

Legislative Fiscal Office

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Budget Information Brief / 2011-4

Overview of Oregon's Budget Process

Background

The State of Oregon budgets on a biennial basis. The two-year budget period begins on July 1st of odd-numbered years and concludes on June 30th of the next odd-numbered year. Individual state agency budgets are developed and presented by the executive branch and passed into law by the legislative branch.

The state's financial administration policy is outlined in Chapter 291 of the Oregon Revised Statutes (ORS), which establishes the overall authority and guidelines for budget preparation and execution. While some of the language is specific and sets deadlines for certain budget-related events and delivery of various budget-related reports, other language is more general and allows for considerable flexibility in the budget development process. The legislative role in determining budgets is outlined in ORS Chapters 171 and 173.

Budget Policy

Oregon's budget policy is based on following principles:

- Balancing estimated revenues and proposed expenditures
- Allocating resources to achieve desired outcomes
- Measuring program outcomes and progress toward desired outcomes
- Encouraging savings and investments that reduce or avoid future costs
- Planning for the short term and the long term, using consistent assumptions on demographics and other trends
- Providing accountability at all levels for meeting program outcomes

The budget process is designed to develop a credible, complete expenditure plan for state government; to reflect both approved legislative policy and programs and the Governor's priorities; and to present the budget information in a format that is understandable to the general public.

Budget Process

The budget process consists of four major cycles:

Agency Request Budget: Agencies start the budget process early in even-numbered years. The instructions, guidelines, forms, and the price list of goods and services are provided to agencies by the Department of Administrative Services' Budget and Management Division (BAM), in March. The Agency Request Budget lays out the policies, finances, performance measures, and staffing that the agency is asking the Governor to recommend to the Legislature for the next two-year budget cycle. The request budget must be submitted to the Department of Administrative Services by September 1st. (Some small agencies have an August submittal date.)

Governor's Recommended Budget: The Agency Request Budget is reviewed by BAM on the basis of technical budget issues, availability of funds, and the Governor's policy direction. BAM then makes recommendations to the Governor. Agencies are provided a forum to appeal the BAM recommendation. The final recommended budget reflects the current Governor's priorities and the policies established in statute. The Governor's Recommended Budget includes data on statewide revenue and expenditures and on all individual state agency budgets. The budget is to be compiled and prepared for printing by November 10th. The budget information is also made available to the Legislative Fiscal Office and Legislative Revenue Office for analysis, but is kept confidential until official release of the Governor's

budget on December 1st. In the case of a new Governor-elect, the transmittal date of the budget to the Legislature is moved to February 1st.

Legislatively Adopted Budget: The budget recommended by the Governor is presented to the Legislature when the regular session begins in each odd-numbered year. The proposed revenues, expenditures, and performance measures of each individual state agency are reviewed by the Joint Committee on Ways and Means through a series of public hearings by subcommittees. Budgets are analyzed by Legislative Fiscal Office staff and recommendations made to Ways and Means on the basis of technical budget and fiscal issues and the funding priorities of legislative leadership. Committee recommendations are presented in the form of budget reports for each budget bill. Votes on the budget bill by each chamber of the Legislature determine the Legislatively Adopted Budget (LAB). The LAB sets out General Fund appropriations, lottery fund allocations, Other Funds and Federal Funds expenditure limitations, key performance measures, and position authority for each agency.

Legislatively Approved Budget: Following the conclusion of the regular session, the adopted budget can be changed by subsequent actions of the Legislature either through the Emergency Board, a special session, the even-year session, or the next odd-year session. The Emergency Board meets periodically during the interim to deal with unforeseen events that may affect the execution of the adopted agency budgets. These events can include such things as caseload fluctuations, internal rebalance needs, natural disasters, federal regulation changes, or new grant opportunities. Special sessions can occur to address specific policy issues or in response to statewide budget rebalance needs due to revenue shortfalls. With the passage of a constitutional amendment in November 2010 (Ballot Measure 71), the Oregon Legislature now meets annually, a session limited to 160 calendar days in each odd-numbered year and a session limited to 35 calendar days in each even-numbered year. The Legislatively Approved Budget through April of each even-numbered year becomes the basis for an agency's request budget for the next biennium.

Other Components of the Budget Process

Tentative Budget: While not an official document acted upon by the Legislature, a tentative budget is often prepared for the following biennium as a management tool. The tentative budget is based on a set of assumptions regarding growth in personal services, the rate of general inflation, full implementation costs of phased-in programs, and changes in caseload and population. This estimate of state government expenditures at a "current service level" is then compared to the General Fund revenue forecast for the next biennium. For more information, see the Legislative Fiscal Office Budget Information Brief 2010-3: *The Tentative Budget and Current Service Level*.

Current Service Level: The current service level (CSL) budget, formerly known as the essential budget level, represents the estimated cost of continuing all legislatively approved programs into the next biennium. The CSL is built from the base budget (the legislatively approved level with personal services increases from permanent positions) plus "essential packages." Essential packages adjust for program phase-in costs, program phase-out savings, one-time expenditures, general and medical inflation, mandated caseload changes, fund shifts, and projected revenue shortfalls. Proposed changes to a program or a policy are not included in the CSL calculation, but are instead included as "policy option packages" in the Agency Request Budget and, if approved, in the Governor's Recommended Budget, or, ultimately, in the Legislatively Adopted Budget. The CSL is a starting place for legislative budget deliberations and does not represent an entitlement to funding.

Capital Budgeting: Major construction/acquisition projects are land, buildings, and support systems costing over \$1 million (\$3 million for Oregon University System projects) that add value to the state's physical asset base. The Oregon Constitution prohibits laws making appropriations for current expenses of the state from including any other provision. Since expenditure authority for capital construction projects are granted for a six-year period, capital construction budgets are dealt with in separate appropriation bills. Separate bills are created for the capital construction (state agencies and the Oregon University System) and for the authorization of debt financing for capital projects.

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