

# 2025-27 Co-Chair Budget Framework



Development of the budget for the upcoming 2025-27 biennium is occurring during a period of significant uncertainty surrounding federal funding. Approximately 32% of the state budget is supported with federal revenues that provide funding for health care, education, transportation infrastructure, natural resources, and other important programs. Congressional proposals to reduce federal spending by up to 30% would have a dire impact on the core programs and services provided by the state of Oregon. While a loss in federal funds of this magnitude is the extreme scenario, it is necessary to plan for varying levels of reductions so that the state is in a nimble financial position to preserve the most critical services for Oregonians in the event of future declines in federal support.

The March 2025 Oregon Economic and Revenue forecast reflected a relatively moderate increase in overall resources due to strong personal income tax revenues. However, downward revisions in corporate income and other consumption-based taxes, combined with elevated economic risks, require prudent budget planning. The 2025-27 adopted budget will be based on the revenue forecast released in May. Beyond the typical variance that could be expected in the upcoming forecast, pending federal policy changes could have a detrimental impact on state revenues.

With these federal and state headwinds approaching, the Joint Committee on Ways and Means Co-Chair Budget provides a framework for the development of the 2025-27 legislatively adopted budget, guided by the following principles:

**Protecting Core Services:** Providing sufficient resources to support effective operation of continuing core programs and services across all program areas that serve as the foundation of the state budget.

**Getting the Most for Every Dollar:** Safeguarding long-term budget sustainability by avoiding the creation of new programs and making targeted reductions that create efficiencies, eliminate long-term vacant positions, and generate other savings.

**Mitigating Uncertainty:** Maintaining access to short-term resources, as well as preserving healthy reserves, to mitigate potential reductions in the future if the budget environment weakens.

**Prioritizing Investments in Key Areas:** Focusing on investments that support the most critical issues facing Oregon, emphasizing health, safety, and economic growth.

The 2025-27 Co-Chair Budget Framework includes the following resource assumptions:

- Revenues are based on the Office of Economic Analysis (OEA) March 2025 Economic and Revenue Forecast.
- The Co-Chairs' framework assumes that current tax credits and subtractions will be extended.
- \$211.7 million is included for General Fund that is projected to be unspent at the end of the current biennium. This amount is estimated to be committed to existing projects and programs and supports the reauthorization of corresponding expenditures in 2025-27 program area budgets.
- Rebalance actions and other estimated 2023-25 budget adjustments have been factored into available resources for the 2025-27 biennium.

Budgeted expenditures in the 2025-27 Co-Chair Budget Framework include the following:

- \$11.4 billion total funds for the updated State School Fund current service level – this amount assumes that accountability measures are adopted to improve measurable outcomes and support student success. Combined General Fund (including the corporate income tax kicker) and Lottery Funds account for \$10.5 billion of the total, and the remainder includes Corporate Activities Tax (CAT) revenues, marijuana tax revenues, and other sources.
- Program area expenditures represent the 2025-27 current service level, as adjusted for the roll-up cost for items approved at meetings of the Emergency Board and other estimated costs necessary to continue effective delivery of current programming and services.
- Human services expenditures assume extension of hospital and insurer assessments included in HB 2010. Continuation of these assessments provides projected revenues of \$1.5 billion that support the Oregon Health Plan and offset General Fund expenditures.
- \$271.9 million in targeted reductions to expenditures that are not anticipated to have a negative impact on programs and services.
- An Emergency Fund of \$100 million, as well as \$250 million in special purpose appropriations (SPAs) to address health and human services caseload changes and natural disasters during the biennium.
- \$375 million General Fund for compensation adjustments to address future collective bargaining agreements, including \$300 million for state employees and \$75 million for non-state employees.

- \$16 million General Fund for the Department of Forestry severity resources program SPA, which primarily provides aviation support as part of base fire protection.
- A projected \$50 million General Fund and \$15 million Lottery Funds is included for estimated debt service due to potential bond issuances early in the 2025-27 biennium.
- A \$544.5 million General Fund ending balance equal to 1.5% of expenditures, and a discretionary Lottery Funds balance of approximately \$45 million, to meet the statutory Rainy Day Fund deposit requirement, mitigate revenue fluctuations, and support cost increases during the biennium.

The 2025-27 Co-Chair Budget reflects total available discretionary resources of \$39.7 billion and projected expenditures of \$38 billion that will continue current programs and set aside emergency resources. After retaining a total General Fund and discretionary Lottery Funds balance of \$589.5 million, a surplus of \$987.5 million remains to support key investments. However, it is important to highlight that even in a scenario that assumes no decreases in available state and federal revenues, this surplus is insufficient to support the three major initiatives included in the Governor’s recommended budget. Therefore, these available resources will need to be judiciously allocated to only the most critical investments. Additionally, since the framework budget is limited to General Fund and Lottery Funds, it does not address the projected shortfall in the State Highway Fund and related impact to the Oregon Department of Transportation.

