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2010-07-13

To: OMCB Board Members-State Addresses
Subject: Reset Report and Budget Forecast

Reset Report Recommendations

Three elements that impact boards and commissions directly:

-The reset report recommends that the legislature not "raid" ending balances to fund the GF shortfall.

-The reset report recommends that all boards and commissions be consolidated into one or two agencies.

-The reset report recommends that all executive directors report directly to the Governor (this is already true for OMCB as of the 2009 session).

NOTE: The consolidation recommendation for Boards is separate from the current effort sponsored by Rep.Hoyle of the House Health Committee to explore consolidation of functions and efficiencies between the health regulatory Boards.

CURRENT STATE BUDGET FORECAST AND DYNAMICS

The State of Oregon faces a decade of (2.5) billion dollar deficits based on the status quo. The underlying service/revenue model will need to change.

Ending balance sweeps have been requested. Boards have been asked to provide documentation for the need for ending balances.

There may be a special session in September to address the shortfall in the current biennium.

Additionally, the current budget dynamics for the OMCB are not sustainable given that revenue forecasts are flat or in decline while expenses project at a 5.5% increase year over year on average. While the Board is stable through approximately 2015 based on current information, the Board will have a revenue shortfall in that time period that needs to be addressed now.

While 2009-2011 has focused on operational stability and streamlining, the next period should focus on long term stability and clear outcomes for contributions to quality health care and services for all Oregonians.

OMCB	**11-13 AR BUDGET**	**Line Item Increase**	**13-15 AR BUDGET**	**15-17 AR BUDGET**	**17-19 AR BUDGET**
Total Revenues	**1,583,881**	100%	1,583,881	1,583,881	1,583,881
Total Expenditures (OF)	**1,380,121**	111%	**1,531,934.13**	**1,700,446.88**	**1,887,496.04**
		2011-2013 Ending Bal	**2013-2015 Ending Bal**	**2015-2017 Ending Bal**	**2017-2019 Ending Bal**
Total ending Balance		203,760	51,947	(116,566)	(303,615)
Coverage	*3 months*	*172,515*	*191,492*	*212,556*	*235,937*
	Over/Under	31,245	(139,545)	(329,122)	(539,552)
	6 months	*345,030*	*382,984*	*425,112*	*471,874*
	Over/Under	(141,270.05)	(331,036.66)	(541,677.60)	(775,489.05)

Final Report

Governor's Reset Cabinet

June 2010

From a Decade of Surplus to a Decade of Deficits
(Millions of $)

11/2007 Projections	2009 - 11	2011 - 13	2013 - 15	2015 - 17	2017 - 19
Revenue	17,000.4	19,001.9	21,547.0	24,644.7	28,592.0
Expense	16,989.2	18,822.7	20,925.1	23,037.9	25,352.0
Surplus (Deficit)	11.2	179.2	621.9	1,606.8	3,239.8
06/2010 Projections					
Revenue	13,841.3	15,667.0	18,262.4	20,570.1	23,160.5
Expense	14,433.5	18,337.7	20,680.8	22,967.4	25,461.1
Surplus (Deficit)	(592.3)	(2,670.8)	(2,418.4)	(2,397.3)	(2,300.7)

The recession created new challenges on the expenditure side of the budget as well. State officials now expect the demand for human services to rise, as more unemployed and underemployed Oregonians qualify for assistance. Currently, nearly one of every five Oregonians receives food assistance, and one of every seven is on the Oregon Health Plan. Their numbers are expected to grow in the next budget period. These new demands on the state budget are now expected to increase the previously-estimated costs for health and human services by a cumulative total of two billion dollars from 2011 through 2019.

Also, as the stock market declined, so did the assets of the Public Employees Retirement System (PERS). Thanks to reforms enacted in 2003, PERS was and still is better funded than most public retirement funds in the country. But PERS' losses on investments due to the recession created new liabilities for the state, schools and local governments in Oregon. Under current law, these losses must be offset by higher contributions paid exclusively by public agencies, as employees are not required to share in this effort. The tab for these higher payroll costs is now expected to add $368 million to the state's general fund costs in 2011-13, including the costs of state's own workforce and its share of support for school employees. Longer term, the PERS tab could add more than one billion dollars to the state's biennial general fund costs for state and school employees by 2015-17, if investment returns average eight percent per year.

