

# Summary Analysis

## 2005-07 Governor's Budget



LEGISLATIVE FISCAL OFFICE  
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January 10, 2005

To the Members of the Seventy-Third Oregon Legislative Assembly:

The Legislative Fiscal Office staff has prepared a summary analysis of the Governor's 2005-07 biennium budget. This report is intended to provide an overview of the major General Fund and Lottery Funds budget proposed by the Governor in December 2004, and, as such, will not answer every question you may have. A detailed analysis of the 2005-07 Governor's recommended budget by agency and program is also being distributed to all legislative members.

We hope you find this report useful. Please call if you have further questions.

A handwritten signature in black ink, appearing to read "Ken Rocco", written in a cursive style.

Ken Rocco  
Legislative Fiscal Officer

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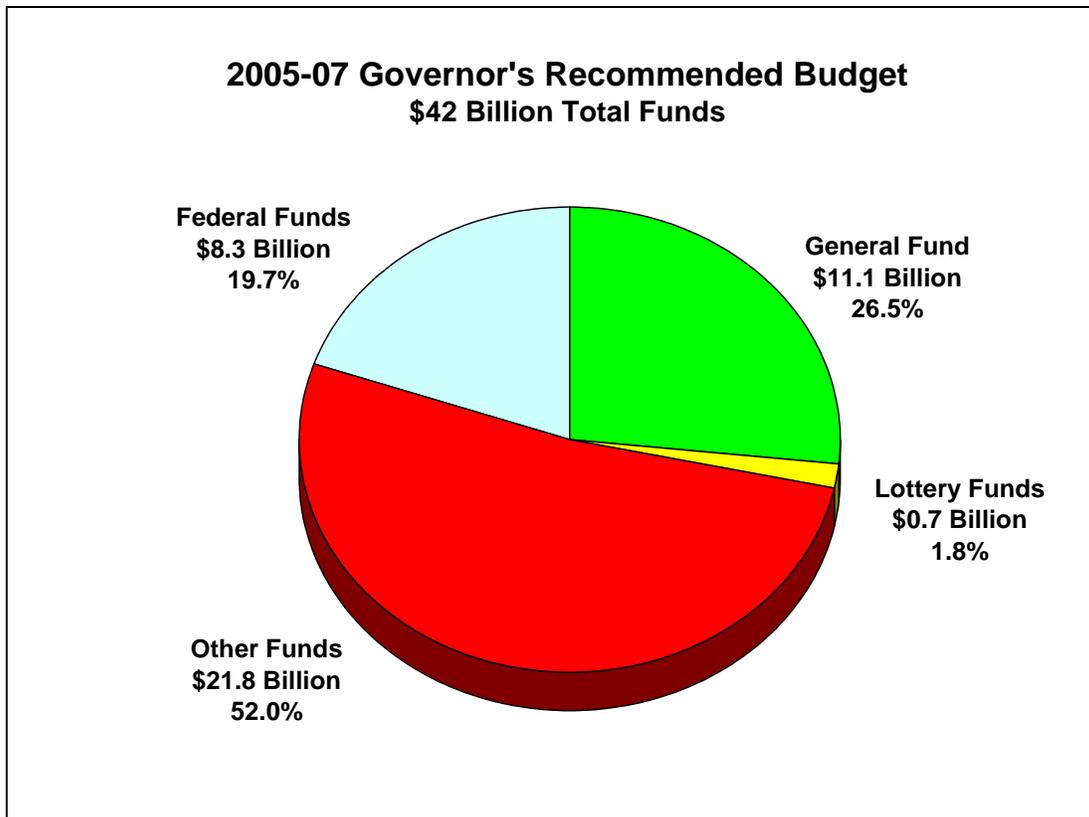
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# LFO Summary Analysis of the 2005-07 Governor's Budget

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## Budget Overview



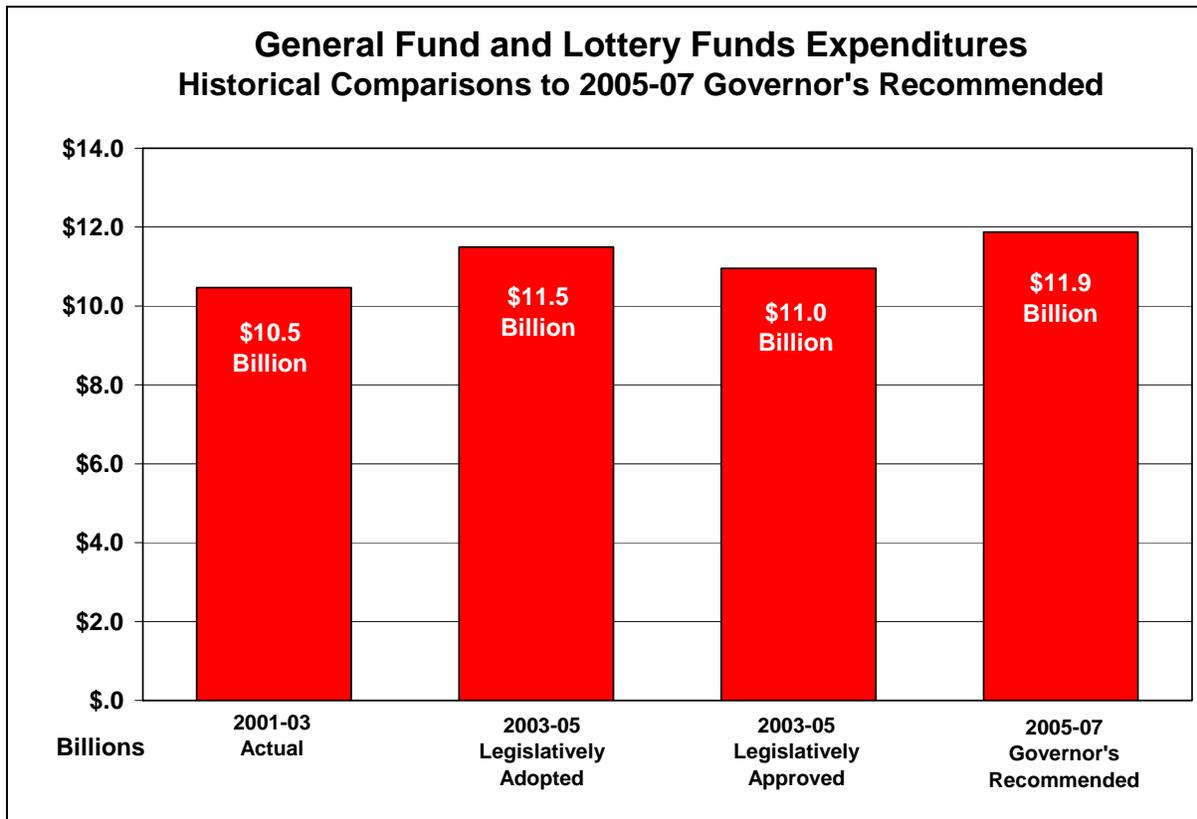
The 2005-07 Governor's recommended budget totals \$42 billion, a 7.3% increase from the 2003-05 legislatively approved total funds budget. The recommended budget consists of \$11.1 billion General Fund, a 9.3% increase from 2003-05, and \$740 million Lottery Funds, a 5.9% increase from the previous biennium. About 26.5% of the total state expenditures are from the General Fund, about the same percentage of total expenditures found in the last two biennia. Lottery Funds are increased due to the Governor's proposal to increase revenues with the expansion of currently available lottery games (including line games). Not all of the dedicated Lottery Funds expenditure limitation available due to this expansion is incorporated into the recommended budget.

The largest funding source in the budget, Other Funds, totals \$21.8 billion, or 52% of the total expenditures. Other Funds are 8.4% higher in the 2005-07 budget than approved for 2003-05. Other Funds are revenues received by the state from fees for registration or licenses, charges for services, and specific taxes (such as gasoline). These funds are restricted by law for specified purposes.

The 2005-07 recommended budget also includes \$8.3 billion Federal Funds, just under 20% of the total budget, an increase of 2.1% from 2003-05. Federal Funds represents money received directly from the federal government. Nearly three-fourths of federal funds are received within the Human Services program area.

## General Fund and Lottery Funds Background

The 2005-07 Governor's General Fund and Lottery Funds budget of \$11.877 billion represents an 8.4% increase over the 2003-05 legislatively approved budget of \$10.957 billion. The legislatively approved budget is the authorized budget following legislative actions through the April 2004 Emergency Board meeting.



Approximately one-half of the \$920 million General Fund and Lottery Funds increase from the 2003-05 legislatively approved budget to the 2005-07 Governor's budget is due to the Governor's proposal to use General Fund support to backfill one-time revenues from discretionary sources that were relied upon during the 2003-05 biennium. In 2003-05, the legislatively adopted and legislatively approved budgets included the use of approximately \$600 million in one-time revenues to backfill for General Fund. These major one-time sources include:

- \$122 million Education Stability Fund transfer to the State School Fund;
- \$116 million of federal Jobs and Growth Tax Reconciliation Act funds in the Institutions budget for the Department of Corrections;
- \$91.8 million in Other Funds ending balances were transferred to the General Fund;
- \$88.8 million of Enhanced Medicaid Match federal funds in three program area clusters of the Department of Human Services;
- \$45 million of Other Funds savings from implementation of PERS reforms will be transferred to the General Fund;
- \$42.2 million of Tobacco Settlement Funds in the Oregon Health Plan;

- \$34 million of General Fund savings from the issuance of Pension Obligation Bonds to pay off the state's unfunded PERS liability;
- \$20 million of General Fund savings from fund shifts in the natural resource program area from the use of federal Pacific Coastal Salmon Recovery Fund resources and dedicated Measure 66-Capital Lottery Funds; and
- \$10 million of Tobacco Use Reduction Account funds in the Oregon Health Plan.

The following table compares the 2005-07 Governor's proposed General Fund and Lottery Funds budget with 2001-03 estimated expenditures and the 2003-05 legislatively adopted budget for each program area.

<b>2003-05 General Fund &amp; Lottery Spending &amp; Governor's Proposed Spending for 2005-07</b>							
<i>(Dollars in Millions)</i> <sup>1</sup>							
	<b>2001-03 Legislatively Adopted Budget (LAB)</b>	<b>2001-03 Actuals</b> <sup>2</sup>	<b>2003-05 Legislatively Adopted Budget (LAB)</b>	<b>2003-05 Legislatively Approved Budget</b> <sup>3</sup>	<b>2005-07 Governor's Recommended Budget</b>	<b>% Change 2005-07 Governor's Recommended from 2003-05 Leg. Approved</b>	<b>% Change 2005-07 Governor's Recommended from 2001-03 Actuals</b>
<b>Education</b>							
<b>K - 12 (excl. ODE)</b> <sup>4</sup>	\$5,080	\$4,417	\$5,190	\$4,905	\$5,001	1.9%	13.2%
<b>Higher Education</b> <sup>5</sup>	822	754	771	764	750	-1.8%	-0.5%
<b>Community Colleges</b> <sup>6</sup>	475	382	413	416	394	-5.5%	3.0%
<b>All Other Education</b>	<u>372</u>	<u>335</u>	<u>343</u>	<u>344</u>	<u>389</u>	<u>13.1%</u>	<u>16.1%</u>
<b>Total Education</b>	6,748	5,888	6,717	6,429	6,534	1.6%	11.0%
<b>Human Services</b> <sup>7</sup>	2,641	2,393	2,466	2,291	2,517	9.8%	5.2%
<b>Public Safety</b> <sup>8</sup>	1,351	1,236	1,246	1,225	1,563	27.6%	26.5%
<b>Natural Resources</b>	279	241	221	223	259	15.9%	7.2%
<b>All Other Programs</b> <sup>9</sup>	955	710	846	788	1,005	27.6%	41.6%
<b>Total Expenditures</b>	\$11,974	\$10,468	\$11,496	\$10,957	\$11,877	8.4%	13.5%

<sup>1</sup> Amounts may not add due to rounding.

<sup>2</sup> The 2001-03 Actuals represent expenditures incurred after all 2001-03 Emergency Board actions, the five 2002 special sessions, the allotment reductions due to the December 2002 revenue forecast (adopted in SB 859), the February 2003 statewide budget rebalance actions (referred to as "Special Session 6" and adopted in SB 5548), and the final DHS rebalance (adopted in SB 5549).

<sup>3</sup> The 2003-05 legislatively approved represents expenditure authorizations through April 2004 Emergency Boards, including \$544.6 million in reductions that resulted from voter disapproval of Ballot Measure 30 in February 2004. It does not include \$8.3 million of General Fund for K-12 appropriated in June based on legislatively approved trigger provisions in HB 5077 and SB 5554.

<sup>4</sup> The 2001-03 legislatively approved numbers reflect a \$262 million Education Stability Fund transfer (now shown as Lottery Funds per HB 5077) to the SSF and a shift of \$211 million General Fund from the 2001-03 SSF payment to the 2003-05 biennium (SB 1022).

<sup>5</sup> Includes Oregon Health and Science University Public Corporation.

<sup>6</sup> The 2001-03 LAB reflects a shift of \$56 million of the 2001-03 CCSF payment to the 2003-05 biennium.

<sup>7</sup> The General Fund in the 2003-05 LAB was reduced, in part, based on the availability of an additional \$151.4 million in federal revenue from improved federal match rates authorized in the Jobs and Growth Tax Reconciliation Act.

<sup>8</sup> The 2003-05 LAB was reduced by \$116 General Fund million based on a one-time use of a corresponding amount federal Jobs and Growth Tax Reconciliation Act funds.

