ORS 291.210, the Legislative Fiscal Office (LFO) and the Budget and Management Division (BAM) of 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 2019-21 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 was to continue 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 increases. This is commonly referred to as the Current Service Level (CSL). The current tentative budget is based on the December 2018 economic and revenue forecast and incorporates actions taken by the Legislature during the 2018 session and through the September 2018 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."

It should be noted that the tentative budget for the 2019-21 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. 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 2019-21 biennium assumes the following statewide factors:

- Revenue growth is based on the Office of Economic Analysis (OEA) December 2018 economic and revenue forecast.
- State personal services growth is projected at 10% for the biennium, including step increases, roll-up of current collective bargaining agreements and management salary packages, health benefit costs, Pension Obligation bond payments, and an increase in the PERS rate.
- Standard biennial inflation of 3.8% for services and supplies and 4.2% for medical costs.
- General Fund needed to backfill 2017-19 one-time funds or account for programs that change funding sources between the two biennia is projected to total \$610 million. This net growth is driven primarily by the Human Services and Education program areas. The amount includes \$538 million tied to federal match changes, including a continuing

- increase in state responsibility for Affordable Care Act costs. The sunset of certain provider assessments that help fund the Oregon Health Plan drives a shift of \$284 million from those revenues to state dollars. These impacts are partially offset by \$345 million shifting from 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.
- The State School Fund (SSF) current service level budget is estimated to grow by 6.9% over the 2017-19 legislatively approved level, increasing to \$8.772 billion total funds. Combined General Fund and Lottery Funds account for \$8.686 billion and the remainder includes Marijuana tax revenues and expenditure limitation for the Local Option Equalization Grants. This growth is based on:
 - the preliminary actuarial PERS net rate estimates for school districts (17.79% of payroll including factoring in school district side accounts, but excluding the pick-up);
 - the Legislative Revenue Office current estimate of 2019-21 local revenues;
 - annual payroll growth for school district employees of just over 2%;
 - increases in health benefits of 3.4% each year as outlined in SB 1067 (2017 session); and
 - annual growth in the weighted average daily membership (ADM) of 0.21%.
 - The estimated CSL for Ballot Measure 98 programs total \$303.2 million General Fund which is based on the formula included in the Ballot Measure. This represents an increase of over 78% from 2017-19. 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 2017-19 current service level budget for state support of Public Universities, including \$55.2 million in net debt service payments, is estimated to grow by a combined \$127.7 million General Fund and Lottery Funds. The Community College Support Fund is estimated to grow by \$20.7 million General Fund and net debt service payments on behalf of community colleges increases by another \$13.3 million.
 - Human services mandated caseload increases for the 2019-21 biennium are based on the Spring 2018 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.
 - Existing debt service schedules are built into agency budgets based on current repayment schedules, which increases the tentative budget by a combined \$206.45 million General Fund and Lottery Funds.
 - A projected \$50 million General Fund and \$18.1 million Lottery Funds is included for potential new bond issuance early in the 2019-21 biennium.
 - An Emergency Fund of \$50 million General Fund is included; no Special Purpose Appropriations to the Emergency Board are assumed except for \$6 million for forest fire suppression and insurance costs.
 - A compensation adjustment of \$150 million General Fund (and a reserve of \$4.1 million Lottery Funds) is included primarily to address future collective bargaining agreements; the General Fund is for state employees (\$135 million) and non-state employees (\$15 million), or home health care workers.
 - An ending balance of 1% of expenditures is assumed due to the Rainy Day Fund deposit requirement and for a prudent lottery funds cushion due to volatility.

Based on these assumptions, the current 2019-21 tentative budget reflects total available revenues of \$22.35 billion General Fund and \$1.28 billion Lottery Funds, for a total of \$23.63 billion of resources. Projected expenditures at current service levels consist of \$22.77 billion General Fund and \$1.24 billion Lottery Funds, for a total of \$24 billion of expenditures. With the inclusion of a 1% ending balance, the current projected gap between available resources and estimated expenditures for the 2019-21 biennium is currently projected at \$623.2 million.

This information continues to be revised as economic and revenue projections and estimated costs are updated and until the Governor's and the Co-Chairs' of the Joint Committee on Ways and Means budgets are released.

Additional details are included in the following table.

Tentative Budget Projections							
December 2018 Forecast							
	Legislatively Approved Budget			Projected Tentative Budget			% chg.
	GF	LF	Total	GF	LF	Total	
Revenues							
Projected Beginning Balance	1,000.4	88.9	1,089.3	1,307.9	101.8	1,409.7	
Interest on ESF	-	22.8	22.8	-	49.7	49.7	
Distributed Oregon Growth Acct. Earnings	-	5.2	5.2	-	-	-	
1% Appropriations to Rainy Day Fund	(179.4)	-	(179.4)	(199.3)	-	(199.3)	
TANs	(21.5)	-	(21.5)	(21.5)	-	(21.5)	
Projected Revenues (net of personal kicker)	20,434.2	1,444.8	21,878.9	21,335.2	1,434.0	22,769.1	4%
Tax Credit Extensions & Relief	-	-	-	(72.7)	-	(72.7)	
Less Dedications (ESF, County)	-	(300.3)	(300.3)	-	(309.7)	(309.7)	
Total Resources	21,233.6	1,261.4	22,495.0	22,349.6	1,275.8	23,625.4	5%
Expenditures							
Education - State School Fund*	7,582.9	535.7	8,118.6	8,150.5	535.7	8,686.3	7%
Education - All Other	2,793.6	97.2	2,890.9	3,114.6	129.2	3,243.8	12%
Human Services	5,374.2	12.5	5,386.7	6,870.8	13.0	6,883.8	28%
Public Safety	2,524.0	8.1	2,532.1	2,722.6	9.1	2,731.7	8%
Economic Development	123.5	150.5	274.0	105.1	155.8	260.9	-5%
Natural Resources	261.1	218.4	479.6	259.8	225.4	485.3	1%
Transportation	23.5	113.6	137.1	45.4	118.8	164.2	20%
Consumer & Business Services	13.5	-	13.5	14.3	-	14.3	7%
Administration	263.3	23.4	286.7	252.9	29.5	282.4	-2%
Legislative Branch	127.7	-	127.7	127.6	-	127.6	0%
Judicial	760.2	-	760.2	850.1	-	850.1	12%
Total Expenditures	19,847.4	1,159.5	21,007.0	22,513.8	1,216.5	23,730.3	13%
Add'l Debt Service	-	-	-	50.0	18.1	68.1	
EFund	31.0	-	31.0	50.0	-	50.0	
Salary Adjustment	-	-	-	150.0	4.1	154.1	
Forestry Fire SPA	4.0	-	4.0	6.0	-	6.0	
Other SPAs	43.3	-	43.3	-	-	-	
Total Expenditures	19,925.8	1,159.5	21,085.3	22,769.8	1,238.7	24,008.5	14%
Outlook Ending Balance = 1% Exp. by formula)				227.7	12.4	240.1	
Net Fiscal Position	1,307.9	101.8	1,409.7	(647.9)	24.7	(623.2)	

* Total State School Fund for 2017-19 also includes approximately \$82 million in Other Funds from Marijuana Tax proceeds and other sources for a total of \$8.2 billion.