

# Legislative Fiscal Office

Peggy Archer  
Interim Fiscal Officer



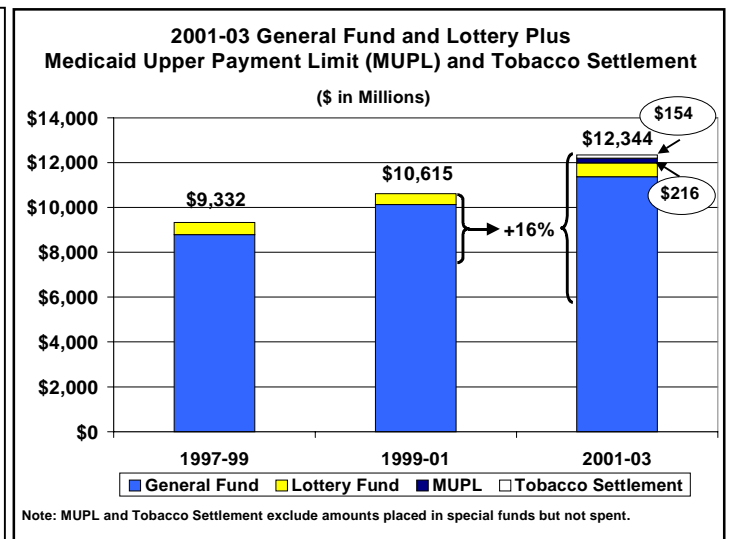
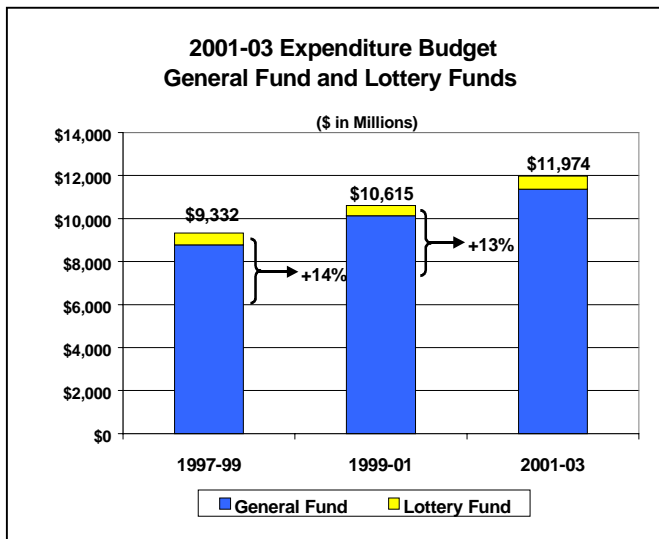
900 Court Street NE  
Room H-178  
Salem, Oregon 97301  
(503) 986-1828

## Budget Information Brief / 2001-2 (revised)

### Summary of 2001-03 Legislatively Adopted Budget (General Fund and Lottery Funds)

#### Budget Overview

For the 2001-03 biennium, combined General Fund and Lottery Funds expenditures increase 13%—slightly less than the prior biennium increase in these fund sources. However, the increase falls short of funding programs at the continuing service level. The gap was addressed through relatively modest program reductions and the use of alternative revenue sources. Major alternative revenues used to “backfill” expenditures that would normally have come from the General Fund are Medicaid Upper Payment Limit (MUPL) and Tobacco Settlement funds. When these sources are added, expenditures increase 16% compared to the prior biennium.



