



Oregon

Tina Kotek, Governor

Oregon Transportation Commission

Office of the Director, MS 11

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DATE: June 3, 2024

TO: Oregon Transportation Commission

Kristopher W. Strickler

FROM: Kristopher W. Strickler
Director

SUBJECT: Agenda Item K – 2025-2027 Budget Development

Requested Action:

Receive an informational presentation on the ongoing budget development for the 2025-2027 biennium, including a breakdown of the anticipated State Highway Fund revenue shortfall with an overview of major cost drivers.

Background:

In spring of 2020, ODOT shared information about the structural revenue shortfall that limits the resources available for highway maintenance and agency operations. Since then, we have diligently worked to address this shortfall through means at our disposal. We have made significant cuts to our budget and shifted costs previously covered through resources that can be used for operations and maintenance (O&M) to dedicated funds, such as federal formula funds and HB 2017 resources. Unfortunately, our O&M costs continue to grow while our available revenues are flat or declining, creating a significant budget gap. As one example, ODOT estimates personal service costs—largely borne by our O&M budget—will increase more than \$450 million (about 45%) from the 2019-2021 biennium to the 2025-2027 biennium. We have now reached the point where we have run out of opportunities to shift funds or cut spending without significant impacts to Oregonians and the transportation system we all rely on.

The agency's Current Service Level (CSL) budget is based on adjusting the 2023-2025 Legislatively Adopted Budget for inflation and other factors to show how much it would cost to maintain current programs. In the 2025-2027 CSL budget, the agency's O&M functions (i.e. Maintenance, project delivery indirect costs, DMV, Commerce and Compliance Division, Support Services Division, Finance and Budget Division, the Director's Office, the Office of Equity & Civil Rights, and Capital Improvement) face a shortfall of \$354 million. This shortfall represents a reduction of about one-quarter of the CSL budget across those functions.

As required by the state enterprise budget process, this gap will need to be closed by developing revenue shortfall packages that ODOT will bring forward to the Legislature that outline the cuts we need to make in the absence of additional revenue and offer the Legislature the choice of whether to provide that revenue. These potential cuts need to be specific rather than general concepts, including specific positions and other budgetary reductions. We are hopeful that increasing awareness of the reality of our required cuts and their impact on those we serve will

inform and support efforts to make investments to close these funding gaps and establish a resilient revenue structure for the agency.

Today's presentation will focus on the base State Highway Fund shortfall, including the distribution of the shortfall across ODOT's O&M functions (see attachment), as well as major cost drivers and other factors that have contributed to the shortfall. The agency will also provide more information about the process of revenue shortfall package development, with final details about proposed reductions and their impacts to be presented during the August meeting when the Commission will be asked to approve the final Agency Request Budget.

This is the third in a series of presentations to the Oregon Transportation Commission about ODOT's Agency Request Budget (ARB) for the 2025-27 biennium. The first presentation occurred during the January 2024 meeting and reviewed the process used to develop the ODOT budget and the role of the Commission in that process. The development of the ARB is governed by a set of instructions from the Department of Administrative Services (DAS) and culminates in the submission of a formal, comprehensive ARB document at the end of August.

During the second presentation, at the March meeting in Medford, the Commission received an overview of ODOT's proposed policy option packages (POPs) and gave the agency approval to include those POPs in the 2025-27 ARB. The packages were developed by the agency to make targeted investments in programs and operations where they are justified, as projected revenue allows.

The commission will receive a fourth and final presentation during the August meeting, detailing the full scope of the 2025-27 ARB (including final details of the revenue shortfall packages and their companion restoration POPs) and seeking final approval prior to submission to DAS.