

Addressing the pending Oregon budget crisis with a projected deficit of \$2.7 billion (\$4.3 billion)

Summary

- In 10 years, state spending in Oregon has more than doubled, from \$30 billion to \$60 billion (*all funds budget*).
- Oregon has the highest state government spending in the region. Oregon's state spending is 30% higher than Washington's state spending.
- The Governor's Reset Cabinet is projecting a \$2.7 billion budget shortfall in the general fund budget for 2011-13 (*general fund & lottery fund*).
- Additionally, \$1.6 billion in one-time funds are going away. These one-time funds are not included in the projected deficit of \$2.7 billion; bringing the actual shortfall to \$4.3 billion.
- The proposed budget is a 26% increase in spending over the current budget. When the loss of one-time funds is included, it's a 43% increase in spending in just one budget cycle.
- 2/3 of the \$2.7 billion budget shortfall is due to proposed increases in the Human Services budget – 98% of which is the Department of Human Services (DHS).
- This \$4.3 billion budget shortfall reflects years of deferred leadership, and will place a great burden on the 2011-13 Legislature.
- This massive shortfall will create significant, inherent conflict between opposite interests: public employee unions and their allies on the one hand, and personal and business taxpayers on the other. The public employee unions and their allies will likely pursue the same sources of revenue and methods that were employed in the YES on Measures 66 & 67 campaign – only this \$4.3 billion shortfall is six times the tax increases for Measures 66 & 67.

Proposed Actions

In the current economic crisis, Oregon businesses and families have already faced layoffs, loss of income and belt-tightening. Now it's time for Oregon state government to do the same.

- Have state employees start paying their fair share of health insurance premiums, just as Oregon public teachers already do.
- Require state employees to pay the 6% employee portion of PERS.
- Eliminate the 2011-13 Cost of Living Adjustment.
- Cancel all projects started midway through 2009-11 where legally possible unless cost savings can be demonstrated.
- Align the Oregon Health Plan and all Oregon health benefits with federal levels of benefits.
- Increase income tax revenues by growing Oregon's economy and improving the business climate.
- Eliminate any other Payroll Cost Increases where legally possible.
- Prioritize - adopt the Back to Basics budget approach proposed by the Republicans in the 2009-11 session.

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The problem: Projected budget shortfall

The Governor's Reset Cabinet is projecting a \$2.7 billion budget shortfall in the general fund budget for 2011-13. The projections show the general & lottery funds increasing from \$14.4 billion in 2009-11 to \$18.2 billion in 2011-13, a 26% increase in spending.

Final Report - Governor's Reset Cabinet - June 2010

"Comparing revenues to expenditures yields a likely deficit approaching \$2.7 billion in the state's general fund budget for 2011-13."

http://governor.oregon.gov/Gov/docs/rc_fullreport.pdf

The major portion of the \$2.7 billion budget shortfall is due to the projected spending increase of \$2.26 billion (*including \$742 million in payroll cost increases and the expansion of Oregon's government-run health care, including the Oregon Health Plan; in fact, 2/3 of the shortfall is due to increases in the Human Services budget.*):

The reasons for the expected increase in expenditures, in order of magnitude, are the following:

- Payroll cost increases, as higher PERS rates take effect, salary freezes and furloughs end, and adjustments are anticipated in pay and health benefits;
- Inflationary cost increases for purchased services (such as hospital care for persons enrolled in the Oregon Health Plan), equipment and supplies;
- Funding of positions added and projects initiated midway through the current budget period (e.g. the staffing of the new state mental hospital) that is needed to cover a full two years of operations in the next budget period;
- Higher numbers of Oregonians who will qualify for safety net services, such as food assistance and medical care; and,
- Debt service incurred midway through the current budget period that must be paid for the full 24 months of the next and subsequent budget periods.

