

House Bill 3879

Sponsored by Representative SMITH G

SUMMARY

The following summary is not prepared by the sponsors of the measure and is not a part of the body thereof subject to consideration by the Legislative Assembly. It is an editor's brief statement of the essential features of the measure **as introduced**. The statement includes a measure digest written in compliance with applicable readability standards.

Digest: The Act makes several changes to the way the state budget is constructed. It sets up a detailed process for making an outcomes-based budget. It requires reports of vacant positions. It requires a budget stress test. It requires zero-based budgeting. (Flesch Readability Score: 61.2).

Directs the Governor and Legislative Assembly, in developing an outcomes-based budget, to use a process to establish the priorities of state government.

Requires state agencies to report to the Director of the Oregon Department of Administrative Services when any budgeted position is vacant for at least six months. Prohibits filling of a vacant position if the director determines that insufficient reasons exist for retaining the position.

Directs the Oregon Department of Administrative Services, in coordination with the Legislative Fiscal Officer and the Legislative Revenue Officer, to prepare a biennial budget stress test report that estimates the effects on state finances of negative economic conditions.

Declares the policy of the state to use zero-based budgeting in developing biennial budgets. Requires state agencies to include information justifying all proposed expenditures in agency request budgets.

Takes effect on the 91st day following adjournment sine die.

A BILL FOR AN ACT

Relating to state financial administration; creating new provisions; amending ORS 291.200, 291.216, 291.217 and 291.263; and prescribing an effective date.

Be It Enacted by the People of the State of Oregon:

OUTCOMES-BASED BUDGETING

SECTION 1. ORS 291.217 is amended to read:

291.217. (1) As used in this section:

(a) "Continuous improvement" means a set of actions designed to permanently improve state agency performance, either in a specific targeted area or across all levels of an agency, through the use of structured process analysis and problem solving.

(b) "Outcomes-based budget" means a budget that allocates government resources to those uses of taxpayer moneys and fee revenues that will best produce the outcomes most important to the residents of this state, that generates options for funding, that uses service redesign, competition, collaboration and prioritization to drive continuous improvement and innovations, and that can be used to align government, nonprofit and private resources to help produce the desired outcomes.

(c) "Performance management" means a formal, comprehensive set of business processes, including strategic planning, performance measurement, leadership, process management and human resources that help ensure more efficient and effective management operations and practices and reduce costs.

(d) "Performance measurement" means a process of assessing progress toward achieving predetermined program objectives, including information on the efficiency with which resources are

NOTE: Matter in **boldfaced** type in an amended section is new; matter *[italic and bracketed]* is existing law to be omitted. New sections are in **boldfaced** type.

1 transformed into goods and services, the quality of those goods and services, the results of a pro-
 2 gram activity compared to its intended purpose and the effectiveness of state agency operations in
 3 terms of their specific contributions to program objectives.

4 (e) "State agency" means every state officer, board, commission, department, institution, branch
 5 or agency of the state government whose costs are paid wholly or in part from funds held in the
 6 State Treasury.

7 (f) "State government" has the meaning given that term in ORS 174.111.

8 (2) As part of the Governor's budget required under ORS 291.216, the Oregon Department of
 9 Administrative Services and the Governor shall submit an outcomes-based budget. The outcomes-
 10 based budget [*shall*] **must:**

11 (a) Be based on the desired results of state agency continuous improvement actions, perform-
 12 ance management and performance measurement[, *shall*];

13 (b) Describe and measure state agency efforts to implement process improvements [*and shall*];

14 (c) Reflect state agency efforts to achieve, through process improvements, quality service de-
 15 livery at a lower cost[.]; **and**

16 (d) **Reflect the priorities of state government established using the process described in**
 17 **subsection (3) of this section.**

18 (3) **In developing an outcomes-based budget, to determine the outcomes most important**
 19 **to the residents of this state, the Governor and the Legislative Assembly shall use a**
 20 **performance-based process that establishes the priorities of state government. The process**
 21 **must include, at a minimum:**

22 (a) **Determination through a public, collaborative method of a set of statewide, priority**
 23 **results that every resident of this state should expect from state government, with provision**
 24 **for periodic review of those priorities;**

25 (b) **Identification of indicators of progress toward achievement of each of the statewide**
 26 **results;**

