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Inside this Brief

- Total Budget
- Ballot Measure 30 – Related Disappropriations
- General Fund and Lottery Expenditures

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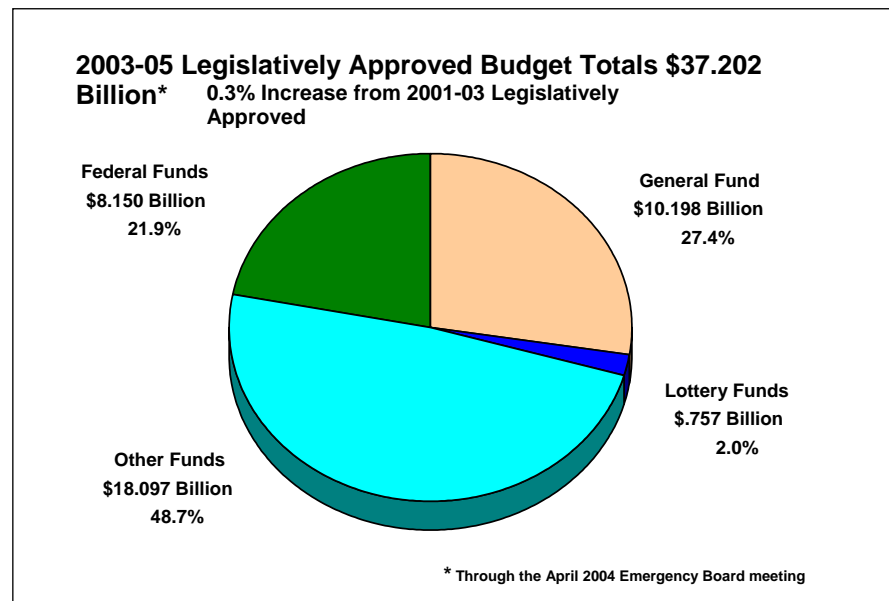
Background Brief on...

2003-05 Biennium Budget

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Total Budget

The total legislatively approved budget for the 2003-05 biennium is \$37.202 billion after the April 9, 2004 Emergency Board meeting and the HB 5077 disappropriations (linked to the defeat of Ballot Measure 30) that went into effect on May 1, 2004. The approved budget includes \$10.955 billion in combined General Fund and Lottery Funds, \$18.097 billion Other Funds, and \$8.150 billion Federal Funds. The 2003-05 approved budget represents a 0.3% increase over the \$37.081 billion 2003-05 budget adopted by the 2003 Legislature, which included \$11.496 billion General Fund and Lottery Funds. The 2003-05 approved budget represents a 2.9% increase over the 2001-03 biennium's legislatively approved total budget of \$34.605 billion.



Ballot Measure 30-Related Disappropriations

Since the close of the 2003 regular session, Ballot Measure 30 was referred to voters and the tax increases associated with HB 2152 were rescinded at a February 3, 2004 special election. Based on this action, the 2003-05 General Fund resources are expected to be reduced \$779.5 million. Also based on this action, \$544.6 million (\$541.8 million in General Fund disappropriations and \$3.8 million in Lottery Funds expenditure limitation reductions) was reduced on May 1, 2004 primarily from the programs that received negotiated additions to the original budget proposed by the Co-Chairs of the Joint Committee on Ways and Means. In an effort to mitigate the effects of these reductions, the Emergency Board allocated \$8.9 million from the general

