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# **Federal Forest Payments and County Services Task Force**

**January 31, 2008**

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Department of Administrative Services  
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# Lessons from our History:

Strong Economic Growth during the  
1990's

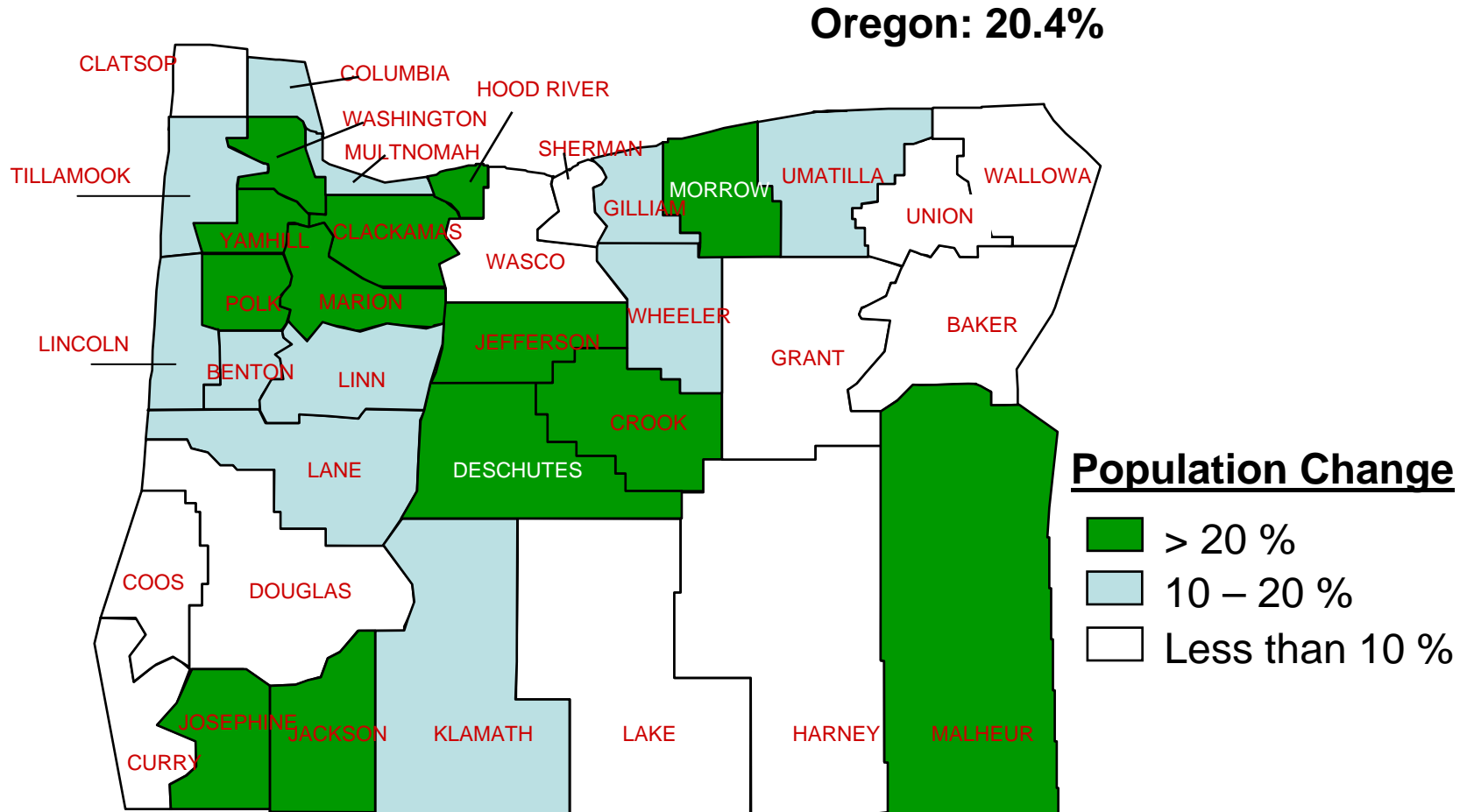


## **1990's: State enjoyed huge economic growth and diversification**

- Total gross state product increased by 98% from 1991-2001.
- High-tech industry growth.
- Population growth – 11<sup>th</sup> fastest growing state.
- Personal income grew at annual rate of 5.6%, exceeding the nation.
- Exports increased by a compound annual rate of 5.8%.
- State General Fund grew from \$4,628.1 million in 1989-91 to \$10,121.8 million in 1999-2001 – dollars primarily went to K-12, Oregon Health Plan, and Public Safety.
- Kicker returned for personal income tax filers 7 times, totaling over \$1.5 billion; for corporate tax filers 5 times, totaling over \$400 million.

