Analysis of the

2011-13

Current Service Level

Legislative
Fiscal
Office

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January 24, 2011

To the Members of the Seventy-Sixth Oregon Legislative Assembly:

Following is the *Analysis of the 2011-13 Current Service Level* prepared by the Legislative Fiscal Office staff. This detailed publication provides agency program descriptions, analysis of revenue sources and relationships, issues and options related to the current service level, and discussions of budget environment and potential reductions. A summary document is included at the beginning of the analysis.

After the close of session, the Legislative Fiscal Office will publish a detailed analysis and summary of the adopted budget that reflects decisions made by the Legislative Assembly.

Documents are available online at www.leg.state.or.us/comm/lfo/publications.htm

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Summary of the 2009-11 Approved Spending Level and the 2011-13 Current Service Level Budget

Overview

At the end of calendar year 2010, or 18 months through the 2009-11 biennium, the official legislatively approved state budget equaled $61.9 billion total funds. The approved budget included $14.4 billion in combined General Fund and Lottery Funds, $30.4 billion Other Funds, and $17.1 billion Federal Funds.

The 2009-11 legislatively approved budget through December 2010 represents a 20% increase over the 2007-09 biennium's legislatively approved total budget of $51.5 billion. Of the $10.5 billion budgetary increase between the two biennia, $6.6 billion was due to additional Federal Funds, the bulk of which if from the federal government through the American Recovery and Reinvestment Act (ARRA) of 2009, the EduJobs increase and Federal Medicaid match rate extension in 2010, and from higher than anticipated unemployment insurance payments, and another $3.8 billion was due to additional Other Funds. Combined General Fund and Lottery Funds in the 2009-11 budget are actually down from 2007-09 by $29 million.

Due to the continuation of the pattern of declining revenue forecasts after the 2009-11 biennial budget was adopted by the Legislature in June 2009, actions had to be taken during the biennium to keep the state's budget out of a deficit situation. After the release of the June 2010 revenue forecast, the Governor directed the Department of Administrative Services to issue an administrative rule to unschedule $577.1 million of General Fund in order to prevent a deficit because of the projected revenue decline. This "allotment" reduction process is authorized by statute, but must be used across-the-board and only to get the state's fiscal situation back to a zero position. In addition, the process only can be applied to the Executive Branch of state government, with the exceptions of the Secretary of State and State Treasurer; the Judicial and Legislative Branches are also exempt. The allotment reduction process does not legally reduce the appropriation to state agencies since only the Legislature appropriates money, but it does remove the agencies' ability to access the funds for expenditure.

Following the September 2010 revenue forecast, an additional allotment reduction of $377.5 million General Fund was required to prevent the state from being in a deficit situation. In total since the adoption of the 2009-11 budget, the state has $1.15 billion less in General Fund revenue for the biennium compared to what was expected when the budget was developed in June 2009.

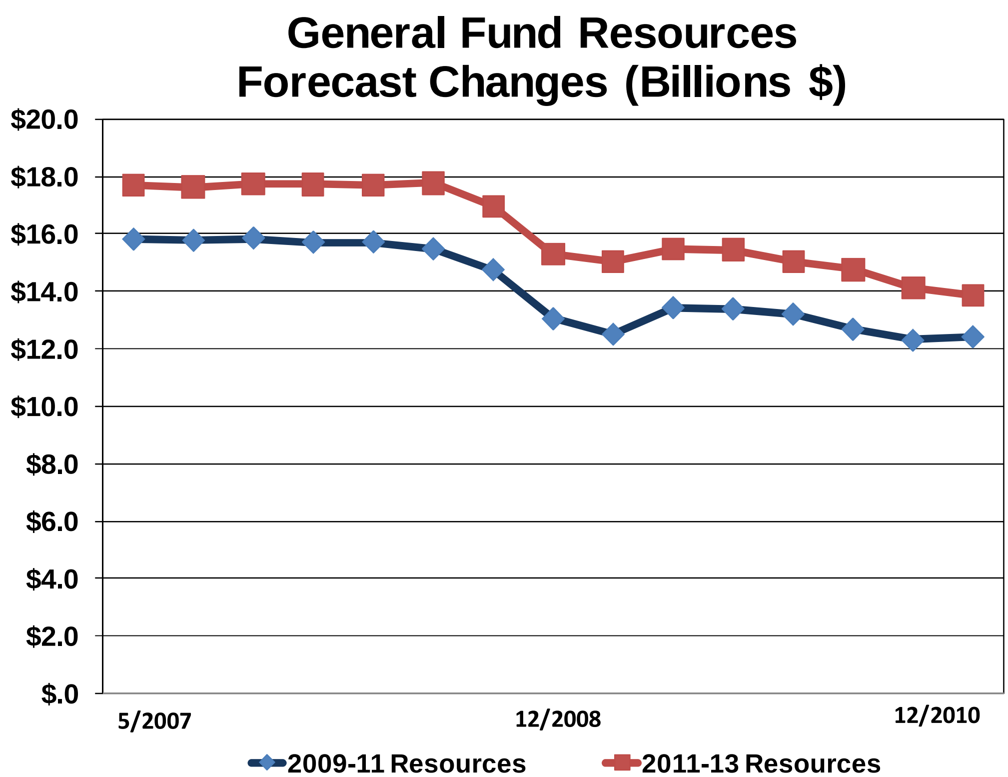
Although the General Fund amounts unscheduled by the allotment reduction process are technically still appropriated to state agencies, leaving these amounts in the legislatively approved budget provides a misleading picture of the true budget. Therefore, in order to facilitate more accurate budget comparisons, the Legislative Fiscal Office developed a new, temporary budget type termed the 2009-11 approved spending level. This new terminology simply reflects the official legislatively approved budget through December 2010 actions less the two sets of allotment reductions that occurred following the June and September 2010 revenue forecasts.

With the decrease of $954.6 million General Fund due to the two allotment reductions, the approved spending level as of December 2010 for the 2009-11 biennium is $60.9 billion, of which $13.4 billion is combined General Fund and Lottery Funds. This represents a 6% decline from the 2009-11 legislatively adopted General Fund/Lottery Funds budget and is 6.8% below the 2007-09 approved expenditure level.

	2005-07 Actual $	2007-09 Legislatively Approved $	2009-11 Legislatively Adopted* $	2009-11 Legislatively Approved* $	2009-11 Allotment Reductions $	2009-11 Spending Level $
STATE OF OREGON TOTAL EXPENDITURES						
General Fund	11,609,277,845	12,793,534,225	13,298,563,121	13,426,140,413	(954,613,142)	12,471,527,271
Lottery Funds	815,797,130	1,584,746,042	957,012,531	923,131,879	-	923,131,879
Other Funds	20,103,109,148	26,560,892,921	27,688,073,382	30,379,844,717	-	30,379,844,717
Federal Funds	8,245,494,718	10,534,563,273	14,021,585,254	17,146,018,177	-	17,146,018,177
Total Expenditures	40,773,678,841	51,473,736,461	55,965,234,288	61,875,135,186	(954,613,142)	60,920,522,044

* includes Governor's line-item veto HB 5054

Declining revenue forecasts not only have put pressure on the Legislature to rebalance the 2009-11 biennium budget, but will also require difficult budget decisions for the 2011-13 budget. The following graph shows the declines in projected General Fund for both the 2009-11 biennium and the 2011-13 biennium. During the period when the 2009-11 budget was being initially developed, revenue forecasts predicted about $15.8 billion in General Fund resources. The December 2010 revenue forecast indicates that now only $12.4 billion General Fund resources will be available, a decline of 21.5% from the planning stages to current conditions. In a similar fashion, projected General Fund resources for the 2011-13 biennium are also showing a consistent pattern of decline with each forecast. Initial planning work for the 2011-13 biennium started in March 2010 with a projected $15 billion in General Fund resources. Currently, only $13.9 billion is projected for the 2011-13 biennium budget, one of the primary factors in determining the widely discussed budget gap for the coming biennial budget period.



2009-11 GF forecasted revenues decreased from $15.8 billion in May 2007 to $12.4 billion in Dec. 2010

2011-13 Tentative and Current Service Level Budgets

Early in the planning process for the next biennial budget, state budget analysts develop what is known as a tentative budget for the coming two-year budget cycle. The tentative budget is meant to provide decision makers with a point-in-time estimate of the state's relative fiscal position for the coming budget period in order to determine whether the state is looking at having a budget "surplus" or a budget "gap."

The tentative budget has two major pieces – a projection of available General Fund and Lottery Funds revenues for the next two years and a projection of expenditures by program area and major agency. The revenue portion is developed through the quarterly economic forecast process conducted by the Office of Economic Analysis of the Department of Administrative Services (DAS). The expenditure portion is developed by Legislative Fiscal Office (LFO) and the DAS Budget and Management Division (BAM) analysts through agency level calculations that project the total costs to the agency if the state continued all currently approved programs and their currently approved funding levels, adjusted for inflation, salary roll-up costs, program phase-ins and phase-outs, and projected mandated caseload increases for the next two-year budget cycle. In budgeting parlance, this expenditure calculation is referred to as the "current service level," or the CSL.[1] The difference between the revenue projection and the CSL determines the relative fiscal position for initial budget planning purposes, and provides the answer to the budget "gap" question.

The CSL represents a starting point for budget analysis and decision-making. It is a benchmark tool used by those interested in the budget to measure proposed policy changes against. The CSL can assist in determining what resources are needed to continue currently authorized programs or whether these resources should be used toward proposed policy changes. It is also useful for comparing rates of growth among program areas. The CSL does not represent an entitlement or a guarantee of funding for a program. A decision to not continue an existing program results in a reduction to the CSL. The CSL is useful as a means to identify differences between the costs of continuing existing programs and the costs of new policy changes that are ultimately included in the budget. For example, in the case of the Medicaid program where changes in the number of individuals served and in the nature of the services are frequently occurring, it is useful for policymakers to know how much of the proposed budget is the result of mandated caseload changes (a part of the CSL) and how much is due to policy changes (not part of the CSL).

The CSL is built agency by agency. The calculation starts with the agency's base budget which is the combination of the legislatively approved budget for the previous biennium (including any Emergency Board actions, special session actions, and other administrative changes), allowable personal services changes for the next biennium, debt service changes as required for existing commitments, and elimination of any one-time capital construction expenditure authority. To this base budget, the CSL calculation adds decision units, called essential packages, to adjust the base budget for the estimated costs of removing other one-time expenditures; program phase-in and phase-out changes; position vacancy experience calculations and other personal services cost changes; inflation for services, supplies, and medical costs; fund shifts; and mandated caseload changes.[2]

The current service level budget is generally not changed significantly after its initial calculation unless there are major developments in certain specific components, such as mandated caseload projections or final calculated personnel costs. Since the CSL is a point-in-time estimate of the costs of continuing all programs and services authorized in current law, a current law change is generally required to affect the CSL, with the noted exception of changes in caseload projections.

This does not mean, however, that the building block elements of the CSL must be included in the budget ultimately approved by the Legislature. During the budget development process in the Legislature's Joint Committee on Ways and Means, it is possible for programs and costs in either the base budget or the CSL to be eliminated as part of the final adopted budget. Agencies are generally required to produce reduction options to identify programs and services that could be eliminated or changed, along with the service consequences of such elimination or modification. The percentage of the budget requested in the form of reduction options varies depending on the state's fiscal situation, but the minimum amount required by state law is 10%.[3] For the purposes of 2011-13 budget development, agencies were directed to provide 25% reduction options from CSL for General Fund and Lottery Funds programs. In addition, the Legislature can decide to eliminate or reduce certain elements of the CSL calculation in its determination of the final budget, such as denying fund shifts or reducing the amount of allowable inflation included in the budget.

The tentative budget, which is the combination of the anticipated revenues and the projected expenditures, tends to change as updated revenue forecasts are generated. The Office of Economic Analysis produces a quarterly projection of available General Fund and Lottery Funds revenues for the current biennium and for the biennium included in the tentative budget. Depending on the magnitude of changes in the projections of available revenues, the tentative budget is subject to modification on the revenue side, which would have a resultant effect on the estimate of the state's relative fiscal position for the next budget cycle. The latest 2011-13 tentative budget resulting from forecasted revenue changes included in the December 2010 forecast can be found on the next page.

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[1] The term "Essential Budget Level," or EBL, was used in Oregon instead of CSL between 2002 and 2009; there is no difference in definition between the two terms.

[2] More detail on the base budget and each of the essential packages can be found on pages 22-30 of the *2011-13 Budget & Legislative Concepts Instructions* found on the BAM website. http://www.oregon.gov/DAS/BAM/docs/Publications

[3] See ORS 291.216 (12).

Based on these inputs, the current estimate of the 2011-13 budget "gap" is $3.5 billion. The expenditure side of the CSL calculation is based on a number of assumptions, none of which are required to be included in the final budget adopted by the Legislature. The assumptions include the following:

- 13.4% increase in personal services costs (furlough and benefit restoration roll-ups, step increases, Pension Obligation Bond payments, 6% PERS rate increase)
- 2.5% cost-of-living-adjustment (COLA) in the first year and a 2% COLA in the second year
- 9% per calendar year increase in flexible health benefits
- 2.4% increase in standard inflation for services and supplies and 3.9% for medical costs
- Backfill of one-time funds used in the 2009-11 budget (mostly Federal Funds) of $1.3 billion
- Human services caseload growth of $466 million
- Debt service increases for already issued debt of $172 million
- Phased-in program costs of $239 million

Tentative 2011-13 Budget Projections - Including All 2010 Legislative Actions

(December 2010 Forecast)

	Leg. Approved as of July 2010 2009-11 GF	LF	Total	Current Service Level 2011-13 GF	LF	Total	Percent Change
Revenues							
Projected Beginning Balance	-	1.4	1.4	-	21.4	21.4	
Carryforward		52.0	52.0			-	
1% Appropriations to Rainy Day Fund/Beginning Balance			-			-	
Half Lottery 09-11 Ending Balance to K-12 Capital Acct			-		(10.7)	(10.7)	
Projected Revenues	12,417.7	1,090.6	13,508.3	13,855.5	1,134.6	14,990.2	
Less Dedications (ESF, County)		(224.1)	(224.1)		(241.6)	(241.6)	
One-time Resources							
Federal ARRA							
ESF/RDF: K-12	115.7	84.3					
Other							
Total Resources	12,533.5	1,004.1	13,537.6	13,855.5	903.7	14,759.3	9%
Expenditures							
Education - State School Fund	5,265.2	494.1	5,759.3	6,298.2	416.3	6,714.4	17%
Education - All Other	1,726.9	96.2	1,823.1	1,962.6	98.1	2,060.7	13%
Human Services	3,542.1	10.9	3,553.0	5,325.7	11.5	5,337.2	50%
Public Safety	1,866.7	7.2	1,874.0	2,205.3	7.8	2,213.1	18%
Economic & Community Development	29.2	119.9	149.1	26.6	133.9	160.5	8%
Natural Resources	147.3	182.0	329.3	157.8	192.2	350.1	6%
Transportation	19.7	85.4	105.1	52.7	83.9	136.6	30%
Consumer & Business Services	12.9	-	12.9	14.0	-	14.0	8%
Administration	197.1	11.6	208.8	204.9	13.9	218.8	5%
Legislative	75.2	-	75.2	87.1	-	87.1	16%
Judicial	507.2	-	507.2	598.2	-	598.2	18%
Program Subtotal	13,389.6	1,007.4	14,397.0	16,933.2	957.6	17,890.7	24%
EFund	5.4	-	5.4	40.0	-	40.0	
Supplemental State Agency Funding	-	-	-	172.0	4.0	176.0	
Other Special Purpose Appropriations	31.2	-	31.2			-	
Total Expenditures	13,426.1	1,007.4	14,433.5	17,145.2	961.6	18,106.7	25%
Ending Balance	(892.7)	(3.3)	(895.9)	169.3	9.6	178.9	
Net Fiscal Position				**(3,459.0)**	**(67.4)**	**(3,526.4)**	

Notes: Both revenues and expenditures include anticipated K-12 trigger of $200 million in 2009-11.
Lottery Funds negative ending balance results from a reduction in dedicated BM 66 revenues.
Supplemental State Agency Funding for costs associated with salaries, benefits, and other unanticipated and unknown expenses.
Millions of Dollars.

Components of 2011-13 Expenditure Increases

Millions of Dollars

PERS	374.1	Statewide
Backfill of one-time funds	1,314.3	ARRA, K-12 Trigger, etc
Caseload Growth	465.6	
Increase in Debt Service	172.3	
Phase-ins	239.3	Includes State Hospital
	2,565.6	
Standard position and inflation increases, including salary pot	1,107.6	
Total Increase 2009-11 to 2011-13	3,673.2	

Statewide Reduction Options and Strategies

Since the current service level budget calculation is a contrived number in that it assumes that all currently approved programs will continue for the next two years and that no new programs will be added to the state budget, something that will never actually happen, state budget analysts are always reminding decision makers and others that it is not a guarantee of funding, but just a point-in-time estimate of continuing expenditures. As a first step in dealing with the budget gap identified by the tentative budget, a review of the assumptions used to generate the current service level should be made to determine areas where expenditures can be reduced.

As mentioned previously, the Legislature hears and modifies budgets on an individual agency basis. There are also decisions and policies that can affect all agencies and will have an impact on the statewide budget. A number of these are included in the personal services portion of the budget. The Current Service Level (CSL) budget includes roll-ups of all collective bargaining agreements from the previous biennium, as well as the phase-in of all positions that may have been added during that time. It also accounts for merit increases and projected adjustments needed for Public Employee Retirement System (PERS) rates.

The CSL budget also includes a special purpose appropriation for state agency funding. This has traditionally covered any cost-of-living adjustments for employees and any increases in health insurance benefits.

To help reduce the General Fund budget gap the following options may be considered:

- Elimination of the special purpose appropriation for state agency funding (**$176 million**). Initially, this appropriation would have covered a 2% cost-of- living salary adjustment for all employees on July 1, 2011 and another 2.5% increase on July 1, 2012 and projected increases of 9% per year for health insurance benefits. If health insurance costs are actually higher, the difference would either need to be picked up by the employee or absorbed by the agency. Another option would be to have the benefit boards look at creating options with a lower cost and potentially increase the amount of the savings.

- Elimination of the phased-in costs for all collectively bargained contracts in 2010 ($**42 million**). This would actually roll-back items previously agreed to during the 2009-11 biennium.

- Maintain the 2010 budgeted levels for health insurance for the entire 2011-13 biennium **($46 million**). Elimination of these increases would essentially roll-back rates to 2010 levels.

- Elimination of merit steps for management employees that would allow them to "catch-up" to employees who got additional steps from collective bargaining agreements in 2010. **($16 million**).

- Elimination of all scheduled merit increases for all employees **($53 million**). Merit increases are usually given to all employees that have not reached the top step of their salary range. This would essentially mean a pay freeze.

- Furlough Days **($4.3 million per day**). Furlough days began in 2009-11 as a way to reduce personal services costs.

- Elimination of PERS rate increases **($127 million**). The PERS Board has already recommended that contributions be increased to help cover the Unfunded Actuarial Liability (UAL). To achieve the savings, employees would have to cover a portion of those increases or the state could elect to not pay the amount recommended by the Board.

- An across-the-board 5% reduction in pay for all employees **($120 million**).

These estimated savings amounts for the bulleted items above do not include the impact on the State School Fund, if school districts were to implement any of the options. The Legislature has no control over collective bargaining with state employees or school district employees, but it does approve the amounts budgeted for individual items. The Legislature could pass out budgets with the expectation that some of these items are implemented. Most of these items would need to part of the collective bargaining process and some might need statutory changes.

Another option for statewide savings is the elimination of standard inflation from all agency budgets **($102 million**). It is estimated that another $20 million could be saved if inflation was eliminated from the State School Fund. Costs may actually increase due to inflation, but it would be expected that agencies absorb those costs.

If all of the allotment reductions that were taken as part of the executive order by the Governor to balance the 2009-11 were considered permanent and rolled forward into the 2011-13 biennium, it is estimated that about **$1 billion** could be saved. However, some of the reductions are clearly one-time in nature and funding for many of the reductions was later restored by legislative action. In those cases, there would not be any roll-up and the 2011-13 savings would be less.

Another component of the CSL that could be used to reduce the budget gap is the provision for an ending balance. The current CSL includes an ending balance equal to 1% of the CSL General Fund program area expenditures, or **$169.3 million**. Similarly, 1% of Lottery Funds expenditures in the CSL is also set aside as a Lottery Funds ending balance, or **$9.6 million**. While some might believe that a 1% ending balance is not a sufficient amount, the CSL uses that figure since it is the threshold for deposits into the Oregon Rainy Day Fund (ORDF).

The ORDF was established by the 2007 Legislative Assembly in HB 2707 as a general purpose reserve fund. The ORDF was originally capitalized with a deposit of approximately $319 million from the retention of the majority of the corporate income tax "kicker" that was due to be restored to corporate taxpayers in the fall of 2007. Future deposits into the ORDF are to be from the state's General Fund ending balance in an amount of up to 1% of the General Fund appropriations for the biennium. If the biennium's ending balance is greater than 1% of the General Fund appropriations for that biennium, then an amount equal to 1% is transferred to the ORDF and the remaining amounts are retained by the General Fund. If the biennium's ending balance is less than 1% of the General Fund appropriations for that biennium, then the full amount of the ending balance is to be transferred to the ORDF. Due to the amount of time necessary to make final determinations on biennial expenditures, this transfer from the ending balance would normally occur at the time of the March economic and revenue forecast in the year following the conclusion of the biennial budget period.

State Bonding

The State Debt Policy Advisory Commission (SDPAC) makes recommendations for General Fund and Lottery Funds debt capacity. The General Fund capacity recommendation is based on a number of factors, but the key assumption is that General Fund debt service may not exceed 5% of the General Fund revenues. The recommendation takes into consideration that debt service can vary from year-to-year as debt is retired and issued. Therefore, the Commission has taken the approach of looking at the next six year period of revenues and existing authorization of debt to determine the biennial capacity. The amount of total capacity is then divided over the three biennia to better ensure that debt is issued more evenly.

The most recent revenue forecasts have not only shown a continued downward trend for the General Fund in the current biennia, but the forecasts for the next two biennia have also been revised significantly downward. All of these factors have caused the Treasurer to urge caution in issuing any more debt. The SDPAC is also asking for a review of all debt that has been previously authorized, but not yet issued in the current biennium.

During the 2009 session, the Legislature authorized $985.5 million in General Fund debt and $274.3 million in Lottery bonds. The SDPAC usually meets in January of odd-numbered years and makes the recommendations for the upcoming biennium. Given the long term revenue situation, it is expected that very little, if any, debt may be issued during the 2011-13 biennium.

Agency Analysis of the
2011-13 Current Service Level and Budget Reduction Options

The following pages provide a more detailed review of each agency's 2009-11 approved spending level and 2011-13 current service level budgets. The agency analyses are organized by program area.

- As previously described, the 2009-11 approved spending level represents the legislatively approved budget through December 2010 (including Emergency Board actions) less the General Fund allotment reductions following the release of the June and September 2010 revenue forecasts.

- The 2007-09 Actual and the 2009-11 Approved Spending Level expenditures include certain administrative actions taken by the Department of Administrative Services approving increases to Nonlimited Other Funds and Federal Funds.

- The 2011-13 Current Service Level is based on data supplied from the audited versions of agency request budgets submitted to the Department of Administrative Services.

- The position and FTE counts for the 2009-11 Approved Spending Level reflect the legislatively adopted budget and have not been adjusted for actions taken after the budgets were adopted in June 2009. More detail on actual FTE levels will be available during the 2011 session and budget hearings before the Joint Committee on Ways and Means.

- Agencies were required to include reduction options totaling 25% of General Fund and Lottery Funds and 10% of Other Funds in agency request binders. These options were used in the "Budget Environment and Reduction Options" section of the detailed agency analyses. Other reduction options or budget alternatives not appearing in the agency request binders may also be reported for certain agencies.

Department of Community Colleges and Workforce Development (CCWD) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	504,017,927	464,376,904	429,755,707	503,858,849
Lottery Funds	0	9,306,103	8,929,603	7,469,632
Other Funds	156,201,246	137,735,836	138,347,746	6,416,080
Federal Funds	120,549,268	157,859,780	163,589,805	116,717,903
Federal Funds (NL)	5,106,785	18,968,831	18,968,832	18,968,832
Total Funds	**$785,875,226**	**$788,247,454**	**$759,591,693**	**$653,431,296**
Positions	57	61	61	59
FTE	56.06	59.36	60.06	58.70

Agency Overview

The Department of Community Colleges and Workforce Development's (CCWD) monitors the programs, services, outcomes, and effectiveness of Oregon's 17 local community colleges. Direct state support to community colleges is funded in the Department's budget, primarily through the Community College Support Fund (CCSF). CCWD also coordinates and provides statewide administration of the federally-funded Workforce Investment Act (WIA Title IB) and Adult Education and Family Literacy (WIA Title II) programs, and it houses the Oregon Youth Conservation Corps (OYCC).

CCWD – Administrative and Program Support

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	3,350,044	3,970,687	3,590,913	4,226,458
Other Funds	4,831,896	6,335,840	7,297,750	6,390,772
Federal Funds	120,549,268	157,859,780	163,589,805	116,717,903
Federal Funds (NL)	5,106,785	18,968,831	18,968,831	18,968,831
Total Funds	**$133,837,993**	**$187,135,138**	**$193,447,299**	**$146,303,964**
Positions	57	61	61	59
FTE	56.06	59.36	60.06	58.70

Program Description

The Department's administrative functions are to provide leadership and accountability for statewide community college and workforce program policy development, and to provide assistance with local implementation.

Office Operations manages the State Support to Community Colleges budget, and provides leadership in the development and delivery of college transfer and professional/technical course work, adult literacy education, and workforce development services. The agency also co-administers Carl D. Perkins Professional/Technical programs with the Department of Education, and the staff provides GED testing, Basic Adult Skills Inventory testing, statewide adult basic education programming, course approvals, and oversight of state-supported community college capital construction projects.

Federal/Other Support primarily includes WIA the Carl D. Perkins Professional/Technical programs. The WIA Title IB program provides services to dislocated workers, youth employment training programs, and other workforce training programs for adults. These programs help workers obtain new skills to become more employable, improve their earnings, and decrease welfare dependency. CCWD retains a small portion of WIA Title IB funds for administration, but distributes the bulk of the funds to workforce investment boards and service providers in the State's seven local service delivery areas. Funding is also provided under WIA Title IB for the National Emergency Grant (NEG) program, which addresses mass layoff situations. The Adult Education and Family Literacy (also known as, Adult Basic Education) funds are provided through the WIA as well, but this is a separate program under Title II. These Federal Funds support developmental education for adults, and are distributed to community colleges and other community-based organizations.

Oregon Youth Conservation Corps (OYCC) provides education, training, and employment opportunities based on conservation efforts to disadvantaged and at-risk youth ages 14 to 25. The OYCC created a private, non-profit foundation which allows private fundraising in support of its activities.

Revenue Sources and Relationships

Other Funds include fees from applicants for the General Education Development and Tracking Outcomes for Programs and Students System tests; charges to community colleges for the cost of copying Adult Basic Education curriculum materials and summer conference fees; and funds from the Oregon Department of Education for Carl D. Perkins Professional/Technical program support. OYCC also receives funding from the Amusement Device Tax levied on the state's video lottery terminals (ORS 320.013), donations, and fees for contract services.

Federal Funds include WIA Title IB, WIA Title II, National Emergency Grants (NEG), State Energy Sector Partnership and Training (SESP), and United States Forest Service funding for Oregon Youth Employment Initiatives (OYEI). CCWD must apply to the federal government for any NEG funds, and expenditures of these funds are Nonlimited in the state budget. During the 2009-11 biennium, CCWD received one-time Federal Funds under the American Recovery and Reinvestment Act of 2009 (ARRA) including $36.6 million under WIA Title IB and $8.7 million under OYEI.

Current Service Level

The current service level is 24.3% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Approximately $40 million in Federal Funds expenditure limitation is reduced in the current service level to reflect the elimination of one-time ARRA revenues, a Disability Program Navigators grant, and a Labor Market Information Improvement grant.

Budget Environment and Potential Reductions

With approximately 75% of the General Fund resources for these programs supporting personal services, state government service charges, or special payments as matching funds for federal grants, there is little flexibility for making reductions other than staffing. If reductions are necessary, CCWD proposes to modify the ratio of General Fund support on three positions potentially resulting in reduced technical support to community colleges as activities would be limited to those allowable under federal and other sources; and reducing professional services for the State Board of Education, Unified Education Enterprise, and Joint Boards of Education.

CCWD – State Support to Community Colleges

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	497,505,677	452,432,014	417,840,591	479,525,000
Other Funds	18,000	25,308	25,308	25,308
Total Funds	**$497,523,677**	**$452,457,322**	**$417,865,899**	**$479,550,308**

Program Description

All funds in the State Support to Community Colleges program are transferred to the 17 community colleges, except for a small portion allocated to the North Clackamas School District to support the Sabin-Schellenberg Skills Center. The funds that are transferred to community colleges are primarily transferred through the CCSF on an adjusted enrollment basis. A small portion is distributed to support contracted out-of-district reimbursements and distance learning programs. Generally, colleges receive funding for their full-time equivalent (FTE) enrollments in Lower Division Collegiate, Career Technical, Developmental Education, and certain Adult Continuing Education courses. Lower Division Collegiate courses parallel the offerings of the first two years of four-year institutions and carry regular college credit. Career Technical courses generally lead to a certificate or associate degree in a professional program. Developmental Education includes Adult Basic

Education, English as a Second Language, GED and Adult High School programs, and post-secondary remedial courses. Adult Continuing Education courses aid in student self-development but do not lead to a degree.

Revenue Sources and Relationships

Other Funds reflect receipts from the state timber tax.

Community colleges also collect property taxes to fund their operations. These taxes do not flow through the agency budget, however, and are not included in any budget figures identified here. Approximately $277.4 million of property tax collections are projected for community colleges for operations in the 2011-13 biennium, up from an estimated $264.3 million in the 2009-11 biennium. Tuition and fee revenues, which are also not included in the state agency budget, provide approximately one-third of the total operation revenues to the community colleges.

Current Service Level

The current service level is 14.8% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

During the February 2010 special session, the method of calculating the current service level for the CCSF was modified to more closely align with how some expenditure categories are calculated for state employees. Specifically, employer contributions to PERS were adjusted for changes in a blended rate for community colleges, as determined by charges approved by the PERS Board or by projected contribution rate charges; debt service costs relating to community college bonds issued for purposes of financing pension obligations were adjusted for changes in those costs in the upcoming biennium; and employee health insurance premiums were adjusted to roll-up these expenditures to rates effective at the end of the biennium as offered to community college districts by the Oregon Education Benefit Board. This revised method produced a current service level approximately $29.8 million higher than the calculation previously used.

Budget Environment and Potential Reductions

Between the 2007-08 and 2009-10 academic years, full-time equivalent attendance at the community colleges has increased by almost 29% primarily due to students taking additional courses as the unduplicated head count grew by only 1%. In that same time period, the average, annual in-district tuition and fees grew by 13.2%, and is expected to increase by an additional 5.2% for Fall term 2010 for an annualized amount of $3,720.

Decisions on how and when to implement service modifications or reductions, staffing changes, or fee increases will be made by the individual community college boards and will vary across the state.

CCWD – Community College Capital Construction and Debt Service

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	3,162,206	7,974,203	8,324,203	20,107,391
Lottery Funds	0	9,306,103	8,929,603	7,469,632
Other Funds	151,351,350	131,374,688	131,024,688	0
Federal Funds (NL)	0	0	1	1
Total Funds	**$154,513,556**	**$148,654,994**	**$148,278,495**	**$27,577,024**

Program Description

This program finances state support for the construction, acquisition, and major renovations of community college properties. The 2005-07 biennium legislatively adopted budget included, for the first time since the 1979-81 biennium, state support for community college capital projects. The projects were financed by Article XI-G bonds which are a constitutionally-authorized general obligation debt of the state. The state is required to match the bonds with at least an equal amount of General Fund. In lieu of regular General Fund, the community colleges were required to transfer local matching funds to the state. These matching funds are designated as the General Fund match, and the matching funds are then returned to the community colleges, with the Article XI-G bond proceeds, as Other Funds expenditures in the state budget.

Current Service Level

The current service level is 81.4% lower than the 2009-11 legislatively approved spending level at December 2010. It reflects only the principal and interest payments required on existing approved projects. All capital construction projects are approved on a one-biennium basis for budget purposes. Therefore, although the approved funding is available for six years if needed to complete the project, the funding is phased-out in the calculation of the next biennium's current service level.

Budget Environment and Potential Reductions

During the 2008 special session, the Joint Committee on Ways and Means revised the legislative policy on state support of community college capital construction projects to include on-going Article XI-G bond support of $40 million per biennium for community college capital construction projects and to give priority for projects at community colleges that have not recently received Article XI-G bond proceeds from the state.

During the 2009 session, the Legislature overrode this policy and funded $57.5 million of Article XI-G bonds; $53.6 million of shovel-ready deferred maintenance projects at Oregon community colleges, as part of the state's *Go Oregon!* economic stimulus package (SB 338); and $13.7 million of lottery revenue bonds.

Community College Capital Construction
State Support (Article XI-G and Lottery Bonds)

Community College	Session					Total
	2005 Session	2007 Session	2008 Session	2009 SB 338	2009 Session	
Blue Mountain				$ 2,055,500	$ 7,400,000	$ 9,455,500
Central		$ 5,778,000		$ 2,822,250	$ 6,900,000	$ 15,500,250
Chemeketa		$ 5,625,000		$ 8,065,000	$ 6,255,000	$ 19,945,000
Clackamas		$ 5,156,250		$ 1,355,750	$ 9,000,000	$ 15,512,000
Clatsop	$ 7,500,000		$ 4,000,000	$ 1,875,000	$ 1,900,000	$ 15,275,000
Columbia Gorge	$ 7,500,000			$ 1,595,000	$ 8,000,000	$ 17,095,000
Klamath	$ 7,700,000			$ 1,600,000		$ 9,300,000
Lane		$ 6,750,000		$ 8,000,000	$ 8,000,000	$ 22,750,000
Linn-Benton		$ 3,731,250		$ 1,844,750		$ 5,576,000
Mt. Hood		$ 2,500,000		$ 3,850,000	$ 950,000	$ 7,300,000
Oregon Coast	$ 4,500,000	$ 3,000,000		$ 500,000	$ 2,000,000	$ 10,000,000
Portland		$ 7,500,000		$ 6,415,000	$ 8,000,000	$ 21,915,000
Rogue	$ 4,100,000			$ 4,000,000	$ 1,250,000	$ 9,350,000
Southwestern	$ 2,300,000			$ 4,000,000		$ 6,300,000
Tillamook Bay	$ 4,900,000			$ 175,000		$ 5,075,000
Treasure Valley				$ 1,413,350	$ 3,000,000	$ 4,413,350
Umpqua				$ 4,000,000	$ 8,500,000	$ 12,500,000
TOTAL	**$ 38,500,000**	**$ 40,040,500**	**$ 4,000,000**	**$ 53,566,600**	**$ 71,155,000**	**$ 207,262,100**

Debt service requirements will need to be reviewed prior to adoption of the budget as two of the currently authorized projects (Clackamas and Umpqua) will require future voter approval of local bond levies to provide the necessary matching funds, and one project (Columbia Gorge) did not receive voter approval for its bond levy in November 2010. If these projects were not to advance, debt service requirements may be $3.6 million lower than the current service level for the 2011-13 biennium.

Department of Education (ODE) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level*	2011-13 Current Service Level
General Fund	5,272,290,511	5,447,767,562	5,178,165,512	6,654,421,219
Lottery Funds	1,117,673,277	495,024,463	465,044,135	474,218,278
Other Funds	60,883,458	60,411,670	61,368,970	56,134,678
Federal Funds	875,676,402	1,229,025,341	1,347,599,855	785,005,610
Other Funds (NL)	140,351,340	100,687,342	100,687,342	101,073,552
Federal Funds (NL)	283,428,367	278,692,417	278,692,417	285,380,254
Total Funds	**$7,750,303,355**	**$7,611,608,795**	**$7,431,558,231**	**$8,356,233,591**
Positions	481	393	393	392
FTE	443.51	375.22	375.22	374.96

** On May 1, 2011, an additional $84,274,184 will be distributed to the State School Fund from the Education Stability Fund, if resources are available, consistent with requirements under SB 5565 (2010).*

Agency Overview

The Oregon Constitution directs the Legislature to "provide by law for the establishment of a uniform and general system of common schools." The State Board of Education and the State Superintendent of Public Instruction are responsible for adopting rules for the general governance of public kindergartens, elementary, and secondary schools; implementing statewide standards for public schools; and making distributions from the State School Fund to school and education service districts. The State Superintendent of Public Instruction is elected by the voters for a four-year term.

ODE – Operations

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	47,008,798	38,652,640	35,795,572	41,668,055
Other Funds	11,577,832	15,068,052	15,068,052	15,269,242
Federal Funds	46,357,560	65,645,579	65,645,579	68,684,097
Other Funds (NL)	3,615,848	5,147,342	5,147,342	5,271,167
Total Funds	**$108,560,038**	**$124,513,613**	**$121,656,545**	**$130,892,561**
Positions	280	269	269	268
FTE	273.74	265.70	265.70	265.49

Program Description

The Oregon Department of Education (ODE) provides support to the State Board and the State Superintendent in carrying out their responsibilities and includes the following offices:

The ***Office of Educational Improvement and Innovation*** includes programs under the federal No Child Left Behind Act (NCLB), PreK-16 systems integration, alternative education, charter schools, home schooling, private schools, professional/technical education, school improvement, and standards and framework for curriculum and instruction.

The ***Office of Student Learning and Partnerships*** includes early childhood education, special education, and federal program compliance and accountability.

The ***Office of Assessment and Information Systems*** is responsible for the development and maintenance of the department's technical and information infrastructure. This includes data collection from and reporting on individual schools, school districts, and education service districts. It also includes the design, development, and implementation of the statewide student assessment system, which measures student performance against state content standards for kindergarten through grade 12.

The ***Office of Finance and Administration*** provides fiscal and administrative services, such as accounting, budgeting, employee services, and procurement. This office is responsible for the pupil transportation program, including the training and certification of bus drivers, and the calculation and distribution of State School Fund payments to school districts and education service districts.

Revenue Sources and Relationships

Other Funds revenues include indirect cost recovery from federal programs; fees for fingerprinting and background checks; funds from the Department of Human Services for health-related and other programs; funds from the Department of Community Colleges and Workforce Development for professional/technical education services and administration; fees for licensing private vocational schools; tuition protection fees from private vocational schools to reimburse students in case of closure of these schools; textbook review fees; and miscellaneous fees, contracts, and grants.

Major federal revenue sources include Individuals with Disabilities Education Act (IDEA), the National School Lunch Program, NCLB assessment funds, and various compensatory education programs.

Current Service Level

The current service level is 7.6% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

A pilot program, Student Vision Screening, received a one-time appropriation of $150,000 General Fund in the 2009-11 biennium. An additional $130,000 General Fund for the Professional Development Task Force (SB 443 – 2009) should have been phased-out as well and will need to be reconciled before the budget is adopted.

Budget Environment and Potential Reductions

To address the potential for budgetary reductions, ODE proposes similar one-time reductions as those implemented in the 2009-11 biennium including holding vacancies, reducing staff development and travel, shifting position funding to other sources of revenue, and suspending some student assessments.

During the February 2010 special session, $1 million was transferred to the General Fund from the Tuition Protection Fund, which protects students when career schools cease provision of educational services.

ODE – Special Schools

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	17,949,936	13,915,704	12,851,756	15,665,230
Other Funds	3,864,780	5,304,839	5,304,839	5,558,750
Federal Funds	714,174	314,455	529,898	331,449
Total Funds	**$22,528,890**	**$19,534,998**	**$18,686,493**	**$21,555,429**
Positions	185	108	108	108
FTE	153.89	93.64	93.64	93.59

Program Description

The School for the Deaf (OSD) is a residential/day program that serves students who are hearing-impaired. OSD provides academic and career education, living skills development, athletics, and leadership training. On average, 115 students receive services per year.

HB 2834 (2009) directed the closure of the Oregon School for the Blind (OSB) and established the Blind and Visually Impaired Student Fund to assist students in receiving services in their communities, providing technical assistance, and professional development for those who serve students who are blind or visually impaired.

Revenue Sources and Relationships

Other Funds revenues reflect receipts from special education billings, donations, Medicaid reimbursements, fees from local school districts for services provided to their students, nutrition reimbursements, and other miscellaneous sources. When the Blind and Visually Impaired Student Fund receives a General Fund appropriation (estimated at $3.1 million in the current service level), those resources are transferred to an Other Funds account and may be carried forward into future biennia. Federal Funds are from IDEA.

Current Service Level

The current service level is 15.4% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

HB 3687 (2010) directs the Department of Administrative Services (DAS) to transfer the 50% of the proceeds from the sale of OSB to ODE for improvements, repairs, and maintenance costs benefitting the health, safety, and housing of the students of OSD. DAS is expected to transfer approximately $2.4 million for this purpose, and may transfer additional resources once conditions of purchase are finalized. Use of these proceeds is not addressed in the current service level.

To address the potential for budgetary reductions, ODE proposes to reduce dorm supervision, hold vacancies, reduce textbook and service and supplies purchases, and/or reduce appropriations to the Blind and Visually Impaired Student Fund.

ODE – Youth Corrections/Juvenile Detention Education Program

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	21,285,645	18,687,136	19,644,436	19,383,623
Federal Funds	1,811,629	2,246,483	2,246,483	2,306,453
Total Funds	**$23,097,274**	**$20,933,619**	**$21,890,919**	**$21,690,076**
Positions	16	16	16	16
FTE	15.88	15.88	15.88	15.88

Program Description

ODE is responsible for ensuring that educational services are provided to children in the Oregon Youth Authority's close custody facilities (YCEP) and county detention centers (JDEP). ODE contracts with local education agencies to provide services to students.

Revenue Sources and Relationships

The primary funding for this program comes from the State School Fund and is reflected as Other Funds. The program is treated as a separate school district with YCEP receiving double-weighting and JDEP receiving weight of 1.5 under the school funding formula.

Federal funding is from the Title I Neglected and Delinquent Program, IDEA, Title II support of professional development, and a youth offender workplace training grant.

Current Service Level

The current service level is 1% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

During the February 2010 special session, $316,000 was transferred to the General Fund from the program's cash balance.

Budget Environment and Potential Reductions

At the December 2010 meeting of the Emergency Board, ODE requested an increase of $2 million Other Funds expenditure limitation to address existing contract obligations with local education agencies. However, concerns were raised over the reliability of information provided by ODE, sufficiency of revenue to cover the contract obligations, and coordination of services with providers. ODE was directed to prepare a management plan to address changes in population, service delivery, and funding options no later than the first week of the 2011 legislative session.

ODE – Grant-in-Aid

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	255,170,010	282,271,942	266,320,739	298,895,770
Other Funds	18,659,420	15,217,588	15,217,588	15,582,811
Federal Funds	713,481,460	934,718,882	934,718,882	713,683,611
Federal Funds (NL)	283,428,367	278,692,417	278,692,417	285,380,254
Total Funds	**$1,270,739,257**	**$1,510,900,829**	**$1,494,949,626**	**$1,313,542,446**

Program Description

The majority of grant-in-aid programs provide educational and support services for students with specific educational needs and are typically delivered under contract local education agencies. Approximately 80% of the program's General Fund resources support two programs, Early Intervention/Early Childhood Special Education (EI/ECSE) and Oregon Prekindergarten (OPK). EI/ECSE serves children with disabilities and their families to improve developmental status and increase school readiness for each child. The EI portion of the program serves children from birth through age 2 and is statutorily required. The ECSE component serves children from age 3 until the age at which schooling begins (usually age 5) and is federally mandated. OPK programs align with federal Head Start standards.

Regional programs provide specialized educational support for children with hearing impairments, vision impairments, autism spectrum disorders, severe orthopedic impairments, and deaf-blindness. Regional contractors hire trained, certified staff to provide the needed specialized services. The regional service delivery model provides equal access to services regardless of where the children live in the state. ODE is also responsible for the delivery of education services to children in day and residential mental health programs as well as hospital programs, which provide educational services to students with severe, low-incidence types of disabling conditions such as burns, head injuries, and other acute or chronic medical conditions. Other programs include child nutrition services, vocational and workforce development, school reform implementation, and expansion of technology.

Revenue Sources and Relationships

Other Funds revenues represent receipts from special education billings, state tobacco tax funds from the Department of Human Services for tobacco education programs, federal funds from the Employment Department for the Teen Parent program, and miscellaneous grants.

The Department receives substantial federal funding for this program unit, mainly from the U.S. Department of Education for compensatory programs under the No Child Left Behind Act, special education, and teacher quality programs, and U.S. Department of Agriculture nutrition programs. Most of the funding is passed through to local school districts or contractors.

Current Service Level

The current service level is 12.1% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. EI/ECSE also receives an adjustment for mandated caseload. Caseload is expected to increase by 3.1% per year.

The decrease in total funds is due primarily to one-time resources available in the 2009-11 biennium from the American Recovery and Reinvestment Act, plus $1 million General Fund was phased-out for the Early Head Start program authorized during the February 2010 special session.

GRANT-IN-AID PROGRAMS ($ in millions)

Program	2009-11 Approved Spending GF	2009-11 Approved Spending All Funds	2011-13 Current Service Level GF	2011-13 Current Service Level All Funds	% Change GF	% Change All Funds
Early Intervention/Early Childhood Special Ed	$ 105.16	$ 134.56	$ 123.84	$ 153.25	17.8%	13.9%
Oregon Prekindergarten	103.99	103.99	112.73	112.73	8.4%	8.4%
Regional Programs	29.43	59.34	32.63	63.26	10.9%	6.6%
Long-Term Treatment & Hospital Programs	18.27	34.25	20.26	36.62	10.9%	6.9%
Title I Low-Income & Migrant Education	-	395.53	-	282.76	-	-28.5%
Nutrition Programs	2.32	281.01	2.57	287.95	10.9%	2.5%
Local & Other Special Education	-	298.26	-	184.90	-	-38.0%
Title II Teacher Quality	-	55.89	-	57.23	-	2.4%
Vocational Education	-	29.65	-	30.36	-	2.4%
Comp. Teacher/Admin Quality Programs (Mentoring)	4.68	4.68	5.19	5.19	10.9%	10.9%
Early Head Start	0.95	0.95	-	-	-100.0%	-100.0%
Connectivity	0.59	0.59	0.65	0.65	10.9%	10.9%
Student Leadership	0.46	0.46	0.51	0.51	10.9%	10.9%
Physical Education	0.46	0.46	0.51	0.51	10.9%	10.9%
Other Programs (primarily under the NCLB Act)	-	95.33	-	97.62	-	2.4%
TOTAL EXPENDITURES	$ 266.32	$ 1,494.95	$ 298.90	$ 1,313.54	12.2%	-12.1%

Budget Environment and Potential Reductions

EI/ECSE serves approximately 10,400 children and is a federally mandated program. As such, all eligible children must be served and not placed on a waiting list. If budget reductions are necessary, the level of service is reduced. ODE reports that with the allotment reductions taken during 2009-11, the service level to children in EI declined by 57% (3.8 hours per month) and ECSE declined by 34% (8.2 hours per month) when compared to 2004. OPK serves approximately 12,700, with a goal of serving 80% of eligible children. With the allotment reductions taken during 2009-11, ODE expected to serve approximately 64%. For each 1% decrease in OPK's current service level funding approximately 65 fewer slots could be served.

ODE – School Funding

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level*	2011-13 Current Service Level
General Fund	4,952,161,767	5,112,927,276	4,863,197,445	6,298,192,164
Lottery Funds	1,061,258,188	439,791,571	409,811,243	416,255,878
Other Funds	3,247,438	3,637,214	3,637,214	340,252
Federal Funds	113,311,579	226,099,942	344,459,013	0
Total Funds	**$6,129,978,972**	**$5,782,456,003**	**$5,621,104,915**	**$6,714,788,294**

** On May 1, 2011, an additional $84,274,184 will be distributed to the State School Fund from the Education Stability Fund if resources are available, consistent with requirements under SB 5565 (2010).*

Program Description

In 1990, voters approved Ballot Measure 5 that altered the state-local finance structure. Measure 5 phased in property tax limits that substantially reduced local property taxes for schools. Consequently, the 1991 Legislature increased state funding and passed a new school equalization formula. Measure 50 (a rewrite of Measure 47 passed in 1996) added another property tax limit more restrictive than Measure 5. In response, the 1997 Legislature increased the level of state funding and further modified the school equalization formula.

Allocations to school districts include a transportation grant, a facility grant, and a general-purpose grant. The general-purpose grant follows a legislatively prescribed distribution formula based on number of students, additional weighting reflecting specific greater education costs, teacher experience, and local tax resources. This formula was designed to equalize allocations to schools. School districts receive 95.25% of the sum of (1) State School Fund dollars available to schools and ESDs, (2) school district local revenue, and (3) ESD local revenue included in the formula. ESDs receive the remaining 4.75%.

Revenue Sources and Relationships

Other Funds reflect receipts from the state timber tax and donations of kicker rebates.

Current Service Level

The current service level is 19.5% higher than the 2009-11 legislatively approved spending level at December 2010. In 1999, by Executive Order 95-15, the Department of Administrative Services was directed to form the School Revenue Forecast Committee to review the forecast of statewide weighted average daily membership and develop an allowable growth factor forecast. For the 2011-13 biennium, the forecast included estimates for growth in average weighted daily membership of 0.4% per year, local revenues of 3.78% in 2011-12 and 4.42% in 2012-13, average teacher salaries of 2.8% per year, and benefits of 9% per year.

Budget Environment and Potential Reductions

In 2001, the Quality Education Commission (QEC) was established to, in part, determine the amount of moneys sufficient to ensure that the state's system of kindergarten through grade 12 public education met quality goals. Based on the QEC report from October 2010, sufficient state funding for the 2011-13 biennium would total $8.748 billion or approximately 30% more than the current service level. While the state's funding formula attempts to equalize funding across the state, budgetary and service delivery decisions remain with local school boards. The incremental cost is $21.5 million per year for each school day based on QEM estimate for 2011-12 school year.

ODE – Debt Service

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Lottery Funds	56,415,089	55,232,892	55,232,892	57,962,400
Other Funds	2,248,343	2,496,841	2,496,841	0
Other Funds (NL)	40,933,107	0	0	0
Total Funds	**$99,596,539**	**$57,729,733**	**$57,729,733**	**$57,962,400**

Program Description

This program provides debt service (principal and interest) on Lottery Revenue bonds, including $150 million of bonds approved by voters in November 1997 and issued in Spring 1999; and $127 million of bonds approved by the 1999 Legislative Assembly and issued in 1999-2001 for state education projects as defined in HB 2567 (1999).

Proceeds to schools were intended for the acquisition, construction, remodeling, maintenance, or repair of school facilities. Schools also were allowed to use the proceeds for certain operational expenses, such as textbooks, computers, and instructional training.

Revenue Sources and Relationships

Lottery Funds include direct allocations from available revenues and 75% of the interest earnings from the Education Stability Fund.

Other Funds include net unobligated lottery proceeds and interest earnings from the Education Lottery Bond Fund.

Current Service Level

The current service level is 0.4% higher than the 2009-11 legislatively approved spending level at December 2010 and reflects adjustments necessary to meet bond requirements. An estimate of Other Funds revenues was omitted by DAS and ODE in the development of the current service level. This will need to be reconciled before the budget is adopted. Current estimate of Other Funds is approximately $2.4 million.

Budget Environment and Potential Reductions

In recent years, interest earnings on the Education Stability Fund have been lower due to transfers of principal from the Education Stability Fund to the State School Fund as well as lower interest rates. Final principal and interest payments are due in the 2015-17 biennium.

ODE – Common School Fund Distributions

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds (NL)	95,802,385	95,540,000	95,540,000	95,802,385
Total Funds	**$95,802,385**	**$95,540,000**	**$95,540,000**	**$95,802,385**

Program Description

This program reflects the transfers of Common School Fund (CSF) distributions from the Department of State Lands to the Department of Education for distribution to K-12 school districts.

Current Service Level

All expenditures are Nonlimited as distributions will vary from year to year. Although these resources are distributed through ODE, by statute they are considered local revenue to school districts and not part of the State School Fund. However, the School Revenue Forecast Committee does estimate the local revenues available to schools when calculating the current service level for the State School Fund.

In November 2010, the Department of State Lands estimated that $78.8 million may be available in the 2011-13 biennium, thus the current service level is overstated by approximately $17 million.

Budget Environment and Potential Reductions

Starting in January 2006, Common School Fund growth was determined on the basis of a three-year rolling average. When growth was 5% or less, a minimum distribution of 2% of the fund's fair market value was made. If the fund grew between 5% and 11%, the distribution percentage grew incrementally, up to a maximum distribution of 5%. This policy was modified so that effective with the December 31, 2009, distribution, the amount of the distribution shall be equal to 4% of the average balance of the preceding three years if the three-year rolling average growth is less than 11%.

In the last decade, annual distributions have ranged from $13.3 to $55.4 million.

Oregon Health and Science University Public Corporation – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	82,233,539	79,381,606	73,312,357	81,842,436
Other Funds	31,920,847	31,978,974	31,978,974	31,634,760
Total Funds	**$114,154,386**	**$111,360,580**	**$105,291,331**	**$113,477,196**

Agency Overview

The Oregon Health and Science University (OHSU) is the only public academic medical center in the state. OHSU's mission includes education, research, clinical care, and public service. In addition to three main sites (Marquam Hill, the Oregon Primate Research Center and the Oregon Graduate Institute, and the South Waterfront Campus), OHSU also has clinical facilities throughout the Portland metropolitan area, and teaching programs in various locations throughout the state. Although operating as a public corporation since 1995, the university is governed by a Board of Directors that is appointed by the Governor and confirmed by the Senate. The Legislature no longer approves the university budget (or limits its expenditures from tuition and other sources), but the state continues to support OHSU through grants for academic programs (Schools of Medicine, Dentistry, and Nursing), Area Health Education Centers (AHEC), Child Development and Rehabilitation Center (CDRC), the Oregon Poison Center, and debt service for the Oregon Opportunity Program.

Revenue Sources and Relationships

To finance the Oregon Opportunity Program, an expansion of research programs in genetics and biotechnology, OHSU received $200 million in Article XI-L bond proceeds in 2001-03 and 2003-05. Other Funds are solely Tobacco Master Settlement Agreement funds for debt service on these bonds. The final payment is scheduled in 2024.

In 2009, the state's appropriation was 2.2% of OHSU's operating budget and accounted for the following percentages of unrestricted revenues in the School of Medicine – 11%, School of Nursing – 41%, School of Dentistry – 20%, AHEC/Rural Health – 98%, CDRC – 29%, and Oregon Poison Center – 67%.

Current Service Level

The current service level is 7.8% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for debt service and inflation.

Program/Activity	2009-11 Legislatively Approved	2009-11 Approved Spending Level	2011-13 Current Service Level
School of Medicine	$28,019,998	$25,877,683	$28,888,619
School of Nursing	23,224,817	21,449,126	23,944,787
School of Dentistry	11,365,022	10,496,091	11,717,337
Area Health Education Centers/Office of Rural Health	4,819,639	4,451,146	4,969,047
Child Development and Rehabilitation Center	9,336,856	8,622,991	9,626,298
Oregon Poison Center	2,615,274	2,415,320	2,696,348
Total – General Fund:	**$79,381,606**	**$73,312,357**	**$81,842,436**

Budget Environment and Potential Reductions

To address the reductions necessary to achieve the 2009-11 Approved Spending Level, OHSU implemented higher tuition rates in the Schools of Medicine and Dentistry, held vacancies, centralized some management functions, and took targeted furloughs or salary reductions. If reductions are necessary in the 2011-13 biennium, OHSU has proposed the following options:

School of Medicine – Beyond the typical 4% per year increase in tuition, OHSU would consider increasing rates by an additional 2% per year, making reductions in the graduate program, converting the rural rotation from mandatory to elective, and/or modifying the ratio of resident to non-resident students.

School of Nursing – OHSU asserts that tuition rates in this program are close to the market maximum and reductions in funding would result in reduced enrollments, elimination of programs and services, or closure of regional campuses

School of Dentistry – OHSU would typically increase tuition 3-4% per year and enrolls 50 resident students in a class of 75. If budgetary reductions are necessary, OHSU would consider increasing tuition by up to 10% per year and dropping resident enrollment to 35.

Child Development and Rehabilitation Center – OHSU restructured CDRC service provision in the 2009-11 biennium and reduced nursing support and health care coordination for children with special needs. These changes would continue into the 2011-13 biennium and OHSU would need to consider further reducing nursing services for the cleft palate/craniofacial program, eliminating genetic counseling services, reducing services at the Eugene Campus resulting in fewer evaluations for children with complex developmental and behavioral disorders, and/or reducing services to patients with congenital spinal cord paralysis.

Area Health Education Centers/Office of Rural Health – The Office of Rural Health provides about 130 on-site technical assistance visits each year. In response to budget reductions in the 2009-2011 biennium, OHSU established a task force to provide advice on how to deliver services with limited resources. The report is still pending.

Oregon Poison Center – OHSU indicates that reductions in funding would jeopardize the Center's national accreditation and reduce federal matching funds due to inability to meet maintenance of effort requirements. One-time funding reductions were made in Hospital and Clinical programs to off-set the 2009-11 biennium reductions.

Oregon Student Assistance Commission – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	101,610,245	90,340,451	87,773,980	103,976,107
Lottery Funds	4,183,739	8,940,885	8,940,885	3,914,670
Other Funds	5,749,294	6,576,994	7,426,424	7,426,370
Federal Funds	1,783,654	1,791,006	1,791,006	770,228
Other Funds (NL)	9,546,744	11,651,051	11,651,051	13,343,826
Total Funds	**$122,873,676**	**$119,300,387**	**$117,583,346**	**$129,431,201**
Positions	33	27	27	28
FTE	31.66	25.83	25.83	25.83

Agency Overview

The mission of the Oregon Student Assistance Commission (OSAC) is to assist Oregon students and their families in attaining a post-secondary education and to enhance the value, integrity, and diversity of Oregon's college programs. The Commission administers the following programs:

- Oregon Opportunity Grants (OOG) program makes awards available to students from families earning up to $70,000 per year based on a Shared Responsibility Model (SRM). The OOG accounts for approximately 81% of the 2011-13 current service level.
- Scholarship Services administers approximately 400 public and private scholarship and grant programs.
- Access to Student Assistance Programs in Reach of Everyone (ASPIRE) program trains volunteers to serve as mentors to high school students in 115 schools with information regarding college and career choices, preparation, and financial aid for post-secondary education.
- Office of Degree Authorization evaluates and approves proposals for the establishment of new degree programs in Oregon and conducts reviews of authorized programs.

Revenue Sources and Relationships

The Commission receives Lottery Funds based upon one-quarter of the earnings of the Education Stability Fund. Revenue from this source is affected when the state uses the corpus of the Education Stability Fund.

Other Funds revenues are received from private award donations, charges for administering privately funded scholarship programs, and fees for reviewing degrees from private post-secondary institutions. Other Funds payments for administrative expenses (personnel costs, services and supplies) are limited in the budget. Most Other Funds payments for student aid (e.g., Private Award payments, JOBS Plus payments) are Nonlimited.

Federal Funds are from the Leveraging Educational Assistance Partnership which requires the state to maintain the state's spending level for OOG to equal the average of the three previous years. Prior to the 2011-13 biennium, Federal Funds also included Special Leveraging Educational Assistance Partnership but this federal program has sunset.

Oregon students and families also receive Pell grants and higher education tax credits that, while not reflected in the state's budget directly, effects the level of shared responsibility for OOG. The maximum federal Pell Grant has increased by 17.3% to $5,550 for 2010-11 from $4,731 for 2008-09 and higher education tax credits are up to $2,500 (refundable up to $1,000). These funding limits are expected to remain during in the 2011-13 biennium. From the latest award year available (2008-09), 71,416 Oregon students received approximately $208.6 million in Pell grants.

Current Service Level

The current service level is 10.1% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

State Support (General Fund and Lottery Funds)				
	2009-11 Legislatively Approved Budget	**2009-11 Approved Spending Level**	**2011-13 Current Service Level**	**% Change (CSL v. LAB)**
Opportunity Grant	99,498,085	92,550,618	103,317,066	3.8%
Nursing Services Program	262,698	262,698	58,562	-77.7%
Nursing Faculty Loan Program	200,000	184,709	204,800	2.4%
ASPIRE (agency operations)	602,313	506,537	674,153	11.9%
ASPIRE (schools only)	162,381	162,381	166,278	2.4%
Student Child Care	1,002,600	917,214	1,026,662	2.4%
Agency Operations	2,253,259	2,130,708	2,443,256	8.4%
Total:	$ 103,981,336	$ 96,714,865	$ 107,890,777	3.8%

Budget Environment and Potential Reductions

OSAC estimates it will receive approximately 183,000 eligible applications for OOG during the 2009-11 biennium, for which approximately 59,000 awards were made with the average amount of $1,758 in the 2009-10 academic year and $1,509 in the 2010-11 academic year. In 2008, the estimated cost for full funding of the SRM approached $256 million and is estimated to be closer to $300 million for the 2011-13 biennium.

Given that the current service level is roughly one-third of the estimated full cost of the shared responsibility model, any significant budget reductions required during the 2011-13 biennium will have to be measured in the context of total awards, buying power of the award level, and equity among academic sectors.

Teacher Standards and Practices Commission – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	5,008,724	5,118,071	5,118,071	5,400,061
Total Funds	**$5,008,724**	**$5,118,071**	**$5,118,071**	**$5,400,061**
Positions	28	25	25	22
FTE	26.01	25.00	25.00	22.00

Agency Overview

The Teacher Standards and Practices Commission (TSPC), composed of 17 members who are appointed by the Governor and confirmed by the Senate, has three primary areas of responsibility:

- Establish rules for licensure and registration and issue licenses and registrations to teachers, administrators, school nurses, school counselors, and school psychologists.
- Maintain and enforce professional standards of competent and ethical performance and proper assignment of licensed educators.
- Adopt standards for college and university teacher education programs and approve programs that meet such standards.

Revenue Sources and Relationships

The agency is entirely supported by Other Funds from licensing and other fees paid by the regulated professionals with the life of a license ranging from three to five years. The last licensure increase occurred in January 2006 when the fee increased from $75 to $100, the maximum allowed by statute. The licensing base consists of approximately 65,000 educators.

The agency anticipates a decline of approximately 2% in revenues during the 2011-13 biennium, citing a trend to postpone new licensing with the reduced availability in the job market. While new applications may be lagging, a slight increase in renewals and reinstatements is projected, which is partially due to individuals returning to this labor market for part-time/substitute income. Overall, current service level expenditures exceed projected revenues by 4%, thus the agency will need to rely on existing cash balances if operations are to be sustained. During the February 2010 special session, $346,000 was transferred to the General Fund from the agency's cash balance.

Current Service Level

The current service level is 5.5% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. Three limited duration positions approved for the 2009-11 biennium to address the backlog in discipline cases were eliminated. The current service level is overstated by $57,180 due to an error during the budget development process. Services and supplies associated with the limited duration positions should have been eliminated.

Budget Environment and Potential Reductions

Superintendents or chief charter school administrators who discover ethical, criminal, or professional misconduct by licensed educators are required to report the misconduct to the agency. The Commission is required to investigate all complaints received from educators or the public regarding possible misconduct.

During the 2009-11 biennium, the number of new cases continued to grow over the prior biennium with a peak of 290 cases filed in 2009. As of November 2010, the agency had a backlog of 331 cases, or 10 more than at the close of 2009.

The agency has an estimated $1.2 million ending cash balance at the current service level which is approximately equivalent to five months of operations. This is within the statewide standard for Other Fund agencies. However, the agency may need to address office space capacity as well as investigatory support which would lower these available resources.

Oregon University System – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	791,522,349	751,543,302	699,654,860	916,726,839
Lottery Funds	23,289,731	23,104,431	23,104,431	28,597,635
Other Funds	2,125,040,457	2,143,506,152	2,314,640,162	1,671,147,554
Federal Funds	55,636,352	69,361,591	68,951,615	4,922,076
Other Funds (NL)	2,179,493,390	2,253,682,924	2,253,682,924	2,308,037,902
Federal Funds (NL)	0	0	1	0
Total Funds	**$5,174,982,279**	**$5,241,198,400**	**$5,360,033,993**	**$4,929,432,006**
Positions	18,113	18,251	18,250	18,869
FTE	12,639.23	12,909.01	12,908.68	13,191.48

Agency Overview

The Oregon University System (OUS) is the state agency for the educational institutions, governing board, central administration, support services, and public services that make up Oregon's Post-Secondary institutions, excluding Community Colleges. The institutions of OUS consist of the University of Oregon (UO), Oregon State University (OSU), Portland State University (PSU), the three regional universities (Eastern [EOU], Western [WOU], and Southern Oregon Universities [SOU]), and the Oregon Institute of Technology (OIT). OSU has also established a branch campus in Bend, OSU-Cascades. The budget for the Oregon University System is divided up into a number of program areas.

The **Education and General Services** program includes the instruction, research, public service, and operating costs of the seven institutions that make up OUS, plus the centralized administration and support services of the system. (The operations of self-supported campus auxiliaries such as housing and health services, however, are shown in the Other Services (Nonlimited) program.) The Education and General Services Program usually accounts for at least 75% of the entire Department's state-supported (General Fund plus Lottery Funds) expenditures. The Legislature appropriates funds and provides expenditure limitations for the Department as a whole rather than to the individual institutions. The State Board of Higher Education then allocates these funds to the various institutions and programs in annual budgets through the Resource Allocation Model (RAM). The RAM allocates state support dollars primarily on an enrollment basis. Institutions retain their tuition and fee revenues, and combine these revenues with the allocation of General Fund that they receive through the RAM distribution to support their education and general services operating costs.

The **Nonlimited Other Funds** for other services consist of: 1) self-support activities operated on an auxiliary basis such as dormitories, bookstores, parking, health centers, and food services; 2) self-support instruction; and 3) student aid and loan repayments. The scope of self-support instruction activities was reduced during the 1999-2001 biennium, when the Legislature provided General Fund support for most academic programs. Generally, only non-credit continuing education (distance learning) programs are still conducted on a self-support basis.

Oregon State University (OSU), as the state's land grant college, operates three statewide service programs:

- The ***Agricultural Experiment Station*** was organized in 1888 and conducts research and demonstrations in the agricultural, biological, social, and environmental sciences. Research is conducted at a central station at Corvallis and at ten branch stations in major crop and climate areas of the state.
- The ***Extension Service*** is the educational outreach arm of OSU as Oregon's Land Grant and Sea Grant university. Extension faculty on campus and in county offices throughout the state work with researchers and volunteers to develop and deliver non-credit educational programs based on locally identified needs. Extension Specialists are OSU faculty members who develop educational programs and serve as technical resources for county-delivered programs. Extension Agents are OSU faculty assigned to county field locations. Generally, counties provide office space and operating expenses, including support staff. Programs also use the services of a large number of volunteers.
- The ***Forest Research Laboratory*** at OSU was established by the Oregon Legislature in 1941. Research is organized into six program areas: Forest Regeneration, Forest Productivity, Protecting Forests and

Watersheds, Evaluating Forest Policies and Practices, Wood Processing and Product Performance, and Research Support. A 15-member statutory committee establishes the research priorities of the Laboratory.

There are three program areas involving capital expenditures:

- The ***Debt Service*** program area reflects debt service expenditures for capital construction projects financed by bonds or certificates of participation. General Fund appropriations are made to pay the debt service on Article XI-G bonds, traditionally used to finance instructional and public service facilities. Capital repairs have been financed using lottery backed bonds since 2001. Revenues from self-supporting programs and student building fees are the sources of debt service for repayment of Article XI-F(1) bonds, which are traditionally a revenue source for construction of student unions, dorms, parking structures, and similar self-supporting programs such as the new sports arena at the University of Oregon. In 2005, the Legislature approved the use of Small-Scale Energy Loan Program (SELP) bonds to finance campus capital projects for the first time. SELP bonds are general obligation bonds that may be authorized for deferred maintenance capital construction project expenses that generate energy savings. The debt service on SELP bonds is paid with a combination of General Fund and campus operating funds (the latter are included in Other Funds Nonlimited. General Fund for SELP bond debt service is only appropriated to the extent that the debt service charges exceed the energy cost savings resulting from the deferred maintenance capital project.
- The ***Capital Construction*** budget includes major construction, renovation, and land acquisition costs. The budget also finances ongoing expenses to address deferred maintenance and to modernize and repair academic facilities.
- The ***Capital Improvement*** program unit includes capitalized expenditures less than $1 million for improvement to land or existing buildings that increase the value, extend the useful life of the asset, or make it adaptable to a different use. Land acquisition for a project that has total, complete project costs of less than $1 million is included in this program unit.

Revenue Sources and Relationships

The primary source of revenue for the Oregon University System is Other Funds. The source of Other Funds for the Education and General Services Program is tuition. Other sources include other student fees such as Resource Fees, sales and charges for services, indirect cost recovery on grants, and other miscellaneous revenue. Other Funds subject to expenditure limitation are retained by the campuses generating those revenues, with the exception of a small portion of indirect cost recovery monies that are transferred to the Chancellor's Office.

The state's General Fund appropriation for the Education and General Services program is distributed to the campuses and to centralized services by the Resource Allocation Model (RAM). The RAM distributes most of the General Fund that campuses receive for their Education and General Services programs on a direct enrollment basis. The campuses receive funding for total student enrollment on a full-time equivalent (FTE) basis. The funding amount varies by program type. These varying enrollment-funding amounts are commonly called "cell values." The Department has, however, generally funded the campuses based on their 2002-03 year enrollment levels, (or "frozen" cell values). That is, any changes in enrollment since then have not affected how General Fund is allocated to the campuses. The remainder of General Fund support to campuses, and all General Fund support for centralized services, is distributed in the RAM through targeted programs. Targeted programs include all funding that is not on a direct enrollment basis. Targeted programs are designed to address the costs of the system that are not directly related to enrollment levels.

The Sports Action lottery game was authorized by the 1989 Legislature; 88% of the proceeds from the game, not to exceed $8 million annually, are used to finance intercollegiate athletics. The remaining 12% are for graduate student scholarships that are not awarded on the basis of athletics. Of the athletic funds, 70% must be used for non-revenue producing sports, and at least 50% must be used for women's athletics. The 2005 Legislative Assembly abolished the Sports Action lottery game which had previously been the revenue source for Lottery Funds, and instead dedicated 1% of net lottery receipts to the Oregon University System Sports Action Lottery program area. Both actions were effective beginning July 1, 2007; $9.7 million Lottery Funds was allocated for the Sports Action program for the 2009-11 biennium, which was less than the dedicated 1% would have generated without legislative action.

Previously, all Federal Funds were included in the Other Funds category in all program areas of the Oregon University System budget. Except for Federal Funds that are included in the Other Funds expenditure limitations of the OSU public service programs (Agricultural Experiment Station, Extension Service, and Forest

Research Lab), Federal Funds were always included in the Nonlimited expenditure categories in their associated program areas. However, the American Recovery and Reinvestment Act (ARRA), which was passed by the federal government in early 2009, included funding to states for fiscal relief to help address the revenue impacts of the economic recession. Most of these dollars were directed towards education services. In Oregon, these monies were used as part of the March 2009 actions taken to rebalance the 2007-09 biennial budget by using these dollars in place of General Fund that had been budgeted for K-12 and OUS operations, but for which there was no revenue. Because of the unique nature of these moneys and their temporary nature, they were added to the OUS budget as Federal Funds expenditure limitation to better facilitate tracking of their expenditure, even though all previous Federal Funds and been expended as Other Funds. Similarly, ARRA state stimulus funds were used as part of the state support for the OUS budget in 2009-11.

Nonlimited funds include gifts and sponsored research financed by the federal government, private industry, and other private groups. These Nonlimited funds, the major source of support for research, also directly benefit and enhance the instruction and research programs supported by the General Fund and tuition revenue.

The statewide programs at OSU relay more heavily on state support than does the Education and General Services area. For the Agricultural Experiment Station, Other Funds subject to expenditure limitation have come primarily from sales and service fees, with some indirect cost recovery on federal grants, interest earnings, and miscellaneous income. The Agricultural Experiment Station receives federal funds (reported as Other Funds) through the Hatch Act. The Extension Service is funded cooperatively from federal, state, county, and private sources. Federal Funds are primarily from the U.S. Department of Agriculture through the Smith-Lever Act. Nonlimited funds include gifts and sponsored research financed by the federal government, private industry, and other private groups. The Forest Research Laboratory is supported by state, federal, and forest industry resources. Other Funds subject to expenditure limitation come from the Forest Products Harvest Tax; sales and service charges; and from Federal McIntire-Stennis funds. Nonlimited expenditures from grants and contracts support approximately $22 million of the Forest Research Laboratory's expenditures

Current Service Level

The current service level is 8% lower than the 2009-11 legislatively approved spending level at December 2010 due to removal of 2009-11 capital construction expenditures. Capital construction expenditures typically cross biennia, therefore funding for capital construction projects are provided 6-year expenditure limitations. During budget development the previous biennium's 6-year expenditure limitation is phased-out during calculation of the current service level and new capital expenditures are proposed in a policy package. This removal of $707 million in capital construction expenditures during current service level development is the reason for the change from 2009-11 approved spending levels to the lower 2011-13 current service level. Offsetting some of the removed capital construction expenditures are adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

The General Fund current service level is 31% higher than the 2009-11 legislatively approved spending level at December 2010. The primary cause of this increase is replacing the one-time ARRA federal funds used in the 2009-11 budget with $71.8 million General Fund. The current service level was also increased by $26.2 million General Fund and $3.7 million Lottery Funds to phase-in the cost of debt service payments on debt approved for sale during the 2009-11 biennium. In addition, $52.3 million General Fund in allotment reductions ordered by the Governor to address 2009-11 revenue shortfalls is added back during the current service level calculation.

Budget Environment and Potential Reductions

The Oregon University System is facing unprecedented growth in enrollment while at the same time experiencing state support levels that are not adequate to support the higher levels of student enrollments. While enrollments have grown 26% over the last 10 years, the percentage of the General Fund in the Education and General Services area has fallen from around 50% in the 2001-2003 biennium to 30% for 2009-2011. These reductions in state support have most often been replaced, or backfilled, with Other Funds from tuition increases. In the last 10 years, the average tuition and fees for resident undergraduates has doubled, with graduate tuition going up even more significantly. Given the challenges facing programs supported by the state General Fund, it is likely even more of the OUS budget will rely on revenues from students.

OUS has proposed in its options for reductions to state General Fund support an equitable distribution of any reductions across its major programs. Therefore at the 5%, 10%, or 25% reduction levels in the Education and

General Services program, 73% of any General Fund reduction would be replaced with Other Funds from increases in tuition and fees. Ending fund balances would be used to replace 14% of any General Fund reduction. This means under the OUS proposed reductions, 87% of any General Fund reduction would be replaced by Other Funds. Actual reductions in expenditures comprise the remaining 13% of proposed cuts including reductions in services and supplies, capital outlay, classroom maintenance, grounds maintenance (7%); eliminate programs and positions (4%); and institute salary reductions and furloughs (2%). Other states have used resident student enrollment caps to meet reductions in state support. While this helps protect to some extent existing students from large tuition increases, it also limits residents ability to get a public university education, as admittance of new students would be limited. Another option when looking at General Fund reductions in the Education and General Services program is making the cuts specific to funding provided by the state for targeted programs. The 2011-13 current service level for Education and General Services includes over $172 million for targeted programs. These include regional university funding of $47 million added as a supplement for EOU, SOU, WOU, and OIT. This money is provided to ensure regional access to a university education for Oregonians. These regional institutions rely more heavily on state General Fund than do the three large universities, therefore a regional school supplement is included in targeted programs. Another $45 million is included to promote engineering programs and degree generation. The 2011-13 current service level also includes $13 million to subsidize university research and $38 million for specific campus institutes and programs such as Oregon Solutions, Dispute Resolution, Health Profession Programs, and veterinary medicine. Approximately $29 million General Fund is included in the $172 million for targeted programs for Central Services, which includes the Chancellor's Office operations.

The three statewide programs at Oregon State University, Agricultural Experiment Station, Extension Service and Forest Research Laboratory, do not in large part have tuition to fall back on when General Fund support is cut. In fact, General Fund reductions are magnified because these monies are often used by the statewides as match to attract research grants. Therefore, loss of General Fund also means loss of Nonlimited Other Funds from grants. Other Funds can be used to backfill program revenues at some level, but not at the 85% level proposed for Education and General Services. The statewide programs have little choice but to make significant reductions in services when General Fund support is cut. According to OUS, a 25% reduction of General Fund support for the Agriculture and Experiment Station would result in elimination of joint positions (34 FTE), elimination for some programs (30 FTE), closing up to 5 branch experiment stations (60 FTE), and elimination of 20-25 tenure or tenure track positions and related support (108 FTE). At the 25% General Fund cut level, Extension Service would reduce educational services offered in each county by eliminating 48 FTE. This would adversely affect Extension Services ability to generate grant and contract funding. The Forest Research Laboratory is the most dependent on state support of the three statewide programs. A 25% reduction in General Fund support would mean elimination of up to three undergraduate degree programs and associated professional faculty and the elimination of an entire academic department within the College of Forestry.

Commission for the Blind – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	1,519,859	1,449,953	1,339,094	1,616,409
Other Funds	2,497,347	2,525,619	2,672,619	2,678,098
Federal Funds	11,358,009	11,651,863	11,651,863	12,221,553
Total Funds	**$15,375,215**	**$15,627,435**	**$15,663,576**	**$16,516,060**
Positions	51	51	51	48
FTE	47.36	47.60	47.60	44.60

Agency Overview

The Commission for the Blind's mission is to assist blind Oregonians in making informed choices and decisions to achieve full inclusion and integration in society through employment, independent living, and social self-sufficiency. The Commission is a consumer-controlled, seven-member board appointed by the Governor. The agency's programs are focused on two main objectives: employment and independence.

Forty-eight positions (44.60 FTE), organized into the following five program areas, support the mission of the Commission:

- ***Administration Services*** ($1.9 million, 7.50 FTE) coordinates the mission and goals of the agency and manages the Human Resources, Budget, Accounting, Operations, and Information Systems.
- ***Rehabilitation Services*** ($9.8 million, 26.50 FTE) is the agency's largest program and includes vocational rehabilitation counseling and planning, training and education, job placement assistance, independent living skills training, and assistance for students making the transition from high school to either college or work. These services are provided in regional office throughout the state.
- ***Business Enterprise*** ($0.8 million, 2.00 FTE) provides self-employment opportunities for blind persons in cafeteria, snack bar, and vending machine management. The federal Randolph-Sheppard Vending Stand Act, enacted in 1935, requires managers of federal buildings to offer blind persons opportunities to establish and operate cafeterias or vending machines. Oregon enacted similar legislation in 1957.
- ***Industries for the Blind*** ($1.6 million, 0.00 FTE) is a work activity and vocational program operated in conjunction with Multnomah County. The program serves clients who are developmentally disabled, many of whom are also blind. The program operates independently and program staff are statutorily exempt from state personnel law.
- ***Orientation and Career Center*** ($2.5 million, 8.60 FTE) is a residential teaching center that provides counseling and training for persons with recent or prospective loss of sight. Training includes independent living skills; the use of Braille and other adaptive technologies; and vocational skills.

Revenue Sources and Relationships

The Commission is funded at the current service level with 10% General Fund ($1.6 million), 16% Other Funds ($2.7 million), and 74% Federal Funds ($12.2 million).

Federal Funds are provided by formula and special grants from the U. S. Department of Education, Rehabilitation Services Administration (RSA) as authorized by the 1973 Rehabilitation Act (as amended). Vocational Rehabilitation basic support (Section 110) funds are the primary source of funding and have a match rate of approximately $3.70 Federal Funds (78.7%) for every $1 of state or state-matching funds (21.3%). In Oregon, the Department of Human Services (Children, Adults, and Families) receives 87.5% of Section 110 Vocational Rehabilitation basic support grant funding with the Commission receiving the remaining 12.5%. Other RSA grants include: in-service training ($46,883), independent living ($39,123), and the older blind program ($400,000). These grants are funded with 90% Federal Funds and 10% state matching funds.

General Fund and the Other Funds are used to meet matching Federal Funds requirements. There is also a RSA maintenance-of-effort (MOE) requirement that is based on the prior two years of funding. If funding is reduced, an equivalent amount of federal funding is lost. The RSA MOE agreement is for the state as a whole, which again includes both DHS and the Blind Commission RSA grant funding.

During the 2009-11 biennium, $1.34 million in one-time American Reinvestment and Recovery Act funding was distributed under the Rehabilitation Act. The unexpended balance of these funds, $12,835, is available until September 30th, 2011.

The Commission expects to receive $2,678,098 in Other Fund revenue to support its current service level. Over 60% of the Other Funds revenue supports the Industries for the Blind program and is comprised predominately of payments from Multnomah County for services to developmentally disabled persons ($1,585,464). Other revenue sources include: cooperative agreements with school districts and non-profit rehabilitation providers ($331,805); a transfer from the Department of Education by intergovernmental agreement ($150,000); and business enterprise vendor assessments ($283,536).

The agency also maintains an interest-bearing Blind Bequest and Donation Fund. The fund has an estimated 2011-13 beginning balance of approximately $450,170 and projected ending balance of $325,000. In prior biennia, the Commission only used the interest earnings to fund programs. Beginning in 2003-05, and continuing through the current biennium, the agency began using donation funding to match Federal Funds and to offset the loss of General Fund support. The agency plans to use $196,033 from the account during the 2011-13 biennium. Historically, there have been no instances where Commission Other Fund balances have been transferred to the General Fund.

Current Service Level

The current service level is 5.4% higher ($852,484) than the 2009-11 legislatively approved spending level at December 2010. General Fund increased by 20.7% ($277,315), Other Funds increased by 0.2% ($5,479), and Federal Funds increased by 4.9% ($569,690). It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The growth in General Fund expenditures would have been 11.5% but for the restoration of $110,859 in temporary across-the-board allotment reductions ordered by the Governor that occurred during the 2009-11 biennium.

The Commission's budget is comprised of 52% personal services ($8.5 million), 23% services and supplies/capital outlay ($3.8 million), and 25% special payments ($4.2 million). The agency's single largest services and supplies expenditure is for facilities rental costs ($992,285).

Five of the Commission's management staff are being paid work-out-of-class due to a Department of Administrative Services analysis that placed the positions at the next higher classification level. The Commission has a policy package for $40,644 to self-fund these reclassifications.

Budget Environment and Potential Reductions

Most causes of blindness are age-related – caused by macular degeneration, cataracts, diabetic retinopathy, and glaucoma. As Oregon's elderly population continues to grow, there is increased demand for agency services, especially for those who develop blindness or greater visual impairment later in life. Some geographical areas of the state are underserved. There can also be waiting lists for period of three to six- months before services are provided.

The unemployment rate, both statewide and regionally, makes placement of vocational rehabilitation clients with vision loss or impairment more difficult. The increased use of computers in the job market, as well as significant advances in technology designed to help a visually impaired person, continues to increase the demand for service from the Commission's Technology Center.

The Commission's General Fund reduction options include eliminating regional vocational rehabilitation counselor and instructor positions, reducing an office specialist position, and reducing special payments. In total, six positions (6.50 FTE) would be either reduced or eliminated at the 25% reduction level ($406,600). General Fund reductions, unless backfilled, result in the loss of matching Federal Funds ($1.5 million). Delays in providing services would occur as caseloads for counselors would increase. The agency's reduction options do not include any General to Other Fund fund shifts, which may be available from donated funds. Another General Fund reduction option could be to merge the Commission into another agency.

Commission on Children and Families – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	57,187,292	49,062,670	46,235,047	51,534,046
Other Funds	18,015,377	17,829,193	18,767,467	24,316,383
Federal Funds	3,551,117	4,836,294	4,836,294	4,447,748
Total Funds	**$78,753,786**	**$71,728,157**	**$69,838,808**	**$80,298,177**
Positions	34	28	28	28
FTE	30.92	25.67	25.67	25.99

Agency Overview

The State Commission on Children and Families' mission is to improve the lives of children and families through coordinated state and local action. The agency builds statewide public/private partnerships, leverages and distributes resources, monitors program outcomes, and provides technical assistance and support to both state agencies and local commissions. The broader Oregon Commission on Children and Families includes the State Commission and 36 local county commissions on children and families. The Commission system develops and carries out local coordinated comprehensive plans to provide a system of services and supports for children and families, promote system integration, and provide leadership in early childhood efforts.

The 17-member State Commission and state agency staff supply policy direction, program information, training, and technical assistance in planning and program evaluation. The Commission also distributes state and federal funds to counties. It monitors and provides oversight of these funds. Counties use these funds locally for designated programs and local investments in services to children and families.

Revenue Sources and Relationships

General Fund makes up 64.2% of this budget in the 2011-13 current service level. Part of the General Fund spent in this agency is used to meet state match requirements for federal funds, most notably federal Maintenance of Effort requirements for the Temporary Assistance to Needy Families program administered by the Department of Human Services (DHS). Other General Fund is used as state match for federal Medicaid and Safe and Stable Families (Family Preservation and Support) funds.

Other Funds revenue supports 30.3% of the Commission's budget. Most of the Other Funds is federal money that comes to the Commission from other state agencies:

- DHS will transfer $14.3 million in federal Title XX Social Services Block Grant, Title IV-B (2) Safe and Stable Families (Family Preservation and Support), and Title IV-E Foster Care and Adoptions Assistance revenue, blended with Other Funds from the Casey Family Programs, to the Commission. Title XX funding supports programs for non-delinquent, at-risk youths aged 11-18, relief nurseries, runaway and homeless youth, and basic capacity grants to counties. Title IV-B (2) funds are used for family support, for basic capacity grants to counties and tribes, and for Healthy Start program support. The Title IV-E/Casey Family Programs funds are used for counties in the Safe and Equitable Foster Care Reduction initiative.

- The Commission also uses General Fund to match federal Title XIX Medicaid funds through DHS for qualified services in local Healthy Start programs. It distributes the Medicaid revenues as Other Funds to the counties. The 2011-13 current service level includes $4.4 million Other Funds from DHS, reflecting the original matching funds sent back to the Commission plus the federal Medicaid match.

- In the 2009-11 budget, $3.8 million in federal Child Care and Development Fund (CCDF) money, previously part of this budget, was used on a one-time basis by the Department of Human Services. The 2011-13 current service level anticipates the Employment Department will again transfer CCDF funds as Other Funds to the Commission. Local commissions use these funds to improve child care quality.

The Commission also receives Other Funds from the Oregon Community Foundation and the Paul G. Allen Family Foundation for its Reading for Healthy Families project.

Federal Funds make up 5.6% of the total budget. These are U.S. Department of Justice, Office of Juvenile Justice and Delinquency Prevention (OJJDP) funds to support juvenile crime prevention programs and activities. A total of $4.3 million in OJJDP revenue is expected for the 2011-13 biennium.

The Commission's budget does not include revenues leveraged by local commissions to support local programs and activities. In the 2007-09 biennium, local commissions leveraged $59 million in cash, grants, and in-kind resources, excluding volunteer hours. At September 30, 2010, the commissions reported $38 million leveraged to date for the 2009-11 biennium, with 10 counties still to report for the fifth quarter of the biennium.

Current Service Level

The current service level is 11.5% General Fund and 15% total funds higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. Unlike some other human services agencies, the Commission does not have "mandated" program caseload adjustments. The current service level does add $5.5 million Other Funds above the 2009-11 spending level for federal funds that were used by the Department of Human Services on a one-time basis in the 2009-11 budget. This includes $3,538,974 in CCDF funds, and 1 position (1.50 FTE) associated with those funds; $1,623,173 in Title XX Social Service Block Grant funds; and $301,435 in Title IV-B Safe and Stable Families funds. A five-year federal grant for the Positive Youth Development initiative has ended, so that expenditure limitation and position is phased out.

Budget Environment and Potential Reductions

The Commission system began operations in 1994 to carry out legislative policy to develop and implement a statewide system of services for children and families. Local commissions on children and families serve as the basis for both planning and investments of community supports and services. Over time, the Legislature has expanded the Commission's responsibilities to include a coordinated, comprehensive planning process for all early childhood, alcohol and drug, and juvenile services; a statewide early childhood framework; community schools; services to homeless and runaway youth and their families; and juvenile crime prevention programs.