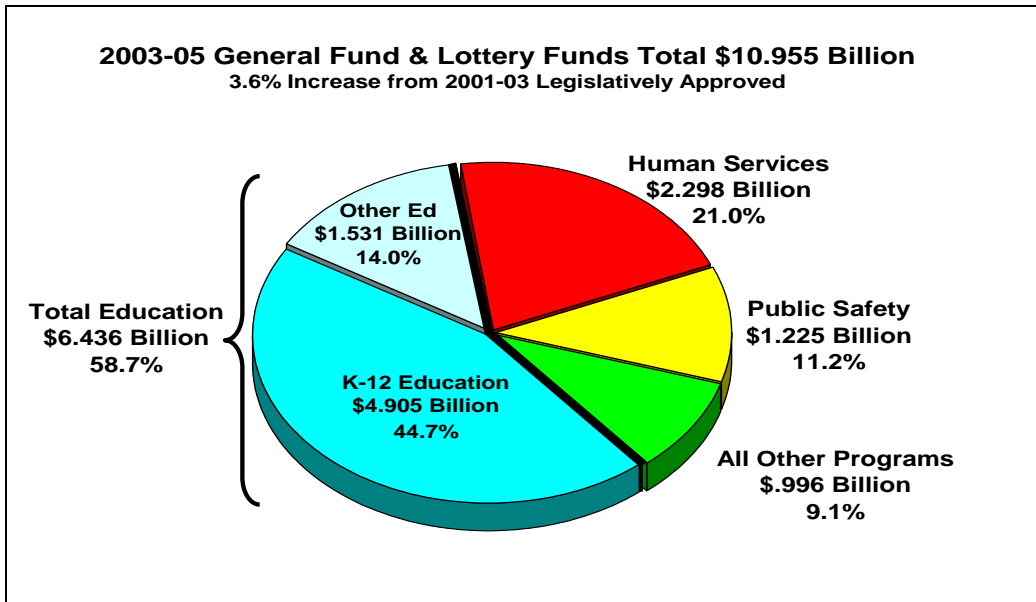
purpose Emergency Fund for Department of Corrections community corrections program grants; allocated \$3.9 million to negate reductions to Oregon State Police Forensic Services; allocated \$1 million to partially restore operation of youth close custody beds for the Oregon Youth Authority; and approved a Department of Human Services rebalance plan, restored \$3.8 million of Lottery Funds expenditure limitation, and allocated \$1 million to Oregon Project Independence. The following table summarizes the agency-specific funding changes. Additional information on the effects of the reductions and the Emergency Board mitigation actions is included later in this document.

Ballot Measure 30 Impact	Reductions from House Bill 5077	Restorations from General Purpose Emergency Fund	Net Change
State Commission on Children and Families	(\$4,846,940)	\$0	(\$4,846,940)
Department of Human Services *	(\$182,767,760)	\$0	(\$182,767,760)
Oregon State Police	(\$3,921,120)	\$3,921,120	\$0
Oregon Youth Authority	(\$5,827,220)	\$1,048,382	(\$4,778,838)
Oregon Judicial Department	(\$13,015,940)	\$0	(\$13,015,940)
Public Defense Services Commission	(\$9,911,720)	\$0	(\$9,911,720)
District Attorneys and their Deputies	(\$762,440)	\$0	(\$762,440)
Community Colleges	(\$6,807,500)	\$0	(\$6,807,500)
Department of Corrections	(\$24,615,920)	\$8,904,210	(\$15,711,710)
Institutions and correctional programs	(\$6,807,500)	\$0	(\$6,807,500)
Community corrections	(\$17,808,420)	\$8,904,210	(\$8,904,210)
Department of Higher Education	(\$7,515,480)	\$0	(\$7,515,480)
State School Fund	(\$284,607,960)	\$0	(\$284,607,960)
TOTAL DISAPPROPRIATION	(\$544,600,000)	\$13,873,712	(\$530,726,288)