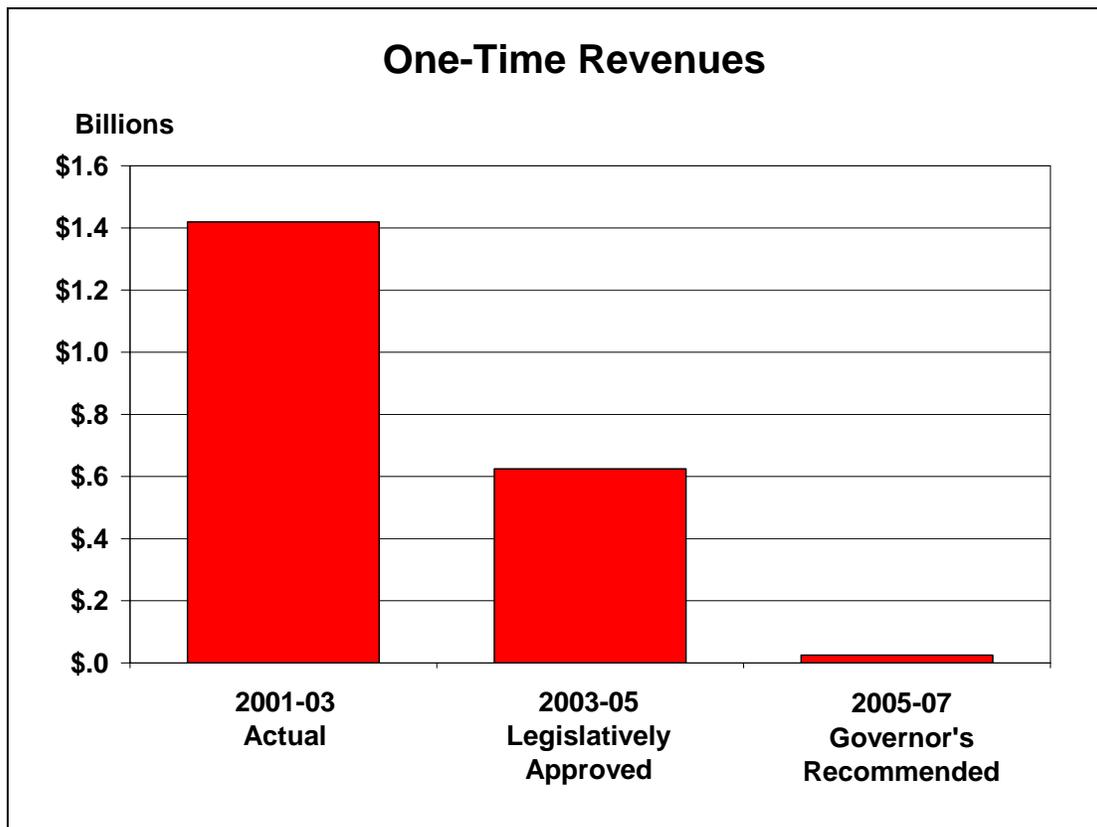
<sup>9</sup> The 2003-05 LAB included a \$40 million General Purpose Emergency Fund and \$9 million for health benefits. The 2005-07 Governor's Budget includes \$25 million in the General Purpose Emergency Fund; \$130 million for employee compensation issues; and \$20 million for Home Care Workers compensation.

Proposed General Fund and Lottery Funds expenditures, which total \$11.877 billion for 2005-07, increase by \$920 million or 8.4% over the 2003-05 legislatively approved budget of \$10.957 billion. This proposed expenditure level is \$1.4 billion or 13.5% over the 2001-03 actual General Fund and Lottery Funds expenditure levels. When state discretionary revenues are included, the increase is only \$756 million or 6.8% over actual 2001-03 expenditures. Discretionary funds represent Tobacco Master Settlement Agreement (TMSA) payments and bond proceeds, transfers from the Education

Stability Fund, and Medicaid Upper Payment Limit resources that can be used interchangeably with General Fund and Lottery Funds, when available.

Nearly 73% of the \$920 million increase from 2003-05 General Fund and Lottery Funds expenditure levels occurs in three program areas. Public Safety (primarily Department of Corrections) is proposed to increase \$338 million; Human Services is proposed to increase \$225 million; and Education (primarily K-12) is proposed to increase \$104 million. The Public Safety increase is due to a backfill for the one-time use of federal funds in 2003-05 and voter-mandated tougher criminal offender sentencing that continues to cause the prison population to grow. The growth has significantly increased operating and debt service costs. The Human Services increase is due to replacement of one-time federal funding and funding requirements linked to the Medicare Modernization Act. The Education increase is due primarily to replacement of one-time funding from the Education Stability Fund and to address a portion of increases in salary costs, health benefit costs, and student growth.

During 2001-03, approximately \$1 billion of discretionary funds derived from Medicaid Upper Payment Limit (MUPL) revenue, Tobacco Master Settlement revenue, and the Education Stability Fund were used as a part of budget rebalancing actions. Additionally, 2001-03 budget balancing actions delayed final General Fund payments into the 2003-05 budget period for K-12 education (\$211 million) and Community Colleges (\$56 million). During 2003-05, approximately \$600 million in one-time funds were utilized. The following table compares the total one-time fund sources relied upon during 2001-03 and 2003-05 with the very limited amount of currently available discretionary sources for 2005-07.



## 2005-07 Balanced Budget Proposal

In the 2005-07 budget, the Governor proposes spending nearly \$1 billion more General Fund and Lottery Funds than in the current biennium. As noted earlier, overall, this increase does not fund enhancements but rather provides backfill of approximately \$600 million of one-time revenues used during 2003-05 and mitigates reductions that would otherwise have occurred in education, human services, and public safety. To present a balanced budget, the Governor had to identify approximately \$1 billion in General Fund and Lottery Funds reductions from the resources necessary to continue all previously legislatively approved programs. To accomplish this task, agencies were instructed to provide optional reductions to their current budgets and to categorize their programs on the basis of the Governor's six principles "that are a foundation for a prosperous future" (Education and Workforce Development; Health and Basic Needs; Economic Development; Livability and the Environment; Public Safety; Government Efficiency and Accountability). After funding programs mandated by the Oregon Constitution, federal law, or court order, the remaining available resources were invested in programs and services the Governor concluded would purchase the highest yield based on his six principles.

In addition to the currently projected state revenues, the Governor's balanced budget relies upon a net increase of approximately \$180 million in General Fund and Lottery revenues that are not in the December 2004 Office of Economic Analysis revenue forecast. Specifically, the Governor's budget relies upon the following revenue enhancements:

- \$120 million of new state Lottery resources that are anticipated to be available from gaming expansion and other potential Lottery Commission actions;
- \$36.5 million of Criminal Fines and Assessment Account (CFAA) funds to be statutorily transferred to the General Fund (an action that requires legislation);
- \$23.2 million of General Fund resources based on increased collections by the Department of Revenue (an action that requires legislation); and
- \$40 million of General Fund reversions from unspent 2003-05 appropriations to state agencies.

These additional resources are partially offset by the recommended budget's accommodation for projected 2005-07 interest costs (\$34.6 million) on the issuance of Tax Anticipation Notes (TANs) by the State Treasurer for statewide cash flow purposes and the assumption that several tax expenditures with 2005-07 sunset dates will be continued (\$2.4 million).

If the Governor's recommended revenue changes are incorporated in the revenue forecast, the total General Fund revenues for 2005-07 will be \$11.221 billion. This would represent an 8.8% increase over the December 2004 forecast for the 2003-05 biennium.

The Governor's budget proposes to make permanent many of the \$544.6 million in House Bill 5077 reductions that were implemented during 2003-05 as a result of Ballot Measure 30's failure. Except for the cases where the Legislature fully or partially restored the reductions, the Governor's budget, in general, assumes they were spread over the full two-years of the 2003-05 biennium and then were projected forward for 2005-07. To achieve the remainder of the savings necessary to balance the 2005-07 budget to the December 2004 forecast, the Governor proposes to reduce levels of support in: 1) K-12 State School Fund (\$319 million); 2) human services programs and services (\$227 million); 3) higher education and community college support (\$90 million); and 4) public safety/ judicial caseload

and local program funding (\$91 million). The Governor's budget does not make allowances for potential 2005-07 General Fund costs for any settlement of the Court of Appeals' decision in *Bobo v. Kitzhaber* (failure to include \$113 million of MUPL revenue in the 2001 kicker calculation); the effects of PERS litigation; administrative and claims costs related to the passage of Ballot Measure 37; or the effects of other pending lawsuits.

Based on the December 2004 revenue forecast, which projects an 8.5% increase in General Fund revenues over 2003-05, the state's net fiscal position after the Governor's proposed expenditures, or the "ending balance," will be \$25 million General Fund and \$526 Lottery Funds. After incorporating the revenue enhancements recommended by the Governor, the ending balance will be \$84.3 million General Fund and \$31.7 million Lottery Funds (most of which is dedicated to the Department of Parks and Recreation and the Oregon Watershed Enhancement Board).

The following table provides a summary of the General Fund and Lottery Fund revenues assumed in the Governor's recommended budget and proposed expenditures by program area. Budgets will need to be adjusted for additional dedicated lottery resources where expenditure limitation was not provided in the Governor's budget. The remaining Lottery Funds adjusted ending balance of \$2.2 million largely reflects carry-forward amounts for debt service requirements.

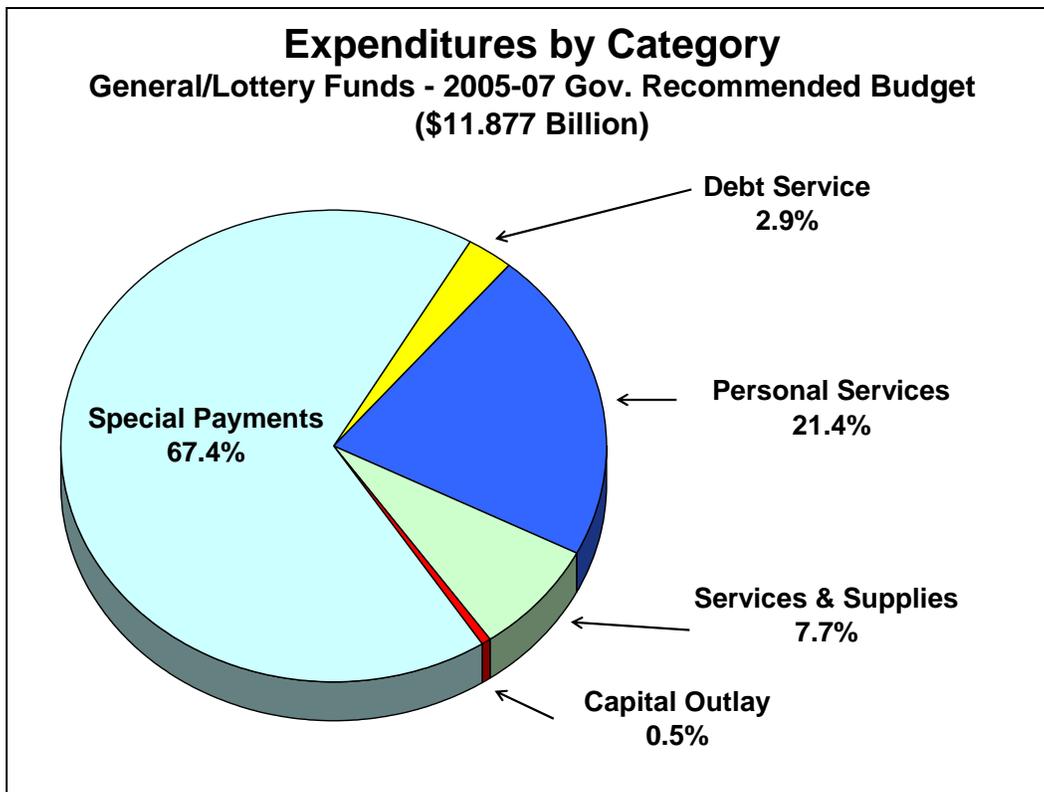
<b>2005-07 Governor's Recommended Budget</b>		
	<b>General Fund</b>	<b>Lottery Funds</b>
<b>December 2004 Forecast Revenues</b>		
<i>Projected Revenue</i>	11,068,203,000	815,928,000
<i>Beginning Balance</i>	90,611,548	-
<b>Total Resources</b>	<b>11,158,814,548</b>	<b>815,928,000</b>
<b>Lottery Distributions</b>		
<i>Education Stability Fund</i>		(146,507,000)
<i>County Economic Development</i>		(29,687,000)
<i>Education Stability Fund Interest</i>		3,045,000
<i>Agency Lottery Earnings</i>		2,797,405
<i>Agency Carryforward Balances</i>		32,707,340
<b>Total Available Resources</b>	<b>11,158,814,548</b>	<b>678,283,745</b>
<b>Net Resources Beyond Forecast in Governor's Recommended Budget</b>		
<b>Resources:</b>		
<i>Projected 2003-05 General Fund Reversions</i>	40,000,000	
<i>Transfer all CFAA to General Fund</i>	36,450,900	
<i>Department of Revenue Collection Enhancement Impact</i>	23,205,480	
<b>Less Adjustments:</b>		
<i>Projected TANS Interest Costs (2005-07)</i>	(34,601,000)	
<i>Restoration of Dependent Care Assistance Tax Credit (2005-07 sunset)</i>	(2,000,000)	
<i>Restoration of Qualified Adoption Expense Tax Credit (2005-07 sunset)</i>	(400,000)	
<b>Lottery:</b>		
<i>Additional Projected Lottery Earnings</i>		120,000,000
<i>Less Education Stability Fund Transfer</i>		(21,600,000)
<i>Less County Economic Development Transfer</i>		(5,208,333)
<i>Plus Education Stability Fund Interest</i>		337,898
<b>Total Resources in Governor's Recommended Budget</b>	<b>11,221,469,928</b>	<b>771,813,310</b>
<b>Expenditures By Program Area in Governor's Recommended Budget</b>		
Education	6,168,125,863	365,421,878
Human Services	2,508,773,958	7,804,844
Public Safety	1,487,075,699	76,015,514
Judicial	409,484,073	-
Economic & Comm. Dev.	18,426,109	118,533,670
Natural Resources	125,193,348	133,541,818
Transportation	9,026,167	33,187,224
Consumer & Business Svcs.	11,585,348	-
Administration	168,787,812	5,616,230
Legislative	55,666,243	-
Miscellaneous	175,000,000	-
<b>Total Expenditures</b>	<b>11,137,144,620</b>	<b>740,121,178</b>
<b>Ending Balance (Final Net Position)</b>	<b>84,325,308</b>	<b>31,692,132</b>
<b>Dedicated Lottery; No Limitation in Governor's Recommended Budget</b>		
Education		2,675,704
Human Services		2,191,198
Natural Resources		24,661,297
<b>Total Dedicated Lottery Requiring Limitation</b>	<b>-</b>	<b>29,528,199</b>
<b>Adjusted Ending Balance</b>	<b>84,325,308</b>	<b>2,163,933</b>

## Budget Expenditures by Category

The state's budget is built using a system of expenditure categories. There are five major categories within the budget:

- Personal Services – state employee compensation including salary and wages, social security taxes, health benefits, retirement contributions, and workers' compensation assessments;
- Services and Supplies – agency expenses for current operations (excluding employee compensation), including consumable materials, travel, publishing, utilities, rent, telecommunications, personal service contracts, training, and office expenses;
- Capital Outlay – purchases of items that are not consumed in the usual course of agency operations, can be used more than once, have a useful life of more than two years, and have an initial value of \$5,000 or more;
- Special Payments – budgeted transfers and payments to entities outside of state government where goods and services are not received directly in return; and
- Debt Service – budgeted expenditures for principal, interest, discounts, and premiums related to payment of state debt.