The State Commission distributes state and federal funding to help communities address the priorities identified in local comprehensive plans, as well as statewide initiatives. The local basic capacity grant funds local commission staff and operations. The Great Start grant; the Children, Youth, and Families grant; the Youth Investment grant; the juvenile crime prevention grant; Family Preservation and Support; and Child Care and Development resources all fund investments in programs and services identified in the local plans. Statewide initiatives include the Healthy Start home visitation program, Court Appointed Special Advocates (CASA), relief nurseries, and Community Schools and Runaway and Homeless Youth. State staff provide support for the State Commission, coordination of the various programs and initiatives, technical assistance to counties, program monitoring, data collection and reporting, and central operations.

Over the last 10 years, the Commission's budget has been a roller coaster of budget enhancements and subsequent reductions. The 2001-03 legislatively adopted budget included $61.4 million General Fund, with significant General Fund added for the new Oregon Children's Plan. In 2002, however, funding was reduced for local commission grants, Healthy Start, and CASA, as well as for other initiatives under the Oregon Children's Plan. The First Steps violence prevention, family resource centers, and Together for Children programs were eliminated. The 2003 Legislature abolished one-third of the Commission's technical assistance and administrative staff positions. After these actions, the agency's 2003-05 General Fund budget was almost 30% less than its original 2001-03 General Fund budget. The transfer of juvenile crime prevention programs from the Criminal Justice Commission to this agency, and funding for two new relief nurseries, increased the agency's budget for 2005-07. The 2007 Legislature added funds for local commission support, Healthy Start, juvenile crime prevention grants, CASA, relief nurseries, and the Community Schools and Homeless and Runaway Youth initiatives. However, to rebalance the statewide budget in spring 2009, the 2009 Legislature cut $3 million from the agency's 2007-09 budget, from a combination of savings, fund shifts, and reductions to local basic capacity and program funding. The 2009-11 legislatively adopted budget made further reductions in almost all grants, statewide initiatives, and state staffing. In the February 2010 special session, however, $1 million General Fund was added for new relief nurseries in Ontario, Clackamas, Madras, and Corvallis. Most recently, to meet the $3.8 million in General Fund allotment reductions directed by the Governor during the 2009-11 biennium, the agency reduced state staff technical assistance and other program support services by 9.7% and 4 positions (4.96 FTE), and reduced funding for local flexible grants and statewide initiatives by 7.4%.

All told, the 2009-11 General Fund approved spending level (after allotment reductions) is 9.5% less, and the 2011-13 General Fund current service level is only 0.1% more, than the agency spent in the 2001-03 biennium.

The State Commission has identified potential reduction options ranging from 5% to 25% ($2.6 million to $12.9 million) of its 2011-13 current service level General Fund budget. General Fund support for the Runaway and Homeless Youth and Community Schools initiatives would be eliminated at all reduction levels. All other grant streams and statewide initiatives would be maintained, although at reduced levels. The Healthy Start program, as the largest General Fund program, and state office support would take the largest proportionate share of the reductions. The Commission is still reviewing how state office staffing could be reconfigured within the various reduction levels, but the reductions could affect as many as 6 of the Commission's 28 remaining positions.

The reduction options presented by the Commission generally maintain the Commission system with its current structure and with most of its current responsibilities. Two small initiatives – for Community Schools and Runaway and Homeless Youth – would be eliminated. The Commission is also considering legislation to move the central administration of the CASA program out of the agency.

Other, more radical options – such as eliminating the local commission system and local program funding entirely in favor of just state level programs, or eliminating the state-level commission and assigning its policy and program responsibilities to another state agency – could result in even larger General Fund budget reductions than those the agency identified. Any such proposals, however, would require a significant shift in Oregon's current policy and approach to services for children and families, as well as careful consideration of how program administration and oversight functions would be structured and funded.

Alternatively, the State Commission is taking steps to develop a public corporation structure that would reduce the Commission system's dependence on General Fund but capitalize on the system's core competencies, one of which is the ability to leverage funding from citizens, businesses, foundations, and the federal government. Under this concept, the public corporation would purchase results from communities in specific issue areas identified by the State Commission. The State Commission expects this approach would reduce the state's General Fund investment but still maintain the state's current policy and approach to services for Oregon's children and families.

Oregon Health Authority (OHA) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	1,553,376,197	1,729,004,798	1,459,329,984	2,777,278,386
Lottery Funds	12,637,762	11,557,611	10,903,639	11,452,559
Other Funds	1,444,908,082	1,629,583,216	1,682,220,695	1,440,556,620
Federal Funds	3,183,652,436	4,776,808,092	4,869,643,025	5,552,455,781
Other Funds (NL)	484,649,262	1,913,217,285	2,902,669,952	3,176,914,854
Federal Funds (NL)	101,996,686	102,729,051	104,800,827	107,103,462
Total Funds	**$6,781,220,425**	**$10,162,900,053**	**$11,029,568,122**	**$13,065,761,662**
Positions	3,351	3,915	4,028	3,935
FTE	2,976.58	3,580.54	3,637.21	3,879.11

Agency Overview

The Oregon Health Authority (OHA) is a new agency. It was created by the 2009 Oregon Legislature (HB 2009) to bring most health-related programs into a single agency to maximize its purchasing power and to contain rising health care costs statewide. OHA is overseen by a nine-member, citizen-led board called the Oregon Health Policy Board. Members are appointed by the Governor and confirmed by the Senate.

OHA's mission is to help people and communities achieve optimum physical, mental and social well-being through partnerships, prevention, and access to quality, affordable health care. It has three goals to transform the health care system in Oregon: improve the lifelong health of Oregonians; increase the quality, reliability, and availability of care for all Oregonians; and lower or contain the cost of care so it is affordable to everyone.

The Oregon Health Authority combines the Public Employees Benefit Board (PEBB), the Oregon Educators Benefit Board (OEBB), the Office of Private Health Partnerships, and the Oregon Medical Insurance Pool (from the Department of Consumer and Business Services) with the health services programs from the Department of Human Services (DHS): Medical Assistance programs, Addiction and Mental Health programs, and Public Health programs. OHA will be the largest health care purchaser for the state of Oregon, purchasing health care for about 800,000 Medicaid clients, state employees, and local educators.

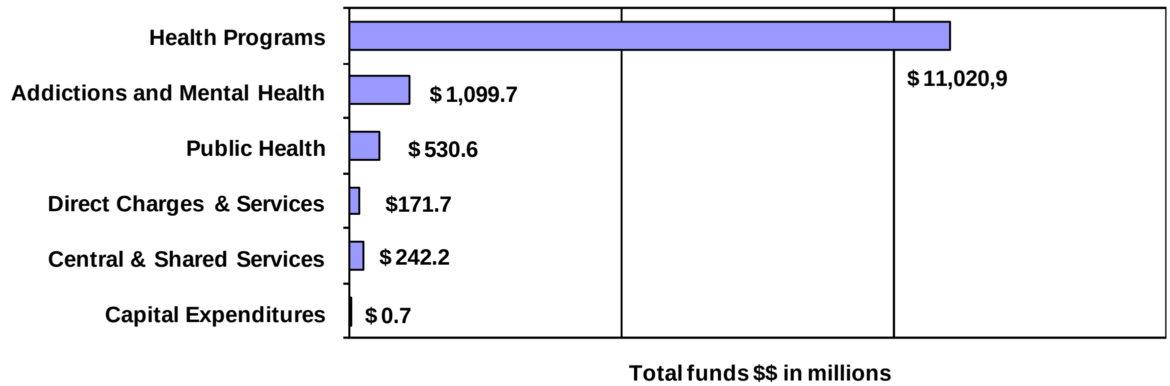
OHA is the largest agency within the Human Services program area, making up about 60% of total program area expenditures. Overall, OHA's 2011-13 current service level budget comprises about 16% of the state's combined $17.9 billion General Fund and Lottery Funds budget, and 22% of the state's total funds budget.

The numbers in all the charts for this agency have been adjusted in 2007-09 and 2009-11 to include the new programs that have been moved into OHA from other agencies for 2011-13. While these numbers are estimates, it does provide context for how the program costs have changed over time.

The OHA budget is organized into six program areas:

- ***Health Programs*** consists of four programs: the Medical Assistance Programs, which includes the Oregon Health Plan; the Public Employees Benefit Board; the Oregon Educators Benefit Board; and Private Health Partnerships.
- ***Addictions and Mental Health*** includes community mental health services; alcohol and drug treatment and prevention; the Oregon State Hospital and Blue Mountain Recovery Center; and gambling treatment and prevention.
- ***Public Health*** includes community health, environmental public health, family health, and disease prevention and epidemiology.
- ***Direct Charges and Services*** includes central government assessments and usage charges.
- ***Central and Shared Services*** includes the OHA Director's Office, central administrative and support functions and shared services, as well as the debt service payments on OHA's capital construction financing.
- ***Capital Expenditures*** support the Oregon State Hospital (OSH) facility replacement project and limited capital improvements to the existing OSH facility.

The chart below shows how OHA's $13,065.8 million total funds current service level budget for 2011-13 is allocated among these program areas.



Revenue Sources and Relationships

For the 2011-13 biennium, the General Fund supports 21% of OHA's budget. Almost all of the General Fund is used as match or to meet state maintenance of effort requirements to receive Federal Funds. The OHA budget includes $11.5 million of expenditure limitation to allow the use of statutorily dedicated Lottery Funds for gambling addiction prevention and treatment services.

Other Funds revenues, excluding Nonlimited, support 11% of OHA expenditures. These come from a wide variety of sources including tobacco taxes, Medicaid provider taxes, certificates of participation, grants, beer and wine taxes, fees, estate collections, health care premiums, third party recoveries, pharmaceutical rebates, transferred federal funds from other state agencies, and charges for services. Since 2003, health care provider taxes have been a significant source of Other Funds revenue. These taxes are used to support higher Medicaid reimbursement for services as well as benefits for the Oregon Health Plan. The old hospital and managed care organization (MCO) taxes sunset on September 30, 2009, but the 2009 Legislature approved new hospital taxes, and health insurance premium assessments, through September 30, 2013 (HB 2116).

This budget includes significant amounts of Nonlimited expenditures. Nonlimited expenditures are not constrained by a budgetary restriction and agencies may make these expenditures as long as revenue is available. Nonlimited Other Funds (24% of the total budget) primarily represent self-insurance payments in PEBB, and insurance premium payments in OEBB and the Oregon Medical Insurance Pool (OMIP). Nonlimited Other Funds also come from infant formula rebates in the Women, Infants and Children (WIC) program.

Overall, Federal Funds support 43% of OHA expenditures in the current service level for the 2011-13 biennium. Federal Funds subject to expenditure limitation are over $5.5 billion. The largest source of these Federal Funds comes from the Title XIX Medicaid program, and to a lesser extent, the Child Health Insurance Program (CHIP). Nonlimited Federal Funds are for the Women, Infants and Children (WIC) nutrition program.

Current Service Level

The current service level of $13.1 billion total funds is $2 billion, or 18.5%, higher than the 2009-11 legislatively approved spending level at December 2010. General Fund supporting the current service level is $1.1 billion (90%) higher than the approved spending level. These increases include adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The most significant increases are largely the result of replacing one-time revenues with state resources, caseload increases, and higher medical service costs, particularly in the Oregon Health Plan.

Over half of the total increase in General Fund, or $691 million, results from one-time revenues used in the 2009-11 budget that will not be available in the 2011-13 biennium. A majority of this one-time funding, $512 million, results from the enhanced Medicaid match rates that were received during the 2009-11 biennium as a result of the federal American Recovery and Reinvestment Act (ARRA). All the services provided during last biennium using these additional revenues must now be paid for with state resources.

Budget Environment and Potential Reductions

Given the broad range of Oregonians it serves, and multiple funding sources, OHA must operate within a complex and dynamic budget environment. Demographics and economics, federal law and funding, health care cost inflation and utilization, and state policies and politics all greatly influence this budget.

Demographics and Economics

Population changes, especially the number of people who are elderly, disabled, or living in poverty, greatly affect the need or demand for OHA services. The health of the economy also has a significant effect on this budget. Typically, when the economy is poor, demand for OHA services increases and program caseloads grow. Although the caseload forecasts on which OHA's 2011-13 current service level budget is based have attempted to factor in economic conditions projected for the biennium, there is still considerable risk to OHA's budget as demand for its services often continues even as the economy begins to recover.

Federal Law and Funding

Federal revenue supports about 43% of OHA's total expenditures. Federal revenue is tied to a significant body of law and federal administrative rules. A number of OHA's programs, such as the Oregon Health Plan (OHP), are governed by waivers of certain federal regulations. The waivers must be approved by federal agencies, with later approvals again if the state wants to make program changes. Federal laws generally require state staff to ensure that federal regulation and policy is carried out consistently or that information management systems are capable of producing federally required reports. Most of the General Fund in OHA's budget is used to match Federal Funds or to meet federal maintenance of effort (MOE) requirements. As a result, General Fund budget reductions often also result in federal revenue reductions, and might jeopardize the state's ability to meet federal match or MOE requirements, thus forfeiting federal funds or incurring penalties.

Federal funding levels are also subject to statutory change or program re-interpretation. For example, the new federal health care reform law requires the state to maintain eligibility levels that were in place when the legislation passed, March 23, 2010. This eliminates one of the tools the state has used historically to control costs. In addition, the federal match rate for Medicaid services is significantly reduced in 2011-13 compared to last biennium when the state received the enhanced match rate included in the federal American Recovery and Reinvestment Act (ARRA). The OHA budget must adjust for such changing federal revenue estimates on an on-going basis.

Health Care Cost Inflation and Utilization

The biggest single share of OHA's budget is medical costs. At the current service level, OHA would use almost $8 billion of its $13.1 billion total funds budget for direct payments to acute health care providers or Medicare premium payments in the OHP, Non-OHP, and CHIP budgets. Health care inflation rates over the last several years have significantly outpaced general economic inflation rates, as well as the rate of state revenue growth. As a result, health care consumes a larger share of the total state budget. The current service level budget assumes about a 13% increase in the health care budget for both inflation and higher utilization of services.

Politics

Almost 94% of the OHA budget is earmarked for special payments to individuals, local governments, insurance companies, health care providers and suppliers, and others who deliver services. As a result, numerous organizations, trade associations, labor unions, advocates, and clients have a direct economic interest in the budget. When budget reductions need to be made, or major enhancements are proposed, these groups become actively involved in the politics that surround the OHA budget.

All of these factors described above tend to make significant policy changes difficult. A proposed program change might have a significant fiscal impact, might be inconsistent with federal law (or at least require a lengthy federal approval process), might challenge past policy direction and create controversy, or might simply be unable to survive navigation through the political process.

The environmental factors described above are expected to put pressure on the OHA budget for the 2011-13 biennium, and the economic slowdown will limit the state resources available. More detail follows on each of the five major program areas in OHA: Health Programs; Addictions and Mental Health; Public Health; Direct Charges and Services; and Central and Shared Services.

OHA/Addictions and Mental Health (AMH) – Program Area Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	497,874,098	612,705,753	599,957,545	754,795,312
Lottery Funds	12,637,762	11,557,611	10,903,639	11,452,559
Other Funds	28,877,981	35,496,001	36,092,661	42,198,445
Federal Funds	198,089,900	277,014,030	284,659,167	291,255,922
Total Funds	**$737,479,741**	**$936,773,395**	**$931,613,012**	**$1,099,702,238**
Positions	1,888	2,390	2,415	2,430
FTE	1,588.89	2,100.18	2,119.98	2,414.30

Summary Description

The Addictions and Mental Health (AMH) budget provides treatment services to those afflicted with addictions or mental disorders. Services are delivered through community non-profit providers, county mental health agencies, as well as the Oregon State Hospital (OSH) system which has facilities in Salem, Portland, and Pendleton. The budget also includes funding for state policy and administrative staff.

Revenue Sources and Relationships

Much of the Other Funds revenue within the AMH budget is used to offset the need for General Fund, and the sources for this revenue are varied. They include beer and wine tax revenue, settlements with third-party insurers, sales income, federal grants administered by non-governmental contractors, Medicare Part D (prescription medication) reimbursement, and other miscellaneous sources.

Federal Funds revenue of $291 million in the 2011-13 current service level budget is dominated by Medicaid, which accounts for about 82% of the division's federal revenue sources. Medicaid requires a state match and the match rate is recalculated each year by the federal government. The composite Medicaid match rate used in the current service level for 2011-13 for program expenditures is approximately 37% state funds and 63% Medicaid funds. The enhanced match rate that was included in the federal American Recovery and Reinvestment Act (ARRA) ends as of June 30, 2011. Other federal revenue sources include the community mental health services block grant, the substance abuse treatment and prevention block grant, and a modest amount of Temporary Assistance for Needy Families (TANF) funds.

Current Service Level

The current service level of $1.1 billion total fund is about $168 million, or 18%, higher than the 2009-11 legislatively approved spending level at December 2010. General Fund supporting the current service level is $155 million (25.9%) higher than the 2009-11 legislatively approved spending level. Increases include adjustments for personal services costs and inflation. In addition, increases result from the following:

- Adding full biennial funding for OSH staffing increases phased in during 2009-11.
- Including funding for the anticipated caseload growth in community-based treatment programs.
- Including $26 million General Fund to substitute for the enhanced Medicaid match rate received during the 2009-11 biennium as a result of ARRA.

Budget Environment and Potential Reductions

Over the last 40 to 50 years, mental health services have become less institutional and centralized and more community-based. The advancement of pharmacological treatment has also enabled more mental health services to be provided at the community (rather than institutional) level. This trend continues today. The challenge of this budget is to find a balance between institutional and community-based services, for both mental health services and alcohol and drug treatment, which maintain an appropriate continuum of care.

The agency recently began the implementation of the Adult Mental Health Initiative (AMHI). A key strategy under AMHI is to transfer the full responsibility for managing residential services to the mental health organizations. The goal is to transition patients through the system to the appropriate level of care much more quickly than often happened in the past. This initiative has the potential for significant cost savings in the system.

AMH – Special Payments

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	479,758,785	594,582,454	580,434,495	733,504,503
Lottery Funds	9,466,762	9,080,313	8,426,341	8,628,573
Other Funds	28,042,517	33,195,497	31,472,212	35,474,514
Federal Funds	191,270,061	269,203,215	273,688,201	280,906,183
Total Funds	**$708,538,125**	**$906,061,479**	**$894,021,249**	**$1,058,513,773**
Positions	1,656	2,255	2,266	2,290
FTE	1,426.81	1,968.14	1,977.18	2,277.33

Program Description

Mental health services are provided to people who have been clinically diagnosed as having a serious mental or emotional disorder. Illnesses include schizophrenia, bipolar disorder, and major depression. Medicaid-eligible persons receive mental health diagnoses and treatment under the Oregon Health Plan (OHP). Mental health organizations receive capitation payments and manage much of the risk of providing treatment for OHP eligible persons with mental disorders. A substantial amount of OHP mental health and addiction service capitation expenditures and some fee-for-service payments are included in Health Programs.

The Mental Health and Addiction Services program is comprised of three main cost centers: community mental health, alcohol and drug treatment and prevention, and the Oregon State Hospital (OSH) and Blue Mountain Recovery Center (BMRC). The FTE associated with this budget are state employees who work at the OSH or BMRC.

Community Mental Health

Mental health community services are provided through county and other local governments, private non-profit organizations, private hospitals, and health plans. Community mental health programs operate in every county and counties are statutorily required to provide pre-commitment services – that is services that may prevent commitment to OSH. For individuals and services not covered under OHP, AMH funds a variety of services that include supported housing and employment opportunities; clinic-based outpatient care; local crisis services; regional acute care facilities; and, as a last resort, referral to state psychiatric hospitals.

Addiction Treatment and Prevention

Like community mental health services, alcohol and drug treatment services are also offered through county and other local governments and private non-profit organizations. The budget provides funding for a variety of treatment services including outpatient, intensive outpatient, residential, and detoxification services for adults and children. The budget supports a number of beds for the dependent children of adults receiving residential treatment services. Outpatient services include specialized programs that use synthetic opiates, such as methadone, to assist in the treatment of chronic heroin addiction. Outpatient services also include Driving Under the Influence of Intoxicants (DUII) education and treatment for first offender diversion referrals, as well as convicted repeat offenders. This program area also includes Lottery funding for gambling addiction prevention and treatment.

Oregon State Hospital and Blue Mountain Recovery Center

The state operates institutional facilities in Salem, Portland, and Pendleton for patients who have a severe mental illness. OSH provides psychiatric evaluation and diagnosis, as well as intermediate and long-term inpatient care. A project is currently underway to replace the old facilities in Salem with a modern psychiatric treatment and recovery facility, which is expected to be complete at the end of 2011 and have a capacity of 620 beds. A second new facility, located in Junction City, is in the planning stage. The Oregon State Hospital facility in Portland serves 92 patients in leased space near the Lloyd Center. The Blue Mountain Recovery Center in Pendleton serves 60 adult general psychiatric patients at any one time.

Revenue Sources and Relationships

Funding for mental health and alcohol and drug treatment programs is about 69% General Fund, 4% Other Funds and Lottery Funds, and 27% Federal Funds. Most of the federal funding comes from Title XIX Medicaid, which supports institutional care for some elderly patients and community mental health services. The Title XIX federal match rate is, as noted above, about 63% for program services and 50% for administration. The program match rate is based on the economy of the state compared to the nation as a whole. In addition to Title XIX Medicaid funding, the federal Alcohol and Drug and Mental Health Services Block Grants provide about $43 million for adult community support services and for local services for severely emotionally disturbed children and adolescents. Both the federal Alcohol and Drug and Mental Health Services Block Grants have maintenance of effort (MOE) requirements.

Other Funds revenues are also received from settlements with third-party insurers, patient resources, beer and wine tax receipts, Lottery Funds for the prevention and treatment of gambling addictions, and earnings for patient work. The current service level budget includes a Lottery Funds expenditure limitation of $8.6 million to fund the Gambling Addiction and Treatment Program. The Gambling Addiction and Treatment Account receives 1% of net lottery proceeds. Other Funds revenue also consists of patient resources including Social Security benefits and private insurance, as well as personal assets.

In the past, the Legislature has "swept" revenues in the Gambling Addiction and Treatment Account, as well as interest earnings in the Community Mental Health Housing Fund (Dammasch Trust Fund). This fund was established with the proceeds of the Dammasch State Hospital property sale. The interest, as well as 5% of the proceeds, has been used to establish mental health housing for people with chronic mental illness. The 95% account that by statute cannot be spent, has a balance of $11.5 million.

Current Service Level

The current service level of $1.1 billion total funds is $164 million, or 18.4%, higher than the 2009-11 legislatively approved spending level at December 2010. General Fund supporting the current service level is $153 million (26.4%) higher than the 2009-11 approved spending level. The increases include adjustments for personal services costs and inflation. In addition, increases result from the following:

- Adding full biennial funding for OSH staffing increases phased in during 2009-11.
- Including funding for the anticipated caseload growth in community-based treatment programs.
- Including $26 million General Fund to substitute for the enhanced Medicaid match rate received during the 2009-11 biennium as a result of ARRA.

Budget Environment and Potential Reductions

Mental illness can be successfully treated or managed if appropriate treatment regimens are available at the right time. Because mental illness and mental health are on a continuum, effective mental health treatment then, requires a range of therapeutic interventions (including appropriate pharmaceuticals) and clinicians who can assess which intervention to employ. This understanding of mental illness and effective treatment has and will continue to have budget implications. If, for example, there is inadequate funding for "front-end" services – services that can assist persons who are having moderate symptoms, those persons may deteriorate and need more costly treatment later. By the same token, if funding is inadequate for acute care treatment, patients may recycle through the therapeutic system repeatedly. Also, if there is poor access to other supports such as housing, employment opportunities, or caring friends and family, a person with serious mental disorders may be unable to lead a stable and productive life.

Recognizing the fact that effective treatment requires a variety of venues aside from institutional hospital settings, the state shifted significant resources from large, state-owned institutional settings to local, community-based care and treatment for mental health services. As a result, the Oregon State Hospital has gone from a peak population of over 5,000 persons in the 1950s to a current population of about 740 residents. In the process, the role of the hospital has changed from a focus on custody and care to providing active specialized psychiatric treatment. At the same time, funding for community-based care grew. In fiscal year 1999-2000, 75% of the funding for mental health services was spent through community programs, compared to 37% in the 1987-88 state fiscal year. This reflects the closure of the Dammasch State Hospital in 1995 and the downsizing at the Oregon State Hospital in favor of alternative community services.

A series of legal proceedings has had a significant impact on Oregon's mental health system. The Olmstead case in Georgia upheld the rights of individuals to receive timely services in the least restrictive and most appropriate setting. Oregon settled a lawsuit related to Olmstead, *Miranda v. Kitzhaber*. As part of the settlement, DHS agreed to discharge 31 clients of the OSH who were ready to enter the community and to develop 75 additional community-based placements. A federal court's decision concerning the Oregon State

Hospital in *OAC v. Mink* required the hospital to admit individuals who are accused of crimes and found mentally unfit to stand trial within seven days of the finding. Prior to this decision, the OSH would admit individuals for evaluations only if there was room at the hospital. The court's decision was finalized in 2003, after which the OSH forensics caseload growth rate began to rise. The Department's response to this has been the development of more forensic community-based placements. More recently, a March 2006 settlement agreement in the lawsuit *Harmon v. Fickle* requires OSH to achieve higher staffing ratios to improve patient care.

Concerns about the Oregon State Hospital and the state's mental health system further compelled the Governor and Legislature to provide funding in the 2005-07 biennium for an analysis of the state hospital. This funding was used by DHS to hire a contractor which studied the hospital and mental health system. On February 28, 2006, the Department released a report on the OSH entitled, *Framework Master Plan, Phase II Report*. The report contained an analysis of the demand for hospital services for the next 25 years and made recommendations to meet the demand. The report noted that hospital demand was predicated on a robust array of community-based mental health services – a mental health system not yet in place in Oregon.

In response to the report, Governor Kulongoski and legislative leadership decided to build two new facilities – a 620 bed facility in Salem at the present OSH campus and a 360 bed unit near Junction City adjacent to a planned Department of Corrections facility. During the 2007-09 biennium, the Department completed extensive planning, and finally, in September 2008 broke ground for the new Salem facility. The budget for both the facilities was originally about $458 million. However, in order to provide adequate treatment as described in the hospital's Continuous Improvement Plan supported by the U.S. Department of Justice (USDOJ) report issued in January 2008, the square footage of the hospital is nearly 30% larger than originally budgeted. The final cost of the Salem facility is now expected to be roughly $390 million.

While much of the legislative and public's attention has been on the new hospital facilities, the Department also worked hard to develop additional community mental health residential treatment placements. These efforts have been difficult and AMH has encountered opposition from communities that are reluctant to site residential treatment facilities that will serve former OSH patients – particularly forensic patients. As a consequence, AMH has not been able to develop as many placements as it would like. In 2008, the Governor appointed a workgroup to assess the situation and make recommendations. The group issued a report in 2009. Despite the debate, however, federal law (Fair Housing Act and the Americans with Disabilities Act) is clear. It prohibits discrimination related to housing based on race, color, age, religion, gender, …and disability.

As a more recent backdrop to all of this, USDOJ conducted a review of OSH under the Civil Rights of Institutionalized Persons Act (CRIPA) and issued a highly critical report in January 2008. USDOJ found deficiencies in five general areas: adequately protecting patients from harm, providing appropriate psychiatric and psychological care and treatment, appropriate use of seclusion and restraint, providing adequate nursing care, and providing discharge planning to ensure placement in the most integrated settings. The Legislature set aside $6.7 million General Fund during the February 2008 special session, and later allocated the funds to hire additional OSH staff. An additional 527 positions were added in the 2009-11 legislatively adopted budget for OSH, at a cost of $36 million total funds. USDOJ has continued to scrutinize the Oregon system, and have recently appeared to be focused on the community-based services. They have requested extensive documentation relating to services being provided in the least restrictive and most appropriate setting (as required by the Olmstead case).

AMH submitted a list of budget reduction options up to the 25% level. A reduction level of about 5% could be accomplished through continuation of the program reductions resulting from the June allotment reduction, personal service savings such as reduced health or PERS benefits, and elimination of standard inflation.

At the 15% reduction level, the Portland facility of the state hospital would be closed, Blue Mountain Recovery Center capacity reduced by 25%, and three wards of geropsychiatric patients at OSH would be closed. COLAs to providers would be eliminated where possible, and reimbursement for residential care would be cut by 6%. The agency would eliminate the development of new residential capacity to meet increased caseloads, and alcohol and drug treatment would be cut. The following programs would be cut between 10% and 17%:

- *Adult Outpatient Mental Health* provides essential community-based services such as case management, assistance in obtaining benefits, finding and keeping affordable housing, medication management, supports to divert people from jail, and therapy.

- *Child Outpatient Mental Health* provides essential community-based services such as in-home supports, case management, in-school supports, assistance accessing the appropriate level of care to meet the child and family's needs.
- *Regional Acute Psychiatric Inpatient Services* serves adults who are so ill that they are a danger to themselves or others and require treatment in an acute care hospital psychiatric unit.
- *Mental Health Crisis Services* provides face-to-face crisis services, in order to prevent hospitalization or incarceration.

At the 25% reduction level, OSH would close four more wards as well as all transitional housing. At this level of cuts, the total capacity of the state hospital would be reduced by almost half. Total reduction levels would be in the 45% to 60% range for Adult Outpatient Mental Health, Child Outpatient Mental Health, Regional Acute Psychiatric Inpatient services, and Mental Health Crisis Services.

Many of the program cuts above would ultimately result in higher costs for hospitalization or incarceration. In addition, the maintenance of effort requirements for the Mental Health Block Grant and the Substance Abuse Prevention and Treatment grant would be in jeopardy, even at the 15% cut options. Finally, reductions to both the state hospital and the community-based services could result in further action by USDOJ.

AMH – Program Support and Administration

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	18,115,313	18,123,299	19,523,050	21,290,809
Lottery Funds	3,171,000	2,477,298	2,477,298	2,823,986
Other Funds	835,464	2,300,504	4,620,449	6,723,931
Federal Funds	6,819,839	7,810,815	10,970,966	10,349,739
Total Funds	**$28,941,616**	**$30,711,916**	**$37,591,763**	**$41,188,465**
Positions	232	135	149	140
FTE	162.08	132.04	142.80	136.97

Program Description

This budget unit includes staffing to manage and administer AMH prevention, and community-based addiction, gambling, and mental health services. A number of positions and related expenditures used to increase OSH staffing ratios were transferred from the program support and administration budget to the program budget for the 2009-11 biennium. The OSH budget is a part of the AMH program budget.

Revenue Sources and Relationships

Lottery and Other Funds constitute 23% of the program support and administration budget for AMH, while Federal Funds (administrative Medicaid funds along with some Community Mental Health and Substance Abuse Prevention and Treatment Block Grants) comprise about 25% of the revenue supporting this budget.

Current Service Level

The current service level of $41.2 million total funds is 9.6% higher than the 2009-11 legislatively approved spending level at December 2010. General Fund supporting the current service level is $1.8 million (9.1%) higher than the 2009-11 approved spending level. These increases include adjustments for personal services costs and inflation. The increases also include the full biennial funding for the Health Professionals' Services Program phased in during the 2009-11 biennium.

Budget Environment and Potential Reductions

Possible reduction options include the continuation of Services and Supplies reductions taken in the 2009-11 biennium; reductions to personal services contracts used to provide direct services to both mental health and alcohol and drug clients; and cutting positions. A continuation of the Services and Supplies reductions and modest reductions to personal services contracts results in about a 10% reduction level. A 25% reduction would probably require eliminating positions. Reductions in Program Support and Administration would likely be tied to specific program reductions implemented.

OHA/Health Programs – Program Area Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	924,283,536	964,001,583	705,545,469	1,815,429,894
Other Funds	1,230,243,760	1,181,843,635	1,234,426,152	1,161,640,938
Federal Funds	2,688,870,686	4,163,810,498	4,229,389,361	4,906,881,135
Other Funds (NL)	446,265,208	1,873,217,285	2,862,669,952	3,136,914,854
Total Funds	**$5,289,663,190**	**$8,182,873,001**	**$9,032,030,934**	**$11,020,866,821**
Positions	288	334	370	332
FTE	268.31	319.70	340.75	321.20

Summary Description

Health Programs consists of Medical Assistance Programs, Public Employee Benefit Board (PEBB), Oregon Educators Benefit Board (OEBB), and Private Health Partnerships, as well as program support and administration. It is the largest of the Oregon Health Authority program area budgets, and the 2011-13 current service level budget includes $1.8 billion of General Fund.

The ***Medical Assistance Programs*** include the Oregon Health Plan (OHP), Non-Oregon Health Plan (Non-OHP), and the Children's Health Insurance Program (CHIP). Almost all the General Fund in Health Programs is contained in these three programs.

OHP is expected to provide medical care to over 600,000 low income Oregonians in 2011-13. Services include physician, pharmaceutical, hospital, vision, dental, and other acute care services. The Health Plan includes the state's Medicaid waiver programs (OHP Plus and OHP Standard), the Children's Health Insurance Program, and the Family Health Insurance Assistance Program (FHIAP).

The Non-OHP budget includes payments on behalf of Qualified Medicare Beneficiaries for certain forms of Medicare cost sharing such as co-payments or coinsurance. This budget also contains a General Fund "clawback" payment to the federal government that is required under the Medicare Modernization Act (MMA). In addition, this part of the budget includes funding for the state's Breast and Cervical Cancer program and the Citizen Alien Waived Emergency Medical program.

The 2009-11 budget included the implementation of two service expansions: the Health Care for All Oregon Children initiative (Healthy Kids), and doubling the size of the OHP Standard program. These expansions were funded with a newly established health care premium assessment of 1% and a re-structured Medicaid hospital provider tax, respectively, included in HB 2116. Both of these programs continue in 2011-13.

The ***Public Employees Benefit Board*** contracts for and administers medical and dental insurance programs for state employees and their dependents, representing about 128,000 Oregonians.

The ***Oregon Educators Benefit Board*** contracts for and administers medical and dental insurance programs for various school, education service, and community college districts throughout the state.

The ***Private Health Partnerships*** includes FHIAP which provides health insurance premium subsidies to previously uninsured, low-income families and individuals. It also includes Healthy KidsConnect which is the private market insurance component of the state's Healthy Kids program. It provides choices for families that earn too much to qualify for OHP, but cannot afford to pay the full cost of private health insurance premiums. This unit also includes the Oregon Medical Insurance Pool (OMIP) and Federal Medical Insurance Pool (FMIP), which offer guaranteed issue health insurance coverage for individuals who are unable to obtain medical insurance because of health conditions, regardless of income level.

The ***Program Support and Administration*** budget provides funding for staff who provide policy direction and administrative support for all programs as well as persons who manage the Health Plan's automated claims payment system.

Revenue Sources and Relationships

Other Funds revenue includes a significant amount of Tobacco Tax (approximately $332 million in the 2011-13 current service level), Medicaid provider taxes (about $500 million), pharmaceutical manufacturer drug rebates, client contributions, third party recoveries, numerous licensing and other fees, and other governmental or quasi-governmental entity (such as the Oregon Department of Education and Oregon Health and Science University) funds eligible for federal match.

PEBB and OEBB collect premiums for all insured individuals, and then purchase insurance with those revenues. The expenditures are shown as Nonlimited Other Funds in the budget. These programs combined account for over $3.1 billion in Other Funds Nonlimited, or 28% of the total funds budget for Health Programs. PEBB and OEBB fund their operational costs through an administrative charge (assessment) added to the employees' health insurance premiums. OMIP is funded with premiums collected from insured individuals and insurer assessments, while FMIP is funded with a combination of premiums collected from insured individuals and federal revenues.

Federal Funds revenue sources are mainly two: Medicaid, which accounts for more than 90% of the division's Federal Funds, and CHIP revenue. Medicaid requires a state match and the match rate is recalculated each year by the federal government. The composite match rate used in the 2011-13 budget for Medicaid is approximately 37% state funds and 63% Medicaid funds for most services. This match rate is significantly reduced from last biennium, when the state received the enhanced match rate included in the federal American Recovery and Reinvestment Act (ARRA), at about 30% state funds and 70% federal funds. (Medicaid staffing expenditures, such as those in program support and administration are generally funded with half state funds and half Federal Funds.) CHIP funds also require state matching funds. The match rate for CHIP is about 26% state funds to 74% Federal Funds. Medicaid Federal Funds are, in theory, available as long as a state has matching funds. CHIP Federal Funds are a block grant and each state's allocation is limited by Congress.

Current Service Level

The current service level of $11 billion total funds is $2 billion, or 22%, higher than the 2009-11 legislatively approved spending level at December 2010. General Fund of $1.8 billion is $1.1 billion, or 157%, higher than the approved spending level. These significant increases are largely the result of replacing one-time revenues with General Fund, caseload increases, and higher medical service costs. In addition, the growth in tobacco tax revenues and insurer's tax are not great enough to cover the corresponding increases in expenditures, so General Fund is needed to backfill those revenues.

Over half the total increase in General Fund, or $637 million, results from one-time revenues used in the 2009-11 budget that will not be available in the 2011-13 biennium. A majority of this one-time funding, $486 million, results from the enhanced Medicaid match rates that were received during the 2009-11 biennium as a result of ARRA. All the services provided during last biennium using these one-time revenues must now be paid for with state resources.

Budget Environment and Potential Reductions

In March 2010, Congress passed federal health care reform legislation, the Affordable Health Care Act, which is intended to reduce health care spending over the next decade. It will expand health care coverage to an estimated 500,000 additional Oregonians by 2014 through a combination of subsidized private insurance and expanded Medicaid coverage. Federal subsidies to states will cover 100% of the additional cost of those who are newly eligible through 2016. It also allocates money to improve quality and halts certain insurance practices. In addition, the law creates exchanges or marketplaces for health insurance in 2014.

HB 2009, from the 2009 legislative session, is Oregon's version of health care reform. It created the Oregon Health Authority and the Oregon Health Policy Board. The Board is charged with coordinating the state's existing patchwork system of purchasing and regulating health care, community services, and workforce training. The Board is currently in the process of making final recommendations on the health care workforce, medical liability, population health, integrated primary care, health purchasing, administrative simplification, and technology.

Oregon, like all other states, has taken an incremental approach to controlling cost growth in Medicaid programs in recent years. Historically, three main levers have been used to control the OHP budget: limit client eligibility, reduce client benefits, and cut provider reimbursement. All three of these tools are problematic. With the 2011-13 budget, the new federal health care reform law requires states to maintain eligibility levels that were in place as of March 23, 2010. Therefore, this tool is no longer available to the state. Also, reducing clients does not address recognized structural flaws in the current health care system. Reducing client benefits is only of limited value under current Medicaid rules since the majority of health care reimbursement is for hospital care or physician services, both of which are mandatory Medicaid services. Oregon can reduce or eliminate optional Medicaid services, such as prescription drugs, dental, therapies, rehabilitation, optometry, preventative and diagnostic services. However, many of these services prevent more expensive alternatives such as hospitalization. Finally, cutting provider reimbursement will eventually limit access to medical services to low-income Oregonians.

The other option for reducing costs in the system is to structurally change the health care delivery system in Oregon, consistent with the goals of the federal health care reform and HB 2009. This is a health care system that funds services to improve population health, and prioritizes prevention services while removing resources from the back end of the system, primarily hospital care. In addition, administrative costs in the system must be substantially reduced. The challenge for the 2011-13 budget is that reform measures may not produce enough savings in this short timeline.

Finally, the OHP budget is greatly influenced by economic conditions. As a general rule, when the economy is not doing well, more people are without medical coverage and seek Medicaid services. Caseloads are expected to remain high throughout the 2011-13 budget period.

Health Programs – (Special Payments Only)

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	902,665,556	937,061,607	681,805,371	1,782,271,847
Other Funds	1,209,889,241	1,125,037,767	1,173,809,165	1,113,663,615
Federal Funds	2,660,433,030	4,110,966,183	4,142,352,324	4,850,500,829
Other Funds (NL)	446,265,208	1,873,217,285	2,862,669,952	3,136,914,854
Total Funds	**$5,219,263,035**	**$8,046,282,842**	**$8,860,636,812**	**$10,883,351,145**

Program Description

Medical Assistance Programs
For budgetary purposes, Medical Assistance Programs special payments are divided into three sections: Oregon Health Plan (OHP) payments, Non-Oregon Health Plan (Non-OHP) payments, and the Children's Health Insurance Program (CHIP).

The ***Oregon Health Plan*** current service level for the 2011-13 biennium is about $1.5 billion General Fund – about 85% of the $1.8 billion of General Fund special payments made by Health Programs. The OHP is governed by a Medicaid state plan which includes waivers to various Medicaid administrative rules. In addition, Oregon statutes also dictate what the state's Medicaid plan will include. The plan, proposed amendments to the plan, and waivers to Medicaid rules all require review and approval by the Centers for Medicare and Medicaid Services (CMS), the federal agency which administers Medicaid. This means that policy changes to the plan, particularly those that would have a significant program or budgetary impact, must pass muster with CMS. This approval process usually takes time. Moreover, reaching consensus about program changes prior to submitting a plan amendment or waiver is difficult because such changes often involve numerous interested parties (e.g., advocates for clients, managed care organizations, hospitals, physicians, pharmacists, pharmaceutical companies, and commercial insurers).

The Medicaid state plan details eligibility for the program, what services or benefits are offered, and how, in general terms, providers will be reimbursed. These three elements – eligibility, benefits, and reimbursement – are the main levers that have been used to control the OHP budget.

- Eligibility for OHP
  The following is a list of those who are eligible for the Oregon Health Plan. Medicaid is considered an entitlement, under federal law. That is, anyone who meets the eligibility criteria established in a Medicaid

state plan must be provided services, without regard to the state's financial ability to pay for those services. In the past if a state wanted to reduce eligibility, it had to receive approval from CMS to do so. The new federal health care reform law requires states to maintain eligibility levels that were in place as of March 23, 2010.

1. Persons receiving cash assistance under the Temporary Assistance to Needy Families (TANF) program.
2. Families transitioning from TANF into employment, who are eligible for 12 months after cash assistance ends.
3. Children in foster care or for whom adoption assistance payments are made.
4. Persons in the Poverty Level Medical (PLM) program, which includes children from birth to age 5 in households with incomes up to 133% of the federal poverty level (FPL), children 6 to 18 in households with incomes up to 100% of FPL, and pregnant women and their newborns in households with incomes up to 185% of FPL. Persons who are age 65 or over who are eligible for Supplemental Security income (SSI). The SSI grant is currently $674/month for a household of one, which represents about 74% of FPL. In addition, seniors (and persons with disabilities) who are eligible for Medicaid long-term care are also eligible for the health plan. The income standard for Medicaid long-term care is 300% of the SSI grant, or about 233% of FPL. To qualify for long-term care, however, a person must also have impairments that limit their activities of daily living.
5. Blind and disabled persons, who are eligible for SSI or, like seniors, are eligible for Medicaid long-term.
6. Blind and disabled persons who are presumed eligible for SSI.
7. Adults with incomes under 100% of FPL who are not eligible for Medicare may be eligible for the OHP Standard program. Due to cuts in the state's General Fund, OHP Standard closed to new enrollment in 2004. Since that time the program has relied primarily on provider taxes as its state revenue source, allowing a biennial average enrollment of about 24,000 clients. However, the Medicaid hospital provider tax was restructured during the 2009 legislative session and approved as part of HB 2116, providing funding for another 35,000 adults to enroll in OHP Standard. Medicaid managed care plans will continue to be assessed through a health insurance premium tax – also part of HB 2116. This latter assessment will be used to support the newly established Health Care for All Oregon Children program.

- <u>OHP Benefits</u>
  All those eligible for OHP, except for those eligible for OHP Standard, receive a benefit package known as "OHP Plus." Today, OHP Plus includes hospital, physician, prescription drug, durable medical equipment, dental, non-institutional mental health and drug and alcohol services, and transportation to medical providers with limited or no co-payments. Vision services (except those deemed medically necessary) for non-pregnant adults were eliminated from the budget during the 2009 legislative session.

  OHP Standard is a less comprehensive benefit package and, as initially designed, excluded transportation, vision, and a portion of the dental services. In addition, Standard requires premium payments for eligible persons with household incomes between 10% and 100% of the federal poverty level. If the premium is not paid, the client will lose coverage.

  Underlying all the benefits is the OHP "prioritized list of services." For the OHP Plus package, for example, services are available based on a prioritized list of health conditions and specific treatments. Theoretically, the amount of funding available determines the services that are covered. The Health Services Commission, administered by OHA, determines the content and establishes the priority of listed services. In practice, however, excluding treatments from the bottom of the list has been difficult to do. Historically, the Health Care Financing Administration (the predecessor to CMS) allowed only modest rationing of services using this method. Likewise, CMS has been extremely reluctant to limit treatment by excluding treatments based on the prioritized list.

- <u>OHP Provider Reimbursement</u>
  OHP Medicaid payments are made to managed care organizations and, on a fee-for-service basis, to doctors, hospitals, pharmacies, dentists, and other contractors to provide medical services. About 80% of those eligible are served through managed care organizations (other than those providing dental services), which receive capitation payments from OHA and who assume the risk of providing necessary medical services for their members. The remaining 20% are served on a fee-for-service basis. Dental care

organizations (managed care organizations providing dental services) serve nearly 95% of those OHP clients eligible for dental coverage.

The ***Non-Oregon Health Plan*** budget includes four major types of expenditures: a General Fund payment to the federal government required under the Medicare Modernization Act for clients eligible for both Medicare and Medicaid known as the "clawback" payment ($177.3 million General Fund and total funds), and expenditures for the Citizen Alien Waived Emergency Medical (CAWEM) program ($69.5 million total funds), and women eligible for the Breast and Cervical Cancer Prevention and Treatment Program ($36.8 million total funds). This budget also includes assistance for low-income Medicare clients which covers Medicare deductibles, coinsurance, and copayments ($12.8 million total funds), and limited prescription drug coverage for select former clients of the Medically Needy Program. The entire Non-OHP current service level budget for 2011-13 is $302 million total funds ($210.4 million General Fund).

The ***Children's Health Insurance Program*** is a federal (Title XXI of the Social Security Act) program designed to improve the health of children by increasing their access to health care services. Oregon's CHIP program was implemented in July 1998. Oregon's policy makers took advantage of the more favorable federal CHIP match rate (currently about 74% for CHIP versus 63% for Medicaid) to expand OHP services to more children than would have been covered if the funds were coming from Medicaid alone. To qualify for CHIP, children must be ineligible for OHP-Medicaid benefits and have been uninsured, except for Medicaid, for six months prior to application. In addition, the children must be living in households with incomes between 100% (or, in some instances, 133%) and 200% FPL. Those eligible for CHIP receive the OHP Plus benefit package. The 2011-13 current service level for CHIP is $388.1 million total funds ($45.6 million General Fund).

<u>Public Employees Benefit Board</u>
PEBB contracts for and administers medical and dental insurance programs for state employees and their dependents, representing about 128,000 Oregonians. The Board also selects and administers life and disability insurance coverage for eligible state employees. A major part of the Board's responsibility is developing benefit packages to meet the needs of state government and its employees, and preparing benefits information and answering inquiries from employees and their dependents about coverage. PEBB began to move toward self-insurance in 2006. By 2010, 85% of participants were enrolled in self-insured medical and visions plans, and 75% were enrolled in self-insured dental plans.

<u>Oregon Educators Benefit Board</u>
OEBB was created in 2007. The Board designs, contracts, and administers benefit plans for about 145,000 educational entity employees and early retirees, and their eligible dependents, in 231 school districts, education service districts, community colleges, and charter schools throughout Oregon. The law prohibits those districts, with certain exceptions, from offering benefit plans other than those offered by the Board on or after October 1, 2008.

<u>Private Health Partnerships</u>
The ***Family Health Insurance Assistance Program*** was created in 1997 as an expansion of OHP and is regulated by federal Medicaid waivers and administrative rules. It provides direct premium subsidies to low-income individuals up to 185% of FPL who may earn too much to qualify for Medicaid, but not enough to completely afford their employer's health benefit coverage or an individual health insurance policy. FHIAP provides subsidies ranging from 50% to 95% of the premium cost, depending on household income. The 2011-13 current service level for FHIAP is about $70.6 million total funds ($17.6 million General Fund). As of August 2010, about 7,200 members were enrolled in FHIAP, while more than 45,000 people remained on the reservation list.

To qualify for the subsidy, persons must have been uninsured for six months except for those enrolled in Medicaid. Participants must accept employer-based coverage in cases where there is an employer contribution. Those without access to employer-based coverage, or in cases where the employer does not make a contribution, choose from plans certified by the agency. Adults may receive the subsidy only if all children in the family are covered by a health insurance program. Enrollees are responsible for any co-payments, co-insurance, and deductibles of the plans they select, as well as the unsubsidized portion of the premium. The program is not an entitlement, and enrollment is on a first-come, first-served basis.

The ***Healthy Kids Program*** was created by the 2009 Legislative Assembly as part of the Health Care for All Oregon Children initiative, established in HB 2116. While the bulk of the expenditures for Healthy Kids are included in the Medical Assistance Programs budget, Private Health Partnerships includes the Healthy KidsConnect program. This is the commercial insurance component of Healthy Kids, and provides health insurance coverage that is similar to that offered through CHIP or Medicaid. The program will provide premium assistance to families with household incomes between 200% and 300% of the federal poverty level to purchase health insurance through Private Health Partnerships. Alternatively, families with incomes up to 300% may receive premium assistance to obtain health insurance through an employer. The current service level budget for Healthy KidsConnect in 2011-13 is about $98 million total funds.

The ***Oregon Medical Insurance Pool (OMIP)*** and ***Federal Medical Insurance Pool (FMIP)*** are the high-risk health insurance pools for the State of Oregon. They serve Oregonians that have been turned down in the individual health insurance market because of their medical conditions. They offer guaranteed issue health insurance coverage for individuals who are unable to obtain medical insurance because of health conditions, regardless of income level.

Revenue Sources and Relationships

The federal government will fund approximately 63% of OHP Medicaid costs during the 2011-13 biennium. Most of the state's 37% match comes from the General Fund, tobacco taxes, a hospital Medicaid provider tax, and a health care premium tax to support children's health care that was established in 2009. The remaining state match for the OHP Plus benefits comes from a variety of Other Funds revenue sources including OHP premiums; federally required drug manufacturer rebates; and recoupments from insurance companies, providers, and clients. Additional revenue comes from state agency and county transfers designed to maximize the receipt of federal matching funds, and from miscellaneous receipts.

PEBB and OEBB collect premiums for all insured individuals, and then purchase insurance with those revenues. The expenditures are shown as Nonlimited Other Funds in the budget. OMIP is funded with premiums collected from insured individuals and insurer assessments. Enrollee monthly premiums fund about 55% of OMIP expenditures, while assessments on health insurers fund approximately 45%. FMIP is funded by a combination of member premiums and funds from the federal government.

Current Service Level

The current service level of $10.9 billion total funds is $2 billion, or 22.8%, higher than the 2009-11 legislatively approved spending level at December 2010. General Fund of $1.8 billion is $1.1 billion, or 161%, higher than the approved spending level. These significant increases are largely the result of replacing one-time federal revenues with General Fund, caseload increases, and higher medical service costs. In addition, the growth in tobacco tax revenues and insurer's tax are not great enough to cover the corresponding increases in expenditures, so General Fund is needed to backfill those revenues.

Budget Environment and Potential Reductions

Many factors affect the budget of Health Programs, including population growth and aging; policies of other OHA and DHS divisions and state agencies; federal welfare and Medicaid laws; changing medical technologies and their costs; medical inflation; and the status of the economy. The changes resulting from the federal health care reform, as well as HB 2009, Oregon's health care reform, have been discussed above. The hope is that in the longer run these reforms will reduce costs in the system. However, in the short run, significant reductions to programs will likely be needed to balance the 2011-13 state budget.

Health Programs submitted a list of reduction options up to the 25% level. At the 5% reduction level, reductions include the continuation of all 2009-11 program reductions as a result of the June allotment reductions; a number of efficiency initiatives including continuous improvement initiatives, increased third party liability collections, streamlined and expanded use of prior authorization; and limiting the use of non-preferred drugs. Reductions also include new reimbursement methodologies for selected groups, including pharmacies, inpatient services to DRG hospitals, and fee-for-service reimbursement for outpatient services provided at Diagnosis Related Groups (DRG) hospitals. Increases to payments to managed care organizations would be limited to the lower range of actuarial soundness; a preferred drug list would be implemented for mental health drugs; and the administration component of managed care rates would be restructured. The FHIAP program would stop taking new clients for the biennium.

At the 15% reduction level, options include changes to the managed care delivery system to serve a larger proportion of clients and to integrate physical health and behavioral health care; a reduction of the DRG hospital component of the capitation rates from 80% to 72% of cost; and elimination of the graduate medical education (GME) program. Dental benefits would be eliminated for all but pregnant adults, and OHP would cover 64 fewer lines on the prioritized list of services. These benefit and service reductions would have a dramatic impact on health care services that are covered for all OHP clients. In addition, CMS would need to approve these changes, and historically has been reluctant to limit treatment by excluding treatments based on the prioritized list.

At the 25% reduction level, most remaining optional benefits would be eliminated, including prescription drugs, mental health benefits, and addiction services. Elimination of these kinds of services tends to increase other costs in the system, such as hospitalization costs. Finally, at this reduction level all enhanced reimbursement for hospital services would be eliminated. Hospital provider tax savings, from this reduction as well as all reductions above, would be re-purposed creating General Fund savings.

Health Programs – Program Support and Administration

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	21,617,980	26,939,976	23,740,098	33,158,047
Other Funds	20,344,519	56,805,868	60,616,987	47,977,323
Federal Funds	28,437,656	52,844,315	87,037,037	56,380,306
Total Funds	**$70,400,155**	**$136,590,159**	**$171,394,122**	**$137,515,676**
Positions	288	334	370	332
FTE	268.31	319.70	340.75	321.20

Program Description

This budget unit includes funding for the staff that administer Health Programs. This includes the Medical Assistance Programs, PEBB, OEBB, and Private Health Partnerships. Of the $137.5 million total funds current service level for 2011-13, about 40% is used for personal services (salary, and other payroll expenses such as medical insurance, Public Employee Retirement System contributions, or Social Security taxes). About 28% of the budget is used for professional services, such as actuarial, pharmacy benefit management, or disease management services. The other services and supplies' budget is used for office expenses, telecommunication, publications, IT equipment, Attorney General services, and training. The budget also includes a $4.4 million total funds payment to the State Commission on Children and Families for its Healthy Start program. The Commission transfers General Fund to Medical Assistance Programs where it is matched with federal administrative Medicaid funds and subsequently returned to the Commission in this special payment.

Program Support and Administration now includes the Information, Education and Outreach (IEO) programs that were formally a part of the Office of Private Health Partnerships. These programs establish and maintain relationships with private and public sector partners, train insurance producers, industry professionals, civic groups and employers, and educate consumers and stakeholders on the healthcare delivery system and state program options.

Revenue Sources and Relationships

The Program Support and Administration budget for Health Programs is funded with General Fund, allocations of Other Fund revenue discussed earlier, such as prescription drug rebates from pharmaceutical manufacturers or Medicaid provider taxes, health insurance premium assessments, as well as federal Medicaid revenue. PEBB and OEBB operational costs are funded through an administrative charge (assessment) added to the employees' health insurance premiums. By law, the assessment cannot exceed 2% of monthly premiums. For 2011, PEBB has reduced the assessment from 0.6% to 0.4%, and the OEBB assessment remains at 0.95% of monthly premiums.

Current Service Level

The current service level of $137.5 million total funds is $33.9 million, or 19.8% lower than the 2009-11 legislatively approved spending level at December 2010. General Fund of $33.2 million is $9.5 million (40%)

higher than the approved spending level. The increases include adjustments for personal services costs and inflation.

Budget Environment and Potential Reductions

A budget reduction of about 15% could be accomplished through continuation of the program reductions resulting from the June allotment reduction, personal service savings such as reduced health or PERS benefits, elimination of inflation, and a limited number of reductions that result from the program cuts discussed above.

OHA/Public Health – Program Area Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	46,727,500	48,995,951	47,414,052	53,013,067
Other Funds	73,184,871	73,891,665	73,077,999	76,394,629
Federal Funds	200,607,692	243,275,049	262,744,113	258,495,326
Other Funds (NL)	38,384,054	40,000,000	40,000,000	40,000,000
Federal Funds (NL)	101,996,686	102,729,051	102,729,051	102,729,051
Total Funds	**$460,900,803**	**$508,891,716**	**$525,965,215**	**$530,632,073**
Positions	698	691	740	697
FTE	662.97	672.69	688.39	679.53

Summary Description

Public Health provides a diversity of services to improve and protect the health of all Oregonians. The division manages more than 100 prevention-related programs that halt the spread of disease, protect against environmental hazards, and promote healthy behaviors. Much of the work is carried out by local county health departments which are supported in their work by Public Health staff. For the purposes of this discussion, the division's budget is divided into two parts: special payments, and program support and administration.

Revenue Sources and Relationships

This budget includes significant amounts of Nonlimited expenditures. Within Public Health, Nonlimited Other Funds and Federal Funds support the Women, Infants, and Children (WIC) program. The Nonlimited Federal Funds of $102.7 million represent WIC food grant expenditures and the $40 million of Nonlimited Other Funds represent expenditures of rebates from the manufacturers of infant formula.

The Other Funds supporting the current service level come from licenses and fees (e.g., health records and statistics or the Medical Marijuana program), charges for services (e.g., newborn screening fees or public health laboratory receipts), or other revenues such as Susan G. Komen breast cancer grants, or Ryan White program prescription drug rebates. Other Funds revenue also includes transfers from other state agencies such as tobacco tax receipts from the Department of Revenue that are used to support the tobacco prevention and education program (TPEP) or provider taxes transferred from the Department of Consumer and Business Services for school-based health centers.

Federal Funds that support the public health budget include Medicaid for the Family Planning Title X and OregonContraceptiveCare (CCare), formerly known as the Family Planning Expansion Project (FPEP), the Maternal and Child Health Block Grant, Bioterrorism Preparedness and Response, Chronic Disease Prevention, Cancer Prevention and Control, Ryan White HIV/AIDS treatment grants, and numerous smaller federal Centers for Disease Control (CDC) grants that focus on other particular public health concerns.

Current Service Level

The current service level of $530.6 million total funds is 0.9% higher than the 2009-11 legislatively approved spending level at December 2010. General Fund supporting the current service level is $5.6 million (11.8%) higher than the approved spending level. These increases include adjustments for personal services costs and inflation.

Budget Environment and Potential Reductions

During the 20th century, life expectancy in the United States rose from 47 years in 1900 to 77 years in 2000. Some studies suggest that of the 30 year increase, public health interventions account for 25 years and medical care innovations account for 5 years of the increase. In addition, public health interventions increased life expectancy at much less cost than clinical medical care. Nonetheless, public health budgets are often given short shrift and budgets for clinical care receive greater attention and support by policymakers. The irony is that when public health programs are working well, few people are aware of it.

Public Health budget drivers include population growth and characteristics (e.g., ethnic diversity, age and gender distribution, percentages of population engaged in risky or healthy behaviors) as well as emerging threats to the public health such as diseases or environmental hazards. In March 2010, the Trust for America's Health, a non-partisan health policy organization, issued a report of state health indicators. Oregon had the fourth highest asthma rate (15.3%), but ranked 49th in the percentage of adults who are physically inactive. We had the third lowest percentage of low birth weight babies of any state, but ranked 13th in children aged 19-35 months without all immunizations.

The point is that Oregon's population has characteristics that require a dynamic and active public health response. Some of the characteristics are already better than most other states, and Oregon's public health system can build on those. Alternatively, some of Oregon's health indicators are poor compared to other states and ought to be a focus of attention.

Like many other health and human services programs, public health faces significant funding challenges. The Oregon Coalition of Local Health Officials conducted an assessment in 2008 of the capacity of the public health system in Oregon to fulfill its mission. This public health advocacy group issued a report in October 2008 which stated: "After years of flat or declining resources and increasing costs, there is now an imminent threat to local public health's ability to continue serving Oregonians. This statewide capacity assessment revealed significant gaps in all Essential Functions of Public Health and a related gap in the system statewide. The gap identified in this report between Oregon's current local public health capacity and what it would take to make [local public health departments] fully functional is $69.4 million a year."

Public Health Programs – (Special Payments Only)

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	25,779,959	27,454,961	27,065,413	28,366,587
Other Funds	6,208,384	11,734,070	6,734,070	6,862,568
Federal Funds	105,416,084	127,756,999	142,231,368	132,974,756
Other Funds (NL)	38,384,054	40,000,000	40,000,000	40,000,000
Federal Funds (NL)	101,559,911	101,929,051	101,929,051	101,929,051
Total Funds	**$277,348,392**	**$308,875,081**	**$317,959,902**	**$310,132,962**

Program Description

Special Payments of $310.1 million are about 58% of Public Health's total funds current service level for 2009-11. Of this total, about half is paid to counties to support local public health departments in their efforts to promote public health initiatives, and the rest is distributed to providers of services – most of it, in the form of WIC food vouchers.

The WIC program is the Special Supplemental Nutrition Program for Women, Infants, and Children and is federally funded through the U.S. Department of Agriculture. The program is designed to improve health outcomes and influence lifetime nutrition and health behaviors in a targeted, at-risk population. WIC serves pregnant women, breastfeeding women with children under 12 months old, non-breastfeeding women with children under 6 months old, and infants and children under 5 years old in households with incomes less than 185% of FPL. The program provides nutrition education, breastfeeding promotion and support, breast pumps (in certain circumstances), monthly vouchers for supplemental, prescribed nutritious foods, and information and referral to other health programs like immunization and social service programs.

There are 34 local public health departments in Oregon. These local public health departments provide public health prevention services and some clinical services including public health nurse home visiting, HIV screening and counseling, immunization programs, and communicable disease testing, treatment, and follow-up. Some public health departments such as Multnomah County's provide primary care through safety net clinics. At a minimum, local public health authorities must provide: communicable disease management; tuberculosis case management; immunizations; tobacco prevention, education, and control activities; public health emergency preparedness; maternal child health services; family planning (e.g., CCare); WIC; vital records; and environmental health services. Oregon statutes require local public health authorities to submit annual plans that OHA must review and approve or disapprove. Counties often supplement state and federal funding with local resources to carry out local public health activities.

Revenue Sources and Relationships

Public Health special payments are supported with $28.4 million of General Fund, which comprise about 9% of the 2011-13 current service level. Other Funds subject to limitation ($6.9 million) comprise about 2% of this budget. Most of this is tobacco tax to support TPEP. Nonlimited Other Funds of $40 million are rebates from manufacturers of infant formula and are used in the WIC program. This revenue is about 13% of the special payments budget.

Federal Funds revenue of $234.9 million in the budget supports approximately 76% of this public health special payments budget. The largest source of federal revenue ($101.9 million) is expended within the WIC food voucher program and these expenditures are not subject to expenditure limitation. The amount is included in the budget to provide a perspective on total program expenditures. Approximately $65 million of federal revenue is generated by Medicaid and is used to support the Family Planning Title X program (CCare) – a 9 to 1 federal match program that provides contraceptive services, including annual medical exams and contraceptive supplies to eligible clients. Other federal revenue sources include the Bioterrorism Preparedness and Response Grant, the Maternal and Child Health Block Grant, the Preventive Health Block Grant, the HIV Prevention Project, as well as numerous other individual federal grants.

In the past, the Legislature has chosen to use uncommitted money in the Tobacco Use Reduction Account for other purposes, on a one-time basis. The Legislature has also "swept" ending balance resources in a variety of Public Health programs.

Current Service Level

The current service level of $310.1 million total funds is 2.5% lower than the 2009-11 legislatively approved spending level at December 2010. General Fund supporting the current service level is $1.3 million (4.8%) higher than the approved spending level. These increases include adjustments for inflation, as well as a phase-out of one-time federal funding.

Budget Environment and Potential Reductions

While OHA submitted a list of reduction options that total 25% agency-wide, reduction options for Public Health programs total 19%. At the 5% cut level, cost of living adjustments would be eliminated for providers, the WIC and Seniors Farm Direct Nutrition Program would be eliminated, and funding to local health departments for communicable disease control would be reduced about 6%.

At a 15% reduction level, funding for School Based Health Centers would be reduced by 39%, and funding to local health departments for the State Immunization Program would be reduced. Further reductions to local health departments for communicable disease control bring the total reduction level to 19%.

Public Health – Program Support and Administration

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	20,947,541	21,540,990	20,348,639	24,646,480
Other Funds	66,976,487	62,157,595	66,343,929	69,532,061
Federal Funds	95,191,608	115,518,050	120,512,745	125,520,570
Federal Funds (NL)	436,775	800,000	800,000	800,000
Total Funds	**$183,552,411**	**$200,016,635**	**$208,005,313**	**$220,499,111**
Positions	698	691	740	697
FTE	662.97	672.69	688.39	679.53

Program Description

The Program Support and Administration budget for Public Health consists of six program offices.

The ***Office of the State Public Health Director*** is responsible for strengthening the application of policy, planning, and performance measurement across the division. The office provides support and technical assistance to county health departments and oversees county health plans and funds from OHA. In addition, the office conducts emergency readiness training to prepare state and local public health officials for possible terrorist incidents and pandemic influenza.

The ***Office of Environmental Public Health*** program area establishes policies and carries out activities designed to improve the health and safety of Oregonians. It monitors the health status of communities and the performance of the health care systems, and has a regulatory role in ensuring that 3,600 drinking water systems, 18,000 restaurants, 13,600 radiation sources, 3,400 swimming pools, 2,300 tourist facilities, and 362 miles of coastline are safe. Services are provided primarily through county health departments and other community and tribal health organizations. The program provides services directly where there is no local health provider or where highly specialized services require a centralized program. The program provides technical assistance, consultations with health care providers, and targeted health education programs.

The ***Office of Family Health*** program area supports programs for individuals and families at risk because of age, income, or other factors. The Office is composed of five principal programs. The Women's and Reproductive Health program works to reduce unintended pregnancies, promote healthy birth outcomes, increase awareness of women's health issues, and conduct screening for breast and cervical cancer. The Maternal and Child Health program promotes the health and well being of pregnant women and children by providing a variety of primary preventive activities and health services. In addition, it promotes oral health awareness and education, and increases access statewide. Adolescent Health programs focus on teen pregnancy prevention, school-based health centers, nutrition, and adolescent mental health. The Immunization section works to prevent diseases that can be thwarted by using vaccines. The Nutrition and Health Screening program supports Women, Infants, and Children (WIC) expenditures by providing nutrition education, breast feeding information, and other assistance including breast pumps, food vouchers, and referral services.

The ***Office for Disease Prevention and Epidemiology*** program area identifies and investigates disease outbreaks, hazardous exposures, and other health threats. The Office collects, analyzes, and distributes health-related information and implements public health programs to reduce the occurrence of acute and chronic disease. Programs include: Acute and Communicable Disease Program; Center for Health Statistics; Health Promotion and Chronic Disease Prevention; Injury Prevention and Epidemiology Program; and a program designed to reduce illnesses and death from sexually-transmitted diseases (STD), tuberculosis (TB), and human immunodeficiency virus (HIV). This Office's budget includes funding for tobacco use education and prevention.

The ***Office of State Public Health Laboratories*** provides testing of human and non-human samples needed by state and local agencies and health care providers, responds to public health threats and emergencies, and assures, through regulation, the quality of testing in other clinical and environmental laboratories. The laboratory conducts newborn screening for Oregon's citizens and also for Idaho, Alaska, Hawaii, Nevada, and New Mexico. It tests for diseases caused by viruses and other microorganisms to support outbreak investigations and public health surveillance. Laboratory staff oversee the Laboratory Response Network for biological and chemical terrorism preparedness.

The ***Office of Community Health and Health Planning*** works with public and private entities to ensure that hospitals and other institutions providing medical care can meet state operational standards. Office staff oversee other health care providers such as emergency medical technicians, ambulance services, and trauma systems, and supports the activities of the Patient Safety Commission. Key programs include Emergency Medical Services and Trauma Systems, Health Care Regulation and Quality Improvement, and Oregon Medical Marijuana Program. In addition, this office promotes access to health care services – it helps establish and expand community health centers and rural health clinics.

Revenue Sources and Relationships

The 2011-13 current service level budget for Public Health program support and administration is $220.5 million total funds. General Fund of $24.6 million is about 11% of the budget. Other Funds revenue is comprised of licenses and fees, charges for services, sales income, Ryan White drug rebate funds, and smaller Other Funds revenue sources. In addition, Other Funds revenue reflects funds that are transferred from other state agencies including the Department of Revenue ($7.1 million of tobacco tax) for the Tobacco Prevention and Education Program, and the Employment Department for childcare health consultation. Altogether, Other Funds revenue of $69.5 million supports 32% of program support and administration expenditure limitation.

Federal Funds of $126.3 million make up about 57% of the current service level budget for 2011-13. Federal Funds sources include Ryan White grants, Public Health Emergency Preparedness, WIC administrative support, Maternal and Child Health Block Grant, Immunization, and Breast and Cervical Cancer funds from the Centers for Disease Control.

Current Service Level

The current service level of $220.5 million total funds is 6% higher than the 2009-11 legislatively approved spending level at December 2010. General Fund supporting the current service level is $4.3 million (21.1%) higher than the approved spending level. These increases include adjustments for personal services costs, inflation, and a phase-out of a one-time federal grant.

Budget Environment and Potential Reductions

A budget reduction of about 5% could be accomplished through continuation of the program reductions resulting from the June allotment reduction, personal service savings such as reduced health or PERS benefits, and elimination of inflation. Based on the reduction option list submitted by OHA, cuts at the 15% level would include the elimination of the WIC and Seniors Farm Direct Nutrition Program, targeted reductions to the Human Immunodeficiency Virus/Sexually Transmitted Disease/Tuberculosis (HST) program, and the elimination of the Oregon Trauma System Program and the Emergency Medical Service for Children Program. Further reductions to the HST program would bring the total reduction level to 25%. At this level of cuts, the AIDS Drug Assistance Program would be reduced by 69%, resulting in a waiting list for this safety net program.

OHA/Direct Charges and Services – Program Area Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	59,887,467	62,041,388	63,614,240	79,961,879
Other Funds	18,966,809	31,309,908	27,619,851	12,828,102
Federal Funds	81,221,083	77,183,077	75,593,913	78,876,453
Total Funds	**$160,075,359**	**$170,534,373**	**$166,828,004**	**$171,666,434**

Summary Description

The Direct Charges and Services section contains the budget to pay for central government assessments and usage charges. Included are the state government service charges, risk assessments, State Data Center usage charges, facility charges, and information technology direct charges. In addition, the funding to pay for shared services received from both OHA and DHS is included in this budget. More detail on shared services is included in the Central and Shared Services program area.

Revenue Sources and Relationships

The 2011-13 current service level is 47% General Fund, 7% Other Funds, and 46% Federal Funds. Costs are allocated to the various program areas within OHA. Federal funding is subject to a federally approved cost allocation plan that charges programs for the services received.

Federal Funds in this budget are primarily Title XIX Medicaid administrative reimbursement, but also include funds for administrative support for CHIP and a variety of other smaller federal program funding sources. Federal public health grants also pay a share of these operating costs.

Current Service Level

The current service level of $171.7 million total funds is $4.9 million, or 2.9%, higher than the 2009-11 legislatively approved spending level at December 2010. General Fund to support the current service level is $16.4 million (26%) higher than the 2009-11 approved spending level. These increases include adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The General Fund adjustment includes decreases for technical transfers to other divisions as well as phase-outs of various information technology (IT) projects. Other Funds and Federal Funds are adjusted to reflect the phase-out of IT projects.

Budget Environment and Potential Reductions

OHA identified a total of 25% in General Fund reductions from the 2011-13 current service level for the agency as a whole. Three levels of reductions are identified, for a total of $16.3 million General Fund, that apply to the Direct Charges and Services budget as well as the Central Services discussed in the following section. The reductions across both agencies represent about a 12% cut level. A significant portion of this budget represents fixed costs such as rent and State Government Service Charges, which cannot be reduced by the agency. The reductions are described as continuing the non-program and administrative cost reduction measures implemented during the 2009-11 biennium. This includes continuing the hiring freeze, reductions in training, travel, office supplies, and contracted professional services.

OHA/Central and Shared Services – Program Area Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	23,306,657	40,596,805	42,778,662	73,414,916
Other Funds	4,612,496	27,862,889	31,814,914	147,494,506
Federal Funds	14,863,075	15,525,438	17,256,471	16,946,945
Federal Funds (NL)	0	0	2,071,776	4,374,411
Total Funds	**$42,782,228**	**$83,985,132**	**$93,921,823**	**$242,230,778**
Positions	477	500	503	476
FTE	456.41	487.97	488.09	464.08

Note: The 2007-09 and 2009-11 columns above include positions and FTE, but not the related, non-add Other Funds expenditures, for the OHA Shared Services staffing that is part of the 2011-13 current service level.

Summary Description

As part of the transition to create the new Oregon Health Authority, a new model was developed for providing administrative functions to OHA and DHS. A number of functions such as information technology, financial services, budget, human resources, facilities, and procurement will be provided as shared services. While some of the functions will be housed in OHA and some in DHS, all functions will provide services to both agencies. Following the joint governance model that the two agencies are developing, service-level agreements will be developed to define the relationship between the agency providing service and the agency receiving the service.

Other functions, including leadership, communications, and portions of budget and human resources, are directly related to policy and program and so will be housed separately in each agency. These are the central services in each agency. Direct charges and services for central government assessments and usage charges are included in a separate budget unit that provides direct program support.

Shared Services
Services that will be shared with DHS, but housed within OHA include the following:

- The ***Information Security Office*** protects the security of all confidential information; educates staff, volunteers, and partners about how to protect confidential information; develops and audits processes for protecting information; and ensures that the Department and its partners meet all federal and state security regulations and contractual obligations.
- The ***Office of Information Services*** deploys and maintains the hardware and software needed by OHA and DHS employees to do their jobs; oversees the implementation of enterprise-wide technology solutions; ensures the back-up and integrity of data used by employees and partners through Oregon; and provides the information infrastructure and technical support necessary to maintain the business services such as payroll distribution, vendor payments, and personnel actions. Information Services develops new information systems such as the Medicaid Management Information System (MMIS) and the ORKids project.
- The ***Office of Health Information Technology (OHIT)*** provides leadership in health reform technology efforts statewide to ensure coordination and maximize federal and private funding sources.
- ***Shared Services Administration*** houses the Chief Information Officer and support staff.

Services that will be shared with OHA, but housed within DHS include contracts and procurement; caseload forecasting; technical budget tracking; document management and archiving; forms and distribution; facility management; human services tracking; payment accuracy and recovery; continuous improvement; audits and consulting; and investigations.

Central Services
The OHA Central Services section includes all governance functions specifically for the operation of OHA, such as the agency's director's office, communications, portions of budget and human resources, and the Office of Multicultural Health and Services. Central Services also include the Office of Policy and Performance, which provides health policy analysis and development; coordinates strategic and implementation planning; and conducts data collection, statistical analysis, and evaluation to provide information needed for OHA policy development. It also develops financial, performance, and administrative information for the management of

OHA, and provides staff support, policy coordination, and project management in support of the Oregon Health Policy Board.

This budget also includes the debt service for loan repayment within OHA. These costs are primarily for construction of the new Oregon State Hospital. There is also debt service for the Public Health Laboratory and the Oregon Educators Benefit Board's benefit system (MyOEBB).

Revenue Sources and Relationships

The 2011-13 current service level is 30% General Fund, 61% Other Funds, and 9% Federal Funds. Administrative costs are allocated to the other program areas within OHA, as well as DHS for Shared Services. The Other Funds in the Shared Services budget reflect revenues received from both DHS and other parts of OHA for purchased services. Federal funding is subject to a federally approved cost allocation plan that charges programs for the services received.

The 2011-13 current service level anticipates $11.9 million in Other Funds from certificates of participation (COPs) issued to pay debt service on financing for the Oregon State Hospital replacement project. OEBB assessments provide the funding for the debt service related to the MyOEBB project.

Federal Funds in this budget are primarily Title XIX Medicaid administrative reimbursement, but also include funds for administrative support for CHIP and a variety of other smaller federal program funding sources. Federal public health grants also pay a share of these operating costs. The Nonlimited Federal Funds are used to pay debt service on the bonds issued through the federal Build America Bonds program.

Current Service Level

The current service level of $242.3 million total funds is $148.3 million, or 158%, higher than the 2009-11 legislatively approved spending level at December 2010. General Fund to support the current service level is $30.6 million (71%) higher than the 2009-11 approved spending level. These increases include adjustments for personal services costs and inflation. However, the major difference in the total funds number is that only the 2011-13 current service level includes the Other Funds expenditures that will support the OHA Shared Services staffing. The staffing and expenditures were previously in the DHS Administrative Services Division budget. The General Fund increase is partially the result of higher General Fund debt service for the Oregon State Hospital replacement project, which increased by $38 million. It also includes decreases for technical transfers to other divisions as well as phase-outs of various IT projects. Other Funds and Federal Funds are adjusted to reflect changes to debt service as well as the phase-out of IT projects.

Budget Environment and Potential Reductions

The Central and Shared Services model is new for the 2011-13 biennium. The shared services structure was chosen to help ensure that administrative services are provided cost-effectively without duplication of resources between OHA and DHS. Overall, the combined budgets for central services, shared services, and direct charges for central government assessments and usage charges in OHA and DHS are essentially equivalent to the old Department of Human Services' Administrative Services Division, which has been eliminated.

As noted above, the major share of this budget is spent as Other Funds, but the costs are paid by the various program areas in OHA and DHS as General Fund, Other Funds, and Federal Funds in their budgets. Reductions made in the shared administrative services operations (for example, in financial services or facilities, as was done in the 2009-11 biennium) reduce costs elsewhere in OHA and DHS.

OHA identified a total of 25% in General Fund reductions from the 2011-13 current service level for the agency as a whole. Three levels of reductions are identified for a total of $16.3 million General Fund, that apply to the Central Services in this budget as well as the Direct Charges and Services budget discussed previously. The reductions across both agencies represent about a 12% cut level. A significant portion of the General Fund in this budget, $54.1 million, is debt service and cannot be reduced by the agency. The reductions are described as continuing the non-program and administrative cost reduction measures implemented during the 2009-11 biennium. This includes continuing the hiring freeze, reductions in training, travel, office supplies, and contracted professional services.

OHA/Capital Improvements

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	367,939	663,318	20,016	663,318
Total Funds	**$367,939**	**$663,318**	**$20,016**	**$663,318**

OHA/Capital Construction

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	929,000	0	0	0
Other Funds	89,022,165	279,179,118	279,189,118	0
Total Funds	**$89,951,165**	**$279,179,118**	**$279,189,118**	**$0**

Program Description

The capital improvements budget sets aside $0.7 million General Fund for emergency repairs for the Oregon State Hospital and the Blue Mountain Recovery Center in Pendleton.

The 2007-09 and 2009-11 capital construction budgets include expenditure limitation to allow work on a new Oregon State Hospital in Salem, and to complete planning work for the Junction City facility. These projects are described in more detail below.

Current Service Level

The capital improvements current service level of $663,318 is much higher than the 2009-11 legislatively approved spending level at December 2010, but is the same as the original 2009-11 legislatively adopted budget. Most of the 2009-11 appropriation was moved to the Addictions and Mental Health budget to be used at Blue Mountain Recovery Center.

Although the capital construction current service level is zero, it is estimated that about $46 million of additional expenditures will be needed to complete the new OSH Salem facility during the 2011-13 biennium. The facility is scheduled for completion at the end of 2011. Additional resources will be needed for the Junction City facility.

Budget Environment and Potential Reductions

For years, OSH facilities had been deteriorating. The youngest buildings were over 50 years old and the oldest buildings were over 120 years old – some of them now uninhabitable. The Governor and legislative leadership recognized this critical situation in the 2003-05 biennium and funded the first phase of a study to assess the structures on the OSH campus and the estimated future demand for hospital mental-health services in Oregon. The first report was released in May 2005 and concluded that none of the current facilities was conducive to best practices of contemporary mental health treatment.

A second report, the *Framework Master Plan Phase II Report*, was issued in February 2006. It presented three options for the Governor, legislative leadership, and other policymakers to consider in response to expected hospital service demand and the condition of the OSH facilities. The Governor and legislative leaders announced their support for an option that called for three major facilities to be built to replace existing structures: one 620 bed facility located in the North Willamette Valley region, one 360 bed facility located south of Linn County on the west side of the Cascades, and at least two non-hospital level 16 bed secure residential treatment settings placed strategically east of the Cascades. The report also recommended developing a more expansive array of community-based mental health treatment services.

During the 2007 legislative session, the Governor announced that the two primary sites for the new state hospital would be in Salem (at the current OSH site) and a site near Junction City. The Junction City land parcel is owned by the state and was to be used exclusively for a Department of Corrections facility. Plans subsequently called for the Junction City site to be used for both the corrections facility and the 360-bed hospital recommended in the *Master Plan Phase II Report*.

During the 2007-09 biennium, the agency completed extensive planning work on the OSH replacement project in Salem, and in September 2008 broke ground for the new Salem facility. The budget for both the Salem and Junction City facilities was originally about $458.1 million. However, in order to provide adequate treatment as described in the hospital's Continuous Improvement Plan supported by the U.S. Department of Justice report issued in January 2008, the square footage of the hospital is nearly 30% larger than originally budgeted. The final cost of the Salem facility is expected to be roughly $390 million.

At the latter part of the 2007-09 biennium, some policymakers questioned the need for the Junction City facility, wondering instead, whether both the resources used to finance and operate that site might be better used to enhance community-based mental health services. In November 2008, DHS provided the interim Joint Committee on Ways and Means an estimate of financing and operating costs for the Salem and Junction City hospitals through the 2013-15 biennium. Those estimates showed that Junction City would have an operating cost in the 2013-15 biennium of nearly $213 million – supported, in large part, with General Fund.

As a result of these projections, some officials argued that if the state resources needed to operate the Junction City hospital were used instead for community-based services, they could be matched with Medicaid, and the total available funding would exceed $500 million. Moreover, if state funds that would otherwise be used to provide debt service for the construction costs of the Junction City hospital were included, the available community resources – for preventive, housing, or treatment services – would be even larger. If this level of support were actually provided, there would be little need for additional hospital services beyond the Salem campus.

Others pointed out that the original *Master Plan Phase II Report* recommending an additional hospital facility was based upon the assumption that Oregon had already developed a robust community-based mental health system, which would reduce the demand for hospital services. While strides have been made in funding and developing more community-based mental health care, Oregon has not yet developed a strong community-based mental health system. Consequently, the need for a facility in Junction City remains.

The 2009 Joint Committee on Ways and Means wrestled with the question of whether Oregon could build a stronger community-based mental health system quickly enough to delay or eliminate the need for the Junction City facility – given the current obstacles: budgetary constraints, community opposition to the siting of new community-based residential treatment facilities, as well as necessary planning and execution time. In the end, the consensus was that a hospital facility needed to be established at the Junction City site – but that it might be possible for it to be somewhat smaller, given the ongoing development of more community-based alternatives.

OHA is currently finishing up a recommendation for the Junction City facility, based on updated forecasts of demand and levels of community-based alternatives. That is expected to be available before the start of the 2011 legislative session, and will provide context for an on-going debate. If the project is to be completed by the end of 2013 as planned, construction must begin in the spring/summer of 2011.

Department of Human Services (DHS) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	1,581,574,206	1,750,247,285	1,770,901,456	2,511,444,111
Other Funds	349,926,421	334,607,165	336,166,492	429,349,935
Federal Funds	2,784,298,884	3,257,528,598	3,479,027,164	3,461,100,157
Federal Funds (NL)	1,249,243,981	1,968,936,131	2,189,921,139	2,383,981,537
Total Funds	**$5,965,043,492**	**$7,311,319,179**	**$7,776,016,251**	**$8,785,875,740**
Positions	7,121	7,687	7,721	8,123
FTE	6,738.71	7,526.35	7,545.77	7,972.14

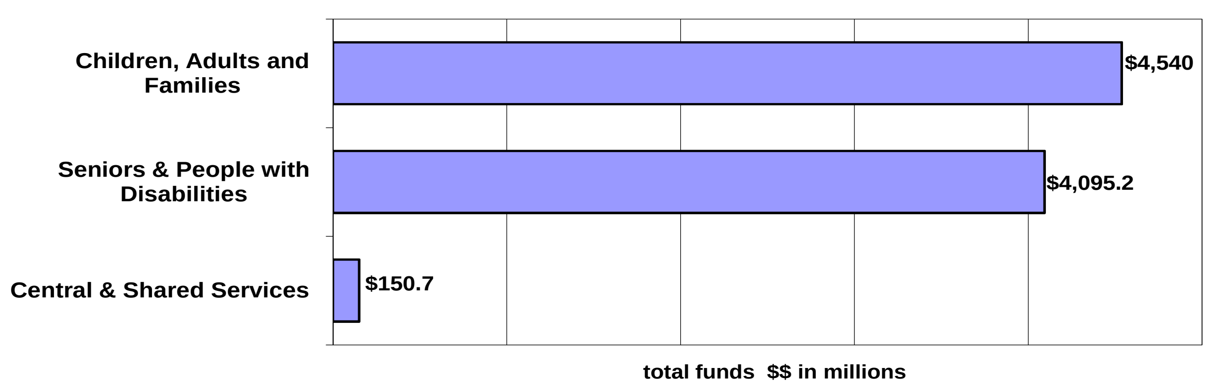
Agency Overview

The Department of Human Services (DHS) supports children, families, seniors and people with physical and developmental disabilities by providing a range of services through 170 field offices and community partners. With the implementation of HB 2009 (2009 session) and the creation of the Oregon Health Authority (OHA), the DHS budget now includes two program areas as well as administrative support for both DHS and OHA:

- ***Children, Adults and Families (CAF)*** includes self-sufficiency and family safety services; child protection, child welfare, and adoption services; vocational rehabilitation services; and field staff who deliver the services.
- ***Seniors and People with Disabilities (SPD)*** includes Medicaid long-term care, Older Americans Act funding, and direct financial support for seniors and persons with disabilities, including those with developmental disabilities, and the field staff associated with these programs.
- The ***Central and Shared Services*** budget includes the DHS Director's Office and central administrative and support functions, as well as the debt service payments on DHS information system projects financed with certificates of participation.

At the 2011-13 current service level, DHS has the second largest budget of any state agency, after OHA. DHS makes up about 14.8% of the statewide $17 billion General Fund and $59.5 billion total funds budget.

The chart below shows how DHS' $8,785.9 million total funds budget (at the 2011-13 current service level) is allocated among these areas.



The numbers for all the charts for DHS and its program areas have been adjusted for the reorganization of DHS and the creation of the new OHA. The new structure affects DHS primarily in its Central and Shared Services, but also affects the CAF and SPD budgets for direct charges. These adjusted numbers are estimates, but are intended to provide more comparable context for how DHS' program costs have changed over time.

Revenue Sources and Relationships

At the 2011-13 biennium current service level, General Fund makes up 27.4% of DHS' budget. Almost all of the General Fund is used as match or to meet state maintenance of effort requirements to receive Federal Funds. The General Fund share of DHS' budget is much higher than in the 2009-11 biennium. This is largely the result of increased Federal Funds from the federal American Recovery and Reinvestment Act of 2009 (ARRA), which provided an enhanced Medicaid match rate and other one-time federal funds for the 2009-11 biennium to support DHS' programs. These funds are not available for the 2011-13 biennium, so General Fund is used in the current service level to cover the revenue loss.

Other Funds revenues support 4.9% of DHS expenditures. These come from a wide variety of sources including nursing home provider taxes, grants, the unitary tax assessment, estate collections, third party recoveries, fees, and charges for services.

Overall, Federal Funds support 66.5% of DHS expenditures for the 2011-13 biennium. The largest single Federal Funds source is the Supplemental Nutrition Assistance Program (SNAP, previously Food Stamps); the benefits are reflected in the budget as Nonlimited Federal Funds. Federal Funds subject to expenditure limitation include the Title XIX Medicaid program, Temporary Assistance to Needy Families (TANF), Title IV-E Foster Care and Adoption Assistance, Child Welfare Services, Title XX Social Services Block Grant, and Basic 110 Rehabilitation funds. Some of these sources are capped block grants (e.g., TANF, Social Services Block Grant); others provide federal matching funds as partial reimbursement of state costs (e.g., Medicaid, Foster Care and Adoption Assistance).