27 (c) **Identification of proven or promising strategies for achieving each of the statewide**
 28 **results;**

29 (d) **Valid performance measures for each of the indicators of progress;**

30 (e) **Identification and descriptions of each activity of each state agency, the estimated**
 31 **cost of maintaining each activity and the quantifiable results intended to be derived from**
 32 **each activity; and**

33 (f) **A results-based prioritization of state agency activities that most directly accomplish**
 34 **the desired statewide results and that connect to identified strategies.**

35 (4) **In determining a set of statewide, priority results under subsection (3) of this section,**
 36 **the Governor and the Legislative Assembly shall consider, without limitation:**

37 (a) **Protecting people and communities through law enforcement, courts and corrections;**

38 (b) **Providing for an educated citizenry by ensuring that all children receive an equal**
 39 **opportunity to achieve academic success;**

40 (c) **Promoting job creation and entrepreneurship and a healthy, efficient market;**

41 (d) **Providing a safety net of social services;**

42 (e) **Building and maintaining the infrastructure to accommodate transportation and**
 43 **utilities;**

44 (f) **Requiring state agencies to conduct business in an efficient, transparent and ac-**
 45 **countable manner;**

1 **(g) Managing public property and natural resources, including protections for air, water,**
 2 **soil and ecosystems, while protecting property rights of private property owners; and**

3 **(h) Oregon benchmarks.**

4 [(3)] (5) The budget for each state agency shall:

5 (a) Identify how the agency is addressing continuous improvement, **including the priorities and**
 6 **considerations described in subsections (3) and (4) of this section,** performance management and
 7 performance measurement; and

8 (b) For each agency program, state the number of persons served, or other units of service
 9 provided, by the program.

10 [(4)] (6) The Joint Committee on Ways and Means, the Emergency Board, the Joint Interim
 11 Committee on Ways and Means and the Legislative Fiscal Office may review performance manage-
 12 ment and performance measurement processes for services provided by contract by state agencies
 13 or by school districts.

14 **SECTION 2.** ORS 291.200 is amended to read:

15 291.200. (1) It is the intent of the Legislative Assembly to require the Governor, in the prepa-
 16 ration of the Governor's budget, to state as precisely as possible what programs the Governor re-
 17 commends be approved for funding under estimated revenues under ORS 291.342. If estimated
 18 revenues are inadequate, the Legislative Assembly intends that it be advised by the Governor as
 19 precisely as possible how the Legislative Assembly might proceed to raise the additional funds. It
 20 is also the intent of the Legislative Assembly, in the event that the additional funding is not possi-
 21 ble, to be informed by the Governor precisely what programs or portions thereof the Governor re-
 22 commends be reduced accordingly. Finally, if the Governor chooses to recommend additional new
 23 programs or program enhancements, the Legislative Assembly intends that the Governor specify how
 24 the additional funding might be achieved. *[The Legislative Assembly believes that the state government*
 25 *must allocate its resources for effective and efficient delivery of public services by:]*

26 [(a) Clearly identifying desired results;]

27 [(b) Setting priorities;]

28 [(c) Assigning accountability; and]

29 [(d) Measuring, reporting and evaluating outcomes to determine future allocation.]

30 (2) In addition to the intentions of subsection (1) of this section, in preparing the Governor's
 31 budget, the Governor and the Legislative Assembly shall use an outcomes-based budgeting process
 32 described in ORS 291.217 [(2) and (3)].

33 (3) To achieve the intentions of subsections (1) and (2) of this section, it is the budget policy of
 34 this state to create and administer programs and services designed to attain societal outcomes and
 35 to promote the efficient and measured use of resources.

36 (4) To effect the policy stated in subsection (3) of this section, state government shall:

37 (a) Allocate resources to achieve desired outcomes;

38 (b) Express program outcomes in measurable terms;

39 (c) Measure progress toward desired outcomes;

40 (d) Encourage savings;

41 (e) Promote investments that reduce or avoid future costs;

42 (f) Plan for the short term and long term using consistent assumptions for major demographic
 43 and other trends; and

44 (g) Require accountability at all levels for meeting program outcomes.