NOTE: Revenue data cited in this section reflect the downward revisions contained in the June 2010 revenue forecast. However, expenditure data do not reflect the Governor's rebalancing reductions that will take effect July 1, 2010. Thus, the tables on page 25 and page 27 show deficits for 2009-11 that will disappear when the spending reductions take effect.

For an explanation of the methodology used to project ten-year revenue and expenditure trends and a more detailed presentation of findings, see "How We Forecast the Next Decade" on the following page.

How We Forecast the Next Decade

Overall
- General and medical inflation factors developed based on national projections
- Used standard current service level assumptions for program expansions.
- Existing Debt Service schedules built in for agency budgets, and an overall adjustment made that assumes full debt capacity used each biennium.
- One-Time Funds used to balance the budget in 2009-11 are replaced with General Fund in 2011-13

Education
- State School Fund and Community Colleges budgets were projected to grow using a CSL model.
- No enrollment growth included for OUS and Community Colleges
- Opportunity Grants increased only by standard inflation.
- State School Fund and Community College growth was offset by projected growth in local property taxes.

Human Services
- Human Service caseloads were projected to increase based on the demographic growth of the client population.
- Oregon Health Plan cost growth was assumed at about 13% per biennium.
- Assumes that programs funded with Other Funds in 2009-11 will continue to be funded by those revenue sources in 2011-13 and beyond.
- Includes funding changes related to flattened tobacco tax revenue projections and changes in federal match rates.
- Includes construction and operation of new state hospital facilities.

Public Safety
- Caseload growth for public safety programs based on October 2009 prison population forecast, which includes implementation of Ballot Measure 57.
- Includes funding for Junction City prison construction in 2011-13, becoming fully operational in 2013-15.
- Includes debt services for the Oregon Wireless Interoperability Network.

All told, the state must now adjust to a decade in which revenues will average $1.9 billion less per year than previously expected, employee retirement costs will eventually rise climb by more than $500 million per year, and other costs and demands for safety net services will continue to increase. These recession-related shifts on both sides of the ledger have turned a likely decade of solvency into a looming decade of deficits.

The State's Current Budget Rests Heavily on One-Time Solutions

The turnabout in the state's fiscal condition would have been more evident during this recession had it not been for the receipt of federal stimulus funds and the availability of state reserve funds.

The federal government provided a lifeline to state governments in February 2009 with the passage of the American Recovery and Reinvestment Act, also known as the federal stimulus bill. This legislation provided $170 billion in stabilization funds and other targeted funds to state governments to sustain services during the recession. The bulk of these funds were targeted to health care and education, with strings attached. Those strings included a "maintenance of effort" requirement, whereby states were obligated to maintain pre-recession levels of funding or eligibility for services.

In Oregon, these stabilization funds have provided $650 million for health and human services, $392 million for education and $103 million for corrections. These funds served their purpose, in that they sustained services and reduced layoffs. But they also limited the state's ability to reduce or scale back eligibility for services in programs that received these funds.

Also, to its credit, the state had accumulated record levels of reserves prior to the onset of the recession. The Education Stability Fund, approved by the voters in 2002 and funded by a share of lottery revenues, reached $393 million in the 2008-09 fiscal year. A new Rainy Day Fund, created by the Legislature in 2007 and funded by a one-time contribution of excess corporate "kicker" revenues and ongoing ending balances, reached $338 million. Together, these funds provided a partial buffer for state services during a period of rapidly-deteriorating revenues.

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

Even with these one-time funds, however, the state cut just under two billion dollars from the previously-projected current service level for the 2009-11 budget and reduced personnel costs by $72 million through pay freezes and unpaid furloughs for state employees.

Finally, the state raised taxes on businesses and high-income households, which the voters approved as Measures 66 and 67. The higher tax rates are scheduled to be adjusted downward in 2011 and 2013, thus reducing their impact on taxpayers but also lessening their contribution to the state's general fund.

The combination of one-time funds, temporary payroll reductions and new taxes worked to minimize cuts to state services. Without these actions, cuts would have been twice as deep.

This is why the revenue trough caused by the recession did not feel as wrenching on the services side of the state budget. However, most of the budget-balancing mechanisms used in the current period were one-time solutions, which will not be available to the state in the years ahead.