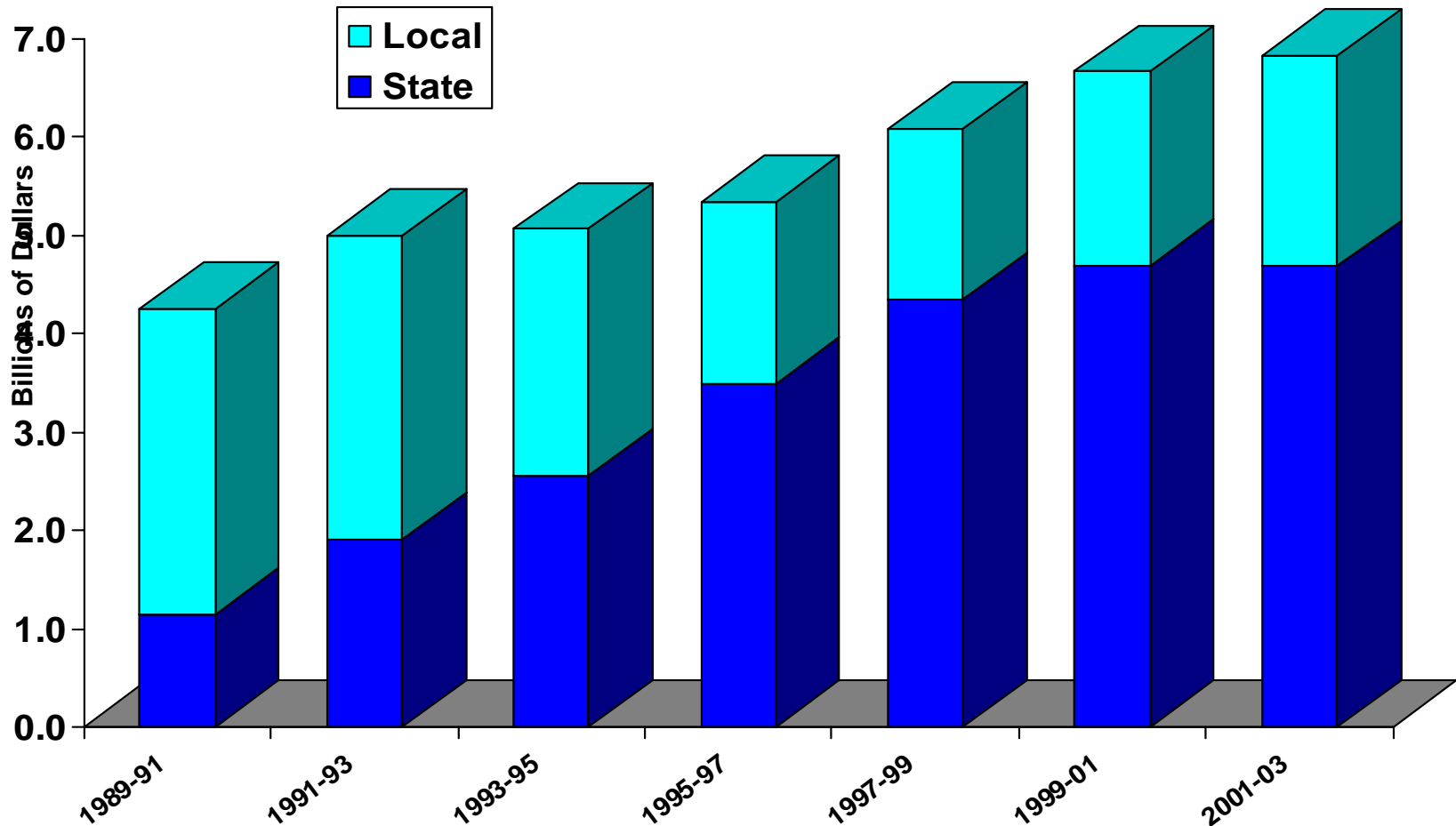


# Decennial Population Growth (in percent): 1990 – 2000



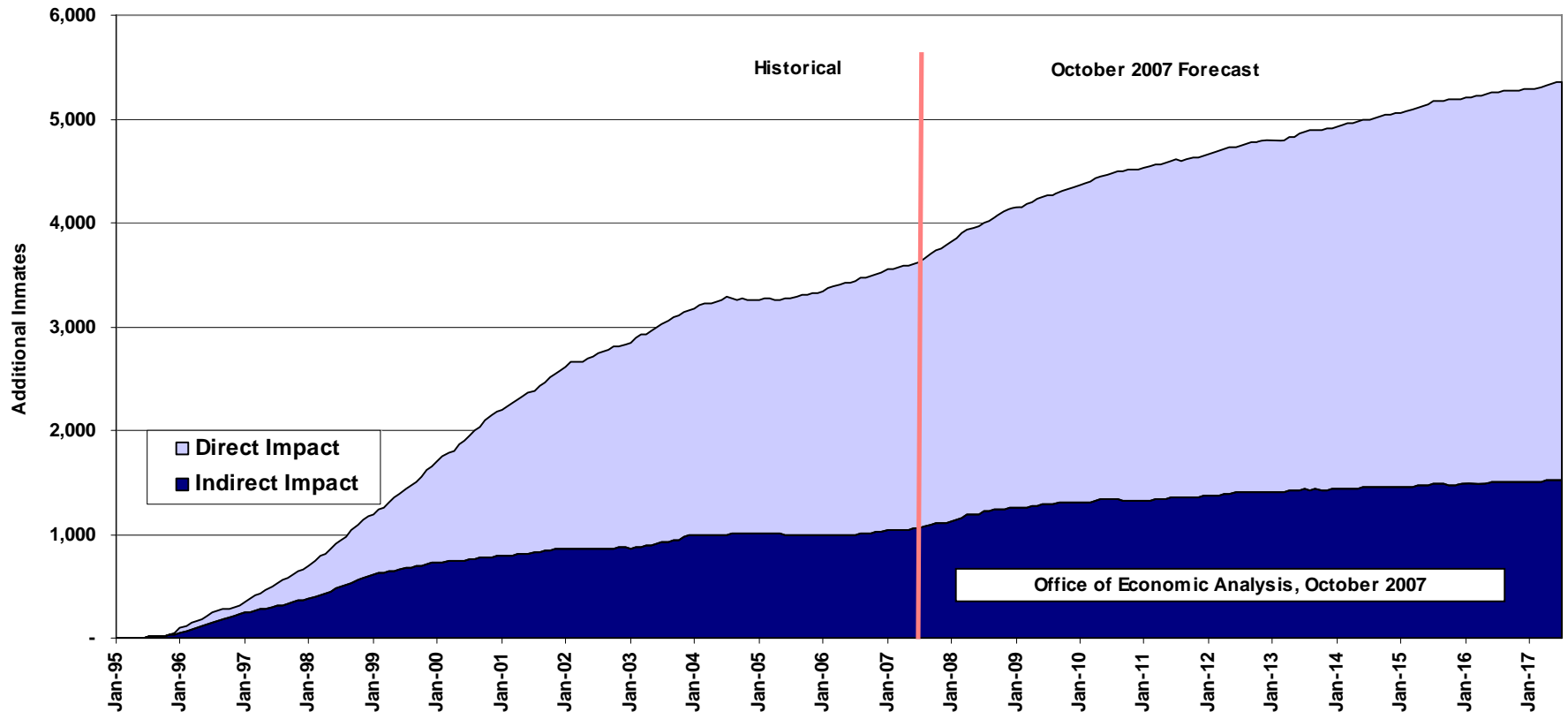


# State and Local Resources for K-12 School Funding





# Estimated Impact of Measure 11 on Oregon's Prison System





# Impact of 2001-03 Recession on State Budget



## 2001-03

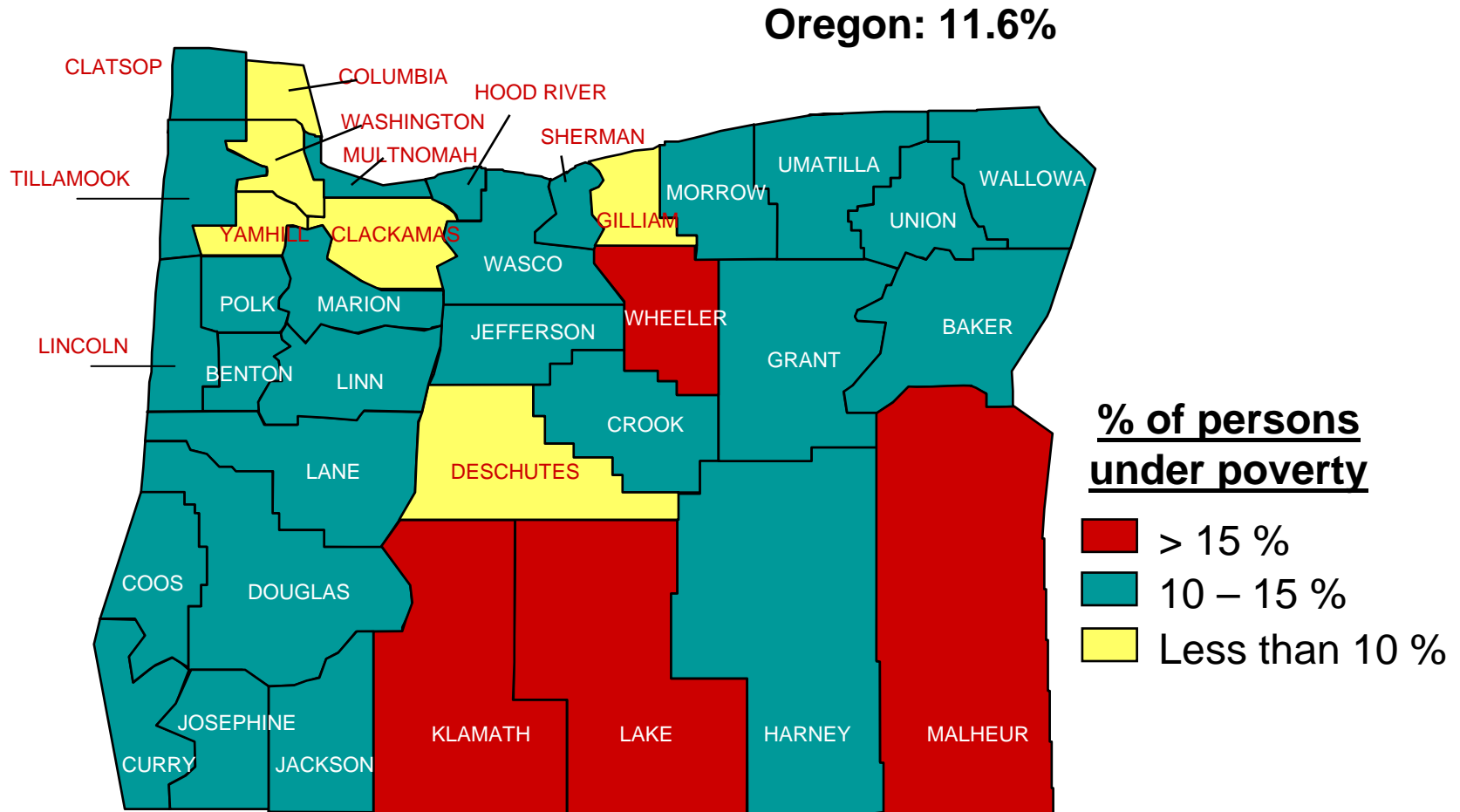
- Close of Session forecast projects \$12.1 billion General Fund/Lottery Funds (\$11.45 GF/\$0.65 LF). Legislature approves expenditures of \$12 billion. Preliminary 2003-05 forecast is approximately \$13 billion (GF plus Lottery).
- Quarterly General Fund forecasts demonstrate effects of recession:

	2001-03	2003-05
September 2001	11,159.4	12,313.0
December 2001	10,747.5	11,944.8
March 2002	10,604.0	11,973.9
June 2002	10,098.2	11,528.3
September 2002	9,718.6	11,392.5
December 2002	9,585.6	10,880.5

- Five special sessions plus a rebalance during the 2003 regular session to rebalance the budget using one-time resources, program reductions, and additional revenues.