45 **SECTION 3.** ORS 291.216 is amended to read:

1 291.216. (1) The Governor's budget shall include a budget message prepared by the Governor,
2 including recommendations of the Governor with reference to the fiscal policy of the state govern-
3 ment for the coming biennium, describing the important features of the budget, embracing a general
4 budget summary setting forth the aggregate figures of the budget so as to show a balanced relation
5 between the total proposed expenditures and the total anticipated income, with the basis and factors
6 on which the estimates are made, the amount to be borrowed, and other means of financing the es-
7 timated expenditures for the ensuing biennium, compared with the corresponding figures for at least
8 the last completed biennium and the current biennium.

9 (2) The Governor's budget shall be supported by explanatory schedules or statements, classifying
10 the expenditures reported in the budget, both past and proposed, by organization units, objects and
11 funds, and the income by organization units, sources and funds, and the proposed amount of new
12 borrowing as well as proposed new tax or revenue sources, including a single comprehensive list
13 of all proposed increases in fees, licenses and assessments assumed in the budget.

14 (3) The Governor's budget shall be submitted for all dedicated funds, as well as the state Gen-
15 eral Fund, and shall include the estimated amounts of federal and other aids or grants to state
16 agencies or activities provided for any purpose whatever, together with estimated expenditures
17 therefrom.

18 (4) The Governor's budget shall embrace the detailed estimates of expenditures and revenues.
19 It shall include:

20 (a) Statements of the bonded indebtedness of the state government, showing the actual amount
21 of the debt service for at least the past biennium, and the estimated amount for the current
22 biennium and the ensuing biennium, the debt authorized and unissued, the condition of the sinking
23 funds and the borrowing capacity.

24 (b) The Governor's recommendations concerning tax expenditures identified under ORS 291.214.

25 (c) Any statements relative to the financial plan which the Governor may consider desirable or
26 which may be required by the Legislative Assembly.

27 (5) The Governor's budget shall use the estimated revenues under ORS 291.342 for the fiscal
28 year in which the budget is submitted as the basis for total anticipated income under subsection (1)
29 of this section, subject to adjustment as may be necessary to reflect accurately projections for the
30 next biennium.

31 (6)(a) The Governor's budget shall present information regarding the expenses of the state in the
32 following categories:

33 (A) Personnel expenses, including compensation and benefits for state employees, but excluding
34 costs of services contracted out and temporary service costs.

35 (B) Supplies, equipment and the costs of services contracted out.

36 (C) Special payments.

37 (D) Capital construction.

38 (E) Capital outlay.

39 (F) Debt service.

40 (b) For each category described in paragraph (a) of this subsection, the budget shall show actual
41 expenditures for the prior biennium and estimated expenditures for the current biennium.

42 (c) As supplemental information to the budget, the Governor shall include an estimate of the
43 projected costs of continuing currently authorized programs in the next biennium. The estimate shall
44 include, but is not limited to the projected costs of:

45 (A) Removing one-time expenditures;

- 1 (B) Program phase-ins and phase-outs;
- 2 (C) Personnel expenses compared to existing compensation plan agreements, including position
- 3 vacancy experience calculations;
- 4 (D) Inflation for services, supplies and medical costs;
- 5 (E) Transfers between state funds or accounts;
- 6 (F) Mandated caseload changes; and
- 7 (G) Debt service for previously issued debt.
- 8 (d) The budget shall show the total increase in the cost of salaries and benefits for all state
- 9 positions.
- 10 (7) The Governor’s budget shall include:
- 11 (a) The total number of positions and full-time equivalent positions included in the budget.
- 12 (b) The average vacancy rate in the present biennium.
- 13 (c) The number of permanent, full-time equivalent vacancies as of July 1 of even-numbered years.
- 14 (8) The Governor’s budget shall include computations showing budget figures as a percentage
- 15 of the total General Fund, federal fund, fee or other source category, as may be appropriate.
- 16 (9) The Governor’s budget shall include, in a format that provides side-by-side comparison with
- 17 the State Debt Policy Advisory Commission report of net debt capacity, a six-year forecast, by debt
- 18 type and repayment source, of:
- 19 (a) That portion of the capital construction program required to be reported by ORS 291.224 that
- 20 will be financed by debt issuance.
- 21 (b) The acquisition of equipment or technology in excess of \$500,000 that will be financed by
- 22 debt issuance.
- 23 (c) Other state agency debt issuance for grant or loan purposes.
- 24 (10) The Governor’s budget shall include the outcomes-based budgeting information required by
- 25 ORS 291.217 [(2) and (3)].
- 26 (11) The Governor’s budget shall include recommendations regarding available funds that could
- 27 be used to make lump sum payments to the Public Employees Retirement System under ORS 238.229.
- 28 (12) The Governor’s budget shall include a narrative summarizing the racial impact statements
- 29 required under ORS 291.206.