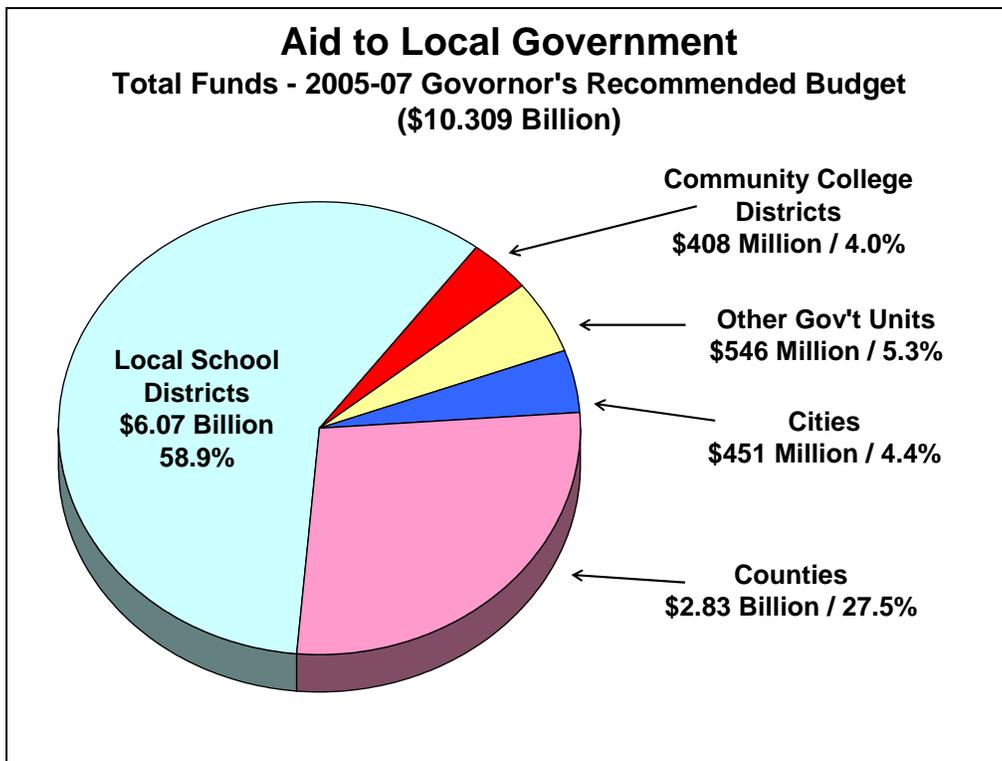
In the Governor's recommended budget, the largest single expenditure category is the "Special Payments" category. Over 67% of the state's combined General Fund and Lottery Funds are simply passed through a state agency to another entity, either a local government, a local service provider, or an individual recipient of a state government payment. The largest special payment in the budget is the transfer of state resources to the State School Fund. This transfer is \$5.0 billion in the Governor's budget, or 42% of combined General Fund and Lottery Funds.



As indicated in the chart, nearly 90% of the state's General Fund/Lottery Funds budget is used in two segments of the budget: direct support of state government employees and special payments, primarily in the form of aid to local government.

**State Employees** – The Governor's Total Funds budget supports 52,180 state positions. These equate to 46,878.33 Full-Time Equivalent (FTE) positions. An FTE represents the number of months for which each position is budgeted during the 24-month biennium. State law (ORS 240.185) limits the number of state FTE positions to 1.5% of the state's population in the previous year. As of July 1, 2004, the state's population was estimated at 3,579,100. The FTE limit at the beginning of the biennium is therefore 53,686.50, substantially higher than the number included in the Governor's budget. ORS 240.185 also provides for certain FTE exclusions, including employees in the legislative and judicial branches, the Offices of the Secretary of State, the Governor, and the Treasurer, and some positions in the Employment Department and Department of Higher Education. With these exclusions, the total FTE subject to the statutory limit in the 2005-07 Governor's budget is 41,277.70. Over 70% of these subject FTE are in three areas: Education (primarily higher education); Human Services; and Public Safety.

**Aid to Local Government** – The state's budget includes three types of aid to local government: 1) direct payments by state agencies to local governments for programs administered at the local level; 2) revenues collected by the state and shared with local governments for the provision of local government services; and 3) services delivered directly by state agencies that provide local government benefits. The Governor's recommended budget includes a total of \$10.3 billion Total Funds as aid to local government.



Approximately 60% of the aid to local government, or \$6.2 billion, is combined General Fund (\$5.9 billion) and Lottery Funds (\$361 million). The remaining 40% is nearly evenly split between Other Funds (\$2 billion) and Federal Funds (\$2.1 billion). Not all of the local government aid is reflected in the state budget, especially in the case of revenue-sharing dollars, which are provided directly to the local government recipients. The following are selected examples of aid to local government included in the Governor's recommended budget.

- Liquor Apportionment – An estimated \$102.0 million from state liquor sales (based on the December 2004 forecast) will be provided directly to cities (\$79 million) and counties (\$23 million).
- Cigarette Tax Distribution – A projected \$25.9 million from the state's cigarette tax will be provided to cities, counties, and public transit (2 cents each per pack sold).
- County Economic Development Video Lottery – Counties receive 2.5% of the state's video lottery proceeds. Based on the December 2004 forecast, counties will receive \$29.7 million from video lottery. With the addition of revenue from line games at the Governor's assumed level of \$120 million, counties would receive an additional \$5.2 million.
- Highway Fund Transfers – Counties receive 24.38% of the net revenues of the state's Highway Fund and cities receive 15.57% of the fund's net revenue. For 2005-07, this amounts to \$357 million Other Funds to counties and \$232 million to cities for highway construction.
- Education Program Support – The majority of the state's budget for educational services is aid to local government. Agencies in this program account for \$6.5 billion in aid to local government. Nearly 95% of the budget of the Department of Education represents payments to local school districts and education service districts from the State School Fund and through various grant-in-aid programs. Similarly, the majority of the budget for the Department of Community Colleges and Workforce Development consists of payments to local government from the Community College Support Fund and distribution of federal Workforce Investment Act funds to local service delivery agents.
- Health Services Program Support – Over the past years, the state has moved toward developing local partnerships in the delivery of social support services. State agencies in the Human Services program provide \$1.2 billion Total Funds in aid to local government. The Governor's budget, for example, allocates \$54 million Total Funds to counties through the Commission on Children and Families. The Department of Human Services contracts with local governments to provide numerous public health, mental health, substance abuse treatment, and senior and disabled program services.
- Public Safety Program Support – The state's public safety agencies provide approximately \$393 million Total Funds in aid to local government. This support is used for juvenile crime prevention activities; management of offenders sentenced or sanctioned for 12 months or less (community corrections); supervision of state offenders on parole, probation, or post-prison supervision; partial funding of district attorneys and deputy district attorneys; training of local law enforcement; crime victim assistance and domestic violence programs; disaster relief and recovery assistance programs; and autopsy services.

## **Budget Changes**

Significant reductions in currently authorized programs are necessary to remain within projected revenue. The recommended budget relies on continuation of the budget reductions taken due to failure of Ballot Measure 30, with a few exceptions. The table below shows agencies and programs with the most significant 2005-07 spending changes and General Fund backfill for one-time revenues used to

maintain services in the 2003-05 biennium. Specific spending changes are outlined in subsequent sections.

<b>2005-07 Most Significant Spending Changes by Program General Fund (GF) &amp; Lottery Funds (LF) (Dollars in Millions)</b>	
K-12 Fund shift to GF due to one-time source (Educ. Stability Fund)	122
K-12 Fund shift due to Lottery Fund decrease	34
K-12 State School Fund unidentified reduction to get to \$5.0 billion	(319)
K-12 Fund shift due to local property tax increase	(263)
Dept. of Education - Oregon Pre-Kindergarten program reduction	(11)
DHS fund shift to GF from one-time federal funds	89
DHS Fund shift to GF from 10-cents per pack cigarette tax revenues	36
DHS Seniors and Persons with Disabilities Services Cluster reductions	(88)
DHS Health Services Cluster reductions	(78)
DHS Children, Adults & Families Cluster reductions	(51)
DHS Department-wide Support Services reductions	(10)
Insurance Pool Governing Board Maintenance of Effort	11
Student Assistance Opportunity Grant funding	49
Oregon Health & Science University Education & General program reductions	(33)
Community Colleges support fund reduction	(18)
Community Colleges fund shift due to local property tax increase	(14)
Higher Education program reductions & fund shifts	(25)
Higher Education program enhancements	15
Corrections fund shift to GF from one-time federal funds	116
Corrections debt service cost increases	16
Corrections community corrections grants/institution programs reductions	(16)
Oregon Youth Authority close custody beds & related community programs	(29)
Judicial Department operations reductions	(25)
Public Defense Services caseload funding reductions	(16)
State Police criminal investigation and operational support reductions	(5)

### **Spending Changes for Programs and Services in the Governor's Budget**

The following tables reflect the most significant General Fund/Lottery Funds spending changes by program and agency. Amounts are generally measured from estimates of what it would cost to continue activities and programs that have been previously authorized and adjusted by the Legislature through April of 2004.

**Education Program Area Spending Changes  
(\$ in Millions GF/LF)**

Agency	Description	Governor	
		Funded (Increases)	Not Funded (Decreases)
Education Department	K-12 - Unidentified reduction to get to \$5.0 billion		(318.5)
	K-12 - Fund Shifts		
	Education Stability Fund (one-time use)	122.0	
	Lottery Fund decrease	34.4	
	Local property tax increase		(262.6)
	Timber severance tax reduction	2.0	
	Reduce state support for Oregon Pre-K		(11.0)
	Reduce Oregon Public Education Network; various special education programs		(2.2)
	Eliminate support for Frontier Learning Network & Student Leadership Centers		(1.4)
	Fund Shift based on available federal funds for EI/ESCE		(2.7)
	Pre K-16 Integrated Data Systems among school districts, ESDs, ODE, Community Colleges, & OUS	1.8	
	Eliminate OPK database funding; eliminate or delay certain reports/assessments; eliminate positions; fund shift Federal Liaison		(2.7)
Community Colleges	Pre K-16 Integrated Data System	0.9	
	Fund shift - Local property tax increase		(14.1)
	Community College Support Fund cut		(19.0)
Higher Education	Capital Construction Projects (Southern Oregon & Rogue Community College - Medford Facility)	5.4	
	Restore Information Technology funding - was COPs	5.1	
	Pre K-16 Integrated Data System	2.2	
	Increase faculty recruitment & retention funds	1.0	
	Limited Restoration of recent Chancellor's Office cuts	0.7	
	Allow spend-down of Sports Action Lottery balance	0.5	
	OSU Natural Resources Institute	0.3	
	Reduce Education & General programs		(15.0)
	State Government Service Charge fund shift to OF		(6.3)
	Reduce Agricultural Experiment Station funding		(2.3)
	Debt service fund shift to OF		(1.7)
OHSU	Enhance Oregon Poison Center funding	2.7	
	Reduce Education & General programs; CDRC and clinics		(36.2)
Student Assistance	Enhance Opportunity Grant funding	47.2	
	Fund shift to General Fund from ending FFELP revenues	1.6	