#### MUPL and Tobacco Settlement

Oregon first started using **MUPL** in the 1999-01 biennium. Funds were deposited into the General Fund, so its uses were not directly identifiable. Legislation was passed during the 2001 Session to place all past and future MUPL into a special account to be used for “health-related programs.” Of \$333.6 million in projected MUPL revenues, \$201 million was used to directly offset what normally would have been General Fund expenditures in the K-12 Education and Oregon Health and Science University budgets. The 2001-03 adopted budget uses the projected MUPL revenues as follows (dollars in millions):

- K-12 Education \$ 99.2
- Oregon Health and Science University 101.3
- Oregon Rural Health Association 15.0
- Dept of Administrative Services – MUPL Fund 118.1

Until now, Oregon had not spent any of its **Tobacco Settlement** funds. The 2001-03 budget uses or earmarks all of the revenues anticipated through mid-2003 (\$348.2 million) as follows (dollars in millions):

• Tobacco Prevention	\$ 5.0
• Oregon Health Plan	144.0
• Oregon Resource and Technology Development	5.0
• To the General Fund	99.2
• Health Care Trust Fund ( <i>based on estimated balance</i> )	95.0

### **Major Budget Issues**

Budget considerations focused on K-12 Education, Human Services program costs, and the various revenue enhancing options. Highlights are:

- **K-12 Education.** The Governor's original proposal was \$5.2 billion in state support. The Governor and the Legislature did not waiver from that figure, even when the mid-session General Fund and Lottery forecast was down \$107 million. It is an 8.1% increase compared to the prior biennium.
- **Medical Assistance.** Rising costs in the Oregon Health Plan and other medical programs were a major focus, particularly related to the cost of prescription drugs. The Governor proposed a referenced-based formulary, which was opposed by many legislators and various interest groups. Ultimately, a physician-managed drug cost containment plan was adopted, along with several other cost cutting measures, including implementing co-payments for prescription drugs and outpatient services. Although the focus was on reducing costs, legislation was passed allowing the Governor to seek a new waiver that would create a two-tiered Medicaid benefit program and expand services to include people with incomes up to 185% of the federal poverty level. Most of the Governor's proposed reductions in services to seniors and the disabled were restored.
- **Children's Plan.** Using a combination of existing and new resources, the Legislature approved a modified version of the Governor's proposed Children's Plan. The package was reduced from \$67 million total funds to about \$60 million. The Plan includes early assessment and referral systems, expanded Healthy Start home visitation and Oregon Prekindergarten programs, and enhanced mental health and alcohol and drug treatment services for young children and families.
- **Natural Resources.** The Legislature approved legislation designed to institutionalize the Oregon Plan, the state's coordinated effort to restore salmon populations, watersheds, and wildlife habitat. The effort is funded primarily with constitutionally dedicated Lottery Funds and General Fund. The Legislature also resolved a \$6.5 million budget shortfall discovered within the Department of Fish and Wildlife by a combination of program reductions and increased state financial support for activities previously funded with license fee revenue.
- **Public Safety.** The Legislature re-prioritized agency expenditures within the Corrections and State Police budgets to restore cuts that had been proposed by the Governor. For Corrections, restorations included inmate activities, morning exercise yards, educational programs, health care programs, and security positions. Internal reorganization savings were used to restore 30 criminal detectives and 16 patrol troopers for the State Police.

### **Lottery Bonds**

The 2001 Legislature continued the trend toward increased use of current lottery proceeds to support debt service on issuance of lottery-backed bonds. A total of \$274.7 million in lottery-backed bonds was added to past bond obligations. This is just over \$40 million shy of capacity. Debt service obligations continue to increase and will absorb a significant portion of the available Lottery Funds resources in future biennia.

### **Appropriation Growth Limit**

Legislation was passed replacing Oregon's previous unworkable (and often ignored) spending limitation with one expected to keep expenditures within check but allow reasonable growth. The old limitation applied only to the General Fund but required complicated adjustments when other fund sources were used to offset General Fund costs. The new spending limitation eliminates the problems associated with identifying and interpreting fund shifts in the formula, excludes federal funds and donations from the limitation, and ties appropriations for a biennium to personal income of that biennium. Appropriations are limited to no more than 8% of projected personal income for the same biennium.

**For additional information, contact: Peggy Archer, Interim Fiscal Officer, 503-986-1837**