Current Service Level

The current service level is 41.8% General Fund and 13% total funds higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also includes General Fund added to backfill one-time Other and Federal Funds revenues used in the 2009-11 biennium budget but not available in 2011-13. The 2009 federal stimulus legislation (the American Recovery and Reinvestment Act of 2009, or ARRA) included a substantial, temporary increase to the Medicaid match rate from October 2008 through December 2010, which was subsequently extended through June 2011. Federal TANF funding and Title IV-E Foster Care and Adoption Assistance funding was also temporarily increased. For DHS, the 2009-11 approved spending level reflects $16 million in one-time Other Funds revenues and over $380 million from the one-time Federal Funds, which helped to offset General Fund need for program caseload and cost growth, but which is replaced in the 2011-13 current service level with General Fund. In addition to that fund shift, program caseload and cost-per-case growth significantly affects the DHS budget, particularly in SNAP, and long-term care for Oregon's low-income elderly and disabled.

Budget Environment and Potential Reductions

Given the broad range of Oregonians it serves, and multiple funding sources, DHS operates within a complex and dynamic budget environment.

Oregon's economy has a significant impact on DHS' budget: a poor economy creates more need for basic services for those who have few or no financial resources. TANF caseloads and applications for SNAP have continued to grow during the 2009-11 biennium, and are projected to remain at high levels in 2011-13. When Oregon's economy recovers, the recovery may lag for the multiple-needs clients that DHS serves.

Demographics have a long-term impact, most notably for services to seniors. As the number of Oregonians continues to grow, particularly those 75 and older, there is greater demand for long-term care services. Even individuals who are financially stable when younger may seek help when needing more costly in-home or out-of-home care as they age.

Federal law and funding levels can give the state more or less capacity to meet the needs of Oregonians. The ARRA stimulus funds provided significant funding to help Oregon meet demand for Medicaid services through the end of the 2009-11 biennium. However, all federal revenue is tied to a significant body of law and regulations. DHS' Medicaid long-term care program, for example, is governed by waivers of certain federal regulations. Proposed program changes must be approved by the Centers for Medicare and Medicaid Services before being implemented. As a result of ARRA, and most recently, federal health care reform, states are facing new constraints on Medicaid long-term care, which will limit the choices states can make to help balance their budgets. Further, most of the General Fund in DHS' budget is used to match Federal Funds or to meet federal maintenance of effort (MOE) requirements. As a result, General Fund budget reductions often result in equal or greater federal revenue reductions. They might also jeopardize the state's ability to meet federal match or MOE requirements, thus forfeiting federal funds or incurring penalties.

State human services policy has a direct effect on DHS' programs and service delivery. Over the past few decades, Oregon's human services programs have moved to intervene earlier and in less-costly ways to prevent or mitigate the problems these programs address. For example, in the early 1980s, the Medicaid long-term care system received federal waivers to implement the nation's first home and community-based care system. In-home services are delivered to help elderly Oregonians, and people with developmental disabilities, stay at home rather than be moved to out-of-home care. The TANF program is in part a family safety program, with cash assistance and other services a means to help stabilize families. Child welfare is focusing more on in-home services, where appropriate, instead of foster care. Prevention and early intervention has been a clear policy choice; the dilemma comes when available funding is not enough to support earlier, less-costly services as well as more intensive, more expensive services.

Generally, reductions in the DHS budget target any or all of the following: staffing and service delivery, the cost of services, client access to benefits, client benefit levels, and provider reimbursement. Over 80% of the DHS budget is earmarked for special payments to individual clients, foster care providers, day care providers, long-term care providers, non-profits, county governments, and others who deliver services. Any significant reductions in the DHS budget will almost certainly affect clients and/or providers in some way.

During the 2009-11 biennium, DHS has taken personal services cost reductions by delaying hires and holding vacancies. It has reduced its services and supplies expenditures. The 2009-11 budget did not include cost of living increases for most providers, with the exception of nursing home facilities. In the TANF and Employment Related Day Care programs, changes in eligibility were made to limit access to benefits to reduce costs. JOBS employment and training services have been limited. The TANF cash assistance grant level and Post-TANF benefits have been reduced. Reductions or elimination of some other services are scheduled before June 30, 2011, including Oregon Project Independence services for the elderly, and services for some children with developmental disabilities and their families. Some of these reductions occurred in the 2009-11 legislatively adopted budget, some as a result of the June 2010 statewide General Fund allotment reductions. For those that were implemented mid-biennium, these are generally considered to be one-time reductions for budget-building purposes. As a result, full program funding is included in the current service level as a starting point. The agency has identified reduction options for the 2011-13 biennium that total about 25% of the current service level General Fund. These potential reductions, and more detail on each of the budgets, are presented in the following DHS program sections: Children, Adults and Families; Seniors and People with Disabilities; and DHS Central and Shared Services.

DHS/Children, Adults and Families (CAF) – Program Area Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	643,926,815	750,853,867	756,038,047	1,015,283,158
Other Funds	161,651,665	165,076,003	158,117,418	149,600,172
Federal Funds	946,732,143	1,024,845,703	1,038,244,980	991,181,081
Federal Funds (NL)	1,249,243,981	1,968,936,131	2,189,921,139	2,383,981,537
Total Funds	**$3,001,554,604**	**$3,909,711,704**	**$4,142,321,584**	**$4,540,045,948**
Positions	4,338	4,961	4,963	5,159
FTE	4,167.60	4,827.01	4,831.21	5,096.80

Summary Description

Children, Adults and Families (CAF) is responsible for helping Oregon's vulnerable families and individuals improve their capacity to be self-sustaining while creating a safe and permanent living environment for children. CAF provides services in three key program areas:

- ***Self Sufficiency*** programs promote independence for families and adults. The programs include the Supplemental Nutrition Assistance Program (SNAP/food stamps), Temporary Assistance for Needy Families (TANF), and related programs including Job Opportunity and Basic Skills (JOBS) services, Employment Related Day Care, Refugee Assistance, and youth prevention services.
- ***Child Welfare*** programs help provide safe and permanent families for Oregon's abused, neglected, and dependent children through child protective services, in-home services, out-of-home care, and adoptions.
- ***Vocational Rehabilitation Services*** works with businesses, schools, and community programs to help youths and adults with disabilities other than blindness prepare for and find employment.

CAF administers these programs through coordination and collaboration with the families and individuals as well as community partners, and through direct services provided by state staff. Field staff provides CAF program services and benefits to clients through more than 100 Child Welfare and Self Sufficiency field and branch offices, and 34 Vocational Rehabilitation field offices throughout the state.

CAF is also responsible for qualifying individuals and families for the Oregon Health Plan (OHP) and the Healthy Kids Program, in coordination with the Oregon Health Authority.

Revenue Sources and Relationships

At the 2011-13 current service level, General Fund supports about 22.4% of this budget; Other Funds, about 3.3%; and Federal Funds, about 74.3%. The General Fund share is higher than in 2009-11 due to the use of General Fund to replace one-time Federal Funds revenues used in the 2009-11 budget from the federal stimulus legislation (the American Recovery and Reinvestment Act of 2009, or ARRA). The federal stimulus impact for the 2009-11 biennium included $83.4 million in TANF ARRA funds, $19.9 million from temporary enhanced federal match rates for Title XIX Medicaid and Title IV-E Foster Care and Adoptions Assistance programs, and $6.2 million in Basic 110 Vocational Rehabilitation funds. With the exception of a small amount of unspent ARRA funds carried forward for vocational rehabilitation services, these additional federal funds are not expected to be available for the 2011-13 biennium.

The major source of CAF's Other Funds is $93 million in federal Child Care and Development Funds transferred from the Employment Department for CAF's Employment Related Day Care Program. The budget also includes child support recoveries and client trust account funds from client resources, such as federal Supplemental Security Income disability payments. These are used to offset state assistance and maintenance costs for children in care. Other overpayment recovery revenues are also used to offset General Fund. CAF receives Criminal Fines and Assessment Account revenues to support grants for Domestic Violence Services and the Sexual Assault Victims Fund. Domestic Violence Services also receives Other Funds from a surcharge on marriage licenses, and federal funds. User fees cover the costs of the Adoption Assisted Search Program and Independent Adoption Home Studies.

Nonlimited SNAP benefits are the single largest source and use of Federal Funds in CAF. SNAP benefits, which are 100% federally funded, are projected at $2.4 billion for the 2011-13 biennium. This is up 8.9% from 2009-11, and is almost double the 2007-09 spending level. Federal funds also help pay for program administrative costs, on a 50% state/50% federal basis.

Other Federal Funds come from capped or formula-based block grants, payments for partial reimbursement of eligible state costs, and miscellaneous grants for specific amounts and purposes. Oregon receives $166.8 million a year from the base federal TANF block grant, which pays for cash assistance, JOBS services, child care, and other self-sufficiency programs, as well as child welfare services such as foster care and residential care. Additional TANF funding used in the 2009-11 budget, $83.4 million from the ARRA stimulus and $8.3 million recently received from TANF contingency funds, will not be available in 2011-13. The Title XX Social Services Block Grant (SSBG) is estimated at about $41 million for the biennium. Another federal source is the Title IV-B Safe and Stable Families (Family Preservation and Support) grant, estimated at $17 million for 2011-13. CAF uses these funds in its own budget to pay for family reunification work and post-adoption services. CAF will also transfer about $14 million in federal funds to the State Commission on Children and Families for grants to counties, relief nurseries, and the Healthy Start program.

Section 110 of the Rehabilitation Act of 1973 (Basic 110 Grant) provides federal support for vocational rehabilitative services. This grant is distributed to states based upon population and per capita income. The Department of Human Services (DHS) receives about 87.5% of Oregon's allocation of Section 110 Federal Funds; the Commission for the Blind receives the remaining 12.5%. The grant requires General Fund or Other Funds match, at a 21.3% state/78.7% federal rate. Rehabilitative services revenue also includes federal Rehabilitation Act funds for Supported Employment and staff training, and for Independent Living Rehabilitation.

The federal government partially reimburses eligible state program costs through Title XIX Medicaid and Title IV-E Foster Care and Adoption Assistance. Medicaid funding is used for case management services, special rates for some children in foster care, residential treatment, and related administrative services. Title IV-E funding is used for child welfare services, adoption assistance, and related administrative costs. Overall, federal reimbursement for the programs varies with federal match rate changes, the number of children served, and eligibility of the services provided. For 2011-13, Oregon's base Federal Medical Assistance Percentage (FMAP) is estimated at 62.90%; at this rate, Oregon would pay 37.1% of eligible program costs. Most administrative functions are paid only on a 50% state/50% federal share.

CAF expects to receive about $9.9 million in federal Refugee Resettlement funds to pay for refugee program and administrative expenditures. In addition, CAF uses about $3.9 million of TANF funds for the refugee program. Other targeted federal grants support family violence prevention, child abuse prevention and treatment, and other designated services.

Current Service Level

The 2011-13 current service level for CAF is 34.3% General Fund and 9.6% total funds higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. SNAP benefits are projected to grow $194 million from the 2009-11 level, an 8.9% increase in Nonlimited Federal Funds. Another significant adjustment is $134 million General Fund added to replace one-time Other and Federal Funds, primarily federal stimulus funds for TANF, that are being used in 2009-11 but are not available for 2011-13. Staffing for SNAP and other mandated program caseload growth accounts for $14.8 million General Fund, $26.3 million total funds, and 207 positions (206.20 FTE). The budget also includes $101.8 million General Fund and $224.2 million total funds in CAF expenditures that were previously part of the Administrative Services Division budget; CAF will now pay state government service charges, rent, and other facilities costs as direct charges, and make payments to the new DHS and OHA Shared Services for central administrative services.

By definition, the current service level includes funding to support expected caseload growth in mandated programs only, such as SNAP, or Child Welfare substitute care and adoptions assistance. The calculation includes mandated caseload costs and fund shifts for these programs, as well as related staffing costs. It does not include funding to cover caseload growth or projected revenue shortfalls for non-mandated programs, such as TANF, child safety, or vocational rehabilitation services. Any request for added funding for these non-mandated programs is outside of the current service level estimate.

Budget Environment and Potential Reductions

In looking at the budget environment and potential reductions in CAF, the federal Medicaid program does not dominate program funding to the extent it does in other human services budgets. As a result, federal Medicaid program constraints are not such an overriding consideration as in the DHS Seniors for People with Disabilities program area, or in the Oregon Health Authority. Other program and funding requirements apply, however, for all the federal funding streams, such as SNAP, TANF, Child Care and Development Fund, Foster Care and Adoption Assistance, or Social Services Block Grant. In TANF and Child Welfare foster care programs, especially, the federal government has established outcome standards, reviews state performance against those standards, and can levy penalties and/or develop program improvement plans to force progress towards those standards. (On a much more limited basis, some performance improvements can result in a financial award to the state). A number of federal funding streams, most notably TANF and the Basic 110 grant for Vocational Rehabilitation Services, also have state maintenance of effort (MOE) funding requirements, which prevent states from reducing state program funding below identified levels without risking penalties.

With these restrictions in mind, budget reduction options generally focus on client eligibility, benefit levels, and staffing and service delivery costs. The 2011-13 budget reduction options identified by CAF would eliminate all cost of living adjustments (COLAs) that are within CAF's control, and further reduce non-program and administrative expenditures. The options would make significant reductions in the Self Sufficiency programs, particularly the TANF program, but would also hit Child Welfare, Vocational Rehabilitation Services, and program and central administrative staffing. If implemented in full, the reductions would continue a minimal level of core services, but would limit clients' access to services and reduce benefit levels. Reimbursement would be reduced for some providers such as child care providers or residential care providers; others would lose all state support for contracted services. At some level of reduction, the state could be unable to meet federal program regulations or meet program MOE funding requirements, and could face penalties and/or loss of federal matching funds.

CAF – Programs

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	311,725,089	319,492,780	340,970,636	501,818,527
Other Funds	126,104,994	119,830,058	118,858,810	114,422,068
Federal Funds	472,851,837	568,536,894	569,672,152	465,272,216
Federal Funds (NL)	1,249,243,981	1,968,936,131	2,189,921,139	2,383,981,537
Total Funds	**$2,159,925,901**	**$2,976,795,863**	**$3,219,422,737**	**$3,465,494,348**

Program Description

The responsibilities of the CAF Programs cover Self Sufficiency, Child Welfare, and Vocational Rehabilitation Services. The expenditures are largely benefit payments to individuals and payments to service providers, with some program funds distributed to the State Commission on Children and Families and to Oregon's Native American tribes.

Self Sufficiency Programs provide assistance for low-income families to help them meet critical needs while helping them become self-supporting. The major programs in this area are:

- The ***Supplemental Nutrition Assistance Program (SNAP/food stamps)*** is a federally funded benefit program to help low-income families and adults without children buy the food they need to stay healthy. In November, 2010, over 740,000 persons – almost 1 in every 5 Oregonians – received SNAP benefits. The benefits are Nonlimited Federal Funds in this budget; eligibility determination staff costs are limited expenditures in the CAF Program Support and Administration and Seniors and People with Disabilities budgets.
- ***Temporary Assistance to Needy Families (TANF)*** provides cash assistance grants, which, when coupled with SNAP benefits, supplies minimal support for families with children under the age of 19 that meet eligibility criteria. Income qualification and benefit amounts are based on family size and expenses. In November 2010, 28,709 families received TANF cash assistance, 14.5% more families than just a year earlier and a 37.7% increase from two years earlier. TANF also provides Job Opportunity and Basic Skills (JOBS) education, training, job placement, and support services; post-employment payments to help families

transition to work; temporary financial assistance and support services for Domestic Violence survivors; services to families eligible for Supplemental Security Income or Supplemental Security Disability Income (pre-SSI/SSDI); and Family Support and Connections services to help families at risk of child abuse or neglect.

- ***Employment Related Day Care (ERDC)*** helps parents stay employed by subsidizing child care for low-income working families. Clients make a co-payment based on income and household size; the state subsidizes the remaining costs up to the program's maximum rate. In November 2010, 10,308 families received ERDC subsidies, a lower level than before due to a program cap put in place due to budget constraints.
- The ***Refugee Program*** works with community groups and social and workforce agencies to provide time-limited cash and medical assistance, SNAP benefits, and employment services to new refugees in Oregon. Refugee resettlement services were provided to 820 refugees in federal fiscal year 2009.
- ***Youth Services*** support teen pregnancy prevention and other youth development initiatives related to juvenile crime, drug and alcohol use, youth suicide, school dropout, and sexual assault prevention and education programs.

<u>Child Welfare Services</u> work to assure the safety of children and provide services to families. This program responds to reports of child abuse or neglect, provides in-home services or out-of-home care when needed, and arranges adoption or guardianship services and supports. The children are dependent, neglected, abused, mentally or physically disabled, and/or placed in the state's legal custody by an Oregon court.

- ***Child Protective Services*** assesses reported child abuse or neglect and, if needed, prepares and implements safety plans for children, including case management or contracted family services. Services may include substance abuse treatment, domestic violence and sexual abuse services, in-home safety and reunification services, and System of Care flexible funding. In federal fiscal year 2009, CAF received 67,885 reports of suspected child abuse and neglect. Of those, it was determined that abuse/neglect occurred in 7,240 cases, with 11,090 total victims. This is a record high number of reports, and a 3.7% increase from a year earlier. The number of victims increased 6.4% over the previous year, reversing a two-year trend of decreases. Over this same period, a total of 9,140 children received in-home family-based services.
- ***Out-of-Home Care*** represents a broad range of care, supervision, and treatment services for children in temporary or permanent custody of the state. Family foster care homes and relative foster care are the primary service elements. Residential Care is provided by private agencies in residential or therapeutic foster care settings for children who cannot live in a family setting. Providers are reimbursed for a portion of the cost of a child's room and board, clothing, school supplies, and personal incidentals; medical, dental, and mental health services are also provided for children in the agency's custody. For older youth, independent living services help with the transition out of the foster care system. In federal fiscal year 2009, on an average daily basis, 5,830 children were in family foster care, with almost 30% of those placed with relatives; 558 children were in either professional shelter programs or residential treatment settings; and 1,598 youth received independent living services.
- The ***Adoptions*** program provides adoption and guardianship services to help achieve permanent living placements for children in the child welfare system who cannot return home. The program includes subsidy payments to help remove financial barriers to adoption or guardianship for special needs children. During federal fiscal year 2009, 1,104 children were adopted from foster care, the highest number since 2002. In addition, 294 children exited foster care via guardianship.

This budget also supports the Office of Vocational Rehabilitation Services, which coordinates <u>Vocational Rehabilitation Services</u> to individuals with disabilities, with a goal to prepare and engage them in gainful employment. Almost all of the clients who receive vocational rehabilitation services have multiple disabilities which require a broad array of services. The programs served 15,032 individuals in federal fiscal year 2009, a 2.3% increase above the 14,691 served in 2008. However, the 1,928 employment placements in 2009 were down 26% from the 2,604 job placements for the previous year.

- ***Vocational Rehabilitation Services*** provides training, vocational, and educational services to persons with disabilities that are substantial impediments to obtaining or maintaining employment. These services are delivered through field offices and employees outstationed across the state.
- ***Youth Transition Program*** provides coordinated vocational rehabilitation services to students who are currently in school to ensure a smooth transition to adult services and employment after school completion.
- ***Supported Employment Services*** provides vocational rehabilitation services, on a time-limited basis, to severely disabled clients for placement in community-based competitive work sites.

- ***Independent Living Program*** supports the State Independent Living Council and community-based Centers for Independent Living, which help persons with severe disabilities remain independent.

Current Service Level

The current service level is 47.1% General Fund and 7.6% total funds higher than the 2009-11 legislatively approved spending level at December 2010. The CAF Programs current service level includes adjustments for inflation; adjustments for personal services costs, Attorney General rate increases, and state government service charges are reflected in the CAF Program Support and Administration budget.

As noted earlier, SNAP benefits are projected to grow $194 million from the 2009-11 level, an 8.9% increase in Nonlimited Federal Funds. The Self-Sufficiency budget is increased by $89.3 million General Fund, and reduced by that amount of Other and Federal Funds, to replace Child Care and Development Fund and TANF ARRA funding used in the 2009-11 budget but not available for 2011-13. Mandated caseload growth for Child Welfare out-of-home care is estimated at $0.9 million General Fund and $4.9 million total funds; mandated caseload growth in Adoptions adds $1.5 million General Fund and $3.3 million total funds.

Payments to the Employment Department for administrative hearings were transferred from this budget into DHS Central Services. The Law Enforcement Medical Liability Account (LEMLA), which pays for medical services for persons injured by police as a result of law enforcement apprehension, will be transferred from CAF to the Oregon Health Authority Medical Assistance Programs.

Budget Environment and Potential Reductions

CAF programs are facing significant challenges. Although Oregon's economic climate has increased demand for Self Sufficiency program services, state and federal revenue constraints have made it impossible to meet the demand within current policy and practice. TANF cash assistance, JOBS employment and training services, and Employment Related Day Care assistance have all been affected. The Legislature and the agency have largely protected funding for child welfare services from significant budget reductions, and child welfare program outcomes have improved, but reports of child abuse and neglect continue to increase. The economic downturn has increased demand for Vocational Rehabilitation Services programs as well. Although the program expects it will be able to serve all those who are on the program's wait list for services, employment placements are down.

The Deficit Reduction Act of 2005 reauthorized the federal TANF program through September 2010, and Congress recently extended the TANF block grant through September 30, 2011 as part of the Claims Resolution Act. In 2007, Oregon redesigned its program to better meet new program requirements and improve program outcomes for Oregon's families. However, with the economic downturn, demand for TANF assistance has grown significantly, with caseloads growing by 10.7% during fiscal year 2010 alone, and expected to grow by 4.2% during fiscal year 2011. DHS' Fall 2010 forecast projects TANF cash assistance caseloads to average 26,323 households during the 2011-13 biennium. This is slightly below the 26,716 average expected for the 2009-11 biennium, based on a gradual decline starting in late 2011 due to projected job market improvement, although caseloads are not expected to return to pre-recession levels anytime soon. Federal TANF funding, even with the $83.4 million in one-time federal TANF stimulus funds Oregon received in the 2009-11 biennium, has not been adequate to carry out the program as designed. Oregon is facing $16.3 million in federal penalties for not meeting program work participation requirements in federal fiscal years 2007 and 2008. Because of budget constraints, in 2009-11 CAF changed eligibility criteria for TANF benefits, reduced funding for its JOBS employment and training program, and reduced its monthly post-TANF payment levels. CAF estimates the JOBS reduction left a $70 to $80 million gap between the budget and the level of funding needed to meet the expectations established in Oregon's 2007 program redesign. During the biennium, CAF also eliminated the TANF cooperation incentive payment and adjusted the TANF base grant, for a net reduction in the TANF monthly cash assistance grant. In the face of increased program demand and limited federal and state funding, and with no prospect for higher funding levels, CAF has developed a proposal to restructure Oregon's program to align service expectations to the limited resources available. The 2011 Legislature will need to review that plan, and the legislation needed to implement it, as it considers CAF's budget.

The Employment Related Day Care program provides day care subsidies to low-income families, including those who have moved from TANF cash assistance to employment and those who have never been on TANF. After several budget reduction actions during the 2007-09 biennium, CAF proposed a further budget reduction for the 2009-11 biennium to limit ERDC to only families who have been on the TANF program in the prior 24 months; a reservation list would be created to allow more families to be added to the program as additional future funding is provided. The Emergency Board allocated additional General Fund and approved the use of federal TANF contingency funds to continue the program without that policy change, but with a 10,000 caseload cap, through June 2011.

Child Welfare caseloads in the 2011-13 biennium are projected to be about 4% higher overall than in the 2009-11 biennium. Caseloads for out-of-home care and child in-home services are expected to remain relatively stable overall. The significant growth is in the Adoptions Assistance program, which is forecast to have an 8.6% increase, from an average of 10, 911 cases in 2009-11 to 11,848 in 2011-13. In the 2009-11 budget, CAF received additional funding to implement a redesigned reimbursement methodology for foster care and adoption assistance. The new rates, based on a new assessment tool, have improved the level of reimbursements to most families and consistency in rate-setting statewide.

As a result of funding constraints, Vocational Rehabilitation Services has been operating since January 2009 under an Order of Selection, which requires the program to prioritize its services to the most severely disabled individuals first, and maintain a wait list of individuals it cannot serve. The program is managing its expenditures to meet federal MOE requirements in federal fiscal years 2009 and 2010, and believes it will be able to serve everyone on its wait list during the 2009-11 biennium. It expects to draw down federal funds that can be used in 2011-13 to help continue program services after the federal ARRA stimulus funds have been spent. General Fund reductions in this program, however, could put its ability to meet MOE requirements at risk, and eliminate matching funds Oregon would need to take advantage of any potential additional federal funding.

One reduction option for the 2011-13 biennium is to eliminate the inflation factors built into the current service level. For CAF, this "unspecified" reduction limits resources across all CAF programs, including benefits paid to clients and reimbursement paid to care givers and providers. In CAF, eliminating the cost of living adjustments in the current service level also frees up federal TANF funds which can be used to offset General Fund for an additional General Fund savings.

Other options identified by the agency would affect the Self-Sufficiency programs most significantly, but also reduce Child Welfare resources and Vocational Rehabilitation client services funds:

- The 2009-11 budget reduction that eliminated the TANF Cooperation Incentive payment and adjusted the TANF base grant could be continued into the 2011-13 budget.
- New TANF reductions would modify the up-front TANF eligibility process, count some or all of adults' and children's federal SSI income in determining TANF eligibility; reduce pre-TANF payments for basic living expenses; eliminate the enhanced grant for State Family Pre-SSI/SSDI clients; eliminate Post-TANF cash assistance; limit TANF cash assistance and employment services to an 18-month time limit; and restructure and reduce the TANF cash assistance grant to a flat $425 monthly grant, regardless of family size.
- Changes to JOBS employment and training services would further reduce TANF/JOBS services by up to $40.5 million, and modify the JOBS re-engagement and disqualification process.
- Contracted family preservation services in the Family Support and Connections budget would be cut 50%.
- The Parents as Scholars program for TANF families pursuing higher education would be eliminated.
- ERDC program costs would be cut by limiting the program to only families leaving TANF; increasing family copayments by 10%; and limiting providers' maximum payments to the 55th percentile of the 2010 Market Price Study.
- Child Safety reduction options would reduce or eliminate contracted Family Based Services, and, if eliminated, use freed-up federal Social Services Block Grant funds to replace General Fund for field staffing; and reduce System of Care flexible funding for children in or at risk of foster care placements
- In Out-of-Home Care, rates paid to Behavioral Rehabilitation Services providers would be reduced by 10% and funding available for residential care services to designated "Target" children would be reduced by 20%. Crisis Case Management funding would be eliminated.
- Contracted Post Adoption Services for adoptive children with special needs would be eliminated.
- Vocational Rehabilitation client services funds would be reduced, up to a total 30% General Fund reduction, which would eliminate services to eligible clients.

A number of these actions would require statutory change. Others, if fully implemented, would put Oregon out of compliance with federal MOE and program requirements. Many of the reductions would affect field staffing as well, which would be reflected in reductions to the CAF Program Support and Administration budget.

CAF notes that reductions in other budgets, such as in court operations, alcohol and drug abuse treatment, or the Healthy Start home visitation program, for example, could have consequences for CAF's programs as well.

CAF – Program Support and Administration

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	332,201,726	431,361,087	415,067,411	513,464,631
Other Funds	35,546,671	45,245,945	39,258,608	35,178,104
Federal Funds	473,880,306	456,308,809	468,572,828	525,908,865
Total Funds	**$841,628,703**	**$932,915,841**	**$922,898,847**	**$1,074,551,600**
Positions	4,338	4,961	4,963	5,159
FTE	4,167.60	4,827.01	4,831.21	5,096.80

Program Description

This budget includes field staff for Self Sufficiency, Child Safety, Out-of-Home Care, Adoptions, Vocational Rehabilitation Services, and the Service Delivery Area (district) field administration. The Statewide Processing Center also processes applications and determines eligibility for the Oregon Health Plan and the Healthy Kids program. The Program Support and Administration budget also reflects expenditures for the Office of the Assistant Director for CAF, the Office of Self-Sufficiency, the Office of Child Safety and Permanency, the Office of Program Performance and Reporting, and the Office of Vocational Rehabilitation Services. These offices provide policy and program direction and oversight for CAF. Centralized support for program service delivery is provided through eligibility determination, payment processing, fraud investigation, quality control functions, training and diversity. In 2008, CAF created a small Diversity Unit from existing resources to better address the needs of its culturally diverse clientele, and in 2009, established a Continuous Improvement Unit to lead its organization transformation efforts.

Current Service Level

The current service level is 23.7% General Fund and 16.4% total funds higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The Program Support and Administration budget is primarily staffing, so personal services cost adjustments make up the largest share of the budget growth. Another significant cost driver is mandated caseload growth in Self Sufficiency and Child Welfare programs. This adds $14.8 million General Fund, $26.3 million total funds, and 207 positions (206.20 FTE) above the 2009-11 level. Fund shifts, primarily replacement of $4.6 million Other Funds in the Healthy Kids program with General Fund, add $6 million General Fund to the budget.

The current service level includes $101.8 million General Fund, $224.2 million total funds, and 1 position (1.00 FTE) that was previously part of the Administrative Services Division budget. Almost half of this funding is for CAF's costs of the shared administrative services; facilities rent and state government service charges are two other significant costs now paid as direct charges to CAF.

Budget Environment and Potential Reductions

The ongoing challenge for Program Support and Administration is to balance central and field staffing levels to provide the best possible support for CAF programs and clients, while at the same time controlling administrative costs. For the past several biennia, CAF has been understaffed relative to recommended workload staffing ratios for its Self Sufficiency and Child Welfare programs. The 2009 Legislature made targeted investments to reduce the gap in the Child Welfare and Self Sufficiency programs. Even with these staffing increases, CAF estimates that, if funded at the current service level budget for 2011-13, Self Sufficiency staffing levels would be at about 75% of the recommended ratios, although TANF case managers would be only staffed at about 40% of the recommended level. Child Welfare staffing levels would be relatively higher at about 88% of the recommended level.

During the 2009-11 biennium, despite the staffing gap, CAF has taken management actions to hold positions vacant, freeze hiring, and reduce its operating expenses for budget savings. This has increased the pressure on remaining staff to deliver services to clients and providers. CAF is using the transformation initiative to improve its operations, which has helped it better handle growing caseloads with less than optimal staffing levels. For example, CAF standardized and streamlined the intake process for SNAP, medical, and day care benefits, reducing clients' wait for benefits and saving staff time. It is also working on the Self Sufficiency Modernization project, targeted for completion by the 2015-17 biennium, which is intended to improve caseworker efficiency and client services. These efforts have significant potential value, but cannot be expected to fully offset the immediate need for program staff as caseloads continue at high levels.

The 2011-13 reduction options identified by the agency for the Program Support and Administration budget would eliminate all standard cost of living adjustments added in the current service level. CAF would continue hiring delays, selected position freezes, and restrictions on certain non-payroll spending such as supplies and professional services, to achieve savings equivalent to about a 2% overall staff reduction (about 100 positions). Much of the new staff associated with mandated caseload growth in the Self Sufficiency and Child Welfare programs would be eliminated – the reductions would eliminate half of the Self Sufficiency staff and all of the Child Welfare staff added in the current service level for caseload growth. Finally, the Program Support and Administration budget would have staffing and administrative cost reductions tied to reductions in the Self Sufficiency programs and Child Welfare Family Based Services, and any reductions in DHS and OHA Shared Services.

DHS/Seniors and People with Disabilities (SPD) – Program Area Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	915,108,246	974,048,325	988,347,738	1,467,986,243
Other Funds	188,132,737	168,450,039	177,792,868	167,810,440
Federal Funds	1,819,881,003	2,215,974,002	2,421,554,935	2,459,363,452
Total Funds	**$2,923,121,986**	**$3,358,472,366**	**$3,587,695,541**	**$4,095,160,135**
Positions	2,124	2,069	2,118	2,315
FTE	1,936.32	2,066.44	2,097.70	2,246.84

Summary Description

Seniors and People with Disabilities (SPD) provides services for seniors and adults with physical disabilities, and adults and children with developmental disabilities. SPD administers Oregon's Medicaid long-term care program under a federal Home and Community Based Care waiver under Section 1915(c) of the Social Security Act. Clients receive a range of services including case management, supportive in-home care, community-based residential care, and nursing facility care. SPD and its partners provide Medicaid long-term care services to about 27,900 seniors and adults with physical disabilities. Services to those with developmental disabilities include case management, family or community support services, and comprehensive (residential) care. During the 2009-11 biennium, SPD and its partners have served 13,700 adults and 5,300 children with developmental disabilities.

The SPD budget supports local Area Agencies on Aging (AAAs) staff, county and state Medicaid field staff, and the disability determination services unit who determines eligibility for Social Security Supplemental Security Income (SSI) and Social Security Disability Insurance (SSDI) benefits. The budget also includes Oregon Project Independence and federal Older Americans Act funding; federally required supports to aged, blind, and disabled persons who receive SSI; and limited employment programs for elderly and disabled persons. SPD also now has responsibility for the state's Medicare buy-in programs for low income elderly and disabled Oregonians, paying Part B Medicare premiums for more than 85,000 persons each month.

Revenue Sources and Relationships

General Fund makes up 35.8% of the SPD budget. Most of the General Fund is used to match federal Title XIX Medicaid and other federal funds. A smaller share is used for General-Fund only programs such as Oregon Project Independence and in-home services for children with developmental disabilities and their families.

Other Funds revenue is 4.1% of the overall budget. The Other Funds come primarily from nursing facility Medicaid provider taxes, clients' contributions towards their care, and estate recoveries, but in the 2009-11 biennium, SPD also used $10 million in one-time Other Funds from the Homecare Union Benefits Board reserve and Other Funds settlements which will not be available in the 2011-13 biennium. The nursing facility Medicaid provider tax agreement, which continues until 2014, allows higher levels of nursing facility reimbursement as a result of the provider tax. Other Funds from the Senior Property Tax Deferral Account have supported the Oregon Project Independence (OPI) program in the past, but no new transfers are expected for 2011-13.

Federal Funds make up 60.1% of the budget. Federal revenues are predominately federal Medicaid funds. Federal matching funds for the Medicaid program are determined by the Federal Medical Assistance Percentage (FMAP), which is the federal share of eligible program expenditures. The program match rate changes each federal fiscal year and depends on Oregon's income relative to other states. The 2009 federal stimulus legislation (the American Recovery and Reinvestment Act of 2009, or ARRA) included a substantial, temporary increase to the Medicaid match rate from October 2008 through December 2010, which was subsequently extended through June 2011. For SPD, the 2009-11 approved spending level reflects $270.7 million from these additional federal Medicaid funds, which helped to offset General Fund need for program caseload and cost growth. This higher federal funding level is not expected to be available for 2011-13, so the 2011-13 current service level budget uses General Fund to replace the one-time 2009-11 increase. For 2011-13, the average Medicaid match rate is estimated at 62.9%; at this rate, Oregon would pay 37.1% of eligible program costs. Most Medicaid administrative functions, however, are paid only on a 50% state/50% federal share. Federal Older Americans Act (OAA) funding also supports program services. Oregon uses OPI funding as well as local Area Agencies on

Aging resources as its required match and to meet OAA maintenance of effort requirements for state funding. SPD also receives federal funds for SSDI and SSI eligibility determination through Titles II and XVI of the Social Security Act. In addition, a modest amount of federal revenue comes from Medicare and the Supplemental Nutrition Assistance Program (SNAP).

Current Service Level

The current service level is 48.5% General Fund and 14.1% total funds higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The two most significant cost drivers in this budget are fund shifts to replace one-time Other and Federal Funds used in the 2009-11 budget, and mandated caseload growth. The current service level budget adds $230.6 million General Fund as a fund shift to maintain current programs. Mandated caseload growth and cost-per-case changes are forecast to add $192.3 million General Fund, $510.3 million total funds, and 225 positions (198.36 FTE) in this budget. The budget also includes funding for SPD expenditures that were previously part of the Administrative Services Division budget; SPD will now pay state government service charges, rent, and other facilities costs as direct charges, and make payments to the new DHS and OHA Shared Services for central administrative services.

Budget Environment and Potential Reductions

The budget for services to seniors and adults with physical disabilities is driven largely by demographics. The number of Oregonians ages 65 or older, the population most likely to require long-term care services, increased 18% in the decade from 2000 to 2010. The Department of Administrative Services Office of Economic Analysis projects a 5.2% increase in this population during the 2009-11 biennium. The 65+ population is projected to grow even faster during 2011-13, by 9.7%, reaching over 585,000 by July 1, 2013. As of June 2010, SPD was serving 27,912 seniors and adults with physical disabilities in its long-term care programs for the elderly and the physically disabled (which include in-home services, community-based care, and nursing facilities). DHS' Fall 2010 caseload forecast projects long-term caseloads will increase an additional 6.6% for the 2011-13 biennium.

For developmental disability services, the budget over the past decade has been driven less by demographics and more by state policy, federal Medicaid policy, and the Staley Settlement Agreement. State policy and budget issues directed the closure of the Fairview Training Center in Salem, and later the Eastern Oregon Training Center in Pendleton, with clients moving from the institutions to community homes. On the federal level, as a result of the 1999 Olmstead decision, states must provide Medicaid services in the most integrated setting appropriate to the needs and wishes of people with disabilities; i.e., provide community rather than institutional services where appropriate. In 2000, in lieu of a federal class action lawsuit, Oregon entered into the Staley Settlement Agreement, and over the past decade has expanded its system and services for persons with developmental disabilities. Under the agreement, Oregon is to phase-in universal access to DD services, particularly community-based services known as support services, to eliminate a waiting list for services and reduce the number of situations requiring a crisis response. To deliver support services, a "brokerage" system was established statewide to help people with developmental disabilities and their families access available support services. As of July 2009, anyone needing support services is to be enrolled within 90 days after becoming eligible. When the Staley Settlement Agreement is fully phased-in, program services are to be available on an entitlement basis. The Staley Settlement Agreement was modified in 2003 due to state budget issues, and now ends June 30, 2011. SPD reports that in 1998, 2,700 people with developmental disabilities received services through Oregon's Home and Community-Based waiver; the number now exceeds 12,000. Further, state policy has directed several General Fund-only programs to support children with developmental disabilities and their families. Overall, DHS' Fall 2010 forecast projects a 9.8% increase in developmental disabilities program caseloads for 2011-13, an average of 15,063 compared to an average of 13,722 for 2009-11.

In human services programs, reduction options generally focus on client eligibility, benefit levels, and staffing and service delivery costs. In SPD, federal Medicaid services make up the largest share of the budget. The state is not required to provide Medicaid services, but if it opts to do so and receives Medicaid funds, it agrees to follow federal Medicaid program regulations on determining eligibility and providing services. As part of the ARRA provisions, and more recently as part of federal health care reform, states have been restricted from changing program eligibility. Benefit levels in SPD are primarily not payments to individuals, but reimburse providers for services. The cost of delivering services – individualized supports, community programs, or residential services – might be reduced through provider rate reductions, but providers' operational costs, collective bargaining requirements for some providers, and state statutory requirements are all factors. SPD has made efforts to better tie reimbursement to levels of need, but provider reimbursement has historically been determined by the type of provider group and is not consistent across programs or services provided. Also, changes in reimbursement levels can reduce or close access to services, depending on Oregon's economy and market forces. In some cases, reducing General Fund-only programs could be done without as much red tape, but could create longer-term budget impact if the services provided now prevent or delay clients from needing more intensive, more expensive services in the future. Further discussion of specific SPD reduction options is in the Programs and Program Support and Administration sections below.

SPD – Programs

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	761,702,264	814,657,102	836,153,841	1,256,980,492
Other Funds	175,139,123	151,225,880	161,996,698	150,894,877
Federal Funds	1,613,523,157	1,993,687,141	2,194,971,992	2,182,931,274
Total Funds	**$2,550,364,544**	**$2,959,570,123**	**$3,193,122,531**	**$3,590,806,643**
Positions	800	708	708	695
FTE	780.15	728.40	728.40	668.39

Program Description

SPD Programs serve seniors and people with physical disabilities, and adults and children with developmental disabilities. Programs are generally categorized as services for the aged and disabled (APD) or for those with developmental disabilities (DD). SPD makes payments to a variety of long-term care facilities and service providers for these populations. For APD, Medicaid long-term care services are provided through nursing facilities, assisted living facilities, residential care facilities, adult foster homes, and in-home providers including Medicaid client-employed home care workers. Oregon Project Independence (OPI) provides in-home services outside of the Medicaid program. Direct financial support is made through Medicare buy-in programs and special needs payments. Federal Older American Act services include help with abuse prevention, caregiver supports, medication management, nutrition services, senior employment, legal issues, and other support services. DD services include home or community based services delivered to children and adults through counties and support service brokerages, private providers, and state-operated and private group homes.

The FTE included in the Programs budget are state employees who work at 29 state-operated group homes housing 138 people with developmental disabilities. The position count and FTE do not include non-state staff for which SPD provides reimbursement in local Area Agencies on Aging (AAAs) or regional brokerages and community developmental disabilities programs (CDDPs) that arrange services for people with developmental disabilities. SPD reimburses Transfer AAAs for a staffing level of 783.17 FTE. Regional brokerages providing services to persons with developmental disabilities are reimbursed for a staffing level of 259.15 FTE, and CDDPs are reimbursed for a staffing level of 527.78 FTE.

Services for Seniors and People with Physical Disabilities

Medicaid long-term care services for the elderly and clients with physical disabilities fall into one of three major delivery categories: in-home programs designed to delay the need for more costly institutionalized care; community-based facilities or "substitute homes;" and nursing facilities. In-home care services are provided by home care workers who are employees of the client with oversight by the Home Care Commission, and through providers working through local Areas on Aging. Community-based facilities include adult foster care homes, assisted living, residential care, and enhanced residential care. Providence Elder Place (PACE), a jointly funded Medicare and Medicaid program that integrates acute medical care and community-based care under a system of capitated rates, serves people at high risk of needing nursing facility care. Nursing facilities provide comprehensive care for people who require 24-hour skilled nursing care in addition to assistance with activities of daily living.

Eligibility for Medicaid long-term care is based in part upon the ability to perform certain activities of daily living. Applicants for Medicaid long-term care are evaluated on their ability to perform activities of daily living such as eating, toileting, mobility, bathing, and dressing. This evaluation is used to rank the applicant within categories known as "service priority levels." Priority level 1 clients are those most unable to perform activities of daily living and more likely to need services offered in nursing facilities. In contrast, those at lower priority levels are less impaired and more likely to receive in-home assistance. Oregon provides services for clients in categories 1 through 13. Eligibility is also based upon income and assets. Clients may have incomes up to 300% of the Supplemental Security Income (SSI) grant, or $2,022 per month for an individual.

Medicaid law requires states, at a minimum, to provide nursing facility care. Since the 1980s, however, Oregon has operated its long-term care program under a Medicaid Home and Community-Based Care waiver approved by the Health Care Financing Administration (now called the Centers for Medicare and Medicaid Service, or CMS). This waiver allows individuals who would otherwise require the level of care furnished in a nursing facility to opt instead for a home and community-based care option. In the mid-1980s, Medicaid long-term caseloads were about evenly divided between community-based care and nursing facilities. As of December 2009, however, nursing facilities represented only 17.1% of the overall 27,471 Medicaid long-term care cases; in-home cases made up 40.9%; and community-based facilities were 42%.

Oregon Project Independence (OPI) serves about 2,000 Oregonians each month with in-home services. To qualify, clients must be 60 years of age or older, or have Alzheimer's or other related dementia, and be assessed as service priority levels 1 through 18 (a broader range than the levels 1 through 13 served through Medicaid long-term care). Those with incomes over 100% of the federal poverty level pay all or part of the cost of services.

Medicare Buy-In Programs provide payments for Medicare beneficiaries who meet income guidelines. The state pays the Medicare Part B premium for Special Low Income Medicare Beneficiaries for Medicare recipients with income from 100 to 135% of the federal poverty level. For those with incomes at or below the federal poverty level, the state pays the Medicare Part B premium, the annual deductible and co-insurance charges on Medicare-covered services.

SPD is the state administrator of the ***Older Americans Act (OAA)***, a federal program targeted to people 60 years old and older. SPD distributes the funds to local Area Agencies on Aging, which deliver a variety of services including information and referral, transportation, congregate meals and "meals on wheels," senior employment programs, legal services, insurance counseling, and family caregiver counseling and training. Over 323,000 Oregonians receive OAA services each year.

The ***Oregon Supplemental Income Program (OSIP)*** previously provided a small monthly cash supplement for low-income aged and disabled individuals receiving federal Supplemental Security Income (SSI) benefits though the Social Security Administration. The 2009 Legislature passed HB 3065, which gave SPD an option to provide noncash assistance rather than mailing small monthly checks, beginning in January 2010. As a result, SPD stopped making the small monthly cash payments and increased special needs cash payments for items such as prescription drug copayments, non-medical transportation, or one-time emergency payments.

The ***Special Needs Cash Payments*** program is used for one-time expenditures to allow a client to retain independence and mobility in a safe environment, and reduce the need for more expensive long-term care payments. For example, funds could be used to adapt a home's stairs into a ramp, or repair a broken furnace.

Services for People with Developmental Disabilities

DHS offers a wide array of services for people with developmental disabilities. Oregon no longer has any institutional facility for persons with developmental disabilities, so all clients are served in the community. Most of these services are administered under Medicaid waivers similar to the Home and Community-Based Care waiver for seniors and people with physical disabilities. Clients must meet Medicaid financial eligibility requirements (e.g., household income levels up to 300% of the SSI grant) and have developmental disabilities that impede their ability to function independently. Developmental disabilities include mental retardation, cerebral palsy, Down's syndrome, autism, and other impairments of the brain that occur during childhood. Some people with developmental disabilities also have significant medical or mental health needs.

County staff in community developmental disability programs determine eligibility for DD services, assess client needs, determine service rates, arrange and oversee contracts with providers, and respond to protective services issues. Regional brokerages provide case management and link individuals with services. Local providers deliver the support and residential services. This budget covers payments to counties and brokerages for program administration (DD Local Field Authority) as well as for program services.

Program services for people with developmental disabilities are described below. Clients may receive services from more than one category and require services from different categories at different points of their lives depending upon their physical condition, age, and ability to function.

- ***Support services*** are for adults and children who live at home and are typically provided by individuals hired by the client, with the help of a personal agent, who gives them the assistance they need to remain in their own homes. The primary support services available under the Staley Settlement Agreement include home modifications and services to help clients function appropriately within their communities, respite care for primary caregivers such as parents, and non-medical transportation. In addition to Staley support services, support services are provided for children living at home to help prevent out-of-home placements. Regional non-profit brokerages work with clients and their families to arrange appropriate support services.
- ***Comprehensive services*** serve adults and children who are living at home and receiving 24-hour supports, or living in residential facilities or group homes. Adult residential programs provide 24-hour group home care or supported living services for people aged 18 and over with a developmental disability. Children's residential care includes foster care, proctor care, and community residential group homes. Children's Intensive In-Home Services are provided 24-hours a day for medically fragile children, medically involved children, and children with intensive behavioral disabilities. Clients receiving comprehensive services may also receive diversion services (to prevent a crisis) or transportation if needed.
- The ***state operated community program*** provides 24-hour community residential care for 138 people who have intensive support needs because of medical or behavioral conditions. The 29 group homes are operated by state employees. The positions and FTE are included in this long-term care budget.

Current Service Level

The current service level for SPD Programs is 50.3% General Fund and 12.4% total funds higher than the 2009-11 legislatively approved spending level at December 2010. The SPD Programs current service level includes adjustments for inflation and for personal services costs; adjustments for Attorney General rate increases and state government service charges are reflected in the SPD Program Support and Administration budget. As noted earlier, the two most significant cost drivers in this budget are fund shifts to replace one-time Other and Federal Funds used in the 2009-11 budget, and mandated caseload growth. Of the total $230.6 million General Fund added to replace one-time Other and Federal Funds used in 2009-11, $141.4 million General Fund is for APD programs and $89.2 million General Fund is for DD programs. Mandated caseload growth for APD programs adds $129.6 million General Fund and $361.9 million total funds, primarily for nursing facilities caseloads and cost per case increases, but also for community facilities caseloads and cost per case, in-home services caseloads and cost per case, and Medicare buy-in program caseloads. APD program fund shifts add $141.4 million General Fund and $8.7 million Other Funds to replace the loss of $150.2 million in Federal Funds. In DD programs, mandated caseload growth adds $40.7 million General Fund and $105.1 million total funds, reflecting both growth in support services and comprehensive services as well as the associated DD Local Authority payments to CDDPs and brokerages.

Budget Environment and Potential Reductions

In addition to population growth, provider reimbursement is a major driver in SPD program costs. Costs can change due to rate adjustments for a category of providers overall, or due to the need to adjust rates for individual service needs. Rates for various settings have been increased over time using inflationary adjustments, but in the APD system reimbursement rates are based more on where clients live than the extent of individual client needs. For example, the rates DHS pays nursing facilities for services are set in Oregon statute, which establishes the reimbursement level at the 63rd percentile of audited allowable nursing facility costs. The statutorily-required reimbursement level was temporarily changed for the 2009-11 biennium due to budget constraints, but will revert to the higher level for the 2011-13 biennium. Community-based provider rates such as those for assisted living facilities and residential care facilities are tiered based upon client impairment. Adult foster home rates are now subject to collective bargaining.

Nursing facilities are the most expensive setting for long-term care. In addition to specialized staff across the state who work with clients to arrange services in homes or community-based settings for individuals who have been hospitalized or receiving rehabilitation in a nursing facility, Oregon is also participating in a federal Money Follows the Person demonstration project to help move long-term nursing facility residents who could live in other settings with appropriate services and supports, from nursing homes to community-based care. Named the "On the Move" program, a total of $40 million in Federal Funds is available for individualized services and administrative costs. As of the end of September 2010, SPD had spent $5.6 million General Fund, matched with $15.1 million in Federal Funds, under this grant. The program has placed 265 clients previously in nursing facilities back in their homes or community-based settings. The program is currently under investigation by the Department of Justice, and SPD expects to report on the results of the investigation to the 2011 Legislature.

In the DD program, SPD has used a federal Real Choice Systems Transformation grant to undertake the five-year Oregon ReBAR project. This is a rate model for adult residential services that uses a standardized client needs assessment to set provider rates. Assessments for all new group home clients have been implemented, with assessments on all current clients expected to be completed by April 2011. SPD reports that, as of January 1, 2011, the net impact on monthly service rates has been an increase of 16%. For adult foster care providers, the collective bargaining agreement requires all existing clients to have a completed assessment by January 1, 2013.

The most significant way to control Medicaid costs over the long term is to reduce the level of need for Medicaid long-term care services. SPD has several pilot efforts underway for Aging and Disability Resource Centers (ADRCs), a longer-term strategy to reduce costs by providing early information, referral, and assistance services and supports for long-term care to all individuals and families. The recent federal Patient Protection and Affordable Care Act included the Community Living Assistance Services and Supports (CLASS) program. CLASS is a national, voluntary insurance program for purchasing non-medical community services and supports, such as home health care and adult day care, for persons who require long-term care services. The CLASS program could reduce future demand for Medicaid services, although no insurance benefits would pay out until 2017. At this point, of course, the long-term impact from these efforts is uncertain.

In the short-term, SPD has reduced costs in the 2009-11 biennium by cutting administrative payments for Area Agencies on Aging, Community Developmental Disability Programs (CDDP) and brokerages, and reducing rates for certain DD comprehensive services. It has also taken management action to cap crisis diversion funding in its DD program, and close children's in-home long term supports to new families. The current budget anticipates further reductions as of April 1, 2011 which would eliminate Oregon Project Independence services; reduce case management services for children with developmental disabilities; eliminate developmental disability family support services; and reduce CDDP and brokerages' targeted case management services.

For the 2011-13 biennium, one reduction option is to eliminate the inflation factors built into the current service level. This is, in effect, an "unspecified" reduction that limits resources, including provider reimbursement rates, across all SPD programs. The reductions already put in place or planned to take effect in the 2009-11 biennium could also be continued into the 2011-13 biennium, assuming any necessary federal approvals are received. The agency has identified a number of additional options, many of which would need federal approval, statutory change, approval by the Medicaid Long Term Care Quality and Reimbursement Advisory Council, and/or collective bargaining to make happen. These include a revenue option, using a trust fund Other Funds balance to offset General Fund, reducing provider reimbursement and benefits, and reducing or eliminating client services that are optional under Medicaid or serve non-Medicaid clients:

- Expand the nursing facility provider tax to all facilities currently exempt (continuing care retirement communities, Oregon Veterans' Home, nursing facilities with high Medicaid census levels)
- Eliminate the Fairview Community Housing Trust Fund; use the balance as a one-time General Fund offset
- Negotiate a new home care worker contract eliminating dental, medical, and vacation payout benefits
- Reduce reimbursement rates for adult foster care, community facilities, nursing facilities
- Eliminate adult day services for seniors and persons with physical disabilities
- Eliminate Medicaid Personal Care Program in-home services
- Eliminate DD adult support services under the Staley Agreement if client is not Medicaid eligible
- Eliminate alternative to work programs and sheltered work programs, including non-medical transportation to the programs, for DD clients
- Eliminate the 36 county staff positions that provide DD regional crisis staffing

SPD – Program Support and Administration

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	153,405,982	159,391,223	152,193,897	211,005,751
Other Funds	12,993,614	17,224,159	15,796,170	16,915,563
Federal Funds	206,357,846	222,286,861	226,582,943	276,432,178
Total Funds	**$372,757,442**	**$398,902,243**	**$394,573,010**	**$504,353,492**
Positions	1,324	1,361	1,410	1,620
FTE	1,156.17	1,338.04	1,369.30	1,578.45

Program Description

Program Support and Administration includes expenditures for the field staff that deliver SPD services, central policy and administrative functions, and program offices that provide direction, oversight, and direct services to support SPD's programs. This budget also supports the Governor's Commission on Senior Services, the Oregon Disabilities Commission, the Oregon Developmental Disabilities Council, and the Home Care Commission.

Field services for seniors and people with physical disabilities are delivered through three different structures:

- "Type A" Area Agencies on Aging (AAAs) provide Older Americans Act (OAA) and Oregon Project Independence (OPI) services in most counties. Type A AAAs are typically private non-profit agencies. Staff are employees of the AAA.
- "Type B" AAAs are local government bodies, such as counties or councils of governments. "Transfer AAAs" are staffed by local government employees; in "Contract AAAs," services are provided through state employees supervised by the county. Both administer Medicaid, cash assistance, and Supplemental Nutrition Assistance Program (SNAP) services, and OAA and OPI programs.
- In Type A AAA areas, local SPD offices administer Medicaid, cash assistance, and SNAP services.

The budget includes funding, but not positions and FTE, for the staff who work in the Type A AAAs (which are reimbursed at a flat rate of $5,000) and for the Transfer AAAs. The budget includes funding and 236 positions (229.28 FTE) for staff in the Contract AAAs. Local SPD office staff include 665 positions (665.44 FTE).

Supplemental Nutrition Assistance Program (SNAP/food stamps) eligibility staff are part of the SPD Program Support and Administration budget; the SNAP benefits are part of the Children, Adults and Families (CAF) budget.

The Disability Determination Services (DDS) program assesses clients' eligibility for Social Security Act claims for disability insurance (SSDI) and Supplemental Security Income (SSI). In Oregon, about 182,412 people receive federal SSDI or SSI benefits that total about $143.5 million each month. DDS includes 203 positions (203.00 FTE) which are 100% federally funded.

The program offices include the Office of Senior and Disability Services, the Office of Licensing and Quality of Care, the Office of Federal Resource and Financial Eligibility, and the Office of Developmental Disability Services. These people oversee nursing facility, community-based care facility, and developmental disability services; administer the federal Medicaid program for SPD clients and programs; and license, monitor, and provide training to improve the quality and safety of services within Oregon's long-term care system. More than 5,000 facilities are licensed or certified by this program office. These program office staff total 382 positions (374.40 FTE), with an additional 24 positions (22.04 FTE) in the SPD Director's office.

Current Service Level

The current service level is 38.6% General Fund and 27.8% total funds higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The biggest cost driver is related to staffing for mandated caseload growth, at $22.1 million General Fund, $43.2 million total funds, and 225 positions (198.36 FTE). Training funds from developmental disability comprehensive services are also transferred to this budget ($1.7 million General Fund, $2.3 million total funds). The current service level budget includes $33.6 million General Fund, $70.1 million total funds, and two positions (2.00 FTE) for SPD's costs related to the restructured DHS and OHA Central and Shared Services.

Budget Environment and Potential Reductions

Over the past several years, DHS has contracted for staffing studies to review current workload and staffing needs. In SPD, these studies looked at SNAP and Medicaid eligibility determination, case management and adult protective services, Presumptive Medicaid Disability Determinations, Medicare Modernization Act Part D work, and in-home care. The studies made recommendations for potential efficiencies and process improvements, but also supported a move from caseload-based staffing models to models that reflect workload standards. In its 2011-13 agency request budget, SPD estimated its costs to implement the new workload standards for case managers, eligibility workers, adult foster home licensing staff, and protective service workers, and slightly increase its quality assurance staff, at $11.9 million General Fund, $23.3 million total funds, and 77 positions (67.76 FTE). A similar request for the 2009-11 biennium was not approved due to funding constraints. To date, the staffing studies have not looked at the SPD service delivery system as a whole, so additional potential efficiencies and process improvements, or additional costs for improved staffing at the local level, have not been identified.

During the 2009-11 biennium, in addition to statewide reductions limiting employee compensation and mandating unpaid furlough days, SPD has held vacancies, imposed a hiring freeze, and reduced its services and supplies expenditures.

The identified options for the 2011-13 biennium include one fund shift that appears to be straight forward: use federal Medicaid funds to pay for some current General Fund-only positions for facility complaint investigations. Other options would result in deeper cuts in field and program support staffing (overall, up to a 20% reduction in personal services costs, affecting over 200 positions), reduce services and supplies expenditures, and reduce funding for the Transfer AAAs (from about 90% of the equivalent costs for a state office to about 85%). SPD would also have General Fund cost reductions related to reductions in DHS and OHA Shared Services. The options to reduce SPD staffing and Transfer AAA funding are the most problematic, given that staffing levels are already below recommended levels, and program caseloads and abuse investigations are projected to continue growing. At some point, client services could deteriorate and compliance with federal law and program requirements could be at risk.

DHS/Central and Shared Services – Program Area Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	22,539,145	25,345,093	26,515,671	28,174,710
Other Funds	142,019	1,081,123	256,206	111,939,323
Federal Funds	17,685,738	16,708,893	19,227,249	10,555,624
Total Funds	**$40,366,902**	**$43,135,109**	**$45,999,126**	**$150,669,657**
Positions	659	657	640	649
FTE	634.79	632.90	616.86	628.50

Note: The 2007-09 and 2009-11 columns above include positions and FTE, but not the related, non-add Other Funds expenditures, for the DHS Shared Services staffing that is part of the 2011-13 current service level.

Summary Description

The Department of Human Services' (DHS) Central and Shared Services is the new model for central administrative functions that support both DHS and the new Oregon Health Authority (OHA) created in HB 2009 (2009). This budget structure includes Central Services supporting DHS only, and Shared Services supporting both DHS and OHA.

Central Services include functions that are housed separately in each agency because they are directly related to policy and program in the agency, such as the agency director's office, communications, portions of budget and human resources, the Governor's Advocacy Office, and debt service. For DHS, central services other than debt service make up about 15% of the overall Central and Shared Services budget. Debt service for the OR-KIDS and Self Sufficiency Modernization projects makes up about 11% of the total. The Central Services budget includes 70 positions (68.92 FTE).

Shared Services between DHS and OHA include information systems and information security, financial services, budget, human resources, facilities, and procurement, which will be housed in either DHS or OHA, but which will provide services to both agencies. Joint governance and service-level agreements will define the relationship between DHS and OHA for these shared services. For 2011-13, DHS' Shared Services budget includes the Budget Center; Office of Forecasting, Research and Analysis; Office of Financial Services; Human Resources Center; Facilities Center; Office of Document Management; Office of Contracts and Procurement; Office of Investigations and Training; Internal Audits and Consulting Unit; Office of Payment Accuracy and Recovery; the Office of Continuous Improvement; and Shared Services Administration. The $110.9 million in Other Funds for these services is about 74% of the Central and Shared Services budget. The staffing level for DHS' Shared Services is 579 positions (559.58 FTE).

Direct charges and services for central government assessments and usage charges are not part of this budget structure. Those are part of the Program Support and Administration budgets in the Children, Adults and Families and Seniors and People with Disabilities program areas.

Revenue Sources and Relationships

At the 2011-13 current service level, this budget is 19% General Fund, 74% Other Funds, and 6% Federal Funds. DHS Central Services are funded with a mix of General Fund, Other Funds, and Federal Funds, depending on the services provided. Federal funding is subject to a federally approved cost allocation plan that charges programs for the services received. The Shared Services funding is all Other Funds, based on revenues received from other parts of DHS and from OHA for purchased services. Because this Shared Services structure did not exist before the 2011-13 biennium, this Other Funds revenue shows up only in the 2011-13 current service level numbers above.

Current Service Level

The current service level is 6.3% General Fund and 228% total funds higher than the 2009-11 legislatively approved spending level at December 2010. The current service level includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. However, the major difference in the total funds budget is that only the 2011-13 current service level includes the non-add

Other Funds expenditures that will support the DHS Shared Services staffing. The staffing and expenditures were previously in the DHS Administrative Services Division budget. The current service level includes a $4.9 million General Fund and $8.1 million total funds increase for central administrative costs related to mandated caseload growth in the Children, Adults and Families self sufficiency and child welfare programs during the 2009-11 biennium and projected for the 2011-13 biennium. The other notable increase is in debt service costs for the OR-KIDS and Self Sufficiency Modernization projects; the $16.5 million General Fund in the current service level is up $4 million from the $12.5 million General Fund debt service requirement in the 2009-11 biennium, reflecting approved financings through the 2009-11 biennium. The debt service calculation in the current service level does not include an additional $4.7 million General Fund debt service for the Self Sufficiency Modernization project that would be needed in the 2011-13 budget if a May 2012 financing happens as planned.

Budget Environment and Potential Reductions

The Central and Shared Services model is new for the 2011-13 biennium. The Shared Services structure was chosen to help ensure that administrative services are provided cost-effectively without duplication of resources between DHS and OHA. Overall, the budget for Central Services, Shared Services, and direct charges for central government assessments and usage charges in DHS and OHA are essentially equivalent to the old Department of Human Services' Administrative Services Division, which is eliminated for 2011-13.

As noted above, the major share of this budget is spent as Other Funds, but the costs are paid by the various program areas in DHS and OHA as General Fund, Other Funds, and Federal Funds in their budgets. As a result, the Shared Services Other Funds expenditures in this structure are a budget double-count (technically known as "non-add" funding) of the payments made by the program areas. Reductions made in the shared administrative services operations (for example, in financial services or facilities, as was done in the 2009-11 biennium) reduce costs elsewhere in DHS and OHA.

The Department of Human Services identified a total of 25% in General Fund reductions from the 2011-13 current service level for DHS as a whole. In the Central and Shared Services budget, three levels of reductions were identified at a total $18 million General Fund, affecting 78 positions (75.54 FTE). If those reductions were all implemented, the General Fund reduction for Central and Shared Services would be only about $1.5 million General Fund; the balance of the General Fund reduction would happen in the various program area budgets in DHS and OHA. The Other Funds that make up the DHS Shared Services budget would be reduced by the full mix of General, Other, and Federal Funds in the program area budgets that would otherwise fund the services.

At this time, no detail is available as to any specific services and/or staff which would be reduced or eliminated, but the agency indicates the current hiring freeze would continue, as would spending constraints for training, travel, office supplies, and contracted professional services. DHS states that the first two levels of reduction (each priced at $5.9 million General Fund, $12 million total funds) would pose challenges to timely and effective delivery of shared administrative services. The third level of reduction ($6.2 million General Fund, $12.3 million total funds) reportedly would result in DHS being unable to consistently carry out its shared administrative services responsibilities. DHS has been working on improving its business operations through its transformation initiative, which the agency reports has helped cut red tape, improve service delivery to clients, increase transparency and accountability, and avoid or reduce costs. Although the transformation initiative has achieved positive results, the on-going transformation efforts alone cannot be expected to produce enough real dollar savings quickly enough to offset the impact of significant funding and staff reductions in Central and Shared Services on both DHS and OHA programs.

Long-Term Care Ombudsman – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	947,535	1,174,082	1,084,316	1,880,115
Other Funds	1,769,012	1,932,156	1,932,156	675,382
Total Funds	**$2,716,547**	**$3,106,238**	**$3,016,472**	**$2,555,497**
Positions	11	11	11	11
FTE	10.00	10.50	10.50	10.50

NOTE: Federal Funds transferred from the Department of Human Services are included in the Other Funds category in the LTCO budget.

Agency Overview

The Office of the Long-Term Care Ombudsman (LTCO) is a consumer protection agency: it supports a network of certified volunteers to investigate and resolve complaints for all individuals who live in Oregon's long-term care facilities. Long-term care facilities include nursing facilities, residential care facilities, assisted living facilities, and adult foster homes. Agency staff provide on-going training, support, and technical assistance to volunteers, and handle difficult complaints and other complex resident issues. If an investigation reveals reasonable cause to suspect abuse, the agency refers the case to local adult protective services agencies for investigation.

Revenue Sources and Relationships

Through 2009-11, most of the agency's General Fund has been used to match federal Medicaid and Older Americans Act (OAA) funds through the Department of Human Services (DHS). The LTCO budget reflected both the General Fund sent to DHS and, as Other Funds, both the General Fund and matching Federal Funds returned from DHS. However, the federal Centers for Medicare and Medicaid Services (CMS) has notified DHS it will no longer allow Oregon to claim federal Medicaid reimbursement for LTCO costs. For the 2011-13 biennium, then, the Other Funds reflect the pass-through of only OAA funding from DHS.

Current Service Level

The current service level is 73.4% General Fund higher, but 15.2% total funds lower, than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. There is no ongoing current service level reduction based on the June and September 2010 General Fund allotment reductions required to balance the statewide budget, as the LTCO used one-time personal services savings from position vacancies to meet those reductions. The most significant change for the 2011-13 budget is a $1.5 million reduction in Other Funds, which reflects the change in funding mix due to eliminating federal Medicaid match for LTCO operations. The Other Funds reduction is partially backfilled with $0.7 million in General Fund, so this current service level fund shift does not reduce the overall resources available to the agency.

Budget Environment and Potential Reductions

The demand for ombudsman services is directly related to the number of long-term care facilities and clients. In 2008, Oregon's long-term care system had 42,362 beds in 2,166 licensed long term care facilities. As of August, 2010, there are 42,590 licensed beds in 2,274 licensed facilities. As the population ages, the long-term care system is expected to continue to grow.

The number of certified volunteers providing ombudsman services is constrained by the number of LTCO staff available to provide training and technical assistance. The 2007 Legislature added two new Deputy Long-Term Care Ombudsman positions, and the 2009 Legislature shifted staffing and resources within existing funding to improve the agency's capacity to respond to complaints, close cases, and increase the number of facility visits. However, staffing and volunteer levels remain less than optimal. As of August 2010, the 129 certified ombudsman volunteers were assigned to about 31% of the licensed facilities, representing 22,425 licensed beds, only about 53% of the total number of licensed beds. The LTCO reports that at the current coverage levels, about 284 more volunteers would be needed to cover all of the licensed long-term care facilities in Oregon.

The LTCO budget is largely committed to personal services and fixed expenses such as rent and state government service charges. General Fund reduction options identified by the agency thus focus on staffing and services and supplies expenditures that support the agency and its volunteers. At a 5% reduction level, the agency would reduce general services and supplies spending by 6.2%; eliminate its biennial conference for volunteers, Board members, and staff; and end its contract with the Department of Administrative Services for computer system support, data backup and storage. At 10%, the agency would eliminate one deputy long term care ombudsman position, but continue its computer system support. At 25%, the agency would eliminate another deputy long term care ombudsman position; eliminate the recently-added volunteer recruiter position; reduce the compensation of the agency director position; and reevaluate other position classifications.

A broader alternative would be to implement a new fee dedicated to fully or partially sustain the LTCO's operations. Such a fee would cover all nursing facilities, assisted living facilities, residential care facilities, and adult foster homes for which the LTCO is responsible. For example, an annual $25 per bed fee would raise $2.1 million in Other Funds revenues for the two-year budget period (before any administrative or collection costs are considered). However, even if a full or partial fee alternative were supported, there would likely be a need for some General Fund to maintain the agency early in the 2011-13 biennium until any fee revenues could be assessed and collected.

Psychiatric Security Review Board – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	1,045,916	1,140,855	1,263,622	1,801,106
Other Funds	0	2,056	146,818	2,105
Total Funds	**$1,045,916**	**$1,142,911**	**$1,410,440**	**$1,803,211**
Positions	5	5	8	8
FTE	5.00	5.00	6.89	8.00

Agency Overview

The Psychiatric Security Review Board (PSRB) was created in 1978 to assume jurisdiction over persons in Oregon found to be "guilty except for insanity" of a crime. Effective 2007, the Board's jurisdiction was expanded to include juveniles found "responsible except for insanity" who have a serious mental condition or who present a danger to themselves or others. The ten-member board is appointed by the Governor and consists of a five-member adult panel and a five-member juvenile panel.

The Board's primary purpose is to protect the public through the on-going review of the progress of those placed under its jurisdiction and a determination of their appropriate placement. The Board has authority to: commit a person to a state hospital designated by the Oregon Health Authority; conditionally release a person from a state hospital to a community-based program with close monitoring and supervision; discharge a person from its jurisdiction; and, when appropriate, revoke the conditional release of a person under its jurisdiction and order the person's return to the state hospital pending a full hearing before the Board.

The duties of the Board were again expanded by HB 2853 (2009), which requires PSRB to process relief petitions and hearings for persons barred from possessing a firearm due to a mental health determination, including civil commitment or a finding of guilty except for insanity.

Revenue Sources and Relationships

Most agency operations are funded with General Fund. Federal grant funding passed through from the Department of State Police helps to fund the Gun Relief program.

Current Service Level

The current service level of $1.8 million total funds is 28% higher than the 2009-11 legislatively approved spending level at December 2010. General Fund supporting the current service level is 43% higher than the 2009-11 legislatively approved level. The increases include adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects full funding for the three new Gun Relief program positions phased in during 2009-11. The federal funding for the Gun Relief Program has been eliminated for the current service level, further increasing the General Fund need. However, there will actually be some federal funding for 2011-13 that will need to be incorporated into the budget.

Budget Environment and Potential Reductions

Adult caseload growth has slowed recently, remaining flat at about 750 clients from 2007 through 2009. The number of adults on conditional release to community-based programs has also stabilized over this same period, after increasing 44% between 2003 and 2007. Adults on conditional release require monitoring by agency staff, regular reporting, and frequent contacts with case managers. Although fewer cases have come before the juvenile panel than was originally expected, the volume is expected to increase over time. In addition, the workload associated with the juvenile panel's cases has been much greater than expected. The juvenile cases have substantially more exhibits, paperwork, and witnesses than the adult cases handled by the agency's staff.

In 2008, the Department of Administrative Services reviewed PSRB's workload issues, and concluded that three new positions were needed in order to allow the agency to keep up with the demands of the adult and juvenile hearings. Those positions were not funded in the 2009-11 budget, and the agency has requested the positions again for 2011-13. The agency is currently hearing adult cases within the statutory time limits only 63% of the time. This in turn can have a direct impact on costs, as patients are held longer in the Oregon State Hospital. Any budget reductions to the agency will further exacerbate this situation.

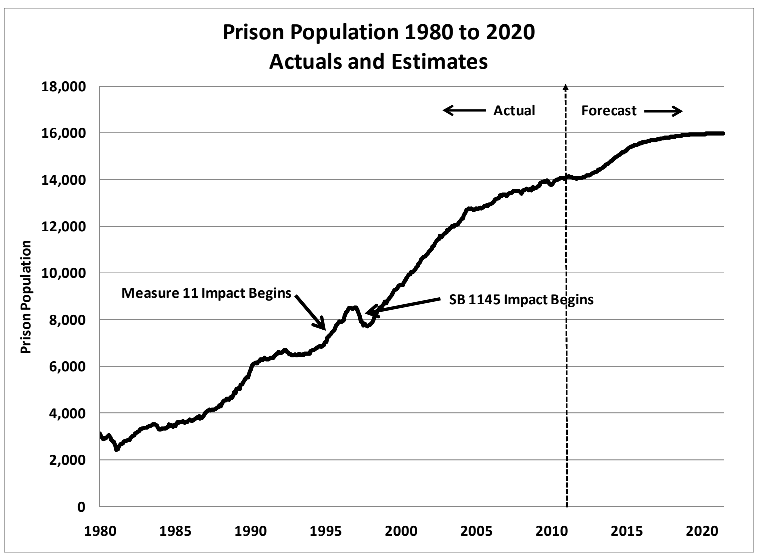
Department of Corrections (DOC) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	1,258,729,939	1,259,794,942	1,186,351,833	1,526,439,274
Other Funds	82,826,944	86,553,299	88,119,943	34,565,851
Federal Funds	17,625,085	108,541,761	115,458,346	6,175,821
Other Funds (NL)	0	0	108,846,267	0
Federal Funds (NL)	0	0	1	1
Total Funds	**$1,359,181,968**	**$1,454,890,002**	**$1,498,776,390**	**$1,567,180,947**
Positions	4,782	4,741	4,734	4,890
FTE	4,662.08	4,621.17	4,618.20	4,691.87

The 2009-11 Approved Spending Level does not include $28.1 million General Fund that was agreed to be added to the Department of Corrections budget early in the 2011 legislative session to offset a portion of the 2009-11 allotment reductions. The 2011-13 Current Service Level does not include the anticipated costs of Ballot Measure 73 passed by voters in November 2010.

Agency Overview

The Department of Corrections (DOC) has two primary functions – the operation of prisons and the state responsibility for the community corrections system. The Department operates 14 institutions for incarcerating adult and certain juvenile felons sentenced to prison for more than twelve months by the courts. The community corrections system is based on SB 1145 (1995) which transferred management of offenders sentenced or sanctioned for incarceration 12 months or less, and all felony offenders under community supervision, to the counties. The Department provides funds to counties for the costs of supervising these offenders.



The most significant cost driver for the DOC budget is the number of incarcerated offenders in the prison. The attached graph shows the growth in the actual and projected prison population, increasing from roughly 3,000 in 1980 to over 14,000 in 2010. This increase of more than 350% over the 30 year period has resulted in a large construction program to expand the system's capacity and a growing number of staff to manage the inmate population. In the past 15 years, passage of a series of ballot measures begun to change the nature of sentencing in Oregon moving toward more use of mandatory minimum sentencing starting with Measure 11 (BM 11) in the mid 1990s. The increases in the number of inmates due to BM 11 were not so much due to the growth in the number of offenders entering the system but to the length of time BM 11 offenders spend in prison Other factors contributing to the prison population growth include changes by the Legislature starting in 1999 that increased the sentences for repeat property offenders. More recently, BM 57 changing the sentencing of certain property and drug related crimes and BM 73 changing the sentences for repeat DUII offenders will affect future prison population growth (see figure below). The Legislature altered the implementation dates for BM 57, but long-term it should have a similar impact as how it was originally passed by the voters. The ability of state policy makers to control prison population growth is constrained by ballot measures passed by Oregon voters. Beyond Measures 11, 57 and 73 mentioned above, others included Measure 4 (1988), which eliminated probation for repeat offenders of specific crimes and restricted the use of earned time; and Measure 74 (1999), which requires that an offender must return to the sentencing court to reduce a sentence. Most sentencing changes now require super majority votes by the Legislature or voter approval.

Corrections is a "people" function so labor costs is the other primary cost driver for the DOC budget. Over half of entire DOC budget represent costs associated with personal services including employee salaries, retirement contributions, health insurance contributions, and other benefits or payments relating to employee costs. For those parts of the budget directly related to prison operations and general agency management (not including community corrections payments to counties and debt service), personal services makes up almost 75% of the 2011-13 current service level. In a comparison with 11 other states of employee classifications which make up a majority of correctional employees (correctional officers and nurses), it was found that DOC employees had higher levels of total compensation (salary, retirement, and benefits) than in most of the other states. It was not necessarily the salary that was significantly higher, but the amount Oregon contributes for retirement and health benefits. Data from the Department of Administrative Services (DAS) demonstrates that this is not unique to DOC, but also is the case for many other employees in state government.

Current Service Level

The General Fund current service level (CSL) is $340 million, or 28.7%, higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The increase does not factor in the impact for the 2011-13 budget for the continuation of any of the reductions made due to the allotment reductions and other cuts during 2009-11. In addition, the current service level does not include the cost of Measure 73, which increases sentences for repeat DUII offenders and which DOC estimates will cost $17.9 million in 2011-13. The primary factors for this net General Fund increase include:

- The 2009-11 budget used one-time federal stimulus funding to offset General Fund need. Since this funding is not assumed to be available for 2011-13, an additional $113.7 million General Fund is required to backfill the lost federal funding.
- An additional $88 million General Fund is the estimated amount required for the roll-up costs of employees added during 2009-11, roll-up of employee compensation increases in 2009-11, and any assumed employee compensation increases for 2011-13.
- Increasing debt service needs, primarily from certificates of participation (COPs) that have been or are currently planned to be sold during 2009-11, requires an additional $12.4 million.
- Over $16.4 million is factored into the current service level to partially add back the $20 million undesignated cut included in the 2009-11 legislatively adopted budget.
- To account for the phase-in of programs and services started in 2009-11, as well as the reinstatement of Measure 57 that had been suspended until January 2012, the CSL includes $32.7 million General Fund. Offsetting this amount is over $10 million in one-time and other costs which are phased out of the budget. Many of these items were associated with Measure 57 and had been part of the allotment reductions and rebalance actions for the 2009-11 budget.
- Almost $16.4 million represents the cost of reinstating changes to the community corrections made by the 2009 Legislature which are scheduled to sunset in July 2011.
- Over $22.1 million General Fund is added for inflation including $11.5 million in the Health Services area. Since health related costs face inflationary pressures greater than other areas of the budget, $9.4 million of this amount represents the amount over the standard inflation rate assumed in budget development.

The 2011-13 current service level is based on the April 2010 offender population forecast and the final 2011-13 legislatively adopted budget will be updated to reflect the April 2011 forecast. Overall, the estimated mandated caseload for both the prison population and the community corrections populations leads to a net $19.3 million General Fund reduction. The agency plans to continue to use temporary beds across the system, as well as to open the medium security Deer Ridge facility (Madras), in response to the prison population forecast which leads to an almost $17 million increase the mandated caseload. Offsetting this increase is a $36.1 million decrease in the forecasted cost of the community corrections program. These amounts will change as more up-to-date forecasts are used and as alternatives to the assumed prison population plan are analyzed.

DOC – Operations, Health Services and Transitional Services

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	803,571,904	886,069,479	731,423,002	1,035,256,698
Other Funds	21,988,211	24,466,323	25,283,756	21,322,856
Federal Funds	16,778,514	4,756,921	115,458,346	6,175,821
Total Funds	**$842,338,629**	**$915,292,723**	**$872,165,104**	**$1,062,755,375**
Positions	4,305	4,247	4,215	4,362
FTE	4,188.32	4,136.63	4,105.35	4,171.29

Program Description

These three divisions or programs represent the day to day operations of the institutions and over two thirds of the agency's 2011-13 General Fund current service level and almost 90% of the staff.

- The ***Operations Division*** is responsible for the security and operation of the 14 existing adult correctional institutions. Functions of this Division include institution operations, security, food service, inmate work, and inmate transportation.
- The ***Health Services*** program includes the health services staff that provides services at DOC prisons. While most of the health services are provided by DOC employees and contractors inside the prison walls, many services are provided at community hospitals and providers. The agency estimates that over 95% of the services are provided at a DOC facility, but the costs of the outside services represent roughly 33% of the total health services spending. This budget unit also includes the mental or behavioral health program, dental services, and pharmacy services.
- The ***Transitional Services Division*** provides workforce training, educational, cognitive/life skills and substance abuse treatment programs designed to reduce the risk of future criminal conduct by offenders under the supervision of DOC. This Division is also responsible the interstate compact, jail inspections, religious services, sentence computation, victim services, and offender records.

2011-13 Current Service Level Budgets by Division or Program

	Operations	*Health Services*	*Transitional Services*
General Fund	$719,327,706	$232,292,171	$83,636,821
Total Funds	$730,854,122	$238,813,289	$93,087,964
Positions	3,550	641	171
FTE	3,404.79	598.21	168.29

Revenue Sources and Relationships

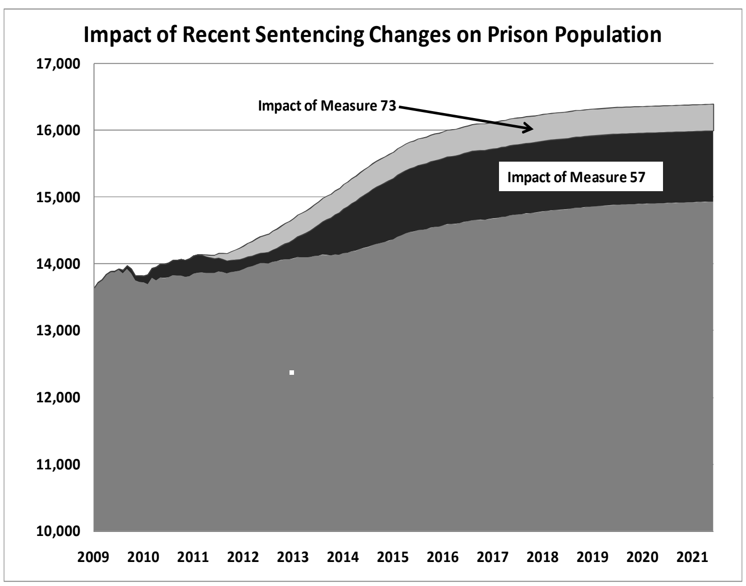
General Fund resources make up over 97% of the funding for these three units. The Other Funds revenues originate from a variety of sources including: services provided by inmate work crews, meal tickets, witness fees, and canteen sales, ($7.8 million); sale of items produced by inmate work and training programs ($1.6 million); and Inmate Welfare Fund revenues received from inmates or inmate-related sources such as coin operated telephones, canteen profits, and vending machines ($8.6 million). The uses of the inmate welfare funds include substance abuse programs, educational programs, and purchase of recreational equipment. Educational programs are also funded with transfers from the Department of Education and the Department of Community Colleges and Workforce Development ($388,949). The 2011-13 current service level assumes almost $6.2 million in Federal Funds will be available from the federal State Criminal Alien Assistance Program (SCAAP) to offset General Fund needs for incarceration of illegal aliens. The amount varies from one biennium to another depending on federal appropriations. For 2009-11, almost $5 million was added beyond the amount assumed in the legislatively adopted budget.

Budget Environment and Potential Reductions

As noted above, DOC's core budget has two major drivers – first, sentencing laws determine the number of inmates and how long they stay, and, second, labor costs. Significant reductions in DOC's budget are next to impossible without making changes in one or both of these budget drivers. In general, both are also outside the control of the agency – voters or the Legislature must change sentencing; and compensation increases are set at a state government-wide level, not by individual agencies. The number of employees can be reduced, but not by a significant amount without affecting employee safety. With the passage of SB 400 (2007), employee safety for DOC is included as one of the elements which can be bargained in union contracts.

The Department avoided having to make its full share of allotment reductions as legislative leadership and the Governor agreed to appropriate just over $38 million to avoid the release of inmates and to limit prison closures. Some reductions were taken as part of this process, and, if continued, would generate savings from the 2011-13 current service level including closure of the Oregon State Penitentiary minimum facility ($8.9 million), suspending General Fund work crews ($2.5 million), reduction of staff at the Deer Ridge facility ($1.8 million), and suspending in-service training not required for certification ($1.9 million). Another reduction which reflects past practice is to reduce the agency's budget without specifically designating where the reduction is from. This has been done for the past three budget periods, including $20 million in 2009-11. By leaving the reduction unspecified, it allows the agency flexibility to make the reduction where it can best make it throughout the biennium. Use of forced vacancies has been the major contributor to these savings in the past.

The 2011-13 current service level assumes the opening of the medium security facility at Deer Ridge (Madras). Opening the first unit at a facility is expensive when compared to a unit at a facility already operating given the fixed costs of the new facility. Maintenance, kitchen, administrative, and other staff must be added once the doors open for the first time. The agency has avoided opening this completed facility because of these fixed costs and has relied on temporary beds instead. A proposed population management plan based on the October 2010 forecast avoids opening Deer Ridge until the final months of the biennium by using over 500 temporary beds at a number of facilities across the state. This delay is estimated to save approximately $5 million General Fund.



A number of sentencing changes have been discussed and, in some cases, implemented. In addition, the Governor's Reset Cabinet report included a number of proposed sentencing changes. Unfortunately, most sentencing changes do not produce much in savings in the short term since they generally only affect sentences for crimes committed after the change's effective date. Two sentencing changes that have been mentioned are the continuance of the suspension of Ballot Measure 57 and a delay of the recently passed Ballot Measure 73. Their impact on the prison population based on the current forecast is shown in the attached graph. Combined, these delays would save an estimated $20 million General Fund in 2011-13.

Other changes that have been discussed include: (1) implementation of the 15% federal earned time system for most Oregon offenders ($2.3 million); (2) limited modification of some Ballot Measure 11 sentences ($0.6 million); (3) in-home incarceration including GPS monitoring of inmates instead of DOC incarceration (roughly $25 million for 500 offenders); (4) suspension of all non-mandated programs including work-based education, cognitive, educational, and substance abuse treatment programs ($16.6 million); and (5) expanding the use of local control-community corrections programs by having counties incarcerate offenders with sentences up to 24 months from the current 12 months. Even if all of the reduction alternatives mentioned above were implemented the savings would only be about $107 million, or equal to about 10% of the General Fund included in the current service level budget for these three divisions. The remaining steps then would include closing prison units that would require a significant increase in crowding (could be challenged in court) or further sentencing changes that likely would have to be retroactive for current inmates to provide significant savings. There has been discussion in the past of renting beds from local jails or from private prisons (requires statutory change). Beyond the number of policy issues this may raise, this may be a long term issue since as long as temporary or emergency beds are available within the system, it may be cheaper to use those beds before looking outside of the DOC system.

DOC – Community Corrections

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	217,194,825	111,092,799	208,341,498	201,026,308
Other Funds	2,669,996	1,919,722	2,494,845	1,969,847
Federal Funds	0	103,784,840	0	0
Total Funds	**$219,864,821**	**$216,797,361**	**$210,836,343**	**$202,996,155**
Positions	47	53	53	53
FTE	47.33	53.33	53.33	53.33

Program Description

The community corrections program provides funding to counties and for the two counties where DOC has assumed responsibility for community corrections (Douglas and Linn). Under SB 1145 (1995), the community corrections program was restructured to establish state/local partnerships, and shift resources and control for community corrections to the counties. County grants are based on the number and risk levels of offenders to be managed. Three groups are funded through this program:

- ***Felony Probation*** – Individuals sentenced for a felony to probationary supervision instead of incarceration in a local or state correctional facility.
- ***Parole and Post-Prison Supervision*** – Individuals that were incarcerated in a state correctional facility, but have been released, and are now supervised in the community corrections system.
- ***Local control*** – Three classes of offenders: (1) those that are convicted for a felony and sentenced to incarceration of 12 months or less; (2) revoked from felony community supervision and sentenced to 12 months or less incarceration; or (3) sanctioned to less than 30 days for violating the terms of community supervision.

The positions included in this program unit provide community corrections supervision for the two counties where DOC has assumed responsibility for community corrections.

Revenue Sources and Relationships

This budget unit is mainly supported by the General Fund. The Other Funds revenue is from supervision fees and other revenues collected by the Linn and Douglas county programs. Counties contribute varying amounts to the community corrections system with many counties not putting in any county General Fund resources. All counties charge offenders fees for supervision or services which are used to offset county program costs.

Budget Environment and Potential Reductions

Community Correction's share of the 2009-11 allotment reductions totaled $16.4 million of which $9.9 million was restored by the Emergency Board in December 2010. The remaining $6.5 million represented the amount in the 2009-11 budget over and above the threshold where counties could choose to "opt-out" of their statutory responsibilities in the program. There is no "roll-up" of this reduction since the current service level is based on the most recent forecast and is assumed to be at the "opt-out" threshold. The 2011-13 current service level is significantly below the 2009-11 grant level due to a $36.1 million decrease resulting from changes in caseloads and caseload mix across the risk bands. Any reduction below the current service level without a corresponding change to lower the caseload or county costs is assumed to allow counties to "opt-out."

