

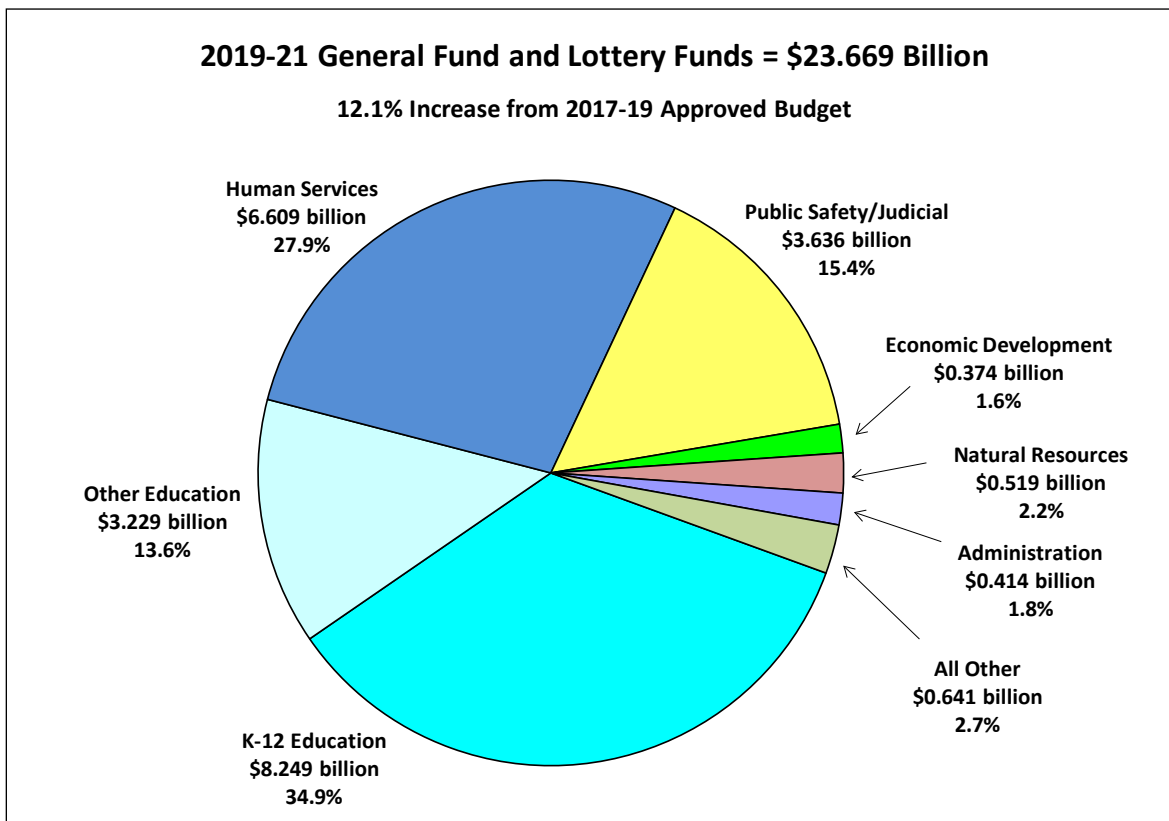
## 2020 Co-Chair Budget Principles

The formation of the 2019-21 budget was guided by three core principles:

- Align spending with the desire to meet critical needs and provide long-term budget stability.
- Prioritize K-12 education funding and the Oregon Health Plan. Evaluate all other expenditures based on their short-term and long-term outcomes.
- Maintain a prudent level of resources to guard against program and service reductions in the event of economic downturns in future biennia.

We were able to hold to these principles and delivered the following:

- Prioritized, retained, and created critical programs and services.
- Retained 2.3% of General Fund expenditures as an ending balance (roughly \$520 million) to inoculate against revenue declines and address critical needs or emergencies.
- Enhanced the State School Fund, including passage of the Corporate Activity Tax, to invest in Oregon's children.



The principles to be followed during the 2020 session are:

- Maintain a prudent level of resources.
- Balance the focus on future budgets with the use of current resources to address emergencies, critical needs, and strategic investments.
- Evaluate the effect of 2020 session expenditures on the sustainability of future budgets.

## Potential Risks to Budget Sustainability

- Downside risks/issues
  - Spending that exacerbates a deficit budget position for future biennia (budget rollup)
  - Lawsuits or ballot measures that result in costs to the state
  - Revenue estimates are lower than what was used to build the budget
  - Federal changes reduce funding for services or programs that may require state backfill
  - Other risks/issues including natural disasters, management actions/inactions, and the care, maintenance, and usage of state facilities and infrastructure
- Upside risks
  - Lawsuits that provide funds to the state for programs
  - Ballot measures that provide resources for state-funded programs
  - Revenue estimates increase beyond what was used to build the budget
  - Federal changes increase funding for Oregon services and/or programs
  - Past investments that have reduced costs going forward

## 2020 Budget Issues

- Department of Human Services
- Oregon Health Authority
- Department of Forestry
- Community Corrections
- Bonding projects
- Homelessness services
- Carbon policy
- Other critical issues that may be identified

## Early Messages for 2021-23 Budget Process

Looking forward to the 2021 session, we believe it is beneficial to those relying on the programs and services provided for in the state budget to understand how we anticipate conducting the 2021-23 biennial budget process. Following are key elements of that process:

- Address any budget deficit that exists in order to continue programs and services funded in the 2019 and 2020 sessions.
- Evaluate programs and services to determine if they are performing as expected and, if not, eliminate programs or modify them to better serve Oregonians.
- Continue to focus on addressing long-term issues and problems.
- Evaluate new or enhanced programs and services that can be funded within forecasted revenues both in 2021-23 and into the future, with a focus on long-term budget stability and sustainability.
- Continue and enhance a disciplined approach to evaluate and address long-term investments in infrastructure needs.

## Budget Rollup Example (for costs that are ongoing)

<b>Example Scenario</b>	A new program is considered in the 2020 session at a cost of \$1 million per month. The program is to start on July 1, 2020 and be ongoing. The example has available revenue (ending balance) of \$30 million at the time the program is approved.
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<b>Revenue Impact</b>	
Revenue at end of 2019 session that is available for 2020 session (ending balance) or 2021-23 session (beginning balance):	\$30 million
Revenue available in 2021-23 if new program is not approved:	\$30 million
Revenue available in 2021-23 if new program is approved (see * in table below):	\$18 million

<b>Expenditure Impact</b>	<b>2019-21 biennium</b>			
	<u>Last 6 months 2019</u>	<u>2020</u>	<u>First 6 months 2021</u>	<u>Total 2019-21</u>
New cost to begin July 1, 2020 at \$1 million per month	\$0	\$6 million	\$6 million	\$12 million*
	<b>2021-23 biennium</b>			
	<u>Last 6 months 2021</u>	<u>2022</u>	<u>First 6 months 2023</u>	<u>Total 2021-23</u>
Full 24 month cost	\$6 million	\$12 million	\$6 million	\$24 million

\* Uses 2021-23 beginning balance revenue

### Total Impact

Revenue available in 2019-21:	\$30 million
Costs approved for 2019-21:	<u>\$12 million</u>
Remaining revenue available in 2021-23:	\$18 million
Ongoing cost in 2021-23	<u>\$24 million</u>
<b>Net position in 2021-23</b>	<b>(\$6 million)</b>