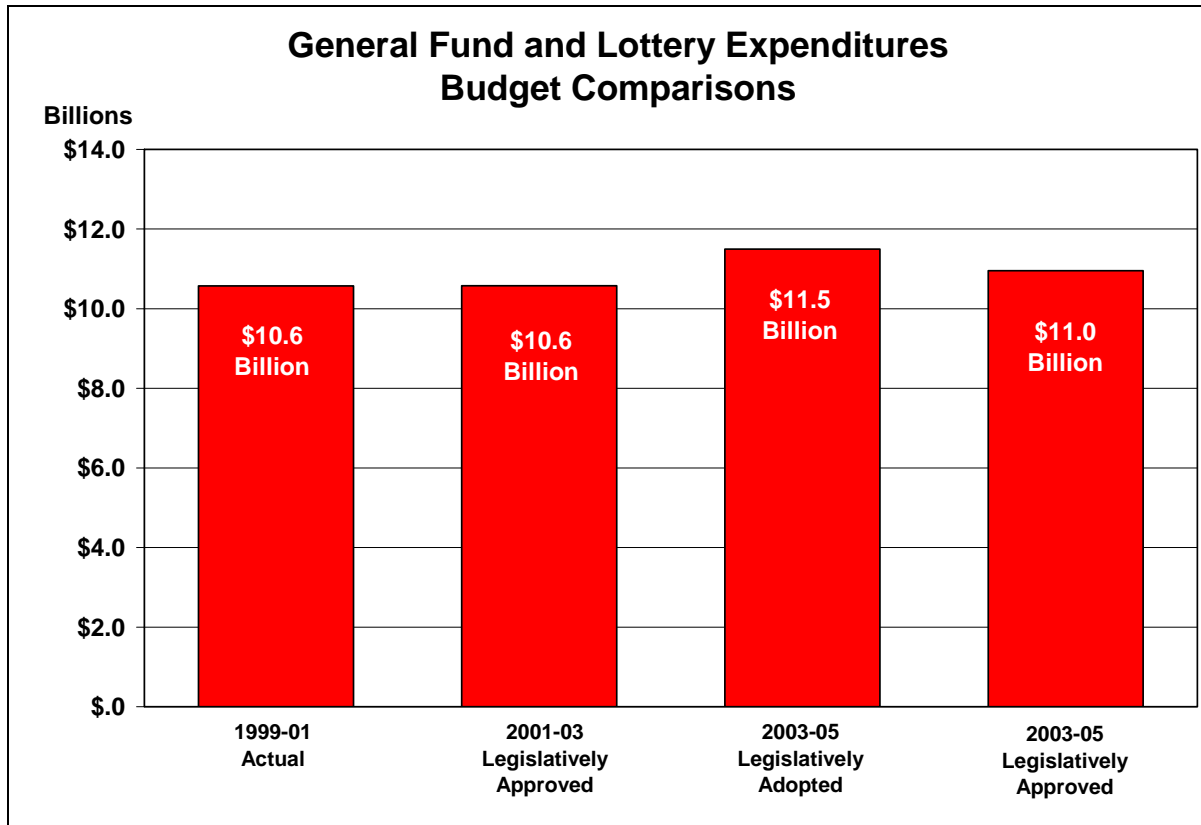
* Included reduction of \$3,812,200 Lottery Funds expenditure limitation; this was restored by the Emergency Board

General Fund and Lottery Expenditures

General Fund and Lottery Funds expenditures, which as of May 1, 2004 total \$10.955 billion for the 2003-05 biennium, represent approximately 29% of the total budget. The total represents a 3.6% increase from the 2001-03 legislatively approved budget, but a 4% decrease from what the Legislature adopted at the conclusion of the 2001 regular session. The legislatively approved budget for 2001-03 represents the authorized budget following all Emergency Board actions, the five 2002 special sessions, the December 2002 allotment reductions (ratified in SB 859), and legislative actions during the 2003 regular session to rebalance the budget and adjust limitations, including “Special Session 6” following the defeat of Measure 28 in February 2003 (SB 5548), and the latest Department of Human Services rebalance (SB 5549). The pie chart on the following page summarizes General Fund and Lottery Funds expenditures by major program area based on the effects of the House Bill 5077 reductions and any Emergency Board actions taken as of April 2004.



Nearly 59% of the state’s General Fund and Lottery expenditures are dedicated to education programs, including \$4.9 billion, or 45% of the total, to the K-12 State School Fund budget. More than 90% of the state’s expenditures are found in the three major program areas of Education, Human Services, and Public Safety. These percentages have not changed as a result of the HB 5077 reductions. The table on page 5 compares the 2003-05 legislatively adopted and approved General Fund and Lottery expenditures to the 2001-03 adopted and approved budgets by major program area.