The Legislature in 2009 approved three policy changes that lowered the community corrections caseloads for 2009-11. These three changes will sunset in June 2011, so the 2011-13 current service level reflects these being in effect again. These three changes and their 2011-13 savings from the current service level if continued are:

- Limiting probation revocations to 60 days for technical violations of probation ($10 million).
- Converting an offender's felony probation to "inactive" status when complying with their terms of probation ($5.2 million).
- Matching the "inactive" practices for locally supervised offenders with the policy for those under the supervision of the Board of Parole and Post Prison Supervision ($1.1 million).

Each of these raises policy questions and the agency has only included the final one in its proposals for agency reductions.

DOC – Central Admin, General Services, Human Resources and Public Services

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	108,944,743	121,748,476	113,571,406	144,238,059
Other Funds	14,248,105	11,155,537	11,155,537	11,273,148
Federal Funds	846,571	0	0	0
Other Funds (NL)	0	0	671,971	0
Total Funds	**$124,039,419**	**$132,904,013**	**$125,398,914**	**$155,511,207**
Positions	416	441	466	475
FTE	412.93	431.21	459.52	467.25

Program Description

This section includes four divisions within the Department of Corrections:

- ***Central administration*** includes the Director's Office, Internal Audits, Population Management, and the Planning and Budget Office. This section includes the budgets for all of DOC's central state government service charges which make up almost 30% of the 2011-13 General Fund for these four divisions.
- ***The General Services Division*** includes accounting, contracting, information systems, central warehouse which provide the goods and services necessary to operate the facilities across the state (e.g., food and canteen), wireless communications, and facility services.
- The ***Public Services Division*** includes the functions relating to investigations of inmates, hearings, rules coordination, research and evaluation, and public information.
- ***Human Resources*** staff provides agency wide services including labor management, recruitment, employee development, training, and employee safety.

2011-13 Current Service Level Budgets by Division

	Central Admin	General Services	Human Resources	Public Services
General Fund	$57,659,762	$54,489,601	$15,287,001	$16,801,695
Total Funds	$59,459,774	$63,459,953	$15,287,001	$17,304,479
Positions	53	276	66	80
FTE	52.28	270.47	64.50	80.00

Revenue Sources and Relationships

These units rely almost entirely on the General Fund. Funding from the proceeds of the sale of certificates of participation (COPs) is used to fund construction-related activities and for the issuance costs of the COPs. The Distribution Services unit receives Other Funds from charging for services to other units in the agency and in some cases other agencies like the Oregon Youth Authority.

Budget Environment and Potential Reductions

Many of the positions and services provided by units in these divisions are based on the size of the prison population. The workloads of investigators, hearings officers, warehouse workers, and accountants who deal with inmate trust accounts all depend on the number of inmates. The number of employees drives the budgets of Human Resources and other units. In the past, the Legislature has taken a close look at these divisions' requests related to mandated caseload growth, and has limited the number of new positions created. If there are sentencing or other changes that decrease the prison population or allows for the closure of facilities, there should be corresponding position savings in these divisions.

The only allotment reduction that rolls up with savings from the 2011-13 current service level is the elimination of four safety coordinators from the Human Resources Division which should provide $964,044 in savings. It should also be expected that these divisions should take at least their fair share of the undesignated savings outlined in the section above.

DOC – Debt Service, Capital Improvements and Capital Construction

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	129,018,467	140,884,188	133,015,927	145,918,209
Other Funds	43,920,632	49,011,717	49,185,805	0
Other Funds (NL)	0	0	108,174,296	0
Federal Funds (NL)	0	0	1	1
Total Funds	**$172,939,099**	**$189,895,905**	**$290,376,029**	**$145,918,210**
Positions	14	0	0	0
FTE	13.50	0	0	0

Program Description

Debt service repays the principle and interest costs of certificates of participation (COPs) issued to finance the costs of construction of correctional facilities as well as the construction of local jail capacity related to the SB 1145 population, purchase of property, design costs, siting costs, major improvements or upgrades of existing facilities, and the staff costs associated with the construction and improvement of facilities. Overall, there is over $143.2 million General Fund in the budget for the estimated 2011-13 debt service. ***Capital Improvement*** funds are used for deferred maintenance and asset protection projects. These projects must be less than $1,000,000. Given that DOC manages over 5 million square feet of building space, much of it in older facilities like the State Penitentiary, the $2.7 million included in the 2011-13 CSL does not begin to meet the deferred maintenance needs of the agency. The ***Capital Construction*** budget unit includes expenditure authority for acquisition or construction of any structure or group of structures; all land acquisitions; assessments; and improvements or additions to an existing structure, which are to be completed within a six-year period with an aggregate cost of $1,000,000 or more. The expenditure limitation for each project is in effect for six years. In the CSL, there is no additional capital construction expenditure limitation, but some may be added during the session as the Legislature debates the use of the Junction City site.

Revenue Sources and Relationships

Debt Service is funded with General Fund for the existing COPs. There is also $2.9 million Other Funds in the 2009-11 budget which represents an estimate of unused balances in various capital financing accounts which can be used to offset General Fund debt service. Capital Improvements is almost always funded with General Fund. Capital Construction is usually Other Funds generated by the sale of COPs.

Budget Environment and Potential Reductions

Often during the biennium, debt service savings are realized and used by the agency to offset other costs or the Legislature has reduced the agency budget by that amount. At least $5 million General Fund has been or will be used for budget reductions during 2009-11. Beyond that, the amount for debt service in the 2011-13 current service level is based primarily on debt already issued so it is set for the biennium. There is still $12.3 million in COPs for Junction City infrastructure and site work authorized but yet to be issued during 2009-11. If the decision is made not to issue these bonds, there will be a small decrease in the debt service for 2011-13. As noted above, $2.7 million for deferred maintenance in the Capital Improvements budget does not begin to meet the needs of the agency and reductions should be avoided in this area. Delaying deferred maintenance often increases the cost of "fixing" the issue later on.

Whether to move forward with the construction of the Junction City minimum security facility is still yet to be determined. The current working population management plan assumes a Junction City facility opening in October 2015 after utilizing more than 500 temporary or emergency beds across the system and opening most of the more expensive Deer Ridge medium facility in Madras. This population management plan assumes current law relating to sentencing with both Ballot Measure 57 and 73 in effect. With an October 2015 opening, a small amount of capital construction limitation and financing authority would be required for 2011-13 for design work; construction related limitation could wait until 2013-15. Any decision regarding the Junction City psychiatric hospital facility also affects decisions on the prison schedule.

Criminal Justice Commission – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	6,287,416	5,364,461	4,954,312	5,619,548
Other Funds	67,003	196,866	196,866	159,320
Federal Funds	178,872	12,513,937	12,513,937	12,839,452
Total Funds	**$6,533,291**	**$18,075,264**	**$17,665,115**	**$18,618,320**
Positions	7	10	10	10
FTE	6.08	9.50	9.50	9.50

Agency Overview

The Criminal Justice Commission (CJC) and/or its staff:

- analyze and advise on state criminal justice policy and administer the sentencing guidelines;
- administer grant programs, including a drug court related program and federal criminal justice grants;
- conduct research and provides data to state policy makers;
- provide technical assistance to local public safety coordinating councils;
- staff the Asset Forfeiture Oversight Advisory Committee; and
- coordinate calculation of the fiscal impact of crime-related legislation/ballot measures among state and local public safety agencies.

Revenue Sources and Relationships

The Commission's Other Funds revenue is derived from forfeiture proceeds, which fund the activities of the Asset Forfeiture Oversight Advisory Committee (AFOAC) and for drug courts. The proceeds have been less than anticipated. Roughly half of the Federal Funds represent one time federal stimulus funding while the remaining are ongoing grants through the U.S. Department of Justice.

Current Service Level

The General Fund current service level is 13.4% higher than the 2009-11 legislatively approved spending level at December 2010 and a 5.4% total funds increase. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, state government service charges, and the phase out of one-time expenditures relating to an online grants management program (Other and Federal Funds).

Budget Environment and Potential Reductions

The CJC budget and operations can be split into two primary functions as shown in the following table:

	General Fund	Other Funds	Federal Funds	Total Funds	FTE
Policy/Research/Admin	1,051,457	159,320	137,847	1,361,259	4.75
Grants	4,568,091		12,701,605	17,257,061	4.75

Any major General Fund reductions would have to be from the drug court program, which represents over 80% of the agency's General Fund. The combination of eliminating an accounting position currently vacant, the General Fund resources for a policy analyst position, and the inflation adjustment would yield $268,000 in savings, or just under 5%. Remaining reductions would likely have to come from drug court grants – a $457,000 cut to reach a 15% General Fund reduction agency-wide and another $457,000 to reach a 25% cut. This would mean reducing funds that counties and other entities rely on for the administration of drug courts as well as support and treatment services drug court participants rely on. Over time, reductions to drug courts would likely result in greater Department of Corrections and local jail costs since one purpose of drug courts is to divert offenders from incarceration. Further reductions to the policy and research activities would reduce the ability to provide analysis and information to legislators and other policy makers including the fiscal impact of bills and ballot measures.

It may be possible to redirect a portion of the federal grant funds, but this may require federal approval and may be subject to federal supplanting restrictions if used to backfill General Fund.

District Attorneys and Their Deputies – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	10,481,366	10,188,466	10,321,973	10,390,201
Total Funds	**$10,481,366**	**$10,188,466**	**$10,321,973**	**$10,390,201**
Positions	36	36	36	36
FTE	36.00	36.00	36.00	36.00

Agency Overview

District Attorneys and their deputies prosecute state criminal offenses committed by juveniles and adults. In addition to criminal prosecution, district attorney legal duties include enforcement of child support obligations in non-welfare cases, prosecuting civil forfeitures, presenting evidence at mental health hearings, ruling on public records requests, representing interests in child dependency cases, assisting juvenile courts, and advising and representing county officers. District attorneys and their deputies are also active in local public safety coordinating councils, child abuse prevention teams, and community outreach activities.

District attorneys (DAs) are state employees who are locally elected. DAs are paid in two groups with those in the nine larger counties getting a higher salary than those in the remaining 27 smaller counties. Counties have the option to pay an additional salary supplement and provide other benefits (e.g., automobile and additional insurance), sometimes in connection with additional local responsibilities (e.g., supervisor of medical examiner program). In 2009, 22 out of 36 counties provided an annual monetary supplement ranging from $9,000 to $50,348 to the salary paid by the state. District Attorney offices receive additional state funding through the Department of Justice for the DA responsibilities in the areas of child welfare representation and juvenile dependency.

Revenue Sources and Relationships

This is entirely a General Fund budget at the state level. The state's portion of the total budgets for District Attorney Offices across the state is small. A county DA office survey compiled in 2000 showed that state funds covered between 2% (Multnomah) and 70% (Wheeler) of county prosecution budgets.

Current Service Level

The current service level is 4.5% less than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The primary reason for the reduction is a $545,658 decrease in the charge for liability coverage through the Department of Administrative Services' Risk Management Office. Almost 93% of the 2011-13 current service level budget is for the compensation costs of the 36 DAs. The remaining 7% is funding for administrative costs, almost entirely for mandated state government services charges (e.g., tort liability).

Budget Environment and Potential Reductions

The only real reduction option for this budget is a reduction in the compensation of the 36 DAs. During 2009-11 the salaries and related compensation costs for DAs were not reduced as was the case for almost all other Executive Branch employees. The funding for DA salaries was treated the same as other elected officials even though DA salaries are not statutorily set.

Removing inflation from the CSL budget saves only $912 since compensation represents the vast majority of the budget. The remaining reductions to meet 5%, 15% and 25% targets are below reflecting the two salary levels depending on county population and the reduction impact on DA annual salaries.

Reduction Level	Annual Salary Larger County	Annual Salary Smaller County	Total Savings Including All Compensation Items
Assumed in CSL	$104,832	$88,356	$0
5%	$99,590	$83,938	$492,990
15%	$89,106	$75,102	$1,478,970
25%	$78,622	$66,266	$2,464,950

Department of Justice (DOJ) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	49,089,856	54,721,022	51,483,520	64,330,882
Other Funds	212,129,591	219,503,978	220,351,243	240,776,799
Federal Funds	96,755,005	110,655,247	113,790,396	113,188,035
Other Funds (NL)	6,174,218	7,871,355	11,271,355	10,622,670
Federal Funds (NL)	15,083,540	15,857,750	15,857,750	15,285,103
Total Funds	**$379,232,210**	**$408,609,352**	**$412,754,264**	**$444,203,489**
Positions	1,331	1,333	1,345	1,320
FTE	1,303.85	1,319.83	1,327.28	1,313.23

Agency Overview

The Department of Justice (DOJ) is responsible for general legal counsel and supervision of all civil actions and legal proceedings in which the state is a party or has an interest. State statute places responsibility with DOJ for all the state's legal business that requires an attorney or legal counsel. DOJ is also responsible for a number of other programs including child support, district attorney assistance, crime victims' compensation, charitable activity enforcement, organized crime-related law enforcement, and consumer protection and education services. For the purposes of this document, the agency's budget discussion is divided into two general areas – those divisions which generally provide legal and law enforcement services to state agencies and others, and those divisions which account for the majority of General Fund in the agency.

Current Service Level

The General Fund current service level (CSL) is 25% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General (AG), and state government service charges. Major factors for the $12.8 million General Fund increase is backfill of one-time federal funds in Child Support ($4 million), an increase in the AG rate affecting multiple divisions ($3 million), mandated caseload growth in the Defense of Criminal Convictions (DCC) program ($0.7 million, and increases in General Fund employee compensation ($2.2 million). In addition, the CSL includes funding for those reductions included in the allotment reduction plans. The total funds current service level growth for the same period was 7.6% with employee compensation and the increase in the AG rate being the primary reasons for that increase. These increases are offset by reductions in one-time federal stimulus funding in the Crime Victims, Criminal Justice, and Child Support divisions.

DOJ – Appellate, Civil Enforcement, Criminal Justice, General Counsel, Trial and Administration

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	9,341,355	9,338,692	10,310,951	9,995,373
Other Funds	160,236,847	170,284,138	170,794,138	188,497,380
Federal Funds	11,484,037	12,113,654	14,639,731	11,692,087
Other Funds (NL)	850,957	632,136	4,032,136	3,209,710
Total Funds	**$181,913,196**	**$192,368,620**	**$199,776,956**	**$213,394,550**
Positions	702	703	714	691
FTE	680.00	693.41	699.48	684.06

Program Description

These six Divisions or program units generally provide legal services regulatory oversight and law enforcement services to state agencies, local governments and the general public. Briefly:

- The ***Appellate Division*** represents the state in all cases that are appealed to state and federal appellate courts in which the state is a party or has a significant interest.

- The ***Civil Enforcement Division*** represents the state in civil cases and also enforces certain criminal laws. Its major units include Child Advocacy (representing DHS and the Child Support Division), Medicaid Fraud, Consumer Protection and Education, Charitable Activities, and Civil Recovery. This Division is also responsible for the defense of the state's interest in the tobacco related Master Settlement Agreement.
- ***The Criminal Justice Division*** assists District Attorney Offices, investigates and prosecutes elected officials, and assists local law enforcement and other agencies with criminal intelligence and investigative support.
- The ***General Counsel Division*** provides legal advice and other services to the various state agencies and officials. State agencies generally must use the legal services of DOJ, and not contract with outside counsel or hire attorneys on staff for legal services without DOJ approval.
- The ***Trial Division*** defends the state and its agencies, departments, boards, commissions, officers, employees, and agents in all state and federal trial courts. This Division also handles all trial court cases involving inmate litigation.
- ***Administration*** includes the Office of the Attorney General and the Administrative Services Division which provides centralized fiscal services, information services, facility operations, and human resources services.

Revenue Sources and Relationships

Almost 70% of the revenue for these divisions is derived from the hourly charges to state agencies for legal advice, litigation, and other legal services. This is the primary source of revenue for Appellate, General Counsel, and Trial. DOJ operates similar to a law firm in that its legal services are billed not only to state agencies, but also internally. Employee compensation represents over 75% of the expenditures which are used to determine the rate. The hourly rates for attorneys (which represent over 85% of this revenue) assumed in the development of the 2009-11 EBL is $154 per hour, a 12.4% increase from the 2009-11 rate of $137 per hour. This rate includes an assumed funding amount for employee compensation increases (COLA and benefit increases) which will change as these issues are discussed for all state employees during the 2011 legislative session.

The General Fund in these divisions' budgets are for the Medicaid Fraud and the Civil Rights units in the Civil Enforcement Division and for the programs that provide investigative, criminal intelligence, and prosecution services to local and other law enforcement agencies. In the past, General Fund has also been used for defending the state's position for the tobacco related Master Settlement Agreement. Other sources of revenues include fees charged to entities that are regulated by the agency, settlements with various businesses for financial fraud and consumer protection, and a number of federal grants. The primary revenue source for Administration is derived from a cost allocation plan that charges the other programs in the Department for their services.

Budget Environment and Potential Reductions

Most of the activities performed in these divisions depend in large part on the amount of services demanded by state agencies and internal programs of the Department of Justice (as described in the next sections). While there is a link between the level of services provided by an agency such as the Department of Human Services and its need for legal services, there is also a strong link with increased legal risks and lawsuits as agencies forgo requesting legal services. For the Administrative Services area generally, reductions in support to divisions within DOJ would result from loss of technology, personnel, and finance related staff. There would also be the loss of Special Counsel positions in the Office of the Attorney General and reductions to the Honors Attorneys Program which provides internships for law students.

Reductions (agency proposed) to General Fund programs directly would have effects on two divisions in this grouping:

- For the ***Criminal Justice Division,*** a 5%reduction would mean a reduced level of financial fraud investigations/prosecutions pursued by the state since DOJ is the only agency with statewide financial investigative capacity. The annual institute for prosecutors, which provides initial and continuing statewide consistent training for district attorney office staff, would also be cancelled. At the 15% reduction level virtually all financial fraud cases would be discontinued along with a reduction in the number of organized crime prosecutions, and Department of Revenue related investigations/prosecutions. Finally, at 25% all assistance to District Attorney offices and law enforcement agencies where there is a local potential of interest would be eliminated and investigations/prosecutions would be limited to official misconduct and public corruption where there is a creditable accusation of monetary gain.
- For the ***Civil Enforcement Division,*** two programs would be affected. First, since the Medicaid Fraud unit depends on General Fund to match federal funds (75% Federal Funds/25% General Fund) any reduction

means a significant loss in federal funds. Training on health care fraud and elder/dependent abuse issues would be affected first and then staff would need to be cut which would reduce assistance to investigate and prosecute fraud. This would lead to some level of reduced recoveries for DHS and other agencies. The second unit affected would be the Civil Rights unit which would have to cut back on staffing, eliminating one of the three positions at the 25% level. This would reduce the number of cases that could be investigated and prosecuted. This is a new unit and state agencies would still have the authority to pay for some of these cases.

Another alternative for reductions is looking at the various funds administered by the agency. Two funds in these divisions offer the potential for using fund balances to offset General Fund cuts. First, the Legal Fund is the main fund which receives revenue from billings to agencies for legal services. In the past, excess fund balances have been reappropriated or have been factored into the calculation of the hourly fee charged agencies. The DOJ Education and Protection Fund also has been swept in the past as revenues from settlements and other sources have outpaced the services which are financed out of this fund. The Legislature in 2009 established a formal process for reviewing the balances in this fund.

The 2011-13 CSL does not include any funding for the defense of the state's position of the Master Settlement (MSA). Not providing some funding would risk up to roughly $160 million in revenues which are currently used for debt service, tobacco enforcement programs, the Oregon Health Plan, and the enforcement costs related to the MSA. For 2009-11, the state will likely spend roughly $1.8 million for this activity, an amount similar to what might be needed to be spent in 2011-13 to effectively protect the state's legal position.

DOJ – Crime Victims' Services, Child Support, and Defense of Criminal Convictions

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	39,748,501	45,382,330	41,172,569	54,335,509
Other Funds	51,892,744	49,219,840	49,557,105	52,279,419
Federal Funds	85,270,968	98,541,593	99,150,665	101,495,948
Other Funds (NL)	5,323,261	7,239,219	7,239,219	7,412,960
Federal Funds (NL)	15,083,540	15,857,750	15,857,750	15,285,103
Total Funds	**$176,912,213**	**$193,143,763**	**$189,880,339**	**$208,110,876**
Positions	629	630	632	629
FTE	623.85	626.42	627.15	625.17

Program Description

These three programs represent almost 85% of DOJ's General Fund resources. Briefly these programs are:

- The ***Crime Victims' Services Division*** administers grant and other programs that assist innocent victims of crimes through direct payment to victims, grants to local organizations that provide assistance to victims of abuse, payments for medical assessments and services, and grants to education and prevention of abuse and other crimes.
- The ***Child Support Division*** locates parents, establishes paternity, enforces and modifies child support obligations, and receives and distributes support payments from absent parents. These services automatically provided for families that are requesting, are receiving, or have received, public assistance or child welfare services from the Department of Human Services (DHS) or Oregon Youth Authority (OYA). Services to other families are provided when requested.
- The ***Defense of Criminal Convictions (DCC)*** funds the work of the Trial and Appellate divisions to defend the state in cases in which sentenced offenders challenge their convictions or sentences. Three types of cases are funded from these funds: (1) direct criminal appeals where the offender's challenge is on alleged legal or factual errors of the trial; (2) post-conviction challenges where the offender challenges the effectiveness of their counsel; or (3) federal *habeas corpus* where the offender challenges violations of the constitutional rights in the federal courts

Revenue Sources and Relationships

Funding for the Crime Victims' programs are a mix of General Fund resources for the Address Confidentiality Program and the Domestic and Sexual Violence Program, federal grants, and the state's share of punitive damage awards. The Crime Victims' Compensation program, Regional Child Assessment Centers grants, Child Abuse Medical Assessments and the CAMI program are supported all or in part by the Criminal Fine and Assessment Account (CFAA). The Child Support Division uses General Fund to match federal funds (roughly $2 of federal funds for each $1 of General Fund). In addition, the Division receives recoverable revenues for certain cases as well as program success incentive payments from the federal government. The DCC program is entirely General Fund.

Budget Environment and Potential Reductions

For the ***Crime Victims Services Division,*** two types of reductions impact the General Fund availability statewide. The Domestic and Sexual Violence Services and Address Confidentiality programs receive roughly $5 million General Fund directly (2011-13 CSL). For the first program, over 90% of the funds are distributed to almost 50 nonprofit service providers across the state that provide 24-hour crisis hotlines, emergency shelters, and other services. This funding represents a primary funding source for these nonprofits. General Fund cuts to the Address Confidentiality program would likely be taken in the number of staff hours dedicated to protecting the identify of abuse victims by providing a safe address to receive and process mail. For the programs funded with CFAA revenues in this division, any reduction would free up these CFAA revenues to be transferred to the General Fund. Currently most of these CFAA funds for these programs are sent to local public and nonprofit providers serving crime victims or for direct payments to crime victims. These reductions would affect the 36 Multidisciplinary Teams which involve both law enforcement and service providers who assist in child abuse cases. Reductions to the administrative staff funded with these funds would slow down the processing of crime victims' payments.

Reductions to the ***Child Support Division*** will generally result in the loss of staff resources. Since the General Fund is used as a match, there will also be a loss of federal funding. Finally, the federal government has incentives for the level of collections; as staff resources drop so do the level of collections and therefore the amount of incentive payments. At the 5% level the agency is likely to cut almost 30 positions saving $1.2 million in General Fund and at the same time reducing the amount of federal funding by $4.3 million and incentive payments by $1.4 million. The agency estimates that collections will fall by roughly $33 million with some of that as losses to DHS and OYA. At the 15% reduction level another 55 positions would be lost (additional $2.5 million General Fund savings), but at a cost of another $5.8 million Federal Funds and $1.4 million Other Funds. At the 25% level another 60 positions would be eliminated bringing the total staff losses to 134. While a total of $6.1 million General Fund savings would be realized, it would also mean over $16 million in lost federal funding and over an estimated $160 million in lost collections being distributed to families. The state would very likely fall out of compliance with federal requirements risking further federal funding cuts in the TANF program.

The ***Defense of Criminal Convictions*** program is entirely General Fund with almost $24 million included in the 2011-13 CSL. Reductions to this program would limit the amount the attorneys and other staff in the Trial and Appellate divisions can bill to represent the state in cases brought by offenders generally under the custody of the Department of Corrections. Reductions would result in the loss of attorneys and other staff in the Appellate and Trial divisions. The agency has been successful in the past three biennia in finding efficiencies to stem the growth of this program by working closely with the courts and public defenders. It does not control the number of cases it should address. At some point as funding is reduced, DOJ must start to waive cases or not to actively "work" cases and represent the state's position on these cases in the appellate courts. This increases the risk that a criminal defendant's conviction would be overturned. While this results in DOJ savings, both DOJ and the courts assert that these savings would be offset in large part by the courts having to "work" these cases with their staff so the state is "fairly" represented. At the 5% reduction level DOJ estimates that over 350 cases would be waived. A total exceeding 770 cases would be waived at the 15% reduction level, and over 1,150 cases would be waived at the 25% level. In the past, DOJ has delayed cases building a backlog of cases that would be worked in the future. The courts have established deadlines so that a case can only be delayed so long. Given that the courts will be facing the same funding situation as DOJ, they may be willing to loosen the deadlines some. There is still the potential for the federal courts to step in to insure "swift and certain" justice in these cases.

Military Department (OMD) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	24,068,731	26,078,460	24,624,329	31,806,080
Other Funds	126,912,134	126,447,477	130,829,468	93,235,124
Other Funds (NL)	0	0	1,172,024	0
Federal Funds	274,234,096	258,213,859	275,814,160	264,279,161
Federal Funds (NL)	0	0	1	0
Total Funds	**$425,214,961**	**$410,739,796**	**$432,439,982**	**$389,320,365**
Positions	517	525	540	526
FTE	473.95	485.72	487.60	485.43

Agency Overview

The Oregon Military Department (OMD) is responsible for administration of the Oregon Army National Guard, the Oregon Air National Guard, the Oregon State Defense Force, and, beginning with the 2007 biennium, the Office of Emergency Management (OEM). The Department is overseen by an Adjutant General, appointed by the Governor to a four-year term of office. The Adjutant General also services as the homeland security advisor to the Governor and chief of staff of the Governor's Military Council.

Although chartered as a state agency, the Department is functionally and administratively bifurcated into a state and a federal "agency," both of which are overseen by the Adjutant General. The federal government directly funds federal employees, guard member personnel costs, and all equipment and equipment maintenance. For the state, its responsibility primarily centers on providing facilities and facility maintenance for the Oregon Guard. The federal government, however, also is a major source of funds for new construction and some facility operating funds.

OMD is divided into seven main programs: Administration, Operations, OEM, Community Support, Debt Service, Capital Improvement, and Capital Construction.

Revenue Sources and Relationships

Revenue for the Department comes from a combination of General Fund, Other Funds, and Federal Funds.

General Fund support is used to pay for wages and salaries of state employees, debt service, OEM, and as state matching funds for various federal/state agreements.

The federal government provides two types of funding for the Department; if combined, the federal and state expenditures for the Department total approximately $764 million over the course of a biennium.

- State Budgeted Federal Funds ($264 million). These funds are used to finance each of the Department's six major program areas and are based on federal/state cooperative agreements and federal grants. Also included are Federal Funds for major construction projects.
- Federally budgeted and expended Federal Funds (approximately $500 million for 2,000 federal FTE per biennium). Outside of the state budget, the Department receives direct federal support. These are funds the U.S. Congress allocates to the National Guard Bureau to support the Oregon National Guard and are used to fund federal employees, guard member salaries and wages, and equipment.

The level of federal support in the state budget varies by program, type of activity, and type of facility. A variety of programs are 100% federally funded. Approximately 75% of the costs associated with logistical sites are federally funded. Between 75% and 85% of utility, maintenance, and supply expenditures of the Air National Guard are federally funded. 60% of the Oregon Youth Challenge Program costs come from the federal government, however, this match rate was recently increased to 75%.

The Office of Emergency Management (OEM) receives Federal Funds for emergency management and disaster recovery, homeland security, and Chemical Stockpile Emergency Preparedness Program grant funds.

Other Funds revenue received by the Department totals $93.2 million. The preponderance of the revenue (approximately $82 million) is related to 9-1-1 emergency telecommunications surcharge revenues under OEM. Also, Other Funds for the Department come from facility rental fees and some miscellaneous sales revenue. Rental revenues earned from federally supported facilities are required by the federal government to be used in support of the facility that earned it. The Department's facility rental revenue is $2.9 million. Rental revenue is somewhat uncertain given current economic conditions. Miscellaneous sales revenues are derived from vending machine profit, coin operated telephones, and recycling programs. Other Funds revenue includes approximately $163,000 in Oregon individual tax check-off deduction revenue that began with the 2006 tax year and is associated with the Emergency Financial Assistance Program. The Oregon Youth Challenge Program receives Average Daily Membership (ADM) revenue from the Bend-LaPine School District totaling approximately $1.6 million, plus another $350,000 in transfers from the Department of Education.

OMD is reporting an Other Funds ending balance of $28.2 million. According to the Department, the majority of this balance is related to General Obligation bond proceeds for the Seismic Rehabilitation program and 9-1-1 program tax revenue and will be distributed during the 2011-13 biennium.

A portion of an ending account balance in the 9-1-1 program was transferred to the General Fund during the 2009-11 biennium ($3.6 million).

Current Service Level

The current service level (CSL) is 10% less ($43 million) than the 2009-11 legislatively approved spending level at December 2010. General Fund increased by 29.2% ($7.1 million), Other Funds decreased by 28.7% ($37.6 million), and Federal Funds decreased by over 4.2% ($12.7 million). The growth in General Fund expenditures would have been 3.4% but for the restoration of $1.5 million in temporary across-the-board allotment reductions ordered by the Governor that occurred during the 2009-11 biennium and a 70.7% increase ($4.8 million) in General Fund Debt Service payments. The significant reductions in Other and Federal Funds resulted from the removal of one-time expenditure limitations for the Seismic Rehabilitation General Obligation bonds ($30 million) and Capital Construction ($31.9 million). The CSL includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

OMD's CSL budget is comprised of 1.8% personal services ($77.1 million), 16.6% services and supplies/capital outlay ($64.6 million), 60.6% special payments ($235.9 million), and 3% debt service ($11.8 million).

Budget Environment and Potential Reductions

In the larger picture, the critical issue for the Department is managing the number and duration of federal deployments and post-deployment support ("reintegration") of soldiers and their families. Family support activities are also important during periods of deployment.

Oregon's ability to attract federal funding is partially dependent upon its troop strength level and the operational status of its various facilities. The Department's ability to adequately maintain its facilities remains an issue given the potential for budget reductions in maintenance personnel and services and supplies. The loss of state funds for these activities could reduce matching Federal Funds.

OMD would achieve a 5% General Fund reduction by capturing debt service savings due to financing and issuance cost being less than is anticipated in the budget, continuing furlough and pay freezes, and abolishing the Seismic Rehabilitation Grant Program.

OMD would achieve a 10% General Fund reduction by cancelling a pending certificate of participation issuance sale for the Milton-Freewater Armory project, thereby accruing General Fund Debt Services savings. OMD would also consolidate the Milton-Freewater and the Pendleton Armories and then close the Milton-Freewater Armory. General Fund reductions for the Oregon Youth Challenge Program would occur, but without adversely impacting the program as there has been a corresponding increase in federal matching funds.

At the 15% General Fund reduction level, OMD would begin to abolish Administration program positions, abolish an Operations Program position, fund shift other positions to Federal Funds, and reduce services and supplies.

At the 20% reduction level, further Administration program positions would be abolished along with three positions in OEM and five armory maintenance positions in the Operations program. Services and supplies across the agency would be reduced. Two armories would be closed; however, these armories were already in the process of being moved to a replacement facility that is nearing completion (Camp Withycombe Armed Forces Reserve Center).

At the 25% reduction level, two Administration program positions would be abolished along with four OEM positions, and seven armory maintenance positions. Three armories would be consolidated with other armories and then closed (The Dalles, Albany, and Burns). A new Readiness Center in The Dalles is in the design process.

OMD states that the closure and consolidation of armories and the elimination of maintenance positions will result in less armory rental income leading to a further decline in facility maintenance.

OMD – Operations

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	11,559,967	11,005,657	10,384,365	11,721,522
Other Funds	3,323,583	3,869,511	3,869,511	4,266,222
Federal Funds	92,805,036	83,247,490	96,127,794	91,090,856
Total Funds	**$107,688,586**	**$98,122,658**	**$110,381,670**	**$107,078,600**
Positions	397	406	420	406
FTE	356.80	367.33	369.21	366.83

Program Description

The Operations program is responsible for the operation and management of the Army and Air National Guard programs on a daily basis. The Operations program consists of three major areas of responsibility, Army National Guard, Air National Guard, and other. These three programs oversee the National Guard's 15 subprograms.

There are three Army National Guard subprograms:

- ***Army National Guard Facilities Operations and Maintenance*** combines all Army National Guard facilities operations and maintenance activities into one program including real property operations and maintenance, logistical facilities, armories, training facilities, security, and automated target systems. The program is funded primarily by Federal Funds with a state matching requirement of 0% to 50%, depending on the nature of the program.
- ***Army National Guard Construction Operation*** manages construction of Oregon Army National Guard facilities. The program is funded with General Fund and Federal Funds.
- ***Army National Guard Environmental Program*** is responsible for overseeing compliance with federal and state environmental regulations for Oregon Army National Guard facilities. The program is 98% federally funded and 2% General Fund.

There are seven Air National Guard subprograms:

- ***Air National Guard Administration*** provides command and administrative support for all Oregon Air National Guard programs. Administrative staff is 100% federally funded, while services and supplies are funded by the General Fund.
- ***Air National Guard Civil Engineering*** provides facility operations and maintenance, repair, and alteration support for the Portland Air Base, Kingsley Field, and Camp Rilea Air National Guard facilities. The program is funded primarily by Federal Funds, with a state match of 15% to 25%.
- ***Air National Guard Security*** provides security police protection at the Portland Air Base and Kingsley Field. Security personnel are instrumental in protecting aircraft and facilities against theft, sabotage, vandalism, and trespassing. This program is 100% federally funded.
- ***Air National Guard Fire Protection*** provides fire protection at the Portland Air Base and Kingsley Field. Personnel are trained to contain aircraft fires, perform air crew extraction, and provide structural fire fighting protection. It is the only source for crash/rescue and fire fighting at the Klamath Falls Airport.

Some of the structural resources have been used on Conflagration Act fires as recently as the 2006 fire season. This program is 100% federally funded.

- ***Air National Guard Environmental Program*** monitors and ensures environmental compliance at the Portland Air Base, Kingsley Field, and Camp Rilea Air National Guard facilities. The program is funded through a federal-state cooperative agreement and requires state matching funds of 15% to 20%, depending on the program location.
- ***Kingsley Field Billeting Program*** provides lodging to Oregon National Guard members, F-15 fighter pilot students, and flight medicine students receiving training at Kingsley Field. The program is 100% federally funded.
- ***Air National Guard Family Support Services*** provides family readiness and support assistance to the Air National Guard members and their families in Klamath Falls and Portland. Services focus on family and personal readiness, economic viability, and overall satisfaction with life in the Air National Guard by members and their families. The program is 100% federally funded.

The other five subprograms include:

- ***Equipment Refurbishment*** provides repair for excess unserviceable electronics, power generation, and support equipment that is then redistributed to fill critical equipment shortages in the National Guard. The program is operated at Camp Withycombe in Clackamas, Oregon and is 100% federally funded.
- ***Counterdrug Program*** supports local, state, and federal law enforcement efforts to stop the flow of illegal drugs into the state and manufacture of illegal drugs in Oregon. The program is 100% federally funded.
- ***Electronic Security System*** provides electronic security systems for all facilities designed for storage of small arms or ammunition. Electronic security system equipment and replacement components are procured directly through the federal supply system with 100% Federal Funds.
- ***Telecommunications*** provides procurement, operation, and maintenance of the Oregon Army National Guard telecommunications system and is 100% federally funded.
- ***Distance Learning*** provides soldiers and their communities access to video teleconferencing, video programming, computer based training, web-based training, interactive audio and video, and electronic mail and network systems. There are seven classroom sites at OMD facilities throughout Oregon. The program is 100% federally funded.

Revenue Sources and Relationships

The Program is funded with a combination of General Fund, Other Funds, and Federal Funds. The source of the Other Funds is primarily facility rental fees ($2.8 million) and Federal Funds received as Other Funds under various cooperative agreements.

Federal Funds are from the National Guard Bureau, some of which are budgeted as Other Funds under federal cooperative agreements.

Current Service Level

The current service level (CSL) is 3.3% less ($3.3 million) than the 2009-11 legislatively approved spending level at December 2010. General Fund increased by 12.9% ($1.3 million), Other Funds increased by 10.3% ($396,711), and Federal Funds decreased by over 5.2% ($5 million). It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

The Operations program CSL budget is comprised of 52.8% personal services ($56.5 million) and 47.1% services and supplies/capital outlay ($50.4 million), and 0.1% special payments ($145,925).

The CSL budget discontinues a lease payment for the Central Oregon Readiness Center ($685,465 General Fund).

Budget Environment and Potential Reductions

The Department owns and operates 389 facilities comprising over 3 million square feet throughout the state. The largest of these are 15 training/logistical sites, two air bases, and approximately 40 armories.

The operations and maintenance of this many buildings in a declining General Fund is challenging, especially given the move to replace outdated armories with larger Readiness Centers and Armed Forces Reserve Centers, which are more costly to operate and maintain.

General Fund reduction options include the elimination of facility maintenance and other positions, services and supplies, and the consolidation/closure of armories.

OMD – Office of Emergency Management

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	2,599,037	2,248,271	2,076,376	2,634,529
Other Funds	94,723,244	111,933,843	111,933,843	83,611,004
Federal Funds	91,291,494	162,061,030	148,855,726	166,462,936
Total Funds	**$188,613,775**	**$276,243,144**	**$262,865,945**	**$252,708,469**
Positions	46	46	46	46
FTE	44.15	45.60	45.60	45.60

Program Description

The Legislature moved the state's Office of Emergency Management (OEM), and a portion of the Criminal Justice Services Division related to homeland security, from OSP to the Military Department beginning with the 2007-09 biennium (HB 2370). With this action OEM and homeland security functions became a program within the Military Department.

OEM takes the lead in responding to emergencies across the state and coordinate a statewide emergency services system. This system incorporates the separate local and state emergency service elements into a comprehensive capability to prepare for, respond to, and recover from disaster conditions. Activities include preparedness planning as well as the development and implementation of mitigation strategies. The program has nine major areas of responsibility:

- ***Oregon Emergency Response System (OERS)*** maintains OERS 24 hours/seven days a week and acts as a single point for reporting and coordinating emergencies that might require state and/or federal assistance.
- ***Statewide 9-1-1 System*** administers the 9-1-1 system which provides funding to local systems and takes the lead in developing and implementing new technology.
- ***Grant Administration*** administers grants used to respond to emergencies, hazard mitigation planning, and project implementation throughout the state.
- ***Chemical Stockpile Emergency Preparedness Program (CSEPP)*** administers CSEPP in Eastern Oregon. CSEPP is the offsite program that prepares communities to ensure that local and state plans are in place to respond to issues surrounding the demilitarization of chemicals at the Umatilla Army Depot, which is slated to be completed during the 2011-13 biennium.
- ***Search and Rescue Program*** works with sheriffs in relation to the ground, marine, and air search and rescue program.
- ***Domestic Preparedness*** provides the central point of planning, training, and exercising for the state's domestic preparedness efforts and offer guidance to local governments that receive grant funds through the program.
- ***Terrorism*** subprogram serves as the administrative "agency" for federal homeland security grants. It would be responsible for seeking and obtaining homeland security grants, and then distributing grant proceeds to sub-grantees as well as monitoring grant outcomes.
- ***Seismic Rehabilitation*** program administers the expenditure of general obligation bonds for the purposes of seismic rehabilitation of public education facilities (Article XI-M bonds) and emergency services facilities (Article XI-N bonds).
- ***Oregon Local Disaster Assistance Loan Account*** was established during the 2008 special session to provide loans to local governments and school districts to match moneys from federal programs for federally declared disasters that are subject to state matching funds provisions.

Revenue Sources and Relationships

The major funding source is Federal Funds received for state homeland security, Federal Funds for CESPP, Federal Emergency Management Agency (FEMA) disaster recovery, FEMA CESPP pass-through grants, and Non-Disaster Emergency Management Performance grants. These funding sources are used for general OEM operations, development and administration of the emergency response infrastructure, training, and grants passed through to local governments for their emergency management programs. Some of the funds require a 50% state or local match. OEM also receives funding for the planning, training, and coordination in the state's Domestic Preparedness/Weapons of Mass Destruction program.

Funding for responding to Presidentially-declared disasters and pre-disaster mitigation is available from the Federal Emergency Management Agency (FEMA) and requires a 25% state or local match. There is also funding dedicated for the CSEPP program (no match required) to pay for OEM and local grants. Umatilla and Morrow counties receive funding through the state for CSEPP-related activities. All CSEPP activities are slated to be completed this biennium.

Oregon's 9-1-1 toll-free emergency number to access safety services is a state and local partnership. Telecommunication providers collect the Emergency Communications Tax from their customers and remit the tax revenue to the Department of Revenue (DOR) on a quarterly basis. Local governments use the revenue to partially fund the expense of approximately 49 Public Safety Answering Points (PSAPs) or dispatch centers across city and county governments in Oregon. Revenue in the Enhanced 9-1-1 subaccount is primarily used by the Department to make direct payments to vendors for PSAP circuit charges and software upgrades. The subaccount may reimburse cities and counties on an actual cost reimbursement basis for some costs.

Current Service Level

The current service level (CSL) is 3.9% less ($10.1 million) than the 2009-11 legislatively approved spending level at December 2010. General Fund increased by 26.9% ($558,193), Other Funds decreased by 25.3% ($28.3 million), and Federal Funds increased by over 11.8% ($17.6 million). It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The growth in General Fund expenditures would have been 17.2% but for the restoration of $171,895 in temporary across-the-board allotment reductions ordered by the Governor that occurred during the 2009-11 biennium.

The Operations program CSL budget is comprised of 3.3% personal services ($8.5 million) and 3.5% services and supplies/capital outlay ($8.9 million), and 93.1% special payment ($235.3 million).

Other Funds expenditure limitation for 2009-11 Seismic Rehabilitation General Obligation bonds is eliminated ($30 million) as is Other Funds expenditure limitation for the Oregon Disaster Assistance Loan Account ($514,000).

Budget Environment and Potential Reductions

The expectation of OEM is to coordinate, facilitate, organize, resource, and manage, pre-disaster, disaster, and post-disaster activities for the state. In ordinary budgetary times, this is an unrealistically tall order for a program that has approximately the same staffing level as the Department's Oregon Youth Challenge Program.

General Fund reductions could impact the amount of Federal Funds, which require a federal match of up to 50% for some grants. Administrative reductions could also impact the state's compliance with federal grant reporting.

OMD – All Other Program Areas

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	9,909,727	12,824,532	12,163,588	17,450,029
Other Funds	28,865,307	10,644,123	15,026,114	5,357,898
Other Fund (NL)	0	0	1,172,024	0
Federal Funds	90,137,566	12,905,339	30,830,640	6,725,369
Federal Funds (NL)	0	0	1	0
Total Funds	**$128,912,600**	**$36,373,994**	**$59,192,367**	**$29,533,296**
Positions	74	74	74	74
FTE	73.00	72.79	72.79	73.00

Program Description

The Department is also comprised of the following program areas:

- ***Administration*** ($7.4 million, 27.00 FTE) consists of the office of the Adjutant General, Command Group, Financial Administration, Personnel, Public Affairs, reintegration, and Emergency Financial Assistance program for soldiers and their families.
- ***Community Support*** ($9.7 million, 46.00 FTE) coordinates support for local education programs and emergencies which require the assistance of the National Guard. The program contains the Oregon Youth Challenge Program (OYCP) operated through a federal/state agreement with the National Guard Bureau and the Science and Technology Academy Reinforcing Basic Aviation and Space Exploration (STARBASE) program, which is designed to increase at-risk 3rd through 8th grade students' awareness of the importance of math and science. The STARBASE program is 100% federally funded.
- ***Debt Service*** ($11.8 million) provides the funding to make payments on principal, interest, and financing costs associated with the issuance of certificates of participation (COPs) and General Obligation bonds.
- ***Capital Improvement*** ($621,824) provides for capital improvements to existing facilities. Capital Improvement projects are those with a total cost of $1,000,000 or less.
- ***Major Construction*** projects total more than $1,000,000. This program provides for new construction, remodeling, or improvements to facilities.

Revenue Sources and Relationships

The above programs are funded with General, Other, and Federal Funds.

Federal Funds (converted to Other Funds) are used to partially fund the Department's administrative costs.

Federal Funds comprise the majority of construction funding. In general, Other Funds, and at times General Fund, are required matching funds for projects. The sources of Other Funds are either certificates of participation and/or the Department's Capital Construction Account. Depending on the type of facility constructed, the federal government pays between 67% and 100% of the approved construction cost.

The CSL funds the OYCP at 60% Federal Funds and 40% General and Other Funds. Other Funds is from Average Daily Membership (ADM) revenue through the Bend-LaPine School District. Recently, the federal government increased its match rate to 75% thereby allowing the program to operate exclusively on its Other Funds revenue. The program's CSL General Fund has therefore become available for alternative uses.

Current Service Level

The current service level (CSL) is 50.1% less ($29.7 million) than the 2009-11 legislatively approved spending level at December 2010. General Fund increased by 43.5% ($5.3 million), Other Funds decreased by over 64.3% ($10.8 million), and Federal Funds decreased by 78.2% ($24.1 million). It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The growth in General Fund expenditures would have been less than 1% but for the restoration of $432,971 in temporary across-the-board allotment reductions ordered by the Governor that occurred during the 2009-11 biennium and the addition of $4.8 million in new General Fund Debt Service.

The CSL budget remove one-time General and Other Funds from the 2009-11 biennium for the Emergency Financial Assistance Program ($500,000 General Fund and $500,000 Other Funds) and a one-time General Fund appropriation for payments to National Guard soldiers exposed to hexavalent chromium in Basra, Iraq ($30,000).

The budget for the Administration program removed $312,667 of Other Funds expenditure limitation related to Emergency Financial Assistance program, which the Department estimates will experience a decline in Oregon personal income tax charitable check off revenue. This action is necessary to balance OMD's projected revenues and expenditures.

Budget Environment and Potential Reductions

The Administration program may need continued resources to support the state reintegration program, that provides post-mobilization assistance to National Guard members and their families after soldiers and airmen return from federal deployments.

The state's ability to meet any new matching funds requirements for major construction projects will be restricted given the state's limited bonding capacity and ability to provide for new General Fund Debt Service.

General Fund reduction options include abolishing administrative staff, cancelling the issuance of a pending certificate of participation sale, and eliminating services and supplies. OYCP General Fund is a viable reduction given the recent increase in Federal Funds to support the program.

Board of Parole and Post-Prison Supervision – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	3,896,669	3,517,191	3,657,600	4,251,582
Other Funds	1,424	10,048	10,048	10,289
Total Funds	**$3,898,093**	**$3,527,239**	**$3,667,648**	**$4,261,871**
Positions	15	15	15	15
FTE	15.00	15.00	15.00	15.00

Agency Overview

The three-member Board of Parole and Post-Prison Supervision (BPPPS) is responsible for setting parole release dates for certain offenders (mostly those committing crimes prior to November 1, 1989); approving release plans and establishing conditions of community supervision for all offenders; setting release dates for dangerous offenders; conducting administrative reviews of offender appeals; administering parole revocation hearings; issuing arrest warrants and order sanctions for parole/post-prison violators; and notifying victims of actions.

Revenue Sources and Relationships

The Board is supported almost entirely by General Fund. Other Funds revenue is generated from the sale of documents and hearing tapes to the public and to offenders, as well as court ordered costs payable to the Board.

Current Service Level

The current service level is 16.2% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

The Board's role has changed as the number of offenders eligible for parole decreases and the number of offenders under post prison supervision increases. The number of offenders for whom the Board sets a parole dates has decreased from 5,300 in 1988 to about 1,700 in 2010. In contrast, the number of offenders being supervised in the community has increased 34% over the last decade; from 10,374 in 2000 to 13,899 in 2010. The result of this shift is the Board now holds fewer formal release date hearings, but has a significantly greater administrative workload involving release plans, revocations, warrants, and discharges.

Growth in the number of offenders under parole and post-prison supervision is expected to continue. Based on the forecast prepared by the Office of Economic Analysis (October 2010), this number is expected to grow by about 6% over the biennium, reaching 13,687 by July 2013.

Other factors affecting the Board's role and workload include: implementation of and changes in sentencing guidelines; increases in inmate and offender populations; increases in, and results of, inmate and offender judicial appeals; increases in victim participation in post-sentencing matters; and biennial statutory changes.

The agency's first 20% of reductions consist of decreases in inflation, Attorney General charges, and contracts with attorneys, interpreters, and psychological evaluations. These reductions seem unrealistic, as the Board already faces fiscal challenges from potential under-funding for Attorney General costs. During the 2010 special session (HB 5100), the Legislature added $443,208 General Fund to help cover Attorney General legal services and psychiatric examination costs; this increase is part of the base budget for 2011-13. The additional resources were subject to allotment reductions, however, so the agency may still need more funding before the end of the 2009-11 biennium. The Board has very little control over its legal expenses since most of the costs are due to challenges to the Board's decisions by those under the Board's supervision.

The remaining reduction options focus solely on staffing, eliminating one position directly assisting the Board with administrative requirements and another position responsible for victim services. Cuts at this level would tax the agency's ability to meet statutory requirements and timelines; considerations of an agency restructure, mission change, or consolidation may be among other, more effective or appropriate alternatives.

Department of State Police (OSP) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	213,144,698	228,853,868	213,183,232	249,708,246
Lottery Funds	6,669,667	7,223,958	7,223,958	7,804,013
Other Funds	73,544,855	91,223,661	93,428,159	99,079,963
Federal Funds	11,717,276	6,547,508	9,673,357	6,756,916
Total Funds	**$305,076,496**	**$333,848,995**	**$323,508,706**	**$363,349,138**
Positions	1,327	1,295	1,301	1,292
FTE	1,223.28	1,287.65	1,289.15	1,288.25

These figures do not include expenditures related to the Oregon Interoperability Network (OWIN) for all years. The Legislature moved this project to the Oregon Department of Transportation (ODOT) in February 2010 so that the ODOT tables include any historic and current figures for OWIN.

Agency Overview

The Department of State Police (OSP) is a primary law enforcement agency within state government and has the following responsibilities:

- The ***Patrol Division*** enforces traffic safety laws and provides first responder services primarily on state highways and interstate highways.
- The ***Criminal Investigation Division*** investigates drug crimes and major crimes.
- The ***Fish and Wildlife Division*** enforces the various fish and wildlife laws.
- Statewide crime lab and forensic investigations are provided by the ***Forensics Division and the State Medical Examiner.***
- The ***Gaming Division*** is responsible for enforcing Lottery and Tribal gaming activities.
- The ***State Fire Marshal*** is responsible for both fire and hazardous materials regulation and enforcement.
- Basic crime and other public safety related information is maintained and provided by the ***Law Enforcement Information Division.***

Current Service Level

The General Fund current service level (CSL) is 17.1%, or $36.5 million, higher than the 2009-11 legislatively approved spending level at December 2010, while there is a 12.3% growth in total funds for the same periods. This growth includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. General Fund growth is primarily driven by employee compensation growth ($21.5 million). The CSL does not include the impact of two significant revenue issues. The first is the anticipated $3.2 million Other Funds reduction for the Patrol Division which funded 15 positions dedicated to truck safety. The second issue is the expected decrease in fee revenues of $4.9 million Other Funds (funding 38 positions) for the Identification Services unit which provides information for background checks. Unless other revenues are identified, these positions will have to be eliminated for 2011-13.

OSP – Patrol Services, Criminal Investigation, Fish and Wildlife and Gaming Divisions

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	132,751,440	149,592,822	138,594,874	164,929,890
Lottery Funds	6,669,667	7,223,958	7,223,958	7,804,013
Other Funds	43,032,998	49,853,819	49,853,819	54,422,671
Federal Funds	1,665,882	3,412,763	4,612,763	3,449,266
Total Funds	**$184,119,987**	**$210,083,362**	**$200,285,414**	**$230,605,840**
Positions	833	816	816	812
FTE	739.76	810.40	810.40	811.00

Program Description

These four divisions represent the four units that provide direct law enforcement with sworn OSP troopers. The basic functions of each are:

- The ***Patrol Services Division*** provides uniformed police presence and law enforcement services throughout the state with primary responsibility for traffic safety and response to emergency calls on Oregon's state highways and interstates. Also included in this Division are the field command and support staff as well as the Capitol Mall Security unit, Oregon State University security unit, and the Dignitary Protection unit.
- The ***Criminal Investigation Division*** augments and supports local law enforcement through investigation of major crimes and the gathering of evidence. Specialized areas or units include arson/explosives, drug investigations, intelligence, sex offender registration, sexually exploited children, polygraph examinations, computer crimes, and crimes in state correctional institutions.
- The primary mission of ***Fish and Wildlife Division*** is to assure compliance with laws that protect and enhance the long-term health and equitable utilization of fish and wildlife resources including the Oregon Plan in protecting fish habitat and stream bed enhancement. The officers assigned to this Division also routinely enforce traffic, criminal, boating, livestock, and environmental laws.
- The ***Gaming Division*** ensures fairness, honesty, integrity, and security of the Oregon State Lottery and tribal gaming centers operating in Oregon. The Oregon State Athletic Commission (formally the Boxing and Wrestling Commission) is also part of this Division.

2011-13 Current Service Level Budgets by Division

	Patrol	Criminal	Fish and Wildlife	Gaming
General and Lottery Funds	$130,264,304	$31,975,244	$10,494,355	$0
Total Funds	$145,222,963	$37,620,659	$36,062,927	$11,699,291
Positions	525	129	118	40
FTE	524.00	129.00	118.00	40.00

Revenue Sources and Relationships

The core functions of the ***Patrol and Criminal Divisions*** rely on General Fund resources. The Patrol Division also receives funding for specific activities; including: (1) the Department of Transportation ($4.6 million total) for a variety of purposes including traffic safety patrols in highway construction zones, snow-park enforcement, and DMV vehicle identification (VIN) inspections: (2) Oregon State University ($2.6 million) for campus security; (3) Parks and Recreation Department, including the State Fair ($0.5 million); (4) Legislative Administration Committee and the Department of Administrative Services for Capitol Mall security ($3.5 million); and (5) security for the Chief Justice ($0.2 million). The Criminal Division receives over $3.2 million in Fire Insurance Premium Tax revenues for the arson unit and also receives fee revenue for sex offender registration, drug enforcement, and state seizure revenue

The primary funding source for the ***Fish and Wildlife Division*** is from the Oregon Department of Fish and Wildlife ($20.3 million Other Funds) generally from fish and game license fees. Historically, over 28% of these revenues had been provided to the State Police for enforcement, but its share fell to less than 19% for 2009-11. Other major funding sources for the Fish and Wildlife Division include: (1) Ballot Measure 66 Lottery Funds for enforcement of the Oregon Plan ($6.6 million Lottery Funds); (2) Marine Board resources ($1.7 million Other Funds) for enforcement of boating laws; (3) Parks and Recreation Department funds for activities on the Deschutes River and for ATV enforcement ($0.5 million); and (4) roughly $1.6 million from federal agencies. The ***Gaming Division*** relies on: (1) funding from the Lottery Commission ($5.6 million); (2) Native American Gaming Tribal revenues for the Tribal Gaming Section ($4.3 million); (3) $1.3 million in fees generated from the vendor investigation unit for background checks; and (4) revenues from the 6% gross receipts tax on the Oregon Athletic Commission ($0.2 million).

Budget Environment and Potential Reductions

These OSP units represent the sworn staff that enforce a variety of laws, but also act as first responders across the state. Since the General Fund resources are centered in the Patrol and Criminal Investigations divisions, any significant reductions will almost have to be taken as cuts in sworn trooper positions. While there are some non-sworn positions in these two divisions, the majority of staff and funding are represented by troopers. Each new trooper position costs just under $220,000 per biennium for the ongoing monthly costs (compensation, benefits, and other ongoing costs like fuel). This amount does not include the initial or replacement costs of a vehicle and other equipment. A sworn trooper with ten years of experience costs roughly $50,000 more per biennium than a new recruit. As the reductions become greater and more senior staff are laid off, the savings per position increase. Unfortunately, it may mean a greater number of layoffs given that bumping rights are allowed under the labor agreements. For example, if a number of "detective" positions (generally filled with more senior troopers) in the Criminal Investigation Division are eliminated, the troopers that have lost their positions will likely bump more junior troopers in the Patrol Division. Since the per trooper cost for the more senior troopers is roughly $50,000 more per biennium, the Patrol Division will have to keep positions vacant to provide the additional compensation resources.

In the past, the agency has put forth reduction options which "thinned" the soup. More recently, OSP has started to look at maintaining key functions and eliminating whole programs. Based on their priorities, OSP would hold off as long as possible from reducing the Patrol and other divisions by first making reductions in the Criminal Division by eliminating the Sex Offender registration program ($1.6 million General Fund in CSL) and discontinue all participation in regional drug task forces ($7.3 million General Fund; 26 positions) to get to the 5% level. To reach a 15% reduction level of roughly $24 million would require eliminating the terrorism related investigations ($1.4 million General Fund; 5 positions) and most of the Major Crimes unit ($17.1 million; 64 positions). The reductions required to meet the 25% level, or $41.2 million, would need to include almost all of the remainder of the Criminal Division functions and over 40 troopers from the Patrol Division. The only remaining functions funded in the Criminal Division would be investigative reports and bomb programs. Another alternative would be to not hire the 49 trooper positions that were not hired due to the allotment cuts in 2009-11. These positions are funded in the CSL and not hiring them would save $11.1 million General Fund. Any reductions to the Patrol Division would almost certainly mean abandonment of the 24/7 coverage goal. The agency has reduced purchases of equipment like patrol cars, but significant reductions were taken in this area during 2009-11 making these types of reductions very difficult for 2011-13 as the equipment wears out and must be replaced.

There has been discussion in the past of finding an alternative funding source for OSP functions, specifically the Patrol Division. Alternatives that have been discussed or are used in other states to fund state police functions include increasing the gas tax, raising motor vehicle related fees, placing a surcharge on auto insurance premiums, and increasing the beer and wine tax. Many of the alternatives will require legislative super majorities (e.g., beer and wine taxes), while others require constitutional amendments (e.g., gas tax increase). To put things into perspective, the General Fund CSL amount for the Patrol Division is $130.3 million for 2011-13. A one cent increase in the gas tax (currently 30 cents per gallon) raises roughly $50 million per biennium, but the gas tax was just increased by six cents at the beginning of 2011. A $1per barrel increase in the beer tax (currently $2.60 per barrel) generates just over $3 million per biennium and a $1.00 per gallon increase in the wine tax (not including desert wines) generates just over $15 million (current rate is $0.67 per gallon) under current distribution formulas.

OSP – Forensic Services and Medical Examiners

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	31,694,971	36,356,323	34,203,996	39,474,896
Other Funds	442,812	478,461	538,461	571,058
Federal Funds	1,955,779	1,910,571	2,390,571	1,982,609
Total Funds	**$34,093,562**	**$38,745,355**	**$37,133,028**	**$42,028,563**
Positions	136	135	135	135
FTE	132.45	135.00	135.00	135.00

Program Description

The ***Forensics Services Division*** provides scientific, technical, and investigative support to all criminal justice agencies across the state through forensic analysis. Forensic labs are located in Clackamas (largest facility) Bend, Central Point, Ontario, Pendleton, and Springfield. This system is the only "full service" crime lab in the state, and at least 90% of the work is done for law enforcement agencies other than OSP including local police, sheriffs, and district attorneys. The Implied Consent Unit is responsible for approval, certification, and servicing of portable breath testing instruments, and also trains and certifies over 5,000 law enforcement officers in the use of breath testing instruments. The ***Medical Examiner's Office*** is located in Clackamas and provides technical assistance and supervision to the 36 counties, directs investigations, provides direct professional services (autopsies, court testimony, case review, and consultation), and certifies the cause and manner of all investigated deaths. The State Medical Examiner appoints all 36 county examiners.

2011-13 Current Service Level Budgets by Division

	Forensics Services	Medical Examiner
General and Lottery Funds	$34,865,324	$4,609,572
Total Funds	$37,157,665	$4,870,898
Positions	126	9
FTE	126.00	9.00

Revenue Sources and Relationships

Services from the forensics labs and medical examiner services are generally provided at no charge to law enforcement agencies and have been funded with General Fund resources. The Other Funds revenues for forensics are from miscellaneous sales of equipment, photographic requests, witness fees, and donations from citizens to support the Convicted Offender Program (DNA testing). Federal Funds are grants from the National Institute of Justice, generally for the purchase of equipment, supplies, and DNA test kits. Other Funds revenue for the Medical Examiner includes payments for building support in the metro area and autopsy reports.

Budget Environment and Potential Reductions

The State Police has the only full-service crime lab system available in the state, so currently there are not alternatives for local agencies to access all of the services provided. If these services were not provided, local law enforcement agencies would likely create capacity in their communities, which in the long run would create inefficiencies. During the 2001-03 budget crisis, the Forensics lab system saw a significant drop in its staffing as budgets were reduced statewide. These cuts greatly increased the turn-around time for tests, created significant backlogs, and required priorities to be established on what testing must be done. In addition, OSP had trouble hiring qualified staff back as positions and funding were restored. For these and other reasons, OSP would protect these services and generally make reductions elsewhere, again targeting the Criminal Division.

Currently, the Forensics Division has 126 positions included in the 2011-13 CSL, about 20 positions more than what was authorized for the 2003-05 biennium. If OSP returned to these 2003-05 staffing levels, it would first close the Ontario lab and consolidate its operations into the Pendleton lab. This move would eliminate two positions, but would also affect the turnaround time statewide since the work would have to be done somewhere. In theory, the system could operate with one or two labs, but lab staff also act as crime scene investigators so this capacity must be available on a timely basis statewide. Other staff reductions to get to 2003 levels would create the need to initiate restrictions on non-felony property crime cases and latent print comparisons. Just like the Patrol Division, the Forensics Division made significant reductions in its equipment budget during 2009-11 resulting in the delay of equipment replacement. Further reductions in this area will be more difficult as equipment wears out and requires replacement.

The Medical Examiner's office has a small staff of which at least one position is actually paid by the metro counties. There was a small reduction taken in the allotment reductions to eliminate payments made to counties to assist them in their responsibilities in this area. These payments are still funded in CSL and would save $92,031 General Fund if eliminated. Some savings may be possible in equipment and supplies, but as with other divisions these types of reductions were also part of 2009-11 cuts. Beyond that, staff reductions, including deputy medical examiners, would have to be taken creating backlogs in autopsies.

OSP – Law Enforcement Information System, State Fire Marshal and Administrative Services

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	48,698,287	42,904,723	40,384,362	45,303,460
Other Funds	30,069,045	40,891,381	43,035,879	44,086,234
Federal Funds	8,095,615	1,224,174	2,670,023	1,325,041
Total Funds	**$86,862,947**	**$85,020,278**	**$86,090,264**	**$90,714,735**
Positions	358	344	350	344
FTE	351.07	342.25	343.75	342.25

Program Description

The ***Law Enforcement Information Division*** has two major responsibilities: (1) the Criminal Justice Information Section which maintains the Law Enforcement Data System (LEDS), which connects criminal justice agencies and other authorized users to centrally maintained data relating to wanted and missing persons, sex offenders, drug manufacturers, stolen vehicles, concealed handgun licenses, criminal records, restraining orders, and offenders under parole or probation supervision; and (2) the Identification Services Section which performs background checks, provides criminal history information, operates the Automated Fingerprint Identification System, and provides firearms related checks.

The ***State Fire Marshal*** is responsible fire prevention and investigation, emergency response including the Conflagration Act, administration of the Uniform Fire Code, and collection of fire incident data. Deputy Fire Marshals serve Oregon communities who choose to not provide their own full-service fire prevention programs. This Office also regulates explosives, fireworks, liquid petroleum, non-retail fuel dispensing, hazardous substances, and administers the Community Right to Know Act.

The ***Administrative Services Division*** includes the Office of the Superintendent, financial services, fleet management, labor relations, training, information systems, wireless communications, and other agency-wide support and staff. The largest unit in this division is dispatch which accounts for 76 of the positions.

2011-13 Current Service Level Budgets by Division

	Law Enforcement Information Division	State Fire Marshal	Administrative Services
General and Lottery Funds	$6,656,691	$0	$38,646,769
Total Funds	$22,232,622	$23,183,984	$45,298,129
Positions	100	78	166
FTE	99.50	77.25	165.5

Revenue Sources and Relationships

While General Fund represents roughly half of the funding for these three divisions, they also rely on fees and other sources of Other Funds. The ***Law Enforcement Information Division*** receives Other Funds from charges to users and fees for Identification Services including open records checks of criminal histories, firearms, concealed gun, and employment and licensing background checks ($6 million). General Fund supports the majority of the ***Administrative Services Division*** costs, but it also receives transfers from other OSP programs to offset General Fund administrative and support services. The major Other Funds revenue source ($18.1 million) for the ***State Fire Marshal*** is the Fire Insurance Premium Tax (FIPT), which is assessed on insurance companies based on the premiums they collect for property casualty insurance. In addition, Other Funds major revenue sources supporting the State Fire Marshal programs include non-retail fuel dispensing fees ($765,000) for card lock enforcement, hazardous substance user fees ($3.2 million) for the Community Right to Know program, and petroleum load fees ($3.6 million) for the Hazardous Response Teams.

Budget Environment and Potential Reductions

As noted above, the primary challenge facing the Law Enforcement Information Division (LEID) is the $4.9 million General Fund gap for Identification Services. The 2009-11 budget used Other Fund balances in the program to offset the need for General Fund which was directed to other parts of the OSP budget. This one-time move is the primary reason for the gap, which if not filled means the loss of funding for an estimated 38 positions that maintain and update the program's core information. New revenue estimates indicate that this gap may be reduced to an amount closer to $4 million. This program's General Fund is generally used to support the program's core services including the Automated Fingerprint Identification System (AFIS) and Computerized Criminal History (CCH) unit which are accessed almost 8,000 times per day. Fees are charged for various background checks such as professional licensing and firearms checks, but not when criminal justice agencies access the information. The 2009 Legislature instructed OSP to explore the potential for raising fees to replace the General Fund in this program. Options included significantly raising the existing fees to cover all General Fund services, but this would mean that these fees would subsidize the use of the system by the criminal justice agencies. There was also discussion of starting to charge criminal justice agencies for their share of the costs, but this has run into significant opposition by local law enforcement and other agencies.

OSP's administrative structure is operating below the level it was prior to the reductions taken during the fiscal crisis in 2001-03. There may be some possible reductions but these are likely limited. One alternative for reducing General Fund is to have programs that are funded with Other or Federal Funds pay for their share of administrative costs. The Fish and Wildlife Division has started to do this beginning with the 2009-11biennium, but there is still the potential to have programs such as Indian Gaming and Lottery do the same. As noted above, almost half of the staff in Administrative Services is in the dispatch unit which operates 24/7. The staff often must work overtime to maintain this service. There may be some potential for reduction if the number of troopers is significantly reduced and workload is reduced. One alternative that has been mentioned by some local law enforcement officials is to have Patrol troopers dispatched by local agencies which they feel will increase local coordination. This has not been analyzed in any detail at this time.

Department of Public Safety Standards and Training – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	10,979,575	11,360,288	11,360,288	11,366,106
Other Funds	36,677,979	36,373,059	35,479,059	38,606,457
Federal Funds	54,635	56,156	56,165	57,513
Total Funds	**$47,712,189**	**$47,789,512**	**$46,895,512**	**$50,030,076**
Positions	170	146	146	146
FTE	167.22	143.87	143.87	144.12

Agency Overview

The Department of Public Safety Standards and Training (DPSST) is responsible for developing and maintaining standards for employment and providing training to over 36,000 public safety professionals and volunteers in Oregon through five programs:

- The ***Criminal Justice Training and Certification Program*** provides training and certification for state troopers, police, sheriff deputies, local and state correctional officers, parole and probation officers, 9-1-1 tele-communicators, and emergency medical dispatchers. Mandated training is set out by statute or rule, and ranges from 16 weeks for the basic police course five weeks for local correctional officers, four weeks for parole and probation officers (with an additional week for those who carry firearms), two weeks for tele-communicators, and one week for emergency medical dispatchers.
- The ***Fire Training and Certification Program*** provides training across the state for professional and volunteer firefighters. This program also certifies firefighters, and accredits fire departments and local training programs that meet minimum requirements.
- The ***Private Security Program*** provides training, licensing, and certification to private security personnel that meet minimum requirements. There are approximately 960 private security firms and over 16,100 licensed private security providers statewide. There are approximately 730 active Private Investigator licensees.
- The ***Administration and Support Services Program*** includes the director's office, business and human resource functions, and information systems. In addition, this area includes the costs of operating the Salem training facility (including food service, housekeeping, operations, and maintenance) as well as the debt service for the new facility.
- The ***Public Safety Memorial Fund*** provides financial assistance to family members of public safety officers who are killed, or are permanently and totally disabled in the line of duty.

Total Funds by Program Area

	Criminal Justice	Fire	Private Security	Administration and Support Services*	Memorial Fund
2003-05 Actual	$11,595,761	$1,379,562	$933,915	$6,683,646	$168,058
2005-07 Actual	14,083,350	2,596,214	1,290,921	19,536,651	168,073
2007-09 Actual	18,785,046	3,942,830	1,516,393	23,229,242	238,678
2009-11 Leg Approved	18,033,535	3,743,466	2,004,278	22,524,994	589,239
2011-13 CSL	21,385,246	4,171,772	2,127,774	21,741,904	603,380

** Debt service is included in the Administration and Support Services program and totals $11.4 million General Fund for both the 2009-11 and 2011-13 periods.*

Revenue Sources and Relationships

The primary revenue source for the ***Criminal Justice Training and Certification Program*** is the Criminal Fine and Assessment (CFAA) Account funded by a variety of fines and assessments, including the unitary assessment, paid by offenders. Over $27 million of new CFAA resources are assumed in the 2011-13 current service level (CSL) budget with the majority used in this program. There are over $4.6 million of projected CFAA revenues carried forward from the 2009-11 budget and assumed in the 2011-13 CSL. This program is also funded with a grant from the Oregon Department of Transportation ($192,271), and revenue from the 9-1-1 telephone tax ($497,517) for the 9-1-1 telecommunicators and emergency medical dispatchers training.

The primary revenue source for the ***Fire Training and Standards Program*** is $4.4 million from the Fire Insurance Premium Tax (FIPT). The ***Private Security/Investigators Program*** is funded primarily with licensing and certification fees ($2.1 million). The ***Administration and Support Services Program*** is supported with General Fund for debt service costs; CFAA funds for operation of the facility, administrative costs, and housing costs; and inter-fund transfers from programs within the agency to cover their share of common administrative costs. The ***Public Safety Memorial Fund*** is funded with CFAA funds.

Current Service Level

The current service level is 6.7% higher than the 2009-11 legislatively approved total funds spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The CSL budget assumes 15 basic police classes, six local corrections classes, and two basic parole and probation classes, similar to what was included in 2009-11.

Budget Environment and Potential Reductions

DPSST is responsible for the basic training for law enforcement personnel (police and sheriff deputies, local correctional officers, and parole and probation officers. As such, they must insure that training is available for these personnel throughout the biennium so there is not a significant delay for local hires. In the past DPSST has usually been able to fill most, if not all, of the classes to close or above the 40 student limit. During the 2009-11 biennium, the agency may have to cancel some classes and only has 17 students in the most recent class.

There is no means of reducing the General Fund expenditure since all of it is for debt service. Since CFAA funding is basically interchangeable with General Fund, reducing CFAA expenditure frees up resources for General Fund purposes. The agency has outlined reductions up to 25% as follows:

- To meet a 5% target three administrative positions (including the deputy director position, which has been vacant for many months) would be eliminated saving almost $660,000. Other proposals include: (1) eliminating the three positions ($560,000) who audit training for state correctional officers which would create certification issues for these employees, and (2) limiting benefit payments from the Public Safety Memorial Fund to $300,000 for the biennium.
- The 15% target would be reached by adding to the reductions above the following: (1) eliminate three positions ($337,616) relating to facilities, rules coordination, and training support; (2) reduce the number of basic law enforcement classes by up to four by eliminating up to 11 instructor and other positions directly involved with training ($2.4 million); (3) reduce the food service contract to reflect the fewer classes ($235,320); and eliminate the Child Abuse Training program ($94,491).
- To reach the 25% target, the following reductions would be added to those above: (1) reduce the basic law enforcement classes by another three classes by eliminating another nine positions ($2.1 million) directly tied to training, and (2) eliminating three ($625,396) positions related to facilities, accounting and information.

Other options that could be considered for reducing the DPSST budget include:

- Participants or their employing agencies could be charged for all or part of their instructional classes. DPSST estimates that each basic law enforcement class of 40 students costs roughly $600,000, or $15,000 per student. This estimate includes the costs of training and overhead, but does not include room/board costs or the salaries and other compensation costs paid by the employing agency. This has been discussed before as an option, but was opposed by the local law enforcement agencies since they assert this is the priority use of CFAA generated funding.
- DPSST also offers training provided across the state to assist local agencies keep their officers/deputies up to date in many areas of law enforcement. This is especially important to smaller agencies who do not have dedicated training functions. The CSL budget for this regional training includes five positions and $1.5 million.
- Some states do not have a single agency similar to DPSST and depend on local agencies or community colleges to provide the basic training. Eliminating the basic training role for DPSST would transfer the training costs to local agencies or the students themselves.
- During the 2011 legislative session, the ending balances for CFAA-funded programs will need to be reviewed to see if there is the possibility of reducing the amount of "new" CFAA resources allocated to the agency for 2011-13.

Oregon Youth Authority – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	249,785,623	266,009,019	250,980,592	301,343,350
Other Funds	28,127,294	14,669,929	14,669,929	15,925,863
Federal Funds	26,415,309	31,443,386	31,443,386	35,611,339
Federal Funds (NL)	0	0	1	1
Total Funds	**$304,328,226**	**$312,122,334**	**$297,093,908**	**$352,880,553**
Positions	1,274	1,195	1,195	1,171
FTE	1,149.81	1,142.30	1,142,30	1,130.25

Agency Overview

The Oregon Youth Authority (OYA) is a key player in the state's juvenile justice system. Its statutory purpose is to protect the public, hold youth offenders accountable for their actions, and provide adjudicated youth with opportunities for reform. It works closely with county juvenile departments, the judicial system, and district attorneys. Local public safety coordinating councils and commissions on children and families also have responsibility for policy advice and program funding decisions.

OYA provides a balanced continuum of services through a statewide network of facilities, state employees, and contracted community providers. OYA manages out-of-home placement of delinquent youth in foster homes and residential treatment programs, provides parole and probation services; provides funding to counties for juvenile crime prevention, diversion, and transition programs; and operates the state juvenile corrections institutions. OYA operates youth correctional facilities at Woodburn, Salem, Albany, Grants Pass, Tillamook, Warrenton, and Burns; and transition programs in La Grande, Corvallis, Florence, and Tillamook. OYA's facilities and services must address diverse needs for males and females; very young through young adult ages (12 to 25); differing ethnic groups; offenders whose crimes range from behavioral offenses and property crimes to person-to-person crimes such as murder; and mentally ill and developmentally disabled offenders.

OYA's jurisdiction includes youth committed from both the juvenile and adult courts. Youth can be committed to OYA from juvenile court from as young as age 12. There are no mandatory sentences for juveniles whose cases are heard in juvenile court. Youth committed to OYA through adult court are in the legal custody of the Department of Corrections (DOC), but the physical custody of OYA. OYA may keep youth until their 25th birthday, but may transfer offenders committed through adult court back to DOC earlier if they are dangerous or do not apply themselves. Ballot Measure 11 (1994) set mandatory sentences through adult court for juveniles ages 15-17 who are convicted of certain offenses. About two-thirds of the youth in close custody are adjudicated in juvenile court, and about one-third are convicted in adult court on waived or Measure 11 offenses.

Revenue Sources and Relationships

The General Fund supports the major share of OYA's activities and operations. Typically, anywhere from 7% to 10% of the total budget comes from Federal Funds, and about 5% from Other Funds.

Federal Title XIX Medicaid reimbursements pay for part of the cost of out-of-home placements and treatment services, case management services, and services for paroled youth. Federal funding also helps pay for eligible residential treatment services at about a 63% match rate; ineligible room and board costs are supported with General Fund. The budget anticipates continuing revenue from this source, which provides approximately 40% of the funding for residential care and multidimensional treatment foster care providers.

Federal funds for institution operations are very limited. OYA receives $2.9 million in federal nutrition program funds, and $0.1 million for Hillcrest's alcohol and drug treatment program. These are recorded as Other Funds.

The largest Other Funds sources are county contracts and youth trust fund reimbursements. The budget includes $3.6 million Other Funds revenue from counties to operate detention beds and $7.6 million Other Funds from child support and other assets of the youth, who are billed for part of the cost of care provided in OYA out-of-home placements.

OYA's budget has historically been appropriated at the agency-wide level. Operationally, the agency breaks its budget out into three major program areas; these programs are described below.

Program Description

Facility Programs ($187,685,428 total funds, 882.92 FTE) operates close custody facilities across the state with varying levels of security and a range of treatment services. OYA currently has custody of approximately 900 youth offenders in correctional and transitional facilities around the state.

The total of 900 beds currently budgeted for 2009-11 includes 775 beds in six youth correctional facilities for more violent offenders and 125 beds in four transition programs to help youth move successfully back into the community. MacLaren is the largest facility, budgeted at 270 beds for males and serving a variety of populations. Hillcrest, budgeted at 180 beds, serves males and handles male intake and parole violator intake assessment activities. Other facilities range in size from 25 to 100 beds, and serve targeted populations such as male sex offenders, male offenders receiving substance abuse services, and female offenders.

The focus in the facilities is on reformation and rehabilitation in the context of public safety and restitution to victims and the community. The facilities provide treatment services, educational programs, and work experience for youth. Treatment, health, and mental health services are provided by OYA employees and by contract with community professionals. Local school districts or education service districts provide education and vocational programs.

OYA also has costs related to capital improvements and debt service on its facilities. The 2011-13 base budget includes $753,087 General Fund for capital projects at facilities statewide; these range from security system improvements to periodic exterior work on the agency's regional facilities. The five regional youth facilities will be 15 years old in 2011. The debt service on the certificates of participation (COPs) issued in 1996 to build the these facilities is about $3.3 million General Fund in 2011-13; the COPs will be fully repaid in 2012. The Department also has about $3.2 million in debt service costs associated with COPs issued over the last two biennia for a variety of capital projects. The budget also contains $1 Federal Funds Nonlimited as a placeholder for potential use with the federal Build America Bonds program.

Community Programs ($128,215,751 total funds, 144.75 FTE) provide community-based supervision and services to youth offenders committed to OYA by the juvenile courts. The agency currently supervises approximately 1,100 youth on probation or parole in communities throughout Oregon.

OYA staff design and carry out individual reformation plans for each youth in OYA's custody. The Community Programs budget includes community placement services, such as residential services and foster care; parole and probation services; individualized community services; and grants to county juvenile departments for diverting high risk youth offenders from OYA placement, juvenile crime prevention, and youth gang services.

Program Support ($36,979,374 total funds, 102.58 FTE) includes the director's office and OYA's business services, such as accounting, employee services, budget and contracts, and information systems staff and expenditures. It also includes the agency's internal audits office and the Office of Professional Standards, which is an internal investigation function. The operational costs of the statewide Juvenile Justice Information System (JJIS) are part of this budget. Agency-wide costs that are not allocated to other programs, such as insurance premiums and Attorney General costs, are also part of this budget unit.

Current Service Level

The total funds current service level is 18.8% higher than the 2009-11 legislatively approved spending level at December 2010; the General Fund budget is 20% higher. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. Medical and pharmacy costs have been allowed above-standard inflation, up to 9.4% for pharmacy costs.

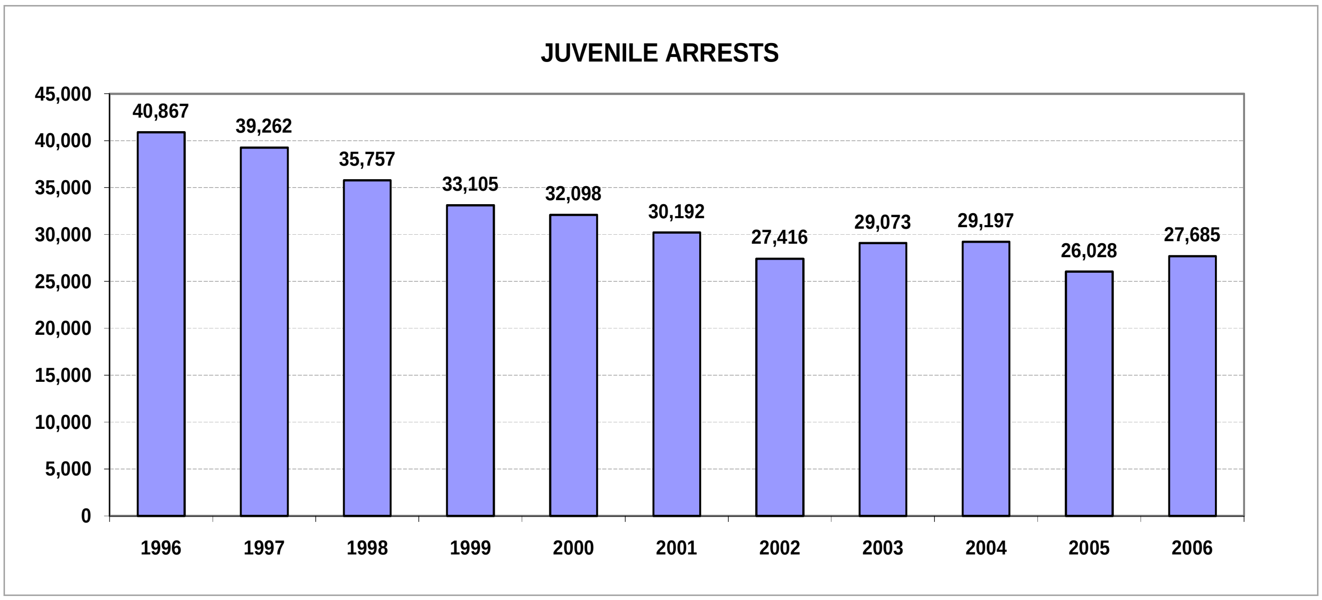
Other current service level adjustments include a $4.2 million General Fund increase related to caseload in the Vocational and Educational Services for Older Youth (VESOY) program. Mandated caseload for close custody beds has been adjusted slightly downward to reflect only the forecast for DOC and Public Safety Reserve (PSR) beds; the forecast for juvenile commitments was deemed to be discretionary, therefore a forecasted increase in bed demand was not budgeted within the current service level. A total of 887 close custody beds are supported by the current service level: 367 beds for DOC youth, 95 for PSR youth, and 425 discretionary beds for juvenile commits.

For community placements, the April 2010 Office of Economic Analysis (OEA) forecast is 658 beds. The current service level reflects a caseload increase of 103 beds or placements at a cost of $14.3 million total funds (includes $7.1 million General Fund and $6.5 million Federal Funds) and supported by eight positions.

The current service level also contains a fundshift of $2.8 million Federal Funds to General Fund due to the discontinuation of an enhanced Medicaid match rate (about 70% as opposed to 63%) temporarily approved by the federal government during the 2009-11 biennium.

Budget Environment and Potential Reductions

As the chart below shows, total arrests for juveniles (excluding curfews and runaways) have trended down over the last decade. Juvenile arrests in 2006 (the most recent data available) are down about 32% from 1996, which was a historical peak. Over time, person and property crimes have declined while a greater percentage of arrests involve behavioral crimes such as traffic, alcohol, or drug law violations. Prior to 1996, behavioral crimes made up about 33% of juvenile arrests; in 2006, those crimes accounted for 60% of arrests.



The Department of Administrative Services' Office of Economic Analysis (OEA) prepares a semi-annual forecast of demand for close custody and community placements. The forecast projects demand based on the number and characteristics of offenders committed to OYA and those with similar delinquency characteristics who remain in the community, but who could be expected to be committed to OYA, capacity permitting. The close custody forecast includes three major groups: juveniles convicted in adult court under Measure 11 or waived under ORS 419C.340 (also referred to as DOC youth); Public Safety Reserve (PSR) youth committed for certain violent crimes, but too young for Measure 11 to apply; and youth committed for new crimes and parole violations as part of the county discretionary bed allocation. The community placement forecast covers youth committed to OYA and placed in residential treatment or foster care while on probation or parole.

Budget limitations in recent biennia have prevented the agency from operating enough beds to meet the forecasted demand. For example, on July 1, 2010, OYA's budgeted close custody capacity was 900 youth, but the OEA forecast was at 958 youth. The October 2010 forecast indicates close custody demand will increase slightly over the 2011-13 biennium, by about 1%, from 957 youth in July 2011 to 966 youth in July 2013. On July 1, 2010, OYA's budgeted capacity for community placements was 555; OEA forecasted demand was 643. OEA expects community placement demand to increase about 2% over the next biennium, from 650 placements at July 2011 to 665 placements at July 2013.

OYA is dependent on General Fund to support core programs. Very limited reductions can be made without serving fewer youth. During the 2009-11 biennium, the agency's proposed allotment reductions brought this issue to the forefront. As a result – and due to concerns about eliminating close custody beds, staff layoffs, and facility closures – the Emergency Board allocated $5.4 million General Fund (between its September 2010 and December 2010 meetings) to the agency. To continue to protect close custody beds and prevent staff layoffs through the end of the 2009-11 biennium, the agency needs an additional $2.5 million.

The agency was able to handle about $11 million in 2009-11 allotment reductions through use of management actions. These included curtailing general spending, freezing manager salaries, holding vacancies open longer, delaying planned projects and program changes, delaying facility safety and security improvements, reducing funding for county crime prevention services and anti-gang programs, and taking advantage of extended federal Medicaid funding. Most of these actions were one-time in nature and are not likely replicable in 2011-13 at the same level without forcing bed closures.

A 10% General Fund reduction for OYA is about $30 million. The agency's proposed budget reduction options at this increment eliminates about 200 close custody beds, associated support (about 170 positions), and decreases Juvenile Crime Prevention (JCP). OYA would continue to serve as many youth as possible through community placements and by reinvesting some dollars in county diversion programs.

At the 25% reduction level, which is about $75 million, the agency would propose eliminating 425 close custody beds (about 440 positions), eliminate all JCP funding, and rolling back inflation for community providers. These changes would leave OYA with 462 close custody beds, which is just enough to house only the high risk offenders. There would be no discretionary bed capacity left for the counties. At this reduction level, OYA would propose Oregon undergo a comprehensive reexamination of its juvenile justice system.

Business Development Department – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	4,544,947	4,665,252	8,926,280	4,871,796
Lottery Funds	122,082,119	113,582,000	111,215,883	122,687,000
Other Funds	49,280,765	32,862,431	33,421,791	25,643,970
Federal Funds	24,544,245	34,238,986	41,581,438	29,710,826
Other Funds (NL)	191,356,719	233,515,791	242,984,271	227,302,188
Total Funds	**$391,808,795**	**$418,864,460**	**$438,129,663**	**$410,215,780**
Positions	131	127	129	126
FTE	131.00	126.34	127.26	125.50

Agency Overview

The Oregon Business Development Department (OBD) provides economic and community development and cultural enhancement throughout the state, and administers programs that aid businesses and communities. The Oregon Business Development Department receives General Fund, Lottery Funds, Federal Funds, and Other Funds primarily from the Oregon Bond Bank and other bonding programs, and uses the funds to provide grants, loans, and direct and contract services. Program focuses include business and industry development; support of in-state innovation efforts to improve economic competitiveness; trade and arts promotion; community development; and ports.

The Department has six budget program areas:

- The ***Shared Services/Central Pool*** program area includes central agency administrative services that support both the business development (Business, Innovation, Trade) and the community development (Infrastructure Finance Authority) programs. This program area houses 25% of the agency's employees, and is financed primarily with Lottery Funds.

- The ***Business, Innovation, Trade*** program area includes the staff, and the funding sources, used by the Department to provide support services, grants, and loans to assist businesses with job retention and creation, and to promote trade and innovation. This program area operates a variety of programs and uses a variety of funding sources. The largest of these programs are the Oregon Innovation Council (Oregon InC) Innovation Plan, and the Strategic Reserve Fund. The Business, Innovation, Trade program area is the agency's largest in terms of staffing, housing 43% of the agency's employees, and is primarily financed with Lottery Funds. Other Funds in its budget are primarily from loan repayments. Federal Funds support the Brownfields Program. In the 2009-11 biennium, Federal Funds were supplemented by Federal stimulus (American Recovery and Reinvestment Act) monies.