**Human Services Program Area Spending Changes  
(\$ in Millions GF/LF)**

Agency	Description	Governor	
		Funded (Increases)	Not Funded (Decreases)
<b>Department of Human Services</b>			
Children, Adults & Families	Increase AG representation for child welfare cases	4.8	
	Net impact of E-Board rebalance actions	4.7	
	Enhance overpayment collection efforts	3.3	
	Comply with Medicaid quality control mandates	0.4	
	Reduce self-sufficiency programs		(23.1)
	Reduce program staffing, administrative costs		(12.0)
	Reduce child welfare adoptions		(9.6)
	Delay CPI increase to January 2006		(3.7)
	Reduce basic rehabilitative services		(2.0)
Department-wide Support Services	Reduce central administration staffing & services		(10.5)
	Child welfare information system replacement	1.9	
	Improve AG representation at child welfare court hearings, HIPPA compliance, staffing, caseload forecasting, overpayment collections, rent	2.0	
	Medicare Modernization Act (MMA) implementation	0.4	
Health Services	Medicaid quality control process federal mandates	0.3	
	MMA - wrap around coverage	46.1	
	MMA - elimination of dual eligible coverage requirement		(141.3)
	Clawback payments to Federal Government	97.7	
	Gambling addiction and school-based health clinics	2.8	
	Roll-up of E-Board rebalance actions	4.7	
	Decrease managed care capitation rate for hospitals		(17.3)
	Eliminate relative foster care; employment initiatives, general assistance, & graduate medical education payments		(17.0)
	Eliminate OHP Plus dental and vision services		(14.3)
	Reduce mental health services, reimbursable RX, hospital days, public health services, & support		(14.0)
	Reduce OHP payments thru management actions		(11.1)
	Eliminate FFS provider CPI increases		(6.7)
	Implement home & community care waiver cap		(2.4)
	Delay CPI increase for mental and public health programs		(1.4)
Seniors and People with Disabilities	MMA General Fund backfill	1.9	
	MMA policy analysts	0.2	
	Adult protective services worker compensation	0.4	
	Roll-up of E-Board rebalance actions		(77.1)
	Eliminate foster care provided by relatives		(23.2)
	Rate changes for assisted living & adult foster homes		(16.9)
	Eliminate Oregon Project Independence		(11.1)
	Eliminate General Assistance, retired senior volunteer programs, employment initiative		(9.1)
	Reconfigure Home Care Workers program delivery		(9.1)
	Cap enrollment on home & community-based care		(7.6)
	Reduce personal care & delay certain LTC enrollment		(6.0)
	Reduce Medically Fragile Children's services & DD caseloads for community programs		(2.4)
	Delay cost of living increases		(2.2)
Reduce Fairview Housing Fund payoff reserve		(2.0)	
<b>Insurance Pool Gov. Bd.</b>	FHIAP expansion to meet OHP2 waiver Maintenance of Effort	10.7	
<b>State Commission on Children &amp; Families</b>	Transfer in Juvenile Crime Prevention Program	6.3	
	Reduce certain grants, programs, and assistance		(1.4)

**Public Safety / Judicial Program Area Spending Changes  
(\$ in Millions GF/LF)**

Agency	Description	Governor	
		Funded (Increases)	Not Funded (Decreases)
Corrections	Backfill for one-time Jobs and Growth Tax Relief federal funds	115.9	
	Debt Service to construct Madras & expand Coffee Creek facilities	16.0	
	Modify community corrections funding methodology	9.6	
	Reduce community corrections funding - limit terms of revocations		(9.3)
	Reduce community corrections funding - no funding for limited-risk offenders		(9.3)
	Reduce certain treatment programs, delay hiring, reduce services		(7.0)
Oregon Youth Authority	No funds for forecast close custody beds & related community programs		(28.4)
	Reduce support for Multnomah County gang intervention services		(0.6)
Oregon State Police	Meth initiative, impound lot, and OERS positions	2.2	
	Intoxilizer debt service and C-4 building rent	0.6	
	Eliminate operational support positions		(1.9)
	Eliminate Criminal Div. positions & boxing/wrestling program support		(3.5)
	Shift Patrol & Fish/Wildlife positions to new Lottery line game revenue	65.5	
Department of Public Safety Standards and Training	Debt Service increase for new facility	9.6	
	Operating cost increases for new facility	2.8	
	Expansion of basic law enforcement training course to 16 weeks	2.6	
	Unidentified reduction in services and supplies		(0.6)
Department of Justice	Reduce Medicaid Fraud, DA Assistance, Organized Crime, Domestic Violence programs		(1.1)
	Reduce spending for child abuse, assessment centers, & criminal injuries		(1.6)
	Reduce defense of criminal conviction cases		(1.3)
Judicial Department	No filing fee surcharge fund shift to GF		(6.6)
	Additional unspecified reduction		(5.0)
	Biennialized Ballot Measure 30 reduction		(13.0)
Public Defense Services	Gap between caseload requirements and Governor's funding level		(15.8)
Criminal Justice Commission	Expand capacity to review and study public safety system	0.2	
	Transfer Juvenile Crime Prev. Grants to Comm. on Children & Families		(6.3)
	Eliminate funding for Local Law Enforcement Contract Committee		(0.1)
District Attorneys & Their Deputies	Restructuring of compensation plan for District Attorneys	0.5	
	Biennialized Ballot Measure 30 reduction to deputy DA supplements		(1.2)
Military Department	National Guard appreciation package	0.7	
	Ochoco facility lease and Salem Aviation facility debt service	1.8	
	Facility operations and maintenance funding	0.3	
	Eliminate tuition assistance, unspecified reduction		(0.3)

**Natural Resources Program Area Spending Changes  
(\$ in Millions GF/LF)**

Agency	Description	Governor	
		Funded (Increases)	Not Funded (Decreases)
Agriculture	Pesticide Use Reporting System implementation	1.4	
	Food Safety program backfill	0.7	
	Establish agricultural product marketing program	0.7	
	Reduce pest prevention program		(0.6)
	Reduce Soil & Water Conservation District funding		(0.2)
	Continue shift for habitat pest control (\$1.4 million GF to M 66 LF)		
	Continue fund shift for water quality plans using PCSRF federal monies		(1.0)
Environmental Quality	Rent increases associated with new laboratory	0.4	
	Restore and enhance wastewater permitting program	0.4	
	Willamette River clean-up initiative	0.8	
	Reduce various air quality activities and programs		(1.1)
	Continue fund shift for TMDL activities (\$3.5 million GF to M 66 LF)		
Continue fund shift for Oregon Plan monitoring using federal monies		(0.8)	
Fish & Wildlife	Oregon Coastal Monitoring program positions	0.8	
	Western Oregon Stream Restoration program positions	1.5	
	Reduce support for Klatskanine hatchery, purchase of trout for stocking, fish screen projects, library services, Upland Game Bird		(1.0)
	Continue fund shift for Oregon Plan monitoring and aquatic surveys and fish passage activities using PCSRF federal monies		(4.6)
Forestry	Maintain Reforestation Tax Credit program	0.2	
	Eliminate Industrial Fire program		(0.7)
	Continue fund shift for forestry assistance using PCSRF federal monies		(2.8)
	Unspecified reductions		(0.5)
Land Conservation & Development	Review of state land use planning laws and regulations	1.4	
OWEB	Constitutionally dedicated capital projects & support	34.6	
	Operational support funding	0.9	
	IMST funding increase	0.5	
	Lower Columbia River Estuary project	0.1	
Parks & Recreation	Various policy packages to initiate or expand activities	15.9	
Water Resources	Continue funding for Klamath Basin Adjudications	0.9	
	Eliminate funding for certain studies and activities		(1.6)
	Continue fund shift for Oregon Plan activities using PCSRF federal monies		(1.8)
Columbia River Gorge Commission	Add two positions for mandated planning activities	0.1	

**All Other Program Area Spending Changes  
(\$ in Millions GF/LF)**

Agency	Description	Governor	
		Funded (Increases)	Not Funded (Decreases)
Department of Administrative Services	Federal government payment for PERS blended rate	6.4	
Economic Development	Lottery funds carryover for projects not completed	3.7	
	Regional/Rural restoration	3.5	
	Innovation Economy support	9.0	
Housing and Community Services	Reduced Homeless Assistance program		(0.8)
	Reduced Homeownership Assistance program		(0.3)
Legislative Branch	Reduced existing operations (undefined)		(5.4)
	Eliminate 2 small policy packages		(0.1)
Revenue	Willful tax avoidance efforts	2.6	
	Increased income tax collection efforts	2.4	
Secretary of State	Shift Archives from GF to assessment charge		(3.2)
	Implement Help America Vote Act		(1.0)
	Voters' pamphlet production for 2006 elections		(1.0)
	Reduce petition fraud activities		(0.1)
Transportation	Restore Willamette Valley Passenger Rail funding	5.0	
	Debt service on multi-modal lottery bonds	2.7	
Employment Relations Board	Increase local government support	0.2	
Government Standards & Practices	Restore investigation/support positions	0.1	
Oregon Liquor Control Commission	Various merchandising, regulatory, and administrative enhancements (GF impact)	2.5	
State Library	Fund shift administrative support to federal funds		(0.1)

### Technical Assumptions in the Governor's Budget

In building the budget, various assumptions regarding rates and assessments need to be made. Since these are statewide assumptions, they affect nearly every agency budget.

**Inflation** – The biennial inflation factors used in the recommended budget are 2.4% for general inflation and for non-state employee contract providers and 5.0% for medical services. The general inflation factor applies to most “services and supplies” categories, capital outlay, and some special payments. Medical inflation is used for programs with medical costs such as the Oregon Health Plan provider payments, child foster care costs, programs for the developmentally disabled, mental health services, and nursing home and residential care.

**Merit Increases** – The budget assumes the equivalent of one salary step increase for the 2005-07 biennium for eligible employees at agencies with more than 10.0 FTE. Smaller agencies are fully

funded for merit increases since they are less likely to incur vacancy savings or other budget savings in order to finance the total cost of step increases. The estimated General Fund cost of merit increases in the 2005-07 budget is \$32 million. This is in addition to the \$130 million appropriated to the Emergency Board in the Governor’s budget for employee compensation issues. For the 2003-05 biennium, merit increases were suspended and not funded in agency budgets.

**Other Payroll Expenses (OPE)** – One driver of cost changes between biennial periods is the amount required for Other Payroll Expenses, referred to as OPE, including Public Employee Retirement System (PERS) contribution rates, workers’ compensation charges, Employment Relations Board (ERB) assessments, and Flexible Benefits. This category also includes pension obligation bonds debt service, which is discussed below. The following table shows the OPE rates applicable to 2003-05 and 2005-07.

<b>OPE Rate Comparison</b>		
<b>OPE Factors</b>	<b>2003-05</b>	<b>2005-07</b>
ERB (per employee)	\$1.63/month	\$1.35/month
PERS (% of payroll)	10.49%	15.52%
Social Security (% of payroll)	7.65%	7.65%
Workers' Comp (per employee)	\$3.47/month	\$2.95/month
Flexible Benefits (per employee)	\$665/month	\$771/month

As the chart shows, ERB and workers’ compensation assessment rates are reduced, while PERS and Flexible Benefits (health insurance) rates increase.

- The ERB decrease is based on a change in the methodology for assessing state agencies. Specifically, the methodology expands the base used to include approximately 3,500 subject employees, with collective bargaining rights, not previously assessed. These include certain employees in the legislative and judicial branches.
- The workers’ compensation rate includes a cents-per-hour assessment that is paid one-half by employers and one-half by workers to finance the Department of Consumer and Business Services (DCBS), Workers’ Benefit Fund. The \$3.47 rate was based on 2 cents-per-hour per employee and the current assessment rate is 1.7 cents per hour. (Note: This rate only represents a small portion of the actual agency costs. For agencies with loss experience, the projected full cost of claims is budgeted, since funds in a claim cost reserve have been depleted for the first time since 1989-91. During 2003-05, the claim reserve subsidized approximately 55% of claim costs. For 2005-07, state agencies are being assessed approximately \$37 million Total Funds by Department of Administrative Services (DAS) Risk Management.
- The PERS rate increase to 15.52% (9.52% employer rate and 6% employee “pick-up”) was developed by the PERS actuary to produce a reasonable preliminary rate. The rate will be finalized early in 2005, once approved by the PERS Board. The primary drivers for the rate increase are prior years’ investment losses, the Lipscomb settlement, and the exclusion of certain reserves from asset valuation. For more details on PERS rates, please see the Legislative Fiscal Office (LFO) Budget Information Brief (#2004-8), published in June 2004 and posted on the LFO website.

- The Flexible Benefits are primarily for health insurance and the rate built into budgets is an estimate of the composite cost rate applicable to all employees for the biennium. The actual rate charged depends on negotiated labor agreements, as well as individual employee/family coverage needs. The amount initially built into agency budgets generally does not cover the actual costs that will be incurred, so the Governor’s budget commonly recommends that a special purpose appropriation to the Emergency Fund be established to, at least partially, cover these costs. The actual composite rate for calendar year 2004 was \$818, ensured no out-of-pocket expenses by employees, and was reported to the Emergency Board in September 2004. As such, the rate built into the 2005-07 budgets does not fully fund a continuation of that practice, without supplemental funding. Specifically, the Governor’s budget proposes \$130 million for employee compensation issues, which is \$20 million less than the amount needed for two annual 2% cost-of-living increases and up to \$200 more per month per employee for health care costs.

**Attorney General Charges** – The Governor’s budget is based on an Assistant Attorney General hourly rate of \$119, up from \$98 an hour for the 2003-05 legislatively adopted budget. Adjustments to individual state agency budgets for Attorney General charges will be necessary since the costs drivers for the \$119/hour charge were reduced during the Governor’s budget development process for the Department of Justice. Additional changes to agency budget may be required to reflect legislatively adopted budgets.

**State Government Service Charges** – Each agency budget includes a “State Government Service Charge” line item. This item reflects charges for services and related expenses imposed by one state agency on another state agency. Charges and user fees are set early in the budget development process and are included in the *Price List of Goods and Services* published by the Department of Administrative Services. Some are based on actual use and others on an assessment calculated to provide sufficient revenue to support service delivery during the 2005-07 biennium. Assessments range from \$360,000 for the Office of Regulatory Streamlining to \$71 million for the Department of Administrative Services. As the Legislature makes changes to the proposed budgets for agencies that assess state government service charges, budget adjustments for other agencies that pay the affected assessment may be required.

**Pension Obligation Bonds (POBs)** – The Department of Administrative Services assesses agencies for their share of actual debt service costs associated with \$2 billion in Pension Obligation Bonds that were issued in October 2003. During the 2003-05 budget period, this assessment was built into each agency’s services and supplies budget under “State Government Service Charges.” For 2005-07, the debt service assessment was moved to each agency’s personal services budget under “Other Payroll Expenses,” since the assessment is charged against PERS subject payroll. As a result of this movement, most agencies will show a significant reduction in their state government service charges with an offsetting increase in personal services. For 2005-07 budget development purposes, agencies were assessed 6.25% of PERS subject payroll using early salary and wage projections. No rate adjustment was made for these costs based on personal service cost changes made in the development of the Governor’s recommended budget. The actual rate and costs for each agency cannot be fully established until the 2005-07 budgets have been approved. The 2005-07 Governor’s budget includes approximately \$191.4 million (\$76.6 million General Fund, \$1.5 million Lottery Funds, \$79.1 million Other Funds, and \$34.1 million Federal Funds) for Pension Obligation Bond debt service.