**Components of 2011-13 Expenditure Increases
Beyond Replacement of One-Time Funds
Millions of Dollars**

Payroll Cost Increases	
Restoration of furloughs and 2011-13 Step Increases	156
Maintain current state employee health benefits in 2011-13	104
Potential Cost of Living Adjustment for State Employees in 2011-13	114
PERS (both state and school district costs)	368
Inflationary Cost Increases	533
Funding for projects started midway through 2009-11	247
Higher number of Oregonians qualifying for safety net services	487
Increase in Debt Service	247
Total Increase 2009-11 to 2011-13	2,256

Source: Final Report - Governor's Reset Cabinet - June 2010

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Background: The Oregon Budget & Oregon Government Spending

1. State spending has doubled

In 10 years, state spending in Oregon has more than doubled, from \$30 billion to \$60 billion.

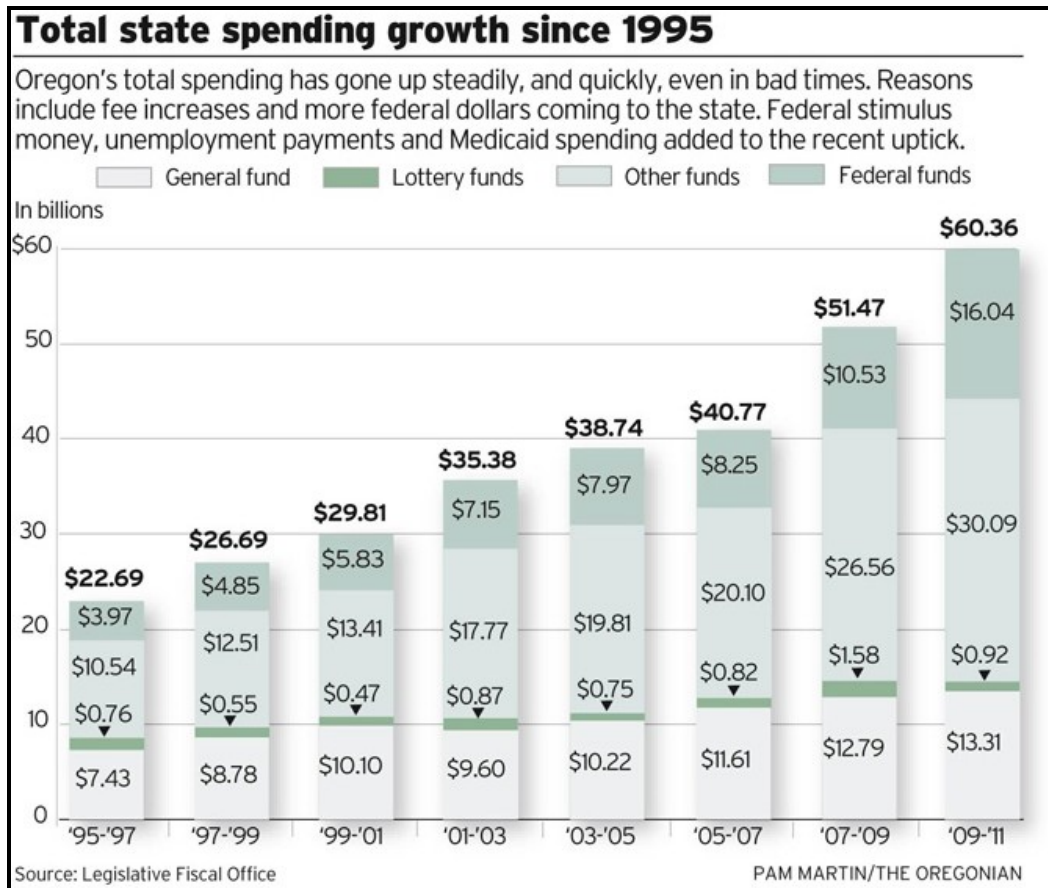


Chart from the Oregonian – July 25, 2010

http://www.oregonlive.com/politics/index.ssf/2010/07/state_budget_oregon_cant_move.html

2. Oregon has the highest state spending in the region

According to data from the National Association of State Budget Officers and the federal government, Oregon has the highest state government spending in the region. Oregon's state spending is 20% higher than Idaho's, 25% higher than California's, 30% higher than Washington's and 20% higher than Utah's – based on total state government expenditures as a percentage of Gross State Product (GSP).