- The ***Infrastructure Finance Authority*** (IFA) program area includes the staff and the funding sources used by the Department to provide grants and loans to assist communities with infrastructure development projects. Almost all of the expenditures in this program area are either special payments (loans, grants, or contracts) to local governments or non-profit organizations; or debt service on bonds the state has issued to finance these categories of expenditures. Expenditures, however, also include the Department's associated costs to administer the community development programs. This program area houses 25% of the agency's employees. The IFA is the only program area in the agency that does receive state support (i.e., Lottery Funds or General Fund). Expenditures are entirely financed with Other Funds and Federal Funds.

- The ***Oregon Arts Commission*** fosters the arts and cultural development in Oregon. All operating expenses relating to Arts Commission and Cultural Trust programs, including personal services expenditures and services and supplies expenditures, are included in this program area, as are funds awarded to individuals and arts-related nonprofit organizations. The Commission is responsible for a number of activities including: evaluating the impact of arts on Oregon's economy; distributing National Endowment for the Arts (NEA) funding to programs in Oregon; working with the leadership of local arts organizations; conducting assessment and maintenance to protect existing public art; and approving new public art. This program area houses 7% of the agency's employees. The Arts Commission is the only part of the agency budget that typically receives General Fund, which supports about 36% of expenditures. The remaining portions of the budget are financed by Other Funds (including donations to the Cultural Trust) and Federal Funds from the National Endowment for the Arts.

- The ***Film and Video Office*** is a semi-independent agency that receives pass-through Lottery Funds support in the OBD budget to promote and support the film, video, and multimedia industries in Oregon. The Office is not part of the Department, and none of the Office's employees are included in the agency employment count.

- ***Lottery Bond Debt Service*** is used exclusively for debt service payments on lottery revenue bonds. The funding source is almost entirely Lottery Funds, although bond interest earnings applied to pay debt service are categorized as Other Funds.

Revenue Sources and Relationships

The budget is supported by a wide range of fund types. General Fund is appropriated to support the Arts Commission budget, and also to support business development programs in very limited cases.

Most of the agency's state support, however, is funded with Lottery Funds. Lottery Funds are provided to support the agency's business development programs, including the grants and loans made to businesses, and to support the agency's administrative costs relating to these programs. Lottery Funds also support Film and Video Office operations. All of these uses combined, however, account for only 27% of the agency's total Lottery Funds. The great majority of Lottery Funds (73%) are used to pay debt service on lottery revenue bonds that the state has issued to capitalize business loan and infrastructure revolving loan funds, and that the state has issued for other economic development projects.

The Infrastructure Finance Authority programs are funded entirely with Other Funds. These Other Funds revenues include (note there are some Other Funds revenues of these types in Business, Innovation and Trade and Shared Services, too): fees and service charges, interest earnings, loan repayments, federal grant funds, and $33 million of Nonlimited Other Funds revenue from program specific revenue bond proceeds. Whenever the Legislature authorizes the sale of lottery revenue bonds for the Department, their proceeds are spent as Nonlimited Other Funds. The 2009-11 biennium approved spending level includes $20 million of lottery revenue bond proceeds, however, these are always approved on a one-time basis, so there are no new lottery bonds for the Department included in the agency's 2011-13 biennium current service level (CSL).

Nonlimited Other Funds revenue also includes $40.9 million in interest income and $54.8 million in loan repayments from community and port infrastructure projects and business finance loans. Programs that utilize these monies include the Special Public Works Fund, Water/Wastewater Funds, and the Port Revolving Funds. Nonlimited Other Funds revenues further include $39.3 million for the Safe Drinking Water Revolving Loan Fund. These are federally-sourced funds that are transferred to the Department from the Oregon Health Authority. Federal Funds of $33 million support the Community Development Block Grant program.

Current Service Level

The current service level calculation for the agency contains a number of unusual items, in addition to standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. A number of programs funded in the 2009-11 biennium are phased out. Primary among these involving Other Funds or Federal Funds are phase-outs of lottery bond authority included in the 2009-11 budget ($20 million of lottery bond proceeds were authorized in the 2009-11 budget on a one-time basis to provide additional capital to the Special Public Works Fund and the Water/Wastewater Funds administered by the IFA), and the phase out federal stimulus monies received under the American Recovery and Reinvestment Act.

There are a number of General Fund and Lottery Funds phase outs as well. A $5 million one-time appropriation provided in the 2009-11 budget to add capital to the Oregon Business Development Fund is phased out. Funding for the agency's largest business development program, the Oregon InC Innovation Plan ($16 million Lottery Funds in 2009-11), is always approved on a one-time basis, and is phased out in the CSL.

Another Lottery Funds adjustment affecting the CSL is the reversal of a one-time $10 million substitution of Other Funds for Lottery Funds approved for the 2009-11 biennium. In 2009-11, the budget temporarily authorized using $10 million out of the balances of the IFA infrastructure revolving loan funds (specifically from the Special Public Works Fund and the Water/Wastewater Funds), in lieu of Lottery Funds, to finance business development programs. This fund shift is reversed in the CSL, that is, Other Funds expenditures are reduced $10 million and Lottery Funds expenditures are increased $10 million.

The final major component in the CSL calculation for Lottery Funds is an adjustment to provide additional debt service for the lottery revenue bonds that were authorized in the 2009-11 biennium to recapitalize the Special Public Works Fund and the Water/Wastewater Funds. A total of $19.3 million Lottery Funds is added to the CSL to cover the increased debt service costs generated by these new lottery revenue bonds.

Oregon Business Development Department
General Fund and Lottery Funds Budget

Program	2009-11 Biennium Approved Spending Level	2011-13 Biennium Current Service Level	Change
Business Development and Operations	$43,825,166	$31,346,870	(28.5%)
Infrastructure Financing Authority	0	0	0.0%
Arts Commission	4,308,563	4,871,796	13.1%
Film and Video Office	1,251,703	1,281,742	2.4%
Subtotal - Operations	**$49,385,432**	**$37,500,408**	**(24.1%)**
Lottery Bond Debt Service	70,756,731	90,058,388	27.3%
TOTAL	**$120,142,163**	**$127,558,796**	**6.2%**

The amounts in the CSL, compared to the prior biennium's approved spending levels, for the General Fund and Lottery Funds, are shown in the table above. Support for agency operations is reduced $11.9 million (or 24.1%) from the 2009-11 biennium. Support for debt service costs is increased $19.3 million (or 27.3%), resulting in a total net increase of $7.4 million (or 6.2%). Lottery Fund support for the Department's Business Development Programs and operations is decreased by $12.5 million. The components of this change are shown in the table to the right. Funding phase-outs total $25.2 million. These are partially offset by the additional $10 million Lottery Funds needed to restore the prior biennium one-time fund shift. The standard CSL adjustments for items like personal services cost changes and inflation only amount to $2.8 million of the total adjustments.

Business Development and Operations
General Fund and Lottery Funds Budget

2009-11 Biennium Approved Spending Level	$43,825,166
Phase Out: Oregon InC	($16,000,000)
OBDF Capitalization	($5,000,000)
Net Lottery Carryover Change	($4,249,947)
Phase Out Subtotal	**($25,249,947)**
Lottery Fund Restoration	$10,000,000
Standard CSL Adjustments	$2,771,651
Total Adjustments	**($12,478,296)**
2011-13 Biennium Current Service Level	$31,346,870

Budget Environment and Potential Reductions

The agency prepared 25% reduction options for its General Fund and Lottery Funds budgets. General Fund and Lottery Funds in the current service level total $127.6 million (see the first table on this page. The 25% reduction target amount, therefore, equals $31.9 million. Debt service costs alone, however, account for $90.1 million of the $127.6 million CSL total. These costs cannot be reduced without defaulting on lottery revenue bonds. All of the reductions, therefore, have to be taken out of the $37.5 million of Lottery Funds in the budget for operations. This becomes equivalent to an 85% funding reduction for these programs. At this level of reduction the business development functions of the agency would need to be eliminated. The agency's remaining programs: the IFA, business finance, Brownfields redevelopment, and Arts Commission, would likely need to be transferred to other state agencies.

The Legislature could reduce General Fund and Lottery Funds support for agency operations by a lesser amount. A 25% reduction of the operating support only would be equivalent to $9.4 million. Another option would be to use additional Other Funds in the IFA to support business development programs, as was done in the 2009-11 budget. This, however, would continue to reduce the amount of capital in the IFA revolving loan funds, and reduce their capacity to support infrastructure and community development projects.

Employment Department – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	3,767,711	3,316,072	2,756,283	4,548,624
Other Funds	111,164,368	132,548,126	130,307,965	134,392,563
Federal Funds	269,413,795	295,268,748	323,607,099	264,420,137
Other Funds (NL)	2,299,142,910	2,087,207,680	3,087,207,680	1,768,948,096
Federal Funds (NL)	148,664,421	500,092,327	2,794,092,327	376,000,000
Total Funds	**$2,832,153,205**	**$3,018,432,953**	**$6,337,971,354**	**$2,548,309,420**
Positions	1,390	1,659	1,660	1,343
FTE	1,294.02	1,608.65	1,609.15	1,318.78

Agency Overview

The Employment Department (OED) offers services in five program areas:

- Unemployment Insurance (UI) provides wage replacement income to workers who are unemployed through no fault of their own.
- Business and Employment Services offers job listing and referrals services and career development resources.
- Child Care regulates the child care industry and directs and coordinates initiatives intended to improve quality of care.
- Workforce and Economic Research coordinates the collection and dissemination of occupational and economic climate data for the state, workforce regions, and counties.
- Office of Administrative Hearings conducts contested cases for approximately 70 state agencies.

Revenue Sources and Relationships

The Child Care division is the only program at the Employment Department that receives General Fund support. The current service level of General Fund support for the program is $4.5 million, a 65% increase from the 2009-11 legislatively approved budget spending level as of December 2010.

Sources of Other Funds revenues include:

- The ***Oregon Unemployment Insurance (UI) Trust Fund*** designated for unemployment insurance compensation payments to qualified individuals.
- ***Reed Act*** funds, in the amount of $98 million, were distributed to OED as Other Funds from the federal Employment Security Administration Account in 2002 and an additional $5.3 million in 2008-09 as a result of the Federal extension of unemployment benefits. These funds can and have been spent over multiple biennia, but only for expenditures relating to UI and Employment Services administration. The 2009-11 legislatively approved budget assumed expenditures of $24.7 million; due to federal reimbursement of expenses related to administration of Extended Benefits and Emergency Unemployment Compensation extensions, actual Reed Act expenditures for the biennium are in the neighborhood of $14 million. Remaining Reed Act funds (estimated at $32 million by the beginning of 2011-13), will be expended through 2013-15, supplementing federal support – which is assumed will be decreasing – for business and employment services and unemployment insurance administration.
- The ***Special Administrative Fund*** is comprised of revenue from penalties and interest on delinquent payment of employer taxes. These funds are designated for administrative expenses or other needs as determined by the Director of the Department. The Legislature utilized $4.7 million from this source to balance the 2007-09 state budget. For the 2011-13 biennium, the Employment Department expects to take in and expend $7.1 million.
- The ***Supplemental Employment Department Administrative Fund (SEDAF)*** is funded by a 0.9% unemployment tax diversion to fund administration of the unemployment system. The Employment Department is assuming collections of $59 million, and expenditures of $58.2 million in 2011-13, which may not be realized if revenues fall as a result of businesses laying off workers or closing because of the economic downturn.

- The ***Fraud Control Fund*** is supported by interest earnings on delinquent repayments of UI benefit overpayments and is utilized for activities associated with the prevention, discovery, and collection of those overpayments. In 2011-13, the Employment Department projects $3.6 million in collections.
- The ***Child Care Fund*** consists of donations received through the *Child Care Contribution Tax Credit* program. Donors receive tax credits of $0.75 for each dollar contributed to the Child Care Division, up to $500,000 total credits each year. The 2011-13 legislatively adopted budget assumes tax credits will generate $1.33 million in revenue, used to fund demonstration projects pursuant to statute. The demonstration projects selected by the Department are designed to show the effects of simultaneously increasing quality of care, affordability, and provider compensation. The Legislature extended the tax credit until January 1, 2013, enabling continuation of programs. This fund also includes the licensing fees from child care providers, which are assumed to be $978,454 for the 2011-13 biennium.

OED also receives Other Funds revenues from other state agencies for providing job placement services and conducting contested case hearings. These activities are conducted on a fee for service basis.

Sources of Federal Funds revenue include:
- ***Employer payroll taxes*** collected by the Internal Revenue Service under authority of the Federal Unemployment Tax Act (FUTA). During the 2011-13 biennium, an estimated $112,363 million will be distributed by the U.S. Department of Labor for administration of the Unemployment Insurance Program.
- ***Wagner-Peyser Act*** funding in the amount of $15,142,982 million is expected for employment services, with another $2.3 million assumed to be expended for workforce and economic research activities.
- ***Trade Adjustment Act*** funds training and placement services for displaced workers. In 2011-13, $4,130,949 is anticipated from this source.
- ***Veteran's Placement Services*** is assumed to amount to $5,880,160.
- Early estimates of funding for ***Extended Benefits and Emergency Unemployment Compensation*** (budgeted as Federal Funds Nonlimited) are expected to amount to $700,000,000 in 2011-13, due to the recent signing of federal legislation (only $376,000,000 is included in the current service level budget, because when the document was compiled, it was assumed there would be no further federal benefit extensions).
- Federal funds for the Workforce and Economic Research Division include ***Bureau of Labor Statistics*** funding in the amount of $2,523,887.
- ***Child Care and Development Fund*** *(CCDF)*, authorized under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, to assist low-income families, families receiving temporary public assistance, and those transitioning from public assistance in obtaining child care so they can work or attend education/training, is allocated by the U.S. Department of Health and Human Services. An estimated $126.4 million will be received during the 2011-13 biennium. Approximately 82% of these funds are reallocated to child care-related programs at other state and local agencies.

Current Service Level

The current service level is 59.7% lower than the 2009-11 legislatively approved spending level at December 2010, primarily due to phase-outs associated with one time Federal Funds, case-load adjustments, and nonlimited Other and Federal Funds increases approved to pay benefits during the Great Recession. The current service level includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges, and phases out one time expenditures related to information technology projects. Because caseloads are still elevated, additional expenditure limitation for caseload costs will need to be considered by the Legislature for the 2011-13 budget.

Budget Environment and Potential Reductions

The national recession which began in 2009 and the resulting job losses have had a significant impact on the Employment Department's workload. The unemployment rate in Oregon continues to hover around 10.6%, where it has been for the better part of a year. As of the week ending December 11, 2010, more than 175,000 individuals in Oregon were receiving unemployment benefits. Of those, more than 66,000 were on federal Emergency Unemployment Compensation (EUC) or Extended Benefits. These programs have been extended multiple times, and will continue nearly through the end of 2011 for some claimants (depending on when they initially filed). However, approximately 23,000 claimants are still anticipated to exhaust benefits in April of 2011. As federal support for additional benefits and attendant administration wanes, the Employment Department anticipates a need for productivity improvements and possible program reductions due to a reduction in federal support; this may very well coincide with a higher demand for placement services as Oregonians begin to exhaust benefits.

The UI trust fund is in better financial condition than predicted during the regular 2009 legislative session, primarily because of the infusion of federal funding for Extended Benefits and EUC. These benefits have been fully funded by the federal funds (in the past, Extended Benefits have been funded 50% with state trust fund dollars, and 50% with federal dollars). The lowest balance for the Trust Fund in 2011-13 is projected to be about $600 million; to give an idea of scale, in late December 2010, about $20 million per week in non-federal trust fund payments were being distributed to Oregonians. The UI trust fund will remain solvent, due to a statutory funding mechanism that dictates employer tax rates according the balance of the UI Trust Fund.

The Child Care Division is the only division within the Employment Department to receive General Fund support. As such, it was the subject of reductions totaling $559,789 since passage of the legislatively adopted budget in June of 2009. General Fund helps to support regulation, inspections, and licensing (including background checks) associated with licensed and registered child care centers and providers. Because child safety is considered the highest priority, the Employment Department has backfilled a portion of the General Fund reductions with Federal Funds from the Child Care and Development Block Grant, in turn reducing grants to contractors for child care quality initiatives. The Child Care Division's General Fund appropriation– along with state spending on Pre-Kindergarten, tax credits, and Temporary Assistance to Needy Families – counts as match and maintenance of effort for purposes of the federal Child Care and Development Fund. Further reductions in these areas must be evaluated to determine whether they trigger a loss of federal funds under matching and maintenance of effort guidelines related to the $126 million Child Care and Development Fund grant.

The Employment Department made an administrative decision to begin assessing a 9% surcharge to billings for the Office of Administrative Hearings for the period of July 1, 2010 to July 1, 2012, to build up a reserve of working capital in the amount of $2.3 million, equivalent to two months of operating expenditures. These funds are intended to replace prepayments of a portion of estimated hearings expenses which larger agencies used to provide.

Of the bills approved for pre-session filing, none appear to have a budgetary impact.

The Employment Department has requested the following policy option packages related to its budget:

- Continuation of three limited duration positions for special research and analysis in the Workforce and Economic Research Division. Revenue for the package would come from the entities requesting service ($591,471 Other Funds, 3.00 FTE).
- Additional Federal Funds expenditure limitation and limited duration position authority to administer the Trade Act job training program. The package supplements 10 existing permanent positions, and is augmented due to additional job losses and expanded program eligibility ($3,114,115 Federal Funds, 24.00 FTE);
- Adding investigators, revenue agents, and a compliance specialist for the detection and prevention of payment errors, fraud, and the recovery of overpayments. The Employment Department is submitting this package in response to federal guidelines. Penalty and Interest funds would be used to pay for this package in the first year, and Federal Funds would pay for it in the second year ($852,006 Other Funds, $851,969 Federal Funds, 12.00 FTE).
- A new position to conduct audits of business records to discover and reduce avoidance of employer taxes. The package is related to the establishment of the Interagency Compliance Network, established by HB 2815, which is intended to enforce compliance under taxation, employment, and independent contractor statutes. The work would be funded by federal UI administration grant funds, and charges to other agencies for non-UI related work ($87,478 Other Funds, $87,474 Federal Funds, 1.00 FTE).
- Limited duration positions to continue activities related to the federal Reemployment and Eligibility Grant awarded to the Department from the U.S. Department of Labor. Activities include case management and individualized attention intended to get UI claimants back to work more quickly, as well as efforts to reduce claim processing errors and increase fraud prevention ($1,168,277 Federal Funds, 8.50 FTE).
- Completion of information systems projects begun in 2009-11 to increase security of Employment Department data (Identity and Access Management System), and provide for a more functional on-line tax filing, reporting, and payment system for Oregon employers ($3,226,774 Federal Funds, 8.00 FTE).

- Adding two permanent, full-time Information Systems specialists to develop and maintain data security, business continuity processes, and incident management and response related to the Department's computer systems ($371,669 Federal Funds, 2.00 FTE).
- Continue limited duration positions to assist state agencies in placing clients in appropriate employment opportunities. The work is performed on a fee-for-service basis, and positions are filled only as workload and funding are sufficient. A similar package has been approved for the previous seven biennia. ($3,391,700 Other Funds, 25.00 FTE).
- Add six limited duration administrative law judge positions to respond to anticipated additional requests for hearings related to benefit eligibility determinations by the Department of Human Services (DHS); he cost of the package would be charged to DHS as incurred ($1,021,680 Other Funds, 6.00 FTE).

Housing and Community Services Department – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	19,514,921	10,312,467	9,524,011	10,575,562
Lottery Funds	5,929,190	8,820,655	8,659,409	11,230,921
Other Funds	111,922,729	138,636,927	142,349,250	134,510,656
Federal Funds	134,933,782	252,470,192	283,581,340	203,307,337
Other Funds (NL)	1,210,382,469	1,537,062,014	1,538,562,014	580,490,721
Federal Funds (NL)	101,195,237	107,250,000	107,250,000	104,229,868
Total Funds	**$1,583,878,328**	**$2,054,552,255**	**$2,090,714,480**	**$1,044,345,065**
Positions	140	156	158	132
FTE	137.12	148.33	149.67	127.70

Agency Overview

The Housing and Community Services Department (HCSD) provides financing and program support for the development and preservation of affordable housing, and administers federal and state antipoverty, homeless, energy assistance, and community service programs. The State Housing Council, a seven-member panel appointed by the Governor, advises the Governor, Legislature, HCSD, and local governments on affordable housing issues.

Divisions within HCSD include the following:

- ***Energy and Weatherization*** programs help low income families by providing assistance payments, installing energy-saving modifications on heating systems and home weatherization, and providing conservation education. Bill payment assistance and energy efficiency measures free up scarce resources for other essentials, such as food and housing costs. HCSD administers energy and weatherization activities through local community action agencies.
- ***Self Sufficiency and Emergency Assistance*** services are provided to very low-income Oregonians to help meet short-term, daily needs for food and shelter. Examples of services provided include rent subsidy/assistance; homeless assistance and food programs (described in more detail below); administration of the federally-funded Community Services Block Grant which provides funding for community based organizations that assist low income Oregonians; and administration of the Individual Development Account program, which provides financial counseling and matching funds to qualified low income individuals saving for a home, education, or business launch.
- ***Community Capacity Building*** includes the Manufactured Dwelling Park Community Relations Program maintains a centralized resource referral program for dispute resolution between tenants and landlords; and the federally funded Oregon Commission on Voluntary Action and Services, which promotes and supports AmeriCorps, volunteerism, and civic engagement to strengthen Oregon communities.
- ***Home Ownership and Affordable Rental Housing Development*** includes the support of below-market-rate loans financed through the sale of tax-exempt mortgage revenue bonds, administering federal programs for the repair and maintenance of existing low-income housing in rural Oregon, providing down-payment and closing cost assistance, and funding home ownership education. A limited revolving loan fund with low interest financing is available for manufactured home park purchases by residents. Farm worker housing loans and grants, low income weatherization using public purpose funds, and financial and physical inspections of projects receiving state and federal funds are other examples of activities included in this program area. HCSD also promotes affordable housing development through issuance of tax-exempt bonds, by providing conduit financing and loan programs, and administration of three housing tax credit programs.
- ***Program Outreach and Accountability*** encompasses the management and administrative functions of the agency, including the director's office, regional housing advisors, human resources, budgeting, accounting, grant management, debt issuance and management activities, communications, and information systems for the agency (including web-based application and reporting systems for clients).

The Legislature will have an opportunity to contemplate a new division for HCSD dedicated to administering federal funds received from the U.S. Treasury under the Troubled Asset Relief Program (TARP) to address high rates of foreclosure due to unemployment. In 2010, HCSD reported multiple times to the Emergency Board on program implementation and received expenditure limitation and position authority in September, 2010 to implement the Homeowner Stabilization Initiative. The program created the Oregon Affordable Housing Assistance Corporation to receive TARP funding, and will utilize the funding to provide mortgage payment assistance, foreclosure counseling, assistance with arrearages and fees to stabilize an existing loan, and transitional funding for those who are unable to remain in their homes.

Revenue Sources and Relationships

The vast majority of funding for HCSD projects and administration is generated through fees, interest income from loans and bond indentures, and federal funds.

General Fund support is provided to the General Fund Food Program, which provides support to the Oregon Food Bank Network for capacity building and bulk food purchases (current service level amount for 2011-13 is $2,105,344), the Statewide Homeless Assistance Program which funds emergency shelter programs and associated services (current service level General Fund amount is $3,074,627) and the Emergency Housing Assistance Program (current service level General Fund amount is $5,393,532) which provides supportive services, emergency mortgage, rent, or utility payments to those who are homeless or at risk of becoming homeless.

HCSD has numerous sources of Other Funds that include the following: proceeds from the sale of bonds ($230 million); mortgage and down payment assistance repayments ($212.2 million); loan and tax credit-related fees ($8.2 million); the energy bill payment assistance charge ($30 million); a portion of the public purpose charge established as part of the electric industry restructuring legislation approved in 1999 ($23.4 million); a special assessment on manufactured dwellings to fund the Manufactured Dwelling Park Community Relations Program ($826,498); civil penalties assessed to farm labor contractors by the Bureau of Labor and Industries ($125,000); a surcharge on court cases related to residential landlord and tenant law ($449,848); and interest earnings ($174.9 million). Resources for bond-related activities are expended as Other Funds Nonlimited. The 2009 Legislative Assembly passed SB 772, which will generate $172,600 from park registration fees, and the passage of HB 2436 will generate $32,291,342 from fees for recording certain documents.

In addition to the direct sources of Other Funds revenues, a portion of the General Fund appropriation is transferred to the Oregon Housing Fund and expended as Other Funds to support grants and loans for low-income housing, emergency shelter and transitional housing services, and/or emergency payments of rents, mortgages, or utilities.

Allocations of $11.2 million in Lottery revenue support the debt service requirements for the following: lottery revenue bonds that were issued for the Community Incentive Fund, which supported grants and loans to revitalize downtowns and main streets and to develop housing near jobs and transportation; $16 million in lottery backed bonds, the proceeds of which were used to partially fund 150 units of permanent supported housing for the homeless in 2007; and the debt service on the $19.9 million in lottery bonds approved for housing preservation in 2009.

Federal Funds are received from a variety of federal agencies which administer the following programs: HOME Investment Partnership Program ($29.5 million); Section 8 rent subsidies ($104.2 million); Community Development Block Grant ($3.9 million); Community Services Block Grant ($11.5 million); Low-Income Home Energy Assistance (LIHEAP) funds ($105.1 million); Emergency Shelter grants ($2.6 million); Supportive Housing programs ($1.1 million); Bonneville and Department of Energy weatherization assistance funds ($11.9 million); Food Assistance programs ($1.8 million); and federal grants related to volunteerism and AmeriCorps ($4.7 million).

HCSD requested a policy option package to expend remaining American Recovery and Reinvestment Act (ARRA) funds in 2011-13, for the following programs: $7.5 million for the Neighborhood Stabilization Program, which provides grant funding for redevelopment of abandoned and foreclosed properties; $6.8 million for the Tax Credit Assistance Program, which provides grant funding for capital investment in Low Income Housing Tax Credit projects that have stalled during the economic downturn; weatherization assistance funding ($12.9 million); and Homeless Prevention and Rapid Re-housing ($3.6 million).

Federal Funds Nonlimited expenditure authority is for Section 8 rent subsidy payments.

Current Service Level

The current service level is 47.5% less than the 2009-11 legislatively approved spending level at December 2010. The majority of the decrease is attributable to the decline in anticipated bond issuance due to the slow economy. The current service level also includes adjustments for personal services costs, inflation, additional debt service costs on lottery bonds, rate increases for the Attorney General, and state government service charges, as well as phase outs of one-time expenditures related to federal American Recovery and Reinvestment Act funding.

Budget Environment and Potential Reductions

The slow economy, high rates of unemployment, and a tight credit market have converged to create a challenging environment for HCSD. High rates of unemployment have led to record numbers of home foreclosures and weak buyer demand. While low interest rates may be a boon for those with steady income, they affect the operational capacity of HCSD, because the agency's single family home loan program is not competitive with the private sector; if no bonds for the program are issued, no loan payments and associated interest earnings can be generated to provide operating funding for the agency. Economic uncertainty has caused bond issuance costs to rise and purchase of pass-through revenue bonds (and related fee income) to lag. The high rates of foreclosure and unemployment mean that the demand for affordable housing – which exceeds supply in the best of economic times – is extremely high. And, tight credit markets make it difficult for affordable housing developers to cobble together financing to make projects pencil out. Finally, regulations have limited the amount of overall earnings on HCSD bonds, while requirements for reserves against default and to secure attractive ratings have increased, to the point that little remains available for agency operations.

HCSD must attempt to deal with its resource crunch on a variety of fronts, including strategically reducing service levels. For example, the agency has: suspended its single family loan program pending the ability to offer rates that are competitive with the private sector; shifted employees from other divisions to meet the demand for energy assistance and weatherization, which has additional funding and demand; and submitted legislation to allow for additional sources of operating funding. The Housing Development and Guarantee Account (often referred to as the Housing Trust Fund) has a corpus of $15.5 million and currently serves as a source of loan guarantees. HCSD will be evaluating the potential to use the Trust Fund corpus in other ways (as a source of revolving loan funds or bond guarantees, for example) to generate additional operating revenue. Such changes may require legislation.

General Fund reductions will impact special payments to community partners in the General Fund Food program, Emergency Housing Assistance program, and Statewide Homeless Assistance program. To date, HCSD has found the Emergency Housing Assistance Program to be the more flexible homeless assistance program, as funding can be used to prevent homelessness as well as support those who are already homeless. The Emergency Housing Assistance program also receives a portion of document recording fee revenue.

As a budget balancing action in 2001 and 2003, the Legislature transferred a combined total of $3.82 million from the Housing Finance Fund and $5.5 million from the Housing Development and Guarantee Account to the state's General Fund; the 2007 Legislative Assembly restored the corpus and invested $2 million back into the Housing Finance Fund. The potential risk to the agency's bond rating (and, by extension, borrowing costs), ability to guarantee loans, and ability to finance affordable housing projects and agency administration should be evaluated against any future such transfers.

HCSD requested General Fund support to purchase, rehabilitate, and preserve expiring federally subsidized affordable housing projects, increase funding for the Emergency Housing Assistance program, provide additional housing and supportive services for homeless populations, provide down payment assistance to low income Oregonians, provide funding for the Interagency Council on Hunger and Homelessness, the Hunger Relief Task Force and the Ending Homelessness Advisory Council, and provide capacity building and funding for volunteer organizations.

Department of Veterans' Affairs – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	6,122,619	6,168,915	5,898,200	6,630,666
Other Funds	37,487,702	46,403,160	47,823,775	46,792,375
Federal Funds	0	0	1,791,611	0
Other Funds (NL)	345,255,913	488,236,708	573,236,708	443,095,385
Total Funds	**$388,866,234**	**$540,808,783**	**$628,750,294**	**$496,518,426**
Positions	110	110	110	99
FTE	109.89	107.64	107.64	99.00

Agency Overview

The Oregon Department of Veterans' Affairs (ODVA) serves Oregon veterans, their dependents, and survivors. ODVA provides home loans at favorable interest rates, benefits counseling, claims assistance, conservatorship services, and education and emergency assistance to veterans. In addition, the Department operates the Oregon Veteran's Home in The Dalles, which provides skilled nursing and Alzheimer's disease care. ODVA has three program areas, consisting of the following:

The ***Veterans' Loan Program*** provides home acquisition and home improvement loans to veterans. The budget for the agency's administrative functions, including the director's office and financial services office are included in this program area. The program has been funded through the sale of tax-exempt, self-liquidating, general obligation bonds, which are retired through principal and interest payments from borrowers, and earnings from invested funds. Oregon is one of five states with a veterans' home loan program.

The ***Veterans' Services Program*** provides counseling, claims assistance, conservatorship services, and partnerships with counties and national veterans' service organizations to support local veterans' programs. The Veterans' Services Program is funded with General Fund and Other Funds, including conservatorship fees.

The ***Oregon Veterans' Home*** program operates the Oregon Veterans' Home in The Dalles and is funded with Other Funds, primarily money received from the residents of the Home (their social security, disability, pension benefits can all be applied to the cost of their care) Medicare and Medicaid payments, and a per diem amount received directly from the federal Veterans' Administration.

Revenue Sources and Relationships

The largest sources of ODVA Other Funds revenues are bond sales (projected $100 million in 2011-13), veteran loan and contract-related repayments ($75 million in 2011-13), and interest earnings ($55 million in 2011-13). The balance of loan program revenue comes from insurance premiums and other service charges, licenses, fees, and miscellaneous revenues (a combined total of $5.5 million). Available revenues and reserves are expected to be sufficient for operations and necessary debt services. The agency's administrative costs are limited in the budget, while the direct loan activity expenditures (i.e., loans made to veterans, pass-through payments made on behalf of borrowers, and debt service paid on General Obligation bonds issued to finance the program) are Nonlimited.

In the Veterans' Services program, a combination of General Fund and Other Funds supports the Claims and Counseling section, the Conservatorship program, educational and emergency assistance, and service delivery partnership programs. The 2009-11 estimated conservator fees total $600,000. The balance of Other Funds, most of which support the claims and counseling programs, comes from existing cash balances in the Veterans' Loan program. The Constitution allows these revenues to be used for Veterans' Services. The 2009-11 legislatively approved spending level included funding for emergency assistance payments ($319,395 General Fund) and educational aid ($267,283 General Fund and $121,641 Other Funds) to qualifying veterans. The 2009-11 approved spending level for County Veteran's Service Officers was $3.3 million General Fund, and aid to National veterans' service organizations amounted to $115,443 General Fund.

The Veterans' Home Program is financed entirely with Other Funds. Revenues are primarily moneys received from the residents of the Home (charges for services are anticipated to total $27.2 million for the 2011-13 biennium), and often consist of Medicare and Medicaid payments, and a per diem amount received directly from the federal Veterans' Administration. The total amount of revenue is based in part on the occupancy projections obtained from the Home's contractor.

Current Service Level

The current service level is 21% less than the 2009-11 legislatively approved spending level at December 2010, primarily due to adjustments in nonlimited funding related to the issuance of refunding bonds and due to General Fund allotment reductions in the 2009-11 biennium. The current service level includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges, as well as reductions in FTE in the veterans' loan program and the phase out of the Campus Veteran's Service Officer outreach pilot program in Veterans' Services.

Budget Environment and Potential Reductions

Aging veterans and an increase in the number of younger veterans due to conflicts in the Middle East are creating an increased demand for veterans/ counseling and claim services. These services are partially funded through interest and fees generated by the Veterans' Loan program, at a time when the program is struggling with low demand in both the investor (bond) and consumer (home loan) markets, low interest rates and earnings, lower real estate valuations, higher rates of foreclosure, higher prepayments, and federal restrictions on use of bond funds and earnings generated. All of these factors negatively impact the loan program's financial performance. ODVA will be utilizing reserves to pay for operations in the 2011-13 biennium, and economic modeling suggests that reserve amounts and earnings potential for the program are projected to deteriorate at an accelerated rate over the next 3 decades. While economic conditions are not favorable to new loans and earnings for the home loan program, ODVA is taking advantage of the low interest rate environment to exchange volatile variable debt for fixed rate debt, which will add more certainty to long term borrowing costs. However, this strategy restricts the amount of funding available for veterans' services, because of the higher short term costs related to issuance.

In November 2010, Oregon voters passed ballot Measure 70, expanding veteran eligibility for the Veterans' Home Loan program as well as eliminating the constitutional 30-year eligibility restriction. The loan program is now a lifetime benefit for eligible veterans. The dampening effect of the economic climate makes it difficult to evaluate the initiative's impact on loan generation. In addition, federal law has a limitation of 25 years from discharge on the ability to issue bonds for veterans, so any loans for this newly eligible group will have to be funded from reserves or older bond proceeds. Oregon and the four other states with Veterans' home loan programs (California, Texas, Wisconsin, and Alaska) are seeking federal legislation to ease this restriction.

In September 2012, a second Veterans' Home is scheduled to begin construction in the city of Lebanon in Linn County, with a planned opening in late 2014. Additional Other Funds expenditure limitation may be requested to fulfill construction matching requirements imposed by the federal Veterans' Administration. The source of these Other Funds would be funds from Linn County, whose voters passed a local option levy for the purpose.

During the 2009-11 biennium, General Fund reductions were taken in the emergency assistance payments provided to veterans, county veteran's service officers, and support to national organizations. By contrast, supplemental funding was provided for educational aid payments in the February 2010 special session to address record levels of enrollment. Potential reductions for 2011-13 include special payments to veterans for emergency assistance and educational aid, special payments to national veterans' service organizations and county veterans' services officers, and reduced support for counseling and claims, which received $1.3 million in General Fund support during the 2009-11 biennium.

ODVA requested additional General Fund support for policy option packages that would continue outreach to veterans on college campuses ($933,661 General Fund, 5.00 FTE) and that would eliminate the need for Loan Program funds to subsidize Veterans' Services programs ($1,623,977 General Fund).

Department of Agriculture – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	14,147,428	14,264,994	13,012,720	15,586,409
Lottery Funds	9,695,292	10,144,720	10,143,165	10,766,321
Other Funds	46,106,933	49,174,448	49,680,325	50,408,598
Federal Funds	7,635,574	12,287,361	12,287,361	12,718,208
Total Funds	**$77,585,227**	**$85,871,523**	**$85,123,571**	**$89,479,536**
Positions	517	503	504	501
FTE	372.22	357.02	357.69	354.41

Agency Overview

The Department of Agriculture's mission is centered on three broad policy areas of ensuring food safety and providing consumer protection, protecting agricultural natural resources, and promoting economic development in the agricultural industry. The agency emphasizes public education and technical assistance in its provision of regulatory oversight on legislatively mandated programs. Oregon's agricultural industry is one of the state's most important economic sectors. Producers are active in over 225 major commodities with a farm level value of more than $5 billion per year. Another $1.5 to $2 billion per year can be counted as value-added through food processing activities.

The Department's budget is comprised of four policy areas. ***Administration and Support Services*** provides policy direction and support functions for the agency. The ***Food Safety*** Policy Area consists of the Food Safety, Measurement Standards, Animal Health and Identification, and Laboratory Services Divisions. These divisions are primarily responsible for addressing public concerns over the safety of the food supply, the regulation of livestock diseases, and the accurate labeling and packaging of food products and other goods. The ***Natural Resources*** Policy Area includes the Natural Resources, Pesticides, and Plant Divisions. These three divisions are responsible for protecting the state's agricultural natural resource base. The ***Agricultural Development*** Policy Area consists of the Agricultural Development and Marketing Division and the Commodity Inspection Division. These divisions work with the state's agricultural producers to increase sales through product and market development and assist in moving products into the domestic and international markets by providing inspection, grading, and certification of agricultural commodities.

Revenue Sources and Relationships

Less than 30% of the Department's expenditures are financed by the General Fund and Lottery Funds. The General Fund provides significant percentages of the total funding for food safety inspections, agriculture marketing, regulation of Confined Animal Feeding Operations, and predator control. Some General Fund is also used to fund the administrative support functions of the agency. Lottery Funds are almost entirely from the constitutionally dedicated 7.5% of all Lottery revenues that are restricted to wildlife and habitat protection and restoration. Dedicated Lottery Funds provide most of the funding for agricultural water quality activities, grants to treat exotic weeds, and insect pest prevention and management.

Other Funds account for over 50% of the Department's total revenues. The main source of agency Other Fund revenues is from license and fee payments for regulated activities such as inspections of measuring devices to ensure accuracy and pesticide applicator fees. Other Funds also include revenue from reimbursable work and charges for services, cost reimbursements, management assessments for central administrative services, and transfers from other and federally funded program areas. Federal Funds are primarily received by the Natural Resources and Agricultural Development and Marketing policy areas. Federal Funds are used for Specialty Crop grants to promote certain agricultural products in the state, plant and animal health protection, invasive species management and prevention, and pesticides regulation.

In the past the Department's Other Funds have been transferred, or swept, into the General Fund for expenditure as General Fund. This has happened to the Department of Agriculture a number of times. During the February 2010 special session $443,000 in fees were transferred to the General Fund from the Pesticide Use Reporting System (PURS), which was mothballed during the 2009 session. In the 2009 regular session, a total of

$2,250,000 of Other Funds was transferred to the General Fund. The Other Fund transfers were from the weights and measures program ($500,000), pesticides program ($750,000), and the Department's vehicle replacement pool ($1,000,000).

Current Service Level

The current service level is 3.8% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The current service level General Fund calculation removed monies appropriated for development of an alternative energy facility business plan, funding for fruit fly research, and the remaining state support for the mothballed PURS program.

Budget Environment and Potential Reductions

While past General Fund cuts have included actual reductions in the agency's scope of work such as the suspention of the Pesticide Use Reporting System and eliminating an agriculture marketing position, most reductions in General Fund support are the result of replacing General Fund revenue with monies from license and fee payers. This theme of shifting reductions in state support onto Other Funds from fee payers is continued in the reductions options proposed by the agency. At the 5% General Fund reduction level, only $70,000 (elimination of remaining General Fund support in the Nursery Program) of the $813,835 in total General Fund cuts is an actual reduction in expenditures. The remaining cuts are to be shifted onto Other Funds. At the 15% reduction level, additional fund shifts are suggested, the largest of which is a $600,000 reduction in state support for food safety inspections along with elimination of three positions, a district veterinarian position, an agriculture marketing position, and a position that coordinates the noxious weed control program. From 15% to 25% includes shifting administrative functions currently paid for with General Fund to Other Funds from higher administrative indirect charges. These higher internal charges would be used to support the agency's Land Use Coordinator position as well as other portions of other positions providing administrative functions. The agency also proposes an additional $600,000 food safety fund shift at this level of reduction. Fund shifts at the 25% level are more likely to require fee increases to generate the additional revenue necessary to backfill loss of General Fund.

The Department also faces potential reductions in Lottery Funds due to revenue being insufficient to support all current service level expenditures into 2011-13. In addition, the nature of the constitutional dedication of 7.5% of all lottery revenues for wildlife and habitat protection and enhancement was changed by Ballot Measure 76, which was passed by the voters in November 2010. This constitutional reauthorization of dedicating Lottery Funds to natural resources changed the way the dedicated Lottery Funds could be spent. Under the old dedication, the 7.5% of Lottery revenues was divided into two parts, 65% for capital expenditures and 35% for operations expenditures. Under the reauthorization of this dedication in Ballot Measure 76, 65% is for grants to non-state agencies and 35% can support state agency programs. Previously, state agency programs could be funded under either the capital or operations funding split as long as it was the right kind of expenditure. Now state agencies will be prohibited from directly receiving any of the 65% dedicated to grants. In the 2009-11 approved budget more that 45% of the dedicated Lottery Funds go directly to state agencies. This cannot continue under Ballot Measure 76. Some possible solutions include simply cutting Natural Resource agency programs that rely on dedicated Lottery Funds such the agricultural water quality program until the 35% state agency expenditures is reached, moving some activities to non-state agencies, or requiring some programs that currently are supported with dedicated Lottery Funds that pass through state agencies, such as the Department's $4 million in Weed Control grants, to apply directly to the Oregon Watershed Enhancement Board for funding from the 65% dedicated to grants to non-state agencies.

As in the past, the Department's Other Funds ending balances will be scrutinized for potential sweeps. When looking at Other Fund balances for possible transfer, factors that are considered include the program's need for operating reserve, the amount of balance over that needed for operational reserves, the constitutionality of any transfer, and whether a transfer will require a fee increase in the upcoming biennium. Department of Agriculture programs with balances in excess of operating reserve needs include the Weights and Measures and Shipping Point Commodity Inspection programs.

Columbia River Gorge Commission – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	1,022,067	860,811	818,084	1,014,777
Other Fund	0	73,030	73,030	75,294
Total Funds	**$1,022,067**	**$933,841**	**$891,114**	**$1,090,071**

Agency Overview

The Columbia River Gorge Commission (CRGC) was authorized by the 1986 Columbia River Gorge National Scenic Area Act and created as a regional agency through an interstate compact between Oregon and Washington. The agreement between the Governors' offices of Oregon and Washington, and legislative statutes, form the basis of the relationship between the states and the federal government. The Commission was established to implement the National Scenic Area Act's purposes of protecting and enhancing the scenic, cultural, recreational, and natural resources of the Gorge while encouraging compatible growth within existing urban areas of the Gorge region and allowing future economic growth.

The Commission functions as the permanent regional land use policy body for the Scenic Area, a 292,000-acre region stretching along both shores of the Columbia River for 80 miles, just east of the Portland OR-Vancouver WA metropolitan area. The Columbia River Gorge encompasses three counties in Oregon (Hood River, Multnomah, and Wasco) and three in Washington (Clark, Skamania, and Klickitat) and includes 13 designated Urban Areas. The Commission consists of 13 members, one appointed by each of the six counties within the Scenic Area, six appointed by the two states (three by each Governor), and one ex officio, non-voting member appointed by the U.S. Secretary of Agriculture. The Commission's office is in White Salmon, Washington, and functions with employees of the State of Washington.

The Commission has an oversight role for the entire Scenic Area and functions as a facilitator and resource for collaborative regional efforts. Commission responsibilities include the adoption and maintenance of a management plan, review and approval of local land use ordinances for the Scenic Area, appellate review of decisions made under the ordinances, and coordination of Gorge resource development efforts envisioned by the Scenic Act. The Commission adopted the initial management plan in 1991. Under the management plan, the Commission sets policy for land use and resource protection on non-federal lands in the Gorge, monitors implementation of the plan, ensures that Scenic Area ordinances are effective, and facilitates enhancements of the economic, natural, scenic, cultural, and recreational resource elements of the Scenic Area. Five of the 6 counties are implementing the management plan through locally adopted land use ordinances. Klickitat County, Washington, has not adopted land use ordinances, leaving review of proposed developments to the Gorge Commission.

Revenue Sources and Relationships

The Scenic Act was approved at the federal level, and the intent of the states was to maintain a level of local control as expressed through a bi-state compact. The Columbia River Interstate Compact is a binding legal document that requires each state to pay its Commission members' expenses and to contribute equally to operating costs to perform all functions and responsibilities in accordance with the Compact and Act. The executive state offices and matching state statues reflect this ongoing commitment. Because of this requirement, the budget is, in effect, set by the state appropriating the lesser amount for operational expenses. The Commission has also received grant funding for monitoring program activities and other special project work from the federal government. These grant funds are generally not factored into the development of the Commission's operating budget. The Commission collects no revenue from fees, licenses, or assessments.

Other Funds was included in the 2009-11 legislatively adopted budget to allow the agency to spend any moneys received from donations. Through the first fiscal year of the budget period, however, the agency had received less than $2,500 in revenue from donations. The amount of Other Funds expenditure limitation should be re-examined for the 2011-13 budget.

Current Service Level

The current service level is 22.3% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The agency budget consists of the Joint Expenses program and Commissioner Expenses. The Joint Expenses program, which is required to be equally shared between Oregon and Washington, represents 98% of the General Fund current service level budget. The Joint Expenses program represents all operational activities of the Commission except for the expenses of each state's appointed commissioners. Under the Compact, each state is required to pay for its own appointed commissioner expenses. The commissioner expense budgets of Oregon and Washington are not required to match due to differences in compensation practices between the states. The commissioner expense budget includes expenditures for personal services, per diem, and travel expenses related to attendance at meetings of the Columbia River Gorge Commission.

Budget Environment and Potential Reductions

The Commission is in the unique position of having its budget determined by two states. Since both Oregon and Washington have been experiencing revenue shortfalls due to the economic downturn, the Commission's budget for the 2009-11 biennium has been substantially reduced. Reductions for the current biennium have included ten furlough days and a temporary reduction in planning staff FTE. Joint program services for 2009-11 biennium are being provided by 7.21 FTE, all of which are considered to be employees of the State of Washington; although the authorized level is 10.25 FTE, due to the budget shortfalls, the Commission has maintained vacancies and not filled a project manager position.

While the Commission has survived recent attempts at dissolution, it is likely that continued commentary will be generated about whether or not the Columbia River Gorge Commission should be funded. The Commission was directed by the Oregon Legislature through budget notes to obtain legal advice on whether or not the Commission could collect fees as a way to general revenue for operational costs. A report was provided to the Emergency Board in December 2010 indicating that charging fees was not an authority provided by the laws of either of the two states and was not authorized in the National Scenic Act or in the bi-state compact. In order to provide this authority, all of these legal documents would need to be changed. In a similar vein, a decision to dissolve the Commission would require an agreement by both states and by Congress.

Options to reduce the Commission's 2011-13 General Fund current service level budget include the following:

- At a 5% reduction level, decrease amounts included for services and supplies, such as facility and equipment maintenance and other vendor contracts, and decrease contracts for the Vital Signs Indicators and Management Plan Review activities by 50%.
- At a 15% reduction level, in addition to the above reduction options, eliminate the remaining 50% of contract work, reduce usage of Attorney General services, reduce the administrative assistant position from full-time to half-time, and reduce the in-house legal counsel position from 0.75 FTE to 0.50 FTE.
- At a 25% reduction level, in addition to the above reduction options, eliminate one half-time land use planner position and another full-time land use planner position; this would leave the agency with a net 2.50 FTE planning positions compared to 4.50 FTE in the 2007-09 biennium.

Department of Energy (DOE) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	3,100,000	0	0	0
Lottery Funds	0	590,347	590,347	2,164,185
Other Funds	20,140,759	32,298,391	33,307,287	27,244,805
Federal Funds	3,551,982	57,739,196	57,739,196	2,973,450
Other Funds (NL)	111,505,039	167,916,815	167,916,815	171,915,239
Federal Funds (NL)	0	0	1	1
Total Funds	**$138,297,780**	**$258,544,749**	**$259,553,646**	**$204,297,680**
Positions	96	115	122	104
FTE	89.41	112.75	117.44	98.50

Agency Overview

The mission of the Oregon Department of Energy (DOE) is to ensure Oregon has an adequate supply of reliable and affordable energy and is safe from nuclear contamination, by helping Oregonians save energy, develop clean energy resources, promote renewable energy, and clean up nuclear waste. DOE encourages energy conservation through public information and incentive programs which provide loans or tax credits for implementing energy efficient technologies in residences, public sector buildings, and private sector businesses. The Department is funded entirely by Other Funds and Federal Funds, and currently receives no General Fund support for its activities.

DOE staffs the following statutory boards:

- The ***Energy Facility Siting Council***, a seven-member citizen board appointed by the Governor, that decides whether large energy facilities may be built in Oregon; regulates the construction, operation, and decommissioning of energy facilities; and oversees the disposal of low-level radioactive wastes.
- The ***Hanford Cleanup Board***, a 20-member board, that addresses clean up issues at the nuclear site and represents Oregon's interest in issues involving Hanford, with a focus on protecting the Columbia River and ensuring safe transportation routes for shipments of radioactive waste.
- The ***Global Warming Commission (GWC)*** recommends ways to coordinate state and local efforts to reduce Oregon's greenhouse gas emissions consistent with Oregon's goals and recommends efforts to help the state, local governments, businesses and residents prepare for the effects of global warming.
- The ***Energy Facility Siting Council (EFSC)*** oversees the development of large energy facilities.

The Department also heads or plays a significant role in the following workgroups:

- The ***Oregon Energy Planning Council (OEPC)*** issues an energy planning report to the Governor and the Legislative Assembly on a biennial basis; created by executive order.
- The ***Carbon Dioxide Equivalent Advisory Group*** provides input for EFSC and the Department to consider in developing rules for allowing offset projects that reduce greenhouse gases other than carbon dioxide (e.g., methane and nitrous oxide) to help comply with the Oregon Carbon Dioxide Standard.
- The ***Energy Performance Scores Task Force*** makes recommendations to the Department regarding the establishment of an energy performance scoring system for new and existing residential and nonresidential buildings.
- The ***Renewable Energy Working Group*** guides implementation of the Oregon Renewable Energy Action Plan.
- The ***Solar Energy Working Group*** brings together stakeholders to develop a strategic plan for solar energy.
- The ***Small Scale Hydroelectric Working Group*** brings together stakeholders focused on small hydro advocacy and how to best achieve environmentally-sound hydroelectric development in Oregon.
- The ***Oregon Wind Working Group*** brings together stakeholders to promote the development of wind energy in Oregon, with an emphasis on rural economic development aspects of small and medium sized wind energy projects.
- The ***Oregon Geothermal Working Group*** brings together stakeholders to promote the use of Oregon's geothermal resources for power generation and direct use.

- The **Biomass Coordinating Group** coordinates agency roles in biomass market development and electricity generation detailed in Oregon's Renewable Energy Action Plan.

The Department of Energy also has a renewable energy and conservation loan program financed through bonds. The **Small Scale Energy Loan Program Advisory Committee (SELPAC)** is a statutory committee that advises the Department on loans to individuals and businesses for the promotion of energy conservation and development of renewable energy resources.

Revenue Sources and Relationships

DOE has numerous sources of Other Funds revenues. The main source is the Small-Scale Energy Loan Program (SELP), which includes general obligation bond sales (estimated at $245 million for the 2011-13 biennium), loan fees ($3.2 million), loan repayments ($71.2 million), and interest and investment income ($56.9 million).

Excluding bond sales for the Small Scale Energy Loan Program, approximately 47% of DOE's Other Funds expenditures are supported by the agency's assessment on energy suppliers (primarily utilities and petroleum suppliers) which is limited to one-half of 1% of the supplier's gross revenue derived in Oregon. Barring unforeseen economic declines for energy suppliers, the current assessment rate of .00069 is expected to bring in $9,744,986. The energy supplier assessment supports a portion of agency administrative expenses and energy policy and conservation activities. Because the assessment is based on gross revenue, it can fluctuate based on energy prices, and for the first time in many years, the 2010 assessment rate brought in less than projected when the rate was set. Depending on policy choices and initiatives enacted by the Legislature, the ending balance associated with this assessment rate level may be inadequate for cash flow purposes, and the agency may consider increasing the assessment rate in 2011 or 2012.

Other sources of revenue include the following: energy siting fees ($4.5 million); fees for services related to the program for schools and self-directed efficiency projects ($850,000) stemming from electric marketing restructuring; and fees for energy efficient design services in state buildings, home oil heating, and radioactive waste transportation fees.

Application fees related to the Business Energy Tax Credit ($4.4 million) are projected to decline from previous levels in the 2011-13 biennium due to the program sunset, a competitive tier system, and caps on the total amounts of tax credits that can be issued; meanwhile, project evaluation continues to be intensive due to complex technologies, additional accountability measures, and interaction with other energy development program incentives.

Federal Funds received from the U.S. Department of Energy support various activities including oversight at the Hanford Nuclear site, deployment of technologies and energy sources that improve energy efficiencies in new building construction, promotion and utilization of alternative fuels, infrastructure development, and renewable resource projects. Federal Funds are also received for work related to tracking, monitoring, and emergency planning for shipment of low-level radioactive waste materials, and monitoring and testing for contamination related to the Lakeview uranium remediation site. Additionally, the U.S. Department of Agriculture and the Environmental Protection Agency provide funds that support both conservation (including the Residential Energy Tax Credit program) and renewable energy programs. Federal revenues for these activities are expected to total $3.2 million in 2011-13.

In 2009-11, DOE was granted $56 million in additional Federal Funds expenditure limitation related to the American Recovery and Reinvestment Act. The agency included a policy option package to distribute remaining grant funds in the 2011-13 biennium, amounting to $28.2 million in Federal Funds distribution for subgrants related to energy efficiency improvements (equipment and installation) in local government buildings including schools and community colleges, and assistance to state, tribal, and non-entitlement local governments in implementing energy efficiency and renewable energy programs. Anticipated projects include development and implementation of an energy efficiency strategy; government or not-for-profit building retrofits; transportation measures to conserve energy (including bike lanes, pathways, and sidewalks); development and implementation of building codes; methane capture; LED traffic signals and lighting; and onsite renewable energy use in government buildings.

Current Service Level

The current service level is 21.3% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges, as well as phase outs of programs scheduled to sunset (BETC and RETC, and Federal spending related to the American Recovery and Reinvestment Act).

Budget Environment and Potential Reductions

Potential reductions to DOE's current service level include elimination of inflation and potential savings derived from legislative policy decisions related to state employee salaries or pensions. DOE has requested the following policy option packages:

- Continuing limited duration positions associated with administration of grants received under the American Recovery and Reinvestment Act ($364,299 Other Funds, $27,785,965 Federal Funds, 7.23 FTE).
- Permanent positions to accommodate an increase in energy facility siting activity ($1,797,968 Other Funds, 4.00 FTE).

The Business Energy Tax Program and Residential Energy Tax Credit program are both scheduled to sunset in the 2011-13 biennium. The current service level budget phases out positions, other expenses, and associated revenue. Whether the programs are renewed will have a significant impact on agency staffing levels, revenue, operations, and needs for physical space in the 2011-13 biennium.

DOE is also grappling with higher Attorney General (AG) costs as entities pursue litigation relating to changes to the BETC program, and due to a contracting investigation by the Department of Justice. The most recent projections assume AG costs will top $1 million for the 2009-11 biennium, up 27% from 2007-09.

The Department is experiencing a significant increase in energy siting activity, and requested a policy option package to provide the resources to accommodate the activities in a thorough and timely manner. Siting an energy facility can have implications for other regulatory agencies as well, and some have expressed an interest in additional permanent positions funded through a transfer of funds.

A number of programs and positions funded through the federal American Recovery and Reinvestment Act (ARRA) are scheduled to be completed in 2011-13, and DOE has requested a policy option package with Federal Funds expenditure limitation and limited duration position authority to complete ARRA related projects and grant activities.

DOE – Operations

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	3,100,000	0	0	0
Lottery Funds	0	590,347	590,347	2,164,186
Other Funds	22,095,949	32,297,391	33,307,287	27,244,806
Federal Funds	5,622,500	57,739,196	57,739,196	2,973,450
Total Funds	**30,818,449**	**$90,545,934**	**91,636,830**	**32,382,442**
Positions	96	115	122	104
FTE	89.41	112.75	117.44	98.50

Program Description

At the request of the Legislative Fiscal Office, DOE has reorganized its management and budget systems according to function, resulting in five divisions for the 2011-13 biennium (in place of the previous two divisions).

- The Energy Policy division includes research, education, and technical assistance on conservation and efficiency technologies and measures and renewable energy options. The division also staffs the Oregon Global Warming Commission, amassing and analyzing research, planning, and policy recommendations related to climate change.
- The Energy Development Services division strives to provide "one-stop" incentive coordination to businesses and individuals by evaluating proposed energy conservation or generation projects for eligibility

for tax credits, loans, and grants through the Business Energy Tax Credit, Residential Energy Tax Credit, American Recovery and Reinvestment Act, Small-Scale Energy Loan Program, and Energy Efficiency and Sustainable Technology programs.

- The Nuclear Safety and Energy Emergency Preparedness division supports the Hanford Cleanup Board, monitors federal cleanup efforts, prepares emergency plans and executes emergency response exercises, and coordinates safe transportation of radioactive materials through Oregon.
- The Energy Facility Siting division works with energy facilities and energy developers to determine the appropriate location for energy facilities, and ensure that such facilities meet state environmental and land use standards. The division also monitors projects to ensure they are being built and operated according to plan.
- The administrative services division consists of administrative support, including the director's office, budget, accounting, contracting, information technology, database development and management, human resources, communications, government relations, and auditing.

Current Service Level

The current service level is 64.7% less than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges, as well as phase outs of programs scheduled to sunset (BETC and RETC, and Federal spending related to the American Recovery and Reinvestment Act).

Budget Environment and Potential Reductions

Since the adjournment of the 2009 regular legislative session, a number of statutory and administrative rule changes have been implemented to better target incentives to specific projects or technologies, and to lend predictability to the amount of tax credits which can be claimed under the Business Energy Tax Credit program and the Residential Energy Tax Credit program. These include capping the total amount of incentives that could be offered under the Business Energy Tax Credit program and redefining the projects and appliances which are eligible for incentives. These activities are anticipated to have an impact on the amount of revenue – derived from fees – available to support the BETC program. The renewable energy and conservation project portions of the BETC program are scheduled to sunset on June 30, 2012, and the manufacturing projects portion of the credit is scheduled to sunset on December 31, 2013.

The Department's Residential Energy Tax Credit program currently costs more to administer than is provided through federal grants, the historical funding source for this program; the Department of Energy has been subsidizing the difference through the Energy Supplier Assessment. This program is also scheduled to sunset January 1, 2012.

The agency has unmet business system needs, primarily related to the BETC and RETC programs. Energy has declined additional investment in online application systems and database enhancements until the Legislature makes determination about whether and how to renew the credits. Additional resources may be required for these projects if the tax credit programs are renewed.

At the request of its partners, DOE is submitting legislation to limit the agency activities which can be funded through the energy supplier assessment; this source of funding has historically been flexible, and been utilized for administrative expenses, conservation and policy work, and special projects (such as funding for energy expertise in the Business Development Department and start up funding for the Energy Efficiency and Sustainable Technology Loan Program).

An increase in requests for siting of energy facilities is being fueled by the expansion of renewable energy and population growth. Despite the downturn in the economy, siting applications have not waned, and the project review is longterm (often over the course of two or three biennia). As mentioned above, the Department has requested a policy option package consisting of four positions and Other Funds expenditure limitation to meet the demand for siting review.

DOE – Energy Loan Program Nonlimited

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds (NL)	158,006,507	178,916,815	167,916,815	171,915,239
Federal Funds (NL)	0	0	1	1
Total Funds	**$158,006,507**	**$178,916,815**	**$167,916,816**	**$171,915,240**

Program Description

The Small-Scale Energy Loan Program (SELP) offers low-interest, long-term loans to individuals, businesses, non-profit organizations, tribes, and state and local governments for conservation and renewable resource projects. Established in 1980, SELP makes loans for projects such as renewable energy resources, energy-efficient heating and lighting systems, weatherization measures, and energy-efficient improvements in manufacturing processes. The program also encourages innovative projects that are energy efficient and environmentally sound. Sales of state general obligation bonds fund the loans. For the 2011-13 budget, the agency is proposing to include the SELP program into one of its new divisions, which would also include other energy incentive programs available to businesses and consumers. For ease of comparison across biennia, the table above only includes SELP-related loan activity.

$1 Federal Funds Nonlimited was added to the Department's budget during the February 2010 legislative session as a placeholder for a federal grant program.

Current Service Level

The current service level is 2.4% higher than the 2009-11 legislatively approved spending level at December 2010 and includes an inflation factor related to debt service and loan activity.

Budget Environment and Potential Reductions

The Department of Energy is projecting a need for General Fund support in the 2013-15 biennium to pay debt service on a large loan that went into default during the 2009-11 biennium. As of this writing, the projected need is $5 million, but could increase if other borrowers are also unable to meet their loan obligations. In the wake of that default, a number of program modifications that have been made to curtail defaults, including the following:

- No construction loans; long term financing will be the norm.
- No lending on grant awards or BETC pre-certifications.
- Loans will be fully collateralized on projects and first lien position on collateral unless there is a strong mitigating factor for taking a second.
- Stronger inspection protocols for disbursements to verify work completion.
- Stronger use of third party consultants on projects.
- Increased spread to allow for loan loss expense.
- A risk analysis and reserve analysis of the entire loan portfolio has been completed.

Department of Environmental Quality – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	36,444,631	33,330,127	30,807,725	36,718,093
Lottery Funds	5,610,171	5,426,117	5,415,717	5,911,822
Other Funds	117,306,094	137,861,976	137,858,403	148,696,472
Federal Funds	26,452,507	35,935,314	37,313,314	33,887,324
Other Funds (NL)	137,436,517	189,073,148	189,073,148	86,130,201
Total Funds	**$323,249,920**	**$401,626,682**	**$400,468,307**	**$311,343,912**
Positions	826	814	814	801
FTE	797.46	790.13	790.13	783.53

Agency Overview

The Department of Environmental Quality (DEQ), with policy direction from the five-member Environmental Quality Commission, administers the state's laws regulating air, water, and land pollution. The Department establishes the standards for clean air, water, and land; determines whether or not these standards are being met; and then takes action to enforce the standards when necessary. The agency attempts to use technical assistance and education whenever possible to enhance compliance. The Department also manages the federally delegated Clean Air, Clean Water, and Resource Conservation and Recovery Act programs. In addition to the federal environmental programs, DEQ administers the state environmental programs in the areas of solid waste management, planning, and recycling, groundwater protection, and environmental cleanup. The agency is comprised of four major program units: Air Quality, Water Quality, Land Quality, and Agency Management.

Air Quality – This program is responsible for compliance with federal and state air quality standards. The program monitors air quality to protect the public health through the development and implementation of pollution reduction strategies. The primary sources of air pollution in Oregon are motor vehicles, forest slash burning, woodstoves, industrial facilities, field burning, and area sources. The federally delegated air quality program includes statewide air quality monitoring and emissions inventory, strategic planning for pollution reduction, and a permit system. Permits are issued under two industrial source air quality programs operated by the Department.

Water Quality – This program's primary functions are setting and monitoring water quality standards and assessments, controlling wastewater through permits and certifications, providing financial and technical assistance, implementing the Oregon Plan for the restoration of salmon populations and watersheds, and implementing portions of the Safe Drinking Water Act. The Department is responsible for two permit systems, the federally delegated National Pollutant Discharge Elimination System (NPDES) for discharges into surface waters and the state Water Pollution Control Facility (WPCF) permit program for all discharges such as sewage lagoons and effluent irrigation. The Water Quality program also operates the nonpoint source pollution program in Oregon. Nonpoint source pollution is that not attributable to a specific source point. Examples of nonpoint source pollution include stormwater and agricultural runoff.

Land Quality – This program focuses on preventing and reducing waste generation, assuring that waste generated is properly managed, responding to emergency spills, and cleaning up sites contaminated with hazardous substances and uncontrolled releases of toxic chemicals. Activities are organized into the five main subprogram areas of solid waste, hazardous waste, environmental cleanup, underground storage tanks, and emergency management. In each area, the Land Quality program focuses on the hierarchy of waste management, starting with prevention, reduction, reuse, recycling, recovery, and ending with proper disposal. Land Quality operates the federally approved solid waste landfill compliance program and the federally delegated hazardous waste program.

Agency Management – This program provides leadership, coordination, and support for the Department and staff assistance for the Environmental Quality Commission. Agency Management includes the Office of the Director, the Public Affairs Office, and the Management Services Division. Management Services consists of the

Accounting, Budget and Administration, Human Resources, Information Systems, Business Systems Development, and Health and Safety sections.

Pollution Control Bond – The sale of pollution control bonds is used by the Department to finance the Clean Water State Revolving Fund, the Sewer Assessment Deferral Loan program, and the Orphan Site program. Bond proceeds are used to finance municipal waste water facility construction and other water pollution reduction projects, an assessment deferral program for low income households, and cleanup of hazardous waste sites where the responsible party is either unknown, unwilling, or unable to pay for cleanup costs. The Clean Water State Revolving Fund (CWSRF) makes loans to local governments for construction of eligible waste water treatment facilities and is funded primarily with monies from the federal government. Funding for the CWSRF is nonlimited. The CWSRF program saw a significant increase in federal support through federal stimulus legislation. This higher level of federal support is not expected to continue into the 2011-13 biennium.

Revenue Sources and Relationships

The federally delegated clean air program is primarily financed with permit and emission fees (such as the Air Contaminant Discharge Permit fee) supplemented by a General Fund appropriation and Federal Clean Air Act funds. Federal law requires that the cost of the permit program for major industrial sources be fully paid from emission fees (Title V Permit Fee). Other non-General Fund sources include fees for asbestos certification and inspection, field burning permits, and the vehicle inspection program. The Vehicle Inspection Program is entirely supported by a $21 fee for certificates of vehicle emissions compliance, required as part of a vehicle's registration process.

The federally delegated and state water pollution permit programs are financed from a combination of sources – the General Fund, industrial and municipal fees, and Federal Clean Water Act funds. The primary Other Funds sources of revenue include industrial waste discharge permit fees, municipal wastewater permit fees, and subsurface sewage disposal fees. Other Funds sources also finance the administrative costs of the wastewater finance program. Federal Funds are received primarily under the Clean Water Act for operational expenses (Section 106) and for nonpoint source project grants (Section 319) and from other miscellaneous grant sources for a variety of program activities. The Water Quality program relies more heavily on state support for program funding than any other program area.

Most Land Quality programs are financed almost entirely from dedicated Other and Federal Funds. The Solid Waste program is funded entirely by revenue from solid waste permit and disposal fees. Solid waste disposal fees, also known as "tipping" fees, are collected on waste disposed at municipal solid waste sites. The state also operates the federally delegated hazardous waste management program. General Fund and fees provide the 25% match required for receipt of federal funds. Maintenance of an EPA approved program is a condition of program delegation. Agency Management is financed solely from indirect cost revenues. The indirect rate is calculated as a percentage of personal services. The actual rate is negotiated annually with the Environmental Protection Agency once the agency's total budget is established.

While the Department, like all agencies that receive General Fund, saw General Fund reductions occur during the 2009-11 biennium due to General Fund revenue shortfalls, DEQ has also seen significant loss of Other Funds revenue. These reductions have occurred in programs that issue permits related to construction or business activity. Therefore, as the recession has slowed business and construction activity, the Department has seen reductions to its programs that regulate septic systems, storm water runoff, air quality operations, and solid waste operators. To meet the lower revenues, DEQ has been forced to take management actions such as holding Other Fund positions vacant in order to keep expenditures in line with falling revenues.

In the past Other Funds have been transferred, or swept, into the General Fund for expenditure as General Fund. This has happened to the Department of Environmental Quality. During the 2009 regular session, in an effort to rebalance the 2007-09 biennium, a total of $6,560,000 Other Funds was transferred to the General Fund. The Other Fund transfers were from the solid waste orphan site account ($4,100,000), the vehicle inspection program which tests the emissions of vehicles in the Portland and Medford areas ($2,000,000), a low vehicle emission program that had delayed startup ($400,000), and the balances from two defunct programs ($60,000).

Current Service Level

The current service level is 22.3% lower than the 2009-11 legislatively approved spending level at December 2010. The 2011-13 current service level is significantly lower than the previous biennium due to phasing out increased federal support for loans made through the Clean Water State Revolving Fund (CWSRF) that was increased in the federal economic stimulus legislation. The current service level for the operating budget, which excludes nonlimited Other Funds, is 6.5% higher than the 2009-11 legislatively approved spending level at December 2010. Some reasons for the increase include adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The General Fund current service level also increased $980,827 due to reverting debt service payments back to the General Fund after a one-time use of Other Funds to pay debt service on Orphan Site Bonds during the 2009-11 biennium.

Budget Environment and Potential Reductions

The Department does not have much opportunity to shift General Fund program support onto Other Funds due to declines in Other Funds revenue. Therefore, most of the General Fund reductions result in lower levels of environmental protection work being accomplished by the agency. At the 5% General Fund reduction level, cuts include a land quality manager in eastern Oregon, support for the Lane Regional Air Protection Agency (LRAPA), pollution outreach and technical assistance, Clean Diesel work, and air quality monitoring sites. At the 15% General Fund reduction level, cuts include reduced air, water, and land quality permitting and compliance activities, significantly reduced water toxics monitoring and mixing zone studies, reduced water quality enforcement and air emission inventory work, and reduced stormwater program compliance and issuance of new permits. At the 25% reduction level, cuts include further reductions in wastewater permitting, resulting in increased backlog for permit issuance and renewal, eliminating of Willamette River Total Maximum Daily Load (TMDL) implementation, eliminating one of two toxics monitoring stations in the state, eliminating work related to Groundwater Management Areas, and eliminating staff that respond to public complaints about non-permitted sources of pollution.

The Department also faces potential reductions in Lottery Funds due to revenue being insufficient to support all current service level expenditures into 2011-13. In addition, the nature of the constitutional dedication of 7.5% of all lottery revenues for wildlife and habitat protection and enhancement was changed by Ballot Measure 76, which was passed by the voters in November 2010. The reauthorization changed the way the dedicated Lottery Funds could be spent. Under the old dedication, the 7.5% of Lottery revenues was divided into two parts, 65% for capital expenditures and 35% for operations expenditures. Under the reauthorization of this dedication, 65% is for grants to non-state agencies and 35% can support state agency programs. Previously, state agency programs could be funded under either the capital or operations funding split as long as it was the right kind of expenditure. State agencies will now be prohibited from directly receiving any of the 65% dedicated to grants. In the 2009-11 approved budget more that 45% of the dedicated Lottery Funds go directly to state agencies. This cannot continue under Ballot Measure 76. Some possible solutions include simply cutting Natural Resource agency programs that rely on dedicated Lottery Funds such DEQ's TMDL water quality program until the 35% state agency expenditures is reached, moving some activities to non-state agencies, or requiring some programs that currently are supported with dedicated Lottery Funds that pass through state agencies to apply directly to the Oregon Watershed Enhancement Board for funding from the 65% dedicated to grants to non-state agencies.

As in the past, the Department's Other Funds ending balances will be scrutinized for potential sweeps. When looking at Other Fund balances for possible transfer, factors that are considered include the program's need for operating reserve, the amount of balance over that needed for operational reserves, the constitutionality of any transfer, and whether a transfer will require a fee increase in the upcoming biennium. Department of Environmental Quality programs with balances in excess of operating reserve needs include the vehicle inspection program, wastewater permit fees, and the Solid Waste Orphan Site Cleanup fund.

Department of Fish and Wildlife – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	13,849,847	13,877,441	13,284,543	14,813,311
Lottery Funds	11,945,861	6,105,448	6,105,448	6,574,180
Other Funds	131,336,054	151,472,795	152,995,223	163,908,277
Federal Funds	83,303,669	90,736,188	96,456,507	98,718,380
Total Funds	**$240,435,431**	**$262,191,872**	**268,841,721**	**$284,014,148**
Positions	1,360	1,379	1,379	1,344
FTE	1,148.48	1,162.20	1,162.20	1,141.76

Agency Overview

The Oregon Department of Fish and Wildlife (ODFW), under direction of its seven-member Commission, manages the fish and wildlife resources of the state. The agency's mission is to "protect and enhance Oregon's fish and wildlife and their habitats for use and enjoyment by present and future generations." By law, the Department is charged with managing wildlife to prevent serious depletion of any indigenous species and with managing fish to provide the optimum economic, commercial, recreational, and aesthetic benefits. ODFW manages the state's fish and wildlife policies through three primary divisions: Fish, Wildlife, and Administrative Services. Enforcement of the state's fish and wildlife laws is provided by the Department of State Police, Fish and Wildlife Division.

The Fish Division consists of the Propagation, Natural Production, Marine Resources, and Interjurisdictional Fisheries programs and has primary responsibility for managing fish resources within the state. The purpose of the ***Fish Propagation*** program is to produce fish through artificial propagation to augment natural production and to provide fish for sport and commercial fisheries. More than 70% of all fish caught by recreational anglers and 75% of the salmon harvested commercially are hatchery produced fish. The ***Natural Production*** program manages freshwater fish, trout, steelhead, and salmon within the state's rivers, streams, and lakes. The program directs the inventory of fish populations and their habitats, conducts genetic research, assesses freshwater fisheries, develops fish conservation and management plans, manages state and federally listed fishes, operates a fish screen program, and administers angling regulations. The ***Marine Resources*** program recommends regulations and assesses harvest of commercial fisheries including ocean salmon, ocean groundfish, estuary bait fish, shrimp, crab, urchin, and other estuarine species. The ***Interjurisdictional Fisheries*** program is responsible for management of Columbia River anadromous fisheries, coordination of Columbia Basin activities, and participation in regional and international management councils for the management of marine and migratory fish.

The Wildlife Division consists of the Wildlife Management, Wildlife Habitat Resources, and Wildlife Conservation programs and has primary responsibility for managing wildlife resources throughout the state. The ***Wildlife Management*** program manages game species including big game, furbearers, waterfowl, and upland game birds. Biologists, with the assistance of seasonal wildlife technicians, inventory big game species, develop and implement species management plans, respond to damage complaints, conduct hunter and harvest surveys, and assist in developing hunting regulations. The Access and Habitat (A&H) program is used to provide both wildlife habitat improvement and improved hunter access to private lands. The ***Wildlife Habitat Resources*** program provides guidance in the agency's development of statewide goals and objectives related to the management of wildlife and their habitat. The program operates state-owned game management areas and develops projects to maintain and improve wildlife habitat. The goal of the ***Wildlife Conservation*** program is the protection and recovery of non-game bird and animal species through the protection and enhancement of populations and habitat of native wildlife. This represents 88% of the total wildlife species in the state. Non-game biologists conduct species surveys, determine species management requirements, initiate efforts to preserve and improve critical habitats, and coordinate wildlife rehabilitation programs. The program provides consultation to other state agencies regarding threatened and endangered species, as required under the Oregon Endangered Species Act. The program is also responsible for creating and implementing the state's Comprehensive Wildlife Conservation Strategy.

Agency Administration provides general support functions to all programs of the Department. The Division includes the Office of the Director, the Fish and Wildlife Commission, Commercial Fishery Permit Boards, and the divisions of Human Resources, Information and Education, Administrative Services, and Information Systems. Agency Administration is also responsible for implementation and development of the Strategic Operational Plan and for management of the Point-of-Sale licensing system. ODFW provides funding through a contract with the Department of State Police, Fish and Wildlife Division to provide law enforcement services to ensure compliance with laws that protect and enhance the long-term health and use of the state's fish and wildlife resources, including recreational and commercial fishing laws and regulations and hunting laws. These enforcement positions are included in the State Police budget. Officers in the Fish and Wildlife Division are sworn police officers and can enforce traffic, criminal, boating, livestock, and environmental laws and respond to emergency situations.

Revenue Sources and Relationships

The Department relies heavily on Other Funds revenue from hunting and fishing license and tag sales. The Marine Resources program receives the majority of Other Funds revenue from the commercial fishing industry through license fees, landing fees, and the proceeds from the sale of confiscated commercial fish which are deposited in the Commercial Fish Fund. The Wildlife Conservation program does not receive license and tag revenue since it deals with non-game species. Instead, the program receives Other Funds revenues from the nongame income tax check-off contribution and interest income.

The Fish Division's Federal Funds revenues are received from the U.S. Department of Energy through the Bonneville Power Administration, the Department of Commerce through the Mitchell Act, the U.S. Army Corps of Engineers, the National Marine Fisheries Service, and the Department of Interior through Sport Fish Restoration funds. The Marine Resources program's Federal Funds are primarily from the U.S. Department of Commerce and Department of Interior for marine resource management. The Wildlife Management program primarily receives Federal Funds through contracts with federal agencies, while the Habitat program's Federal Funds are derived from the Bonneville Power Administration through the BPA Wildlife Mitigation Program and from the U.S. Department of Interior in the form of Pittman-Robertson Act funds. The Wildlife Conservation program receives Federal Funds from the U.S. Department of Interior for threatened and endangered species activities through the State Wildlife Grant program and the Wildlife Conservation and Recovery program.

Current Service Level

The current service level is 5.6% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The General Fund current service level is 11.5% higher than the 2009-11 legislatively approved spending level at December 2010 due to reversal of a one-time $800,000 fund shift that occurred during the February 2010 legislative session when the Legislature replaced $800,000 General Fund appropriated to pay central government service charges in Administration Division with $800,000 Other Funds. In addition, a one-time $1.5 million General Fund repayment to the Deferred Maintenance Account, which also occurred during the February 2010 session, is phased out of the 2011-13 current service level calculation due to its one-time nature.

Budget Environment and Potential Reductions

The agency is facing a number of major issues including declining fish populations, listings and potential listings of fish species as threatened and endangered, operation and maintenance of aging fish hatcheries, the perception of fewer hunting opportunities, as well as landowner relationships and access for hunting. The Department's Other Fund balances are not easily swept into the General Fund due to federal law that prohibits states from transferring hunting and fishing license and fee revenues to their General Fund or risk losing significant federal funds support.

Past General Fund reductions in the Department of Fish and Wildlife have most often been accomplished through fund shifts. That is removing General Fund support for a program and shifting that program to another fund type; in the case of ODFW, this has been done using Other Funds revenue from the sale of hunting and fishing licenses and tags. This theme of shifting reductions in state support onto Other Funds is continued in the reductions options proposed by the agency for the 2011-13 biennium. At the 5% General Fund reduction level, only $198,832 (eliminating a position and reducing another by 1/3 in the Western Oregon Stream

Restoration Program) of the $740,665 in total General Fund cuts is an actual reduction in expenditures. The remaining General Fund reductions are to be shifted onto Other Funds from various sources including the Commercial Fish Fund. At the 15% reduction level, over half the cuts necessary to achieve the 15% mark ($820,136) are from additional cuts to the Western Oregon Stream Restoration Program. This program provides technical assistance to private land owners, watershed councils, and others on stream and riparian habitat restoration throughout Western Oregon. The remaining General Fund reductions are achieved though fund shifts. Cuts from the 15% to 25% mark include delaying services and supplies purchases and reducing trout and salmon hatchery production. The remaining General Fund cuts at the 25% level again involve heavier reliance on Other Funds to replace lost General Fund revenue. The level of fund shifts required to achieve General Fund reductions of 25% level are likely to require hunting and fishing fee increases sooner than would otherwise be required. The Department requested and received general increases in most all hunting and fishing categories during the 2009 legislative session. At that time the agency hoped it would not need to seek another fee increase for six years.

The Department also faces potential reductions in Lottery Funds, which are almost all used in the ODFW budget to build and maintain fish screens, due to revenue being insufficient to support all current service level expenditures into 2011-13. In addition, the nature of the constitutional dedication of 7.5% of all lottery revenues for wildlife and habitat protection and enhancement was changed by Ballot Measure 76, which was passed by the voters in November 2010. The reauthorization changed the way the dedicated Lottery Funds could be spent. Under the old dedication, the 7.5% of Lottery revenues was divided into two parts, 65% for capital expenditures and 35% for operations expenditures. Under the reauthorization of this dedication, 65% is for grants to non-state agencies and 35% can support state agency programs. Previously, state agency programs could be funded under either the capital or operations funding split as long as it was the right kind of expenditure. Now state agencies will be prohibited from directly receiving any of the 65% dedicated to grants. In the 2009-11 approved budget more that 45% of the dedicated Lottery Funds go directly to state agencies. This cannot continue under Ballot Measure 76. Some possible solutions include simply cutting Natural Resource agency programs that rely on dedicated Lottery Funds such as the fish screens program until the 35% state agency expenditures is reached, moving some activities to non-state agencies, or requiring some programs that currently are supported with dedicated Lottery Funds that pass through state agencies to find a third party to apply directly to the Oregon Watershed Enhancement Board on their behalf for funding from the 65% dedicated to grants to non-state agencies.

Department of Forestry (ODF) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	46,393,079	40,474,980	39,544,834	48,607,094
Lottery Funds	0	1,507,601	1,374,136	2,360,100
Other Funds	212,418,724	199,755,346	229,755,346	201,730,761
Federal Funds	16,746,135	46,558,712	46,558,712	49,248,073
Other Funds (NL)	2,050,843	15,000,000	22,144,777	15,000,000
Total Funds	**$277,608,781**	**$303,296,639**	**$339,377,805**	**$316,946,028**
Positions	1,297	1,227	1,227	1,216
FTE	917.22	864.07	864.07	867.31

Agency Overview

The Oregon Department of Forestry (ODF), directed by the seven-member Governor-appointed State Board of Forestry, is a multi-program, multi-funded agency designed to administer the forest laws and policies of the state. The Department provides a cost-effective system of state, federal, and private forest land fire protection, manages state forest lands, and provides stewardship for non-federal forest lands through administration of the Forest Practices Act and provision of forestry assistance. The Department's mission, values, and strategies are included in the agency's 2004-2011 Strategic Plan approved by the State Forester in September 2004. The Strategic Plan is a companion document to the Board of Forestry's forest policy strategic plan, the 2003 *Forestry Program for Oregon.* The Department has adopted the following vision statement through its strategic plan.

The Department of Forestry will be successful in achieving its mission when Oregon has:

- Healthy forests providing a sustainable flow of environmental, economic, and social outputs and benefits.
- Public and private landowners willingly making investments to create healthy forests.
- Statewide forest resource policies that are coordinated among Oregon's natural resource agencies.
- The Board of Forestry recognized as an impartial deliberative body operating openly and in the public interest.
- Citizens who understand, accept, and support sustainable forestry and who make informed decisions that contribute to achievement of the vision of the 2003 Forestry Program for Oregon.
- Adequate funding for the Department of Forestry to efficiently and cost-effectively accomplish the mission and strategies of the Board of Forestry, appropriate use of information technology, business management strategies, and Department personnel policies that encourage and recognize employees, allowing them to meet their full potential in providing excellent public service.

Current Service Level

The current service level is 6.6% less than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The 2009-11 legislatively approved expenditure level includes $36 million total funds in special session and Emergency Board actions for the 2009 forest Fire Protection Program and General Fund reductions through the allotment process in October 2010 to align available resources with planned expenditures. The 2011-13 current service level budget reverses a one-time fund shift from harvest taxes for technical support for private forest landowners to implement the Forest Practices Act. It also includes bond proceeds for state forest land acquisition (Lottery-funded bonds for Gilchrist State Forest) in Klamath County, the business improvement technology project, and debt refinancing costs. The General Fund current service level budget is overstated by $2.1 million for an allocation from the special purpose appropriation made to the Emergency Fund for forest fire severity resources that should have been removed.

Budget Environment and Potential Reductions

Historic economic challenges across the state are compounded in the Department of Forestry (ODF) by a historic drop in the timber market and a 10% reduction in state General Fund support. Due to the nature of the agency's funding structure, the reduction in state General Fund resulted in additional Other Funds reductions paid by private landowners that would have matched state General Fund. The Department of Forestry absorbed $10.8 million in total reductions of overall expenditures for agency activities over the 2009-11 biennium. The structure of current agency funding and revenue streams has been relatively static and unchanged over many years. The current structure of shared resources between forest landowners and the General Fund and focused funding for specific services delivered requires a complex funding system and one that is less responsive to change over time. Reliance on state General Fund is problematic when economic conditions result in reduced state revenues or when competing interests are prioritized. Avenues for new revenue sources through partnerships, grants, or service-based approaches can be explored for improvement to the funding structure. One option is to consider revising the distribution formula of timber sale revenues to expand the allowable uses to include all programs of the Department, including fire protection and private forest assistance.

The federal government manages about 60% of Oregon's forestlands. Environmental analysis, biomass use, development of stewardship contracts, and other activities to address challenges facing federal forests and nearby private landowners and communities requires resources beyond current available revenue streams.

ODF – Fire Protection

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	30,888,405	29,128,120	28,874,713	35,810,965
Other Funds	92,097,083	47,502,491	77,502,491	55,106,846
Federal Funds	10,775,365	18,249,853	18,249,853	19,429,771
Other Funds (NL)	2,050,843	15,000,000	15,000,000	15,000,000
Total Funds	**$135,811,696**	**$109,880,464**	**$139,627,057**	**$125,347,582**
Positions	726	727	727	730
FTE	409.45	412.44	412.44	410.17

Program Description

The Fire Protection program provides fire protection for nearly 16 million acres of private, state, and federal forest lands; operates an industrial fire prevention program and smoke management program; and, through the Emergency Fire Cost Committee, finances costs of catastrophic fires. Of the total acreage protected by ODF, 12.1 million acres are privately owned, 1.2 million are state and local government land, and 2.5 million are federal, mostly Bureau of Land Management (BLM) Western Oregon lands. The total acreage has a current estimated value at risk of approximately $60 billion. The program finances costs for central and field administration, fire suppression crews, facilities maintenance, fire cache, communications, and weather and mapping services. Program services are delivered through 12 forest protection districts including three locally managed Forest Protective Associations. Over one-third of all agency positions are assigned to this program.

The Legislature combined two other program units with the Fire Protection program in 1995. The four-member Emergency Fire Cost Committee is comprised of forest landowners or their representatives. The committee manages the Oregon Forest Land Protection Fund (OFLPF), which is used to purchase insurance for catastrophic fires and to equalize extraordinary fire costs among forest protection districts. The Cooperative Fire program provides forest management services to public and private forest landowners through contracts. The purpose is to maintain trained fire suppression personnel through the off-season and to maximize the use of public services through the sharing of resources. Both programs are entirely supported with Other Funds revenue.

Revenue Sources and Relationships

The State's Fire Protection program is provided in three levels with separate funding mechanisms:

Base Protection – ODF's base protection program is delivered through nine local Forest Protection Districts and three private Forest Protective Associations. Each of the local fire protection units prepares an operating budget for prevention, detection, resource readiness, initial attack, and extra cost deductible. The revenue to support the local budgets comes from a combination of the Public Share Fire Fund (General Fund) and forest patrol assessments on local forest landowners. The assessment system includes more than 291,000 parcels, with and without improvements. The distribution is established in statute as 50% General Fund, 50% private landowner assessment. Since each local budget is developed independently, the forest patrol assessments charged against subject landowners vary by district. The assessments are collected by county assessors and are made on a per acre basis with a minimum assessment of $18.75 per lot. Public landowners receive no General Fund match and pay the full cost of fire protection. The contract with the Bureau of Land Management for fire protection on Westside BLM lands is subject to an adequate level of protection to meet the contract specifications. The contract provides approximately $6 million per fiscal year.

