



Briefing Packet

Back to Basics Budget

May 12, 2009

Background

The Ways and Means Co-Chairs recently released three scenarios based on a potential \$4.4 billion shortfall from Essential Budget Level (EBL). The EBL is based on numbers from May 2008. Much has changed since the number was released and the EBL is clearly unsustainable. In the Back to Basics Budget we are basing our recommendations on the 07-09 Legislatively Adopted Budget (LAB). This is the budget that was approved in 2007. From the 07-09 LAB we are then asking agencies to justify any increases.

The attached spreadsheet is a roadmap to a 2009-11 balanced budget without the need for tax increases. It is based on the 2007-09 LAB, the use of federal stimulus and some state reserve funds along with a hard look at the ending fund balances in agencies that use other fund dollars.

The Back to Basics Budget is a bridge through the current economic downturn and does not rely on tax increases from Oregon families. It allows agencies to continue current operations at current levels.

Starting Point

The Back to Basics Budget is based on the 2007-09 Legislatively Adopted Budget. We begin by holding services such as K-12 Education, colleges and universities, public safety agencies and human services providers harmless from cuts. The groups will have the same amount of money for the 2009-11 budget cycle that was approved in 2007. The “net fiscal position” (discussed below) will allow targeted, prioritized increases for those parts of the budget that can justify a true need based on caseload increases or to deal with actual inflation.

Additional Funds

The Back to Basics Budget relies on two types of additional funds. The budget uses \$911 million in Federal Stimulus money and \$457 million in Rainy Day and Education Stability Funds (state reserves). The plan leaves 50% of these reserve funds in place for future budgets. This packet includes some information from the Legislative Fiscal Office on the use of the Federal Stimulus funds.

Spending

The Back to Basics Budget is based on spending levels from the 2007-09 Legislatively Adopted Budget. The plan holds services like K-12 education harmless from cuts. For comparison purposes the center column from the budget released by the Co-Chairs on April 17, 2009 is included. The “net fiscal position” (discussed below) will allow targeted, prioritized increases for those parts of the budget that can justify a true need based on caseload increases or to deal with actual inflation.

Other Sources of Savings or Enhancements

The Back to Basics Budget contains \$570 million in funds based on an attached list of targeted savings. The budget also uses \$500 million from the ending balances of agencies that receive “Other Funds.” On June 30, 2009 those accounts are projected to have more than \$2.5 billion that was not used during the 2007-09 budget cycle. The Legislative Fiscal Office has confirmed we can use \$500 million to help with the 2009-11 budget.

Net Fiscal Position

In the end the Back to Basics Budget leaves \$1.374 billion in funding that can be used to address a variety of issues. It can be used to:

- Keep schools from cutting days from the school year
- Help with caseload issues at the Department of Human Services
- Deal with real increases in cost based on inflation or prioritized needs as determined by lawmakers, and
- Respond to potential decreases in revenue projections for the 2009-11 biennium.

We will also maintain an additional \$457 billion in state reserve accounts.

Adjustment for May Revenue Forecast

When the May Revenue Forecast is released on May 15th we plan to adjust the budget based on updated revenue projections for the 2009-11 budget cycle. We plan to maintain at least \$6.245 billion for K-12 education and will likely add an inflationary factor to that amount. At this point the inflationary factor is going to be 2.8% (based on data from the Legislative Fiscal Office). With this factor state services should continue at current levels without interruption.

2009-2011 Budget Proposals

	4/17/2009 Co-Chairs¹	Back to Basics²
2009-2011 EBL	16.749	
Projected shortfall	-4.364	
2009-2011 Projected Revenue ³		14.179
	12.385	14.179
Additional funds:		
Federal Stimulus	0.911	0.911
State Reserves (50%)	0.457	0.457
New taxes	0.500	
Total Funds Available	14.253	15.547
Spending Level:	14.9% Cut from EBL ⁴	09-11 Spending ⁵
K-12	5.500	6.245
Education-Other	1.881	2.013
Human Services	3.918	3.455
Public Safety/Judicial	2.447	2.434
Economic & Community Development	0.125	0.182
Natural Resources	0.351	0.400
Administration	0.200	0.194
All Other	0.208	0.179
	14.630	15.102
Surplus (Deficit)	-0.377	0.445
Other Sources of Funds-Enhancements:		
Savings		0.429
Other Funds Ending Balance Reserve		0.500
		0.929
Surplus (Deficit)	-0.377	1.374

¹ From the budget document produced and distributed by the Co-Chairs of Ways and Means on 4/17/2009

² Will be adjusted on 5/15/2009 for changes to the May Revenue Forecast

³ General and Lottery Funds from March 2009 Revenue Forecast

⁴ Middle column from co-chairs 4/17/2009 budget

⁵ Based on 2007-09 Legislatively Adopted Budget

Other savings or offsets include (\$429 million in total):

- **\$50 Million** – Other Fund savings resulting from Senator Jackie Winters’ work on the Department of Administrative Services Budget. This Other Fund savings would be realized through DAS rate reductions to General Fund agencies.
- **\$78.7 Million** – Redirect the ending fund balance from the Public Employees Benefit Board to the General Fund. The money is currently being held in case PEBB decides to self-insure state workers (based on email from PEBB).
- **\$50.0 Million** – Redirect half of the money currently in the Risk Assessment Account. This account is used to cover lawsuits against the state and we are not aware of any large pending suits (based on money currently in account).
- **\$250 Million** – Eliminate the pay raises granted by the Governor without legislative input.

Questions on Federal Stimulus Money

(Answers provided by Legislative Fiscal Office)

Do you have a breakout of where the \$911 million needs to go?

The \$911 million is still an estimate, but we currently believe there is about \$512 in federal Medicaid match (FMAP) that would generally need to be used in DHS programs, about \$295 million remaining from the federal allocation called the State Stabilization Fund dedicated for education, and about \$104 million from the federal allocation to the State Stabilization Fund that is more flexible (generally either public safety or education).

How much can be allocated at the Legislature's discretion?

All of it is technically at the Legislature's discretion, but within these defined program areas and with certain federal requirements (e.g., no reduction of eligibility for Medicaid programs). There are timelines involved, however, that if the Legislature doesn't use the funds within the timeframes, the federal government can reallocate the funds to other states. There is also an issue within the FMAP that if we do not find enough state match for the programs, the amount we get from the federal government is reduced (or, alternatively, if we spend more, we might get more). We are looking into these issues while reviewing the DHS budget.

When we talk about Maintenance of Effort for certain programs does that mean we have to fund them at EBL or would 2007-09 levels meet the standard?

Maintenance of Effort requirements generally vary by individual program, so we would probably need to have a discussion with you with respect to the DHS program needs. For the education stimulus dollars, there is an extremely complicated mechanism that basically sets the base for K-12 and post-secondary education at the 2006 level (can't go below without a waiver) but then requires proportional reductions to the two components based on the lower of either 2008 or 2009. We are working with the executive branch on making sure that these criteria are met when we finalize the education area budget.

We are still trying to understand all of the nuances of the federal requirements and are trying to track the other dollars that are coming to state agencies through grant applications that are outside of the \$911 million. We seem to get new guidance from the federal government every day. We (LFO) are meeting weekly with the Governor's Economic Recovery Executive Team to make sure we are on the same page with respect to the federal stimulus program and the agency reporting that is occurring.