To put this in perspective, if we got Oregon's state government spending in line with Washington's state spending, it would result in cuts more than **20 times** the size of the Measure 66 & 67's tax

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increases. We need to get our state government's spending in line with the rest of the region.

Sources:

Total State Expenditures:

Table 1, 2008 State Expenditure Report, National Association of State Budget Officers, 2008.

Available at

<http://www.nasbo.org/Publications/StateExpenditureReport/tabid/79/Default.aspx>

Fall 2009

Total GSP:

Regional Economic Accounts, U.S. Bureau of Economic Analysis, released June 2, 2009, available at

http://www.bea.gov/newsreleases/regional/gdp_state/gsp_newsrelease.htm

3. Some major budget challenges are facing the 2011-13 Legislature

- State revenue continues to fall short of projections: as of July 2010, the revenue forecast for the current budget has decreased \$891 million since the 2009 session ended - in large part due to continuing high unemployment and the resulting reduced income tax revenues.

<http://www.oregoncatalyst.com/index.php/archives/3375-Representative-Dennis-Richardson-Oregons-Financial-Status.html>

- \$1.6 billion in one-time funds (Federal stimulus, state reserves, etc.) are going away. **These one-time funds are not included in the projected deficit of \$2.7 billion; bringing the actual shortfall to \$4.3 billion.**

One-Time Funds in the State's Current Budget	
Federal Stimulus Funds	941.2
State Reserves (Rainy Day Fund & Education Stability Fund)	435.0
Provider Tax Revenues from 2007-09	116.0
Other Fund Sweeps	144.8
	1,637.0

"The revenue bridge constructed with \$1.6 billion in one-time funds in the current budget" PDF page 27 (more detail on PDF page 25)

http://governor.oregon.gov/Gov/docs/rc_fullreport.pdf

- The portion of the \$14 billion PERS shortfall that will impact the Oregon state budget in 2011-13: \$368 million.
- The billions of additional dollars that Oregon's government-run health care expansion is going to cost in the next five years (*The Oregon Health Plan & HB 2009*). As noted earlier, 2/3 of the 2011-13 shortfall is due to increases in the Human Services budget.

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Long-Term Budget Projections June 2010 Forecast (\$ millions)										
	Legislatively Approved 2009-11			Tentative Budget 2011-13			2009-11 to 2011-13 Increase (Total)		% of Shortfall	2009-11 One-Time
	General Fund	Lottery Fund	Total	General Fund	Lottery Fund	Total	Dollars	%		
Revenues										
Projected Beginning Balance	0.0	53.4	53.4	0.0	4.0	4.0	(49.4)			
1% Appropriations to Rainy Day Fund					(2.0)	(2.0)	(2.0)			
Projected Revenues	12,849.0	1,162.4	14,011.4	14,750.8	1,161.2	15,912.0	1,900.6	14%		
Less Dedications (ESF, County)		(223.5)	(223.5)		(247.1)	(247.1)	(23.6)			
Total Resources	12,849.0	992.3	13,841.3	14,750.8	916.1	15,666.9	1,825.6	13%		
Expenditures										
Administration	194.4	11.6	206.0	205.3	16.5	221.8	15.8	8%	1%	
Consumer & Business Services	12.9	0.0	12.9	14.6	0.0	14.6	1.7	13%	0%	
Economic Development	29.2	119.9	149.1	27.1	135.4	162.5	13.4	9%	1%	10.0
Education State School Fund	5,256.2	494.1	5,752.3	6,304.6	409.8	6,714.4	962.1	17%	36%	229.8
Education All Other	1,726.9	96.2	1,823.1	1,994.5	97.4	2,091.9	268.8	15%	10%	80.2
Human Services	3,523.7	10.9	3,534.6	5,288.3	11.3	5,299.6	1,765.0	50%	66%	995.9
Judicial	507.2	0.0	507.2	609.9	0.0	609.9	102.7	20%	4%	42.7
Legislative Branch	75.2	0.0	75.2	90.5	0.0	90.5	15.3	20%	1%	
Natural Resources	146.9	182.0	328.9	160.0	189.6	349.6	20.7	6%	1%	
Public Safety	1,855.0	7.2	1,862.2	2,212.6	7.7	2,220.3	358.1	19%	13%	110.4
Transportation	23.1	85.4	108.5	81.8	85.2	167.0	58.5	54%	2%	
Total Expenditures	13,352.7	1,007.3	14,360.0	16,989.3	953.0	17,942.3	3,582.3	25%		1,469.0
Add'l Debt Service to Capacity										
EFund	73.5		73.5	40.0		40.0	(33.5)			
Salary Adjustment				172.0	4.0	176.0	176.0			
Ending Balance	(577.2)	(15.0)	(592.2)	169.9	9.5	179.4	771.6			
Net Fiscal Position				(2,620.4)	(50.4)	(2,670.8)	(2,670.8)			(4,139.8)
Total Expenditures	14,434			18,338						
Percent Increase				27%						
Dollar Increase				3,904						