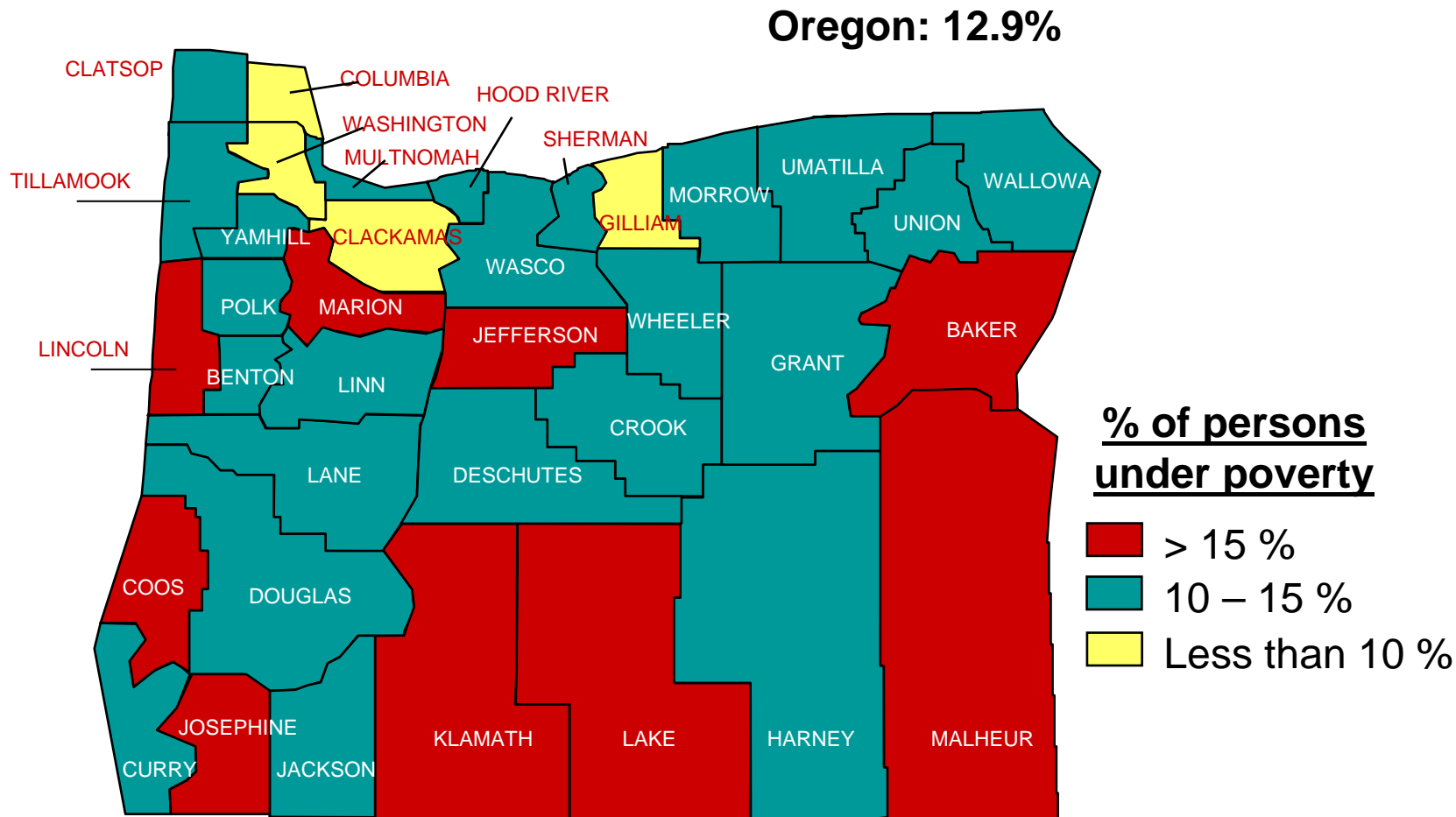
# Poverty Rate, 1999



Source: U.S. Census Bureau, Census 2000



# Estimated Poverty Rate, 2004

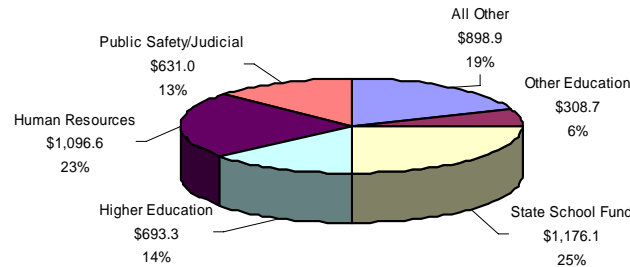




# Approved General Fund & Lottery Funds

## 1989-91 General & Lottery Fund Expenditures

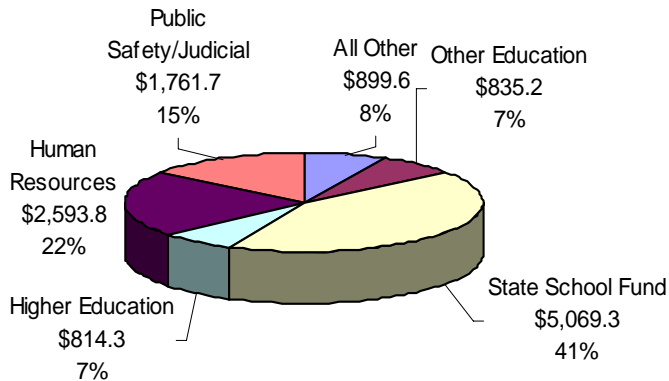
Total: \$4,804.6 Million



## 2001-03 Legislatively Approved General Fund & Lottery Funds

Budget - Close of Session

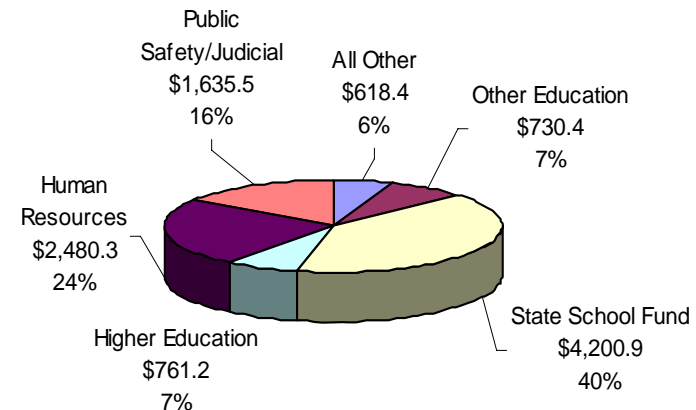
Total: \$11,973.9



## 2001-03 Legislatively Approved General Fund & Lottery Funds

Budget - End of Biennium

Total: \$10,426.7





# Economic Recovery in 2003



# Highlights of Oregon Economy

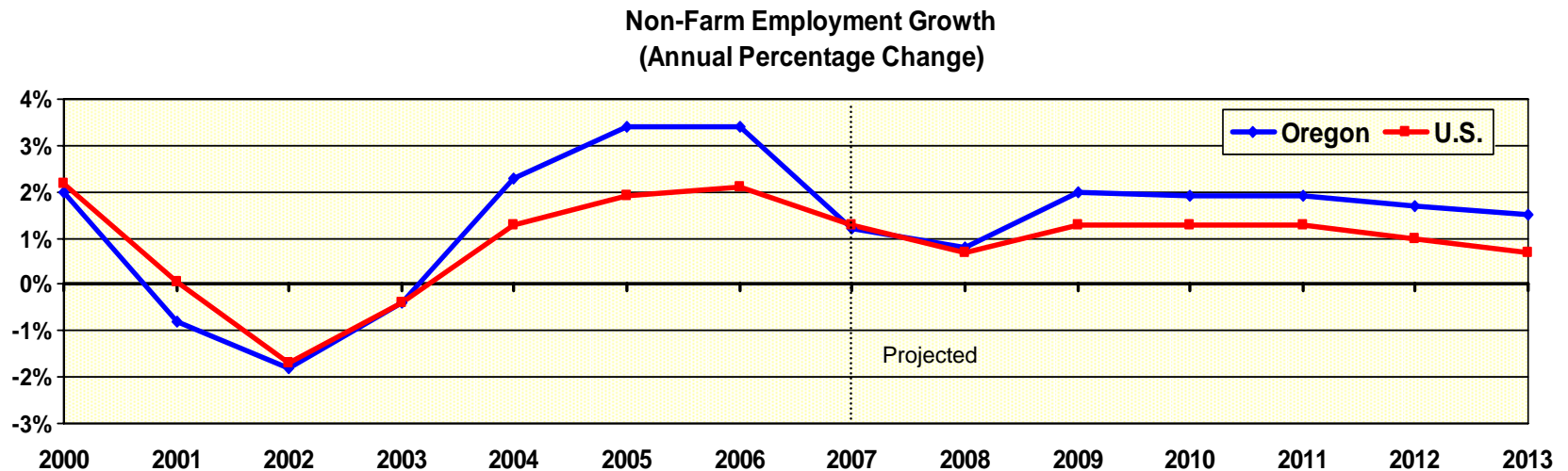
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- After the recession of 2001-03, Oregon experienced three years of strong economic growth. During this period, Oregon's economic indicators exceeded national averages.
- Employment picture in Oregon was extremely strong beginning in 2003
  - 2.3% annual growth in calendar year 2004
  - 3.4% annual growth in calendar years 2005 and 2006
  - For all three years, Oregon's employment growth was between one and one-and-a-half percentage points higher than the national average.
- Oregon's basic strengths
  - Diverse economy with substantial international presence
  - Relatively lower energy costs
  - A high quality of life
  - Well-educated workforce
  - Affordable housing
  - Business cost advantages
  - Pacific Rim orientation
  - Strong population growth due mainly to in-migration



# Long-Term Employment Trends

*Oregon's overall employment trends have mirrored the U.S. with slightly more job loss during the recession but stronger recent and projected growth*



Source: Office of Economic Analysis

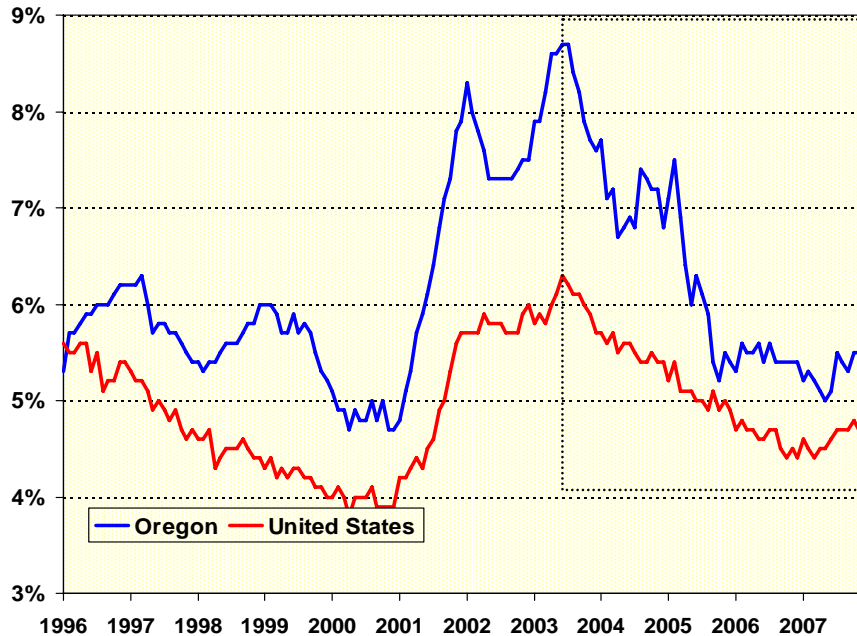
- The Oregon economy follows the path of the national economy
- Job growth turned positive in July 2003
- Oregon's employment growth will continue to be fueled by strong exports, population growth and business investment



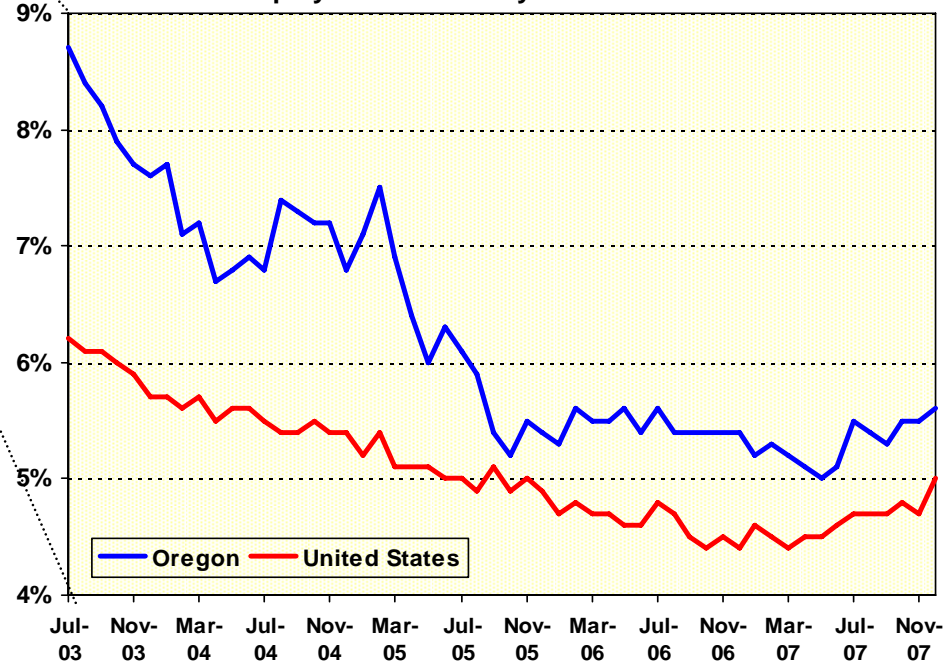
# Improving Unemployment Trends

*Oregon's unemployment rate, while still higher than the U.S. average, has decreased significantly in the past four years*