Emergency Protection – The purpose of emergency protection is to pay for the excess fire suppression costs of major fires in Oregon. The enabling legislation is based on the belief that the emergency fire suppression costs on forest lands protected by the State Forester need to be equalized so that no single district is required to pay the full amount of fire fighting expenses. Funding for emergency costs is provided through the OFLPF, administered by the Emergency Fire Cost Committee. The 2005 Legislature modified the reserve base for the OFLPF in HB 2327 from $15 million to $22.5 million stipulating that when the unencumbered balance of the fund reaches a level greater than $22.5 million but less than $30 million, the minimum assessment would decrease from $18.75 to $16.88, with $1.88 to be paid into the OFLPF. Above a $30 million balance, the assessment would drop to $15 per lot or parcel with none paid to the OFLPF. The other revenue sources to the fund would similarly decrease by half or shut off altogether at the $22.5 and $30 million thresholds. Revenues would restart in the year following the fund balance dropping below $22.5 million. The OFLPF essentially serves as an insurance policy for local landowners in each of the forest protection districts. Revenues to support the OFLPF were estimated to be $20.9 million in 2009-11 and are generated from an assortment of landowner assessments and taxes:

- harvest tax of $0.625/thousand board feet (MMbf) on all merchantable forest products; the tax is suspended when the reserve base amount of the OFLPF is projected to exceed $22.5 million ($4.2 million);
- acreage assessment on all protected forest land ($0.05 per acre for protected western Oregon forestlands, $0.075 per acre for eastern Oregon protected forestland, and $0.075 per acre for all class 3 forestlands) ($1.82 million);
- assessment of $3.75 per lot (out of the $18.75 minimum assessed for forest patrol) ($1.45 million);
- surcharge of $47.50 for each improved tax lot ($13.36 million); and
- interest from State Treasurer investments of the fund ($0.1 million).

The OFLPF reimburses fire suppression costs after a district meets an annual deductible based on protected acreage and a deductible of $25,000 for any one fire or on any one day.

Catastrophic Protection – HB 2327 (2005) directs that, prior to February 1 of each year, the State Forester and the Emergency Fire Cost Committee review the need to purchase emergency fire suppression insurance and determine what level might be needed in view of the current condition of the forests, long-term weather predictions, available resources, and other factors. The statute includes a provision to annually assess the insurance premium equally between the OFLPF and the General Fund. The current insurance policy provides $25 million total insurance with an annual deductible of $25 million and an annual premium of $0.86 million. Also HB 2327 (2005) increased the limits of the landowners' responsibility to $15 million per year, including the cost of insurance premiums and all claims paid to local districts from the OFLPF to address the rising costs of emergency fire suppression. Beyond this limit, the cost responsibility falls on the General Fund. The measure included a sunset provision that would revert to the lower limit of $10 million if the Legislature did not take action to maintain the increase in landowners' responsibility. The 2009 Legislature allowed the increase in the landowners' responsibility to revert back to $10 million. The impact of this action is an increase in the risk that emergency fire suppression costs above $10 million will require General Fund for payment. The current reserve and expenditure limits are inadequate when dealing with severe fire seasons and higher per unit costs for firefighters and equipment.

The ***Smoke Management/Fuels program*** – Funded by registration and burning fees collected from landowners (87%), contractual payments from other government agencies (12%), and landowner assessments (1%).

Current Service Level

The current service level is 10.23% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The 2009-11 legislatively approved expenditure level includes $32.8 million in special session and Emergency Board actions during Fiscal Year 2009 for fire protection resources and a General Fund allotment reduction of $2.4 million. The current service level adjusts payment for fire protection services by removing $30 million. The current service level is also overstated by $2.1 million General Fund for severity resources which should have been removed as a one-time action.

Budget Environment and Potential Reductions

Fire suppression efforts and costs are driven by forest health (insect and disease damage) and weather (drought and lightning storms) and cannot be predicted with certainty. Over 7.5 million acres of forestland in eastern and southern Oregon are suffering from poor forest health and remain untreated. The last decade of drought has affected much of Oregon's forests. In addition, the siting of dwellings and other improvements on forestlands continues to increase the challenges to fire managers and large areas of the state have no fire protection coverage. Fires originating on these unprotected lands can be a threat to protected forestlands and communities. The increasing numbers of homes in the forest complicates protection priorities resulting in higher costs and greater damages and requires additional coordination by fire protection agencies. Numerous structures located on forestland have not been included within the boundaries of rural fire districts and are unprotected. An estimated 3.9 million acres of land in north central and southeast Oregon are completely unprotected. Fires originating in these unprotected areas threaten protected forest land. Fewer fire protection resources are available from the private sector such as logging crews and equipment. Federal budget cuts and local resource constraints have also decreased existing wildfire protection levels by reducing fire fighting resources and revenues. Also, federal fire management policies have reduced the overall productivity of suppression resources and at times limited the availability of critical resources.

Reliance on state General Fund for public share fire funding has become increasingly problematic over the last decade as needs for other state-funded programs have increased.

A possible source of revenue is the timber harvest revenue which is currently dedicated to state forest management. A one-time source of revenue is the projected ending balance of the Oregon Forestland Protection Fund. Approximately $5.2 million is projected for the 2011-13 beinnium. Both of these options would require changes in current laws.

For every $1 reduction in General Fund, an additional $1.85 in the Other Funds paid by private landowners and public landowners is also incurred due to matching requirements for base fire protection unless another source of revenue is used to replace the General Fund reduction.

ODF – State Forest Lands

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	63,590,529	83,061,171	83,061,171	87,823,529
Federal Funds	0	7,313,336	7,313,336	7,390,018
Total Funds	**$63,590,529**	**$90,374,507**	**$90,374,507**	**$95,213,547**
Positions	337	288	288	283
FTE	277.33	253.16	253.16	252.89

Program Description

The State Forest Management program manages 819,000 acres of state forestlands on behalf of counties and the Common School Fund. The primary goal of the program is to provide for healthy, productive, and sustainable forests through active management that will produce sustainable timber and revenue on Board of Forestry lands and maximize revenue over the long-term on Common School Lands. The Board of Forestry owns nearly 85% (698,000) of these acres, including the six named state forests (Tillamook, Clatsop, Santiam, Sun Pass, Gilchrist, and Elliott). Counties transferred the title to most of these lands to the Board of Forestry in the 1930s and 1940s. The Gilchrist State Forest was purchased using Lottery-backed bonds in 2010, the first new state forest in more than 60 years. The remaining 121,000 acres are Common School Lands, which are managed by ODF under contract with the State Land Board.

The Department participates in the J.E. Schroeder Seed Orchard, a cooperative tree improvement effort with other major landowners to increase the yield and quality of seeds used for reforestation.. The orchard provides improved tree seed for planting on state land, on non-industrial landowner properties, and on 13 industrial lands whose owners share orchard expenditures.

Revenue Sources and Relationships

The State Forest Management program is entirely self-financed from timber sales and the sale of special forest products. The Department retains 36.25% of timber sales for management of the state-owned county trust lands. The remaining 63.75% is distributed to the counties and local taxing districts where the forestland is located. ODF projects the state's share of timber sales to be $48 million for 2011-13. The agency is reimbursed for Common School Fund land management costs and the remaining revenue goes to the Common School Fund. Management costs are approved by both the Board of Forestry and the State Land Board. State-owned lands are expected to generate $77 million for counties and local taxing districts during the 2011-13 biennium; timber sales from Common School Fund lands are forecasted to generate approximately $30 million in revenue during the 2011-13 biennium. Management costs on the Common School Fund lands are proposed in the budget at slightly over $11.3 million for the 2011-13 biennium.

Current Service Level

The current service level is 5.35% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

The level of forest management on state-owned county trust lands is dependent upon timber receipts. The Department must be careful to meet the statutory and constitutional fiduciary responsibilities through timber harvests while protecting and making available the other forest values.

Current economic conditions point to possible downturns in most of the Department's revenue sources, including state forests. The national and state economic conditions are expected to remain weak at least through the fourth quarter of 2011. Conditions in the credit lending industries and the resulting poor housing market conditions are affecting timber and other industries in Oregon and elsewhere. Less timber demand means lower timber sale revenue from state forests. The Office of Economic Analysis reported in its most recent Indicators report that the Random Lengths Composite 48 Price (Random Lengths Publications, September 2010) for lumber is $250 per thousand feet compared to $245 per thousand feet in August and $236 per thousand feet in September 2009. Although prices have recently firmed, they are still well below prices in September 2008 and the housing bubble prices of $396 per thousand feet in September 2005. The current fiscal year's (2009) average bid price per thousand board-feet has increased by 1% compared to the previous year primarily because of low inventories at local mills.

Swiss Needle Cast, a foliage disease of Douglas-fir, is significantly affecting a portion of state forestlands in the Tillamook State Forest. Symptoms of this disease are also becoming evident in the Elliott State Forest. Federally listed species have significantly affected the management of state forests over the last decade. Listings for fish species also have effects on the ability of managing the resource to achieve revenue goals on state forest lands.

ODF – Private and Community Forests

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	10,260,195	5,026,042	4,641,768	9,857,518
Other Funds	7,025,643	7,110,186	7,110,186	6,949,630
Federal Funds	5,205,806	20,191,429	19,791,429	20,671,091
Total Funds	**$22,491,644**	**$32,327,657**	**$31,543,383**	**$37,478,239**
Positions	117	98	98	85
FTE	113.66	83.74	83.74	85.72

Program Description

The Private Forests program is an integrated program that:

- Promotes forest stewardship through the Oregon Forest Practices Act and rules, and by providing training, technical, and financial assistance to forest landowners and operators.
- Promotes healthy forests through monitoring insect and disease conditions, applying integrated pest management strategies, controlling/eradicating invasive species and assisting landowners to conduct stand management prescriptions through technical and financial assistance.
- Promotes the role of family forestland owners in providing for forest sustainability including timber availability and the maintenance and enhancement of ecosystem services such as clean water, fish and wildlife habitat, carbon sequestration and aesthetics through education, financial assistance, and technical services.
- Promotes a stable regulatory and investment climate by developing and promoting science-based best management practices and encouraging federal, state, and local government policies that are supportive of the Board's mission, that avoid unintended adverse consequences, and that improve efficiency of program delivery.
- Promotes the implementation of voluntary measures under the Oregon Plan for Salmon and Watersheds through technical, cost-share, and administrative assistance.
- Is responsible for monitoring to ensure rules and programs are effective and efficient.
- Provides on-site technical, educational, and financial assistance for municipal governments, other urban public agencies, non-profit groups, and civic organizations.
- Provides technical information on tree risk assessment, ordinances, inventories, tree care, planting, tree selection, and urban forest management.

The Forest Practices Act, adopted in 1971, provides the Board of Forestry authority to regulate forest practices, including timber harvesting and reforestation on 12.3 million acres of primarily private, state, and county, owned forest lands. The statutory and program goals are to ensure the continuous growing and harvesting of forest tree species is maintained as the leading use of privately owned forestland while ensuring forest practices are consistent with the sound management of soil, air, water, fish, and wildlife resources. The Forest Practices Act has been revised in nearly every legislative session since 1979, including major amendments in 1987, and 1991 that changed the requirements governing clear-cut size, green tree and downed wood retention, reforestation, and scenic highway corridors. As a result of the statutory changes, the Board adopted a number of rule changes from 1994 to 1996 related to water protection, chemical use, and reforestation. SB 12 (1999) provided additional direction and authority for the Board to adopt rules to manage public safety risks from rapidly moving landslides. HB 3264 (2003) removed authority for the Board of Forestry and State Forester to require prior approvals and approve written plans and directed rulemaking to implement the statutory changes. Staffing includes 35 stewardship foresters across the state to provide training, technical and cost-share assistance, review operating plans, and inspect operations for compliance.

Oregon has approximately 166,000 family forest landowners and community forest managers owning a combined 4.5 million acres. Nearly 52,000 of these landowners own and manage at least 10 acres of forestlands. This acreage includes critical habitat for salmon and other fish and wildlife species and has the substantial potential for increased timber productivity. Thus, the program provides family landowners with the information, incentives, services, and assistance needed to encourage voluntary stewardship and investment in their forestland. The technical and financial assistance to family landowners includes multiple resource management planning, forest property tax policies and options, federal cost-share programs, the Forest Resource Trust, and insect and disease prevention.

The Private Forests Program also conducts insect and disease management surveys, evaluates and monitors forest insects and diseases, and provides information, education, and advice on integrated pest management practices for non-federal forest landowners. In partnership with the U.S. Department of Agriculture (USDA) Forest Service, landowner groups, forestry consultants, and conservation organizations, the Private Forest program develops and implements various cooperative State and Private Forestry programs including Forest Stewardship (management planning and technical assistance to family forestland ownership), Forest Legacy (protecting forestlands from loss to non-forest development), Tree Improvement, and Urban and Community Forestry. In addition, Stewardship Foresters provide assistance to landowners and technical review of other Farm Bill programs administered by the USDA Natural Resource Conservation Service and USDA Farm Services Agency such as the Environmental Quality Incentives Program, the Healthy Forest Reserve Program, the Conservation Security Program, and the Conservation Reserve Enhancement Program. The Private Forest program also manages Oregon's state landowner assistance and incentive programs such as the 50% Underproductive Forestland Conversion Tax Credit and the Forest Resource Trust.

Revenue Sources and Relationships

The Forest Practices subprogram is funded by a combination of 60% General Fund, and 40% Forest Products Harvest Tax (FPHT). The harvest tax rate is set in statute each biennium once the Forest Practices program budget is finalized, based on projections of harvest levels and the amount of revenue needed for program operations. Oregon Watershed Enhancement Board grants provide occasional funding for some cooperative research projects.

The Forestry Assistance subprogram receives support from a number of revenue sources. General Fund is provided for insect and disease activities, including integrated pest management services, and is used to conduct annual aerial surveys, provide forest pest data and maps, and deliver technical assistance for forest landowners. Federal Funds are provided by the U.S. Forest Service under a consolidated grant program for forest resource management, tree improvement, the acquisition of development rights on a voluntary basis on important forestlands threatened with loss to development and forest insect and diseases management. The federal funding for these programs requires, in most cases, a 50% (dollar for dollar) non-federal match. Federal funding is also provided for Urban and Community Forestry and Forest Health monitoring activities. Other Funds revenues were phased out in the 2003-05 biennium from a Privilege Tax from the western and eastern Oregon Timber Tax Accounts. These funds were used to inspect under-stocked designated forestland, administer the 50% reforestation tax credit program, and provide technical assistance to family forestland owners in eastern Oregon. The 50% reforestation tax credit program is now a fee based program for participating landowners. The program also receives private donations, including the Forest Resource Trust funds and Urban and Community Forest donations, for specific projects.

Current Service Level

The current service level is 18.8% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The increase is primarily due to a $3.5 million shift of General Fund from the Administration program area to more accurately reflect the program's pro-rated share of Administration program expenses.

Budget Environment and Potential Reductions

Factors affecting the Forest Practices program include continued implementation of the Oregon Plan; implementation of rules related to landslides and public safety on forestland, harvesting practices, and the use of pesticides; workload necessary to achieve reforestation and "free to grow" status; and encouraging appropriate responses by the federal government on actions and policies related to endangered species and clean water programs. As the economy recovers and timber harvesting on private lands becomes more robust, workload will increase from notifications of operations (intent to conduct a forest operation), plus reviewing and commenting on written plans describing operating methods on sensitive sites. The number of on-site inspections for pre-operation planning active operations and reforestation auditing are also expected to increase.

Forest health remains a critical issue for the state's economy. Sudden Oak Death (an invasive species) has infested portions of southwest Oregon. Failure to effectively manage this problem will have major economic implications for Oregon's forest products and nursery industry. About 8.2 million acres of Oregon's forests have been affected by drought, insects, disease, and fire. The state loses about 1.5 billion board feet of timber every year to insects and disease. Forest managers are concerned about declines in the coastal Douglas-fir forests due to Swiss Needle Cast disease. Dead and dying forests in Eastern Oregon due to bark beetle and other insect infestations need treatment in order to reduce fire hazards and restore forest health. Many wild salmon and trout populations are under scientific scrutiny. Assistance is also needed for over 166,000 non-industrial private forest land owners regarding education and the availability of financial assistance funds to enable these landowners to manage sustainability. Certification through programs such as the American Tree Farm System and Forest Stewardship Council now require family forest landowners to manage responsibly for threatened and endangered species, water quality, high conservation value forests, forest health, integrated pest management, and soil conservation. Financial assistance and education is needed to help these landowners develop written management plans to define their goals for management and objectives for future resource conditions, know their current resource conditions and threats, and to come up with the actions and management recommendations to go from known conditions to desired conditions.

Oregon lacks a dedicated source of tree planting revenues for local communities to access. Most funding incentives are targeted outside of urban growth boundaries, despite the fact that most salmon bearing streams pass through urban areas on the way to the Pacific.

In order to mitigate General Fund reductions in the 2009-11 legislatively adopted budget, the Legislature approved maintaining the harvest tax rate at its current rate in HB 2214 to generate an additional $1.4 million and allow the restoration of 2 stewardship foresters and to add back months to 8 positions (6.52 FTE). This temporarily changed the participation ratio from 60% General Fund/40% harvest tax to 48% General Fund/52% harvest tax for the 2009-11 biennium. The 2011-13 current service level budget reverses this temporary reduction in General Fund. The Legislature could again exercise this option for the 2011-13 biennium or continue the reduction in stewardship foresters. Another option would be to consider suspending the Private Forests program for the biennium, saving the General Fund $9.8 million.

ODF – Central Services

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	5,244,479	6,320,818	6,028,353	2,938,611
Lottery Fund	0	1,507,601	1,374,136	2,360,100
Other Funds	49,705,469	62,081,498	62,081,498	51,850,756
Federal Funds	764,964	804,094	1,204,094	1,757,193
Other Funds (NL)	0	0	7,144,777	0
Total Funds	**$55,714,912**	**$70,714,011**	**$77,832,858**	**$58,906,660**
Positions	117	114	114	118
FTE	116.78	114.73	114.73	118.53

Program Description

Central Services includes Agency Administration, Equipment Pool, Facilities Maintenance and Development, Capital Budgeting and Debt Service:

- ***Agency Administration*** (87.69 FTE and 88 positions) includes the State Forester's office, Board of Forestry support, and traditional support functions such as finance, property management, personnel, computer services, and public information. Agency Administration is also responsible for policy development, forest resource analysis and planning, administration of the log brand inspection program, land use planning coordination, and facilities maintenance.
- ***Equipment Pool*** (29.89 FTE and 29 positions) operates a motor pool and a radio pool. The motor pool manages 750 pieces of equipment including vehicles, airplanes, pickups, trailers, and heavy equipment. The radio pool supports and maintains 3,500 pieces of major communication equipment such as repeaters, base stations, mobiles, and portables. The radio pool provides the equipment, engineering, maintenance, and support for the Department's co-operators (three fire protection associations); Department of Fish and Wildlife; Oregon Parks and Recreation Department; and, at times, other agencies, such as the Departments of Agriculture, Water Resources, Justice, and Corrections.
- ***Facilities Maintenance and Development*** (0.95 FTE and 1 position) provides oversight and coordinates preventive maintenance, repairs, improvement, planning and construction coordination, and management for the agency's 390 structures throughout the state. The program unit is charged with developing a statewide facilities rental pool program to charge other program and field operations the cost of constructing, operating, maintaining, repairing, replacing, equipping, improving, acquiring, and disposing of structures.
- ***Capital Budgeting*** includes Capital Improvement projects and Major Capital Construction projects. The Department owns and maintains 390 structures statewide. Examples include mountaintop lookout facilities, fuel facilities, remote forest fire guard stations, district and unit offices, seed and seedling processing facilities, and automotive maintenance shops. Many buildings need improvement or major construction because of age, type of construction, changing building codes, and growth of the agency. The Department's Long-Range Facilities Management Plan coupled with site master plans provides details on

major construction needs over the coming ten-year period. Site master plans and feasibility studies are contracted for by the Department to determine major construction needs to meet workload projections at each site. The Department works with the Capital Projects Advisory Board for review of the agency's major construction, space, and maintenance needs.

- ***Debt service*** payments are required to pay off certificates of participation (COPs) issued for the construction of the Salem Headquarters Office Complex, capital construction relocation projects in John Day and Sisters, as well as for capital investment improvements in the agency's business information systems and forest land acquisition.

Revenue Sources and Relationships

Agency Administration is funded by the Other Funds and Federal Funds assessed against agency programs on a pro-rated basis by funding source, such as the State Forests Account (timber receipts) and Forest Products Harvest Tax. The program also receives a small amount of revenue from fees charged for services and map sales. Expenditures for the Equipment Pool program are financed 100% from fees charged to equipment pool users. Facilities Maintenance and Development is currently funded by utilizing the facility operation and maintenance budgets of each program. Revenue to pay debt service comes from the General Fund (42%), Other Funds (24%), and Lottery Funds (34%). The associated Other Funds revenue is based on a square footage assessment to the Equipment Pool from the Radio and Motor Pool Funds; State Owned Forest program from the Forest Development and Common School Lands Funds; and Private Forests program from the forest products Harvest Tax. Generally, costs are prorated among the funding sources of the programs that occupy the specific facility. In the past, General Fund was provided as the public share match money for projects funded in the Fire Protection program. Capital construction projects are funded through COPs and Other Funds generated from the State Forest Management program.

Current Service Level

The current service level is 24.32% less than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The current service level budget removes one-time funding for purchase of state forest land (Gilchrist Forest; $15 million), and one-time debt issuance costs related to debt refinancing during the 2009-11 biennium ($7.1 million).

Budget Environment and Potential Reductions

Agency Administration performs roles in interagency communications with federal government agencies, the Governor's office, and other state agencies involved in natural resource activities. The program has experienced increasing information needs to address public involvement in the Oregon Plan for Salmon and Watersheds and the development of state forest management plans for the State Forests Program, including the Northwest Oregon Forest Management Plan and the Elliot State Forest Management Plan and Habitat Conservation Plan. Due to a strong interest in the environment on a national and international scale, public interest and involvement in all Department programs and activities is high and will likely increase.

Increased decentralization of controls by the Department of Administrative Services (DAS) continues to increase centralized Department services of accounting, payroll, contracting, purchasing, personnel, information systems, and facilities management.

Motor pool operations are affected by changes in fuel prices. The radio pool is affected by changing telecommunications technology (narrowband and digital), Homeland Security, and the States Interoperability Executive Committee, which is requiring new strategies to provide the most efficient and effective exchange of information.

Many of the Department's structures were built in the 1930s, 40s, and 50s, and are in need of renovation to prevent further deterioration and to meet new standards such as the Americans with Disabilities Act and energy conservation requirements. An architectural feasibility study of the Salem Headquarters site was completed during the 1993-95 biennium, which led to its remodeling. The Department uses a Long Range Facilities Management Plan to coordinate major maintenance, improvements, and construction projects on a statewide basis projected over a ten-year period. Site master plans prepared by private consultants are utilized for developing major construction proposals. These site master plans are coordinated with the long-range management plan in developing the agency capital budget.

Department of Geology and Mineral Industries – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	3,289,957	2,896,740	2,675,265	3,168,020
Lottery Funds	1,499,224	500,000	500,000	0
Other Funds	5,581,580	6,868,294	7,734,026	4,209,203
Federal Funds	1,690,466	2,396,172	3,811,371	2,421,760
Total Funds	**$12,061,227**	**$12,661,206**	**$14,720,662**	**$9,798,983**
Positions	40	38	38	35
FTE	37.04	36.58	37.08	34.20

Agency Overview

The Department of Geology and Mineral Industries (DOGAMI) is the state's primary source of geologic information. DOGAMI has two program areas The Geologic Survey and Services program and the Mined Land Regulation and Reclamation program. Department headquarters are located in Portland, with the Mined Land Reclamation unit sited in Albany. Three small Geologic Survey offices are located in Baker City, Grants Pass, and Newport. Employees of the Department are primarily geologists and other geotechnical experts.

The Geologic Survey and Services program gathers geologic data and maps mineral resources and hazards. Geographic areas needing tsunami hazard mapping, landslide hazard studies, and earthquake risk mapping have been prioritized by the agency. The information is shared with state and local policy-makers for land use planning, facility siting, building code and zoning changes, and emergency planning. The Geologic Survey program also provides publication and library functions, administrative functions such as budgeting, accounting, and personnel services, and operates the Nature of the Northwest Information Center which provides public access to a variety of maps, brochures, books, and other materials.

The Mined Land Regulation and Reclamation program is responsible for regulating the exploration, extraction, production and reclamation of geologic resources for the purposes of conservation and second beneficial uses of minded lands. The objectives are to conserve the mineral resource and protect the environment while providing for the economic uses of the mined materials. The Mined Land Regulation and Reclamation program regulates oil, natural gas, geothermal exploration and extraction, and received no General Fund or Lottery Funds support.

Revenue Sources and Relationships

The Geologic Survey and Services program is funded by General, Other, and Federal Funds. Federal and Other Funds are largely from cooperative agreements and for services on reimbursable projects. Historically, approximately 40-45% of DOGAMI's Federal Fund monies are for grants that require matching General Fund dollars. The Mined Land Regulation and Reclamation program is financed primarily from Other Funds derived from aggregate and mine, oil and gas, and geothermal permit fees. The Department has experienced an increase in Federal and Other Funds revenue due to partners in the LIDAR consortium paying the Department for collection of map data using LIDAR services contracted by DOGAMI.

Current Service Level

The current service level (CSL) is 34.4% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The lower 2011-13 CSL is caused by removing one-time funding approved in 2009-11 for map data collection using LIDAR. The LIDAR program was funded with some state Lottery Funds ($500,000 in 2009-11) which the Department uses to leverage funds from others interested in paying for LIDAR data collection in areas not paid for by the state.

Budget Environment and Potential Reductions

Past General Fund reductions to this Department have largely involved use of other revenues to replace lost state support. This has occurred to such an extent that future fund shifts are limited by the availability of state support to use as match for other revenue sources such as federal grants. At the 5% reduction level the agency may be able to implement one additional fund shift of a coastal geologist position, but additional fund shifts of any magnitude would be difficult to implement. Additional reductions at the 15% level would come from reduced spending on staff training and travel, closing a field office in Baker, and adding human resource duties currently provided to the Department by DAS to an existing position in the agency. General Fund reductions necessary to reach 25% less support would require an alteration of the agency's work. At this reduction level DOGAMI has proposed ending its activities involving geologic hazards. Another option considered in the past is to eliminate the agency and transfer its functions to other governmental entities. This would involve moving the Mined Land Regulation and Reclamation program to another regulatory agency, such as Department of Environmental Quality or Department of State Lands, and moving the remaining geologic service functions to a institution of higher learning, such as Oregon State University.

Department of Land Conservation and Development – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	19,057,084	16,793,066	15,509,125	13,050,378
Other Funds	686,757	863,649	2,193,137	882,414
Federal Funds	5,259,499	6,598,675	6,598,675	5,839,675
Total Funds	**$25,003,340**	**$24,255,390**	**$24,300,937**	**$19,772,467**
Positions	95	90	95	61
FTE	85.02	74.81	80.64	59.10

Agency Overview

The Department of Land Conservation and Development (DLCD) is the administrative arm of the Land Conservation and Development Commission (LCDC). The Commission has seven members appointed by the Governor and confirmed by the Senate. DLCD personnel assist LCDC in adopting state land use goals, ensuring compliance of local land use plans with the goals, coordinating state and local planning, and managing the coastal zone and natural hazards programs. Oregon's land use planning system is based on a set of 19 statewide goals expressing the state's policies on land use and related topics such as citizen involvement, housing, and natural resources.

LCDC, assisted by DLCD staff, carries out state planning responsibilities through acknowledgment of local plans, plan amendment review, and periodic review. State law requires each of Oregon's cities and counties to have a comprehensive plan, as well as the zoning and ordinances necessary to implement the plan. When LCDC officially approves the local government plan, the plan is "acknowledged." After acknowledgment, local plans can be changed through post-acknowledgement plan amendments, which are unscheduled changes, or through periodic review. Periodic review is a broad evaluation of the entire local plan and occurs infrequently, such as every five to fifteen years. This review can lead to extensive plan modifications or minor plan adjustments, depending on changing conditions in the area.

The goals of the agency include protection of farm and forest lands and other natural resources; the fostering of livable, sustainable development in urban and rural communities; conservation of coastal and ocean resources; a clear and predictable land use system; and regional collaboration and coordinated local decision-making. In addition to a main office in Salem, the agency maintains field offices in Central Point, Springfield, LaGrande, Portland, Newport, and Bend.

Program Description

Administration (15.52 FTE) provides agency leadership and oversees day-to-day operations. These include financial services, support services, information systems, and administration of the Landowner Notification program. This program requires cities and counties to provide written notice to landowners when a new or amended zoning ordinance is proposed that will limit or prohibit uses of the landowner's property. The state must reimburse local governments for the notification costs when the proposed ordinance changes are related to changes in state law or policy; DLCD manages the local government claim and reimbursement process.

Planning (12.00 FTE) provides technical assistance and policy consultation services in planning areas, such as economic development and revitalization, urban growth boundary expansion, farm and forest protection, natural resource management, mineral and aggregate resources, and floodplain management.

Specific services include the Transportation and Growth Management (TGM) Program and the Natural Hazards Program. The TGM Program, a joint effort with the Oregon Department of Transportation (ODOT), focuses on helping communities manage urban growth, planning an efficient transportation network, and protecting the function of state highway facilities. The program provides technical assistance and manages grants to special districts, cities, and counties. Federal funding received through ODOT is this program's primary revenue source. The Natural Hazards Program helps flood-prone communities maintain eligibility for participation in the National Flood Insurance Program and keeps floodplain maps and data up to date. Federal funding from the Federal Emergency Management Agency (FEMA) supports this program.

Community Services (15.00 FTE) assists local governments in the implementation of the statewide land use program through technical assistance, administration of grants, periodic review of local plans and land use regulations, and plan amendment review.

Ocean and Coastal Services (11.58 FTE) oversees the implementation of statewide planning goals, with an emphasis on the coastal goals, by local jurisdictions and state agencies in the coastal zone. This division contains two programs: the federally approved Oregon Ocean and Coastal Management Program and the Oregon Ocean Resources Management Program. The agency provides services such as technical assistance, administration of coastal grants, coordination of state and federal programs in the coastal zone, and support to the Ocean Policy Advisory Council. These activities are primary supported by federal funding.

Measure 49 Development Services (5.00 FTE) was originally established to process claims for compensation made under provisions of ballot measures approved in 2004 (Measure 37) and 2007 (Measure 49). The bulk of the claims were processed by June 30, 2010, by employees in limited duration positions. At the 2011-13 current service level, five permanent positions remain to provide ongoing program support.

The ***Grant Program*** (no FTE) awards grants to local jurisdictions for maintaining, improving, and implementing comprehensive land use plans and regulations as well as assisting local governments in meeting the statutory obligation for periodic review of these plans. This program is intended to ensure compliance with the statewide planning goals. The program is managed by staff in DLCD's Planning Division; the 2011-13 current service level includes $2.4 million General Fund for these grants.

Revenue Sources and Relationships

Historically, about 65% of the agency's budget had been funded with General Fund, until that support rose into the 70% range in recent biennia due to work associated with Measures 37 and 49. With the bulk of that work completed, the 2011-13 current service level sets General Fund support at 66%.

Federal funding is expected to cover close to 30% of the budget. These dollars come from the U.S. Department of Commerce's National Oceanic and Atmospheric Administration (NOAA) and from the Federal Emergency Management Agency (FEMA). The agency's ocean and coastal program activities are eligible for federal funding, as are coastal communities. Receipt of this funding requires 100% cash or in-kind match, depending on the federal subprogram.

FEMA funds, which are used to operate the Floodplain Management Program, require a 25% state match and are restricted to use in administration of the National Flood Insurance and RiskMap programs.

Other Funds revenue sources consist mostly of federal transportation funds from the Oregon Department of Transportation (ODOT) for support of the Transportation Growth Management (TGM) program. DLCD projects a transfer from ODOT of at least $0.8 million in 2011-13. The agency also receives small amounts of Other Funds revenue from the sale of publications, subscriptions to plan amendment and periodic review notices, and public record duplicating services.

One-time Other Funds revenues of just over $825,000 are phased-out for 2011-13. These were fee revenues associated with HB 3225 (2009) and SB 1049 (2010), which allowed the agency to process additional claims under Measure 49 and to charge various fees to help offset the claim processing costs.

Current Service Level

The current service level is 18.6% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. These increases are offset by the phase-out of limited duration positions and program activities which are primarily related to Measure 49.

Budget Environment and Potential Reductions

Population growth and the resulting pressures on transportation systems, land management, and development increase DLCD's workload. The Department has limited fee-supported revenue or access to alternate sources of Other Funds, making it reliant on general purpose tax revenues and federal resources.

The agency's most recent fiscal challenges come from two voter initiatives regarding landowner compensation for losses due to land use regulations: Measure 37, which voters passed in November 2004, and Measure 49, which voters passed in November 2007. These initiatives both dealt with compensation for landowners whose property values were negatively impacted by land use laws or regulations. The original law required landowner compensation to be in the form of direct payments or land use regulation waivers. Measure 49 replaced those compensatory remedies with provisions for a specific number of home site approvals. It also established different criteria for claims filed after June 28, 2007.

The Legislature also passed measures further modifying these laws. HB 3225 (2009) set a statutory deadline of June 30, 2010 for final claim determinations and allowed for the processing of approximately 500 additional claims. SB 1049 (2010) provided for processing some other sets of claims meeting certain criteria, including those filed only with a county and not the state. Both bills set fees to help offset a portion of the costs associated with claim processing. SB 1049 also clarified transferability to family members and the standing of DLCD in Measure 49 litigation, and established a deadline of June 30, 2011 for final orders to be issued on new claims.

The agency is meeting its statutory deadlines and the bulk of Measure 49 work should be completed by the end of the 2009-11 biennium. It is uncertain whether or not the 5 positions and $1.4 million General Fund included in the 2011-13 current service level will align with the workload and costs associated with processing ongoing claims and handling litigation.

In addition to Measure 49 work, the agency is continuing policy and program work, some of which was generated by legislation passed during the 2009 and 2010 sessions. DLCD did not receive additional resources to implement most of this legislation, but has included the associated work in the Commission's policy and rulemaking agenda for 2009-11. The agency did receive positions and funding SB 1059 (2010), which requires DLCD to work with ODOT on a variety of tasks related to a statewide transportation strategy on greenhouse gas emissions. A least a portion of these limited duration resources, which have been paid for by ODOT, will likely need to be reauthorized for 2011-13.

HB 3647 (2010) establishes a new program, effective October 2011, requiring DLCD to manage a process ensuring objective third party reviews and assure accuracy of soils reports. Fee revenues associated with the program will need to be built into the 2011-13 budget, along with expenditures.

As noted previously, the agency is dependent on General Fund for core program activities. As the budget is being reviewed and reductions considered, the Legislature will need to weigh DLCD's program needs within the context and priorities of the statewide budget.

Unless all potential cuts are taken in the Grant Program, a General Fund reduction in the 5% to 15% range requires eliminating positions. DLCD would look first to eliminate permanent positions associated with Measure 49, then to reduce grants to local governments, and finally to eliminate or reduce positions that provide community services. Since Measure 49 workload is uncertain, reductions in that area may be less detrimental than in others if that workload ends up being lower than anticipated.

The balance between grants to local governments, which provide them dollars to get planning work done, and agency community services staffing, which provide the expertise and direct assistance to local governments for getting the work done, needs to be carefully evaluated when reviewing potential reductions. Statutory requirements, priorities, scalability, flexibility, alternate funding sources, and realistic versus desired outcomes should all be considered in that review.

Reductions at the 25% level would continue to erode community services and reduce capacity for policy and administrative support. Statutory requirements and timelines would likely need to be modified. Cuts of this magnitude could support a restructure, mission change, or consolidation for the agency.

Land Use Board of Appeals – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	1,506,938	1,531,111	1,414,047	1,647,924
Other Funds	65,304	80,003	80,003	88,300
Total Funds	**$1,572,242**	**$1,611,114**	**$1,494,050**	**$1,736,224**
Positions	6	6	6	6
FTE	6.00	6.00	6.00	6.00

Agency Overview

The Land Use Board of Appeals (LUBA) was established in 1979 to provide prompt, professional, and efficient resolution of land use issues and to develop a consistent body of land use law. Prior to the creation of LUBA, circuit courts reviewed local land use decisions which resulted in delays and inconsistent interpretations of land use law in different portions of the state. LUBA only has jurisdiction to review appeals of local government decisions for consistency with local and state land use laws. LUBA decisions may be appealed to the Court of Appeals and ultimately to the state Supreme Court. Private parties and public agencies – including agricultural interests, developers, environmental groups, individual property owners, and state and local governments – are able to bring issues to LUBA for review.

LUBA's mission is to decide appeals quickly and consistently, and to disseminate its opinions to create a body of land use law that allows for consistent land use decision making. The Board consists of three hearings referees, appointed by the Governor with Senate confirmation, who are members of the Oregon State Bar. Other staff includes two support positions and one staff attorney. LUBA's offices are located in the Public Utility Commission (PUC) building, with the PUC providing accounting, personnel, and other administrative support to LUBA through an inter-agency service agreement.

Revenue Sources and Relationships

LUBA generates Other Fund revenue from the sale of *LUBA Reports*, which are issued to meet the agency's statutory obligation to publish its opinions. LUBA's budget estimate for 2011-13 assumes issuing five volumes that will be sold to 73 subscribers at $175 per volume for Other Fund revenues of $63,875.

LUBA also collects appeal filing and motion to intervene (intervener) fees, which are transferred to the General Fund. The 2009 Legislature increased the appeal filing fee from $175 to $200 and added an intervener fee of $100 (HB 3199). LUBA's estimate in the state budget system of $80,150 from these fees in 2011-13 appears to be based on outdated assumptions regarding a higher number of appeals (458) and no intervener fee. Previously, the agency projected receiving 375 appeals in 2011-13; the appeal volume estimate and associated revenue should be refined during the legislative budget process.

Current Service Level

The current service level is 16.5% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

At existing staff levels, LUBA has been able to manage between 420-450 appeals per biennium, depending upon complexity and timing of the appeals, and still meet performance targets. However, appeals volume, which is heavily influenced by economic activity and population growth, is down significantly due to the current economic downturn. The drop in volume, from the historical range of 200-240 annually to about 150 for 2010, helped LUBA manage its 2009-11 allotment reductions without severely degrading service delivery.

A General Fund reduction in the 5% to 10% range requires eliminating or reducing positions. If workload remains below historical levels, cuts of this order would be manageable and consistent with 2009-11 allotment reductions, which decreased paralegal, administrative support, and staff attorney services. Reductions at the 25% level would likely result in untimely written opinions and an appeal backlog. A review of the Board's functions and their rank within a prioritized list of statewide services could help inform reduction decisions.

Department of State Lands – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	213,075	0	415,595	0
Other Funds	37,447,787	24,309,391	25,931,494	25,348,938
Federal Funds	2,277,027	6,062,037	6,101,737	3,065,077
Other Funds (NL)	1,242,333	1,602,450	9,812,450	10,054,249
Total Funds	**$41,180,222**	**$31,973,878**	**$42,261,276**	**$38,468,264**
Positions	111	111	111	107.00
FTE	108.76	108.46	108.46	106.00

Agency Overview

The Department of State Lands (DSL) is the administrative arm of the State Land Board. The Board, created under the Oregon Constitution, consists of the Governor, the Secretary of State, and the State Treasurer. The Board is responsible for managing the assets of the Common School Fund. These assets include equity investments managed by the Oregon Investment Council and the State Treasurer on behalf of the Board and over two million acres of state lands deeded at statehood in trust for education; other lands designated by statute, and escheated and forfeited property. In managing these assets, the Board follows the constitutional standard of “obtaining the greatest benefit for the people of the state, consistent with the conservation of…[the]…resource under sound techniques of land management.” By statute, related programs, such as removal-fill, wetlands and unclaimed property, are assigned to the Department. The agency also manages the South Slough National Estuarine Research Reserve and provides support to the Natural Heritage Advisory Council.

The Department is organized around five program areas:

- ***Common School Fund*** (90 positions, 89.00 FTE) consists of four divisions, Land Management, Wetlands and Waterways Conservation, Finance and Administration, and the Director’s Office.
- ***Oregon Wetlands Revolving Fund*** (1 position, 1.00 FTE) was established by the 1987 Legislature to provide financial resources to acquire wetlands banking and wetlands mitigation sites; to accomplish wetlands restoration, enhancement, and creation; and to cover administrative costs.
- ***South Slough Natural Estuarine Research Reserve*** (16 positions, 16.00 FTE) is a tidal inlet of the Coos estuary six miles southwest of Coos Bay. The reserve was designated in 1974 as the first national estuarine research reserve and consists of 1,000 acres of tidelands and open water surrounded by a 3,800-acre upland border. The 4,800-acre South Slough National Estuarine Research Reserve (SSNERR) is part of the U. S. National Estuarine Research Reserve System established by the Coastal Zone Management Act of 1972. SSNERR operates an interpretive center and maintains nature trails for hikers and canoeists. It also conducts a variety of research, educational, and stewardship programs.
- ***Natural Heritage Program*** (no positions or FTE) The state’s Natural Heritage Act was passed by the 1979 Legislature to create a discrete and limited system of natural heritage conservation areas to represent the full range of Oregon’s natural heritage resources. The Act requires that all conservation efforts be voluntary on the part of the landowner or public land manager and that resources be protected, whenever feasible, on public lands allocated primarily to special non-commodity uses (such as parks, preserves, and wilderness areas). The 17-member Natural Heritage Advisory Council (NHAC) assists the State Land Board in implementing the mandates of the Act. The NHAC also is responsible for administration of the Threatened and Endangered Invertebrate Program and works cooperatively with the U.S. Fish and Wildlife Service to conduct studies and recovery actions on threatened and endangered invertebrate species within the state. Responsibility for maintenance of a data bank of significant natural heritage sites areas to guide decisions on project planning and land management was transferred to Oregon State University (OSU), however the Department provides the state match for federal funds to maintain the data bank.
- ***Capital Improvements*** (no positions or FTE) manages property as assets of the Common School Fund. The State Land through capital improvements and property maintenance. Expenditures in this program include small infrastructure design and construction projects, facilities rehabilitation, general maintenance and repair, weed control, land rehabilitation, and response to environmental hazards.

Revenue Sources and Relationships

Other Funds revenue for the Department is derived from two major sources: income from program operations and investment income. Statutory program operations generate revenue from waterway, hydroelectric, sand and gravel leases; unclaimed property dividends; and removal-fill permit fees. Income from these sources is expected to remain fairly stable. Fee revenue and leasing revenue is expected to generate $8.3 million for the 2011-13 biennium. Constitutional revenue is generated from periodic land sales and other revenue generated from property holdings for deposit in the Common School Fund. Revenue from land management activities is projected to show a slight increase during the 2011-13 biennium. Common School Fund revenues also include receipts from timber harvests on Common School Forest land. The Department of Forestry projects $33.3 million in timber receipts for 2011-13, which is about $9.1 million more than expected for the 2009-11 biennium. However, recent reports suggest timber receipts will be closer to $30 million. Common School Fund distributions to the Department of Education by the Department of State Lands are anticipated to be between $95 million and $99 million in 2011-13.

Federal Funds received by the Department from the U.S. Environmental Protection Agency, Office of Coastal Resource Management, National Oceanic Atmospheric Administration, Department of Commerce, and U.S. Fish and Wildlife service support of the wetlands program, permit streamlining efforts, Natural Heritage Advisory Council, and the South Slough National Estuarine Research Reserve. Federal Fund receipts are estimated at $3.7 million for the 2011-13 biennium. State match ranges from 30% to 50% depending on the individual grants and is provided from in-kind contributions, private donations, and some Common School Funds.

Current Service Level

The current service level is 9% less than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The current service level also includes phasing out $6,047,906 for one-time costs primarily associated with federal grants and other non-federal grants.

Budget Environment and Potential Reductions

The Common School Fund is a constitutional trust created to manage the assets derived from the common school trust lands granted to Oregon by the federal government at statehood. These lands originally comprised 6% of the new state's land for the support of schools, plus land for a state university. Revenues from these lands and any associated mineral, timber, or other resource are dedicated to the Common School Fund. The state holds title to the mineral rights for approximately four million acres. From 1999 to 2009, distributions were based on a sliding scale of percentages of a three year rolling average of the annual growth in the Common School Fund's market value with lower percentages used when fund growth was relatively sluggish. In 2009, the Legislature negotiated with the State Land Board to increase the distribution for the 2009-11 biennium to 5% of the three-year rolling average. The constitution (Article VIII) requires the Legislative Assembly to provide by law how moneys in the Common School Fund shall be invested and distributed and to appropriate in each biennium money from the fund for public education. The law, ORS 273.105, delegates responsibility to the State Land Board. Distribution of Common School Fund moneys could become an issue for the 2011-13 biennium given the reduction in General Fund revenues for the budget period.

The Legislature appropriated $2,825,910 General Fund and reduced the Department's statutory Other Fund ending balance to provide an additional $1,812,968 Other Funds expenditure limitation in 2009-11 to hire forensic consultants to help the state defend its position in the Portland Harbor cleanup cost allocation process. The forensic consultants will complete most of their evaluation of state activities at or adjacent to 79 upland sites and provide the contamination, remedy, and associated costs in each sediment management area in the 2009-11 biennium. The Department anticipates it will require additional assistance from the Department of Justice and the forensic consultant in 2011-13 as cost allocation negotiations and natural resource damage assessment work continues with federal environmental agencies and other entities at an estimated cost of $1.2 million General Fund and $200,000 Other Funds in the 2011-13 biennium. The Department's projected Other Fund ending balance for 2011-13 will be below its required six months of operating expenses. However, the Legislature may want to revisit the six month requirement to determine how much of the expense could again be covered by statutory Other Fund revenues.

Marine Board – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	23,795,485	26,262,518	26,262,518	27,021,626
Federal Funds	8,032,484	6,934,578	8,091,039	7,077,388
Total Funds	**$31,827,969**	**$33,197,096**	**$34,353,557**	**$34,099,014**
Positions	40	43	43	40
FTE	39.00	41.38	41.38	39.00

Agency Overview

The Oregon State Marine Board (OSMB) was established in 1959 and is responsible for registering and titling all recreational boating vessels in the state. The Board consists of five members appointed by the Governor for four-year terms.

Forty positions (39.00 FTE), organized into three program areas, support the mission of the agency.

- ***Administration and Education*** ($7.1 million, 23.84 FTE) is responsible for vessel titling and registration activities including floating homes and boathouses, outfitter and guide registration, and ocean charter boat licensing. The program also administers state boating laws, develops waterway management plans, serves as liaison with other government units, conducts boating accident analyses and boater surveys, coordinates the Adopt-a-River program, and provides the agency's central business functions. Education activities include implementation of mandatory boater education. This program also includes the Aquatic Invasive Prevention Program that was established by the 2009 Legislature.
- ***Law Enforcement*** ($14.4 million, 4.83 FTE) provides on-water safety patrol and boating law enforcement for 300 miles of coastline, over 5,500 miles of navigable rivers, 1,400 named lakes, and 889 square miles of inland water. By statute, funding of law enforcement activities is the first priority for the OSMB after administrative expenses are covered. Services are provided through contracts with 31 county sheriffs providing coverage in 32 counties and with the Department of State Police providing additional statewide coverage, with emphasis in the four counties not covered by contracts with county sheriffs. The program also provides patrol boats and specialized enforcement equipment, develops and offers basic and advanced training for county marine patrol officers, maintains a marine law enforcement database and reporting system, performs contract administration functions, and retains responsibility for the waterway marking system.
- ***Facilities*** ($12.7 million, 10.33 FTE) provides for the maintenance and improvement of boating facilities throughout the state. The Marine Board provides technical and financial assistance for local governments and state agencies to acquire, develop, improve, and rehabilitate public boating facilities. Projects eligible for Board funding include boat launch ramps, parking, restrooms, courtesy docks, transient tie-up facilities, and other boating-related facilities. The federal Clean Vessel Act (CVA) program targets water quality protection through the provision of facilities for boat pump out and dumping of waste. The Board's Maintenance Assistance Program provides financial support for local governments and the Oregon Parks and Recreation Department for the maintenance and operation of boating facilities in park areas. The Board also provides engineering services for local governments and state/federal agencies lacking the specialized skills needed to design and build boat facilities.

Revenue Sources and Relationships

OSMB is funded with 79% Other Funds and 21% Federal Funds. The agency receives no General Fund support or Lottery Fund allocations.

Other Funds are from three major revenue sources: registration and title fees (44%); marine fuel taxes (41%); and invasive species fees (11%), with the remaining revenue from outfitter and guide registration, mandatory education, and late penalties. Department of Fish and Wildlife uses Sport Fish Restoration funds to pay the Marine Board for technical assistance on cooperative projects.

Registration fees are set by statute and vary based on type and size of vessel. Registrations are valid for two years. A boat owner must also secure a one-time certificate of title from the Marine Board. Fees are expected to generate $10.9 million for the 2011-13 biennium, which is $355,000, or 1%, above the prior biennium.

The motorboat fuel tax revenue is estimated to be $10.1 million during the 2011-13 biennium, which has declined by over $1.4 million, or 13%, since the 2007-09 biennium. This revenue is based on the results of the Oregon Motorboat Gasoline Use Survey that is conducted every four years to determine the amount of fuel tax to be transferred from the Department of Transportation. The last survey was completed in spring 2010.

A $5 per vessel fee and an additional fee for non-motorized watercraft and out-of-state vessels is expected to generate $2.7 million for the invasive species mitigation program.

The last fee increases were authorized by the 2003 Legislature and became effective during the 2003-05 biennium. A aquatic invasive species fee was instituted during the 2009 legislative session.

Agency anticipated Federal Funds for the 2011-13 biennium totaling $7.1 million are:

- U.S. Coast Guard's Recreation Boating Safety (RBS) grant program ($4.6 million): The Coast Guard restricts use of RBS grants to boating safety programs and requires a 50-50 state match. This is a formula-driven grant award.
- Clean Vessel Act (CVA) program ($1.5 million): CVA funds were first made available in 1994 for funding vessel waste pump out facilities and dump stations to reduce the effects of untreated sewage from boats in the state's waters. CVA grants require a 25% state match. CVA is a competitive grant.
- Boating Infrastructure Grant (BIG) program grants ($1 million): The BIG funding program has two tiers. Tier 1 funds are base grants set annually at $100,000 per state and Tier 2 grants are competitive, with approximately $4 million available nationally each year. BIG funds, authorized in 1998 as part of the Sport Fishing and Boating Safety Act, require a 25% state match. This particular grant is $1.7 million, or 63%, less than was received during the 2009-11 biennium.

The OSMB's budget has insufficient revenue to support its current service level (CSL), which has a negative ending balance of $428,364. An adjustment is required that removes $1,290,000 of Other Funds expenditure limitation in the Facilities Program related to an anticipated reduction in gasoline tax revenue receipts. This action is necessary to balance OSMB's projected revenues and expenditures. With this adjustment, the ending balance becomes $861,636, which is less than eight tenths of a month of cash operating reserve. The OSMB ended the 2007-09 biennium and began the 2009-11 with a $4.2 million balance.

OSMB Other Fund balances have been transferred to the General Fund on one occasion, which was during the 2009-11 biennium ($430,000).

Current Service Level

The current service level is 1% lower ($254,543) than the 2009-11 legislatively approved spending level at December 2010. Other Funds increased by 3% ($759,108) and Federal Funds decreased by 13% ($1 million). The budget includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

OSMB's budget is comprised of 20% personal services ($6.8 million), 14% services and supplies/capital outlay ($4.9 million), and 66% special payments ($22.4 million).

The CSL does not include budgetary authority for the Aquatic Invasive Prevention Program, which is being re-requested in a policy package at a cost of $390,065 Other Funds (3.00 FTE).

Budget Environment and Potential Reductions

Boating activities and registration are in decline as a result of the poor economy. For the last two biennia, OSMB has been subsidizing its operating budget by drawing upon its ending balance reserves. Agency operating expenditures will likely need to be reduced, or fees increased, to remain within available revenue and provide for a minimum reserve of working capital. Addressing its revenue shortfall through fee increase could be problematic given the declining fee base.

Parks and Recreation Department – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Lottery Funds	93,331,031	90,624,529	90,870,271	93,636,268
Other Funds	105,112,829	94,416,010	94,170,268	100,809,889
Federal Funds	5,225,522	14,862,468	14,984,968	8,609,710
Other Funds (NL)	215,732	0	0	0
Total Funds	**203,885,114**	**$199,903,007**	**200,025,507**	**203,055,867**
Positions	884	883	883	883
FTE	600.29	600.89	600.89	601.41

Agency Overview

The Oregon State Parks and Recreation Department (OPRD) is under the direction of a seven-member Commission. The Department operates the state's system of 241 recreational properties including ocean shores protection; scenic waterways; the Willamette River Greenway; recreational trails; all-terrain vehicles program; recreation grants to counties and local governments; state park land use and outdoor recreation planning; and management, operations, and maintenance of the Oregon State Fair programs. The Department is also designated as the State Historic Preservation Office and oversees activities of the Oregon Heritage Commission and Oregon Commission on Historic Cemeteries. In addition, the Department manages Natural Resource Lottery Funds programs including local park development grants; state park land acquisition; operations and maintenance; the parks-prisons inmate work program; state park facilities; and development projects.

The Department manages parks lands covering 102,457 acres. These include 55 campgrounds, 176 day-use areas, 500 miles of recreation trails, 362 miles of ocean shore, and other special sites such as boating and fishing docks, group meeting halls, interpretive centers, museums, and 2 historic inns.

The Department operates through the following programs:

- ***Directors Office*** (11 positions, 11.00 FTE) is responsible for overall agency management; support of Commission activities; coordination with the Governor, Legislature, and other government entities; and development of broad policy direction. It also provides public information, reviews agency programs and coordinates rulemaking in its efforts to improve agency performance.
- ***Central Services*** (77 positions, 72.94 FTE) is responsible for agency financial services, personnel and information services, and internal audit. The program unit provides budget and fiscal resources management, staff recruitment and training, information technology services including managing the park reservation system, centralized business services such as fleet and managing procurements and manages the volunteer and safety programs.
- ***Park Development*** (19 positions 18.00 FTE) is responsible for direction and management of all real property functions of the Department and provides engineering design, survey, and construction oversight for statewide park development projects focused on reducing the backlog of repairs and deferred maintenance. It also provides labor, materials, and products for state parks through partnerships with state, county, and local correction and youth crew programs.
- ***Direct Services*** (702 positions, 441.11 FTE) combines the former Operations and Recreation programs, along with property and resource management, engineering services for operations, parks safety and risk management and operations support. The program is responsible for operation of the state park system on a daily basis, recreational planning and programming including land and water based trail systems and promotion of bicycling.
- ***Community Support and Grants*** (27 positions, 28.00 FTE) is responsible for direction and management of the Department's major grant programs and Heritage programs. The grant programs include the All-Terrain Vehicle (ATV) grants program, the Land and Water Conservation Fund, the Local Government Grant Program, the Recreational Trails Grant Program, and the Recreational Vehicle Grant Program. The Heritage program administers federal and state programs for historic and archeological resource planning and preservation.

- ***Oregon Exposition Center*** (47 positions, 30.36 FTE) conducts an annual state fair that is typically 11 days in length and provides services for ongoing exposition activities including recreational vehicle and organization meetings, concerts, and consumer products and services shows.
- ***Debt Service*** (no positions)

Revenue Sources and Relationships

In November 1998 and again in November 2010, voters approved measures constitutionally dedicating 15% of the net proceeds of Oregon's lottery revenues to be deposited into a Parks and Natural Resources Fund. Half of the fund is allocated to OPRD; the remainder is allocated to the Oregon Watershed Enhancement Board. The second election amended the original measure to dedicate at least 12% of OPRDs share of gross proceeds to be dedicated to local grant programs and requires that costs to administer the local grants be borne by the remaining 88% of gross Lottery revenue. It also requires that the amount be increased to 25% if the net proceeds deposited into the fund increases more than 50% above the amount deposited in the 2009-11 biennium. The 2011-13 current service level budget assumes $87.5 million Lottery Funds revenue will be generated for the State Parks and Recreation Department sub-account in the biennium, however the December 2010 revenue forecast indicates that Lottery Funds revenue will be closer to $85 million. Of the $85 million, $10.2 million, an increase of $7 million over the 2009-11 legislatively approved amounts, is required to be appropriated by the Legislature to local park grant programs. The remaining amount, $74.8 million will be available for the Department's operating programs. For 2011-13, these Lottery Funds represent 40% of total revenue in the Department's budget, a decrease of 2% from the 2009-11 legislatively adopted budget. At the close of the 2009 legislative session, Lottery Fund receipts for OPRD were projected at $85.2 million. The current forecast for the 2009-11 biennium projects Lottery Fund receipts for OPRD will be $3.6 million less than originally forecasted. Lottery Fund receipts for the 2011-13 biennium are expected to be slightly higher than in the 2009-11 beinnium by $614,931.

Park user fees represent 18% of the total revenues. User fees are expected to generate $43 million in 2011-13. Due to the infusion of Lottery Fund resources in 1999, park user fees remained at 1996 market levels. The 2009 Legislature approved an increase in the park user fees to bring rates closer to market rates and address declines in Lottery Fund resources. The other major source of Other Funds revenue is from recreational vehicle (RV) registration fees. RV fees are currently shared 35% by the counties and 65% by the state. The 2007 Legislature temporarily modified the distribution in SB 29 adding 5% to the county distribution and decreasing the state distribution by 5%. The modified distribution will revert to the original distribution (30% counties, 70% state) on July 1, 2015. For 2011-13, the RV fee is expected to produce $33 million, $21.4 million for the state parks system and $11.1 million for transfer to counties, including $1.15 million for county opportunity grants. The current estimate reflects a decrease of approximately $681,000. The Legislature also created a "salmon" license plate that has a premium surcharge above the standard license plate fees. OPRD anticipates receiving $469,774 in the 2011-13 biennium from the salmon license plate. OPRD expends its share of proceeds from the sale of these plates on salmon habitat restoration needs and related projects.

Other dedicated revenue sources include $4.6 million from the Oregon Department of Transportation State Highway Fund for roadways and rest area maintenance, $698,975 million from the Marine Board for boater facility maintenance and rehabilitation, and $13.5 million from the All-Terrain Vehicle (ATV) fuel tax revenues and fees for ATV operator permits and safety courses. Assorted Other Funds from the Deschutes River boater pass, rental of park property, sale of publications, and other donations and miscellaneous sources are also collected. The Department also expects to receive $14.1 million in Federal Funds.

Current Service Level

The current service level is 1.5% more than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The current service level budget reduces Lottery Fund expenditure limitation by $4.8 million, reflecting a revenue shortfall in Lottery Fund revenues based on the September 2010 economic analysis. It also phases out $10.6 million total funds for one-time expenses associated with federal grants, the ATV safety education program, replacement of the Department's reservation system, and funding related to winter storm damage.

Budget Environment and Potential Reductions

As the Department's Lottery Funds increased, the Department's positions increased by 232 positions and (191.91 FTE) since the 1997-99 biennium. Due to significant increases in Lottery Funds over time, the Legislature looked for opportunities to shift programs to the Department as a possible means of funding existing or new initiatives that would otherwise require General Fund. The Oregon State Fair and Exposition Center and the Capitol Mall were added to the Department over the past ten years and the Mainstreet Program and Oregon Historical Society have been considered for possible funding in the last two biennia. Also, balances were swept from the All Terrain Vehicle (ATV) program in 2010 through HB 3696. ATV balances were also used for payments to the Department of State Police for troopers, Department of Forestry ATV trails operations and maintenance, and balances were tapped for funding invasive species work at the Oregon Department of Agriculture.

With passage of Measure 76 in November 2010, an estimated $10.2 million, or an additional $2.7 million, will need to be allocated by the Legislature for local park grants. In addition, administrative costs of $3.1 million Lottery Funds in the current service level budget cannot be expensed against the local park grant allocation. An estimated $5.8 million Lottery Funds will need to be shifted from other programs into the local grant program to make up the difference between the current service level budget for local park grants and administrative costs. If the current service level is to be maintained, Other Funds will be needed to backfill the loss of Lottery Funds from operating programs. Another option would be to reduce Lottery funded programs. One of the obvious places to reduce Lottery Funds to make up the difference from the increased dedication for the local grant program would be the Lottery Fund portion of the acquisitions program.

Property Acquisition is a fundamental component of ensuring an adequate supply of land is available for the recreational enjoyment of Oregonians and to preserve an area of outstanding natural, scenic, or historical value. Opinions about how much new parkland is needed are divergent. There has been no attempt by the Department to take into consideration other public lands that are available for Oregonians recreational enjoyment in its strategic plan for acquisitions of new parkland. As new parks and recreation sites have been developed, ongoing operational and maintenance costs are increased. Lottery Funds have made these acquisitions and new developments possible. Managing the increase in operating costs over time is a major issue. Changing demographics may result in promoting different forms of recreational activity than camping.

The western snowy plover has been included on the federal threatened and endangered species list. Its habitat is along the ocean shoreline, which is also a favorite place for Oregonians to recreate. The Department recently received an Incidental Take Permit for the western snowy plover which allows the Department to avoid closing an ocean shore area if a snowy plover or plover nesting area is accidently harmed by a beach visitor. In return, the Department must assure that the harm is limited and pursue plover recovery elsewhere. As other species become listed as threatened and endangered, restoring the natural vegetation and controlling non-native plant species and predators will require resources to implement.

In the 1999-2001 biennium, dedicated Lottery Funds from Measure 66 (1998) provided 37% of available revenue and Other Funds provided 62%. Then, until the 2009-11 biennium, Lottery Funds increased relative to Other Funds. In the 2007-09 biennium, Lottery Funds provided 46% of the revenue and Other Funds 52%. This trend resulted from expanding programs during periods when Lottery revenues escalated and fee rates were held flat since the last increase in 1996. As Lottery growth slowed in the 2007-09 biennium, a fee increase was approved by the 2009 Legislature to maintain current service levels, provide adequate operating ending balances, and allow continued upkeep and upgrade of the system.

The agency has enough Lottery Fund ending balance for about two months of operating reserves, which is necessary to tide it over until its camping season revenues accrue. The Other Funds ending balance may be more than necessary given the increase in fees and camper days and could be reviewed further.

Water Resources Department – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	25,873,738	21,035,526	19,268,371	23,239,705
Lottery Funds	0	354,911	354,911	574,400
Other Funds	4,999,094	13,574,310	13,746,310	10,675,966
Federal Funds	576,618	1,197,639	1,197,639	1,105,794
Total Funds	**$31,449,450**	**$36,162,386**	**$34,567,231**	**$35,595,865**
Positions	152	148	148	143
FTE	148.06	146.29	146.29	142.09

Agency Overview

The Water Resources Department (WRD), guided by its seven-member Commission, sets water policy for the state, and issues and protects water rights. By law, all surface and groundwater in Oregon belongs to the public. The Department's mission is "to serve the public by practicing and promoting responsible water management through two key goals: (1) to directly address Oregon's water supply needs, and (2) to restore and protect stream flows and watersheds in order to ensure the long-term sustainability of Oregon's ecosystems, economy, and quality of life." The Department's core functions are to protect existing water rights, facilitate voluntary stream flow restoration, increase the understanding of the demands on the state's water resources, provide accurate and accessible water resource data, and facilitate water supply solutions.

The Department operates through the following six programs:

- ***Administrative Services*** (12.00 FTE) provides human resource, accounting, payroll, contracting, facilities management, risk management, training services, and budget preparation and execution. The Division also provides administrative support for the Oregon Watershed Enhancement Board
- ***Field Services*** (63.00 FTE) administers water laws, including dam and well inspections, and water right regulation and enforcement. The Division regulates water use in order to protect senior water rights for both in-stream and out-of-stream purposes. The Department organized the state's 20 watermaster districts into four regions for more efficient use of field personnel. Field staff includes region managers, watermasters, technicians, and locally-funded assistants. Field staff responsibilities include dam inspections, enforcing water distribution among water right holders, processing water right transfers, hydrologic data gathering, well construction inspections, well monitoring, and water right record maintenance. In addition, field staff act as liaisons with Watershed Councils, municipal water suppliers, local governments, and irrigation districts to explain Commission and Department policies, review water management plans, provide information on water availability and water rights, and bring regional policy issues back to the Department.
- ***Technical Services*** (35.92 FTE) is responsible for managing data and technical analyses of the state's surface and ground water. The Division supports both current and long-term water management needs by collecting, analyzing, and applying information on ground water and surface water resources. Technical Services' programs include hydrologic analysis, ground water investigations, surface water availability, hydrographics, dam safety, stream gauging, geographic and water rights information systems, well construction and enforcement, and water use reporting.
- ***Water Rights and Adjudications*** (25.00 FTE) is responsible for evaluating both in-stream and out-of-stream water right applications, and administers programs such as water right certification, permit administration, water right transfers, Native American water right negotiations, adjudication of pre-1909 and federal reserved water rights, and hydroelectric licensing. It also has the lead responsibility for Oregon's hydroelectric water right and licensing program. Approximately 164 currently authorized licensed hydroelectric projects pay annual fees to support the coordinated programs in the Departments of Water Resources, Fish and Wildlife, and Environmental Quality.
- ***Directors Office*** (6.00 FTE) is responsible for the oversight of all policy-related functions of the agency. The Office coordinates the development of administrative rules, provides citizen response and information services, supports the Water Resources Commission activities, develops legislative proposals, and provides oversight of agency activities related to the Oregon Plan for restoration of salmon and watersheds, the

Global Warming Commission, Government-to-Government tribal activities, and Sustainability and Streamlining Efforts.

- ***Water Development Loan Program*** (0.17 FTE) was established by the Legislature in 1977 as a general obligation bond program to finance irrigation and drainage projects. The loan program was expanded in 1982 and 1988 through constitutional amendments approved by voters to also include community water supply, fish protection, and watershed enhancement projects

Revenue Sources and Relationships

The Department budget is primarily General Fund, representing 64% of the revenue. The other major source of revenue for the Department is Other Funds revenue from fees and charges for services, which is 32% of the revenue. The Department assumed $8.6 million of fee revenue for the 2011-13 biennium, but updated revenue projections from September 2010 suggest $7.7 million is more likely. Federal Funds received through the Federal Emergency Management Agency (FEMA), Bureau of Reclamation, and other federal agencies represents about 3% of the budget. Other Funds revenue sources include start card fees (well drilling), water right and transfer fees, exempt ground water use fees, interest earnings, and various county and state agency contracts for services. The 2009 Legislature increased well start cards, water rights, and transfer fees to 50% cost recovery and implemented a new fee for exempt wells. These fees were included in SB 788 (2009). The 50% cost recovery fees will sunset in 2013. Lottery Funds are used to pay debt service on $3.6 million Lottery revenue bonds authorized in 2009 by the Legislature associated with the Umatilla Basin critical ground water projects, development of an integrated water resources strategy, grants for evaluating the feasibility of developing a water conservation, reuse, or storage project, and administrative costs to re-establish a loan program for water development projects.

Current Service Level

The current service level is 0.35% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The current service level reflects decreases for one time funding for the Umatilla Basin Aquifer Recovery Project and Water Development Project feasibility studies and related lottery bond issuance costs. It also reflects eliminating four limited duration positions, two that had been approved to support assistant watermaster, streamflow data collection, and ground water rights responsibilities and two that had been approved to develop an Integrated Water Resources Strategy authorized by the 2009 Legislature.

Budget Environment and Potential Reductions

Continued growth in population and industry will intensify demands on scarce water resources throughout the state. Surface waters in most of the state are fully appropriated by existing out-of-stream and in-stream uses, except during periods that fall outside of the irrigation season when stream flows are generally higher. There are also a number of areas in Oregon that are experiencing reductions in ground water supplies. The Department's ability to manage the increasing demand for water as the population of the state grows, while at the same time manage the environmental and long term sustainability of the resource is impeded from a lack of data on both surface and groundwater on which to base decisions and declining resources to collect and manage the data. Listings and potential listings under the Endangered Species Act and water quality issues increase the complexity of water allocation decisions.

The Department continues its efforts in the Klamath Basin General Stream Adjudication, a complex situation involving claims for individual, tribal, and federal water rights along with many resource and supply issues. The Department has received more than 5,600 legal contests to 731 claims.

The largest component of Water Resources Department expenditures is personal services, representing 73% of the current service level budget. Any level of reduction above $200,000 will reduce services in varying degrees for groundwater studies, Oregon Plan activities for salmon and watershed activities, water measurement, review of permits and technical assistance for municipal or irrigation district water management and conservation plans, water rights, and customer services.

To balance the 2009-11 biennial budget, the Governor implemented across the board allotment reductions. The Department's share of the General Fund reduction was $1,595,155. In addition to the mandated furlough days for state employees, the Department managed the decline in resources by reducing services and supplies and by eliminating two positions, demoting two positions to avoid layoff, holding vacant 13 positions (6.00 FTE) at various times throughout the budget cycle, and donations of additional furlough days by agency staff. The roll-up cost of the 2009-11 mandated General Fund allotment reduction for positions and services and supplies included in the current service level budget is approximately $1.7 million. Because the agency has already implemented reductions in services, it may be reasonable to consider continuing reductions that resulted in position savings, approximately $1.1 million, as an option for achieving General Fund savings in the Department's budget without significant consequences. A 10% reduction, or $2.4 million, would require eliminating a total of 15 positions (13.79 FTE), or an additional $1.3 million and 7.79 FTE above the $1.1 million allotment reduction that the agency is already carrying out.

A possible revenue option the Legislature could again consider is charging an annual fee for water right holders. During the 2009 legislative session, the Senate Committee on Environment and Natural Resources introduced a bill which would have charged water right holders $100 per year. The Department estimates a water management fee of $100 could generate between $5 and $6 million.

Oregon Watershed Enhancement Board – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Lottery Funds	75,662,082	66,667,401	66,667,401	20,226,715
Other Funds	919,340	2,099,705	2,099,705	1,880,865
Federal Funds	14,995,720	23,220,144	23,220,144	29,066,758
Total Funds	**$91,537,142**	**$91,897,250**	**$91,897,250**	**$51,174,338**
Positions	30	31	31	28
FTE	30.00	31.00	31.00	28.00

Agency Overview

The Oregon Watershed Enhancement Board (OWEB) was established in 1999 by the legislation implementing Ballot Measure 66, which established the framework for the full allocation of the measure's constitutionally dedicated lottery revenue. Ballot Measure 66, passed by the voters in November 1998, amended Section 4, Article XV of the Oregon Constitution to dedicate 15% of net lottery proceeds to be split between state parks and salmon, watershed, and habitat restoration. Ballot Measure 66 required that at least 65% of the revenue for salmon and watershed restoration be used for "capital expenditures". Capital expenditures are defined in law to mean projects that restore, enhance, or protect fish and wildlife habitat, watershed functions, native salmonid populations, or water quality or expenditures for personal property of a nonexpendable nature used in the enforcement of fish, wildlife, and habitat protection laws and regulations.

OWEB's day to day operations have been supported using the other 35% of revenue dedicated to "operations." The Restoration and Protection Research Fund (RPRF) was created by the 1999 Legislature to be used for funding research and other activities related to the restoration and protection of native salmonid populations, watersheds, fish and wildlife habitats, and water quality. All interest earnings on Ballot Measure 66 dedicated Lottery Funds are credited to the Restoration and Protection Research Fund, to be used to fund research projects that would further the goals of the agency.

OWEB was designated as the single state agency charged with administration of the salmon and watershed portion of the dedicated lottery revenues. OWEB consists of 11 voting members, including five voting members from state natural resource agency boards and commissions and six public members appointed by the Governor and confirmed by the Senate. OWEB is also authorized to include up to six additional non-voting members, including the director of Oregon State University's agricultural extension service and representatives from five federal land and natural resource agencies. OWEB distributes funding for projects, offers technical assistance on grant proposals, and coordinates with other state natural resource agencies.

Revenue Sources and Relationships

After many years of significant growth in Lottery revenues, total revenues were projected to hold steady through the 2009-11 biennium and are projected to increase only 4% in the 2011-13 biennium, while program costs continue to increase. This increase is lower than the cost increases anticipated by the programs that rely on constitutionally dedicated Lottery Funds for support.

Federal Funds are derived primarily from National Oceanic and Atmospheric Administration – Fisheries, an agency within the U.S. Department of Commerce, which administers the Pacific Coastal Salmon Recovery Fund (PCSRF). PCSRF monies were authorized by Congress in 2000 and are for salmon habitat restoration, stock enhancement, and research. After initial concerns over the availability of PCSRF funding were addressed at the federal level, the Legislature assumed $24 million from PCSRF would be available for expenditure in 2009-11. OWEB was successful in receiving over $28.2 million from PCSRF grants in 2009-11. About $15 million from the Federal Fiscal Year 2010 grant remains unspent and should be available to help address budget shortfalls in 2011-13. With the continued concern by some over high federal spending levels, the PCSRF program could once again face to prospect of reductions or the threat of outright elimination at the federal level.

Other Funds are received from the Department of Transportation for one-half of the proceeds from the sale of salmon license plates and from various non-governmental sources in the form of donations and grants.

Current Service Level

The current service level is 68% lower than the 2009-11 legislatively approved spending level at December 2010. Because capital project expenditures typically cross biennia and projects can take years to close out, OWEB is provided 6-year expenditure limitation for Measure 66 capital Lottery Funds in this program unit much like other agency capital budgets are provided 6-year expenditure limitation. During budget development, the previous biennium's 6-year Lottery Funds expenditure limitation is phased-out during calculation of the current service level and new capital expenditures are proposed in a policy package. This removal of capital construction expenditures during current service level development is the reason for the dramatic change from 2009-11 approved spending levels to the much lower 2011-13 current service level. Offsetting some of the removed capital construction expenditures are adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

The nature of the constitutional dedication of 7.5% of all lottery revenues for wildlife and habitat protection, restoration, and enhancement was changed by Ballot Measure 76, which was passed by the voters in November 2010. The reauthorization changed the way the dedicated Lottery Funds could be spent. Under the old dedication, the dedicated Lottery revenues were divided into two parts, 65% for capital expenditures and 35% for operations expenditures. Under the reauthorization of this dedication, 65% is now restricted to grants for non-state agencies. Only the other 35% can be used to support state agency programs. Previously, state agency programs could be funded under either the capital or operations funding split as long as it was the right kind of expenditure. Now state agencies will be prohibited from directly receiving any of the 65% dedicated to grants. In the 2009-11 approved budget more that 45% of the dedicated Lottery Funds go directly to state agencies. This cannot continue under Ballot Measure 76. Some possible solutions include simply cutting agency programs that rely on dedicated Lottery Funds until the 35% state agency expenditures is reached, moving some activities to non-state agencies, requiring some programs that currently are supported with dedicated Lottery Funds that pass through state agencies to find a third party to apply directly to the Oregon Watershed Enhancement Board on their behalf for funding from the 65% dedicated to grants to non-state agencies, or some combination of the three. The 2011 Legislature will be tasked with writing new legislation implementing Ballot Measure 76.

Department of Aviation – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	8,463,051	6,738,855	6,814,327	7,128,635
Federal Funds	9,993,345	2,470,000	3,867,696	1,000,070
Total Funds	**$18,456,396**	**$9,208,855**	**$10,682,023**	**$8,128,705**
Positions	17	17	17	16
FTE	17.00	16.38	16.38	16.00

Agency Overview

The Department of Aviation's mission is to support safe operation, growth, and improvement of aviation in Oregon communities. The department oversees state-owned airports, approves airport sites, forges cooperation among local governments, facilitates acquisition of federal or other funding resources and registers pilots and aircraft. The seven member State Aviation Board, appointed by the Governor, represents aviation interests from the public and private sectors. The Board provides policy direction to the Department.

Revenue Sources and Relationships

The Department is supported entirely by Other and Federal Funds, with total estimated revenue for the 2011-13 biennium of $9.7 million. This reflects a decrease of $3.6 million, or 32%, from the 2009-11 legislatively approved budget. This reduction in revenue follows an $8 million reduction in revenue for the 2009-11 biennium. A reduction in federally funded capital construction accounts for most of the decline.

Fuel Tax – Jet fuel tax and aviation fuel tax represent 43% of the revenue for the Department.

- Jet fuel tax remains at $0.01 per gallon as approved by the 1999 Legislature. Of the $0.01 tax, one half supports the Department's operating budget and the other half is dedicated to pavement maintenance for all public owned and public use airports. The 2011-13 estimated revenue totals $4.8 million, a decrease of 11.8% from the 2009-11 projected revenue.
- Aviation fuel tax remains at $0.09 per gallon as approved by the 1999 Legislature. Of the $0.09 tax, $0.03 supports the Department's operating budget and $0.06 is dedicated to pavement maintenance. The 2011-13 estimated revenue totals $677,838, a decrease of 4.6% from the 2009-11 projected revenue.

Fees – Pilot registrations, aircraft registrations, hangar and site leases, and charges for services represents 18% of the revenue for the Department.

- The Department registers and collects fees from an estimated 2,545 pilots, deducts for administrative costs, and passes the dedicated funds to the Military Department's Oregon Emergency Management Search and Rescue program. The initial registration fee is $12 (good until the pilot's birthday) and $24 for renewals which are for a two-year period. The 2011-13 estimated revenue totals $109,104. The 2009-11 legislatively adopted budget increased these fees from $8 for initial registration and $16 for renewals (HB 2150).
- Approximately 4,200 aircraft are registered with the Department. Fees are based on the class of the aircraft and range from $30 for ultralight to $350 for turbo/jet fixed wing. The Department annually licenses 25 aircraft providers for a fee of $250 each. These fees are used to fund operations. The 2011-13 estimated revenue totals $568,060 including approved fee increases (HB 2149).
- The Department also generates revenues through hangar and site leases and charges for services.

Federal Funds – Federal Funds represents 40% of the revenue for the Department.

- Funds from the Federal Aviation Administration Airport Improvement Program (AIP) provide grants for capital construction projects and system planning for state-owned and public-use airports. The AIP grants require a 10% state or local match. The Aviation Investment and Reform Act (AIR 21 Bill) adopted by Congress (GA Entitlement Program) provides $150,000 per year for three years awarded to eligible airports. Oregon has 47 eligible airports, eight of which the Department has administered under the GA Entitlement Program since 2003. Eligibility is based on a federal formula; therefore, the state does not have to compete for the funds. The funds provide improvements to airport security, pavement, and lighting and require a 10% match.

Current Service Level

The current service level is 11.7% less than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The current service level also includes a reduction of $2.4 million Federal Funds for General Aviation Entitlement projects approved by the Legislature for one-time funding opportunities.

Budget Environment and Potential Reductions

The Department of Aviation's financial position indicates a severe problem exists regarding its ability to sustain operating expenses past the current biennium. Aviation and jet fuel tax revenues, which are the primary source of funding for operations, have dropped significantly in recent years and are not expected to return to pre-recession levels in the near future. In order to get through the 2009-11 biennium with a balanced budget, the Department held 5 positions vacant (31% of its staff) and reduced spending on services and supplies. In addition, during the 2009-11 biennium only, the Legislature authorized the agency to spend money for operations that would otherwise be used for airport pavement maintenance activities. Sufficient revenue has been transferred from the pavement maintenance program during 2009-11 so that the 2011-13 operations beginning balance should amount to the equivalent of about two and one-half months of sustainable operations expenditures. The Legislature required six months operating revenue to sustain operations. Without the transfer of revenues from the dedicated pavement maintenance program, projected operating revenues for 2011-13 would not support current service level expenditures. Even with the transfer of pavement maintenance program revenues to the Operations Program in the 2009-11 biennium, the ending balance for 2011-13 is projected to be $46,623. A prudent ending balance would be in the range of $800,000 to $1.2 million.

In the spring of 2010, a management review report noted agency deficiencies including a lack of administrative capacity, management controls, contract management, and budget planning and execution. The report concluded that the Department of Aviation would greatly benefit from moving back into the Oregon Department of Transportation (ODOT), citing benefits that include appropriate separation of duties, longer life cycle of institutional knowledge, and overall efficiencies due to improved use of existing business systems and processes.

Another option is to reduce the Department's budget to a sustainable level. The five positions held vacant in the 2009-11 biennium would be eliminated saving $628,200, eliminating inflation and increases in salaries would add another $166,611 savings; however, the budget would need to be increased $85,700 for project management of various projects and management of all existing and future leases by the Department of Administrative Services on behalf of the Department. It would also require some level of closing state airports, minimizing maintenance activities, and suspending capital construction due to insufficient state match.

Lastly, the Legislature could again use the jet fuel taxes dedicated to the pavement maintenance program to balance the operating budget.

Department of Transportation (ODOT) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	6,443,410	25,443,013	22,143,169	52,678,638
Lottery Funds	46,559,439	85,445,103	85,445,103	83,891,421
Other Funds	3,062,398,691	4,062,616,365	4,127,407,718	3,624,696,994
Federal Funds	68,772,872	88,218,774	126,160,765	91,784,597
Other Funds (NL)	18,476,509	18,158,214	18,158,214	18,158,214
Federal Funds (NL)	0	0	11,921,871	21,621,528
Total Funds	**$3,202,650,921**	**$4,279,881,469**	**$4,391,236,840**	**$3,892,831,392**
Positions	4,646	4,644	4,644	4,609
FTE	4,520.12	4,546.08	4,546.08	4,517.29

Note: Figures include budget history from the Department of State Police for the Oregon Wireless Interoperability Network (OWIN) project.

Agency Overview

The Oregon Department of Transportation (ODOT) is responsible for developing, maintaining, and managing Oregon's transportation system in a safe and efficient manner that enhances the state's economic competitiveness and livability. Historically, ODOT has focused primarily on constructing and maintaining highways; however, more recently, with designated General, Federal, and Lottery Funds, it has broadened its focus to include alternatives to use of the automobile in congested areas and increased emphasis on alternative modes of transportation. The Department is under the direction of a Director and five-member Oregon Transportation Commission, all of whom are appointed by the Governor, and confirmed by the Senate.

Revenue Sources and Relationships

The bulk of ODOT's revenues originate from motor fuel taxes, weight-mile taxes, vehicle taxes, and driver fees that are constitutionally dedicated and bond revenue that is supported by increases in licenses and fees. The forecasted revenue from all sources is $5.08 billion for 2011-13. The State Highway Fund is shared among ODOT, counties, and cities. Out of the total revenues for 2011-13, $904 million is projected to accrue to other state agencies and local governments, leaving $4.1 billion available for expenditure on state transportation and programs. This is a decrease in available revenue of $74.7 million from the 2009-11 legislatively approved budget level primarily resulting from one-time federal American Recovery and Reinvestment Act (ARRA) payments and the reduction of the beginning balance. The most recent revenue forecast at the current service level predicts gross highway fund collections to increase by about 19% from the 2009-11 estimates, reflecting the Legislature's approval of HB 2001 during the 2009 legislative session increasing vehicle fees and use taxes from motor fuel and weight-mile taxes for heavy trucks. About 10.7%, or $449 million, of the net revenue projected is set aside to pay for highway improvement projects and debt service on revenue bonds authorized by the Legislature in 2001 and 2003 under the Oregon Transportation Investment Act (OTIA I, II, III) and in HB 2001 (2009). Total state motor fuels tax receipts at the current service level are forecasted to increase 11%, or $125 million, over 2009-11 revenue estimates.

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was enacted August 10, 2005, authorizing federal surface transportation programs for highways, highway safety, and transit for the 5-year period 2005-2009. These funds are received and reported as Other Funds. The total amount of Federal Funds in this category for the 2011-13 biennium is over $874 million. The amount of Federal Funds projected for the 2011-13 biennium is based on the anticipated payment of contracts eligible under the current SAFETEA-LU legislative authorization. The current federal legislation expired September 30, 2009. Congress temporarily extended transportation funding through March 4, 2011 and federal authorization is expected to be renewed at some point in the next year. In February 2009, Congress adopted an economic stimulus package known as the American Recovery and Reinvestment Act (ARRA) that included funding for "ready-to-go" transportation projects. To date, the Recovery Act has provided $494.8 million in funding across all modes of transportation. Federal Funds received and reported as federal revenue are grants or direct revenue for specific programs such as transit and rail projects.

During the 2011-13 biennium, the Department will receive $84 million in Lottery Funds to make bond installment payments for rail and other transportation infrastructure projects that are ineligible for funding through constitutionally dedicated Highway Trust Funds. General Fund will be used to pay the debt service for certificates of participation (COPs) issued for the Oregon Wireless Interoperability Network (OWIN) project.

Current Service Level

The current service level (CSL) is 6.9%, or $289.8 million, less than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The 2009-11 legislatively approved expenditure level includes $111.6 million total funds in special session, Emergency Board, and allotment reductions actions during Fiscal Year 2010 which allowed the Department to complete emergency repair work related to 2007-08 winter storm damage, deliver projects under ARRA, continue construction of OWIN, and account for contractor payment adjustments for highway construction projects. The 2011-13 current service level reflects a $124.3 million total funds increase in debt service payments; a $27.3 million increase for consultant payments for continued implementation of the Jobs and Transportation Act and flexible fund projects; a $2.5 million increase to support diversity in highway construction workforce and reorganization in the Director's office; and reductions to reflect the following one-time costs:

- $21.7 million for costs associated with federal grants;
- $295.4 million one-time bond proceed payments for Connect Oregon, Oregon Street Car, SE Metro Commuter Rail;
- $132.5 million for 2009-11 OWIN project costs;
- $7.7 million General Fund and $2.3 million Other Funds for a one-time increase for Senior and Disabled Transportation Operating Grants;
- $3.5 million for one-time costs associated with the Emerging Small Business Program;
- $2 million for a Rail Study;
- $1.3 million one-time costs for an Integrated Transportation Information Computer System (ITIS);
- $2.3 million for issuance costs associated with the 2010 Connect Oregon III Bond Sale;
- $1.9 million one-time costs associated with DMV Automated Testing Devices, and implementation of the Jobs and Transportation Act; and
- $160.6 million net reduction to reflect contractor payments for construction projects scheduled during the 2011-13 biennium.

Budget Environment and Potential Reductions

The aging transportation infrastructure has been a priority of the Legislature for several biennia. In 2001 and again in 2005, the Legislature adopted a plan, referred to as the Oregon Transportation Investment Acts (OTIA) to provide new revenue to finance $1.9 billion in highway user tax bonds for bridge repair and modernization projects over eight years. It is estimated that a shortfall of $1.7 billion for other bridge repair and replacement needs remains. In 2009, the Legislature adopted HB 2001, referred to as the Jobs and Transportation Act (JTA), increasing motor fuels taxes, weight mile taxes, registration fees, and title fees, specifically for the purpose of maintaining and modernizing the state's road system. Prior to the JTA, the state fuel tax was last increased by the 1991 Legislative Assembly. Distribution of the tax and fee increases in JTA is dedicated to rest area management, specific highway projects, and related planning activities as well as shared revenues between city, county and state transportation programs. JTA expands requirements relating to establishing transportation priorities including developing a least cost planning decision making tool, establishing ten additional criteria for project selection, implementing practical design procedures, cost benefit comparisons, and greenhouse gas and foreign oil dependency reduction. The Department is currently working with stakeholders to further define these concepts. Some of these concepts will not be fully developed until 2015.

Prior to JTA, spending on state highway-related programs averaged $787 million per year, which was approximately $491 million per year less than the needs analysis projected to manage the increased demand on the transportation infrastructure. With the increased funding from JTA, the gap has narrowed by approximately 33%. This expansion of revenues is still not sufficient to keep preservation, maintenance, and modernization needs ahead of the escalating costs of highway and street construction and the infrastructure demands that currently exist. Increasing population, changing demographics, and vehicle miles traveled will continue to degrade the transportation system. Increased investments in maintenance are necessary to keep older facilities safe and operational. The challenge of providing public transportation options across Oregon within and between cities requires investments at levels currently unavailable for rail and bus service.

Although some dedicated revenues are available for these public transportation systems, federal revenues continue to be necessary to operate the systems. With the increase in fuel efficiency, and the use of hybrid vehicles and electric vehicles, the fuels tax is expected to be a declining source of revenue within Oregon and nationally. The 2001 Legislature created a 12-member Road User Fee Task Force to explore alternative methods of taxation. The Department conducted a one-year pilot project in the Portland area which determined that the per mile fee is technically and financially feasible. The Department is now working to further refine the user fee concept.

OWIN was created to address three basic issues: (1) replace the out-of-date existing wireless communications infrastructure; (2) meet the federal requirements to convert systems to narrowband frequencies by 2013; and (3) meet the requirements of HB 2101 (2005) which outlined a single emergency response system for state agencies and interoperability needs for all public safety agencies. During the 2009 session, the Legislature authorized $76 million in COPs authority for OWIN for initial work on the project including developing the backbone infrastructure (tower site improvements and microwave system). In the February 2010 special session, the Legislature transferred the project to ODOT from the Department of State Police to take advantage of the ODOT's experience and capacity to manage large complex projects. OWIN is scheduled to be online by January 1, 2013. This issue is discussed further under the Capital Construction program.