The above bar chart provides a comparison of expenditures over the last three biennia. Most of the \$919 million increase in General Fund and Lottery expenditures from the 2001-03 approved budget to the 2003-05 legislatively adopted budget

reflects the use of General Fund to backfill one-time revenue from discretionary sources relied upon during the 2001-03 biennium budget rebalancing actions. These actions helped mitigate reductions in legislatively approved programs in the face of a \$1.7 billion drop in actual General Fund resources available for expenditure in 2001-03 from the 2001 close-of-session forecast. One-time resources used included:

- \$335 million of Medicaid Upper Payment Limit (MUPL) revenue (including \$242.1 million for K-12 education and \$92.9 million for the Oregon Health and Science University);
- \$335.2 million of Tobacco Master Settlement revenue (\$211.8 million – Oregon Health Plan; \$99.2 million – General Fund; \$17.2 million – Family Health Insurance Assistance Program; \$5 million – Oregon Resources and Technology Development; and \$2 million – Health Care Trust Fund);
- \$262 million Education Stability Fund transfer to K-12 education based on passage of Ballot Measure 19 in September 2002;
- \$450 million of Tobacco Master Settlement bond proceeds; and
- \$37 million in transfers from various Other Funds sources to the General Fund.

When these “discretionary” dollars are considered along with the General Fund and Lottery Funds, a slightly different budget picture emerges. The 2003-05 legislatively adopted budget is actually 5.1% below the 2001-03 adopted budget and is 0.5% below the 2001-03 approved budget following all of the legislative actions taken to adjust that budget. Two of the largest sources of discretionary revenue, Tobacco Master Settlement (TMSA) funds and the MUPL resources, are not available to the extent they existed in the 2001-03 biennium. The TMSA funds available are less than one-half what they were and the MUPL funds have been eliminated.

The 2003-05 legislatively adopted and approved budgets also included the use of approximately \$530 million in one-time revenues that were used in lieu of General Fund. In 2005-07, General Fund backfill or offsetting reductions in state programs and service delivery will be required. The major one-time sources used included:

- \$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 that were transferred to the General Fund;
- \$88.8 million of enhanced federal Medicaid matching funds in three program area clusters of the Department of Human Services;
- \$45 million of Other Funds savings from implementation of PERS reforms that will be transferred to the General Fund;
- \$42.2 million of Tobacco Settlement Funds in the Oregon Health Plan; and
- \$10 million of Tobacco Use Reduction Account funds in the Oregon Health Plan.

The table on the page 6 compares the 2003-05 adopted and approved discretionary spending (General Fund, Lottery Funds, MUPL, Tobacco Master Settlement, the Education Stability Fund, and Tobacco Master Settlement Bond proceeds) to the 2001-03 adopted and approved budgets for each major program area.

General Fund & Lottery Funds - 2003-05 Legislatively Adopted Budget - Historical Comparison

(Dollars in Millions)¹

	1999-01 Actuals	2001-03 Legislatively Adopted Budget (LAB)	2001-03 Legislatively Approved Budget ²	2003-05 Legislatively Adopted Budget (LAB)	2003-05 Legislatively Approved Budget Thru April 2004 E-Board	% Change 2003-05 Leg. Adopted from 2001-03 Leg. Adopted	% Change 2003-05 Leg. Approved from 2001-03 Leg. Approved
Education							
K - 12 (excl. ODE)³	\$4,568	\$5,080	\$4,417	\$5,190	\$4,905	2.2%	11.1%
Higher Education⁴	872	822	755	771	764	-6.1%	1.2%
Community Colleges⁵	436	475	382	423	416	-10.8%	8.9%
All Other Education	287	372	337	351	351	-5.7%	4.2%
Total Education	6,163	6,748	5,891	6,735	6,436	-0.2%	9.3%
Human Services⁶	2,287	2,641	2,451	2,481	2,298	-6.1%	-6.3%
Public Safety⁷	1,189	1,351	1,244	1,246	1,225	-7.8%	-1.6%
Natural Resources	216	279	265	227	227	-18.8%	-14.4%
All Other Programs⁸	716	955	727	807	769	-15.5%	5.8%
Total Expenditures	\$10,571	\$11,974	\$10,579	\$11,496	\$10,955	-4.0%	3.6%

¹ Amounts may not add due to rounding.

² The 2001-03 legislatively approved represents expenditure authorizations through 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 last 2001-03 DHS rebalance (adopted in SB 5549). Not included are certain administrative actions taken by the Department of Administrative Services approving increases to Nonlimited Other Funds.