Unemployment Rates - 1996 to 2007

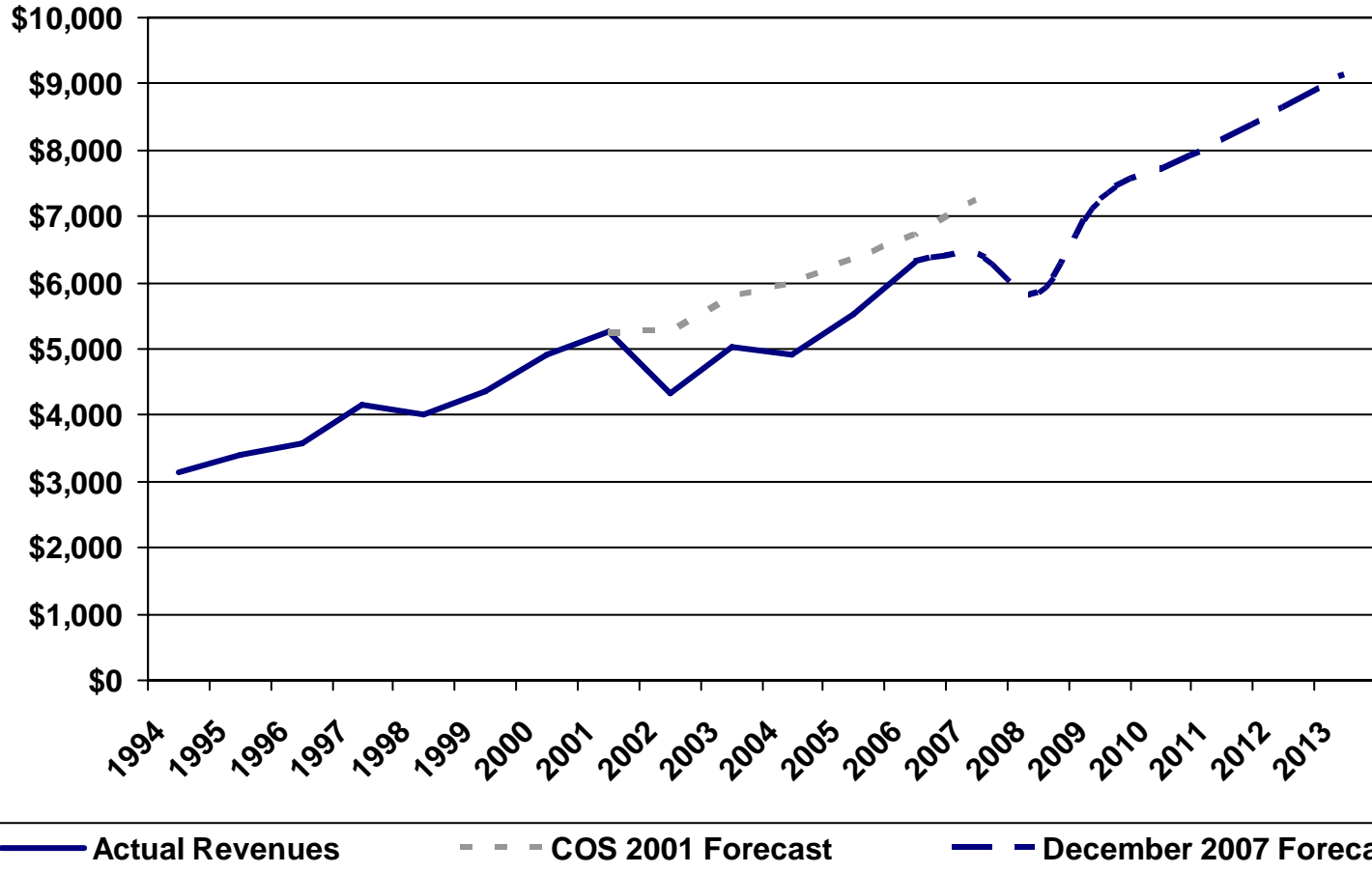


Unemployment Rates July 2003 - December 2007



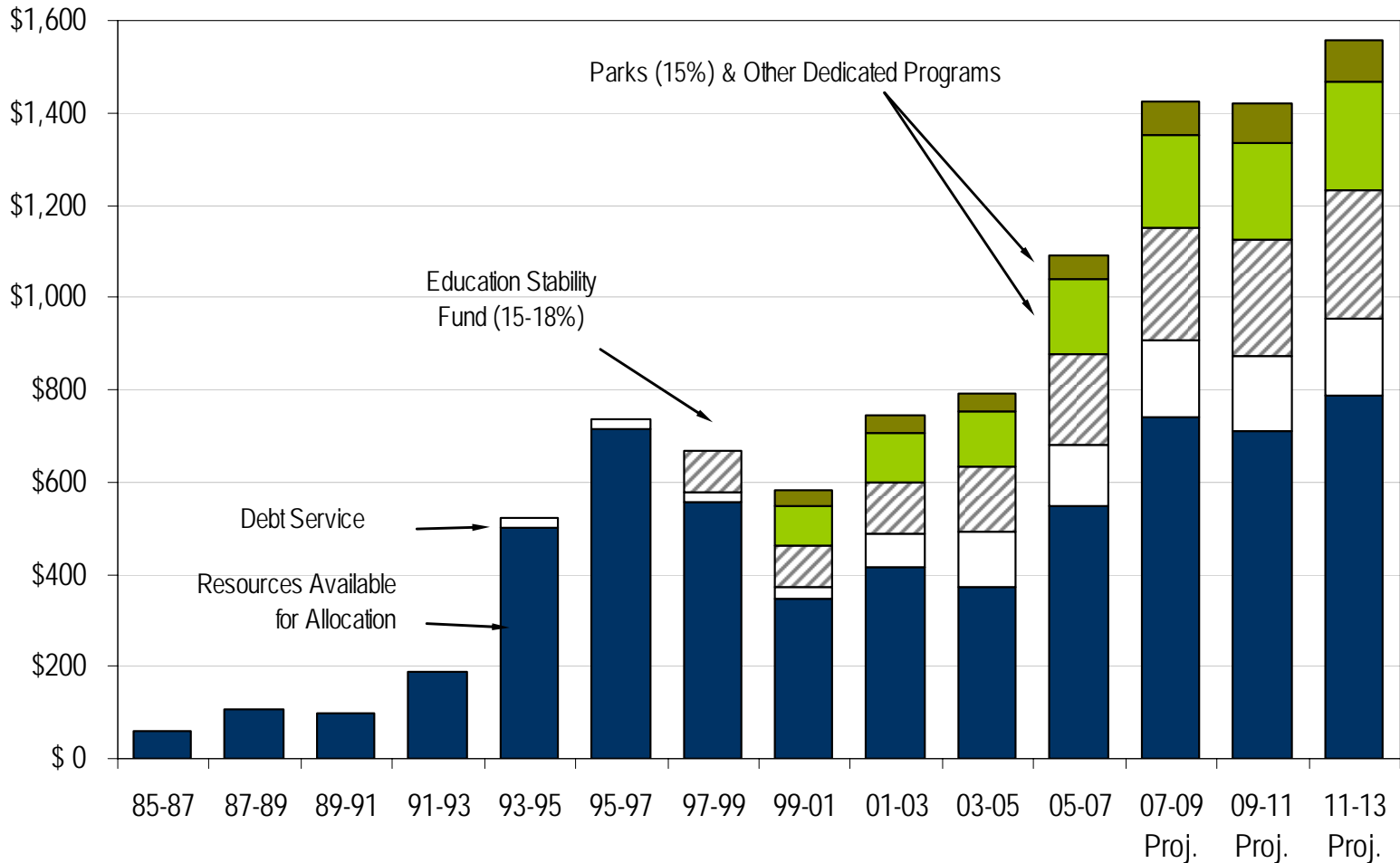


# General Fund Forecast Comparison Fiscal Years, in Millions





# Lottery Resources Available to the State (Millions)



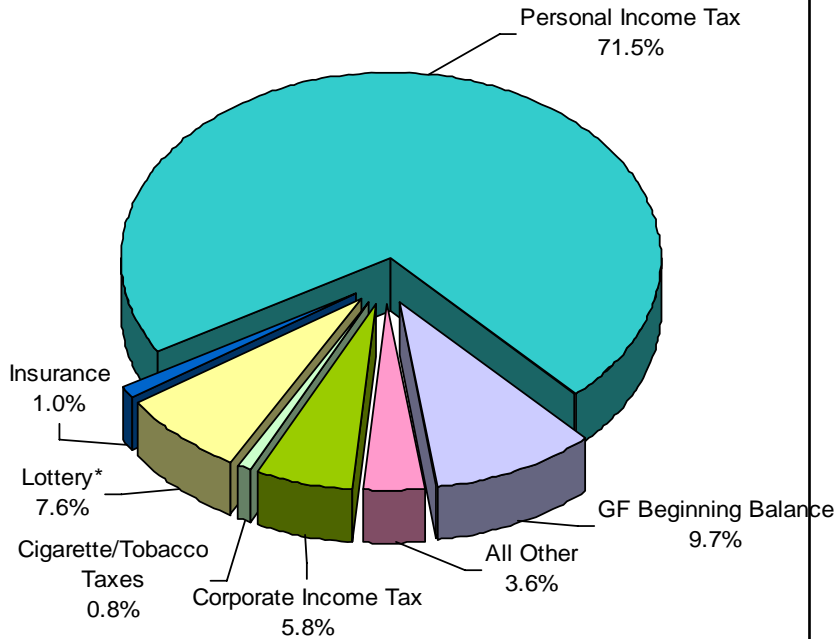
Note: Resources do not include Video Lottery proceeds dedicated to the Counties. Beginning balance is included.

2003-09 debt service figures do not reflect any Education Endowment Fund or reserve earnings designated for debt service on education bonds.



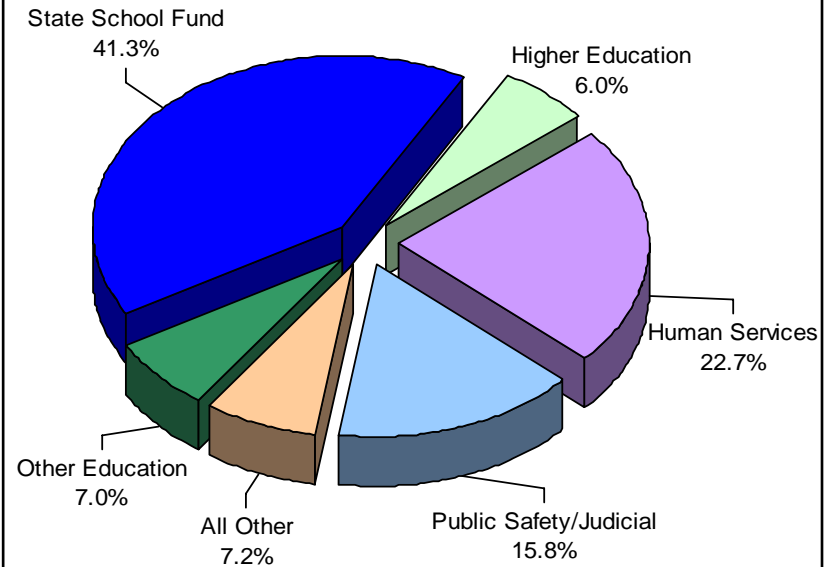
# 2007-09 Legislatively Adopted Budget General Fund and Lottery Funds

## Resources Budgeted Total: \$15,303 Million



\* Includes beginning balance & carry forward

## Expenditures Total: \$15,106 Million





## Increasing Oregon's Budget Reserves

- Continued growth of the Education Stability Fund
  - 18% of biennial net Lottery revenues are dedicated to this reserve account
- Establishment of a Rainy Day Fund in the 2007-09 Budget
  - Seeded with Oregon's projected 2005-07 Corporate Kicker of \$319.3 million
  - All interest earnings on the Rainy Day Fund are retained in the Rainy Day Fund
  - Automatic transfer to the Rainy Day Fund of one percent of Oregon's General Fund expenditures from the State's ending fund balance at the completion of each biennium

Budgeted Reserves (\$ Millions)		
	<u>2005-07</u>	<u>2007-09</u>
Education Stability Fund	\$ 236	\$ 468
Rainy Day Fund	--	346 <sup>(2)</sup>
Ending Balance/Emergency Fund	<u>319<sup>(1)</sup></u>	<u>227</u>
<b>TOTAL</b>	<b>\$ 555</b>	<b>\$ 1,041</b>

<sup>(1)</sup>Reflects Ending Balance after distribution of \$1.2 billion in personal "kicker" distributions

<sup>(2)</sup>Reflects \$319.3 million in initial corporate "kicker" deposit and interest earnings