ODOT – Highway Division

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	1,421,635	3,562,236	3,356,672	0
Other Funds	2,219,174,483	2,531,651,960	2,531,651,960	2,522,896,030
Federal Funds	931,785	751,825	751,825	0
Total Funds	**$2,221,527,903**	**$2,535,966,021**	**$2,535,760,457**	**$2,522,896,030**
Positions	2,672	2,822	2,668	2,537
FTE	2,586.05	2,618.69	2,618.69	2,594.90

Note: Figures include budget history from the Department of State Police for the Oregon Wireless Interoperability Network (OWIN) project.

Program Description

The purpose of the Highway Division is to design, build, maintain, and preserve quality highways, bridges, and related system components. The Highway Division derives its mission and activities from a comprehensive set of long-range multi-modal transportation system plans and policies developed and maintained under the direction of the Oregon Transportation Commission. The plans cover highways, mass transit, ports, freight and passenger rail, bike lanes, and pedestrian needs. The Statewide Transportation Improvement Program (STIP) is a project funding and scheduling document developed through a planning process that involves local and regional governments, transportation agencies, and the interested public. It is updated every two years through a public hearing process. ODOT is responsible for delivering projects associated with OTIA and JTA, as well as other STIP projects. Enacted by the Legislature in 2001-03, OTIA authorized bonding to fund modernization projects, pavement preservation, and bridge repair and replacement. Enacted by the Legislature in 2009-11, JTA authorized a six cent gas tax increase and authorized bonding in the amount of $840 million to finance transportation projects around the state.

Organizationally, the Highway Division is administered through the five regional offices and the headquarters office. In the past, the agency had completed most engineering and design work in-house while contracting with private companies for the actual construction of projects. During the 2003-05 biennium, the Highway Division reorganized to contract out most engineering and design work, as well as construction. To facilitate the implementation of this new business model and to ensure efficient project delivery, more than 300 Technical Services headquarter staff have been redeployed in the five Highway regions. In addition, the Oregon Innovative Partnerships Program has identified possible projects for long-term public-private partnership and has solicited information and statements of interest from potential private sector partners. Agency staff performs much of the maintenance and part of the preservation work for which ODOT is responsible. The categories of the Highway Division budget are:

- ***Highway Maintenance and Emergency Relief*** (1,315.30 FTE and 1,358 positions) program is to maintain, repair, and extend the service-life of the 8,049 center line mile state highway system which represents 19,128 lane miles. Program activities include surface patching and bridge repair; upkeep of roadway shoulders, drainage, landscape, and rest areas; snow removal; sanding of roads; emergency repairs to roadways following natural disasters; and maintenance of ODOT buildings and equipment.
- ***Preservation*** (150.46 FTE and 151 positions) program rehabilitates existing roadways and facilities to extend their service life. Preservation projects add useful life to the highway system without increasing capacity. The program conducts resurfacing treatments at the most cost-effective time in the life cycle of a pavement, which typically entails resurfacing at eight- to fifteen-year intervals. This approach allows highways to be resurfaced while they are still in "fair or better" condition and require only relatively thin paving. The 1999 Oregon Highway Plan established a long-term goal of having 90% of state highway miles in fair or better condition.
- ***Bridge*** (148.40 FTE and 149 positions) program is responsible for preserving more than 2,600 bridges, tunnels, and culverts on the state highway system. Program activities include repairing structural deterioration; repairing and replacing bridge decks; raising bridges to increase vertical clearance; major bridge painting; repairing and preventing streambed scouring near bridges; protecting bridges from earthquake damage; repairing and protecting bridges from corrosion damage; upgrading electrical and mechanical systems in movable bridges; and safety improvement work, such as upgrading bridge railings and widening bridges.
- ***Operations and Safety*** (184.03 FTE and 186 positions)includes planning, development, and implementation of improvements to relieve or prevent traffic congestion and to improve safety. Programs include Intelligent Transportation Systems (ITS); identifying sections of state highway with the highest number of fatal and serious injury crashes and steps to improve safety on these roadway segments; transportation system management, such as interconnected traffic signal systems, new traffic signals, ramp metering, and electronic variable message signs; illumination; rock fall and slide repairs; and demand management, which includes ride share, van pool, and park and ride programs. Highway Management performs work related to speed zone studies, signal timing, and traffic investigations, including crash sites. The TripCheck Program operates and maintains ODOT's traveler information systems, including the TripCheck website, 5-1-1 phone system, and cable TV systems. These systems provide the public with information about road and weather conditions, incidents, construction, restrictions, and closures.
- ***Modernization*** (133.55 FTE and 134 positions) program designs and builds highway improvements that add capacity to accommodate current or projected traffic growth. This includes adding traffic lanes for passing, climbing, turning, accelerating, and decelerating; building new road alignments or facilities, including bypasses; realigning or widening existing roads; widening bridges to add travel lanes; and administration of the Immediate Opportunity Fund. The Immediate Opportunity Fund (IOF) is a grant program that distributes funds for street and road improvements that will influence the location, relocation, or retention of firms in Oregon. Grants may not exceed $1 million, and are distributed to private firms or their local government sponsors. The IOF also provides procedures and funds for the Oregon Transportation Commission to respond quickly to unique economic development opportunities.
- ***Special Programs*** (632.55 FTE and 646 positions) provides construction support and construction projects that do not fit general categories or fall under special rules or program areas. Construction support includes Transportation System management, System and Asset management, Indirect costs such as office expenses, rent, work planning, team/crew meetings, etc., surplus property, outdoor advertising, and administrative costs. Construction projects include pedestrian and bicycle, salmon and watersheds, forest highway, jurisdictional exchange, winter recreation parking, and snowmobile facility maintenance.
- ***Local Government*** (44.16 FTE and 45 positions) works in a cooperative venture with cities, counties, and regional planning agencies to ensure priority transportation needs are met. ODOT provides federal revenues and reimbursements to local governments for surface transportation, local bridges, congestion mitigation, transportation enhancements, and planning. The Legislature has mandated that a portion of state gas tax revenues be distributed among cities with populations of less than 5,000. ODOT shares a portion of its federal funds with counties and cities outside the Portland metropolitan area with populations greater than 5,000.
- ***Oregon Wireless Interoperability Network (OWIN)*** provides administrative and operational support for the OWIN project. The OWIN project is a digital, trunked, land mobile radio system. The project includes installation of infrastructure (buildings, towers, and digital microwave equipment) throughout the state, designing and implementing voice and data systems, and maintaining and operating those elements.

The following table provides expenditure detail for Highway Division programs:

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Maintenance	390,569,709	399,755,412	399,755,412	433,085,958
Preservation	189,212,069	389,054,507	389,054,507	340,395,026
Bridge	686,229,445	670,425,103	670,425,103	617,526,896
Operations and Safety	115,723,138	142,963,268	142,963,268	137,231,914
Modernization	355,930,598	348,192,936	348,192,936	392,189,363
Special Programs	233,381,414	184,957,448	184,957,448	220,883,958
Local Government Projects	247,663,306	390,683,462	390,683,462	381,582,915
OWIN Operations and Maint.	2,818,224	9,933,885	9,728,321	0
Total Highway Division	**2,221,527,903**	**2,535,966,021**	**2,535,760,457**	**2,522,896,030**

Revenue Sources and Relationships

Highway programs are supported by state, federal, and local funds. The majority of the federal funds available for highway programs are Federal Highway Administration funds, primarily derived from federal SAFETEA-LU funds. State funds include fuel tax receipts, weight mile taxes, vehicle registration, and highway user revenue bonds. Local funds are provided by cities and counties for projects funded by the local entity in whole or in part, as well as projects for which the local entity is paying ODOT to do some or all of the project work. The 2011-13 current service level budget includes a total of $600 million bond financing to pay for projects identified in the 2009 Jobs and Transportation Act.

Current Service Level

The current service level is 0.51% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The 2009-11 legislatively approved expenditure level includes $12.8 million total funds and 8 limited duration positions (8.00 FTE) associated with OWIN project operations and maintenance and $56.2 million total funds in special session and Emergency Board actions during Fiscal Year 2010 for emergency repair work related to 2008-09 winter storm damage. The current service level adjusts contractor payments by a net reduction of $114.9 million to reflect the construction schedule for the 2011-13 biennium. The current service level also removes expenditures relating to the limited duration positions in the OWIN project for which ongoing expenses have yet to be determined.

Budget Environment and Potential Reductions

The Highway Division budget includes the portion of the 2010-13 STIP to be expended during the 2011-13 biennium. The STIP encompasses a four-year construction period based on a federal fiscal year; it is updated every two years. The first two years of the STIP contain the updated projects from the previous two years. The last two years include the new projects that are scheduled to begin in those years. The current STIP covers the period October 1, 2009 through September 30, 2013 to coincide with the federal fiscal year. Criteria for the 2012-15 STIP have been approved by the Oregon Transportation Commission, beginning the process for development of a draft 2012-15 STIP. The review typically takes 21 months to complete. Changes in the economy over the past year have impacted driving patterns, which has impacted ODOT's revenue estimates. The most recent transportation forecast shows revenues over the 2009-15 time frame that are slightly lower than the estimates used a year ago to set program targets through 2015, including the addition of new revenue from JTA.

ODOT operates and maintains approximately 8, 049 center line miles, which represent 19,128 lane miles of state highways in every corner of Oregon. The highway system is as diverse as the state itself. It ranges from six-lane, limited-access freeways with metered entrances to graveled rural highways. Oregon's economy depends on a sound highway system. Local, regional, and national industries – including agriculture, timber, tourism, and technology – rely on our transportation infrastructure. Commercial trucks rely on state highways for both short and long haul freight movements. State highways make up less than 11% of total road and street miles in the state, but carry 58% of the traffic – more than 20.7 billion vehicle miles per year. Even though current economic conditions have changed people's driving patterns, it is anticipated that more people will be driving more cars for more miles over the long term. Roughly 73% of commuters drive alone to and from work. Congestion is worsening, especially on urban freeways. Oregon's population is expected to grow by 1.2 million people by 2020. About 72% of this growth will occur in the Willamette Valley, placing additional stress on highways and bridges. Oregon's population is also aging. Ensuring mobility for older citizens requires creative transportation solutions, such as more visible pavement markings, traffic signals, and signing. Environmental concerns have prompted many changes to ODOT practices. Often, additional work is required to deliver projects and programs in the most environmentally responsible manner.

Reductions in highway programs will impact project delivery. A 1% reduction in current service level is over $25 million. The Department would be required to select projects to delay or cancel. The level of impact will depend on timing of the reduction decisions.

ODOT – Driver and Motor Vehicles Services

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	143,771,430	157,684,979	157,684,979	167,428,185
Federal Funds	1,909,801	2,545,006	2,545,006	2,295,276
Total Funds	**$145,681,231**	**$160,229,985**	**$160,229,985**	**$169,723,461**
Positions	878	874	874	862
FTE	841.92	842.17	842.17	838.46

Program Description

Driver and Motor Vehicles (DMV) licenses and registers over 2.8 million drivers and motor vehicles and administers motor vehicle-related laws. There are 64 DMV offices statewide serving more than 11,000 walk-in customers each day. In addition, DMV personnel process more than 10 million transactions and respond to over 1.6 million phone inquiries each year. Law enforcement agencies access DMV computer information files more than 140,000 times each day, and businesses and individuals make about 4 million DMV record requests each year.

Revenue Sources and Relationships

DMV is supported from fees levied for the various services it provides. Passenger vehicle registration fees are the largest single revenue collected, followed by driver licenses, and truck and trailer titling fees. Together these revenues represent 98% of total estimated 2011-13 DMV gross revenue collections ($691.8 million). Revenue in excess of amounts needed to cover DMV operating costs and OTIA debt costs is subject to city, county, and state distribution. Approximately 46.8% of the revenues collected are projected to be transferred to the State Highway Fund and other state transportation programs. In addition, 5% or $34.7 million of the revenues collected are projected to be transferred to other state agencies, for example, recreational vehicle related fees which are transferred to the Oregon Parks and Recreation Department.

Current Service Level

The current service level is 5.9% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

Eligibility for an Oregon driver license or identification card is becoming more difficult as standards for proving identity and legal status are tightened. The Legislature adopted a legal presence standard in February 2008 (SB 1080) with provisions phased in by January 2010. In addition, the Legislature adopted SB 640 (2005) requiring biometric data to verify identify for driver's licenses, permits, and identification cards issued by the Department of Transportation Driver and Motor Vehicles Division. The Legislature also adopted SB 1080 (2008) which required a legal presence standard by July 2008 and had other provisions that were phased in, such as a limited stay license, by January 2010.

Business process changes and computer system enhancements are increasingly driven by federal mandates, that are underfunded. The federal Real ID Act created national standards for issuing driver licenses and identity cards which, if adopted in Oregon, would require extensive changes to current processes. Most of these changes would not be funded by the federal government.

Frequent changes to Federal Motor Carrier Safety Administration regulations tighten the requirements for issuing and suspending commercial driver licenses and increase the need for data sharing of driver records between states.

Oregon and national transportation initiatives encourage the use of alternative technologies for vehicles like plug-in hybrid and all-electric vehicles. Vehicle manufacturers in Oregon and elsewhere will continue introducing creative solutions for these new emerging vehicle types. This raises several issues and concerns relating to safety standards to operate on Oregon's roads, manufacturers conducting safety tests, titling and registration, and licensing persons to operate these vehicles.

Total DMV transactions declined sharply in calendar year 2008 as the recession hit, then stagnated in calendar year 2009 as the recession continued. Transactions are expected to further fall in calendar year 2010 as HB 2001 is fully implemented. Demographic and economic changes combined with legislative impacts explain most of the variation in total DMV transactions over time.

DMV's computer systems and facilities are aging and increasing in cost to maintain and operate. The large mainframe systems were first developed in the mid-1960s with many features added throughout the years, which mean the major applications are old and difficult to support. The supply of COBOL programmers is declining so finding qualified employees and contractors to support computer system projects is becoming more difficult. In addition, field offices are mostly leased from private companies and facility improvements must be planned and funded many years in advance. Most buildings are not energy efficient and parking lots are frequently inadequate for the number of people served and the space needed for commercial driver license testing.

Reductions in DMV will impact service delivery and likely increase wait times in field offices. Routine maintenance planned in the base budget for computer systems and facilities would be delayed increasing the risks for system failures further delaying service delivery.

ODOT – Motor Carrier Transportation

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	52,753,031	56,095,128	56,095,128	61,493,097
Federal Funds	4,314,471	5,539,691	5,539,691	5,758,415
Total Funds	**$57,067,502**	**$61,634,819**	**$61,634,819**	**$67,251,512**
Positions	312	313	313	310
FTE	312.00	313.00	313.00	310.00

Program Description

The Motor Carrier Transportation Division (MCTD) is responsible for administering and enforcing laws and rules related to motor carriers, including regulations related to commercial vehicle registration, safety, and weight-mile tax. MCTD issues over-dimension variance permits and enforces truck size and weight regulations. Division enforcement officers and safety specialists check trucks mainly at 87 weigh stations, including six ports-of-entry, and at dozens of portable scale sites. The Division also processes mileage reports and collects highway-use (weight-mile) taxes and fees. The Motor Carrier Transportation Division's Green Light Program increases weigh station capacity by weighing trucks on the highway and sending a green light signal to those with transponders if they do not need to stop at a weigh station. Also, the Division offers an Internet service for permit processing, road-use tax reporting and payment, and other transactions to save motor carrier companies time and money.

Revenue Sources and Relationships

Revenue from weight-mile taxes, commercial vehicle registrations, and permits provide the primary resources to support this Division. All revenue in excess of the amount required for carrying out the regulatory and safety programs, approximately 88% of revenue collected, is transferred to the State Highway Fund. Over $5.7 million in Federal Funds is projected to be received in the 2011-13 biennium for commercial vehicle safety enforcement efforts under the Motor Carrier Safety Assistance Program (MCSAP). MCTD coordinates the work of the law enforcement agencies under compensated agreements including Salem and Eugene Police Departments and the Clackamas County Sheriff's Office as well as other city police, county sheriffs, and county weighmasters who work under non-compensated agreements. The MCSAP program requires a 20% state match, but because current program expenditures contribute to the match, there is no financial outlay from the state.

Current Service Level

The current service level is 9.1% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

Increased construction activity around the state requires staff to assist in mitigating travel delays. Staff identify key routes and types of loads that may be operating in/around construction projects, provide feedback regarding clearances for freight loads, helps find detours and alternate routes, and timely communicates project impacts to the trucking industry.

From 2003 until 2009, the Department of State Police (OSP) received an annual allocation of $1.6 million of the total Motor Carrier Safety Assistance Program (MCSAP) funds. Prior to that time, many city police, county sheriffs, and county weighmasters who had participated in the program under compensated agreements were switched to non-compensated plans. Due to federal regulations that OSP was unable to meet, MCTD began to actively recruit other law enforcement agencies to receive reimbursement for truck safety enforcement work. At the same time, ODOT has initiated a dialogue with federal partners to seek a change in the federal regulations to allow federally compensated agreements with OSP.

ODOT – Transportation Development

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	148,927,705	220,012,943	220,012,943	229,894,252
Federal Funds	184,835	204,949	204,949	226,827
Total Funds	**$149,112,540**	**$220,217,892**	**$220,217,892**	**$230,121,079**
Positions	222	222	222	223
FTE	213.43	212.72	212.72	214.43

Program Description

Transportation Program Development operates through six program areas:

- ***STIP Development*** (20.00 FTE) coordinates identification and prioritization of the Department's four-year STIP development process. The STIP is updated every two years with ongoing public, local government, and stakeholder involvement. This program area identifies projects using pavement, bridge, and safety condition assessment tools identifying the scheduling and funding of transportation projects.
- ***Technical Assistance and Coordination*** (5.25 FTE) is provided to local governments on updates to periodic comprehensive plan reviews, and transportation system plan reviews; and to Metropolitan Planning Organizations (MPO); and Area Commissions on Transportation (ACT). This program area also maintains data and shares transportation-related information with federal, state, and local agencies through the Technology Transfer Center.
- ***Statewide and Regional Studies*** (71.50 FTE) guide and support short- and long-range planning for Oregon's transportation system and administer the statewide Planning and Research Program that directs activities funded by the Federal Highway Administration. The Department adheres to a formal long-term process that produces and periodically updates a long-range strategy reported in the Oregon Transportation Plan (OTP). This program area is responsible for the Department's planning activities that focus on five areas of need: urban mobility, rural accessibility, freight transport mobility, safety, and finance. The goals, policies, and proposed actions are translated into specific projects and activities driving toward an integrated transportation system. Development of these various planning efforts requires a variety of analytical services from traffic analysis to public transit. Other sources of information used include federal legislation on clean air, water, and energy acts, state benchmarks, and land use planning goals.

- ***Transportation Analysis and Research*** (117.68 FTE) provides policy and economic analysis and forecasting, analyzes initiatives and issues, evaluates transportation needs and solutions, conducts strategic planning, researches new technologies, and coordinates opinion surveys. This program area also manages and analyzes transportation data to support planning, construction and maintenance, resource deployment, and funding allocations. Data collection and analysis include the bridge and pavement management systems, crash data, transportation inventory/classification, mapping/geographic information systems services, and traffic counting. This also includes the agency's research program that emphasizes new technologies to help the transportation system operate better and more efficiently.
- ***ConnectOregon*** is a lottery-bond-based initiative first approved by the 2005 Oregon Legislature to invest in air, rail, marine, and transit infrastructure. ODOT implements the provisions of SB 71 and HB 2278 known as *Connect*Oregon I and II. The 2009 Oregon Legislature approved HB 2001 which provides authorization for *Connect*Oregon III; each authorization has been for $100 million in lottery funds, bringing the total to $300 million for the program.
- ***Legislative mandates*** originating from HB 2001 (2009) and SB 1059 (2010) include working with other state agencies and Metropolitan Planning Organizations to address new concepts such as Least Cost Planning and supporting modeling efforts to address Greenhouse Gas Emission reduction planning.

Revenue Sources and Relationships

General planning activities are funded from federal planning grants and state and federal highway funds. Revenue transfers from the highway program, for example, support highway planning, system studies and monitoring, and data gathering.

Current Service Level

The current service level is 4.5% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The current service level removes one-time costs related to completion of the Integrated Transportation Information Computer System, issuance costs associated with the 2010 Connect Oregon III projects, and $23 million for funds paid out from the Connect Oregon Project. The current service level also adds $27 million, including carry-over limitation for implementation of provisions in JTA and delivery of flexible fund projects.

Budget Environment and Potential Reductions

Passage of HB 2001 in 2009 by the Legislature has a number of requirements that affect work that is accomplished, how it is completed, and the impact it has on other stakeholders. Changes to the transportation planning process to address least cost planning methodology and integration with greenhouse gas emissions has been initiated. The Division is working with Metropolitan Planning Organizations (MPOs) and local governments to assess the costs of greenhouse gas emissions planning work.

Potential changes due to reauthorization of federal transportation funding, reporting requirements, and information learned from the 2010 Census are expected to change the approach for addressing transportation, housing, and environmental goals, and highway performance monitoring data collection.

ODOT – Public Transit Division

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	0	10,000,000	6,905,720	0
Other Funds	17,659,818	51,918,094	54,218,094	33,034,926
Federal Funds	40,327,375	47,782,192	62,282,192	48,931,396
Total Funds	**$57,987,193**	**$109,700,286**	**$123,406,006**	**$81,966,322**
Positions	15	15	15	15
FTE	14.75	15.00	15.00	14.75

Program Description

The Public Transit Division develops, encourages, and supports the use of transit, ridesharing, walking, bicycling, telecommuting, and other alternatives to driving alone. The Division operates six program areas:

- ***General Public Transit*** (4.34 FTE) provides general public transportation to rural areas, tribal governments, and cities with populations under 50,000. About 80% of its funds are distributed to cities, counties, other government units, and nongovernmental units through grants.
- ***Inter-city Passenger Development*** (1.00 FTE) provides information, technical assistance, and management of grant resources for inter-city bus, rail, and air passenger services that are needed to connect Oregon communities. Emphasis is placed on improving connections between transportation modes and improving travel information systems.
- ***Special Needs Transportation Services*** (4.16 FTE) provides transportation designed to meet the needs of the elderly and people with disabilities. Programs include: 1) the Special Transportation Fund program distributing state cigarette tax, and Non-Highway Fuels Tax funds to local governments for transportation services benefiting elderly and disabled people; and 2) the statewide Elderly Persons and Persons with Disabilities Federal Grant Program, which funds the purchase of vehicles and other equipment for special needs transportation. Staff coordinates efforts with other state agencies, providers, and local government agencies to meet client transportation needs. Training and technical assistance are also provided to staff from small city and rural transit systems.
- ***Transportation Demand Management/Transportation Options*** (1.00 FTE) provides financial and technical support to rideshare programs throughout the state. The section develops policy and promotes alternatives to driving alone such as carpools, park and ride lots, flexible schedules, parking management, and telecommuting. Targeted information is also provided to commuters, business, and pleasure travelers.
- ***Public Transportation Planning*** (1.00 FTE) provides statewide transit policy and planning technical assistance and coordinates urban transit planning, local system planning, and multi-modal corridor planning.
- ***Division Administration*** (3.25 FTE) defines state transit policies and provides leadership and support for the five program areas.

Revenue Sources and Relationships

The Division receives the majority of its funding from federal sources. There are six Federal Transit Administration Programs from which the state receives formula grants:

- Section 5303 – Metropolitan Planning at approximately $2.6 million per biennium.
- Section 5310 – Elderly Persons and Persons with Disabilities Capital Program at approximately $3.8 million per biennium.
- Section 5311 – Rural and Small Urban Areas Program Grants for approximately $16.7 million per biennium.
- Section 5313b – Statewide Transit Planning at approximately $300,000 per biennium.
- Section 5316 – Job Access Reverse Commute for $1.9 million per biennium.
- Section 5317 – New Freedom Program at approximately $1 million per biennium.
- In addition, the Division receives $16 million in flexible Federal Surface Transportation Program (STP) funds to improve transportation for the elderly and disabled ($7 million), to replace urban buses ($2 million), mass transit ($4 million) and for innovative marketing for transportation options ($3 million).

State funds make up the remaining 33% of the Division's revenue. Public Transit is allocated these funds from three main sources:

- Cigarette Tax – $7.5 million per biennium. Includes a 3.45% ($0.02 per pack) apportionment of all moneys received by the Department of Revenue from certain cigarette tax revenues.
- DMV Photo ID – $4.9 million per biennium. Includes any excess fees collected from the distribution of ID cards by the DMV over the cost of running the program. This revenue is passed to local governments to support special needs transportation programs.
- Transportation Operating Fund (TOF) Non-Highway Fuels Tax – $6.4 million per biennium. This includes an apportionment of state tax moneys collected from the sale of fuel for motorized non-highway uses such as lawnmowers, chainsaws, wood chippers, etc. These moneys provide federal fund match for Transportation Demand Management, Special Needs Transportation, and Transportation Planning programs.
- In addition, the Division receives about $200,000 per biennium from interest and the sales of surplus vehicles.

Current Service Level

The current service level is 33.5% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The 2009-11 legislatively approved expenditure level includes $13.7 million total funds in special session and Emergency Board actions during Fiscal Year 2010 for including a shift of $2.3 million General Fund to Other Funds for senior and disabled transportation operating grants, the October 2010 allotment reduction of $797,020 General Fund, and an increase of $14.5 million Federal Funds expenditure limitation for capital grants to local public transit systems. The current service level budget removes one-time $14.5 million in federal funds through the American Recovery and Reinvestment Act; $6.9 million General Fund and $2.3 million Other Funds for Senior and Disabled Transportation operating grants; and $20 million Other Funds for Street Car bond proceeds.

Budget Environment and Potential Reductions

Challenges for the Division include continued innovation and improvements for accessible public transit services for the elderly, people with disabilities, and rural communities. Oregon's population is growing, with the fastest growing segments of the population including our oldest residents. Providing mobility that continues their opportunity to participate independently in the community helps to defer or avoid the higher costs of additional dependence on support services. Rural communities are particularly affected. In the southern coast area, 27% of the population includes seniors above the age of 65 compared to 12% statewide. By 2015, it is estimated that 15% of the population will be over 65. Oregon's urban traffic congestion is becoming more severe. Oregon's land use and environmental policies challenge the transportation community to provide modern transit alternatives for urban commuters.

Since 1992, public transportation ridership in Oregon has grown 60%, affecting urban and rural areas. This is a success story in meeting public policy goals, but has created pressure on local provider budgets. In addition, this industry is vulnerable to the recent challenges of public security concerns and cost of fuel. When fuel costs rise, there are more people in need of an alternate to their auto use, putting demand on the system to increase trip capacity and hours of service. There is no ongoing dedicated source of state funding to support urban transit systems.

Aging transit fleets throughout the state continue to need support for replacement vehicles, or the state risks losing the capital infrastructure to operate current services. Current estimates indicate there is a gap of $10 million annually to meet this need. Support to preserve the urban fleet helps providers to maintain service levels and protects the existing public investment in these successful systems. Fuel costs and long-term availability are an issue for the transit industry. Another major challenge for public transportation is pressure to upgrade and provide public transit facilities with security features and appropriate bus maintenance structures. Developing state policy and strategies to provide stable state, federal, and local financial support for planned urban transit system improvements will continue to be an issue.

ODOT – Rail Division

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	4,504,713	0	0	0
Other Funds	22,983,963	279,415,349	279,415,349	27,974,486
Federal Funds	0	16,306,903	37,748,894	16,394,354
Total Funds	**$27,488,676**	**$295,722,252**	**$317,164,243**	**$44,368,840**
Positions	24	24	24	25
FTE	24.00	24.00	24.00	25.00

Program Description

The Rail Division ensures compliance with federal and state regulations related to passenger and freight rail service programs. The Division operates the following program areas:

- ***Division Administration*** (1.00 FTE) defines overall state rail policies, actively represents the interests of rail customers and ensures that rail transport opportunities are adequately addressed at the federal, state, and local levels. Administration also coordinates the various functions of the Division.

- ***Railroad Safety*** (10.00 FTE) ensures compliance with federal and state safety regulations for track, locomotives, rail cars, hazardous material transport, and rail operating practices. This program is critical in reducing the potential for railroad derailments and releases of hazardous materials. The Rail Safety Program, in cooperation with the federal government, uses a combination of inspections, enforcement actions, and industry education to improve railroad safety. Under a separate statutory program, the Division inspects railroad sidings, yards, and loading docks to ensure the safety of railroad workers. The Division has responsibility for the safety oversight of rail fixed guideway systems, i.e. light rail, streetcars, and trolleys. The Rail Transit Specialist works closely with rail transit agencies in developing safety and security policies and procedures in compliance with Federal Transit Administration Guidelines. The Rail Transit Specialist also participates in incident and accident investigations and makes recommendations for improvement, if necessary. A Crossing Signal Compliance Specialist inspects crossings of rail transit operations to ensure compliance with federal and state regulations.
- ***Crossing Safety*** (8.00 FTE) enforces state laws and administrative rules as well as federal laws and regulations related to crossing safety. This encompasses, by statute, regulatory authority over all public highway-rail grade crossings in the state. The Rail Division, through its Crossing Safety Section, authorizes by Order the construction, alteration, or elimination of highway-rail grade crossings within the state. The Crossing Safety Section manages safety improvement projects through administration of federal highway funds and state funds provided by the Grade Crossing Protection Account. Through projects such as construction of grade-separated crossings, signal upgrades, and elimination of highway-rail grade crossings, injuries and fatalities at Oregon highway-rail grade crossings has been significantly reduced. In addition to its regulatory role, Crossing Safety Section staff work cooperatively with railroad companies, state, federal, and local government agencies and the general public to address crossing safety concerns and participate in transportation planning activities to improve the mobility of highway and rail traffic.
- ***Operations*** (6.00 FTE) develops rail planning documents and administers both federal and state rail rehabilitation funds to help retain quality rail service to Oregon communities and businesses. The section manages railroad improvement projects for both passenger and freight rail operations; develops and implements freight and passenger rail plans; and manages state owned right of way. The section manages and markets intercity passenger rail operations and related Thruway motor coach service and coordinates Oregon's partnership in the Pacific Northwest High Speed Rail Corridor. As funds are available, Operations provides project management and technical expertise to communities interested in developing rail transport opportunities, such as commuter rail, interurban rail, and excursion rail. The section also participates in federal proceedings related to railroad mergers, line abandonments, and rail service.

Revenue Sources and Relationships

Based on the 2011-13 current service level, the programs operate with dedicated federal ($16.4 million) and state ($28.3 million) revenue.

Federal revenues at the current service level include:

- Federal Railroad Administration (FRA) – $16.3 million. Includes both freight and High Speed Rail Corridor projects as made available by Congress. These project specific funds are used for engineering, design, construction, equipment purchases, and contracts.
- Federal Highway-Railroad Grade Crossing Hazard Elimination Funds (Sec. 130) – $4.2 million. Federal as Other Funds used for crossing safety projects.

State revenues at the current service budget level include:

- Custom License Plate Fees – $7.9 million was approved by the Legislature to offset General Fund resources to fund one round trip train between Eugene and Portland.
- Rail Gross Revenue Fee – $3.5 million. Paid by Oregon railroads based on their previous year's gross revenue. Funds can only be spent on rail safety and rail crossing regulations.
- Grade Crossing Protections Account (GCPA) – $1.4 million. Generated from driver license and vehicle registration fees. Used for crossing safety regulation and improvement projects at public railroad crossings.
- Transportation Operating Fund (TOF) Non-Highway Fuels Tax – $1.2 ($3.1 rail) million. Helps fund one round trip train between Eugene and Portland.
- Other biennial revenues include $100,000 from interest, $125,000 from Railroad Right of Way Lease Fees, and $287,500 from the Fixed Guideway Fee.

Current Service Level

The current service level is 86% less than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The significant decrease in current service level is the removal of one-time funding for the South Metro Light Rail ($252.4 million) and $21.4 million Federal Funds from the American Recovery and Reinvestment Act for passenger rail improvements.

Budget Environment and Potential Reductions

The lack of stable, adequate funding for both the passenger rail and freight rail service, particularly the short line rail service, makes its future in Oregon uncertain. In past sessions, the Legislature has committed General Fund resources to supplement passenger rail service. However, the funds are scarce and relied upon by many of the state's programs, which put the funding of passenger rail service in jeopardy each legislative session. In 2007, the Legislature approved dedicating revenue from specialty license plates for use in the passenger rail program. In 2009, the Legislature increased the fee from $50 to $100. To date, the specialty license plate fee revenue has been lower than originally projected, which may be due to the recession and the increase of the registration fee. These fees will not be sufficient to cover the future expenses of the passenger rail program. Oregon's railroads are unable to raise the necessary capital to accommodate increases in rail traffic. The short line railroads have difficulty maintaining their systems to safely handle rail traffic. The 2001 and 2003 Legislature each allocated $2 million to short line rail rehabilitation projects. These funds provided some much-needed rehabilitation resources to the struggling short line railroads across the state. Growth in the transportation systems and the rail industry, combined with heightened interest in freight mobility and high speed passenger rail, will stretch Division staff resources to provide adequate services for protecting the public from rail-related incidents, particularly in the rail planning and safety assessment areas.

ODOT – Transportation Safety Division

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	10,912,212	13,699,375	14,399,375	14,388,932
Federal Funds	15,074,652	15,057,411	17,057,411	18,158,607
Total Funds	**$25,986,864**	**$28,756,786**	**$31,456,786**	**$32,547,539**
Positions	26	26	26	26
FTE	25.50	26.00	26.00	25.50

Program Description

The Transportation Safety Division advocates transportation safety through statewide education, enforcement, and engineering. Major efforts focus on occupant protection, intoxicated driving, speeding, youthful drivers, pedestrians, bicyclists, motorcyclists, and employers. Safety programs are operated through over 550 safety grants and contracts awarded annually to local agencies, non-profit groups, the private sector, and service providers. The grants use state and federal funds to provide statewide public education and information programs, and reimburse public and private schools that provide Division-approved driver education programs.

Further duties include the responsibility to:

- organize, plan, and conduct a statewide transportation safety program;
- coordinate general activities and programs of the several departments, divisions, or agencies of the state engaged in promoting transportation safety;
- provide transportation safety information and develop other measures of public information;
- cooperate fully with all national, local, public, and private agencies and organizations interested in the promotion of transportation safety;
- serve as a clearinghouse for all transportation safety materials and information used throughout the state;
- cooperate in promoting research, special studies, and analysis of problems concerning transportation safety; and
- put together studies and suitable recommendations to the Legislature concerning safety regulations and laws.

Revenue Sources and Relationships

Approximately 52% of the Safety program funds are Federal Funds; the other 48% are other state funds.

Current Service Level

The current service level is 3.5% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

A number of factors influence the workload and performance of the Transportation Safety Division. These include traffic safety education and driver training, youthful driver restrictions, posted speeds, passenger safety, and driving under the influence of intoxicants.

ODOT – Central Services

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	155,238,913	257,112,309	257,112,309	199,128,021
Federal Funds	29,952	30,797	30,797	19,722
Total Funds	**$155,268,865**	**$257,143,106**	**$257,143,106**	**$199,147,743**
Positions	512	497	497	498
FTE	502.47	494.50	494.50	494.25

Program Description

Central Services provides the core administrative functions that support each of the programs. This program includes:

- ***Director's Office*** (3.00 FTE) includes the Department Director and support staff who oversee all operations and programs.
- ***ODOT Headquarters*** (34.25 FTE) accomplishes work through two major program areas. Government Relations is primarily responsible for working with the Oregon Legislature, members of the Oregon Congressional delegation, and local government officials; and for analyzing federal and state laws and rules affecting transportation. The Public Affairs and Employee Communications unit provides information on transportation programs and activities to the public and keeps ODOT's workforce informed about developments affecting their jobs.
- ***Central Services Administration*** (2.00 FTE) includes the Executive Deputy Director and a support person for management of Financial Services, Human Resources, Information Systems, Internal Audit Services, and Support Services.
- ***Financial Services*** (84.00 FTE) provides the Department with accounting and financial services including accounting, collections, budget, payroll, fuels tax revenue, debt, and financial analysis.
- ***Human Resources*** (51.00 FTE) provides professional advice and leadership on employee labor relations, classification, recruitment and retention, training issues, and manages the Department's human resource systems and processes. Human Resource staff work closely with operating divisions to identify options to meet staffing needs and more efficient ways of doing business.
- ***Civil Rights*** (14.00 FTE) is charged with administering 12 federal and state regulatory Civil Rights programs, handling compliance issues for the Department, and promoting workforce development and small business support.
- ***Information Systems*** (227.50 FTE) includes planning, developing, and supporting business application systems; technology infrastructure; and supporting telephone and electronic mail to enable ODOT business to be conducted efficiently, comply with laws and regulations, and support the mission of ODOT.
- ***Audit Services*** (10.50 FTE) is responsible for an internal audit program assuring that effective management controls are in place and functioning properly to help management achieve its objectives and supports performance measures. External audit provides assurance on financial data submitted by external entities.
- ***Business Services*** (68.00 FTE) provides a variety of services to all ODOT programs including purchasing and contract management, records management, reprographic, and photo video operations.

Revenue Sources and Relationships

Central Services is supported by a combination of direct and indirect charges. Direct charges are applied where the service can be accurately measured, such as in computer charges and Highway Fuel Tax accounting. The bulk of the revenues, however, come from indirect charges that are assessed to each division primarily based upon its number of full-time equivalent positions.

Current Service Level

The current service level is 22.5% less than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The current service level removes one-time expenditures for the Oregon Wireless Interoperability Network ($76 million) and resources related to the Emerging Small Business Program.

Budget Environment and Potential Reductions

Workload in Central Services is driven by the workload factors affecting the Department as a whole. This includes factors such as the demographic changes in Oregon's population and economy, implementation of federal appropriation legislation, rapidly changing information technology, and efficient delivery of programs.

The Transportation Operating Fund was established by the 2001 Legislature (HB 3882) to pay the expenses of statutorily required or authorized activities that may not be funded with State Highway Fund monies. Among the revenues deposited in the Transportation Operating Fund are fuel tax revenues collected on sales of fuel for non-road uses, if a claim for a refund is not filed. The Department of Administrative Services and ODOT oversee surveys conducted by Oregon State University to estimate the amount of taxes paid on motor vehicle fuels for non-road uses. Based on the most recent survey and current demographic information, it is estimated that approximately 17 million gallons of fuel is used per year in this category for non-road uses. After accounting for valid refund claims, about $10 million in the 2011-13 biennium is expected to be available for non-highway uses. This is $2 million more than the 2009-11 biennium estimated revenue. This revenue should be considered for potential redirection to the General Fund.

ODOT – Nonlimited Loan Fund

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds (NL)	11,409,001	18,158,214	18,158,214	18,158,214
Total Funds	**$11,409,001**	**$18,158,214**	**$18,158,214**	**$18,158,214**

Program Description

Nonlimited programs record revenues and expenses for transactions that are generally internal to the agency and serve operating programs that are subject to expenditure limitation. They are nonlimited because the level of activity is generally unpredictable. *Oregon Transportation Infrastructure Bank* (OTIB) remains is the only Nonlimited budget category. The OTIB makes loans to local governments, transit providers, and other eligible borrowers. As loans are repaid, principal and interest are returned to the OTIB and are available for new loans. Loan disbursements for the 2011-13 biennium are estimated to be $18 million.

Revenue Sources and Relationships

The program operates with dedicated Highway Trust Funds.

Current Service Level

The current service level is the same as the 2009-11 legislatively approved spending level at December 2010.

Budget Environment and Potential Reductions

The OTIB is a discretionary program and is not driven by increases in the costs of personnel, materials, or supplies. The program could be scaled back, by the inflationary adjustments, and still maintain current levels of service.

ODOT – Debt Service

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	517,062	11,880,777	11,880,777	52,678,638
Lottery Funds	46,559,439	85,445,103	85,445,103	83,891,421
Other Funds	195,672,483	303,986,550	303,986,550	365,121,042
Other Funds (NL)	0	0	11,921,871	21,621,528
Total Funds	**$242,748,984**	**$401,312,430**	**$401,312,430**	**$501,691,101**

Note: Figures include budget history from the Department of State Police for the Oregon Wireless Interoperability Network (OWIN) project.

Program Description

Debt service in this program relates to highway construction bonds and the state's share of funding for the Westside Light Rail Project in the Portland metropolitan area, the South Metro Commuter Rail project in Washington County, Short-Line Railroad improvements, and Industrial Spur projects. Debt service is paid from the State Highway Fund, General Fund, and Lottery Funds.

Revenue Sources and Relationships

Other Funds are derived from the sale of bonds, which are retired using allocations of State Highway and Lottery Funds. General Fund will be used to pay the debt service for COPs issued for the Oregon Wireless Interoperability Network project.

Current Service Level

The current service level is 28.8% higher than the 2009-11 legislatively approved spending level at December 2010. The current service level budget includes the full cost of bonds and COPs for debt incurred in the past and current biennia. The present estimate for OWIN's 2011-13 CSL debt service is $52.7 million General Fund of which over $40 million represents debt service payments for COPs that have yet to be sold. The CSL also includes $10.7 million in Other Fund debt service that will be paid from Highway Fund resources. The working assumption has been that approximately $190 million in COPs, as well as almost $75 million in ODOT revenue bonds, would be issued prior to the end of the current biennium.

Budget Environment and Potential Reductions

The American Recovery and Reinvestment Act (ARRA) authorized taxable Build America Bonds (BABs). Under ARRA, issuing these types of bonds qualifies the Department to receive direct federal subsidy payments equal to 35% of the interest costs of the taxable bonds. During the 2011-13 biennium, the Department expects to receive $21.6 million which will be used to offset debt service payments.

Under the JTA authorization, the Department is estimating two bond sales totaling $600 million during the biennium to initiate design and construction on projects specified in JTA.

Given progress on the OWIN project so far, and the fact that almost all of the expenditure limitation associated with the use of the proceeds of these COPs and revenue bonds is unscheduled, it is unlikely that all of this financing authority will be exercised before the end of the current biennium. Even if no further debt is issued for the project, the OWIN debt service will still require roughly $12 million for 2011-13.

ODOT – Capital Improvements

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	3,108,722	3,259,788	3,259,788	3,338,023
Total Funds	**$3,108,722**	**$3,259,788**	**$3,259,788**	**$3,338,023**

ODOT – Capital Construction

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	19,488,645	191,963,992	5,500,001	0
Total Funds	**$19,488,645**	**$191,963,992**	**$5,500,001**	**$0**

Program Description

The Capital Improvements and Capital Construction program provides for new construction, remodeling, or improvements to facilities subject to the oversight of ODOT.

Revenue Sources and Relationships

Capital activities are funded primarily through transfer of State Highway Funds.

Current Service Level

The current service level is 100% lower than the 2009-11 legislatively approved spending level at December 2010. It includes the removal of $5 million Other Funds one-time costs relating to construction of the Region 4 project delivery office in Bend and $186.5 million Other Funds for the OWIN project.

Budget Environment and Potential Reductions

OWIN project is not included in the current service level budget. The Department proposes to request $188.7 million total funds to complete construction of the network. The additional funding is proposed to be financed through COPs; the debt service being repaid by the General Fund is estimated at $17.3 million. The OWIN project operated in 2007-09 and 2009-11 entirely with 42 limited duration positions that will need to be re-established for the 2011-13 biennium. An additional 12 positions are being requested for maintenance and operation of OWIN in 2011-13.

The 2009 Legislature also approved over $260 million ($188 million in COPs and almost $75 million in revenue bonds through the Highway Fund) for future work on the project; at that time, the work was designated for the backbone infrastructure in Northeast and North Central Oregon and the radio system for Western Oregon. Given the state's fiscal condition, the amount of funding for the project is in doubt. The present estimate for OWIN's 2011-13 CSL debt service is $52.7 million General Fund, of which over $40 million represents debt service payments for COPs that have yet to be sold.

Options for legislative consideration that address issues raised by the Legislative Fiscal Office are being developed by the OWIN staff and are expected to be presented early in the legislative session to facilitate a timely decision so that the project's schedule is not adversely impacted.

Board of Accountancy – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	1,658,890	1,752,239	2,152,239	1,909,095
Total Funds	**$1,656,890**	**$1,752,239**	**$2,152,239**	**$1,909,095**
Positions	7	7	7	7
FTE	7.00	7.00	7.00	7.00

Agency Overview

The Board of Accountancy is a seven-member citizen board that licenses and regulates public accountants. The Board administers the examination and licenses individual Certified Public Accountants (CPAs) and Public Accountants (PAs), and their firms. The Board is responsible for investigating complaints, renewing licenses, and monitoring the continuing education of its licensees. A staff of seven administers the Board's programs. The Board currently regulates over 8,500 licensees.

Revenue Sources and Relationships

The Board's Other Funds come primarily from business registration fees, biennial licensing fees, and examination fees. Additionally, a small amount of revenue is gained through civil penalties, and the sale of mailing lists.

The American Institute of Certified Public Accountants changed the examination from twice a year to a year-round, online examination. This has resulted in reduced revenues and costs to the Board. The Board also anticipates a revenue reduction based on the number of out of state licensees and public accounting firms that will not be required to be licensed in Oregon as a result of the passage of SB 867 during the 2009 session (Chapter 531, Oregon Laws 2009) which authorizes certain qualified accountants licensed in other states to practice accountancy in Oregon. The Board anticipates a reduction of biennial revenue as a result of out-of-state licensees no longer being required to pay registration fees to practice in Oregon. Although SB 867 also allowed the Board to increase the permit fee by $10 for individual licensees and $75 for firm registration to offset this lost revenue, the Board does not anticipate raising fees at this time.

Current Service Level

The current service level is 12.7% lower than the 2009-11 legislatively approved spending level at December 2010, reflecting the phase out of $400,000 for an online licensing project undertaken during the 2009-11 biennium, offset by adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

The Board is challenged with regulating a changing profession and meeting the demand to provide more services to licensees, while ensuring more rigorous professional and ethical standards to protect the public without placing undue restrictions on licensees. For example, in addition to authorizing certain qualified accountants licensed in other states to practice accountancy in Oregon, SB 867 also increased the Board's ability to discipline based on the licensees' performance of public accounting services within a state, rather than restricting the Board's authority to only those holding a state license. In addition, the number of complaints filed annually with the Board has increased substantially since the current economic recession began in 2007. To handle this increasing complexity as well as the rising volume of complaint investigations, the Board anticipates needing an additional $9,637 Other Funds expenditure limitation to reclassify the current Executive Support Specialist position to an Executive Assistant position, and $50,000 Other Funds expenditure limitation to contract highly skilled investigators.

At the current service level, the agency will have a projected ending balance of approximately $1.2 million. This ending balance is sufficient to fund the position reclassification, the estimated increased costs associated with complex case investigation mentioned above, and to cover over six months worth of operational expenses. Also, the agency may be able to absorb a one-time transfer of Other Funds to the state's General Fund in the range of $300,000 to $350,000. However, this transfer coupled with any unforeseen reduction in licensing revenue may require the Board to implement a fee increase in order to maintain current service levels.

Board of Chiropractic Examiners – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	1,112,908	1,243,565	1,243,565	1,320,530
Total Funds	**$1,112,908**	**$1,243,565**	**$1,243,565**	**$1,320,530**
Positions	5	5	5	5
FTE	4.50	4.50	4.50	4.50

Agency Overview

The mission of the Board of Chiropractic Examiners is to protect and benefit the public health and safety, and promote quality in the chiropractic profession. The Board regulates Doctors of Chiropractic and Certified Chiropractic Assistants through examination, licensing, and disciplinary programs. The seven-member board is appointed by the Governor and composed of five chiropractors and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from licensing, application, and examination fees. Revenue in 2011-13 is projected to be 5.3% greater than 2009-11 estimates due to projected increases in the number of licensees.

Current Service Level

The current service level is 6.2% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The projected current service level cost is in excess of the expected revenues by $96,271 over the upcoming biennium. This deficit will erode the Board's ending fund balance resulting in a projected ending balance for the 2011-13 biennium of $189,721, or approximately 52 days of working capital.

Budget Environment and Potential Reductions

The Board of Chiropractic Examiners projects an increase in the total number of licenses issued or renewed in the upcoming biennium that will result in increased total revenues from the current biennium. This revenue, however, is more than offset by increased Board costs. The Board reports that the factors impacting the increased costs include increased inquiries, verifications, and complaints and increased workload related to societal factors such as increased demand for alternative care, diversity and regulatory issues, and the scope of chiropractic care. The Board currently charges the maximum licensing fee (by license type) allowed by statute.

Construction Contractors Board – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	14,693,323	15,082,530	15,082,530	16,570,428
Total Funds	**$14,693,323**	**$15,082,530**	**$15,082,530**	**$16,570,428**
Positions	85	80	80	73
FTE	81.94	76.50	76.50	73.00

Agency Overview

The Construction Contractors Board (CCB) provides services to homeowners, contractors, subcontractors, construction suppliers, bonding and insurance companies, and state and local building officials. The Board regulates the profession of construction contracting and provides consumer protection and dispute resolution services. The Board licenses construction contractors and subcontractors, provides consumer information and education, and resolves disputes. The Board investigates complaints, imposes fines for violations of Oregon laws, including failure to carry workers' compensation coverage, and ensures that new contractors meet statutory pre-licensing educational and testing requirements. HB 3127 (2009) established a certification program for locksmiths in the agency.

Revenue Sources and Relationships

Approximately 93% of CCB resources are expected to be received from contractor licensing and renewal fees. Fees are set by adoption of an administrative rule. The remainder of CCB revenue is from miscellaneous fees and civil penalties. Civil penalty collections do not make up a material portion of revenues, as the agency retains only 20% of the collections, with the remainder transferred to the General Fund. Transfers of civil penalty collections for the 2009-11 biennium are estimated to be approximately $960,000.

The agency was expecting a significant revenue shortfall for the 2009-11 biennium given the economic downturn in the construction industry. In spite of an anticipated $3.9 million beginning balance for 2009-11, the new revenues were not projected to cover the current service level budget. The agency proposed raising the cap on its fees from $260 to $410, but the Legislature approved keeping the fee at $260 until June 2010 and then raising it to $325 for the second year of the biennium.

Current Service Level

The current service level is 9.9% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

The current economic environment has continued to hit the construction industry hard. That in turn, has had a significant impact on the revenues for the agency which relies on such a high percentage of its revenue from contractor licenses. The budget forecast 325 new licensees every month but the actual number has been closer to 240. The renewal rate for licensees was forecast at 75% but has been closer to 73%.

Forecasted revenues for the agency in 2011-13 are approximately $2.6 million less than the current service level budget. To cover the shortfall without a fee increase, the agency is proposing eliminating nine positions (seven Dispute Resolution Services staff and two field investigators). This would eliminate investigation, mediation, and hearing services for two-party complaints through the Dispute Resolution process and would require a statutory change. It would also reduce the number of job site visits every year.

The agency is proposing a fee increase to mitigate or eliminate the reductions. They estimate that it would require a $70 increase (from $325 to $395) to cover the entire shortfall.

Department of Consumer and Business Services – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	196,631,590	208,092,819	208,092,819	231,318,438
Federal Funds	0	0	830,000	0
Other Funds (NL)	183,989,700	196,701,117	198,651,117	193,192,191
Total Funds	**$380,621,290**	**$404,793,936**	**$407,573,936**	**$424,510,629**
Positions	1,059	1,064	1,069	1,053
FTE	1,045.54	1,055.08	1,056.95	1,045.18

Agency Overview

The Department of Consumer and Business Services (DCBS) is organized into five broad program areas plus central administration:

- ***Shared Services*** includes administrative support, information management, and policy direction. Approximately 17% of the agency's full-time equivalent (FTE) staff is housed in Shared Services.

- ***Regulation and Enforcement of Workplace Safety and Health*** includes the Workers' Compensation Board, the Workers' Compensation Division, and the Oregon Occupational Safety and Health Administration (OR-OSHA). These programs collectively are also called the "Workers' Compensation System." Approximately 52% of the agency's full-time equivalent (FTE) staff is housed in the three Workers' Compensation System programs. The agency additionally maintains reserve accounts to finance workers' compensation payments to employees when self-insured employers become insolvent and are unable to make the payments. Approximately 10% of workers are employed by self-insured employers. Expenditures from these reserve funds are not limited in the budget and are categorized as Nonlimited Other Funds.

- ***Workers' Benefit Fund*** supports benefit increases to permanently- and totally-disabled workers and to the survivors of workers killed in workplace injuries, and funds return-to-work programs for injured workers. Payments from the Workers' Benefit Fund are not limited in the budget and are categorized as Nonlimited Other Funds.

- ***Insurance Division*** enforces the state's Insurance Code, including the review of and approving of certain premium rates; the licensing of insurance companies (including financial regulation), agents, adjusters, and consultants. The Division also assists consumers in resolving complaints against agents and companies. Approximately 9% of the agency's full-time equivalent (FTE) staff is housed in the Insurance Division.

- ***Division of Financial and Corporate Securities*** regulates state-charted financial institutions (banks, credit unions, consumer finance companies, mortgage lenders, pawnbrokers, check cashers) and the sale of securities in the state (including the licensing of individuals who sell, advise, or manage investment securities). The Division also regulates prepaid funeral plans and maintains a reserve account to support consumers when these plans become insolvent or default on their obligations. Approximately 8% of the agency's full-time equivalent (FTE) staff is housed in this Division.

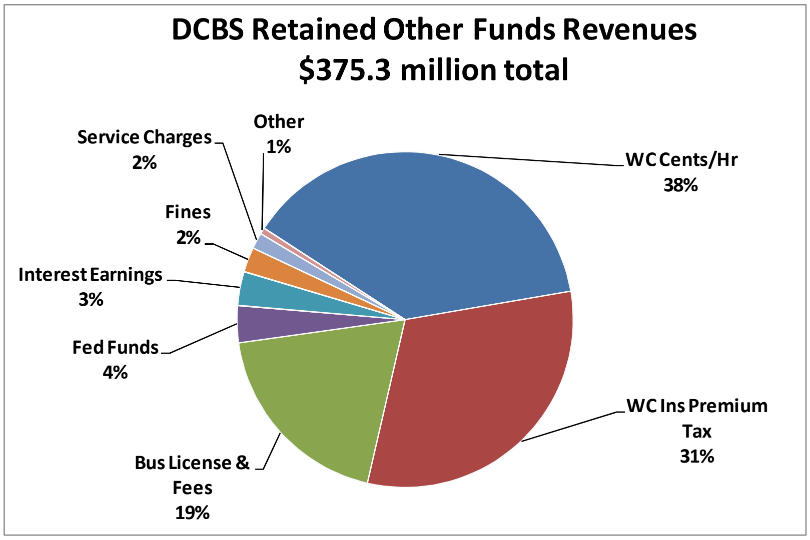
- ***Building Codes Division*** regulates Building Codes and other consumer services. Approximately 14% of the agency's full-time equivalent (FTE) staff is housed in the Buildings Codes Division.

Revenue Sources and Relationships

The agency is entirely funded by Other Funds, except for certain Federal grants received under provisions of the Affordable Care Act of 2010. Over 500 dedicated fees, assessments, and charges support the operation of DCBS. Other Funds revenues, in the 2011-13 current service level budget, are projected to total $628.5 million. Approximately 40% of these revenues (equal to $253.1 million in 2011-13), however, will be transferred outside the agency and not be available to support agency expenditures. The bulk of the transferred funds consist of revenue from two insurance taxes. The Department collects the retaliatory insurance tax, which is transferred directly to the General Fund, and an assessment on health insurance premiums that is transferred to the Oregon

Health Authority primarily to support the Health Care for All Oregon Children (Healthy Kids) program. During the 2011-13 biennium, the agency is forecast to transfer $101 million of retaliatory insurance tax revenue to the General Fund, and transfer $116.6 million of health insurance premium assessment revenues to the Oregon Health Authority for Healthy Kids. The agency also will transfer an additional $15.6 million of revenues from licenses, fees, and fines to the General Fund, and transfer $18.5 million to the Department of State Police for the State Fire Marshal's office (from an assessment the Department levies on insurance policies covering fire perils).

After making these transfers, the agency will retain $375.3 million Other Funds as described below:



- Workers' Compensation Cents per Hour assessment revenue supports the Workers' Benefit Fund. The assessment rate has declined 33% since 1999. The current rate is 2.8 cents per hour worked for the calendar year 2011. Expenditures of money from this revenue source are Nonlimited in the budget.

- The Workers' Compensation Insurance Premium Tax supports workers' compensation-related programs. The total premium paid by employers continues to decline. The current workers' compensation premium assessment rate is 6.4% of earned premiums. The rate was increased from 4.6% on January 1, 2011. The 4.6% rate had been in effect since 2007. Since 1980, the assessment rate has varied from as low as 4.5% to as high as 16.8%.

- Business Licenses and Fees support regulatory programs in the Building Codes Division, Insurance Division, and the Division of Finance and Corporate Securities.

- Federal Funds, which are expended as Other Funds, support Occupational Safety and Health programs and the Senior Health Insurance Benefits Assistance (SHIBA) program.

- Interest earnings, fines, service charges, and other revenues support various Department programs.

Current Service Level

The current service level (CSL) is 4.2% higher than the 2009-11 legislatively approved spending level at December 2010, however, the current service level for the portion of the agency expenditures that the Legislature limits is 11.2%. This portion of the current service level includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The approved rate and fee structures will not provide sufficient revenue, however, to support expenditures at the current service level.

Budget Environment and Potential Reductions

DCBS revenues are sensitive to the level of economic activity, and have fallen during the recession. By the first year of the 2009-11 biennium, revenues from the agency's largest limited Other Funds revenue source, the Workers' Compensation Insurance Premium Tax, had declined 14% from the level two years prior. Even though the agency recently increased the assessment rate to 6.4%, revenues in the 2011-13 biennium are not projected to return to the level prior to the recession. Other agency revenue declines have been even steeper. Revenues supporting the Building Codes Division, for example, have declined 37% over the past five years.

In total, agency revenues are forecast to be $20 million below the level needed to finance the current service level of expenditures and maintain prudent program fund balances. The modified current service level, which is a calculation of the current service level costs that can be supported by projected revenues, is therefore

$20 million below CSL, leaving limited Other Funds expenditures totaling $211.3 million, only a 1.1% increase over the 2009-11 approved limited Other Funds spending level. Projected revenues will support 1,023 positions (916.39 FTE) agency wide, a 12.3% reduction from the FTE level in the approved spending level. Because of the revenue shortfall, the agency made 66 layoffs and held an additional 71 positions vacant during the 2009-11 biennium. These position and expenditure reductions have not been incorporated into the CSL calculation. The expenditure and staffing reductions discussed in this and the following paragraphs represent, to some extent, continuations of the reductions made in 2009-11.

The 2011-13 biennium revenue shortfalls, which vary from zero in the Insurance Division to a high of 12.9% of current service level costs in the Building Codes Division, are shown in the table below, in order of decreasing percentage of each program's CSL budget:

2011-13 Biennium Revenue Shortfall
Expenditure and Staff Reductions From Current Service Level

Division	Dollars	FTE	% Cut	% FTE
Building Codes Division	($3,904,933)	(27.72)	(12.9%)	(19.5%)
Finance & Corporate Securities Division	(1,888,257)	(9.75)	(10.3%)	(11.5%)
Shared Services	(4,411,919)	(20.32)	(10.0%)	(11.5%)
Workers' Compensation Division	(4,343,765)	(35.20)	(9.9%)	(15.1%)
OR - OSHA	(4,558,000)	(30.04)	(9.0%)	(13.5%)
Workers' Compensation Board	(880,232)	(5.76)	(3.9%)	(6.4%)
Insurance Division	0	0.00	0.0%	0.0%
TOTAL	**($19,987,106)**	**(128.79)**	**(8.6%)**	**(12.3%)**

As an Other Funds agency, DCBS did not submit 25% reduction options. The agency did, however, submit 10% reduction options as is required for Other Funds expenditures. Because these reductions are taken off from the CSL spending level, they generally parallel the 8.6% reductions the agency would need to take because of revenue shortfalls. The Legislature retains the option to reduce the agency's Other Funds expenditures further, and transfer the Other Funds saved through such reductions to the General Fund. The agency also holds almost $200 million in its fund balances. Most of these fund balances have been significantly eroded during the recession, and are in danger of failing to meet the minimum fund balance requirements established by statute or by rule of the Department. The Legislature could consider relaxing these requirements to help address the state's General Fund budget shortfall.

Board of Licensed Professional Counselors and Therapists – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	666,367	789,059	789,059	811,204
Total Funds	**$666,367**	**$789,059**	**$789,059**	**$811,204**
Positions	3	4	4	3
FTE	2.50	3.00	3.00	2.50

Agency Overview

The mission of the Board of Licensed Professional Counselors and Therapists is to assist the public by identifying and regulating the practice of qualified mental health counselors and marriage and family therapists. The Board oversees a voluntary licensing program for professional counselors and marriage and family therapists who want to use the title of "licensed professional counselor" or "licensed marriage and family therapist." The Board registers interns who are completing work experience requirements for licensure. The seven-member board is appointed by the Governor and is composed of three licensed professional counselors, two licensed marriage and family therapists, one faculty from a related program, and one public member.

Revenue Sources and Relationships

The agency is funded by revenue generated from application and license fees. Other miscellaneous sources include fines and the sale of mailing lists and copies of public records. Revenue in 2011-13 is projected to be 2.7% greater than 2009-11 estimates. This increase is primarily attributable to the addition of a $47.25 fee increase to cover the cost of fingerprint and criminal background checks.

Current Service Level

The current service level is 2.8% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

The agency administratively increased licensing and renewal fees by $47.25 effective January 1, 2010. License fees are increased from $125 to $172.25. The fee increase covers the actual cost of Department of State Police and Federal Bureau of Investigation fingerprint and criminal background checks.

Board of Dentistry – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	1,943,392	2,182,624	2,295,770	2,391,834
Total Funds	**$1,943,392**	**$2,182,624**	**$2,295,770**	**$2,391,834**
Positions	7	7	7	7
FTE	7.00	7.00	7.00	7.00

Agency Overview

The mission of the Board of Dentistry is to assure that the citizens of the state receive the highest possible quality oral health care. The board regulates the practice of dentistry and dental hygiene through examination, licensing, and disciplinary programs. The Board also establishes standards for the administration of anesthesia in dental offices; determines dental procedures that may be delegated to dental assistants; and establishes standards for training and certification of dental assistants. The nine-member board is appointed by the Governor and composed of six dentists, two dental hygienists, and one public member.

Revenue Sources and Relationships

The agency is funded by revenue generated from application, renewal, and permit fees. Other miscellaneous sources include fines for late renewals, civil penalties, interest income, and the sale of mailing lists and copies of public records. Revenue in 2011-13 is expected to exceed 2009-11 estimates by approximately 3.3%.

Current Service Level

The current service level is 4.2% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The current service level does not include the biennialized additional cost of the Health Professionals Service Program (HPSP) as a phased-in cost. The agency has instead included that cost as a proposed budget policy package that may or may not be included in the executive's budget proposal. The current service level also produces a structural imbalance in the agency's funding. Expenditures are expected to outstrip projected revenues by $369,834, thus eroding the projected fund balance by that amount resulting in a projected ending fund balance of $94,482, which equates to about 14.4 days of working capital.

Budget Environment and Potential Reductions

There are no significant changes to the budgeting environment for the Board of Dentistry from the current biennium. The projected workload and number of licensees remain nearly flat in the upcoming biennium. Some increased workload pressure is expected from managing the public's expectations of board functions and from regulatory and industry changes. The board reports that they are able to utilize collaborative relationships with professional associations and schools of dentistry to resolve some of these issues.

Board of Examiners of Licensed Dieticians – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	71,185	76,603	76,354	98,800
Total Funds	**$71,185**	**$76,603**	**$76,354**	**$98,800**
Positions	1	1	1	1
FTE	0.30	0.30	0.30	0.30

Agency Overview

The mission of the Board of Examiners of Licensed Dietitians is to protect public health, safety, and well being by regulating licensed dietetic practice. The Board oversees the voluntary licensing program for dietitians who want to use the title "licensed dietitian." The agency issues and renews licenses; verifies continuing education; and investigates complaints, taking appropriate disciplinary action when necessary. The seven-member board is appointed by the Governor and approved by the Senate and composed of one physician trained in clinical nutrition, four dietitians, and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from application and license fees and currently has approximately 500 licensees renewed on a biennial basis. Other miscellaneous sources include late payment fines and interest income. While overall licensee numbers are projected to remain static, the Board anticipates a slight decline in revenue based on a reduction in interest income.

Current Service Level

The current service level is 29.4% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. Personal services costs increase by $10,072 and state government service charges increase by $11,415. Together these account for 95% of the increase to the current service level. Overall, current service level expenditures exceed projected revenues by 8%, thus the agency will need to rely on existing cash balances if operations are to be sustained.

Budget Environment and Potential Reductions

The Board anticipates the overall number of licensees to remain relatively static in the 2011-13 biennium, however the Board is requesting increased limitation to hire a temporary employee to assist during the license renewal season that begins in August of odd-numbered years. The Board is also requesting a limitation increase to maintain the current Information Technology contract for database development, network, e-mail, and desktop support. Limitation for this contract had not previously been included in the Board's budget.

The Board has an estimated $122,200 ending cash balance at the current service level, which is approximately equivalent to 30 months of operations. The Board's licensing renewal cycle requires approximately five months of cash reserves.

Health Licensing Agency – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	6,262,795	6,403,386	6,622,806	6,593,989
Total Funds	**$6,262,795**	**$6,403,386**	**$6,622,806**	**$6,593,989**
Positions	33	33	33	29
FTE	32.11	33.00	33.00	28.28

Agency Overview

The Health Licensing Agency is a consumer protection agency providing centralized regulatory oversight for the following health-related professions:

- Athletic Training
- Body Piercing
- Cosmetology
- Denture Technology
- Nursing Home Administrators
- Electrology
- Environmental Health
- Hearing Aid Specialist
- Midwifery, Direct Entry
- Permanent Color Technician
- Respiratory Therapy
- Tattoo Artist
- Sex Offender Therapists

The agency regulates these professions through examination, licensing, inspection, and disciplinary programs. The boards and councils for the respective professions are responsible for establishing educational and professional scope of practice requirements.

Revenue Sources and Relationships

The agency is funded by revenue generated from application, examination, and license fees. Other miscellaneous sources include civil penalties, late fees, and the sale of supplies. The agency previously developed a cost allocation model to calculate standardized fees across all its boards, councils, and programs. The agency has undergone a review of the current fee structure and continues to adjust the fees to better reflect direct usage of licensing, business services, and regulatory divisions of the agency. The agency continues to work toward the goal of having each board independently financed without subsidization from other board's revenues and maintaining a cash reserve of three months of operating costs.

The agency anticipates a decline of approximately 10% in revenues during the 2011-13. This is due in part to various reductions as a result of the fee reviews, new proposed licensing for the Board of Cosmetology that would create one license encompassing three previously individualized fields of practice, and reduced estimates for fines and forfeitures as this is an unreliable and inconsistent source of funds.

Current Service Level

The current service level is less than 1% below the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. These increases are offset by the phase-out of 4 limited duration positions approved for administrative and investigative staff during the 2009-11 biennium. Overall, the current service level expenditures exceed projected revenues by 6%, thus the agency will need to rely on existing cash balances if operations are to be sustained.

Budget Environment and Potential Reductions

The Board is requesting the limited duration positions be made permanent and the reclassification of two positions. The proposed permanent positions include additional administrative staff to address the growing demand for services and three investigator positions for greater oversight and increased consumer protection.

The agency has an estimated $866,487 ending cash balance at the current service level which is approximately equivalent to three months of operations. This is within the statewide standard for Other Fund agencies; however, the permanent establishment of additional administrative and investigative staff would reduce these available resources and may require additional changes to the agency's fee structure.

Bureau of Labor and Industries – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	12,749,264	13,156,979	11,927,913	14,006,222
Other Funds	5,395,659	6,645,662	8,640,971	6,768,262
Federal Funds	1,326,011	1,412,409	1,412,409	1,430,297
Other Funds (NL)	1,832,995	2,403,950	2,403,950	2,200,000
Total Funds	**$21,303,929**	**$23,619,000**	**$24,385,243**	**$24,404,781**
Positions	111	107	110	105
FTE	110.00	106.00	107.38	104.00

Agency Overview

The Bureau of Labor and Industries (BOLI) is organized into four divisions with responsibilities in three broad program areas:

- **Civil Rights** – Enforcement of laws that prohibit unlawful discrimination in employment, housing, public accommodation, and career schools. These protections are provided on the basis of: race, color, national origin, sex, religion, age, marital status, sexual orientation, disability, and injured worker status. Protection is also provided against retaliation for filing civil rights complaints, and for reporting illegal activity ("whistleblower" protection) or violations of family leave laws.
- **Wage and Hour** – Enforcement of laws relating to wages and hours worked (including prevailing wage rates on public works contracts) and terms and conditions of employment; investigation of claims and complaints from workers involving wages and working conditions, including the minimum wage and overtime; protection of children in the workplace; enforcement of regulations pertaining to private employment agencies; calculations of prevailing wage rates for public works projects, and licensing and regulation of farm and forest labor contractors.
- **Apprenticeship and Training** – Regulation of apprenticeship programs that promote the development of a highly skilled workforce.

Revenue Sources and Relationships

The Bureau is primarily supported by General Fund. The Bureau also receives Other Funds revenues from a number of sources. The largest single source of Other Funds revenues is the revenue received from a portion (equal to 0.03% of taxable wages) of the unemployment insurance taxes paid by employers in one calendar quarter each biennium. This revenue, which is forecast to total approximately $3.9 million in the 2011-13 biennium, is deposited into the Wage Security Fund to pay final wages to employees whose employers cease operations and default on final paychecks. The agency is also projected to receive approximately $270,000 from interest earnings and recovery of payments from defaulting employers for the Wage Security Fund. Expenditures from the Wage Security Fund are Nonlimited when used to pay final wages to employees. Such payments are projected to total $2.2 million during the 2011-13 biennium. The $6,768,262 of total Other Funds expenditures in the current service level includes $938,206 of Wage Security Fund revenue spent on agency administration.

The Prevailing Wage Rate program is forecast to receive $2.9 million in assessments on public works construction contracts; Technical Assistance Fees will generate $1.2 million; contract services with the Department of Consumer and Business Services (DCBS) for investigation of discrimination complaints against injured workers and against workers who have reported safety and health hazards will produce $1,065,437. The agency also receives Federal Funds under three federal programs. BOLI contracts with the Equal Employment Opportunity Commission (EEOC) and receives $787,200 in Federal Funds under this contract to support investigation of civil rights cases covered under three federal Acts: the Civil Rights Act, the Americans with Disability Act, and the Age Discrimination in Employment Act. The EEOC funds partially support the costs for civil rights enforcement where federal and state jurisdictions overlap. BOLI also contracts with the U.S. Department of Housing and Urban Development (HUD) for enforcement of the federal Fair Housing Act. The agency will receive $480,000 of Federal Funds under the HUD contract. Finally, BOLI will receive $111,000 of Federal Funds from the Veterans' Administration (VA). The VA funding supports the Apprenticeship and Training Division in approving apprenticeship and on-the-job training programs for veterans.

Current Service Level

The current service level (CSL) is only 0.1% higher than the 2009-11 legislatively approved spending level at December 2010; however, the General Fund amount in the CSL is 17.4% higher than the 2009-11 biennium legislatively approved spending level. This increase in General Fund can be segregated into two broad categories. First, the CSL calculation does not roll forward the two 2009-11 biennium General Fund allotment reductions into the next biennium. That is, the CSL estimates the costs of maintaining the agency's full legislatively approved budget, as it stood following the 2010 special session, through the 2011-13 biennium. The two allotment reductions, however, reduced the agency's General Fund by a total of approximately $1 million subsequent to the 2010 special session. The cost of restoring this $1 million alone represents approximately an 8.3% increase (i.e., 8.3 percentage points of the 17.4% General Fund increase are due solely to this factor, while the remaining 9.1 percentage points are the result of cost increases and other factors).

The remaining 9.1 percentage points of the General Fund increase over the 2009-11 approved spending level includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

The agency's General Fund support has been reduced, with some interruptions, since it peaked in the 1995-97 biennium, and has fallen by 11.1% since that time. Staff count on a full-time equivalent basis has been decreased 32.5% since its 1993-95 biennium peak. More recently, program activities have remained relatively stable over the course of the past recession. The agency continues to investigate approximately 2,000 civil rights cases per year, although the number of inquiries, which had recently been in the 30,000 to 32,000 per year range, jumped to over 35,000 in the first year of the current biennium. Wage and Hour Division wage claim investigations have been stable at approximately 2,600 per year. Apprenticeship program activity, on the other hand, does vary with the economy. During recessions businesses offer fewer apprenticeships. The number of new apprentices registered declined to 946 in the first year of the current biennium, down from 2,491 two years earlier.

Funding the agency's 2011-13 biennium General Fund expenditures at the reduced levels of expenditures supported after the allotment reductions would reduce General Fund costs by at least 8.3% of CSL, or even more, depending on how the allotment cuts are properly biennialized. The biennialization of the second allotment reduction alone would equate to a $1.04 million General Fund savings. The agency shifted portions of salary support for 17 positions from the General Fund to Other Funds for nine months to address the second allotment reduction. The $1.04 million figure represents the General Fund savings from continuing these costs shifts through the 2011-13 biennium. The expenses would be shifted to the Prevailing Wage Rate Education and Enforcement Account and the Wage Security Fund. The Wage Security Fund would still have sufficient balance to pay the projected $2.2 million in unpaid wages, however, this Fund could probably not incur additional costs beyond this fund shift, and sufficient fund balances would not remain to continue the fund shift beyond the 2011-13 biennium. The Prevailing Wage Rate Education and Enforcement Account would also have sufficient balances to finance the fund shift, and potentially allow for further costs to be shifted from the General Fund.

As required in its budget request, the agency identified reductions options of up to 25% of its General Fund appropriation. These reduction options were developed independently from the allotment reductions imposed this biennium, and represent the agency's suggestions for best implementing its budget at various funding levels, all of which are expressed as percentage reductions from the General Fund current service level:

- **5% General Fund Reduction** – Eliminate five full-time positions that are supported totally or partially by General Fund, along with approximately $98,000 of services and supplies. The affected positions are broadly distributed among the agency's programs (Wage and Hour, Civil Rights, Apprenticeship and Training, and central services), and would have a general impact of reducing program services and customer service levels.
- **15% General Fund Reduction** – Eliminate fifteen General Fund-supported positions. This would further reduce program services, result in closure of the Salem office (though two Salem-based positions would remain), and eliminate all in-house Oracle database application development projects.
- **25% General Fund Reduction** – Eliminate twenty-three General Fund-supported positions (22% of total agency FTE), 8% of General Fund funding for services and supplies, and 29% of General Fund support for personal services. Eliminate investigation of certain categories of civil rights and wage and hour complaints; close Salem, Bend, and Pendleton offices. Cut Apprenticeship professional field staff by 45%.

Medical Board – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	8,614,946	9,457,645	9,532,401	10,350,412
Total Funds	**$8,614,946**	**$9,457,645**	**$9,532,401**	**$10,350,412**
Positions	37	39	40	40
FTE	35.30	38.00	38.67	38.79

Agency Overview

The mission of the Oregon Medical Board (formerly the Oregon Board of Medical Examiners) is to protect the health, safety, and well being of Oregon citizens by regulating the practice of medicine in a manner that promotes quality care. The board is responsible for administering the Medical Practice Act and establishing the rules and regulations pertaining to the practice of medicine in Oregon. The agency licenses Medical Doctors, Doctors of Osteopathy, Podiatric Physicians, Physician Assistants, and Acupuncturists; investigates complaints against licensees and takes disciplinary action when a violation of the Medical Practice Act occurs; monitors licensees who have come under disciplinary action; and works to rehabilitate and educate licensees whenever appropriate. The Board is also responsible for the scope of practice for First Responders and Emergency Medical Technicians. The twelve-member board is appointed by the Governor and composed of seven medical doctors, two doctors of osteopathy, one podiatrist, and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from licensure and registration fees. Other miscellaneous revenue includes the sale of lists and directories, and fines or forfeitures imposed as disciplinary measures. Revenue in 2011-13 is projected to be $12,425,082, which is 26.4% more than 2009-11, and the projected ending cash balance of $4.5 million equals approximately 10 months of operating costs.

Current Service Level

The current service level is 8.6% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

The agency has proposed a fee increase of 30% for the 2011-13 biennium. The last fee increase instituted by the agency was in 1998. In addition, the agency will establish fees for criminal background checks and the Workforce Data Fee established by HB 2009 (2009). The increased revenue will be used to cover increasing operating expenses and provide an adequate ending balance to finance the agency through the 2015-17 biennium.

Board of Medical Imaging – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	569,574	615,094	612,737	696,570
Total Funds	**$569,574**	**$615,094**	**$612,737**	**$696,570**
Positions	3	3	3	3
FTE	3.00	3.00	3.00	3.00

Agency Overview

The mission of the Board of Medical Imaging (previously Board of Radiologic Technology) is to promote, preserve, and protect the public health, safety, and welfare of Oregonians when being exposed to ionizing radiation for the purpose of medical diagnosis or radiation therapy. The twelve-member board is appointed by the Governor and composed of four licensed physicians representing different medical specialties (at least one radiologist and one licensed medical imaging specialist), three public members, and one member from each of the five major medical imaging modalities (MRI technology, nuclear medicine technology, radiation therapy, radiography, and sonography).

The 2009 Legislative Assembly approved HB 2245 which established the Board's authority to require licensure for nuclear medicine technologists, sonographers, and MRI technologists. In addition to the three new licenses, the Board continues to license diagnostic or therapeutic technologists and diagnostic technicians; administers limited permit examinations for radiologic technicians to determine initial competence to practice; approves continuing education offerings to assure continuing competence; and defines and enforces the scope of practice for all licensees.

Revenue Sources and Relationships

The agency is funded by revenue generated from license, examination, and permit fees. Other miscellaneous sources include fines, interest income, and the sale of mailing lists and copies of public records. The Board currently has approximately 4,629 permanent medical imaging and limited x-ray machine operator licensees and 439 active temporary licensees and fees are prorated based on birth month and are on a biennial renewal basis. The Board has gradually implemented the new license modalities that took effect July 1, 2010 in order to keep a sustainable workload with current staffing levels. The Board anticipates an increase of approximately 66% in revenues during 2011-13. This is a result of the three new license modalities, expected to add 600+ new licensees, as well as a $1 per month fee increase to all licensees that was ratified by the 2009 Legislature.

Current Service Level

The current service level is 14% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

As a result of three new licensure types, including sonography which was previously unregulated or licensed in any state, and the statutory authority to conduct background checks, the Board anticipates an increase in the number of complaints received and subsequent investigations. The Board is requesting a permanent part-time Investigator position to assist with the workload and increased administrative and legal costs anticipated with the new licenses. Additionally, the Board is requesting limitation increases for examination costs the Board pays to the American Registry of Radiologic Technologists to proctor the required exam for limited x-ray machine operators and for technology upgrades for document imaging and management.

The Board has an estimated $196,748 ending cash balance at the current service level, which is approximately equivalent to 6 months of operations. This is sufficient operating balance for the Board's cash flow needs and is within the statewide standard for Other Fund agencies. However, the agency may need to address staffing and investigatory support which would lower these available resources.

Mortuary and Cemetery Board – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	1,032,009	1,260,188	1,256,294	1,380,119
Total Funds	**$1,032,009**	**$1,260,188**	**$1,256,294**	**$1,380,119**
Positions	5	6	6	6
FTE	5.00	6.00	6.00	5.71

Agency Overview

The mission of the Oregon Mortuary and Cemetery Board is to protect public health, safety, and welfare by fairly and efficiently performing its licensing, inspection, and enforcement duties; by promoting professional behavior and standards in all facets of the Oregon death care industry; and by maintaining constructive relationships with licensees, those they serve, and others with an interest in the Board's activity. The eleven-member board is appointed by the Governor and composed of two funeral service practitioners, one embalmer, three cemetery representatives, one crematory operator, and four public members.

The 2009 Legislative Assembly approved HB 2118, which standardizes certain provisions for membership and appointment of health professional regulatory boards, appointment of executive directors, and reporting and auditing of certain board activities.

Revenue Sources and Relationships

The agency is funded by revenue generated from application, license, and examination fees; a portion of the death certificate filing fee; civil penalties; and interest income. The agency currently has approximately 2,400 individual and facility license holders that are renewed on a biennial basis. HB 2244 (2009) increased the death certificate filing fee from $7 to $20, of which the Board would receive $14. The anticipated revenue to the Board in 2011-13 is $862,876 and will enable the Board to maintain current staffing levels. The agency anticipates overall licensure revenue to remain static during the 2011-13 biennium.

Current Service Level

The current service level is 10% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges as well as the phase-out of a limited duration Investigator position that was approved for the 2009-11 biennium.

Budget Environment and Potential Reductions

Due to revenue shortfalls prior to the fee increase approved by the 2009 Legislative Assembly, the Board operated at reduced staff levels by holding positions vacant in the inspections and investigations areas and focused only on the highest priority cases. The Board anticipates being able to gradually increase the Board's compliance activities with the increased revenue from the death certificate filing fee.

The Board has an estimated $222,809 ending cash balance at the current service level, which is approximately equivalent to 4 months of operations; however the Board may need to consider fee increases as the current license renewal cycle requires approximately 6 months of operating cash reserves.

Board of Naturopathic Examiners – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	478,567	495,406	543,608	572,989
Total Funds	**$478,567**	**$495,406**	**$543,608**	**$572,989**
Positions	2	2	3	2
FTE	2.00	2.00	2.33	2.00

Agency Overview

The mission of the Board of Naturopathic Examiners is to protect the public by improving the standards of care offered by licensed practitioners through ensuring competency in education, and enhancing communication with the profession and the public. The Board conducts examinations for applicants; issues licenses to practice naturopathic medicine; certifies special competency in natural childbirth; sets continuing education standards; and approves naturopathic schools or colleges offering four-year full-time residential programs. The Board also investigates complaints, administers discipline, and imposes civil penalties. The five-member board is appointed by the Governor and composed of four naturopaths and one public member.

Revenue Sources and Relationships

The agency is funded by revenue generated from application, license, and certification fees and currently has approximately 800 active licensees renewed on a biennial basis. Other miscellaneous sources include fines for late payments, interest income, and the sale of mailing lists and copies of public records. The Board collects a $25 fee for participation in the Prescription Drug Monitoring Program and passes those funds through to the Department of Human Services. The agency anticipates an increase of approximately 11% in revenues during the 2011-13 biennium, citing a trend in the popularity of naturopathic medicine for primary health care, insurance companies providing benefits for naturopathic care, and increased enrollment of students at naturopathic accredited colleges.

Current Service Level

The current service level is 5% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. These increases are partially offset by the phase-out of a limited duration part-time Investigator position approved for the 2009-11 biennium. Overall, current service level expenditures exceed projected revenues by 10%, thus the agency will need to rely on existing cash balances if operations are to be sustained.

Budget Environment and Potential Reductions

The Board received authority to hire a limited duration part-time Investigator position in response to an increase in the number of licensees, statutory authority to conduct background checks, and increased number of complaints. The Board anticipates these factors to continue and is requesting a permanent part-time Investigator position, as well as increased limitation for legal costs.

The agency has an estimated $91,280 ending cash balance at the current service level, which is approximately equivalent to four months of operations, however, the Board's licensing renewal cycle requires approximately 6 months of cash reserves. The Board is currently working on the development of a fee increase proposal to the 2011 Legislature that will provide a sustainable operating reserve in addition to addressing the need for investigative staff and increased legal costs.

Board of Nursing – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	10,236,464	11,700,411	12,760,411	13,734,404
Total Funds	**$10,236,464**	**$11,700,411**	**$12,760,411**	**$13,734,404**
Positions	47	50	50	44
FTE	43.75	47.75	47.75	43.75

Agency Overview

The mission of the Oregon State Board of Nursing is to safeguard the public's health and well being by providing guidance for, and regulation of, entry into the profession, nursing education, and continuing safe practice. The agency licenses and regulates nurses, nursing assistants, and advanced practice nurses; sets nursing practice standards, guidelines for education programs, and minimum competency levels for entry into the professions; and has the authority to revoke or suspend the license or privilege to practice nursing in the state. The nine-member board is appointed by the Governor and composed of four Registered Nurses, two Licensed Practical Nurses, one Nurse Practitioner, and two public members.

The agency is comprised of four Divisions representing its major programs. The Investigations and Compliance Division investigates complaints regarding violation of the Oregon Nurse Practice Act and recommends disciplinary action to the Board. The Licensing and Certification Division is responsible for all licensing and customer service activities, as well as the training and testing program for certified nursing assistants and certified medication aides. The Practice Consultation and Policy Division reviews nursing education programs; develops policy and rules; and provides specialized expertise with respect to RN/LPN, advanced practice nursing, and nursing assistant program issues. The Central Support Division supports the day-to-day activities of the agency.

Revenue Sources and Relationships

The agency is funded primarily by revenue generated from examination, licensing, and renewal fees charged to registered nurses, licensed practical nurses, nurse practitioners, certified registered nurse anesthetists, clinical nurse specialists, certified nursing assistants, and certified medication aides. The agency also receives Federal Title XVIII (Medicare) and Title XIX (Medicaid) funds through the Department of Human Services (DHS) to fund the Certified Nursing Assistant (CNS) Program. The agency expects to receive approximately $3.1 million from DHS in 2011-13.

Current Service Level

The current service level is 7.6% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

The 2009-11 legislatively approved spending level includes an additional $1,060,000 in limitation to cover the additional expenses due to HB 2345 (2009) that moved the Nurse Monitoring Program from the Board to DHS. HB 2345 (2009) directed DHS to establish a Health Professionals' Service Program (HPSP) and contract with the private sector to provide monitoring and auditing services for health professionals with substance abuse or mental disorders. In turn, the Boards affected are required to reimburse DHS for the expenses based upon the number of licensees that are enrolled in the program. It is expected that the Board's expenses associated with the HPSP will be $2.2 million for the 2011-13 biennium. Overall revenues for the Board will increase due to increases in the numbers of licensees and no fee increases are needed for the 2011-13 biennium.

Occupational Therapy Licensing Board – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	256,951	338,178	337,191	389,571
Total Funds	**$256,951**	**$338,178**	**$337,191**	**$389,571**
Positions	1	1	1	1
FTE	1.25	1.25	1.25	1.25

Agency Overview

The mission of the Occupational Therapy Licensing Board is to protect the public by supervising occupational therapy practice; and to assure safe and ethical delivery of occupational therapy services. The Board sets the standards of practice and examines applicants for licensure; issues licenses to qualified applicants; investigates complaints; and takes appropriate disciplinary action when necessary. The five-member board is appointed by the Governor and composed of three occupational therapists and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from license fees and other miscellaneous sources including limited permits, late fees, interest income, and the sale of mailing lists and copies of public records. The agency currently has over 1,600 licensees renewed on a biennial basis. Revenues have been more than sufficient to cover operating costs and the Board enjoyed a growing cash balance. The Board conducted a cash flow analysis during 2007 and, as a result, reduced licensing renewal fees in 2008 by $10 per year for Occupational Therapists and Occupational Therapy Assistants.

The 2009 Legislative Assembly approved HB 2009 which created Healthcare Workforce Regulatory Board in order to collect data regarding Oregon's healthcare workforce. The Healthcare Workforce Regulatory Board established a $5 fee to cover the costs associated with the collection and maintenance of the data. As a participant in the workforce data collection, the Occupational Therapy board chose not to charge their licensees the additional $5, but instead absorbed the fees within their existing cash balance. In 2011-13 the Board intends to charge licensees an additional $5 and transfer that revenue directly to the Healthcare Workforce Regulatory Board.

The agency anticipates an increase in the total number of licensees, but a slight decrease in licensing revenue due to the renewal fee reductions implemented in 2008. Additionally the agency projects interest income to decline significantly.

Current Service Level

The current service level is 16% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. Personal services costs increase by $38,722, accounting for 74% of the increase to current service level. Overall, the current service level expenditures exceed projected revenues by 27%, thus the agency will need to rely on existing cash balances if operations are to be sustained.

Budget Environment and Potential Reductions

With the anticipated increase in licensees and the implementation of fingerprint background checks in 2011-13, the Board anticipates an increase in the number of complaints and investigations. The agency may need to address staff or investigatory support needs which would lower the available resources.

The Board has an estimated $199,314 ending balance at the current service level, which is approximately equivalent to 12 months of operations. The Board's licensing renewal cycle requires approximately 9 months of cash reserves.

