

# Legislative Fiscal Office

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## Budget Information Brief / 2002-1

### Governor's Allotment Reductions to Revised 2001-2003 Legislatively Approved Budget

The March 2002 economic and revenue forecast produced by the Department of Administrative Services, Office of Economic Analysis projected 2001-2003 biennial General Fund revenues to be \$864 million less than forecasted at the end of the 2001 regular session. To address the shortfall, the Legislature adopted a combination of expenditure reductions and additional revenues in the interim's second special session held February 25 – March 2. The revenue plan increased estimated biennial revenue by approximately \$480 million through direct increases to the General Fund and fund shifts to Other and Federal Funds as General Fund offsets. No tax increases were approved. The major pieces of the revenue plan included the use of \$131 million of unallocated Medicaid Upper Payment Limit (MUPL) Account funds, \$62.5 million of unallocated tobacco settlement funds, and \$220 million from an Education Stability Fund. The establishment of the Education Stability Fund requires approval of a constitutional amendment by the voters at the May 2002 Primary Election.

After the end of the second special session, the Governor used line-item authority to veto portions of the legislatively approved rebalance plan. By vetoing use of additional tobacco settlement resources and reserves from the 9-1-1 emergency services fund, however, the Governor created an \$80.7 million deficit in the legislatively approved rebalance plan. Other than calling the Legislature back into special session, the only way for the Governor to rebalance the budget is to use the allotment system to reduce executive branch agency spending. On March 13<sup>th</sup>, the Governor announced selective allotment reductions of \$80.7 million to bring the budget back into balance as follows:

- Community Colleges and Workforce Development – **\$3.3 million** (including elimination of funding for the Curry County facility and additional reductions to the Community College Support Fund)
- K-12 State School Fund – **\$20 million**
- Oregon University System – **\$27.3 million** (including additional reductions to the Cascade Campus; Campus Public Services; graduate cell distribution; statewide public services in agricultural, forestry, and extension programs; and top-tier engineering)
- Human Services – **\$25.6 million** (including additional reductions for Together for Children and Family Resource Center programs, crisis/relief nurseries, student day care, JOBS and JOBS Plus, independent living centers, Oregon Project Independence, assisted living facility rates, nursing home rates, in-patient and out-patient hospital reimbursement, and pharmacy reimbursement)
- Public Safety – **\$2.9 million** (including elimination of four rural forensic labs, a Deschutes County Youth Pilot Project, a Military Department tuition assistance program, and corrections bed rental in Deschutes County; and new reductions for domestic violence grants and a Youth Challenge program)
- Other Government Services – **\$1.7 million** (including further reductions to predator control; and elimination of three fish hatcheries, a bear predation study, and the Children's Trust Fund grant)

#### **What are the effects of the allotment reductions?**

The selective reductions announced by the Governor affect 13 state agencies or programs. The following table provides a listing by agency and a comparison with the General Fund reductions approved by the Legislature during the second special session for the affected agencies. The temporary administrative rule adopted by the Department of Administrative Services (DAS) to implement the allotment reductions indicates that the selective allotment reductions would be reflected in agency allotment plans beginning April 1, 2002. If DAS is not allowed to implement the selective reductions due to the actions of a court, then an alternative reduction of .8055% of the General Fund appropriations for the final five quarters of the 2001-03 biennium will take effect for all agencies subject to the allotment system.