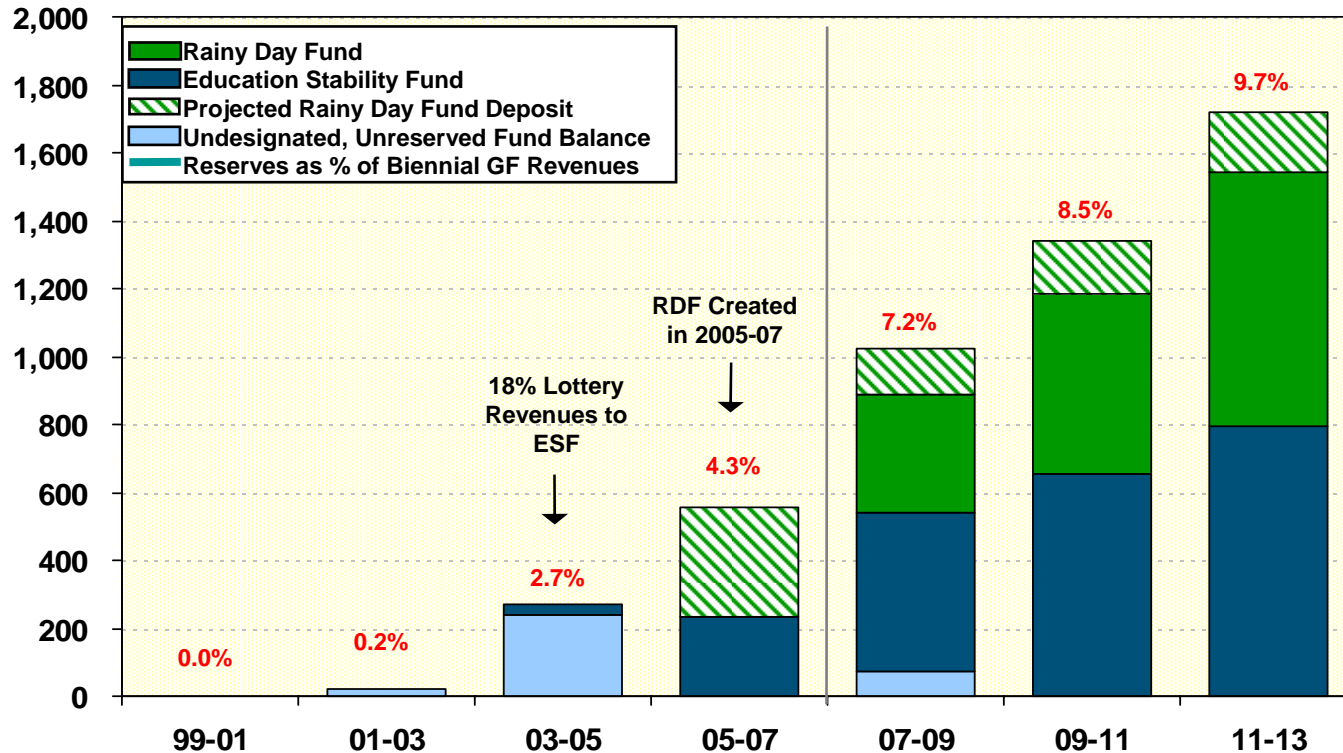
- \$1 billion budgeted reserve for 2007-09 biennium is approximately 7% of anticipated biennial general fund expenditures



# Undesignated Fund Balances and Projected Reserves

*The State's reserve funds are now legally required and a permanent component of the State's balance sheet*

(\$ in millions)





# Looking Forward at Budget Drivers



# Revenue Methodology

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- Revenues are modeled and projected based on relationships between taxable incomes and key economic variables (e.g., capital gains as a function of past and predicted stock market performance).
- Outer-year forecasts are based on long-run historical growth rates.
- OEA consults with the Council of Revenue Forecast Advisors quarterly to discuss recent trends and anticipated issues.



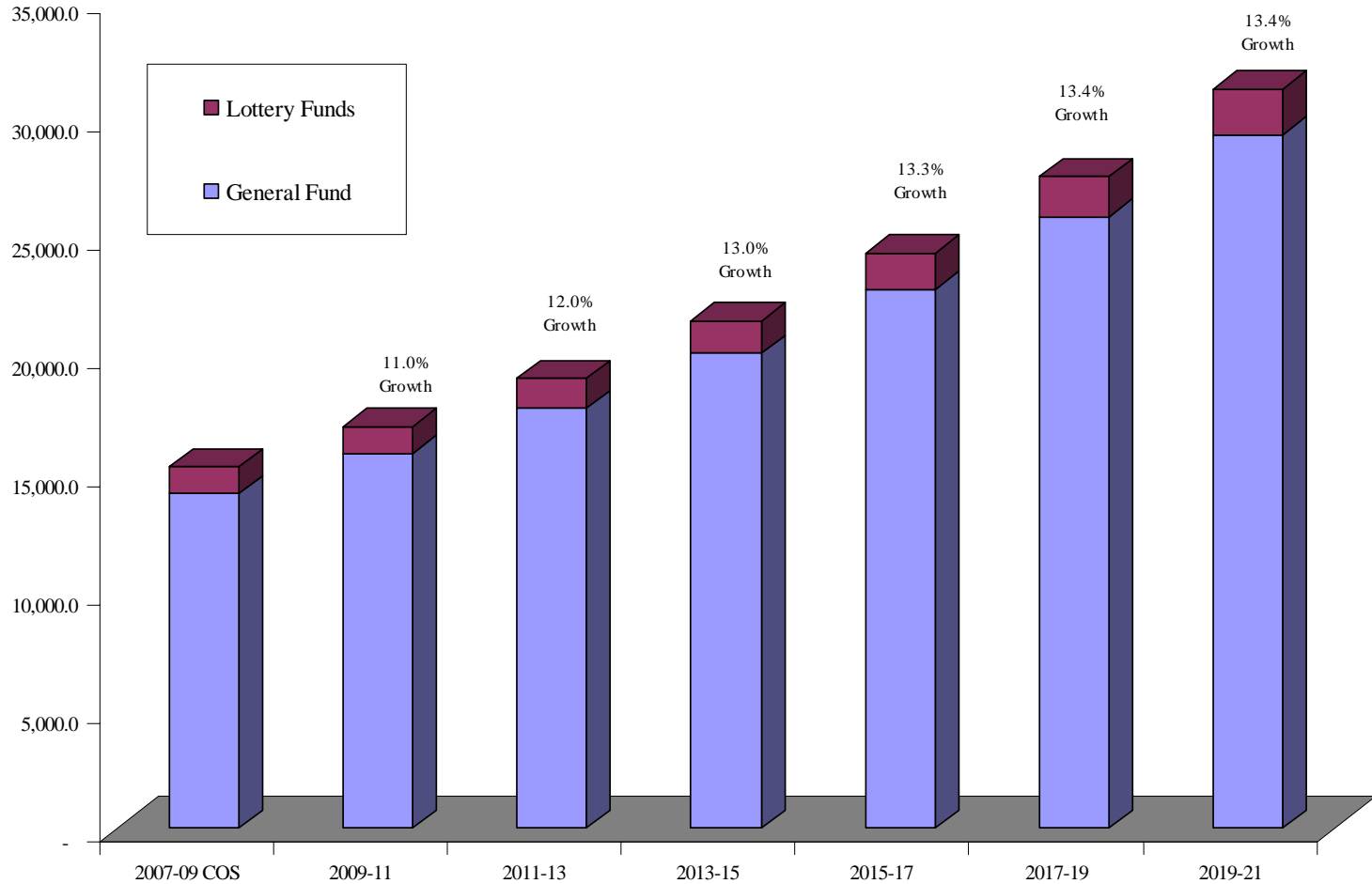
# Revenue Drivers

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- Revenue Growth Factors
  - Employment
  - Wage Rates
  - Investment Returns
  - Profit Levels
- Long term risks
  - Burgeoning retirement income erodes taxable income base.



# Long Term Revenues





# What has caused General Fund expenditure growth?

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- **Primary**
  - Population
  - Voter Approved Initiatives
  - Legislative Policy decisions
  - Federal Budget Adjustments
- **Secondary**
  - Inflation
  - Lawsuits



# Expenditure Methodology

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## Essential Budget Level (EBL) Approach

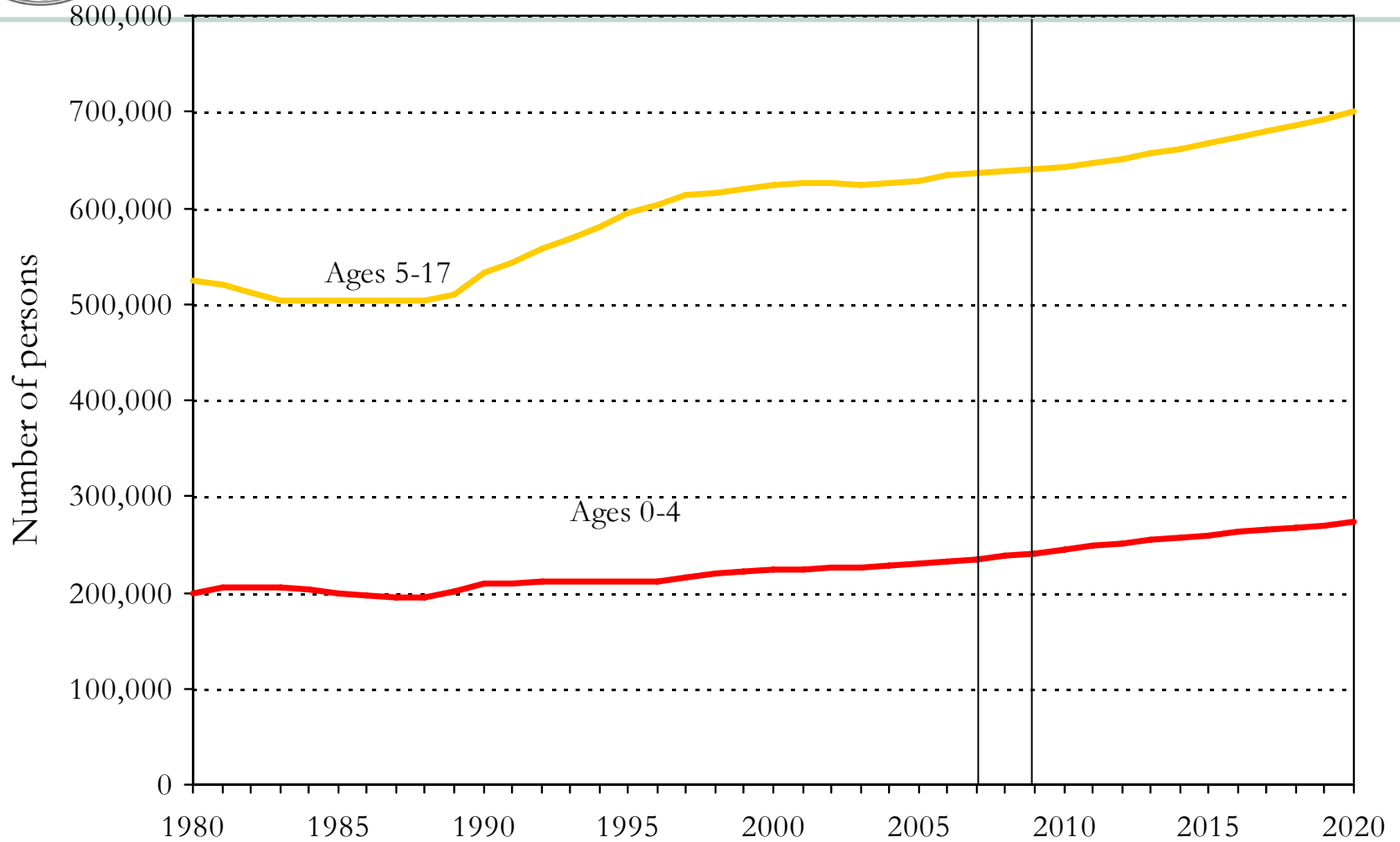
- Phased in/out Legislatively Approved Programs that were starting or ending in 2007-09
- Added Projected Inflationary Increases (general and medical)
- Adjusted Mandated Caseload programs for population changes
- Adjusted Mandated Caseload programs for projected federal funding changes
- Includes debt service only legislative approved projects or new construction that will be driven by mandated caseload programs