**“Smart Buy” Initiative Savings** – An effort to pool the state’s purchasing power to reduce state expenditures for items consumed in the normal course of business was initiated in the 2003-05 biennium and referred to as “strategic sourcing” or the “Smart Buy” initiative. Contracts for office equipment, telecommunication long distance, personal computers, computer peripherals, software, cell phones, and express mail have been negotiated and are expected to save the state \$9.5 million Total Funds in the 2003-05 biennium. Additional savings are anticipated for 2005-07 as the existing contract savings are carried forward and new contracts are put into place. These savings will be reflected in the agency’s 2005-07 budgets as reductions to service and supplies expenditures.

**Computing and Networking Infrastructure Consolidation (CNIC)** – The CNIC program has been initiated with legislative approval to consolidate the state’s twelve largest data centers. The goal is to create efficiencies and cost savings through the co-location of the existing centers into a single facility. Budget savings will not be realized until after the consolidation is completed. The Governor’s budget does not fully reflect the impact of this consolidation as detailed implementation plans are still being developed. The budgets for the twelve agencies currently planned for consolidation contain a placeholder line item (a \$1 reduction to personal services and a \$1 increase to services and supplies) to identify the need for making adjustments to the agency’s budget once the implementation plan has been finalized.

## **Use of Revenue in the Governor’s Budget**

**Taxes** – The Governor’s proposed budget does not rely on any new taxes or reinstatement of any previously imposed tax (e.g., 10-cent-a-pack cigarette tax contained in Ballot Measure 30) in order to balance the budget.

**Tax Expenditures** – A tax expenditure is defined as a law that exempts something from taxes that otherwise would be taxed. For 2005-07, the Governor’s budget assumes 352 tax expenditures with an estimated value of \$27 billion. Many tax credits are put into law with a sunset date. The Governor’s budget recommends extending the sunset provisions on all eight tax expenditures scheduled for sunset in 2005-07. Only two of these have a substantive effect on the General Fund. One of these, the Dependent Care Assistance credit, reduces the General Fund by \$2.0 million. The other, the Qualified Adoption Expense, reduces the General Fund by \$400,000.

**Tobacco Master Settlement Agreement (TMSA) Funds** – The Governor recommends continuing the use of Tobacco Master Settlement Agreement revenues for debt service payments on the two bond issuances authorized by the Legislature. Of the \$149 million in TMSA revenue projected to be received in 2005-07, the majority of the funds will be used for debt service on the Oregon Health and Science University Opportunity Grants and growth appropriation bonds. In addition, approximately \$24.5 million will be used to fund the Oregon Health Plan.

**Medicaid Upper Payment Limit (MUPL)** – The Governor’s budget does not anticipate any additional MUPL receipts for 2005-07.

**Lottery Revenue** – The December 2004 revenue forecast projects \$816 million will be available in 2005-07, including beginning balance, reversions, interest earnings, and new revenue transfers from the Lottery Commission after prizes and operating expenses are deducted. After dedicated distributions for Sports Action (\$5.1 million), county economic development (\$29.7 million), the

Education Stability Fund (\$146.5 million), the Parks and Natural Resources Fund (\$122.1 million), gambling addiction (\$8.1 million), and county fairs (\$3 million) are deducted, \$501.3 million is available for allocation. Out of this amount, \$155.4 million is used for debt service on existing lottery bonds. As mentioned earlier, the Governor's budget anticipates an additional \$120 million from gaming expansion and other potential Lottery Commission actions.

**Lottery Bonds** – The Governor's budget proposes to issue \$179.4 million in new lottery bonds (\$202.3 million including costs of issuance and reserves). Specifically, the Governor proposes to issue \$100 million for Connect Oregon (multi-modal transportation investment); \$60 million to fund activities related to the Industrial Lands Initiative; and an additional \$19.43 million for deferred maintenance in the Oregon University System (OUS). Under current law and according to an April 2004 State Debt Policy Advisory Commission report, the unused lottery bond authorization for 2005-07 is approximately \$208 million, assuming the entire \$132 million authorized for the 2003-05 biennium is issued. Assuming the Governors' proposed new issuances occur, the remaining 2005-07 lottery bond capacity is \$28.7 million. The bond capacity may increase by approximately \$160 million if/when Lottery revenues from line games are available. Estimates are being refined by the State Treasurer's Office and are expected to be available early in the 2005 session.

**Fund Shift** – The Governor's budget uses \$10.3 million of Federal Funds from the Pacific Coastal Salmon Recovery Fund (PCSRF) and \$1.4 million of Lottery Funds dedicated for watershed, habitat, and salmon restoration by Ballot Measure 66 to support a variety of salmon recovery and watershed restoration activities in the Departments of Fish and Wildlife, Environmental Quality, Water Resources, Forestry, and Agriculture. These actions make \$11.7 million General Fund available to address other budget needs while at the same time make it possible to fund state agency responsibilities under the Oregon Plan for Salmon and Watersheds at previous levels of support and avoid significant reductions. The 2003-05 legislatively adopted budget used \$20.4 million of PCSRF monies and Ballot Measure 66 Lottery Funds to replace General Fund, \$8.7 million more than that included in the 2005-07 Governor's recommended budget.

**Fees** – The 2005-07 Governor's budget does not include any fee increases to directly backfill General Fund reductions made during efforts to rebalance the state budget in 2003-05. Fee increases are proposed, however, to maintain or expand services in a number of agencies, including the Department of Higher Education (5-7% tuition rate hike each year of the biennium) and 13 other agencies (including various licensing boards and commissions; the State Fire Marshal; and the Departments of State Lands, Environmental Quality, and Fish and Wildlife).

## **Capital Construction and State Bonding in the Governor's Budget**

The Governor's budget relies upon passage of several bills that establish or increase authority to issue various types of bonds or Certificates of Participation (COPs). The planned capital construction projects will improve higher education, National Guard, and state office buildings, as well as add adult prison and state office capacity. The planned bond issuances are primarily for higher education, transportation, and housing projects.

The proposed capital construction projects total \$401.9 million.

- General Fund projects total \$17.2 million (all for a higher education project and to address deferred maintenance at OUS campuses).

- Other Funds projects total \$376.9 million (90% for 37 higher education and community college projects and 7% for 10 DAS projects).
- Federal Funds projects total \$7.7 million (100% for five Military Department projects).

To finance various projects and provide financing capital for state agency self-supporting lending programs, the Governor’s budget proposes issuance of \$900 million of General Obligation bonds, \$2.6 billion of direct revenue bonds, \$407.9 million in DAS issued COPs, and \$202.3 million in lottery bonds.

- \$862.8 million of General Obligation Bonds (General Fund Obligations of \$185.4 million; and \$677.4 million of Dedicated Fund Obligations). Approximately 70% is for higher education and community college projects, with the remainder linked to energy, veterans, and environmental quality projects.
- \$1.87 billion of Direct Revenue Bonds. One-half (\$965 million) is for Highway User Tax and infrastructure bonds; \$500 million is for housing bonds; \$202.3 million for DAS Lottery Revenue bonds; and \$200 million for Economic and Community Development bonds. The DAS Lottery bonds are planned for ODOT multi-modal projects (\$112 million); OECDD shovel-ready sites (\$68 million); and OUS deferred maintenance (\$22 million).
- \$750 million of Pass-Through Bonds for OECDD Industrial Development (\$250 million), Oregon Facilities Authority (\$300 million), and Housing (\$200 million) projects.
- \$407.9 million of COPs. These are planned for Corrections (\$202 million for facilities); DAS (\$132.4 million for facilities, information systems, and fleet operations); OUS (\$47.5 million for building and technology projects); DHS (\$14.5 million for technology projects); OSP (\$1.6 million for equipment); and \$10.2 million (to be available for unidentified financing needs).

Based on these recommended changes as well as the roll-up effect of prior authorizations, debt service costs, when compared to 2003-05 spending, will increase as follows:

<b>Debt Service (amounts in millions)</b>					
<b>Program Area</b>	<b>Fund Types</b>	<b>2003-05 Leg Approved</b>	<b>2005-07 Gov. Recommended</b>	<b>Change</b>	<b>% Increase</b>
Statewide Totals	GF	152.4	181.2	28.8	19%
	LF	132.2	163.7	31.5	24%
	OF	1,854.9	3,006.9	1,152.0	62%
	FF	0.4	-	(0.4)	-100%
	<b>TOTAL</b>	<b>2,139.8</b>	<b>3,351.8</b>	<b>1,211.9</b>	<b>57%</b>

Note: The above numbers for the Governor’s budget understate General Fund debt service costs by \$5.6 million related to two DHS information system projects. This funding was inadvertently accounted for outside of the debt service category. Inclusion of this makes the GF debt service cost increase equal nearly 23%.

The percentage increases are significant. The primary drivers, by fund type, are summarized as follows:

- General Fund debt service increase is primarily for correctional facilities (\$27 million);
- Lottery Funds debt service increase is primarily for Economic & Community Development and Transportation projects (\$27 million); and
- Other Funds debt service increase is primarily for Economic & Community Development projects (\$1.06 billion).

The roll-up effect of the planned COP and lottery bond sales is also significant. The projected 2005-07 debt service costs are \$39 million and \$7 million, respectively, totaling \$46 million. For 2007-09, the debt service costs roll-up to \$80 million and \$37 million, respectively, totaling \$117 million (a \$71 million increase).

## Budget Risks

The Governor's budget is accompanied by a number of budgetary or financial risks.

- **Revenue Forecast** – The December 2004 economic forecast, which is the basis for 2005-07 projected revenues, anticipates \$11.068 billion General Fund. This represents an increase of 8.5% above the current projection for 2003-05 resources. The projected revenues for 2005-07 are net of corporate kicker checks, totaling approximately \$43.3 million. The forecast is based on the belief that economic recovery is in place and that Oregon will be pulled along by a stronger U.S. economy. However, economists indicate that Oregon's economy is still facing some major downside risks that could adversely impact revenues. At \$11.068 billion General Fund, the 2005-07 forecast is approximately \$1.5 billion less than the \$12.563 billion that was projected for 2005-07 at this same time two years ago, when 15.5% growth over 2003-05 was projected.
- **Lottery Revenue Forecast** – The Governor's budget relies on \$120 million in net lottery resources beyond the December 2004 forecast. The increase in revenue relies on the introduction of line games on existing lottery machines effective July 1, 2005, and on the possibility of renegotiating retailer compensation levels approved by the Lottery Commission in mid-2004. The revenue estimate is based on Lottery Commission projections and has not yet been reviewed by the Office of Economic Analysis or the Legislative Revenue Office. Until such a review is made, the number is speculative. In addition, the Governor's budget uses the additional line game revenue for the Department of State Police, which may not be an allowable use under the Oregon Constitution. Although it would be possible to use such revenue in constitutionally eligible sectors of the budget, General Fund would then be required to support the number of troopers assumed in the budget. There has also been some discussion of how the use of the lottery line game revenue provides a dedicated source of revenue to the Department of State Police. This is also not accurate, however, without a constitutional change that would dedicate a certain percentage of lottery revenues for policing activity.
- **Ending Balance** – The Governor's budget proposes a General Fund ending balance of \$84 million, which assumes there will be approximately \$40 million from unspent 2003-05 appropriations to state agencies. This balance is significantly more than proposed by the Governor (\$21 million) in 2003, but less than the amount contained in the budget adopted by the 2003 Legislature (\$100 million). Bond rating agencies and best practices suggest a minimum ending balance between 2.0% and 2.5% of revenues. Application of this standard would require a balance of \$225 to \$280 million. In periods of uncertainty, even greater balances should be considered. The potential for delayed economic recovery and further economic downturn, as well as potential needs to cover certain lawsuit costs, adds to the importance of leaving an adequate ending balance.
- **PERS Costs** – The recommended budget is built on the assumption that employer rates for Public Employees Retirement System will remain at 15.52% of salary and wages. In January

2005, the PERS Board is expected to announce the final rates applicable for 2005-07. While the rates are not expected to vary dramatically, any upward adjustment would create unbudgeted expenses. Additionally, if a final court decision on the 2003 PERS reforms is issued and it invalidates any significant cost saving measures, it is possible that the PERS Board could decide to immediately adjust the 2005-07 rates, creating additional unbudgeted expenses.