30 **SECTION 4. The amendments to ORS 291.200, 291.216 and 291.217 by sections 1 to 3 of this**
 31 **2025 Act apply to budgets prepared for, and biennial budgets adopted for, biennia beginning**
 32 **on or after July 1, 2027.**

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 34 **VACANT POSITIONS**
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36 **SECTION 5.** ORS 291.263 is amended to read:

37 291.263. (1) As used in this section, “state agency” [*includes any state officer, department, board,*
 38 *commission or court, the Legislative Assembly, its committees, officers and employees.*] **has the**
 39 **meaning given that term in ORS 291.002.**

40 (2)(a) A state agency shall inform the **Director of the** Oregon Department of Administrative
 41 Services of any [*position*] **budgeted position in the agency** that has remained vacant for a contin-
 42 uous period of **at least** six months by including a report on the position in the estimate submitted
 43 to the [*department*] **Oregon Department of Administrative Services** under ORS 291.242. The de-
 44 partment may consider the vacancy in its determinations under ORS 291.244 and may reduce the
 45 amount allotted to the state agency.

1 (b) To retain an unfilled position included in the estimate submitted to the department
 2 under ORS 291.242, a state agency must provide specific and valid reasons for retaining the
 3 position to the director.

4 (c) If the director determines that the reasons given by the state agency are insufficient:

5 (A) The director shall inform the state agency of the reasons why the reasons for re-
 6 taining the position submitted by the state agency are insufficient; and

7 (B) The state agency may not fill the position.

8 (3) A state agency that has been prohibited from filling a vacant position under sub-
 9 section (2) of this section may include a request to fill the position in an agency request
 10 budget filed under ORS 291.208.

11 [(3)] (4) The department shall, on or before February 1 of each year, provide a report to the
 12 Legislative Fiscal Officer of any position that has remained vacant for a continuous period of at
 13 least six months. The department shall include in the report the amount and source of funds for the
 14 position. For each position included on a previous report under this subsection, the department shall
 15 notify the Legislative Fiscal Officer of conditions that affect the position, including recruitment
 16 actions, filling the position or using the position for purposes other than what was anticipated in
 17 the legislatively approved budget. The Legislative Fiscal Officer shall review the list and make
 18 recommendations on adjustments to agency position authority to the Joint Committee on Ways and
 19 Means.

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 21 **BUDGET STRESS TESTING**

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 23 **SECTION 6.** (1) Each biennium, the Oregon Department of Administrative Services, in
 24 coordination with the Legislative Fiscal Officer and the Legislative Revenue Officer, shall
 25 prepare a budget stress test report that estimates the effects on state finances of hy-
 26 pothetical economic conditions.

27 (2) The budget stress test report:

28 (a) Must include consideration of at least two sets of hypothetical economic conditions,
 29 with one set of conditions simulating a mild economic downturn and another set of condi-
 30 tions simulating a severe economic downturn;

31 (b) Must estimate the effects of each set of hypothetical economic conditions on state
 32 finances, including, at a minimum, effects on revenues, demand for government services,
 33 expenditures and levels of formal or informal reserves;

34 (c) Must compare the effects of each set of hypothetical economic conditions with the
 35 effects of baseline conditions representing no economic downturn; and

36 (d) Must include recommendations for prudent amounts of reserve funds.

37 (3) The department shall submit the budget stress test report to the Legislative Assembly
 38 in the manner provided by ORS 192.245 in the last calendar quarter of each even-numbered
 39 year at the same time the department reports the estimate required by ORS 291.342 (2)
 40 during that quarter.

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 42 **ZERO-BASED BUDGETING**

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 44 **SECTION 7.** Section 8 of this 2025 Act is added to and made a part of ORS 291.201 to
 45 291.222.