## Inherent Downward Bias

- Debt Service costs phase-out over time, but are not replaced

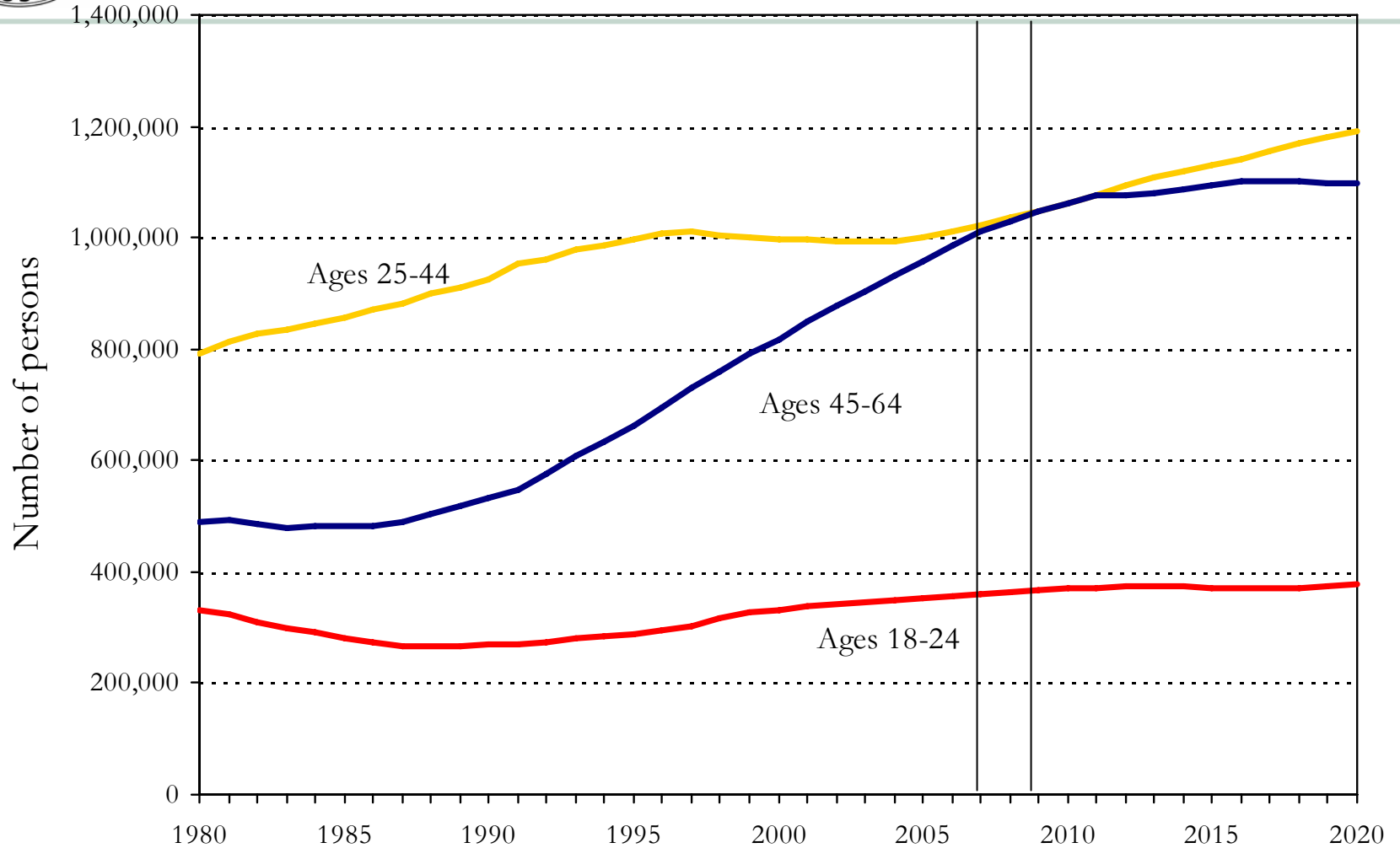


# Young-age Population: 1980-2020



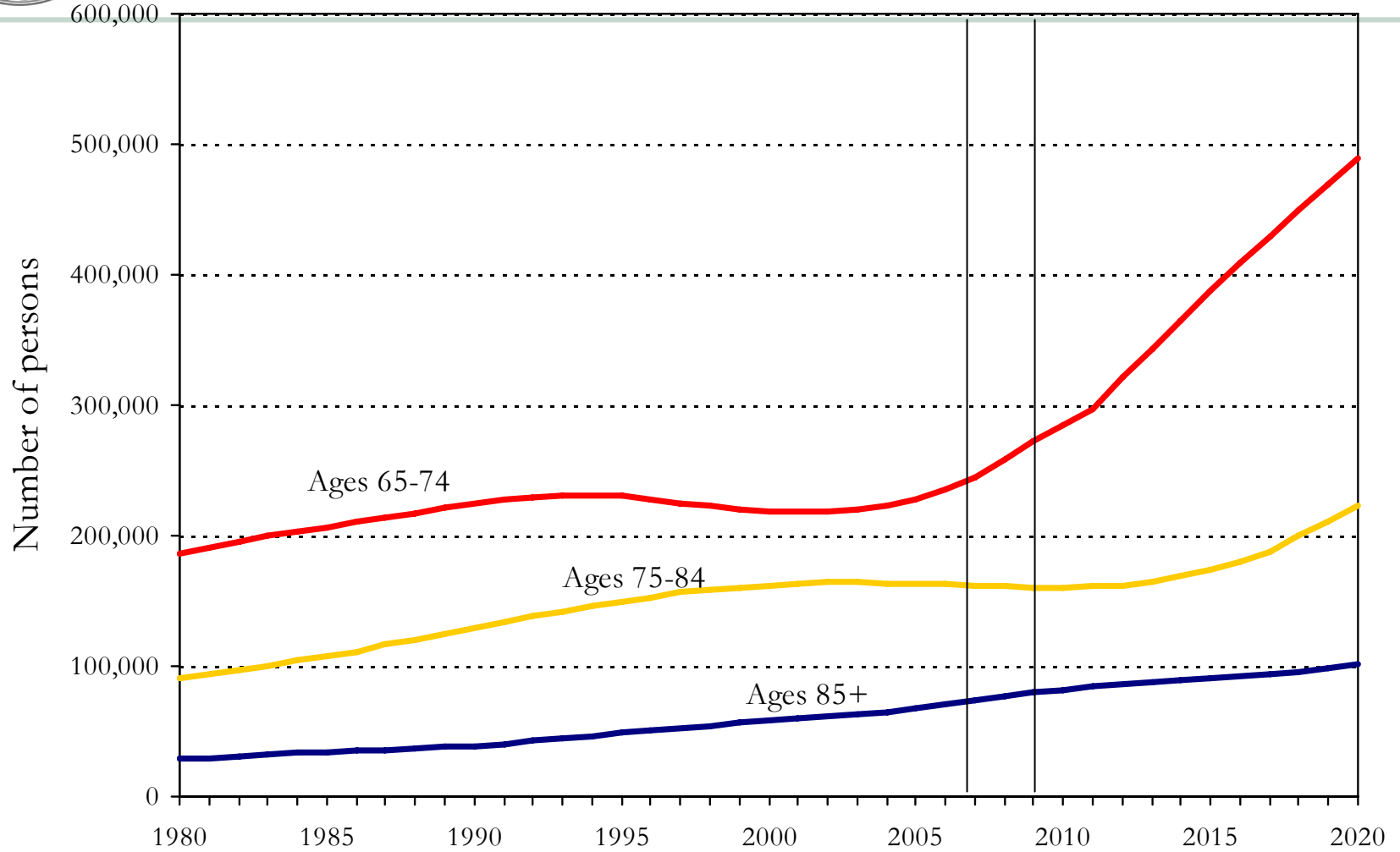


# Working-age Population: 1980-2020



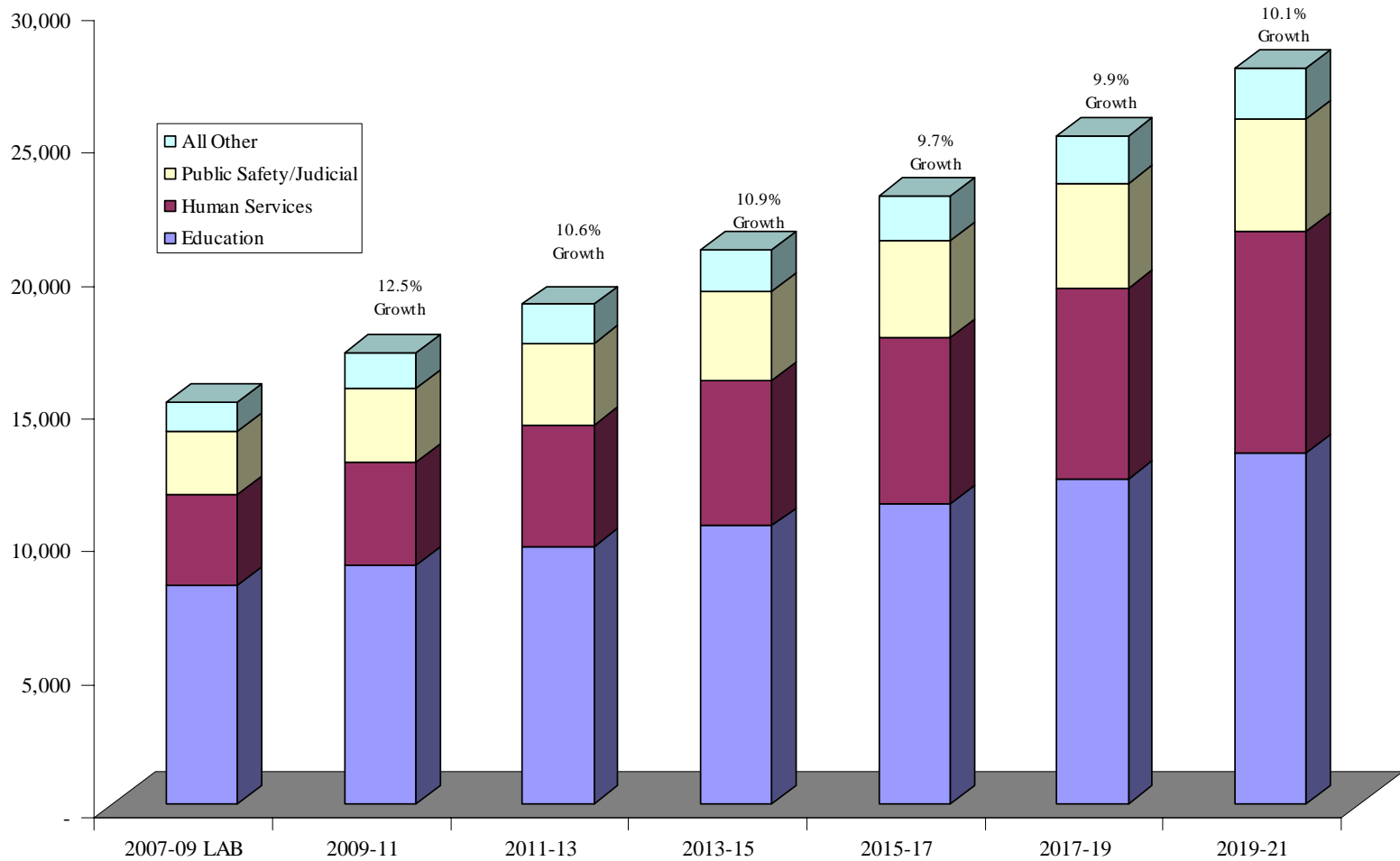


# Elderly Population: 1980-2020





# Long Term Expenditures





# Expenditure Assumptions

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## Overall

- General and medical inflation factors developed based on national projections
- Used standard essential budget level assumptions for program expansions.