- **Ballot Measure 37 Costs** – The recommended budget does not include any funding for administration of claims or compensation to landowners that may now be required under the provisions of Ballot Measure 37. The measure requires the state to pay landowners or forego or modify land use regulations under certain conditions. There is significant uncertainty as to the level of costs that will be incurred by state agencies and how such costs will be covered. The estimate of financial impact developed when the measure was placed on the ballot indicated: “The measure would require state administrative expenditures to respond to claims for compensation of between \$18 million and \$44 million per year. The measure may require compensation to landowners. The amount of state expenditures needed to pay claims for compensation cannot be determined.” The measure took effect on December 2, 2004. The Department of Administrative Services (DAS) adopted temporary rules to establish a process for filing and reviewing property owners’ claims. The Department of Land Conservation and Development (DLCDC) was given coordination responsibilities by the Governor. Through the end of December, the state had received 37 claims from property owners that were filed with DAS; additional claims had been filed with local governments. DAS and DLCDC are seeking funding of initial administrative costs from the final meeting (January 2005) of the 2003-05 Emergency Board. No funding source is identified in the Governor’s budget for the payment of claims. DAS reports that, of the total number of claims received by the state through the end of December, the total request for compensation is about \$50 million.
- **Emergency Fund** – The recommended budget provides for an Emergency Fund of \$175 million. The Governor proposes that \$130 million be made available for employee compensation issues; \$20 million for Home Care Workers compensation issues; and \$25 million for the general purpose Emergency Fund. The recommended general purpose Emergency Fund of \$25 million is the lowest amount appropriated to the Emergency Board for interim unanticipated needs since the \$25 million that was appropriated in the 1985-87 biennium. The average general purpose Emergency Fund appropriation over the past four biennial periods has been \$40 million.
- **Employee Compensation/Benefits** – The recommended budget is built on the assumption that state employee pay and health benefit costs will increase and require the use of \$130 million in lieu of reductions to programs and services. Without legislation that specifically sets or limits salaries or state contribution for health benefits in future contracts and/or eliminates interest arbitration awards, this level of funding may not be adequate to cover actual costs.
- **Caseload-Related Costs** – To balance within existing revenue sources, the recommended budget does not fully fund certain caseloads at forecasted levels or costs per case in the public safety, the judicial branch, and the human services program areas. Updated adult and youth offender caseload forecasts will be presented to the Legislature before the end of the session. While the Department of Corrections prison bed population is fully funded, the baseline

funding for Community Corrections grants is reduced by approximately \$9 million or 5%, thereby giving counties the opportunity to opt out of the program and require the state to provide programs and services for those felons sentenced or sanctioned to one year or less. The Oregon Youth Authority operations funding is for 300 to 350 (\$25-30 million) fewer close custody beds than were included in the latest population forecast. The Public Defense Services Commission funding for caseloads (\$16 million) was effectively eliminated during development of the Governor's budget. In the Department of Human Services, Home Care Worker health and workers compensation insurance costs are expected in excess (\$25-\$30 million) of the amount included in the Governor's budget. In addition, the Governor's budget inadvertently reduced funding for Oregon Project Independence (OPI) by approximately \$6 million below the amount required to meet maintenance of effort requirements for the Older Americans Act. If the 2005 Legislature considers it necessary to fully fund these caseloads and costs, the unbudgeted General Fund costs would be between \$81 and \$91 million.

- **Unspecified Reductions** – Prior to 1999, the Governor's recommended budget accommodated the entire agency request for agencies exempt from the Governor's budget review (the Legislative Branch, the Judicial Branch, and Secretary of State). The 2005-07 Governor's recommended budget, while making no specific recommendations, funds these agencies at \$97 million less General Fund than the agencies requested. Of this amount, \$91.6 million is in the Judicial Branch (\$51.2 million in policy packages and \$40.5 million from base budgets) and \$5.5 million was reduced from the Legislative Branch (\$150,000 from policy packages and the rest from base budgets).
- **Legislative and Governmental Decisions** – The Governor's budget assumes that the Legislature will pass legislation or that other governmental units will take actions necessary to implement certain decisions included in the recommended budget. Examples include the following:
  - The recommended budget assumes that prescription drug coverage for persons eligible for both Medicaid and Medicare ("dual eligibles") will be provided under Medicare (and not Medicaid) beginning January 1, 2006. However, current state law requires that the Oregon Health Plan (OHP) provides this benefit. Under the Medicare Modernization Act (MMA), states can still offer a prescription drug benefit, but it will not be matched with federal Medicaid revenue. The estimated fiscal impact from eliminating prescription drug coverage for the duals through legislation is a General Fund savings of \$130 million.
  - The recommended budget eliminates vision and dental services for non-pregnant adults within the OHP Plus program. These are elderly and disabled persons. Due to the requirements of HB 2511 (2003), eliminating emergency dental services for an estimated savings of \$5.1 million General Fund would require a statutory change. (Note: Elimination of vision and non-emergency dental services would not require a statutory change.)
  - The recommended budget imposes prior authorization to enforce its preferred drug list for an estimated savings of \$5.1 million General Fund. HB 3624 (2003) prohibits the use of prior authorization.

- The recommended budget for the Department of Corrections includes two major reductions in the Community Corrections program totaling \$18.6 million General Fund, which, in order to implement, assume (1) supervision revocation terms will be limited to a 60-day maximum, which depends on the cooperation of the Parole Board and local supervision authorities, and (2) no funding is provided for the limited risk offender group, but local programs would maintain the legal authority to supervise the group. The recommended budget assumes these reductions will be carried out without statutory changes, which will again provide counties the opportunity to “opt-out” and return the program to the state.
  - The recommended budget for the Public Defense Services Commission (PDSC) is \$15.8 million General Fund below the estimated need to meet caseload requirements. For appellate cases, this means delays in filing appeals. The appellate courts could choose to dismiss cases for failure to file appeals in a timely manner. There is a risk that the federal courts could intervene if Oregon fails to meet constitutional requirements. For trial level cases, the shortfall is approximately two months worth of appointment costs. PDSC does not determine when counsel is appointed (this is a judicial function), and cannot decide not to pay costs that have been lawfully incurred. If funds are not available, the court will have to dismiss cases because counsel could not be appointed, or the Legislature could revise laws to eliminate incarceration for certain lower level crimes. Counsel must be appointed for eligible persons whenever incarceration is a possibility. There is also a risk of a federal lawsuit to compel the state to adequately fund public defense. (Note: The case that was filed in 2001-03 was dismissed only because the state restored funding.)
  - The recommended budget for the Judicial Department (OJD) is \$24.7 million General Fund below the essential budget level. OJD will meet this shortfall by prioritizing its cases, starting with felony cases. The risk is that OJD will delay processing misdemeanor and violation cases; delays in processing these cases could potentially reduce General Fund revenue from criminal fines and assessments.
  - The recommended budget transfers 100% of the Criminal Fines and Assessment Account revenues to the General Fund. This change from current practice requires legislation.
- **Lawsuits** – The recommended budget significantly reduces numerous programs and services, potentially exposing the state to litigation. It is not possible to quantify the cost of defending the state against such legal actions or estimate the ongoing financial obligations that may result. To the extent that plaintiff challenges create a state obligation, this puts further demands on limited resources. It may be necessary to appropriate additional funds to the Emergency Board to address these contingencies.

## Budget Opportunities

At this time, there appear to be few identified opportunities remaining for the Legislature in the 2005-07 budget, besides re-prioritizing funding decisions. Continued moderate economic growth may result in slightly higher revenue forecasts for 2005-07, allowing the Legislature to invest in programs not affordable in the Governor’s budget. Any increases in the revenue forecasts are anticipated to be modest, however. The limited available revenue compared to estimated costs of continuing currently

funded programs through the 2005-07 biennium will require the Legislature to re-prioritize state-funded services and determine what services need to be retained and which need to be significantly scaled back, privatized, suspended, or eliminated.

Other options for accommodating reduced revenue include:

- the use of remaining one-time revenue sources (Governor-declared or legislative finding allowing emergency use of the Education Stability Fund, redirection of miscellaneous Other Funds balances);
- redirection or increase to other ongoing revenue streams (2.5% dedication of lottery revenue for county economic development, 1% dedication of lottery revenue to gambling addiction, monies available from the Oregon Liquor Control Commission Account);
- reinstatement of previously imposed taxes and fees (e.g., the 10-cent per pack cigarette tax dedicated to the Oregon Health Plan defeated as part of Ballot Measure 30 and the Judicial Department filing fee surcharge);
- review of all tax deductions, tax exclusions, tax subtractions, tax exemptions, tax deferrals, preferential tax rates, and tax credits;
- suspension of the anticipated corporate kicker expected to refund \$45 million General Fund in 2005-07;
- or development of new forms of dedicated revenue.

A potential budget opportunity for the future is highlighted in the Governor's recommended budget: the building of a "rainy day" fund. The proposal suggests a goal of establishing a rainy day fund that is equivalent to 4% of biennial General Fund revenues. This is to be accomplished through spending restraint, living within the state's current tax structure, and foregoing the use of one-time revenues to fill in for programs that are unable to be purchased with existing revenue. The Governor proposes to start building this rainy day fund in the 2007-09 biennium. It is likely that, during the 2005 session, the Legislature will be discussing the establishment of a rainy day fund in conjunction with various proposals to limit state spending.

### **Additional Information**

In addition to this summary document on the Governor's recommended budget, the Legislative Fiscal Office has prepared a detailed analysis of the Governor's budget by individual agency, with program area detail, where available. The detailed analysis document and other budget-related material can be found online at the following address: <http://www.leg.state.or.us/comm/lfo/home.htm>

## Appendix

### Summary of Expenditures by Program Area, by Agency, by Fund

#### Notes:

- The 2001-03 Actual and 2003-05 Legislatively Approved expenditures include certain administrative actions taken by the Department of Administrative Services approving increases to nonlimited Other Funds.
- The 2003-05 Legislatively Approved expenditures reflected in this table may differ from those included in the Governor's Recommended Budget, due to inclusion of significant post-April 2004 Emergency Board actions.
- Special purpose appropriations allocated by the Emergency Board to specific agencies are included within the agency General Fund budgets for the 2003-05 Legislatively Approved amounts. Special purpose appropriations to the Emergency Board in the 2005-07 Governor's Recommended budget are not included within agency amounts.
- The 2005-07 Governor's Recommended Budget amounts reflect the original December 2004 recommendations in the printed Governor's Budget document.

**SUMMARY OF TOTAL EXPENDITURES  
BY PROGRAM AREA, BY AGENCY, BY FUND**

	<b>2001-03 Actual</b>	<b>2003-05 Legislatively Approved</b>	<b>2005-07 Governor's Recommended</b>
	\$	\$	\$
<b>EDUCATION</b>			
<b>Community College Services and Workforce Development</b>			
General Fund	382,129,816	416,420,326	393,642,264
Lottery Funds	-	49,000	-
Other Funds	13,908,964	13,542,790	13,557,139
Federal Funds	146,092,209	126,698,440	139,459,844
<b>Total Expenditures</b>	<b>542,130,989</b>	<b>556,710,556</b>	<b>546,659,247</b>
<b>Education, Dept of</b>			
General Fund	241,770,929	242,031,318	237,416,647
Lottery Funds	55,999,998	55,699,162	56,929,095
Other Funds	63,141,165	54,464,924	55,951,629
Federal Funds	694,639,174	886,298,527	1,044,085,927
<b>Total Expenditures</b>	<b>1,055,551,266</b>	<b>1,238,493,931</b>	<b>1,394,383,298</b>
<b>State School Fund &amp; Other K-12 Grants</b>			
General Fund	3,802,109,714	4,461,267,481	4,703,817,141
Lottery Funds	614,555,682	452,100,536	295,732,859
Other Funds	267,626,128	17,191,710	950,000
<b>Total Expenditures</b>	<b>4,684,291,524</b>	<b>4,930,559,727</b>	<b>5,000,500,000</b>
<b>Higher Education, Dept. of</b>			
General Fund	746,014,010	671,431,645	685,450,858
Lottery Funds	4,869,745	8,123,462	11,998,734
Other Funds	2,933,389,589	3,567,557,466	3,834,006,174
<b>Total Expenditures</b>	<b>3,684,273,344</b>	<b>4,247,112,573</b>	<b>4,531,455,766</b>
<b>Oregon Health and Science University</b>			
General Fund	3,058,672	84,379,467	52,986,575
Other Funds	191,658,978	128,391,300	31,975,150
<b>Total Expenditures</b>	<b>194,717,650</b>	<b>212,770,767</b>	<b>84,961,725</b>
<b>Student Assistance Commission</b>			
General Fund	35,812,991	44,845,597	94,812,378
Lottery Funds	1,648,271	647,977	761,190
Other Funds	74,152,772	69,518,013	12,903,810
Federal Funds	1,097,891	1,239,605	2,103,860
<b>Total Expenditures</b>	<b>112,711,925</b>	<b>116,251,192</b>	<b>110,581,238</b>
<b>Teacher Standards &amp; Practices Comm</b>			
Other Funds	3,320,018	3,574,664	3,820,753
<b>EDUCATION PROGRAM AREA TOTAL</b>			
General Fund	5,210,896,132	5,920,375,834	6,168,125,863
Lottery Funds	677,073,696	516,620,137	365,421,878
Other Funds	3,547,197,614	3,854,240,867	3,953,164,655
Federal Funds	841,829,274	1,014,236,572	1,185,649,631
<b>Total</b>	<b>10,276,996,716</b>	<b>11,305,473,410</b>	<b>11,672,362,027</b>

**SUMMARY OF TOTAL EXPENDITURES  
BY PROGRAM AREA, BY AGENCY, BY FUND**

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended
	\$	\$	\$
<b>HUMAN SERVICES</b>			
<b>Blind Commission</b>			
General Fund	1,219,568	1,170,546	1,206,100
Other Funds	2,262,705	2,463,120	2,579,710
Federal Funds	8,449,139	9,087,419	9,657,702
Total Expenditures	11,931,412	12,721,085	13,443,512
<b>Children and Families, Commission on</b>			
General Fund	51,074,837	43,807,497	49,756,320
Other Funds	18,291,914	23,591,506	23,049,232
Federal Funds	288,658	377,404	3,825,865
Total Expenditures	69,655,409	67,776,407	76,631,417
<b>Disabilities Comm, Oregon</b>			
General Fund	281,641	-	-
Other Funds	509,749	694,087	584,797
Federal Funds	895,792	477,947	248,058
Total Expenditures	1,687,182	1,172,034	832,855
<b>Human Services, Department of</b>			
General Fund	2,333,137,095	2,224,599,205	2,429,486,799
Lottery Funds	5,875,507	5,600,000	7,804,844
Other Funds	1,212,568,353	1,146,764,577	1,189,705,980
Federal Funds	5,409,535,564	5,886,998,171	5,940,102,733
Total Expenditures	8,961,116,519	9,263,961,953	9,567,100,356
<b>Insurance Pool Governing Board</b>			
General Fund	423,222	14,979,067	26,906,352
Other Funds	21,067,016	32,818,293	54,560,858
Total Expenditures	21,490,238	47,797,360	81,467,210
<b>Long Term Care Ombudsman</b>			
General Fund	593,600	580,101	545,205
Other Funds	1,226,298	1,432,753	1,475,316
Total Expenditures	1,819,898	2,012,854	2,020,521
<b>Psychiatric Security Review Board</b>			
General Fund	673,540	735,777	873,182
Other Funds	-	2,000	2,000
Total Expenditures	673,540	737,777	875,182
<b>HUMAN SERVICES PROGRAM AREA</b>			
General Fund	2,387,403,503	2,285,872,193	2,508,773,958
Lottery Funds	5,875,507	5,600,000	7,804,844
Other Funds	1,255,926,035	1,207,766,336	1,271,957,893
Federal Funds	5,419,169,153	5,896,940,941	5,953,834,358
Total	9,068,374,198	9,396,179,470	9,742,371,053