Comparison of Governor's Allotment Reductions to Special Session Reductions						
Affected Agency	2001-03 LAB	Special Session Reduction	% Special Session Reduction	Governor's Allotment Reduction	Total GF Reduction (veto adjusted)	% Total Reduction
<b>Education</b>						
Community Colleges & Workforce Development	474,528,195	14,066,921	3.0%	3,294,591	17,361,512	3.7%
Oregon University System	818,310,026	43,805,701	5.4%	27,289,664	71,095,365	8.7%
Dept. of Education K-12 State School Fund	5,079,628,142	112,175,000	2.2%	20,000,000	132,175,000	2.6%
Subtotal	6,372,466,363	170,047,622	2.7%	50,584,255	220,631,877	3.5%
<b>Human Services</b>						
Commission on Children & Families	61,398,701	4,032,793	6.6%	2,231,000	6,263,793	10.2%
Dept. of Human Services	2,569,252,411	82,891,604 *	3.2%	23,326,845	45,625,419	1.8%
Subtotal	2,630,651,112	86,924,397	3.3%	25,557,845	51,889,212	2.0%
<b>Public Safety</b>						
Dept. of Corrections	862,023,140	37,238,976	4.3%	133,500	37,372,476	4.3%
Oregon Youth Authority	229,468,283	5,593,731	2.4%	813,395	6,407,126	2.8%
Oregon State Police	188,637,182	7,266,202	3.9%	676,630	7,942,832	4.2%
Dept. of Justice	24,428,584	0	0.0%	500,000	500,000	2.0%
Military Dept.	13,719,463	472,722	3.4%	735,925	1,208,647	8.8%
Subtotal	1,318,276,652	50,571,631	3.8%	2,859,450	53,431,081	4.1%
<b>Natural Resources</b>						
Dept. of Fish & Wildlife	31,036,205	1,759,797	5.7%	633,506	2,393,303	7.7%
Dept. of Agriculture	30,547,758	1,749,479	5.7%	119,944	1,869,423	6.1%
Subtotal	61,583,963	3,509,276	5.7%	753,450	4,262,726	6.9%
<b>Administration</b>						
Children's Trust Fund Grant (DAS)	1,012,500	67,500	6.7%	945,000	1,012,500	100.0%
	10,383,990,590	311,120,426	3.0%	80,700,000	331,227,396	3.2%

\* The Special Session reduction includes \$62.5 million which was replaced by tobacco settlement funds.  
Other GF reductions total \$20,391,604, or 0.8% of the 2001-03 LAB.

### **What is the allotment system?**

The allotment system was originally established by the Legislature in 1951 as part of comprehensive legislation revising the state's budgetary and expenditure control structure. The allotment system is a spending plan designed to ensure agencies keep their spending within amounts approved by the Legislature for the biennium. The allotment refers to a part of the agency's appropriation or expenditure limitation that may be expended or encumbered during a given period, usually a calendar quarter. Statutory law (ORS 291.246) requires that the allotments be made according to the purposes and classification of expenditures as prescribed in the appropriation measures enacted by the Legislature. The allotment plan is developed by agencies and then submitted for review and approval by DAS. By reducing allotment amounts for the remainder of the biennium, agencies affected by the reductions will be unable to spend that portion of their General Fund appropriation. General Fund unspent by the end of the biennium reverts to the ending balance for the 2001-03 biennium (which then becomes the beginning balance for the 2003-05 biennium).

### **When can allotment reductions be made?**

ORS 291.254 authorizes DAS, with the approval of the Governor and notice to affected agencies, to reduce the amount allotted or to be allotted to agencies in order to prevent a deficit if it is determined that "the probable receipts from taxes or any other sources for any appropriation will be less than was anticipated, and that consequently the amount available for the remainder of the term of the appropriation or for any allotment period will be less than the amount estimated or allotted therefor."

### **How can an allotment reduction be applied?**

A difference of opinion exists, as expressed in the construction of the temporary rule. The Governor based his actions on a 1982 Attorney General opinion that suggests DAS can reduce allotments to prevent a deficit on a selective agency-by-agency basis rather than in the same proportion across the board for all General Fund agencies and programs. This opinion reversed a 1963 Attorney General opinion, which argued that since the Legislature does not prioritize agency appropriations each agency is equally entitled to its particular appropriation. Legislative Counsel agrees that the Governor may make an across-the-board reduction of agency budgets to account for a shortfall in state income tax revenues, but that to do more would mean the Governor is setting spending policies, a constitutional authority provided only to the Legislature. On March 18<sup>th</sup> a petition seeking judicial review of the Governor's selective allotment reduction plan was filed with the Court of Appeals.