## Education

- State School Fund budget was projected to grow using an EBL model.
- Funding for Opportunity Grants phased-in during 2009-11.
- Debt Service on approved capital construction/deferred maintenance costs within higher education and community college programs was included, but expenditure assumptions do not include any new projects.

## 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 17% for 2009-11 rising to 20% for the following biennium.



# Expenditure Assumptions (cont)

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## Human Services (cont)

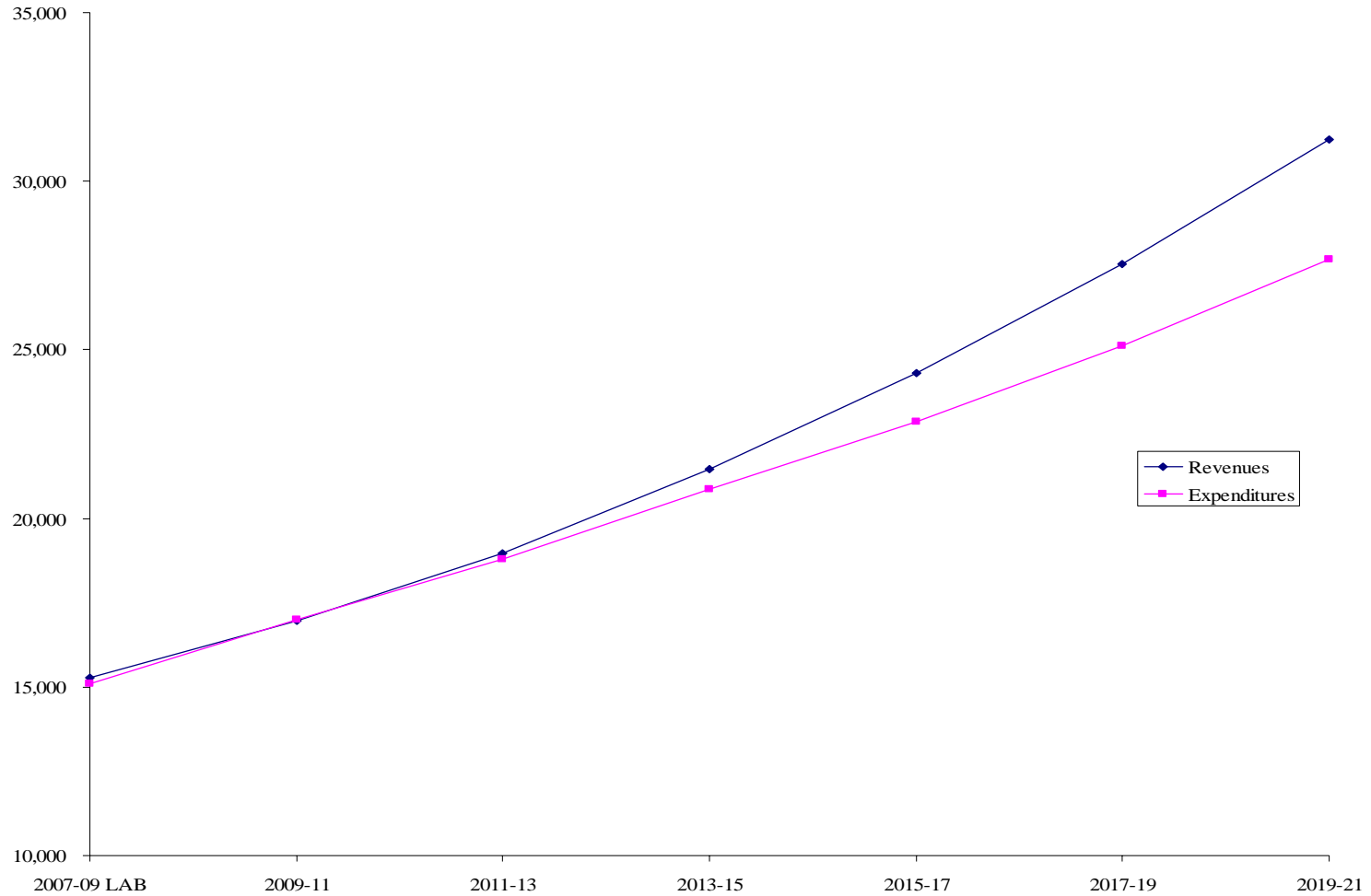
- Assumes that programs funded with Other Funds in 2007-09 will continue to be funded by those revenue sources in 2009-11 and beyond.
- Includes funding changes related to flattened tobacco tax revenue projections and changes in federal match rates.
- Includes construction and operation of new state hospital facilities.

## Public Safety

- Caseload growth for public safety programs based on April 2007 prison population forecast.
- It does not include heightened costs of caring for an aging inmate population. Further work on this topic is currently being developed.
- Includes funding for last two projected prisons based on prison population forecasts.
- Does not assume passage of new initiative petitions that may be decided by voters.
- Includes debt services for the Oregon Wireless Interoperability Network.