**SUMMARY OF TOTAL EXPENDITURES  
BY PROGRAM AREA, BY AGENCY, BY FUND**

	<b>2001-03 Actual</b>	<b>2003-05 Legislatively Approved</b>	<b>2005-07 Governor's Recommended</b>
	\$	\$	\$
<b>PUBLIC SAFETY</b>			
<b>Corrections, Dept of</b>			
General Fund	784,092,076	806,474,509	1,072,350,875
Other Funds	180,670,931	27,887,655	177,567,420
Federal Funds	10,187,930	121,829,812	4,339,146
Total Expenditures	<u>974,950,937</u>	<u>956,191,976</u>	<u>1,254,257,441</u>
<b>Criminal Justice Commission</b>			
General Fund	15,803,707	7,339,264	1,224,264
Other Funds	40,266	378,742	31,839
Federal Funds	2,876,529	4,060,812	100,000
Total Expenditures	<u>18,720,502</u>	<u>11,778,818</u>	<u>1,356,103</u>
<b>District Attorneys and Their Deputies</b>			
General Fund	<u>9,272,891</u>	<u>9,275,216</u>	<u>9,609,157</u>
<b>Justice, Dept of</b>			
General Fund	22,862,361	31,486,940	46,964,008
Other Funds	186,366,312	148,081,289	145,359,754
Federal Funds	11,725,704	84,902,391	91,936,165
Total Expenditures	<u>220,954,377</u>	<u>264,470,620</u>	<u>284,259,927</u>
<b>Military Department</b>			
General Fund	13,080,588	13,165,715	16,771,846
Other Funds	9,243,878	7,859,969	7,950,565
Federal Funds	51,895,969	88,082,557	69,831,291
Total Expenditures	<u>74,220,435</u>	<u>109,108,241</u>	<u>94,553,702</u>
<b>Oregon Youth Authority</b>			
General Fund	211,706,933	196,800,268	208,202,251
Other Funds	15,034,313	12,801,776	13,033,457
Federal Funds	22,890,223	26,051,097	25,657,502
Total Expenditures	<u>249,631,469</u>	<u>235,653,141</u>	<u>246,893,210</u>
<b>Parole &amp; Post Prison Supervision, Bd. of</b>			
General Fund	3,000,346	3,237,956	3,422,405
Other Funds	3,424	9,294	9,517
Total Expenditures	<u>3,003,770</u>	<u>3,247,250</u>	<u>3,431,922</u>
<b>Police, Dept of State</b>			
General Fund	171,408,744	159,671,016	96,947,696
Lottery Funds	4,412,022	5,566,608	76,015,514
Other Funds	109,811,407	131,258,004	50,062,434
Federal Funds	71,647,684	168,274,530	7,763,865
Total Expenditures	<u>357,279,857</u>	<u>464,770,158</u>	<u>230,789,509</u>

**SUMMARY OF TOTAL EXPENDITURES  
BY PROGRAM AREA, BY AGENCY, BY FUND**

	<b>2001-03 Actual</b>	<b>2003-05 Legislatively Approved</b>	<b>2005-07 Governor's Recommended</b>
	\$	\$	\$
<b>Oregon Homeland Security</b>			
General Fund	-	-	3,396,145
Other Funds	-	-	84,353,670
Federal Funds	-	-	141,568,513
Total Expenditures	-	-	229,318,328
<b>Public Safety Standards &amp; Training, Dept of</b>			
General Fund	-	-	28,187,052
Other Funds	92,263,788	23,203,488	12,310,023
Federal Funds	204,158	217,350	52,992
Total Expenditures	92,467,946	23,420,838	40,550,067
<b>PUBLIC SAFETY PROGRAM AREA</b>			
General Fund	1,231,227,646	1,227,450,884	1,487,075,699
Lottery Funds	4,412,022	5,566,608	76,015,514
Other Funds	593,434,319	351,480,217	490,678,679
Federal Funds	171,428,197	493,418,549	341,249,474
Total	2,000,502,184	2,077,916,258	2,395,019,366

**SUMMARY OF TOTAL EXPENDITURES  
BY PROGRAM AREA, BY AGENCY, BY FUND**

	<b>2001-03 Actual</b>	<b>2003-05 Legislatively Approved</b>	<b>2005-07 Governor's Recommended</b>
	\$	\$	\$
<b>JUDICIAL BRANCH</b>			
<b>Court Procedures, Council on</b>			
General Fund	79,612	-	101,671
Other Funds	8,000	8,000	8,000
Total Expenditures	87,612	8,000	109,671
<b>Judicial Department</b>			
General Fund	222,154,156	237,654,982	249,762,817
Other Funds	17,424,895	36,725,018	31,730,818
Federal Funds	1,189,291	2,333,247	892,247
Total Expenditures	240,768,342	276,713,247	282,385,882
<b>Judicial Fitness, Commission on</b>			
General Fund	185,580	161,762	179,066
<b>Public Defense Services Commission</b>			
General Fund	151,553,739	158,421,598	159,440,519
Other Funds	531,989	1,107,063	957,723
Total Expenditures	152,085,728	159,528,661	160,398,242
<b>JUDICIAL BRANCH PROGRAM AREA</b>			
General Fund	373,973,087	396,238,342	409,484,073
Other Funds	17,964,884	37,840,081	32,696,541
Federal Funds	1,189,291	2,333,247	892,247
Total	393,127,262	436,411,670	443,072,861

**SUMMARY OF TOTAL EXPENDITURES  
BY PROGRAM AREA, BY AGENCY, BY FUND**

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended
	\$	\$	\$
<b>ECONOMIC AND COMMUNITY DEVELOPMENT</b>			
<b>Economic &amp; Community Development Dept</b>			
General Fund	2,324,751	1,168,674	1,284,569
Lottery Funds	72,661,873	83,293,120	109,837,897
Other Funds	185,644,055	229,472,592	341,145,708
Federal Funds	35,525,030	36,862,390	36,067,899
Total Expenditures	296,155,709	350,796,776	488,336,073
<b>Employment Department</b>			
General Fund	1,946,632	3,426,181	3,586,694
Other Funds	2,406,115,883	2,225,843,565	1,432,715,120
Federal Funds	260,744,308	259,148,688	251,666,439
Total Expenditures	2,668,806,823	2,488,418,434	1,687,968,253
<b>Housing &amp; Community Services Dept</b>			
General Fund	7,163,258	9,794,031	9,792,104
Lottery Funds	1,905,233	4,432,311	4,460,538
Other Funds	1,239,323,957	1,857,330,998	2,275,122,477
Federal Funds	193,545,310	197,521,381	206,509,464
Total Expenditures	1,441,937,758	2,069,078,721	2,495,884,583
<b>State Fair &amp; Exposition Center</b>			
General Fund	1,328,779	1,294,260	1,346,117
Lottery Funds	2,510,282	3,718,261	4,235,235
Other Funds	21,296,818	12,894,341	13,597,187
Total Expenditures	25,135,879	17,906,862	19,178,539
<b>Veterans' Affairs, Department of</b>			
General Fund	2,059,501	2,389,793	2,416,625
Other Funds	686,073,343	843,070,099	632,663,091
Total Expenditures	688,132,844	845,459,892	635,079,716
<b>County Fairs*</b>			
Lottery Funds	-	2,530,173	3,330,656
<b>Historical Society</b>			
General Fund	1,101,343	-	-
<b>Oregon Public Broadcasting</b>			
General Fund	2,049,379	-	-
Other Funds	7,000,000	-	-
Total Expenditures	9,049,379	-	-

**SUMMARY OF TOTAL EXPENDITURES  
BY PROGRAM AREA, BY AGENCY, BY FUND**

	<u>2001-03 Actual</u>	<u>2003-05 Legislatively Approved</u>	<u>2005-07 Governor's Recommended</u>
	\$	\$	\$
<b>ECONOMIC AND COMMUNITY DEVELOPMENT PROGRAM AREA</b>			
General Fund	17,973,643	18,072,939	18,426,109
Lottery Funds	77,077,388	93,973,865	121,864,326
Other Funds	4,545,454,056	5,168,611,595	4,695,243,583
Federal Funds	489,814,648	493,532,459	494,243,802
<b>Total</b>	<b>5,130,319,735</b>	<b>5,774,190,858</b>	<b>5,329,777,820</b>

\* County Fair Lottery Funds recorded in Department of Agriculture budget for 2001-03

**SUMMARY OF TOTAL EXPENDITURES  
BY PROGRAM AREA, BY AGENCY, BY FUND**

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended
	\$	\$	\$
<b>NATURAL RESOURCES</b>			
<b>Agriculture, Department of</b>			
General Fund	17,498,207	11,295,439	17,900,969
Lottery Funds	7,506,927	7,835,034	6,408,093
Other Funds	38,682,242	51,140,076	46,519,559
Federal Funds	6,798,922	6,877,314	4,970,843
Total Expenditures	<u>70,486,298</u>	<u>77,147,863</u>	<u>75,799,464</u>
<b>Columbia River Gorge Commission</b>			
General Fund	664,440	601,600	869,247
<b>Energy, Office of</b>			
General Fund	867,872	-	-
Other Funds	98,646,345	168,127,472	202,854,894
Federal Funds	4,468,271	6,302,370	5,446,266
Total Expenditures	<u>103,982,488</u>	<u>174,429,842</u>	<u>208,301,160</u>
<b>Environmental Quality, Department of</b>			
General Fund	35,919,156	23,384,838	24,131,944
Lottery Funds	2,160,080	3,286,418	3,534,936
Other Funds	147,379,378	216,070,520	200,059,975
Federal Funds	33,202,479	51,917,943	35,839,459
Total Expenditures	<u>218,661,093</u>	<u>294,659,719</u>	<u>263,566,314</u>
<b>Fish &amp; Wildlife, Department of</b>			
General Fund	14,328,508	10,650,611	10,815,450
Lottery Funds	8,201,579	10,297,061	7,891,858
Other Funds	85,525,386	115,882,874	112,073,231
Federal Funds	75,723,980	94,932,601	97,176,639
Total Expenditures	<u>183,779,453</u>	<u>231,763,147</u>	<u>227,957,178</u>
<b>Forestry, Department of</b>			
General Fund	38,865,203	36,310,022	37,149,257
Other Funds	232,092,851	187,168,905	177,635,171
Federal Funds	9,720,030	19,059,519	23,527,700
Total Expenditures	<u>280,678,084</u>	<u>242,538,446</u>	<u>238,312,128</u>
<b>Geology &amp; Mineral Industries, Dept of</b>			
General Fund	2,875,283	2,887,346	2,948,178
Other Funds	2,989,196	2,942,813	3,241,881
Federal Funds	974,236	1,963,208	2,159,064
Total Expenditures	<u>6,838,715</u>	<u>7,793,367</u>	<u>8,349,123</u>
<b>Land Conservation &amp; Development, Dept of</b>			
General Fund	9,024,454	8,797,690	10,403,607
Other Funds	1,456,897	873,425	905,290
Federal Funds	3,974,216	5,684,425	6,530,552
Total Expenditures	<u>14,455,567</u>	<u>15,355,540</u>	<u>17,839,449</u>

**SUMMARY OF TOTAL EXPENDITURES  
BY PROGRAM AREA, BY AGENCY, BY FUND**

	<b>2001-03 Actual</b>	<b>2003-05 Legislatively Approved</b>	<b>2005-07 Governor's Recommended</b>
	\$	\$	\$
<b>Land Use Board of Appeals</b>			
General Fund	1,193,214	1,205,116	1,290,791
Other Funds	44,018	60,507	67,940
Total Expenditures	<u>1,237,232</u>	<u>1,265,623</u>	<u>1,358,731</u>
<b>State Lands, Department of</b>			
General Fund	127,690	139,311	181,099
Other Funds	63,814,901	68,752,351	54,903,706
Federal Funds	1,950,719	2,243,166	1,865,892
Total Expenditures	<u>65,893,310</u>	<u>71,134,828</u>	<u>56,950,697</u>
<b>Marine Board</b>			
Other Funds	16,348,190	22,017,871	23,631,913
Federal Funds	4,150,008	4,972,307	5,100,277
Total Expenditures	<u>20,498,198</u>	<u>26,990,178</u>	<u>28,732,190</u>
<b>Parks &amp; Recreation Department</b>			
Lottery Funds	48,213,949	57,173,958	72,303,818
Other Funds	69,961,983	80,437,398	85,013,108
Federal Funds	4,867,375	8,976,693	8,972,654
Total Expenditures	<u>123,043,307</u>	<u>146,588,049</u>	<u>166,289,580</u>
<b>Water Resources Department</b>			
General Fund	22,083,182	19,086,885	19,502,806
Other Funds	5,123,110	7,885,225	8,857,267
Federal Funds	825,914	1,264,700	1,137,968
Total Expenditures	<u>28,032,206</u>	<u>28,236,810</u>	<u>29,498,041</u>
<b>Oregon Watershed Enhancement Board</b>			
General Fund	1,036,753	-	-
Lottery Funds	30,734,280	30,408,498	43,403,113
Other Funds	1,536,855	2,377,089	2,283,412
Federal Funds	18,398,527	46,978,858	27,271,273
Total Expenditures	<u>51,706,415</u>	<u>79,764,445</u>	<u>72,957,798</u>
<b>NATURAL RESOURCES PROGRAM AREA</b>			
General Fund	144,483,962	114,358,858	125,193,348
Lottery Funds	96,816,815	109,000,969	133,541,818
Other Funds	763,601,352	923,736,526	918,047,347
Federal Funds	165,054,677	251,173,104	219,998,587
Total	<u>1,169,956,806</u>	<u>1,398,269,457</u>	<u>1,396,781,100</u>