Additional budget scenarios are included that contemplate 10%, 20%, and 30% declines in federal funding for only the education and human services program areas. This represents a \$3.6 to \$10.7 billion reduction in federal funding that would negatively impact critical services. Since proposed federal revenue reductions could pass Congress after the conclusion of the 2025 session, the framework budget sets aside \$100 million in emergency funds that will be accessible in the interim. While this emergency funding would be insufficient to fully offset the potential losses of billions of dollars, it ensures that the state has short-term resources available to respond.

The 2025-27 Co-Chair Budget focuses on maintaining core services in an uncertain budget environment. The guiding principles will be used to shape decisions in the 2025 session to ensure adoption of a balanced budget, as well as the ability for the state to be prepared to respond to changes in federal and state revenues.

The summary on the following pages provides detail on the resources and expenditures included in the 2025-27 Co-Chair Budget and budget scenarios with varying levels of federal funding reductions.

## 2025-27 Co-Chair Budget Framework

	2023-25 Legislatively Approved Budget <sup>1</sup> GF/LF	2025-27 Co-Chair Framework GF/LF	% Change
<b>March 2025 Forecast (millions \$)</b>			
<b>RESOURCES</b>			
Projected Beginning Balance	8,291.2	2,735.3	
Projected Revenues (net of personal kicker)	29,640.8	37,831.8	
Projected Reversions	7.0	211.7	
ESF Interest	96.2	87.1	
1% Appropriations to Rainy Day Fund	(264.7)	(334.3)	
Tax Expenditures	-	(58.1)	
Less Dedications (ESF, OSCIM, Counties)	(394.7)	(395.7)	
Net 2023-25 Rebalance Actions	-	(425.7)	
<b>Total Resources</b>	<b>37,375.8</b>	<b>39,652.1</b>	<b>6.1%</b>
<b>EXPENDITURES</b>			
Education - State School Fund (\$11.4B Total Funds) <sup>2</sup>	9,375.4	10,467.7	
Education - All Other	4,454.0	4,932.7	
Human Services	11,795.1	13,716.2	
Public Safety	4,334.7	4,787.0	
Economic and Community Development	1,411.2	846.3	
Natural Resources	1,261.6	869.5	
Transportation	218.6	197.0	
Consumer and Business Services	47.1	37.6	
Administration	699.9	494.2	
Legislative Branch	237.2	263.7	
Judicial Branch	794.2	861.7	
Targeted Program Area Reductions	-	(271.9)	
<b>Total Program Area Expenditures</b>	<b>34,629.0</b>	<b>37,201.7</b>	<b>7.4%</b>
Emergency Fund	-	100.0	
State Employee Compensation SPA	-	300.0	
Non-State Employee Compensation SPA	-	75.0	
Health and Human Services Caseload SPA	-	100.0	
Natural Disaster SPA	-	150.0	
Forestry Severity Resources SPA	-	16.0	
Roseburg Veterans' Home SPA	35.0	35.0	
Other SPAs	5.0	-	
Debt Service	-	65.0	
<b>Total Expenditures</b>	<b>34,669.0</b>	<b>38,042.7</b>	<b>9.7%</b>
Projected Constitutionally Dedicated LF		32.4	
1.5% GF Ending Balance / Discretionary LF Ending Balance		589.5	
<b>Net Fiscal Position</b>	<b>2,706.9</b>	<b>987.5</b>	

1. Includes Emergency Board and administrative actions through December 2024.

2. Assuming adoption of accountability measures, the State School Fund current service level totals \$11.4 billion including General Fund, Lottery Funds, Corporate Activity Tax, and Marijuana revenues.

### 2025-27 Budget Scenarios

Possible Federal Funding Reductions <sup>1</sup>	0%	10%	20%	30%
Budget Framework Net Fiscal Position	987.5	987.5	987.5	987.5
Federal Funds	-	(3,570.6)	(7,141.2)	(10,711.8)
<b>Revised Net Fiscal Position</b>	<b>987.5</b>	<b>(2,583.1)</b>	<b>(6,153.7)</b>	<b>(9,724.3)</b>
<b>Major Initiatives in the Governor's Budget<sup>2</sup></b>				
Education	211.0	-	-	-
Housing and Homelessness	824.9	-	-	-
Behavioral Health	246.9	-	-	-
<b>Net Fiscal Position after Investment Proposals</b>	<b>(295.3)</b>	<b>(2,583.1)</b>	<b>(6,153.7)</b>	<b>(9,724.3)</b>

1. Federal funding decreases assume percentage reductions to budgeted Federal Funds at the 2025-27 current service level in only the Education and Human Services program areas based on overall funding decreases proposed at the federal level and do not consider declines in any specific federal programs.

2. Total General Fund and Lottery Funds spending excluding debt service on proposed bonding.