# Long Term Budget

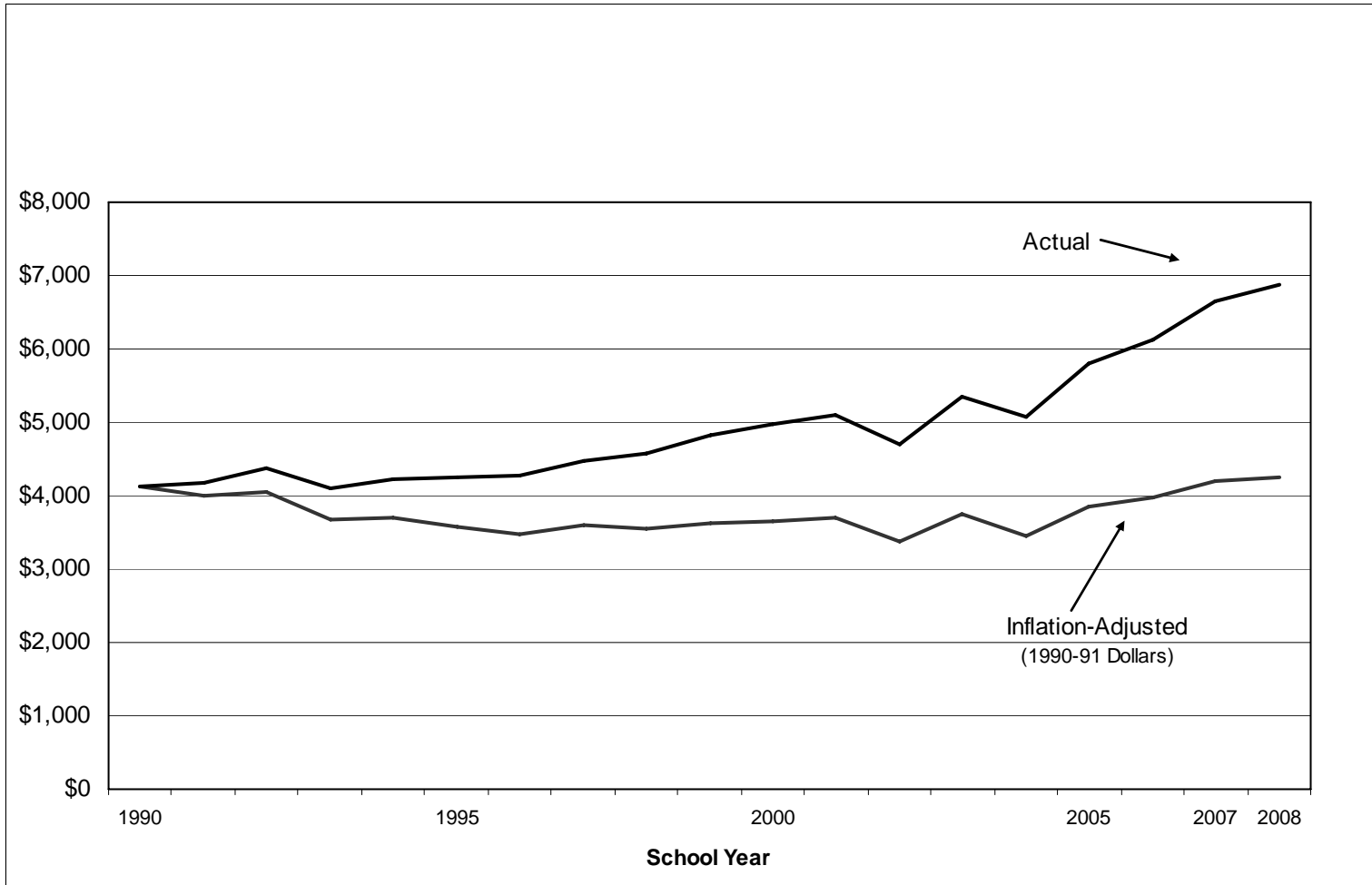




# Significant Issues Outside These Expenditure Forecasts



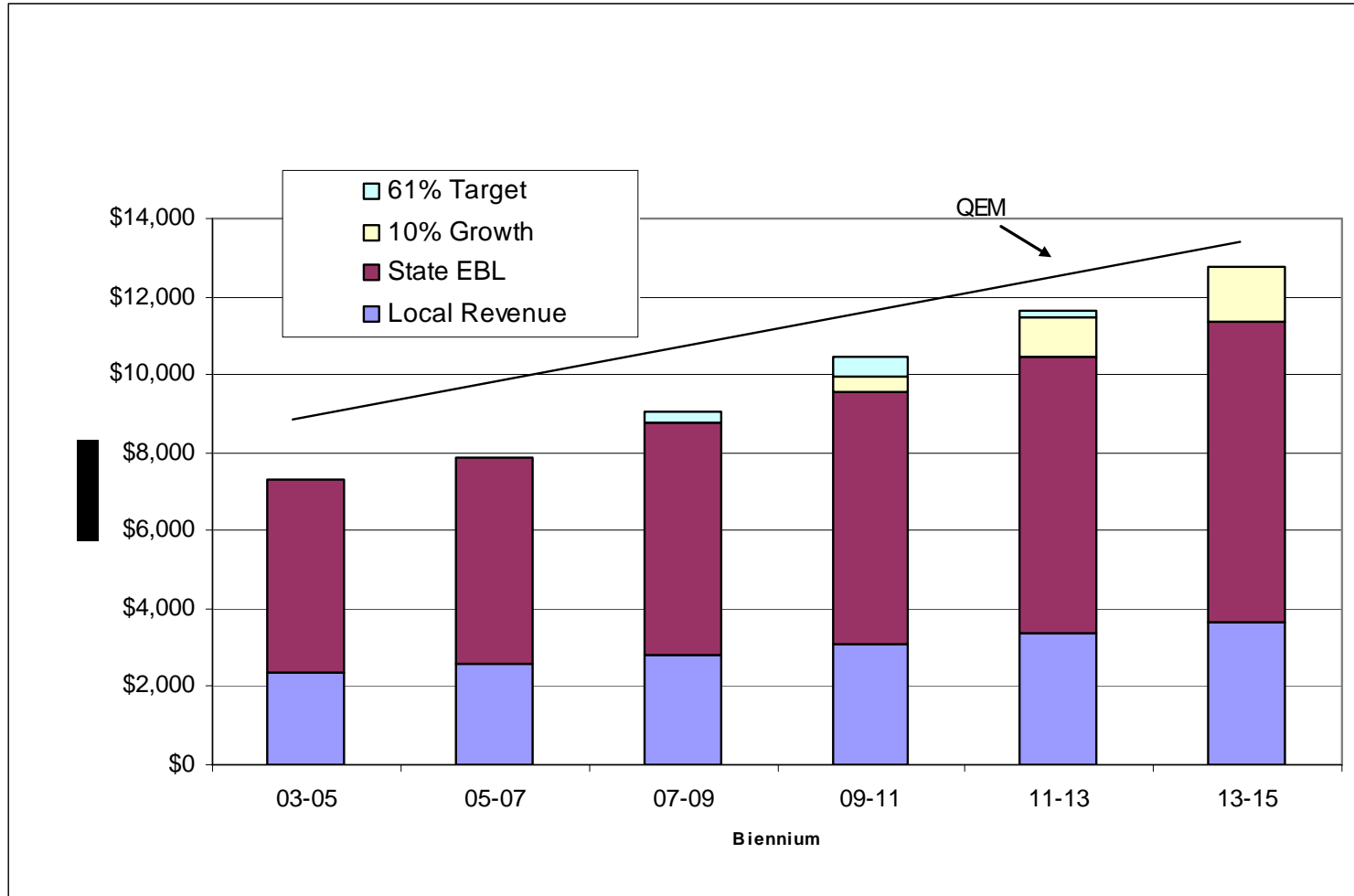
## K-12 School Funding per ADMw (State School Fund and School Improvement Fund)





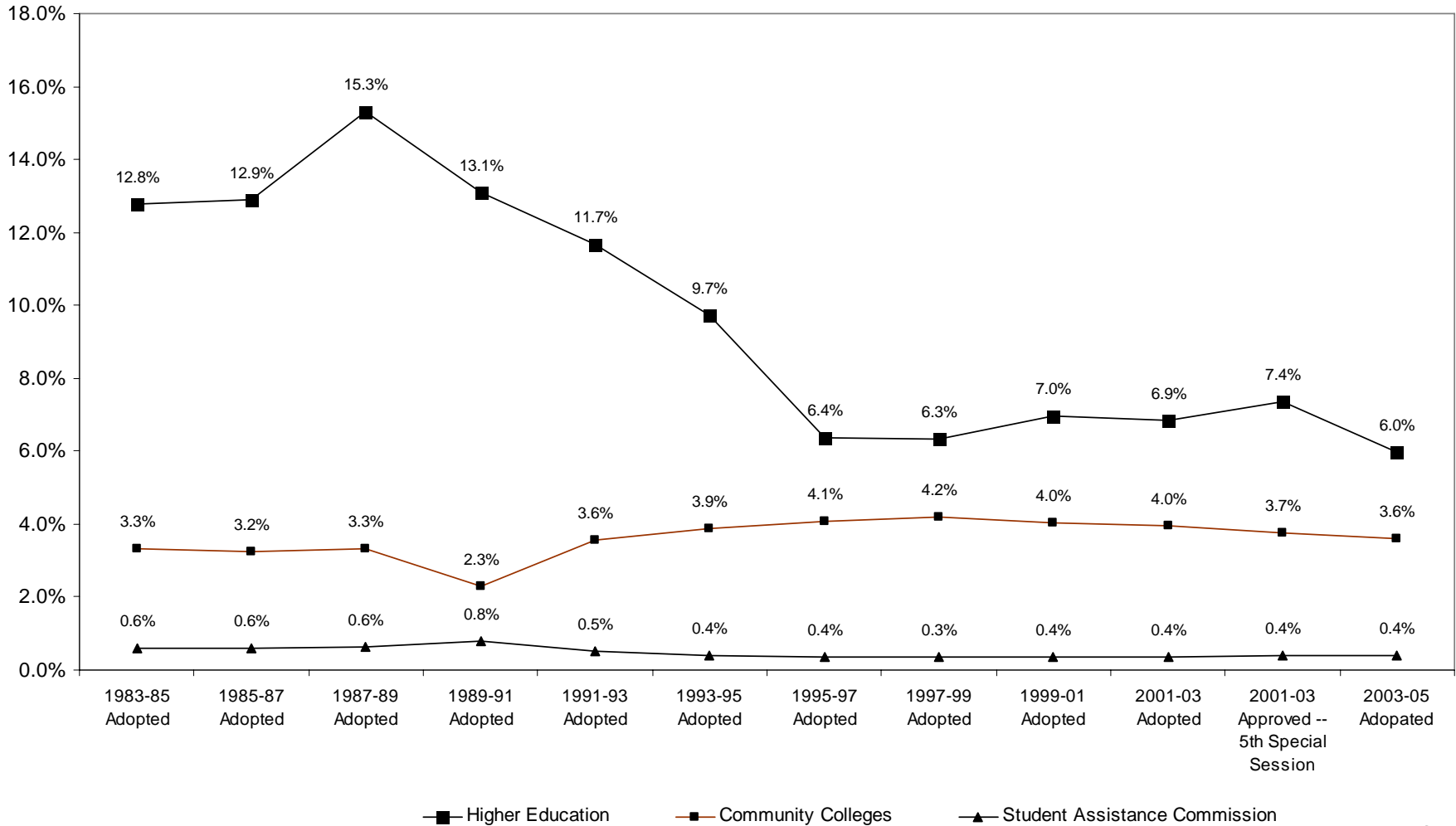
# K-12 School Funding Closing the QEM Gap

(“State EBL” only includes State School Fund Base)



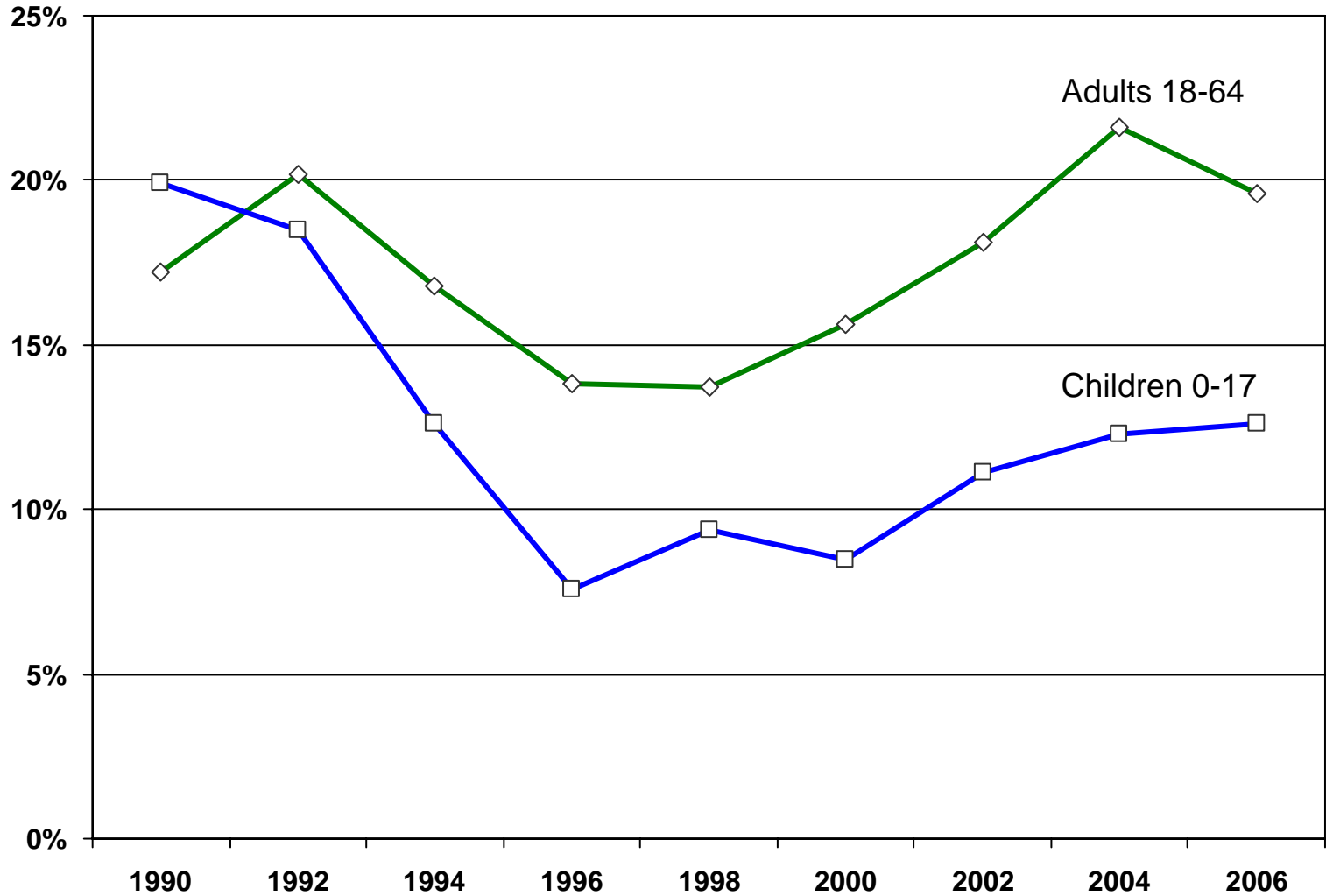


# Post-Secondary Education Funding Percent of General Fund and Lottery Funds 1983-85 through 2003-05





# Oregon Health Care Uninsurance Rates: 1990-2006



Source: Office for Oregon Health Policy and Research, Oregon Population Survey 2006.



# Other Issues

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- **Economic Downturn**
- **Federal Budget Adjustments**
- **Additional Lawsuits**
- **Potential Voter Approved Initiatives**
  - **Repeat Property Offenders: Full biennial costs could be between \$275 and \$430 million.**
- **Pent-up Budget Demand**
  - **Deferred Maintenance: Outstanding deferred maintenance costs for state and University owned facilities exceed \$800 million.**
  - **Seismic: Rehabilitation costs could exceed \$750 million depending on approach.**