**SUMMARY OF TOTAL EXPENDITURES  
BY PROGRAM AREA, BY AGENCY, BY FUND**

	<b>2001-03 Actual</b>	<b>2003-05 Legislatively Approved</b>	<b>2005-07 Governor's Recommended</b>
	\$	\$	\$
<b>TRANSPORTATION</b>			
<b>Aviation, Department of</b>			
Other Funds	11,446,996	13,990,208	7,074,411
Federal Funds	-	-	10,510,000
<b>Total Expenditures</b>	<b>11,446,996</b>	<b>13,990,208</b>	<b>17,584,411</b>
<b>Transportation, Department of</b>			
General Fund	17,113,741	3,914,616	9,026,167
Lottery Funds	10,108,962	21,145,902	33,187,224
Other Funds	1,782,193,774	2,583,209,005	2,749,911,103
Federal Funds	50,560,257	69,297,154	66,600,703
<b>Total Expenditures</b>	<b>1,859,976,734</b>	<b>2,677,566,677</b>	<b>2,858,725,197</b>
<b>TRANSPORTATION PROGRAM AREA</b>			
General Fund	17,113,741	3,914,616	9,026,167
Lottery Funds	10,108,962	21,145,902	33,187,224
Other Funds	1,793,640,770	2,597,199,213	2,756,985,514
Federal Funds	50,560,257	69,297,154	77,110,703
<b>Total</b>	<b>1,871,423,730</b>	<b>2,691,556,885</b>	<b>2,876,309,608</b>

**SUMMARY OF TOTAL EXPENDITURES  
BY PROGRAM AREA, BY AGENCY, BY FUND**

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended
	\$	\$	\$
<b>CONSUMER AND BUSINESS SERVICES</b>			
<b>Accountancy, Board of</b>			
Other Funds	1,425,564	1,565,639	1,487,963
<b>Chiropractic Examiners, Board of</b>			
Other Funds	848,146	916,244	1,003,043
<b>Clinical Social Workers, Board of</b>			
Other Funds	462,801	488,074	579,239
<b>Construction Contractors Board</b>			
Other Funds	9,924,535	11,403,490	12,074,409
<b>Consumer and Business Services, Dept of</b>			
Other Funds	460,652,047	559,859,019	621,921,690
<b>Dentistry, Board of</b>			
Other Funds	1,505,679	1,674,449	1,722,703
<b>Health Licensing Office</b>			
Other Funds	3,737,761	4,649,116	5,043,843
<b>Health Related Licensing Boards:</b>			
<b>Licensed Dietitians</b>			
Other Funds	50,671	59,029	69,122
<b>Mortuary and Cemetery Board</b>			
Other Funds	934,957	1,055,485	1,129,509
<b>Naturopathic Examiners</b>			
Other Funds	270,297	323,132	389,864
<b>Nursing Home Administrators</b>			
Other Funds	181,712	189,693	204,047
<b>Occupational Therapy Licensing Bd</b>			
Other Funds	225,375	249,107	274,504
<b>Pharmacy, Board of</b>			
Other Funds	2,620,729	3,012,517	3,745,957
Federal Funds	-	-	350,000
Total Expenditures	2,620,729	3,012,517	4,095,957
<b>Radiologic Technology</b>			
Other Funds	442,156	414,418	471,619

**SUMMARY OF TOTAL EXPENDITURES  
BY PROGRAM AREA, BY AGENCY, BY FUND**

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended
	\$	\$	\$
<b>Speech-Language Path. and Audio.</b>			
Other Funds	154,378	153,663	237,115
<b>Veterinary Medical Examiners Bd</b>			
Other Funds	442,458	477,212	517,975
<b>Health Related Licensing Boards Total</b>			
Other Funds	5,322,733	5,934,256	7,039,712
Federal Funds	-	-	350,000
Total Expenditures	5,322,733	5,934,256	7,389,712
<b>Investigators, Board of</b>			
Other Funds	333,254	429,045	497,383
<b>Labor &amp; Industries, Bureau of</b>			
General Fund	11,459,227	10,935,047	11,585,348
Other Funds	5,892,018	7,338,744	7,996,091
Federal Funds	942,829	1,317,039	1,366,187
Total Expenditures	18,294,074	19,590,830	20,947,626
<b>Licensed Prof Counselors &amp; Therapists, Bd of</b>			
Other Funds	389,186	446,993	477,947
<b>Medical Examiners, Board of</b>			
Other Funds	5,759,309	6,505,650	7,234,868
<b>Nursing, Board of</b>			
Other Funds	7,077,409	7,938,514	9,106,095
<b>Psychologist Examiners, Board of</b>			
Other Funds	539,763	622,492	724,427
<b>Public Utilities Commission</b>			
Other Funds	121,963,811	155,142,299	142,346,628
Federal Funds	302,957	334,915	421,609
Total Expenditures	122,266,768	155,477,214	142,768,237
<b>Real Estate Agency</b>			
Other Funds	5,615,329	6,311,101	6,239,626
<b>Tax Practitioners, Board of</b>			
Other Funds	763,247	825,317	922,639
<b>CONSUMER AND BUSINESS SERVICES PROGRAM AREA</b>			
General Fund	11,459,227	10,935,047	11,585,348
Other Funds	632,212,592	772,050,442	826,418,306
Federal Funds	1,245,786	1,651,954	2,137,796
Total	644,917,605	784,637,443	840,141,450

**SUMMARY OF TOTAL EXPENDITURES  
BY PROGRAM AREA, BY AGENCY, BY FUND**

	<b>2001-03 Actual</b>	<b>2003-05 Legislatively Approved</b>	<b>2005-07 Governor's Recommended</b>
	\$	\$	\$
<b>ADMINISTRATION</b>			
<b>Administrative Services, Dept of</b>			
General Fund	3,193,409	1,525,112	8,012,086
Lottery Funds	275,805	1,622,874	1,622,118
Other Funds	528,850,245	751,529,897	914,108,706
Federal Funds	877,272	380,000	59,000
<b>Total Expenditures</b>	<b>533,196,731</b>	<b>755,057,883</b>	<b>923,801,910</b>
<b>Asian Affairs, Comm on</b>			
General Fund	133,295	-	-
Other Funds	11,586	173,648	-
<b>Total Expenditures</b>	<b>144,881</b>	<b>173,648</b>	<b>-</b>
<b>Black Affairs, Comm on</b>			
General Fund	119,478	-	-
Other Funds	3,348	171,969	-
<b>Total Expenditures</b>	<b>122,826</b>	<b>171,969</b>	<b>-</b>
<b>Hispanic Affairs, Comm on</b>			
General Fund	109,914	-	-
Other Funds	13,212	224,441	-
<b>Total Expenditures</b>	<b>123,126</b>	<b>224,441</b>	<b>-</b>
<b>Women, Comm for</b>			
General Fund	113,014	-	-
Other Funds	731,068	1,136,003	-
<b>Total Expenditures</b>	<b>844,082</b>	<b>1,136,003</b>	<b>-</b>
<b>Advocacy Commissions Office</b>			
General Fund	-	-	375,000
Other Funds	-	-	84,129
<b>Total Expenditures</b>	<b>-</b>	<b>-</b>	<b>459,129</b>
<b>Employment Relations Board</b>			
General Fund	1,280,057	1,299,312	1,556,444
Other Funds	1,513,208	1,345,626	1,347,405
<b>Total Expenditures</b>	<b>2,793,265</b>	<b>2,644,938</b>	<b>2,903,849</b>
<b>Government Standards &amp; Practices Comm</b>			
General Fund	860,622	559,701	763,527
Other Funds	6,978	5,902	3,500
<b>Total Expenditures</b>	<b>867,600</b>	<b>565,603</b>	<b>767,027</b>
<b>Governor, Office of the</b>			
General Fund	9,952,667	8,087,646	8,465,814
Lottery Funds	-	610,000	663,456
Other Funds	1,020,701	1,581,417	1,775,434
Federal Funds	-	65,000	129,996
<b>Total Expenditures</b>	<b>10,973,368</b>	<b>10,344,063</b>	<b>11,034,700</b>

**SUMMARY OF TOTAL EXPENDITURES  
BY PROGRAM AREA, BY AGENCY, BY FUND**

	<b>2001-03 Actual</b>	<b>2003-05 Legislatively Approved</b>	<b>2005-07 Governor's Recommended</b>
	\$	\$	\$
Other Funds	78,945,948	84,683,812	97,269,639
<b>Public Employees Retirement System</b>			
Other Funds	3,922,102,375	5,797,463,163	5,727,166,939
<b>Racing Commission, Oregon</b>			
Other Funds	3,986,857	5,575,855	5,296,621
<b>Revenue, Dept of</b>			
General Fund	116,288,504	109,734,536	138,510,750
Other Funds	18,671,855	54,810,442	28,872,590
Total Expenditures	134,960,359	164,544,978	167,383,340
<b>Secretary of State</b>			
General Fund	14,029,181	10,437,295	8,161,716
Other Funds	27,627,999	31,458,519	41,273,017
Federal Funds	102,137	7,330,177	5,543,662
Total Expenditures	41,759,317	49,225,991	54,978,395
<b>State Library</b>			
General Fund	3,022,929	2,594,626	2,942,475
Other Funds	4,926,116	6,112,874	6,712,480
Federal Funds	3,945,263	4,128,563	4,635,649
Total Expenditures	11,894,308	12,836,063	14,290,604
<b>Treasury, Oregon State</b>			
General Fund	160,973	-	-
Other Funds	22,591,074	24,016,357	26,068,914
Total Expenditures	22,752,047	24,016,357	26,068,914
<b>ADMINISTRATION PROGRAM AREA</b>			
General Fund	149,264,043	134,238,228	168,787,812
Lottery Funds	275,805	2,232,874	2,285,574
Other Funds	4,611,002,570	6,760,289,925	6,849,979,374
Federal Funds	4,924,672	11,903,740	10,368,307
Total	4,765,467,090	6,908,664,767	7,031,421,067

**SUMMARY OF TOTAL EXPENDITURES  
BY PROGRAM AREA, BY AGENCY, BY FUND**

	<b>2001-03 Actual</b>	<b>2003-05 Legislatively Approved</b>	<b>2005-07 Governor's Recommended</b>
	\$	\$	\$
<b>LEGISLATIVE BRANCH</b>			
<b>Indian Services, Commission on</b>			
General Fund	287,198	299,011	337,335
Other Funds	463	5,786	5,925
Total Expenditures	<u>287,661</u>	<u>304,797</u>	<u>343,260</u>
<b>Legislative Administration Committee</b>			
General Fund	18,691,131	19,390,674	15,641,282
Other Funds	4,970,308	2,547,202	2,425,482
Total Expenditures	<u>23,661,439</u>	<u>21,937,876</u>	<u>18,066,764</u>
<b>Legislative Assembly</b>			
General Fund	22,654,440	27,278,488	26,712,343
Other Funds	250,286	279,971	283,777
Total Expenditures	<u>22,904,726</u>	<u>27,558,459</u>	<u>26,996,120</u>
<b>Legislative Counsel Committee</b>			
General Fund	5,853,492	6,286,407	7,021,010
Other Funds	2,018,195	2,130,059	2,128,602
Total Expenditures	<u>7,871,687</u>	<u>8,416,466</u>	<u>9,149,612</u>
<b>Legislative Fiscal Officer</b>			
General Fund	<u>3,688,524</u>	<u>4,025,515</u>	<u>4,402,679</u>
<b>Legislative Revenue Officer</b>			
General Fund	<u>1,396,109</u>	<u>1,464,474</u>	<u>1,551,594</u>
<b>LEGISLATIVE BRANCH PROGRAM AREA</b>			
General Fund	52,570,894	58,744,569	55,666,243
Other Funds	7,239,252	4,963,018	4,843,786
Total	<u>59,810,146</u>	<u>63,707,587</u>	<u>60,510,029</u>

**SUMMARY OF TOTAL EXPENDITURES  
BY PROGRAM AREA, BY AGENCY, BY FUND**

	<u>2001-03 Actual</u>	<u>2003-05 Legislatively Approved</u>	<u>2005-07 Governor's Recommended</u>
	\$	\$	\$
<b>MISCELLANEOUS</b>			
<b>Emergency Board*</b>			
General Fund	-	32,799,694	175,000,000
Total Expenditures	-	32,799,694	175,000,000
<b>MISCELLANEOUS PROGRAM TOTAL</b>			
General Fund	-	32,799,694	175,000,000
Total	-	32,799,694	175,000,000

\* All remaining 2001-03 Emergency Fund disappropriated by Legislature in February 2003.

**SUMMARY OF TOTAL EXPENDITURES  
BY PROGRAM AREA, BY AGENCY, BY FUND**

	<u>2001-03 Actual</u>	<u>2003-05 Legislatively Approved</u>	<u>2005-07 Governor's Recommended</u>
	\$	\$	\$
<b>STATE OF OREGON TOTAL EXPENDITURES</b>			
General Fund	9,596,365,878	10,203,001,204	11,137,144,620
Lottery Funds	871,640,195	754,140,355	740,121,178
Other Funds	17,767,673,444	21,678,178,220	21,800,015,678
Federal Funds	7,145,215,955	8,234,487,720	8,285,484,905
Total Expenditures	<u>35,380,895,472</u>	<u>40,869,807,499</u>	<u>41,962,766,381</u>