Current Service Levels Are No Longer Sustainable

One-time funds work best when they can provide a level bridge over a one-time deficit. This is not the case in the current budget.

Federal stimulus funds and state reserves amount to $1.6 billion in the current budget. After these funds are depleted in 2011, the state is expected to bank $1.8 billion in new revenues from a recovering economy in the next biennium. On first impression, this may look like a well-constructed alignment: We are losing $1.6 billion in one-time resources and gaining $1.8 billion in ongoing revenues. But these new revenues will fall far short of covering expenditures in the next biennium. Those expenditures are expected to increase 14 percent in 2011-13, while the increase in revenues will amount to only two percent.

Tentative 2011-13 Budget Projections - Including All 2010 Legislative Actions

(June 2010 Forecast)

	Legislatively Approved 2009-11 GF	LF	Total	One-Time $	Adj. Totals	Tentative Budget - Current Service Level 2011-13 GF	LF	Total	Percent Change	Adj % Change
Revenues										
Projected Beginning Balance	-	1.4	1.4			-	4.0	4.0		
Carryforward		52.0	52.0					-		
1% Appropriations to Rainy Day Fund/Beginning Balance			-					-		
Half Lottery 09-11 Ending Balance to K-12 Capital Acct			-				(2.0)	(2.0)		
Projected Revenues	12,733.3	1,078.1	13,811.4			14,750.8	1,161.2	15,912.1		
Less Dedications (ESF, County)		(223.5)	(223.5)				(247.1)	(247.1)		
One-time Resources										
Federal ARRA				1,053.0						
ESF/RDF: K-12	115.7	84.3		200.0						
Other				216.0						
Total Resources	12,849.0	992.3	13,841.3	1,469.0	15,310.3	14,750.8	916.2	15,667.0	13%	2%
Expenditures										
Education - State School Fund	5,258.2	494.1	5,752.3	229.8	5,982.1	6,304.6	409.8	6,714.5	17%	12%
Education - All Other	1,726.9	96.2	1,823.1	80.2	1,903.3	1,994.5	97.4	2,091.9	15%	10%
Human Services	3,523.7	10.9	3,534.6	995.9	4,530.5	5,288.3	11.3	5,299.6	50%	17%
Public Safety	1,855.0	7.2	1,862.2	110.4	1,972.6	2,212.6	7.7	2,220.3	19%	13%
Economic & Community Development	29.2	119.9	149.0	10.0	159.1	27.1	135.4	162.5	9%	2%
Natural Resources	146.9	182.0	328.9	-	328.9	160.0	189.6	349.6	6%	6%
Transportation	23.1	85.4	108.6	-	108.6	81.8	85.2	167.0	54%	54%
Consumer & Business Services	12.9	-	12.9	-	12.9	14.6	-	14.6	13%	13%
Administration	194.4	11.6	206.0	-	206.0	205.3	16.5	221.9	8%	8%
Legislative	75.2	-	75.2	-	75.2	90.5	-	90.5	20%	20%
Judicial	507.2	-	507.2	42.7	549.9	609.9	-	609.9	20%	11%
Program Subtotal	13,352.7	1,007.4	14,360.1	1,469.0	15,829.1	16,989.3	953.0	17,942.3	25%	13%
EFund	20.0	-	20.0	-	20.0	40.0	-	40.0		
Supplemental State Agency Funding	-	-	-	-	-	172.0	4.0	176.0		
Other Special Purpose Appropriations	53.5	-	53.5	-	53.5			-		
Total Expenditures	13,426.1	1,007.4	14,433.5	1,469.0	15,902.5	17,201.3	957.0	18,158.3	26%	14%
Ending Balance	(577.1)	(15.1)	(592.3)	-	(592.3)	169.9	9.5	179.4		
Net Fiscal Position						**(2,620.3)**	**(50.4)**	**(2,670.8)**		

Notes: Both revenues and expenditures include anticipated K-12 trigger of $200 million in 2009-11.
Lottery Funds negative ending balance results from a reduction in dedicated BM 66 revenues.
Supplemental State Agency Funding for costs associated with salaries, benefits, and other unanticipated and unknown expenses.
Millions of Dollars.