³ 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).

⁴ Includes Oregon Health and Science University Public Corporation.

⁵ The 2001-03 LAB reflects a shift of \$56 million of the 2001-03 CCSF payment to the 2003-05 biennium.

⁶ The General Fund in the 2003-05 LAB was reduced, in part, based on the fact that \$151.4 million more federal revenue than in 2001-03 was available due to improved federal match rates authorized in the Jobs and Growth Tax Reconciliation Act.

⁷ The General Fund in the 2003-05 LAB was reduced by \$116 million based on a one-time use of a corresponding amount federal Jobs and Growth Tax Reconciliation Act funds.

⁸ The 2003-05 LAB includes \$40 million General Purpose Emergency Fund; \$9 million for health benefits; and \$1.5 million for special election costs. Approximately \$15 million of the General Purpose Emergency Fund was allocated in April 2004 to mitigate Ballot Measure 30 reductions.

Discretionary Spending - 2003-05 Legislatively Adopted Budget - Historical Comparison ¹

(Dollars in Millions) ²

	1999-01 Actuals	2001-03 Legislatively Adopted Budget (LAB)	2001-03 Legislatively Approved Budget	2003-05 Legislatively Adopted Budget (LAB)	2003-05 Legislatively Approved Budget Thru April 2004 E-Board	% Change 2003-05 Leg. Adopted from 2001-03 Leg. Adopted	% Change 2003-05 Leg. Approved from 2001-03 Leg. Approved
Education							
K - 12 (excl. ODE)	\$4,568	\$5,179	\$4,659 ³	\$5,190	\$4,905	0.2%	5.3%
Higher Education ⁵	872	923	947 ⁴	898	891	-2.6%	-5.9%
Community Colleges ⁶	436	475	382	423	416	-10.8%	8.9%
All Other Education ⁷	287	377	342	351	351	-6.9%	2.6%
Total Education	6,163	6,953	6,330	6,862	6,563	-1.3%	3.7%
Human Services ⁹	2,287	2,805	2,665 ⁸	2,533	2,350	-9.7%	-11.8%
Public Safety ¹⁰	1,189	1,351	1,244	1,247	1,226	-7.7%	-1.5%
Natural Resources	216	279	265	227	227	-18.8%	-14.3%
All Other Programs ¹¹	716	955	727	849	811	-11.1%	11.6%
Total Expenditures	\$10,571	\$12,344	\$11,232	\$11,718	\$11,177	-5.1%	-0.5%

¹ General Fund, Lottery, Education Stability Fund, Medicaid Upper Payment Limit (MUPL), Tobacco Master Settlement (TMSA), and TMSA bond proceeds.

² Amounts may not add due to rounding.

³ Includes \$242.1 million of MUPL; reflects a \$211 million General Fund shift from the 2001-03 State School Fund payment to 2003-05 (SB 1022).

⁴ Includes \$93 million MUPL and \$99 million of TMSA bond receipts for Oregon Opportunity Grant program.

⁵ Includes Oregon Health and Science University Public Corporation. For 2003-05, it also includes \$117.4 million in TMSA bond proceeds and \$9.6 million TMSA funds (for debt service) for the Oregon Opportunity Program.

⁶ Reflects a shift of the final CCSF payment to the 2003-05 biennium.

⁷ Includes \$5 million in TMSA funds for the Oregon Resource and Technology Subaccount for 2001-03 adopted and approved columns.

⁸ Includes \$214 million of TMSA funds for the Oregon Health Plan.