Source: Final Report - Governor's Reset Cabinet - June 2010 (pg 27)
http://governor.oregon.gov/Gov/docs/rc_fullreport.pdf

There are six Human Services agencies, but the Department of Human Services (DHS) budget is 98% of the Human Services budget.

Abbrev	Human Services Agencies	2009-11 Legislatively Approved (Mar 2010) Budget			
		General Fund	Lottery Fund	TOTAL	%
BLIND	Blind, Commission for the	1,449,953	0	1,449,953	0%
SCCF	Children and Families, Commission on	50,062,670	0	50,062,670	1%
DHS	Human Services, Department of	3,448,379,929	10,903,639	3,459,283,568	98%
LTCO	Long Term Care Ombudsman	1,174,082	0	1,174,082	0%
OPHP	Private Health Partnerships, Office of	21,291,139	0	21,291,139	1%
PSRB	Psychiatric Security Review Board	1,368,232	0	1,368,232	0%
Human Services Total				3,534,629,644	100.0%

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Proposed Actions: Options to address the budget shortfall

SHORTFALL REDUCTION	DESCRIPTION
\$200 million	Have state employees start paying their fair share of health insurance premiums, just as Oregon public teachers already do.
\$265 million	Require state employees to pay the 6% employee portion of PERS.
\$114 million	Eliminate the 2011-13 Cost of Living Adjustment.
\$247 million	Cancel all projects started midway through 2009-11 where legally possible unless cost savings can be demonstrated (<i>savings up to \$247 million</i>).
\$826 million	SUB-TOTAL
TBD	Align the Oregon Health Plan and all Oregon health benefits with federal levels of benefits (e.g. Medicaid).
TBD	Increase income tax revenues by growing Oregon's economy and improving the business climate.
TBD	Eliminate any other Payroll Cost Increase where legally possible.
Remainder	<p>Prioritize - adopt the Back to Basics budget approach proposed by the Republicans in the 2009-11 session. http://www.leg.state.or.us/senaterepublicans/budget_brief.pdf</p> <p>This approach has now been picked up and advocated for by Gov. Kulongoski's Reset Cabinet as "Core Responsibilities Of State Government"</p> <p>Essential services such as K-12 education, colleges and universities, public safety agencies and human service providers would be funded first, would not have cuts from the prior budget level and would have the highest priority in the budget (essential human service providers would have to be carefully defined).</p> <p>State agencies would then have to justify increases for any other services, and if necessary, would even have to justify getting funding at prior budget levels.</p>