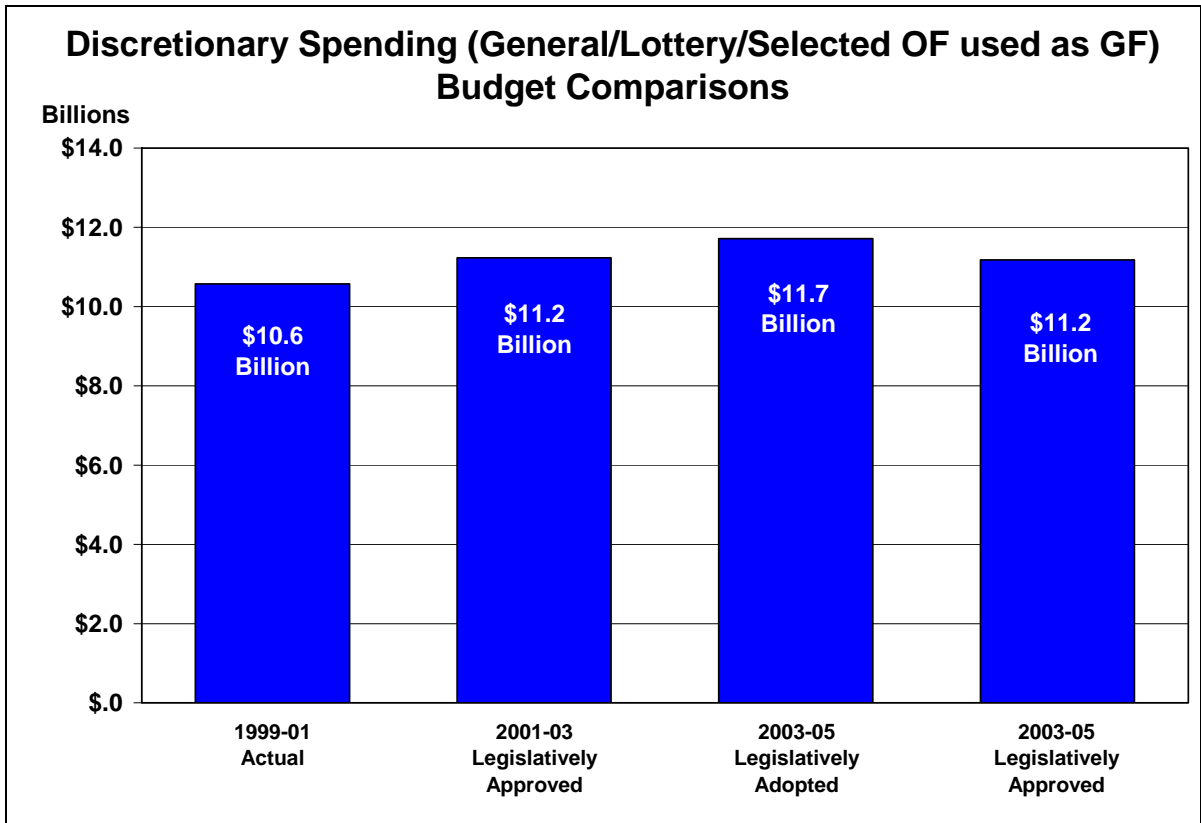
⁹ The 2003-05 budget amounts include use of \$42.2 million in TMSA funds and \$10 million Tobacco Use Reduction Account Funds for the Oregon Health Plan. The 2003-05 figures do not include \$151.4 million more federal revenue than was available in 2001-03 due to improved federal match rates authorized in the Jobs and Growth Tax Reconciliation Act.

¹⁰ The General Fund in the 2003-05 LAB was reduced by \$116 million based on a one-time use of a corresponding amount federal Jobs and Growth Tax Reconciliation Act funds.

¹¹ The 2003-05 budget amounts include \$40 million GF in general purpose Emergency Fund; \$9 million GF for salary adjustments/benefits; \$1.5 million GF for special election costs for 2003-05 LAB; \$41.8 million TMSA funds for debt on Appropriation Bonds and \$0.7 million for DOJ's TMSA compliance (HB 2094).

Approximately \$15 million of the General Purpose Emergency Fund was allocated in April 2004 to mitigate Ballot Measure 30 reductions.

The following bar chart compares the statewide 2003-05 adopted and approved discretionary spending to the 1999-2001 actual expenditures and 2001-03 approved budget.



For more detailed information, please refer to the following Legislative Fiscal Office publications, available online at <http://www.leg.state.or.us/comm/lfo/publications.htm> or by calling 503-986-1828:

- Highlights of the 2003-05 Legislatively Adopted Budget UPDATE*
- Highlights of the 2003-05 Legislatively Adopted Budget*
- Analysis of the 2003-05 Legislatively Adopted Budget*