Board of Pharmacy – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	4,387,662	4,903,896	5,105,407	5,757,096
Federal Funds	19,360	0	0	0
Total Funds	**$4,407,022**	**$4,903,896**	**$5,105,407**	**$5,757,096**
Positions	22	20	20	20
FTE	21.00	19.00	19.00	19.00

Agency Overview

The mission of the Board of Pharmacy is to promote, preserve, and protect the public health, safety, and welfare by ensuring high standards in the practice of pharmacy and by regulating the quality, manufacture, sale and distribution of drugs. The agency licenses pharmacists by examination or through reciprocity with other states; registers and inspects hospital and retail pharmacies, drug wholesalers and manufacturers, and over-the-counter drug outlets; investigates drug diversion and rule violations; and regulates the quality and distribution of controlled substances, prescription, and over-the-counter drugs within the state. The seven-member board is appointed by the Governor and composed of five pharmacists and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from license, registration, and examination fees. Other Funds revenue in 2011-13 is projected to be about 7.5% less than 2009-11 estimates. Licensing and related fees account for approximately 92% of the total revenues generated. The remaining revenue sources include fines, interest earnings, and other revenue. The Board has not increased fees since 2001.

Current Service Level

The current service level is 12.8% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. In addition, there is a phase in cost of $220,000 included for the new Health Professional Service Program for impaired professionals. Given the current estimate of revenues for the upcoming biennium, the current service level creates a structural imbalance in the Board's fund of $1,881,176. What this means is that the agency is projecting a cost of maintaining its current level of services in the 2011-13 biennium that is $1,881,176 greater than the revenue it is projecting to receive during that same period. The estimated ending fund balance for the Board in the current biennium is $333,461. After using this fund balance, the Board will still have a shortfall in total funding available of $1,547,715. To address this issue, the Board must either increase fees, reduce expenditures, or a combination of the two in order to gain structural balance and provide for an adequate working capital ending balance. In order to achieve structural balance by increasing fees alone, fees would need to be increased by nearly 50% of their current rates.

Budget Environment and Potential Reductions

The Board's budget is primarily impacted by the number of licensees and the complexity of the work that is undertaken. Although the total number of licensees, and therefore revenue, is projected to decrease slightly in the upcoming biennium, the agency reports that there are a number of factors that are increasing the workload and the complexity of the Board's activities. As the population of the state continues to grow and to demographically skew to an older average population, the use of prescription and non-prescription drugs continues to increase. There is a marked increase in the number of drugs and devices available to consumers and these are becoming more sophisticated and potent. These factors, combined with functionally no growth in the number of pharmacists, have resulted in a sharp increase in the number and complexity of consumer complaints and inquiries handled by the Board. Additional workload increases are a result of keeping up with technological and market driven changes in drug distribution and retail sales, participation in public safety cooperative programs with other state and federal agencies, and increased investigations of counterfeit, diverted, or stolen drugs.

Board of Psychologist Examiners – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	995,663	1,041,395	1,041,395	1,039,935
Total Funds	**$995,663**	**$1,041,395**	**$1,041,395**	**$1,039,935**
Positions	4	4	4	3
FTE	3.58	4.00	4.00	3.00

Agency Overview

The mission of the Board of Psychologist Examiners is to protect the health, safety, and well-being of Oregon citizens by regulating the practice of psychology in a manner that promotes quality care. The Board determines qualifications, and examines, and licenses individuals to practice psychology. The Board also investigates alleged violations of the statutes and imposes appropriate sanctions. The nine-member board is appointed by the Governor and composed of six psychologists and three public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from licensing, application, and examination fees. Other miscellaneous sources include civil penalties and publication sales.

The 2009-11 legislatively adopted budget included increases in the Board's license fees and Other Funds revenues to produce approximately $326,000 in additional revenue. A portion of the fee revenue funded a limited duration Office Specialist 2 position. The balance was used to strengthen the Board's ending balance.

Revenue is projected to increase by 4.74% for the 2011-13 biennium.

Current Service Level

The current service level is 0.14% below the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. There is a recommended technical adjustment to the current service level of $55,607 to reflect a reduction in demand for background check services by the Department of State Police. The current service level number in the table above does not reflect this technical adjustment.

Budget Environment and Potential Reductions

The 2011-13 projected ending balance of $295,258 represents approximately 5 months of operating expense.

Public Utility Commission – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	33,845,411	39,554,662	39,777,023	41,229,250
Federal Funds	476,384	493,843	2,910,317	821,211
Other Funds (NL)	96,460,209	94,778,703	94,778,703	75,126,962
Total Funds	**$130,782,004**	**$134,827,208**	**$137,466,043**	**$117,177,423**
Positions	126	129	133	128
FTE	124.00	127.25	129.83	126.00

Agency Overview

The three-member Public Utility Commission (PUC), which is appointed by the Governor and subject to Senate confirmation, is responsible for ensuring that consumers receive adequate utility service at fair and reasonable rates, while allowing regulated companies the opportunity to earn an adequate return on their investment. The PUC has four programs. The Utility Regulation program evaluates utility rate requests, sets and enforces price and service rules to protect consumers, establishes regulatory policies that induce competition among telecommunications carriers and facilitates mix of resources among utilities, analyzes financial data of regulated entities to ensure fair competition and determine impact of business practices on rate payers, monitors safety, and conducts research. The Residential Service Protection Fund program ensures telephone access to low income and disabled Oregonians, distributing vouchers, special equipment, or providing relay service. The Policy and Administration program encompasses the commissioners, agency administration, administrative hearings, and consumer protection activities. The Board of Maritime Pilots is a 9 person board with one full-time staff member responsible for licensing and training programs for maritime pilots, approving rates for pilot services, and investigating maritime incidents.

Revenue Sources and Relationships

The PUC is funded primarily by Other Funds derived from fees assessed on regulated utilities, including:

- ***Natural gas, water, and wastewater utilities,*** which are assessed annually at a rate of up to 0.25% on gross operating revenues. The rate is expected to be 0.25% for the 2011-13 biennium and is expected to generate $6 million.
- ***Telecommunications providers*** are assessed up to 0.25% on gross intrastate retail sales excluding wholesale revenues, estimated to generate $3.2 million in 2011-13. Telecommunication carriers and subscribers are assessed an additional amount to support the Oregon Universal Service Fund (OUSF) and the Residential Service Protection Fund (RSPF).
  - OUSF is supported through an assessment on intrastate revenue (currently 5.3%). The fund is estimated to distribute $76 million to eligible telecommunications carriers during the 2011-13 biennium to ensure that telephone access is available at affordable rates to Oregonians in smaller markets or remote areas. After collection and administration costs are recovered, remaining funds are passed through to eligible carriers; these distributions are budgeted as Other Funds Nonlimited.
  - RSPF is supported by a surcharge not to exceed $0.35 per month to retail subscribers who have access to relay services. The rate is determined annually, and collected quarterly. The current rate is $0.12 per line per month, and will gradually reduce the fund's ending balance from six months of operations to 3 months of operations by the end of 2013. The program has legislative authority to operate through 2020. The RSPF surcharge is expected to generate $11.97 million in 2011-13. Funds are used to provide telephone access to disabled and low income Oregonians.
- ***Electric utilities*** are assessed a gross revenue fee of no more than 0.25%. The PUC anticipates charging this rate for the 2011-13 biennium which is expected to generate approximately $17.6 million. Retail electric consumers of Portland General Electric and PacifiCorp pay additional charges for public purpose expenditures (3%) and low-income bill assistance ($15 million per year) as part of the electric industry restructuring legislation approved in 1999. However, the utilities distribute the public purpose revenues directly, rather than through PUC, to the entities provided in statute (e.g., education service districts, and the Housing and Community Services Department).

The PUC reduced its utility rates to electric utilities during the 2009-11 biennium to true up ending balances with actual cash flow needs. The Legislature transferred $2 million in electric utility fees to the state General Fund in 2010 as a state budget balancing action.

Federal Funds received from the U.S. Department of Transportation's Gas Pipeline Safety Program support enforcement of federal pipeline safety regulations. Federal Funds for this purpose are expected to total $843,502. The state is required to provide matching funds at the current rate of 55%, which are provided through the PUC's assessment on gas utilities.

The PUC receives no General Fund support.

Current Service Level

The current service level is 14.8% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The 2011-13 current service level for PUC's Other Funds Nonlimited is markedly lower than in 2009-11. This reduction is due to the decline in telephone land lines and the increase in wireless technology; companies are developing fewer land lines, so the PUC's Oregon Universal Service Fund is paying out less to support phone service in high-cost areas.

Budget Environment and Potential Reductions

Potential reductions to the PUC's current service level include elimination of inflation and potential savings derived from legislative policy decisions related to state employee salaries or pensions. The PUC has requested the following policy option packages:

- Increasing an existing Utility Analyst 3 position from half-time to full-time, to accommodate an increase in the frequency of electrical utility rate proposals and filings ($91,941 Other Funds, 0.50 FTE).
- Adding a permanent, full-time Residential Services Protection Fund Compliance Specialist to ensure accurate collection, reporting, and remittance of Residential Service Protection Fund surcharges ($161,810 Other Funds, 1.00 FTE).
- Broadening eligibility for the Telecommunication Devices Access Program for the hard of hearing and speech impaired population ($178,187 Other Funds; requires passage of legislation).
- Collect Residential Service Protection Fund revenues from Voice Over Internet Protocol providers and Prepaid Service providers (requires passage of legislation).
- Continuing limited duration positions associated with administration of grants received under the American Recovery and Reinvestment Act during the 2009-11 biennium ($480,651 Federal Funds, 2.00 FTE).
- Providing expenditure limitation for administration of a grant related to broadband data and development, awarded to the PUC in the summer of 2010 and funded through the American Recovery and Reinvestment Act ($4,264,687 Federal Funds).

Real Estate Agency – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	6,939,595	8,377,812	8,377,812	8,279,954
Total Funds	**$6,939,595**	**$8,377,812**	**$8,377,812**	**$8,279,954**
Positions	33	31	31	31
FTE	32.5	30.63	30.63	30.63

Agency Overview

The Real Estate Agency is responsible for the licensing, education, and enforcement of Oregon's real estate laws applicable to brokers, property managers, and real estate marketing organizations; licensing and regulation of escrow agents; and registration and reviews of campground contract brokers, subdivisions, timeshares, and condominium developments. The agency approves courses and develops curriculum requirements for its licensees, administers real estate examinations, audits licensees, and investigates complaints made concerning its licensees and regulated activities. The Real Estate Commissioner, who is appointed by the Governor, administers the agency. The agency supports the Real Estate Board, whose seven industry members and two public members are appointed by the Governor.

Revenue Sources and Relationships

Other Funds revenues are generated through licensing and registration fees and renewals; charges for examinations and seminars; the sale of publications; and other services. The agency has not increased fees since the mid-1990s, and is not requesting a fee increase for the 2011-13 biennium.

The 2011-13 revenue projection for the agency is $6,285,716 Other Funds. The agency anticipates collecting approximately $112,179 in civil penalties which are payable to the General Fund.

Current Service Level

The current service level is 1.18% less than the 2009-11 legislatively approved spending level at December 2010, reflecting $486,937 in adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges; offset by a phase out of a project to update the agency's mainframe system ($84,795) and the final phase of the agency's online licensing and ecommerce system ($500,000).

Budget Environment and Potential Reductions

At the current service level, the agency has an estimated $1,053,949 ending cash balance which is approximately equivalent to 3 months of operations.

Over the past few years, the real estate market has slowed from the October 2007 peak when there were 24,613 individual real estate licensees in Oregon. In 2009, there were 22,835 licensees. In 2010, there are 21,810. As market conditions tighten, more licensed real estate professionals are electing to place their license in inactive status upon renewal. Because of this trend to maintain a presence in the industry, the agency does not expect to see further decline in its licensee base. However, if a large number of inactive licensees do not renew their licenses in the 2011-13 biennium, the agency could experience a decline in its revenue. The agency has considered this risk, and has developed a plan to respond to the changing market, as well as address potential revenue shortfalls:

- The agency identified a $120,844 Other Funds reduction with the elimination of a position (0.63 FTE) established in the 2005-7 biennium. The position was originally created to assist with the rewriting of rules and proposing statutory changes that were occurring in the agency at the time. This work is completed and other duties associated with this position will be absorbed by existing agency staff.
- The agency requests a $96,839 Other Funds expenditure limitation increase to update software and hardware, and consolidate several existing servers onto a single server. This investment is expected to result in savings from operational efficiencies, and a reduction in replacement costs.

Board of Licensed Social Workers – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	793,311	927,435	1,039,435	923,450
Total Funds	**$793,311**	**$927,435**	**$1,039,435**	**$923,450**
Positions	5	5	5	4
FTE	3.50	4.00	4.00	3.25

Agency Overview

The mission of the Board of Licensed Social Workers is to protect the citizens of Oregon by setting a strong standard of practice and ethics through the regulation of social workers. The Board oversees a licensing program for Licensed Clinical Social Workers; certifies Clinical Social Worker Associates; certifies Registered Bachelors of Social Work; licenses Masters of Social Work; and audits continuing education reports for license renewals. The Board is responsible for developing and enforcing ethical standards for licensed individuals; investigating complaints; and disciplining licensed individuals who violate ethical standards, Board rules, or state licensing laws. The seven-member board is appointed by the Governor and composed of four licensed clinical social workers and three public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from application and licensing fees. Other miscellaneous sources include late fees and publication sales. Revenue in 2011-13 is projected to be 4.4% greater than 2009-11 estimates. The 2011-13 current service level projected ending balance of $244,688 represents approximately 4 months of operating expense. However, the ending balance may need to be revised if the 2009-11 adjustments to the approved spending level carry forward into the 2011-13 budget.

Current Service Level

The current service level is 11.16% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges, but does not carry forward the $112,000 Other Funds expenditure limitation increase authorized at the December 2010 meeting of the Emergency Board.

Budget Environment and Potential Reductions

In December 2010, the Emergency Board authorized an $112,000 Other Funds expenditure limitation increase for increased costs to implement SB 177 (2009) and other operating costs. SB 177 made a number of changes to the workload of the State Board of Licensed Social Workers, including new licensing requirements for persons practicing clinical social work and expanding licensing to non-clinical social workers. The 2009 Legislature recognized that there could be additional costs associated with SB 177, but since actual costs could not be determined, the Board was directed to return to the Emergency Board for any necessary additional Other Funds expenditure limitation.

Board of Examiners for Speech-Language Pathology and Audiology – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	290,440	314,657	373,188	388,011
Total Funds	**$290,440**	**$314,657**	**$373,188**	**$388,011**
Positions	2	2	3	2
FTE	1.40	1.40	1.63	1.40

Agency Overview

The mission of the Board of Examiners for Speech-Language Pathology and Audiology is to protect the public by licensing and regulating the performance of speech-language pathologists, speech-language pathology assistants, and audiologists. The Board adopts rules governing standards of practice; investigates alleged violations; and grants, denies, suspends and revokes licenses. The seven-member board is appointed by the Governor and composed of two licensed speech-language pathologists, two licensed audiologists, two public members, and one medical doctor with American Board of Otolaryngology certification.

Revenue Sources and Relationships

The agency is funded by revenue generated from application, license, and certification fees and currently has over 1,660 active licensees. Other miscellaneous sources include late fees, interest income, and the sale of mailing lists and copies of public records.

The Board had cash flow concerns coming out of the 2009 legislative session and would not have had a sufficient ending cash balance at the conclusion of the 2009-11 biennium. The Board administratively increased fees effective July 1, 2009 that will provide an anticipated ending cash balance of approximately 21 months of operating costs entering the 2011-13 biennia. Among the fee changes was an increase in the biennial licensure fees for Speech Language Pathologists and Audiologists (SLPA) from $160 to $275, the SLPA certification fee from $50 to $150, and the application fee for all types from $40 to $200. The fee increases will need to be ratified during the 2011 legislative session.

The Board's licensure revenue is anticipated to remain static at the 2011-13 current service level, which does not include the fee increases, with overall revenue declining slightly for reduced interest income estimates. If the fee increases are ratified, the Board anticipates additional revenue of $281,635.

Current Service Level

The current service level is 4% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges as well as the phase-out of a limited duration investigator position and an FTE increase for the Executive Director. Personal services costs increase by $63,196 accounting for 85% of the increase to the current service level. Overall, the current service level expenditures exceed projected revenues by 23%, thus the agency will need to rely on existing cash balances if operations are to be sustained.

Budget Environment and Potential Reductions

The Board has seen a significant increase in the number of complaints, investigations, and disciplinary cases in 2009-11 due in part to an increase in the number of licensees over that time period and the new statutory authority of the Board to conduct background checks. The corresponding workload resulted in a need to temporarily increase the Executive Director's FTE to full-time and also to hire temporary staff to assist with investigations. The Board anticipates these factors to continue and is requesting the personnel changes be made permanent, as well as increased limitation for legal costs in 2011-13.

The agency has an estimated $259,547 ending cash balance at the current service level, which is approximately equivalent to 16 months of operations. The ending cash balance includes revenue already received from the fee increases. The Board's licensing renewal cycle requires approximately 7 months of cash reserves.

Board of Tax Practitioners – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	1,000,861	996,527	1,016,527	1,173,554
Total Funds	**$1,000,861**	**$996,527**	**$1,016,527**	**$1,173,554**
Positions	5	4	4	4
FTE	5.00	4.00	4.00	4.00

Agency Overview

The Board of Tax Practitioners is a seven-member citizen board appointed by the Governor that protects consumers by ensuring Oregon tax practitioners are competent and ethical in their professional activities. It accomplishes this by licensing and overseeing tax preparers, tax consultants, and tax businesses. Currently, the Board regulates about 1,900 tax consultants, 2,500 tax preparers, and about 1,400 tax businesses per year. It develops initial competency examinations and monitors required continuing education programs for tax preparers. The Board also investigates complaints filed concerning personal tax return services by licensees and unlicensed persons and takes disciplinary action when appropriate. A four-person staff administers Board programs.

Revenue Sources and Relationships

The Board's Other Funds come principally from annual licensing and business registration fees. Fees are also charged for the administration of licensing examinations. Fees are established by rule but are limited by statute. The Board expects to collect $1,150,000 in total revenues from licensing fees, business registration fees, examinations, fines and penalties, pass-through revenues for community colleges administration of examinations, and other miscellaneous revenue for the 2009-11 biennium.

Current Service Level

The current service level is 15.4% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. Due to a high amount of turnover in the administrative staff of the Board during the 2007-09 biennium, the personal services snapshot that was used to create the 2009-11 biennium budget included vacant positions that are funded at an entry level rate. The Board subsequently filled those positions during the current biennium at higher rates, therefore creating a larger than average base budget adjustment for personal services in the upcoming biennium's current service level. The required base budget adjustment for personal services was further increased because of an unallocated reduction in personal services that was applied to the agency during the current biennium but is not carried forward in the current service level for the 2011-13 biennium. The remaining cost increases were applied statewide and are not unique to the agency.

Budget Environment and Potential Reductions

The demand for licensed tax practitioners is expected to increase with the population as more returns are filed, resulting in increased total licensing and fee revenue for the agency. However, a portion of this demand may be mitigated by stagnant or decreased personal income that leads to reduced spending on professional services. The Board reports that approximately 39% of the returns filed with the Oregon Department of Revenue are filed by practitioners. Higher levels of unemployment may also increase the number of tax practitioners as the part-time or seasonal nature of the work may be more attractive during an economic downturn than during a period of high employment. The total number of licensees reported by the agency has increased by about 10% from the prior biennium report.

Veterinary Medical Examining Board – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	557,881	660,617	658,855	733,433
Total Funds	**$557,881**	**$660,617**	**$658,855**	**$733,433**
Positions	3	3	3	3
FTE	2.25	2.75	2.75	2.75

Agency Overview

The mission of the Veterinary Medical Examining Board is to protect animal health and welfare, public health, and consumers of veterinary services. The Board determines license qualifications and licenses veterinarians, veterinary technicians, euthanasia shelters, and euthanasia technicians; investigates consumer complaints and disciplines licensees found to be in violation of the Veterinary Practice Act; conducts national board examinations for veterinary technicians; and monitors advances and changes in the profession to determine minimum practice standards to ensure ongoing public and animal health. The eight-member board is appointed by the Governor and composed of five veterinarians, two public members, and one certified veterinary technician.

Revenue Sources and Relationships

The agency is funded by revenue generated from license, application, and examination fees. The agency currently has over 3,000 veterinary and certified veterinary technician licensees on a biennial renewal basis. The Board anticipates licensing revenue to remain relatively static; however, revenue is projected to decline slightly in 2011-13 due to decreased interest income and the Board eliminating a fee for veterinary candidates to take veterinary exams through national testing organizations. Previously candidates would need to pre-qualify through the Board, but improvements to the national exam now allow candidates to apply directly through the national organizations conducting the tests.

Current Service Level

The current service level is 11% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. Overall, current service level expenditures exceed projected revenues by 19%, thus the agency will need to rely on existing cash balances if operations are to be sustained.

Budget Environment and Potential Reductions

The number of complaints reviewed by the Board has increased from 228 during the entire 2007-09 biennium to over 300 as of August 2010. The growing number of complaints has coincided with changes to the laws that govern the industry and low-cost insurance provided by the American Veterinary Medical Association that pays up to $25,000 for legal representation for veterinarians that face Board discipline. This insurance option may result in more contested case hearings that could increase the administrative and legal costs to the Board.

The Board has an estimated $205,064 ending cash balance at the current service level, which is approximately equivalent to six months of operations. This is sufficient operating balance for the Board’s cash flow needs and is within the statewide standard for Other Fund agencies. However, the current growth rate of expenditures will require the Board to increase fees by 2013-15.

Department of Administrative Services (DAS) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	8,238,635	15,977,629	12,558,737	6,259,139
Lottery Funds	0	5,168,130	5,011,179	5,923,458
Other Funds	884,327,354	935,991,978	1,006,459,820	902,852,469
Other Funds (NL)	105,997,841	114,241,201	132,125,683	122,415,320
Federal Funds	0	47,000	47,000	0
Federal Funds (NL)	0	0	1	1
Total Funds	**$998,563,830**	**$1,071,425,938**	**$1,156,202,420**	**$1,037,450,387**
Positions	926	823	824	803
FTE	910.65	809.91	810.41	799.92

Totals are different from those in Executive Branch budget documents due to separate treatment by the Legislative Fiscal Office of: a) Lottery Funds for County Fairs and Oregon Public Broadcasting (OPB) debt service; b) General Fund support for OPB and the Oregon Historical Society; and c) Other Funds expenditure limitation for OPB investments funded with the sale of Lottery Bonds.

In addition, both historical and current budget figures for the Public Employees Benefit Board and the Oregon Educators Benefit Board have been moved from this agency to the Oregon Health Authority (OHA) for budget display purposes. Under HB 2009 (2009), these two entities are transferred to OHA by July 1, 2011.

Agency Overview

The Department of Administrative Services (DAS) is the central administrative agency that supports other agencies of state government and coordinates statewide services. The Department has numerous divisions that are responsible for a variety of disparate functions. It operates centrally located motor pools; operates and maintains facilities and the state data center; and provides printing, information technology consultation, computer, payroll, and accounting services. The Department distributes federal, lottery, and state funds to cities, counties, and other state agencies. It also collects and distributes mass transit assessments.

Revenue Sources and Relationships

The Department's operating revenue comes primarily from fees charged for services provided to state agencies, statewide assessments, and assessments for debt service on appropriation and pension obligation bonds. The Department establishes rates for these direct services and bills agencies based on usage. Costs of indirect services, such as the services provided by the Director's Office, Budget and Management Division, and Human Resource Services Division are recovered through a "statewide assessment," which is included in all state agencies' budgets as part of the line item expense titled "State Government Service Charges."

Although services that are supported by the assessment cannot be directly measured and identified to each agency receiving the service, the Department makes an effort to allocate the assessment equitably. Payments by state agencies to DAS are controlled through their budget review and approval process. A significant portion of DAS revenues received through assessments and charges originate in agency budgets as General Fund or Lottery Funds.

Current Service Level

The current service level is 10.1% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Nonlimited adjustments primarily related to debt service and the phase-out of one-time expenditures mask the inflationary increases noted above.

Budget Environment and Potential Reductions

The 2009-11 legislatively adopted budget included $53 million in program reductions and the elimination of 105 positions, which was equivalent to about 15% of the agency's operating budget. The reductions affected most agency programs and services to other state agencies, including human resources, budget services, motor pool, facilities, information technology resources, and internal support. Corresponding expenditures for associated assessments and rates in other state agency budgets were also reduced, which helped balance the statewide budget. While DAS characterizes the reductions as "deep" and harmful to service delivery, the agency has been able to maintain services while finding the resources to carry out a $2.5 million transformation project. The project is intended to visibly and measurably change DAS so that it can effectively and efficiently meet the policy and service needs of its stakeholders and customers.

During the 2009-11 interim, DAS reported to the Legislature on this project which is called the "Wall-2-Wall" initiative. In conjunction with the project, the agency has also updated its strategic plan, developed an agency business plan, and begun moving forward on a new business model. The model, which is based on "Entrepreneurial Management" principles, would slot DAS functions into one of three service delivery types: leadership, utility, or marketplace. Full implementation of the model will likely require both statutory and budgetary changes.

Costs associated with these projects are still being refined. DAS has proposed a 2011-13 policy package to establish a center of excellence within DAS to expand the transformation initiative and to help other agencies with their own transformation projects. The 2011-13 program expenditures are estimated at $3.6 million Other Funds; this amount includes the cost of 12 permanent positions for program implementation. Any level of investment that may be needed to implement the new business model is yet to be quantified, as is the return on these potential investments.

The Legislature should review these DAS initiatives in the context of the statewide budget, as they would likely be paid for by state agencies. As noted previously, a significant portion – at least one-third – of the dollars supporting DAS programs originate in agency budgets as General Fund.

The agency has identified reduction options throughout most of the agency. While the DAS budget is primarily Other Funds, decreasing the budget can result in General Fund or Lottery Fund savings for state agencies by potentially lowering costs; the extent to which those are true "savings" depend on a variety of factors. These include whether or not agencies still need the service and whether or not they can obtain the service cheaper elsewhere. This dynamic is in part why the new business model appeals to DAS since it potentially allows for more competitive pricing of services.

DAS – Office of the Director

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	221,439	260,863	240,918	285,964
Other Funds	4,638,939	4,325,756	4,325,756	4,924,180
Total Funds	**$4,860,378**	**$4,586,619**	**$4,566,674**	**$5,210,144**
Positions	18	15	15	15
FTE	18.00	15.00	15.00	15.00

Program Description

The Director is responsible for managing and coordinating the policies, programs, and services of the divisions within the Department. Also, as the head of state government's central administrative agency, the Director is responsible for coordinating policy among the various state agencies and setting guidelines for developing and executing the Governor's budget.

Revenue Sources and Relationships

General Fund supports prison population forecasting. Otherwise, the Office is funded through an assessment of state agencies and a payment from the Department of Transportation for the cost of the Highway Cost Allocation Study.

Current Service Level

The current service level is 14.1% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

DAS – Budget and Management Division

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	9,872,373	8,222,141	8,222,141	8,765,248
Total Funds	**$9,872,373**	**$8,222,141**	**$8,222,141**	**$8,765,248**
Positions	36	28	28	28
FTE	34.17	28.00	28.00	28.00

Program Description

The Budget and Management Division establishes and enforces statewide budget standards and monitors agencies to ensure that funds are spent within legal and budgetary constraints. It is responsible for reviewing agency budget requests and developing and tracking the Governor's recommended budget through the legislative process. The Division also helps to coordinate statewide bonded debt programs, including issuance of certificates of participation (COPs), tax anticipation notes, pension obligation bonds, and lottery revenue bonds. The Division is responsible for development and maintenance of the statewide budget systems.

Revenue Sources and Relationships

The Budget and Management Division is funded primarily through assessments of state agencies.

Current Service Level

The current service level is 6.6% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

DAS – State Controllers Division

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	15,860,883	18,593,077	18,593,077	18,049,634
Total Funds	**$15,860,883**	**$18,593,077**	**$18,593,077**	**$18,049,634**
Positions	51	47	48	48
FTE	49.96	46.50	47.00	46.50

Program Description

The State Controllers Division supports and ensures accuracy and accountability in state government financial systems by providing services and controls in the management of statewide accounting, receivables, financial reporting, and payroll functions. It also provides budget and financial and accounting support to a number of small state agencies, including the Office of the Governor.

Revenue Sources and Relationships

The Division receives its revenue from state agency assessments and direct charges for processing warrants and payroll documents. Assessments and charges are based on analyses of services provided and their costs.

Current Service Level

The current service level is 2.9% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. These increases are offset by a technical adjustment to redistribute data center costs among DAS divisions; for this program, the result is a decrease of $1.4 million Other Funds.

DAS – Enterprise Information Strategy and Policy Division

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	40,651,861	34,477,017	34,477,017	25,852,000
Federal Funds	0	47,000	47,000	0
Total Funds	**$40,651,861**	**$34,524,017**	**$34,524,017**	**$25,852,000**
Positions	37	22	22	24
FTE	35.92	22.00	22.00	24.00

Program Description

The Enterprise Information Strategy and Policy Division (EISPD) maintains certain policy and statewide information technology oversight functions and is headed by state's Chief Information Officer. Responsibilities include development of statewide information security policies and practices, information technology strategies and rules, and geographic information systems (GIS) coordination for Oregon government (state and local).

Revenue Sources and Relationships

The Division receives its revenues from assessments of state agencies and charges for direct services. Agency assessments bring in 75% of revenues, while charges for direct services account for the remainder. These revenues support the Division's budget, including debt service payments on COPs primarily sold to fund enterprise security projects.

Current Service Level

The current service level is 25.1% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. Increases are offset by a base budget adjustment for debt service.

DAS – Human Resource Services Division

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	17,261,747	15,067,129	15,067,129	14,905,153
Total Funds	**17,261,747**	**$15,067,129**	**$15,067,129**	**$14,905,153**
Positions	62	56	56	41
FTE	59.67	45.47	45.57	40.71

Program Description

This Division provides central personnel-related services to help agencies obtain and retain a skilled workforce. Through administrative rules and policies and collective bargaining agreements, the Division defines and manages the state's human resources system based upon equal employment opportunity and a merit-based compensation system. The Division maintains the state's classification and compensation systems. It also maintains the centralized position and personnel database (PPDB), which captures position and employee information for all employees other than higher education academic staff. In addition, it provides training to new board and commission members, and training and consultation to state agency management on human resources issues.

Revenue Sources and Relationships

The Division's principal revenue source is from an assessment of Executive Branch state government agencies, excluding the Department of Higher Education. Legislative and Judicial Branch agencies and the Lottery Commission pay an assessment to use the centralized employee database.

Current Service Level

The current service level is 1.1% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. These increase are offset by phase-outs (decreases) related to one-time 2009-11 expenditures.

DAS – Facilities Division

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	0	6,509,234	3,814,263	5,973,175
Lottery Funds	0	35,000	35,000	0
Other Funds	84,930,164	86,944,545	89,639,516	87,096,402
Other Funds (NL)	2,895,221	0	17,884,482	0
Total Funds	**$87,825,385**	**$93,488,779**	**$111,373,261**	**$93,069,577**
Positions	217	177	177	177
FTE	210.64	176.50	176.50	176.46

Program Description

The Facilities Division provides services related to facilities management; lease negotiation and supervision; project management; space planning and parking management; building operations and maintenance; and landscape maintenance for agencies occupying state-owned space. Major acquisition, construction, capital improvement, and maintenance projects are planned and managed by this Division.

Revenue Sources and Relationships

The Division is funded from a variety of sources; its two major sources are uniform rent, assessed on all tenant agencies, and parking fees. The proposed uniform rent rate for office space in 2011-13 is $1.41 per square foot, which is just over a 2% increase over the 2009-11 rate. This is the rate built into agency budgets for 2011-13; however, the agency received direction at the May 2010 meeting of the Emergency Board to return to the 2011 legislative session with a revised uniform rent schedule with rates set at or below 2009-11 levels.

Uniform rent includes a depreciation component that is deposited in a Capital Projects Fund, the balance of which is primarily used for the major rehabilitation of building space. The Division also receives funding from assessments of state agencies on the Capitol Mall for landscaping, debt service, and general facilities coordination. Other revenue is generated from service agreements to perform maintenance and janitorial services for office buildings owned by other state agencies, managing specialized non-office facilities, and a number of other facilities-related services.

Current Service Level

The current service level is 16.4% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. These increases are offset by phase-outs related to one-time 2009-11 expenditures.

DAS – State Services Division

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	199,079	0	0	0
Other Funds	129,973,067	102,812,158	102,812,158	109,654,196
Other Funds (NL)	85,210,348	97,194,475	97,194,475	99,561,407
Total Funds	**$215,382,494**	**$200,006,633**	**$200,006,633**	**$209,215,603**
Positions	250	226	226	224
FTE	248.12	225.50	225.50	223.25

Program Description

The State Services Division consists of several programs focused on providing cost effective central services to state agencies. The Risk Management program purchases insurance for the state, and also is responsible for the management of the state's Self-Insurance Fund in order to maintain adequate balances for known and projected losses and to purchase excess coverage for the state. The section investigates and resolves claims against the state and its employees, and devises strategies that encourage agencies to minimize loss-related costs.

The State Procurement Office provides statewide purchasing and contracting direction, while working to combine the buying power of state and local governments. The Statewide Fleet Administration program acquires and maintains vehicles for state agency use. The Publishing and Distribution program offers a full array of design, printing, finishing, metering, delivery, and mailing services. The Surplus Property program provides a central distribution point for agencies' surplus inventory and actively markets the sale of those items to other governments and the public.

Revenue Sources and Relationships

The revenue source for the Risk Management program's operating expenditures is the Insurance Fund. State agencies pay into the Insurance Fund through an assessment based on a share of forecasted statewide claims costs. Statewide needs are developed from independent actuarial forecasts for workers' compensation, property, and liability costs and estimated legal costs.

To help balance the statewide budget in 2009-11, $30 million was transferred from the Insurance Fund to the General Fund. While it is estimated that the fund can manage claims with a reduced fund balance, the fund is not currently meeting statutory requirements around actuarial soundness.

The State Procurement Office operations are supported through an assessment, which is based on volume of transactions and number of agency positions. The Office also receives revenue through direct fees for services and purchasing, consulting, and training fees.

The Fleet Administration and Motor Pool operations are supported entirely through fees for services, principally fleet rental charges. In addition, the unit charges agencies that own vehicles for fueling, service, and repair fees.

State and Federal Surplus Property operations generate revenue from service fees. For state surplus items, the fees are based on the value of the items sold for the state agencies disposing of the surplus property. For federal surplus property, the service fees are charged to agencies acquiring the property through the Division based on the value of the federal surplus property acquired.

Printing and Distribution is financed by charges for printing and mailing services and a statewide assessment for shuttle mail service.

Current Service Level

The current service level is 4.6% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

DAS – Operations Division

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	22,460,085	19,976,579	19,976,579	22,647,363
Total Funds	**$22,460,085**	**$19,976,579**	**$19,976,579**	**$22,647,363**
Positions	94	88	88	83
FTE	93.42	87.50	87.50	83.00

Program Description

The Operations Division provides administrative guidance and operational support services to DAS divisions, the Office of the Governor, select boards and commissions, and select client agencies. These services include budgeting, payroll, accounting, personnel, and procurement services. The Division also provides computer help desk and other information technology support.

Revenue Sources and Relationships

The Division's revenue comes from service charges to the Department's various internal divisions and to its external customers. The other DAS divisions receive their revenues from state agencies through assessments and charges.

Current Service Level

The current service level is 13.4% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

DAS – Oregon Progress Board

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	467,588	0	0	0
Other Funds	322,506	0	0	0
Total Funds	**$790,094**	**$0**	**$0**	**$0**
Positions	2	0	0	0
FTE	1.75	0.00	0.00	0.00

Program Description

Due to General Fund constraints, the 2009 Legislature eliminated all state funding for the Oregon Progress Board. However, DAS continues to host the Board's web content, and the Secretary of State's office has been maintaining data for the Oregon Benchmarks.

DAS – State Data Center

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	166,409,592	165,273,020	165,273,020	153,711,254
Total Funds	**$166,409,592**	**$165,273,020**	**$165,273,020**	**$153,711,254**
Positions	159	164	164	161
FTE	159.00	163.34	163.34	161.00

Program Description

The State Data Center (SDC) opened in the fall of 2005 as the result of the Computing and Network Infrastructure Consolidation (CNIC) project. By December 2007, eleven separate agency data centers had been moved into a single data center facility. The SDC currently maintains 24/7 core computer services and operational support for these eleven agencies. The facility also provides information technology infrastructure services to thousands of state and local government programs.

SDC is expected to provide agencies equal or improved services while reducing costs. Other anticipated outcomes of consolidating services include the following: better tools and processes through collective purchasing; greater security; reduced electrical power consumption; better and more reliable technologies; improved ability to recover from disaster; and standardization.

Revenue Sources and Relationships

The Center's revenues come from usage fees and charges to state agencies and other customers. Fee and charge methodology, allocation, and structure are still being fine-tuned. How usage and rates are determined depend on the type of SDC service being used. Five major service areas are provided: computing (mainframe, midrange, and distributed systems), network (with enhanced security), storage, and voice. One-time facility construction and start up costs have been financed by the sale of certificates of participation, with the associated debt service expenses built into the budget and paid by customers as part of overall program costs.

Current Service Level

The current service level is 7% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. These increases are offset by phase-outs related to one-time 2009-11 expenditures.

DAS – Capital Improvements

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	4,142,724	3,111,608	3,611,608	5,901,812
Total Funds	**$4,142,724**	**$3,111,608**	**$3,611,608**	**$5,901,812**

Program Description

The Capital Improvements program pays for remodeling and renovation projects that cost less than $500,000.

Revenue Sources and Relationships

Capital improvement activities are funded out of the Capital Projects Fund, which is set up under ORS 276.005 to support a variety of capital needs for state facilities. The fund is supported primarily by the depreciation component of uniform rent and service agreements. Certificates of participation are also sometimes issued to pay for projects.

Current Service Level

The current service level is 63.4% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. In addition, $2.8 million Other Funds is included to reflect the phase-in of expenditure limitation required to complete the agency's planned 2011-13 projects.

DAS – Capital Construction

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	17,272,025	9,606,221	10,356,221	0
Total Funds	**$17,272,025**	**$9,606,221**	**$10,356,221**	**$0**

Program Description

The Capital Construction Program includes major remodeling, renovation, and new construction or acquisition projects costing more than $500,000 in the aggregate.

Revenue Sources and Relationships

Other Funds for capital construction comes from the Capital Projects Fund and from COPs.

Current Service Level

Expenditures in this program area approved on a project by project basis for a six-year period; as such, there is no current service level calculation.

DAS – Miscellaneous Payments and Special Distributions

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	7,290,589	9,207,532	8,503,556	0
Lottery Funds	0	5,133,130	4,976,179	5,923,458
Other Funds	370,531,388	467,582,727	534,105,598	451,345,227
Other Funds (NL)	17,892,272	17,046,726	17,046,726	22,853,913
Federal Funds (NL)	0	0	1	1
Total Funds	**$395,714,249**	**$498,970,115**	**$564,632,060**	**$480,122,599**

Program Description

This section does not reflect a specific budget program, but is a catch-all category to capture payments and expenditures primarily not directly related to the DAS mission. Items include the following: issuance costs for COPs, payments to the federal government for costs associated with the Public Employees Retirement System (PERS) blended rate payback to the federal government, debt service on Pension Obligation Bonds, debt service on Appropriation Bonds, and payments for special projects or programs that are typically outside state government.

Revenue Sources and Relationships

Revenues in this program come a variety of sources and are usually discretely identified in the agency's budget bill or other legislation.

Current Service Level

The current service level is 15% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for inflation and debt service payments.

Phase-outs offsetting increases in current service level include the following General Fund decreases: $7.1 million for completion of the PERS blended rate payback agreement, $1 million for Oregon Legal Aid, $150,000 for the Skanner Foundation, $500,000 for the Portland Art Museum, and $415,000 for the Jefferson County Economic Development Fund.

Advocacy Commissions Office – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	334,556	419,895	387,791	470,315
Other Funds	17,728	75,000	75,000	76,800
Total Funds	**$352,284**	**$494,895**	**$462,791**	**$547,115**
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Agency Overview

The Oregon Advocacy Commissions Office was established in 2005 (SB 359) to provide administrative support to the Commission on Asian Affairs, the Commission on Black Affairs, the Commission on Hispanic Affairs, and the Commission for Women. The commissions serve as liaisons between the minority communities and government entities and work to establish economic, social, legal, and political equality in Oregon. The agency assists the commissions in monitoring existing programs and legislation designed to meet the needs of minority populations and helps in identifying and researching problem areas and issues affecting minority communities.

Revenue Sources and Relationships

Agency operations are funded with General Fund. The only other revenue source is donation funds (estimated to be $80,000 in 2009-11 and 2011-13). Donation funds are dedicated by statute to the commission to which the donation was made and can only be used by the agency for the purpose for which the donation was made.

Current Service Level

The current service level (CSL) is 18.2% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. Nearly 80% of the General Fund CSL budget is for personal service costs and nearly another 10% is for required state government service charges.

Budget Environment and Potential Reductions

The agency was able to accommodate allotment reductions from statewide revenue shortfalls in the 2009-11 biennium primarily by using one-time vacancy and rent savings. To implement a 5% General Fund reduction in the current service level, reductions could be made in various services and supplies line items to reduce amounts provided for professional services, printing, publicity and publications, and miscellaneous office supplies. For reductions from CSL greater than 5%, it is likely that, in addition to the services and supplies actions, a reduction in FTE would be required to achieve the target amount by making either one or both of the agency's permanent positions part-time in order to reduce salary and wages and the corresponding benefits.

At more than a 15% reduction, an alternative action would be the elimination of the agency or, at least, suspension of activities during the 2011-13 biennium. During the state's last recession, the agency's operations were suspended and the individual commissions were allowed to continue working with their constituencies using volunteer assistance for administrative support, but with no direct state financial support.

County Fairs – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Lottery Funds	3,557,141	3,021,303	2,807,758	3,706,169
Total Funds	**$3,557,141**	**$3,021,303**	**$2,807,758**	**$3,706,169**

Agency Overview

County Fairs are provided state support as a pass-through from the Department of Administrative Services for financial assistance related to county fair activities. State funding is deposited into the County Fair Account, which is administered by the County Fair Commission. ORS 565.445 requires the Commission to distribute the monies each January in equal shares to county fair boards.

Revenue Sources and Relationships

ORS 565.447 allocates 1% of the net proceeds of the lottery to the County Fair Account. The statute set an initial allocation cap of $1.53 million per year, but allows a biennial adjustment to the cap based on the change in the Consumer Price Index since January 2001.

A portion of the funding – not to exceed $40,000 under statute – is still transferred to the Department of Agriculture where it is expended to support the County Fair Commission. The Commission administers the funding distributed to each county fair and ensures that the county fair boards are meeting reporting and auditing requirements. Pass-through expenditures are technically included in the budget of the Department of Administrative Services, but are displayed separately in Legislative Fiscal Office publications.

Current Service Level

The current service level is 32% higher than the 2009-11 legislatively approved spending level at December 2010 and assumes County Fairs would receive the full amount of funding allowed under the statute. The 2009-11 legislatively approved spending level included both a reduction from current service level in the adopted budget and a decrease of $213,545 made during the 2010 special session to balance to available lottery resources.

Budget Environment and Potential Reductions

While the statutory formula would set the funding level for county fairs at about $3.7 million, that number will need to be reevaluated during the 2011 legislative session. An updated Consumer Price Index value, the lottery revenue forecast, and funding priorities can all potentially impact that figure.

The 2009-11 legislatively approved spending level included both a 15% reduction from current service level approved in the adopted budget and a decrease of $213,545 made during the 2010 special session to balance to available lottery resources.

Employment Relations Board – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	1,781,460	1,717,400	1,599,947	1,965,370
Other Funds	1,581,906	1,758,626	1,758,626	1,873,772
Total Funds	**$3,363,366**	**$3,476,026**	**$3,358,573**	**$3,839,142**
Positions	13	13	13	13
FTE	13.00	12.50	12.50	12.50

Agency Overview

The mission of the Employment Relations Board (ERB) is to resolve disputes concerning labor relations for an estimated 3,000 employers and 250,000 employees in public and private employment in the state. The agency is a quasi-judicial body responsible for administering specific portions of Oregon law: the Public Employee Collective Bargaining Act, which governs collective bargaining in state and local government; the State Personnel Relations Law, which creates appeal rights for non-union state employees who believe they were treated unfairly in the workplace; and the private sector labor-management relations law, which addresses collective bargaining for private sector employers who are not covered by federal law. ERB last handled a private sector case in 2002.

Thirteen positions (12.50 FTE), organized into the following four program areas, support the mission of ERB:

- ***Board and Administration*** program ($1,945,833; 5.00 FTE) includes the Board, which is a three member panel appointed by the Governor and approved by the Senate, and the administrative support for the agency. The Board acts as the state's "labor appeal court" for labor and management disputes within state and local government. The Board issues final orders and administers the labor laws that cover private sector employees that are exempt from the National Labor Relations Act. The Board Chair also acts as the executive director who is supported by two administrative staff.
- ***Conciliation and mediation services*** program ($813,307; 3.25 FTE) is staffed by three mediators who make themselves available to travel throughout the state to attempt to resolve bargaining disputes, contract grievances, unfair labor practices, and state personnel disputes. This unit also provides a list of qualified local labor arbitrators and training in dispute resolution.
- ***Hearing*** program ($1,007,547; 3.75 FTE) is staffed by three administrative law judges who hear and decide unfair labor practice complaints, personnel appeals, and contested representation elections. The administrative law judges issue recommended decisions which the parties can appeal to the ERB Board.
- ***Elections program*** ($72,455; 0.50 FTE) is staffed by a part-time position who is responsible for conducting elections regarding employee union representation and certifying the results. The program also processes petitions involving union representation and composition of bargaining units.

Over the last four years, approximately 68% of ERB's hearings workload and 58% of its mediation workload has been from local government cases with the balance being state government cases. Workload for the Board and Elections program are not currently separated by state and local cases.

Revenue Sources and Relationships

ERB is funded with 51% General Fund and 49% Other Funds. ERB receives General Fund revenue and charges fees to support labor relations functions conducted on behalf of local governments.

ERB expects to have $2,443,865 in Other Fund revenue to support its current service level, which includes a beginning balance of $691,965. The majority of its Other Funds revenue is from an assessment to state agencies based on the number of covered employees, including non-unionized employees from the Legislative and Judicial branches and temporary employees. The amount of projected state agency assessment revenue for 2011-13 is $1,535,400, which is based on a $1.70 assessment per month for approximately 37,632 state employees. ERB also receives fees for the following services: contract mediation fees to local governments ($1,000, born equally by the employer and the labor organization involved); grievance and Unfair Labor Practice fees ($500, again split between employer and labor); interest based bargaining training fees (up to $2,500); and filing fees ($250) for Unfair Labor Practice complaints and answers. The agency also charges fees for hard copies of documents, many of which are available online at no cost, administrative fees including copies, filing via facsimile, and the hourly rate charged for mediation training. These fees generate $14,630 for the 2011-13 biennium and were last increased during the 2009 legislative session. ERB's ending balance is estimated to be $570,093, which represents a reserve of 7.3 months. This resulted from an increase in the state workforce as American Reinvestment and Recovery Act funds from the federal government have been used by state government to fund positions. Historically, there have been no instances where ERB Other Fund balances have been transferred to the General Fund.

Current Service Level

The current service level (CSL) is 14% higher ($480,569) than the 2009-11 legislatively approved spending level at December 2010. General Fund increased by 22.8% ($365,423) and Other Funds increased by 7% ($115,146). It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The growth in General Fund expenditures would have been 13.4% but for the restoration of $132,453 in temporary across-the-board allotment reductions ordered by the Governor that occurred during the 2009-11 biennium.

The budget removes $18,678 of Other Funds expenditure limitation related to a one-time purchase of computer equipment. This action is necessary to balance ERB's projected revenues and expenditures.

ERB's CSL is comprised of 84% personal services ($3.2 million) and 16% services and supplies ($624,959). Approximately 49% of the Board's services and supplies budget is used to pay for facility rental costs ($204,373) and State Government Service Charges ($104,974).

Budget Environment and Potential Reductions

ERB is facing a growing backlog of cases due to recent budget reductions. The 2009 Legislature reduced one administrative law judge and one mediator positions from full-time to three-quarters time. ERB has taken additional furlough days beyond that required in its 2009-11 legislatively adopted budget and kept positions vacant in order to achieve General Fund allotment reductions order by the Governor. During difficult economic periods labor relation disputes increase; this has further exasperated the backlog of cases. The complexity of cases has also been increasing.

ERB's Other Funds assessment revenue stream is uncertain as it is based on the *current* number of state employees, the number of which will decline during the 2011-13 biennium due to budget reductions necessary to balance the state's budget. Additionally, Mediation program fees charged to local government employers and employee labor organizations continue to be insufficient to cover mediator position(s) and other costs.

ERB Other Funds state agency assessment revenue has a General Fund component since some agencies use General Fund to pay for their per-employee assessment. A decrease in the per capita assessment on state employees would produce General Fund savings to other agencies' budgets.

ERB's various incremental General Fund reduction plans involve the temporary furloughing of three board members and professional staff with a nominal reduction to services and supplies.

Other possible savings options include General Fund and Other Funds. For Other Funds, statutory fees could be increased. ERB is not requesting a fee increase for the 2011-13 biennium. Another option would be to move ERB to a 100% assessment model similar to the Government Ethics Commission. This model would likely require the assessment of local government entities, who themselves are under budgetary pressure. Lastly, ERB could be significantly scaled back and funded exclusively with Other Funds revenue. The General Fund options that exist are to eliminate staff and/or merge ERB into another agency.

Government Ethics Commission – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	1,257,474	176,399	162,912	16,826
Other Funds	1,523	1,381,699	1,381,699	1,513,310
Total Funds	**$1,258,997**	**$1,558,098**	**$1,544,611**	**$1,530,136**
Positions	7	8	8	6
FTE	6.26	8.00	8.00	6.00

Agency Overview

The mission of the Government Ethics Commission[1] is to impartially administer the regulatory provisions of government standards and practices, lobby regulation, and certain public meeting laws. The Commission consists of seven volunteer members; four members are appointed by the Governor upon recommendation by legislative leaders and three directly by the Governor. All members are confirmed by the Senate. The Commission is required by law to meet specific timelines for the conduct of investigations. The Commission also educates public officials and lobbyists on the provisions of the Government Ethics Law, the Public Meetings Law, and lobbying regulations.

Revenue Sources and Relationships

The Commission was historically funded almost entirely by General Fund. Until the 2009-11 biennium, the Other Funds portion, comprising less than 1% of the budget, was from reimbursements for the cost of printing and distributing Commission documents. Due to the increased availability of Commission documents on the Internet, this revenue is no longer material. The agency's proposed 2011-13 budget includes no revenue from this source.

The Commission also collects revenues from fines and forfeitures from imposing civil penalties. These revenues are not used by the agency, however, but are instead transferred to the General Fund. The agency collected $36,257 in fines and forfeitures in 2007-09 and estimates collecting $75,000 in 2009-11 and in 2011-13.

Beginning with the 2009-11 biennium, the Commission's funding base changed to an assessment model. The new funding mechanism removes direct General Fund support from the budget and instead equally shares operating costs between state agencies and local government entities. State agencies are assessed based on FTE. Local entities are assessed based on a formula connected to the Municipal Audit charge that is collected by the Secretary of State. For the 2009-11 biennium, some General Fund was included in the budget to provide the agency enough cash to operate while the assessment collections were initiated. Beginning in 2011-13, the Commission is entirely supported with assessments, which are budgeted as Other Funds.

Current Service Level

The current service level is about 1% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. These increases are offset by the phase-out of two 2009-11 limited duration positions. Due to a budget development glitch, the current service level still contains a small amount of General Fund when it should be zero. This error should be corrected during the legislative budget process.

Budget Environment and Potential Reductions

In 2009 the agency's statutory deadline for completing an electronic filing system was pushed out from January 2010 to January 2013. The agency still does not have adequate resources to support the project, which is estimated to cost about $635,000. In addition to making a funding/policy decision on the filing system, the Legislature will also need to review and potentially address agency workload that has been covered by two limited duration positions. For 2011-13 the agency has requested these training and administrative support resources as permanent. Lastly, while the agency is now an "Other Funds" agency, a portion of those dollars do originate in state agencies as General Fund and could be subject to reprioritization within the statewide budget.

[1] HB 2595, enacted by the 2007 Legislature, changed the name of the Government Standards and Practices Commission to the Government Ethics Commission, effective July 1, 2007.

Office of the Governor – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	11,223,550	10,905,192	10,071,418	12,816,997
Lottery Funds	2,049,136	2,014,225	1,941,910	2,394,097
Other Funds	2,261,593	4,314,229	4,909,229	2,873,984
Federal Funds	16,734	0	0	0
Total Funds	**$15,551,013**	**$17,233,646**	**$16,922,557**	**$18,085,078**
Positions	64	71	71	61
FTE	62.56	66.00	66.00	61.00

Agency Overview

The Office of the Governor provides overall direction to state agencies within the Executive Branch to ensure compliance with statutes and efficient and effective management. The Office includes program area policy advisors, a State Affirmative Action Officer, a Citizen's Representative Office, a Minority, Women and Emerging Small Business Advocate, and provides clerical support for appointing members to boards and commissions. Two activities with statewide impact also are located in the Office of the Governor: the state's Economic Revitalization Team and the Arrest and Return program. The Economic Recovery Executive Team (ERET) was added, on a temporary basis, during the 2009 legislative session to oversee the stimulus dollars received in Oregon as part of the American Recovery and Reinvestment Act.

Revenue Sources and Relationships

The Office of the Governor is supported mainly by General Fund. Lottery Funds are used for the Economic Revitalization Team (ERT). Other Funds includes revenue transfers from the Departments of Administrative Services and Consumer and Business Services. These transfers finance the Affirmative Action and Minority, Women and Emerging Small Business (MWESB) programs. The Affirmative Action program is funded from the transfer of a Department of Administrative Services Human Resource Services Division assessment. The MWESB program is funded from assessments on agencies that have capital construction funded in their budgets and also receives funds from sponsoring conferences. The Federal Funds in 2005-07 were from a grant for the Office of Rural Policy. The grant is finished and no more new Federal Funds are expected, although some expenditures continued into 2007-09.

Current Service Level

The current service level is 27.3% General Fund and 1.80% total funds higher than the 2009-11 legislatively approved spending level at December 2010. The large increase in General Fund is due to a technical correction to the budget that occurred in 2009-11. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

The agency was able to accommodate allotment reductions from statewide revenue shortfalls in the 2009-11 biennium primarily by using one-time vacancy savings and salary reductions. To implement a 5% General Fund reduction in the current service level (CSL), reductions could be made in various services and supplies line items as well as some minor personal savings reductions. For reductions from CSL greater than 5%, it is likely that, in addition to the services and supplies actions, a reduction in personal services would be required. This could be either a reduction in positions or actions such as salary and/or benefit reductions.

Given that 80% of the agency's budget is personal services and about the same percentage is funded with General and Lottery Funds, a reduction of more than 15% would have a substantial impact on the ability of the Governor to oversee the Executive Branch. Traditionally, the Office has used resources from other agencies to supplement existing staff. While that would be an option, other agencies are also facing significant reductions and therefore those resources may be less available.

Oregon Historical Society – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	2,609,668	625,000	577,215	0
Total Funds	**$2,609,668**	**$625,000**	**$577,215**	**$0**

Agency Overview

The Oregon Historical Society (OHS) was chartered by the state in 1898 to collect, preserve, exhibit, and publish materials of a historic character. It serves Oregonians through six broad program categories. The Collections program preserves artifacts, books, photographs, films, manuscripts, recordings, and oral histories. The Support program provides support of local historical societies, museums, and heritage efforts statewide. The Facilities program includes the Oregon History Center's regional research library and museum and other sites. Education programs include the Society's mobile museum, school services (traveling artifact kits, museum programs, films, and slide shows), group tours, Folklife and public events, and teacher workshops. The Publications program produces the *Oregon Historical Quarterly* and books from its press. Heritage Services include coordination of the Century Farms and Ranch Program, the Oregon Geographic Names Board, liaison with more than 120 heritage organizations statewide, a speaker's bureau, and staff service on numerous councils, committees, and commissions.

Revenue Sources and Relationships

OHS is a nonprofit organization that is financed largely by membership fees, contributions, and publication sales. The state used to consistently provide a supplemental grant, but that support has been intermittent in recent biennia. In the past, the state grant amounted to slightly more than 10% of the Society's operating budget. The balance of the Society's budget has come from restricted gifts and grants, memberships and unrestricted grants, grants from local governments, operations, and investment income and bequests.

Current Service Level

The current service level for OHS includes the phase-out of all General Fund approved in 2009-11.

Budget Environment and Potential Reductions

While the phase-out of funding at current service level is consistent with past practice, OHS has sought to reestablish the grant each biennium. However, funding constraints over the last decade has caused the Legislature to substantially reduce or eliminate funding in most budget periods.

In November 2010, Multnomah County voters approved a five-year property tax levy expected to provide OHS from $4.5 to about $5 million each biennium over the next two biennia. This would support about one-half of operations at the agency's facilities. It is likely OHS will continue to seek state General Fund even with this additional funding in hand.

Oregon State Library – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	3,207,437	3,387,024	3,128,064	3,667,545
Other Funds	6,862,070	7,176,422	7,176,422	7,543,197
Federal Funds	4,160,813	4,710,785	4,710,785	4,888,461
Total Funds	**14,230,320**	**$15,274,231**	**$15,015,271**	**16,099,203**
Positions	45	44	44	44
FTE	43.26	42.26	42.26	42.26

Agency Overview

The Oregon State Library's (OSL) mission is to provide information services to state government, provide reading materials to blind and print-disabled individuals, and provides leadership, grants, and other assistance to improve local library services. Trustees of the State Library consist of seven members appointed by the Governor who are responsible for setting policy for OSL and adopting long-range plans for library services statewide.

Forty-four positions (42.26 FTE), organized into the following four program areas, support the mission of OSL:

- ***Administration*** ($1.4 million, 5.68 FTE) coordinates the mission and goals of the agency and manages the finance, human services, and volunteer functions of the agency.
- ***Library Development*** ($7.6 million, 6.00 FTE) is responsible for assisting approximately 1,600 local libraries and improving the overall quality of library services in the state through distribution of federal (LSTA) and state (Ready to Read) grants; facilitating school and local library access to a variety of electronic databases; consultation and dissemination of information on youth services; compilation of library statistics; and documenting challenges to library materials.
- ***Talking Book and Braille Services*** ($1.7 million, 8.74 FTE), in cooperation with the Library of Congress, provides books, book players, and postage at no cost to Oregonians, provides reading materials in audio-recorded or Braille formats to individuals with limited vision or other disabilities that prevent the use of books and printed materials. OSL is responsible for maintaining the inventory of materials and distribution.
- ***Government Research and Electronic Services*** ($5.4 million, 21.84 FTE) provides research assistance to state government; develops and maintains the State Library collection; the OSL's online information services; and the Oregon.gov search engine. In addition, the general public obtains special information concerning state and federal government publications, Oregon history, and genealogy through a partnership with the Willamette Valley Genealogical Society.

Revenue Sources and Relationships

OSL is funded with 23% General Fund, 47% Other Funds, and 30% Federal Funds.

Other Funds revenues are generated from three main sources as follows: an assessment on all state agencies, except the Department of Higher Education, for the portion of expenditures that support state agencies (approximately $6.8 million); donations and interest income ($454,051); reimbursements from local libraries for their portion of costs associated with database licensing ($150,000); and miscellaneous receipts ($198,050).

OSL expects to have $9.7 million in Other Funds revenue to support its current service level, which includes a beginning balance of $2.2 million. OSL's ending balance is estimated to be $2.1 million, which represents a reserve of 6.8 months. Historically, there have been no instances where OSL Other Fund balances have been transferred to the General Fund.

OSL's Other Funds include donations and bequests, most of which are attributable to the Talking Book and Braille Services (TBABS) *Donation* Fund and the TBABS *Endowment* Fund. The Funds have a projected beginning balance of $217,108 and $831,859, respectively. ORS 357.015(6) gives the Library board of trustees authority to "have control of, use and administer the Donation Fund for the benefit of the State Library, except that every gift, devise or bequest for a specific purpose shall be administered according to its terms." The trustees have adopted a policy of using TBABS Donation Funds for TBABS program enhancements (not regular operating funding), however, recently interest earnings from the Endowment Fund have been used for operating expenses. OSL plans to expend approximately $285,851 TBABS donation funds on operations and enhancements, leaving a projected combined ending balance for the TBABS Donation and Endowment Funds of $1,212,667.

OSL receives Federal Funds from the Institute of Museum and Library Services under the Library Services and Technology Act (LSTA) per a population-based formula. The budget assumes Federal Funds pursuant to this grant in the amount of $4.9 million. There is also $150,000 of unspent Federal Funds carry forward from the 2009-11 biennium. The LSTA grant requires a 34% match rate as well as a maintenance of effort based on the average of the last three years of non-federal library expenditures relevant to the priorities of LSTA. Reductions in state funding result in an identical percentage reduction in LSTA funding.

Current Service Level

The current service level is 7.2% higher ($1.1 million) than the 2009-11 legislatively approved spending level at December 2010. General Fund increased by 17.2% ($539,481), Other Funds by 5.1% ($366,775), and Federal Funds by 3.8% ($177,676). It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The growth in General Fund expenditures would have been 8.3% ($280,521), but for the restoration of $258,960 in temporary across-the-board allotment reductions ordered by the Governor that occurred during the 2009-11 biennium.

OSL's budget is comprised of 42% personal services ($6.8 million), 31% services and supplies/capital outlay ($5 million), and 27% ($4.3 million) special payments primarily to local libraries.

The budget removes $737,477 of Other Funds expenditure limitation (participating libraries) related to a reduction in a statewide database licensing contract. The entire cost of the contract can now be paid exclusively with Federal Funds. This action is necessary to balance OSL's projected Other Funds revenues and expenditures. There is also a fund shift that moves a state library specialist position (1.00 FTE) from Other Funds (endowment funding) back to General Fund. The General Fund cost of the position becomes $95,712.

Budget Environment and Potential Reductions

The budget environment centers around the competing needs of providing grant assistance to local libraries and providing reading material to blind and print-disabled individuals.

Of the three sources of funding for the OSL, General Fund, Other Funds, and Federal Funds, each will likely be in decline over the biennium. For the local library grants in particular, the ability to maintain state matching funds for continued receipt of the federal LSTA grant funds will be in question as state matching funds are possibly reduced, unless the federal government provides relief to the state's maintenance of effort requirement.

OSL's Other Funds assessment revenue stream used to support information research services for state employees and OSL's administrative services program is uncertain as it is based partially on the current number of state employees, the number of which will decline during the 2011-13 biennium due to budget reductions necessary to balance the state's budget. This revenue stream has a General Fund component since some agencies use General Fund to pay for their per-employee assessment. A decrease in the per capita assessment on state employees, however, would produce General Fund savings to other agency budgets.

Lastly, new private donations and interest income generated from donations are in decline and principal amounts may be drawn upon more heavily as a replacement for General Fund resources.

The OSL's General Fund reduction plan is to reduce the Library Development Program Ready-to-Read grants to local libraries, which would translate to fewer early childhood and summer reading services. This reduction would not impact OSL positions or FTE as they are comprised of transfer of funds to local libraries. This would, however, result in a reduction of LSTA federal funding.

Other possible reduction options include moving the OSL to a 100% assessment model. There may also be the opportunity to merge the OSL into another of the state's library systems.

Oregon Liquor Control Commission – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	120,573,770	134,285,467	134,285,467	138,535,660
Total Funds	**$120,573,770**	**$134,285,467**	**$134,285,467**	**$138,535,660**
Positions	232	238	238	237
FTE	224.72	230.72	230.72	229.72

Agency Overview

The Oregon Liquor Control Commission (OLCC) regulates all individuals and businesses that manufacture, sell, import, export, or serve alcoholic beverages. It also educates and trains liquor licensees, the public, and other groups; and investigates and takes action when necessary against those who violate liquor laws. The five-member Commission is appointed by the Governor and confirmed by the Senate.

The OLCC's responsibilities are carried out among the following programs, as follows:

- **Distilled Spirits –** ***Wholesale Services*** responsibilities include analyzing trends in customer buying and new product availability; purchasing and securely warehousing the liquor; arranging for the shipment of products to the state's retail liquor stores; and settling claims for damaged or defective goods. The Division ensures adequate liquor inventories and a varied selection to satisfy consumer demand. ***Retail Services*** oversees operation of the statewide retail liquor store system, which consists of 243 retail outlets run by contract agents. Funding for agents' compensation is in a separate program, although it is related to the Retail Services Division of the Distilled Spirits program.
- **Public Safety Services** is responsible for regulating the manufacture, distribution and sale of alcoholic beverages. The program issues liquor licenses and ensures compliance with liquor laws and OLCC regulations. The program includes the following activities: ***License Services,*** which investigates and processes license applications for annual and temporary licenses and alcohol service permits, handles renewal applications, and oversees server education providers; ***Enforcement and Compliance Services*** operates 10 regional offices throughout the state to locally conduct license investigations, responds to complaints, investigates liquor law violations, and works with licensees and local communities to ensure compliance with liquor laws and resolve problems created by licensed businesses or their patrons; and ***Administrative Policy and Process Services,*** which is responsible for reviewing investigative reports and related preparations for contested case hearings, and developing, reviewing, and amending administrative rules.
- **Administration and Support Services** includes agency operational functions, including human resources, auditing, performance measurement, staff training, research and analysis, communications with stakeholders (including licensees, the legislature, and the public), purchasing, contracting, motor pool, facilities maintenance, mail, budget, accounting, revenue estimates, electronic data systems including inventory control and licensee databases.
- **Store Operating Expenses** is the expenditure limitation to pay contract agents who operate the state's 242 retail liquor outlets, and amounts to 58.5% of the agency's current service level expenditures. Agents are paid monthly using a formula based primarily on store sales and on whether the store is exclusive (i.e., sells only liquor and related items) or non-exclusive (store is run in conjunction with another business, such as a drug or grocery store). Out of the compensation, agents pay liquor store rent, insurance, telephone, utilities, business taxes, employee salaries and benefits, and other operating costs. From the remainder, they pay their own salaries, benefits, and personal taxes.
- **Capital Improvements and Construction** reflects OLCC costs of major deferred maintenance and improvements to OLCC facilities. OLCC owns an office, warehouse, and distribution center complex in Milwaukie, which ships all bottled distilled liquor and houses most agency personnel.

Revenue Sources and Relationships

The agency is entirely supported by Other Funds revenues generated from liquor sales (96%), privilege taxes on malt beverages (beer) and wines (3%), license fees and fines, server education fees, and miscellaneous income (1%). Unless otherwise directed, a statutory distribution formula specifies that 50% of the privilege tax revenues ($38 million for 2011-13) are first allocated for payments to the Mental Health Alcoholism and Drug Services

Account ($18.7 million), and $654,000 is assumed to be transferred to the Wine Advisory Board. The remaining privilege tax revenues, along with all other revenues (primarily from liquor sales), are first used to pay contracted liquor agents and to finance Commission operations (including liquor purchases). The excess balance ($334.6 million in the 2009-11 biennium) is apportioned to the state General Fund (56%), and to city (34%) and county (10%) general funds.

Even though Other Funds revenues support OLCC operations, the agency's expenditures directly affect the General Fund. Per current law, each dollar spent by the Commission represents 56 cents in liquor revenues that will not go into the state's General Fund, and 44 cents that will not go to local governments. For this reason, an appropriate balance is sought between keeping operating costs as low as possible and making expenditures that are necessary to enhance the generation of revenue while maintaining a controlled distribution environment. Some significant revenue enhancement decisions, such as the amount of markup (currently 106%) and the institution of a per-bottle surcharge, rest with the Commissioners; privilege tax rates on beer, cider, and wine are statutory (ORS Chapter 473).

The 2011-13 current service level budget is expected to result in gross liquor sales amounting to $891.4 million, and a total of $187.4 million available for distribution to the General Fund. Other revenue distributions are assumed as follows: $66.9 million for cities; $46.8 million for city revenue sharing; and $33.5 million for counties. These figures reflect the sunset of a $0.50 per bottle surcharge imposed by the Oregon Liquor Control Commission for the 2009-11 biennium.

Current Service Level

The current service level is 0.8% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

The economic recession that began in 2009 had demonstrable implications for OLCC sales. As of this writing, OLCC assumed that gross sales would be 4-6% below what was assumed in the 2009-11 legislatively approved budget.

As was previously noted, OLCC seeks to strike a balance between meeting customer demand for distilled spirits (thereby generating revenue for the state, cities, and counties) while maintaining a controlled distribution environment. Enhancing returns to the General Fund could theoretically take the following forms: increasing revenue (markup on product, bottle surcharge, privilege tax increases); reductions to agency expenditures; changes to statutory distribution formula (reducing or eliminating the percentage of funding that goes to Mental Health, cities and counties); or a combination of those strategies.

During the 2009 legislative session, the Commission, which has the statutory authority to set liquor prices, implemented a $0.50 per bottle surcharge for the duration of the 2009-11 biennium. This surcharge generated an estimated $27 million in gross revenue, and after dispenser discounts and agent's compensation, produced an estimated $23.9 million in additional General Fund revenue by bypassing the regular statutory distribution formula. It is estimated that if the surcharge were continued in 2011-13, it would generate approximately $29 million in gross revenue. The decision regarding whether to continue the surcharge rests with Commissioners.

The Distilled Spirits program comprises 14.5% of agency current service level expenditures; program prioritization by the agency suggests that reductions would first occur forgoing payment of bank card fees (OLCC currently pays these expenses for retail outlets), and retail support reductions to agents, which could have the unintended consequence of negatively impacting sales (by impacting customer convenience and failing to maximize retail potential). The Public Safety Services program comprises 14.8% of agency current service level expenditures; program prioritization suggests that reductions to this program would first occur in the areas of server education and licensing. The Administration and Support Services program comprises 12% of the agency's current service level expenditures; program prioritization suggests that reductions would first occur in the motorpool, agency services and supplies, and information systems. The Capital Improvement program accounts for less than 1% of agency current service level expenditures and is not a significant source of savings.

Liquor agent compensation accounts for roughly 58.5% of OLCC's total expenditures, and is budgeted at an average rate of 8.88% of total sales. The Legislature approved a reduction to this average compensation rate during the 2008 special legislative session to help increase returns to the General Fund and balance the state budget. Reducing agent's compensation remains an option for reducing agency expenditures, but the "optimal" compensation rate (which maximizes sales and return to the General Fund while ensuring that agents have enough capital to meet expenses and satisfy customer demand) is difficult to calculate and sensitive to external factors (such as local lease rates and seasonal traffic or purchasing patterns). Should the Legislature choose to adjust the average compensation rate paid to agents, the decision should be made in advance of the beginning of the biennium, to give agents an opportunity to plan and adjust business practices as necessary to accommodate the change in compensation level.

OLCC included the following policy option packages in its agency request budget:

- Maintain licensing services by; extending a limited duration Liquor Regulatory Specialist (licensing investigator); hiring a limited duration Information Systems Specialist to complete work on the agency's online renewal system; and reclassify existing positions to accurately reflect duties ($336,816 Other Funds, 2.00 limited duration FTE).
- Contract for a regular, ongoing alcohol awareness media campaign and provide grant funding to other local and not-for-profit partners for similar efforts ($1,500,000 Other Funds).
- Create an automated sortation system for the OLCC distribution center to allow the processing of up to 250 additional cases of distilled spirits per hour, in anticipation of future demand ($4,090,243 Other Funds).
- Remove the expenditure limitation on store operating expenses, thereby making liquor agents' compensation a nonlimited expenditure.
- In the event of the approval of nonlimited agent compensation, provide for additional compensation to agents who post year-over-year sales growth, thus encouraging (though not requiring) investments in retail improvements by agents ($700,000 Other Funds).

Oregon Public Broadcasting – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	0	125,000	115,443	0
Lottery Funds	1,725,427	1,882,590	1,882,590	1,877,987
Other Funds	3,000,000	0	0	0
Total Funds	**$4,725,427**	**$2,007,590**	**$1,998,033**	**$1,877,987**

Agency Overview

The Oregon Public Broadcasting (OPB) is an educational and public broadcasting network serving Oregon through noncommercial public television and radio stations. Its network consists of five television and four radio stations, plus 48 translator/repeaters throughout Oregon. The television stations reach an estimated 90% of Oregonians and the radio stations reach between 80% and 90% of Oregonians. Educational programming (formal and informal) is a significant portion of television, while news and information is the main thrust of radio. OPB also is part of the state's Emergency Alert System.

Revenue Sources and Relationships

The 1993 Legislative Assembly privatized OPB and provided for a supplemental grant through the Department of Administrative Services. The original grant represented about 10% of OPB's estimated revenue. Most of OPB's revenue comes from private contributions. The federal government provides some funding, and OPB also receives sales and service revenue. The operating grant to OPB was reduced during the 2001-03 biennium and no grant funds were provided in the following biennia.

Over the last decade, the Legislature has provided OPB with grants for infrastructure development. These grants, $7 million in 2001-03 and $3 million in 2007-09, were supported with Lottery bond proceeds. Lottery Funds are used to pay the debt service on the bonds. Pass-through grant expenditures and debt service costs are technically included in the budget of the Department of Administrative Services, but are displayed separately in Legislative Fiscal Office publications.

Current Service Level

The current service level for OPB includes the phase-out of all General Fund approved in 2009-11 and continues to support debt service payments for existing lottery bonds.

Budget Environment and Potential Reductions

Since 2001-03, OPB has sought reinstatement of the operating grant. For 2009-11, the network did originally receive $125,000 General Fund for operations; that figure was since subject to allotment reduction actions.

Public Employees Retirement System (PERS) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	83,094,363	81,583,703	84,685,027	75,881,868
Other Funds (NL)	6,085,705,691	6,476,885,664	6,476,885,664	7,434,012,310
Total Funds	**$6,168,800,054**	**$6,558,469,367**	**$6,561,570,691**	**$7,509,894,178**
Positions	394	362	368	325
FTE	393.50	361.55	363.18	324.50

Agency Overview

The Public Employees Retirement System (PERS) administers the retirement system covering employees of state agencies; public school districts; and most cities, counties, and special districts in Oregon. The agency also administers a voluntary deferred compensation program for the state and some local governmental units. PERS is responsible for all fiduciary activities performed on behalf of system members. These include receipt of contributions into the retirement trust and deferred compensation trust funds, retirement counseling, retirement benefit determination, and retirement benefit payment. However, the Oregon Investment Council invests the retirement system assets, while deferred compensation plan assets are handled by private fund managers. The five-member Public Employees Retirement Board has broad authority for operation of the programs. Day-to-day operations are carried out by the Board-appointed Director and agency staff.

PERS – Retirement Programs

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds (NL)	6,085,705,691	6,476,885,664	6,476,885,664	7,434,012,310
Total Funds	**$6,085,705,691**	**$6,476,885,664**	**$6,476,885,664**	**$7,434,012,310**

Program Description

PERS retirement programs include the Tier 1, Tier 2, Oregon Public Service Retirement (OPSRP), and Individual Retirement Program (IAP) plans. The Tiers 1 and 2 plans are now closed programs (no new members can be added) because of PERS reform legislation passed during the 2003 legislative session. Tier 1 plan members are employees that were hired before January 1, 1996. Tier 2 members are employees hired on or after January 1, 1996 and have a different level of benefits.

The 2003 Legislature also established OPSRP for employees hired after August 28, 2003. OPSRP provides for an employer funded retirement benefit and a mandatory employee contribution of 6% of salary and wages into an IAP account. The same legislation redirected Tier 1 and Tier 2 member employee contributions into IAP accounts beginning January 1, 2004.

The nonlimited expenditures for these programs cover account balance refunds and retirement benefit payments ($7.1 billion); health insurance premiums and subsidy payments ($346 million); and third-party health insurance and IAP plan administrator costs ($11.5 million). Other administrative costs for these programs are budgeted under PERS Operations. Those administrative costs are funded by revenue transfers from the plans to the Operations program.

Revenue Sources and Relationships

The Other Funds revenue is mainly from employer contributions to the retirement system ($3.1 billion) and retirement trust fund investment earnings (about $7.1 billion). A nominal amount of revenue comes from employee contributions by judges and retiree payments for health care insurance. Employer contribution rates are established by the Public Employees Retirement Board based upon advice from its consulting actuary. The Board also determines the level to which certain statutory reserves will be funded from earnings on plan assets.

Current Service Level

The current service level is 14.8% higher than the 2009-11 legislatively approved spending level at December 2010. It provides for payment of refunds, health insurance, retirement benefits, and health plan and IAP plan third-party administrator costs expected during the biennium.

Budget Environment and Potential Reductions

System-wide employer contribution rates for the 2009-11 biennium average approximately 5.2% of PERS covered payroll after applying side account offsets. Those employer rates were based on PERS' December 31, 2007 system valuation.

For 2011-13, primarily because of 2008 investment losses, employer rates (net of side accounts) will increase by a system-wide average of 5.6% to a total of 10.8% of PERS-covered payroll. The actual rate increase will vary by employer based on funded status and side account utilization. These rates are based on the December 31, 2009 valuation. The estimated fiscal impact of the 2011-13 net rate increase is about $550 million per year across state agency, school district, and local government budgets.

The rate increases have generated much discussion about and interest in additional system reforms or cost-cutting strategies. PERS staff recently provided the Board with an analysis of several concepts that have been in the public discussion of ways to mitigate or reduce PERS costs. These include cost allocation strategies, such as eliminating or reducing the employer "pick-up" of member IAP contributions, and benefit modification ideas, such as creating a fourth tier of defined benefits for new hires. The analysis also addresses system financing concepts. Estimated cost savings vary among concepts, from a few million dollars for limiting employer "pick-up" rates to about a billion dollars for across the board benefit reductions.

PERS – Operations and Debt Service

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	83,094,363	81,583,703	84,685,027	75,881,868
Total Funds	**$83,094,363**	**$80,160,628**	**$84,685,027**	**$75,881,868**
Positions	394	362	368	325
FTE	393.50	361.55	363.18	324.50

Program Description

The Operations program is responsible for the administrative costs of maintenance of employer and employee accounts, processing of retirements, determination of disability retirement benefits, and payment of retirement benefits. It also administers group health insurance plans for retirees and the federally mandated Social Security Administration program. Additionally, the Operations program administers deferred compensation programs for state employees and employees of local governmental units.

Central Administration provides the central direction, planning, and leadership for the PERS organization. It consists of the Board, Director, Deputy Director, Human Resources, and Internal Audits. Additionally, the deferred compensation and health insurance programs are located in Central Administration.

Benefit Payments is primarily responsible the calculation and issuance of retiree benefits. Other responsibilities include processing divorce orders, disability claims, death benefits, and benefit adjustments.

Fiscal Services provides most business and central support services to the other agency divisions. This includes financial reporting, coordination of actuarial information, accounting, trust tax compliance, and fiscal operation functions such as procurement, cash receipts and disbursements, payroll, budget, and cost allocation. Other responsibilities include shipping and receiving, building management, and mail services.

Information Systems provides all data processing and telecommunications services for the agency. It maintains the aging Retirement Information Management System (RIMS), and the newly acquired *jClarety* retirement system. The Division continues the conversion of necessary data and applications from the existing RIMS to the new *jClarety* processing system. The Division also provides systems development services, and handles the scheduling and processing of agency data. It also is responsible for the management, retention, storage, and retrieval of agency records.

Policy, Planning, and Legislative Analysis is responsible for fiscal and administrative policy coordination, legal services management, contested case hearings, administrative and business rules, and legislative analysis. It is also responsible for the Social Security Administration program for Oregon's public employers.

Customer Services oversees employer reporting, maintains member employment and account information, and provides employee member counseling, education, and communications services for the Tier 1 and 2 plans and the Oregon Public Service Retirement Plan.

Debt Service accounts for the debt service requirements of the agency. For 2011-13, debt service in the amount of $1.4 million covers payments on certificates of participation (COPs) that were issued for purchase of land and construction of agency headquarters in Tigard. COPs were also issued in 2003 for the acquisition of the jClarety pension system for the new OPSRP; these were paid off in 2009.

Revenue Sources and Relationships

The Operations program revenue is derived mainly from revenue transfers received from the Tiers 1 and 2 and OPSRP programs. Additionally, revenue to support the deferred compensation program is from a charge on deferred compensation trust fund assets. Revenues also come from administrative fees assessed on participants and employers for social security administration activities and other miscellaneous non-customary services.

Current Service Level

The current service level is 10.40% lower than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. These increases are offset by the phase-out of limited duration positions and program activities which are primarily related to agency workload.

Budget Environment and Potential Reductions

PERS Operations have been in a state of transition since the PERS reform legislation of 2003. Operational changes coinciding with those reforms included appointing of a new Board, replacing of an aging retirement information system, hiring new agency management, changing employer reporting, and processing a record number of retirements.

The Board had hoped to have operations essentially stabilized by the end of the 2007-09 biennium. However, the level of system and human resources needed to manage three retirement plans – for an ever increasing number of retirees – has continued to drive some growth in the agency's budget. In addition, results of litigation associated with the 2003 reforms and ongoing legislative changes continue to require system modifications and increase workload.

PERS has been processing about 6,000 retirements annually, a volume that is supported by the current service level budget. Based on demographics and retirement trends, the agency expects that number to grow to just under 9,000 in 2013. Additionally, the number of overall members served – active, inactive, and retired – continues to grow. The agency has to maintain records for and interact with both the active and inactive members. Retirees also require continued support and assistance. Questions and concerns about health care plans, publicized investment returns, annual 1099R statements, and others all tend to generate contacts from retirees. While the agency tries to communicate as much as possible via the internet and newsletters, retirees continue to seek additional information via emails, letters, or telephone calls. All of these interactions require a response from staff.

2009 legislation affecting PERS include HB 2704 regarding the elimination of Workers' Compensation benefits in calculating disability retirement; SB 112 regarding provisions for lump sum retirees reemployed by public employers and limitations on hours of employment for certain positions; HB 3401 regarding public employers' use of excess side account dollars to offset IAP contributions; SB 399 regarding members making purchases with pre-tax dollars transferred from certain other retirement plans; and SB 897 regarding data verification of certain information before retirement.

At the May 2010 meeting of the Emergency Board, the agency received $2.6 million Other Funds expenditure limitation and 6 positions to implement the last two measures noted above. Even with the additional resources, PERS will likely need to delay other work and prioritize verification tasks over benefit estimate and withdrawal processing functions to meet the new statutory requirements.

The agency's reduction list required by statute lays out options for reducing direct services to customers, such as toll-free telephone lines and printed newsletters, and eliminating information technology resources and other staff supporting agency systems and business processes. Since the agency's operational budget is a small component of the retirement systems' cost, reducing it alone would not result in lower rates for employers. If a reduction in the agency's footprint is desirable, decisions to decrease the budget should acknowledge and account for associated impacts on customer service and agency performance.

Racing Commission – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	5,663,042	5,941,351	5,941,351	6,365,833
Total Funds	**$5,663,042**	**$5,941,351**	**$5,941,351**	**$6,365,833**
Positions	16	16	16	16
FTE	14.52	14.52	14.52	14.52

Agency Overview

The Oregon Racing Commission regulates all aspects of the pari-mutuel industry in Oregon. The Commission oversees horse racing at Portland Meadows Racetrack and at five county fair race sites. The Commission also regulates off-site simulcast of races and Multi-jurisdictional Simulcasting and Interactive Wagering Totalizer Hubs (hubs). The Commission's goals include promoting horse racing in Oregon while ensuring the integrity of the sport as well as the safety of the contestants, public, and animals. Regulatory activities of the Commission include licensing, inspections, and investigations of irregularities.

Revenue Sources and Relationships

Revenues are derived from the state share of wagering receipts, license fees, and licensee fines. All fee revenues received are used for Commission expenses. Any Commission revenues in excess of expenses and maintenance of a prudent ending balance are transferred to the General Fund. The state's share of total bets made at horse racing tracks and on simulcast horse races is 1%. Live racing-related revenues for 2011-13 are projected to remain static. The Commission has introduced legislation (Legislative Concepts 597 and 598) that would: (1) require totalizator companies that provide the hardware that processes wagers, and other functions, to pay a fee to obtain a business license through the Commission; and (2) allow the Commission to raise the base fee from $10 to $20 on all meet participants, including owners, jockeys, grooms, and vendors. Fees have not been raised since they were first implemented in 1979. If the legislation is passed, the Commission projects that the increase in fees will raise approximately $50,000 in the second year of the 2011-13 biennium.

The 1997 Legislature authorized the establishment of hub racing in Oregon and provided that up to 1% of gross wagering receipts, which is the pari-mutuel tax, could be collected. The Commission, by rule, allows each hub to select one of three tax formula options. In general, these options result in the Commission collecting about 0.25% of gross wagering receipts. One of the options sets a cap on how much any one hub will pay during a fiscal year. Of the taxes collected, one-third is transferred to the General Fund; the 2011-13 current service level projects $1,053,752 in these transfers. The remaining two-thirds are deposited in the Racing Development Fund to be used by the Commission for "the benefit of the Oregon pari-mutuel racing industry." This money has been used in the past to enhance race purses, make safety improvements at race meet sites, provide jockey incentives, and promote thoroughbred breeding. The Commission also collects a license fee of $200 per operating day from the eleven Hubs currently licensed in Oregon.

Current Service Level

The current service level is 6.7% more than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. Expenditures at the current service level would result in a revenue shortfall (approximately $537,581) for the Commission.

Budget Environment and Potential Reductions

Both live and simulcast hub racing are in an era of uncertainty in Oregon. The industry has failed to attract younger consumers. As the core racing patron demographic ages, a new generation of patrons must be cultivated in order for the industry to survive. Furthermore, state-run lotteries, video poker, online gambling, and tribal casinos compete for some of the same money spent on racing, offering modern day consumers additional gambling opportunities. In addition to demographic trends, competition, and the national economic downturn, the industry is plagued by accusations of substance and animal abuse.

The sustainability of Portland Meadows, the only remaining commercial meet in Oregon, is uncertain. Magna Entertainment, the parent company, recently completed a bankruptcy process. They continue to own Oregon Racing, Inc., doing business as Portland Meadows. In late 2007, Magna Entertainment announced that it will sell its interest in Portland Meadows.

Currently, there are eleven hubs licensed in Oregon. Revenue from hub racing has saved live racing at the county fairs and has contributed to the purses at the Portland Meadows commercial race meet. The jockey incentive program, regulatory video, regulatory photo finish, summer stabling, safety improvements, and Greyhound Adoption Kennel have also received funds generated by hub revenue. Although the Commission has implemented a number of initiatives in an effort to make it easier for hubs to do business in Oregon, as more states have established laws to govern hub racing, Oregon hubs have the option of relocating. The 2011-13 revenue projections assume that eleven hubs will be licensed throughout the biennium and each will operate 364 days per year. The relocation of hubs to other states would have a significant negative impact on the Commission's fiscal health.

Expenditures at the current service level would result in a revenue shortfall (approximately $537,581) for the Commission. The agency proposes the following measures to reconcile expenditures with declining revenues from pari-mutuel tax from multi-jurisdictional hubs:

- Reduce distributions to county fairs and other agencies. Eliminate one public service representative position, and the reduction of a racing worker position (1.25 FTE) to adjust to available workload ($893,791).

These budget shortfall measures would leave the Commission with an ending balance of $356,210, which is which is approximately equivalent to 1.6 months of operations.

Other reduction options include:

- Eliminate standard inflation from standard Services and Supplies accounts ($80,061).
- Allow the Commission to discontinue paying for video patrol at Portland Meadows. This would shift the cost to Portland Meadows Race Track, and would require statutory amendment ($120,000). The revenue source for this expense is pari-mutuel tax and licensing fees.
- Further reduce distributions to the Oregon Horsemen's Benevolent and Protection Association (OHBPA), the Oregon Thoroughbred Breeders Association (OTOBA), and the Oregon Quarter Horse Racing Association (OQHRA). This would reduce the funds distributed to these organizations to offset costs of owners and breeders, and to promote local race meets ($430,000). The revenue source for this expense is pari-mutuel tax from multi-jurisdictional hubs.

Department of Revenue – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	145,212,294	152,533,566	143,053,792	167,090,664
Other Funds	30,475,737	33,434,358	37,750,575	41,424,261
Other Funds (NL)	240,508	263,830	263,830	270,162
Total Funds	**$175,928,539**	**$186,231,754**	**$181,068,197**	**$208,785,087**
Positions	1,035	1,081	1,108	1,086
FTE	959.96	1,012.26	1,026.89	1,019.40

Agency Overview

The Department of Revenue (DOR) administers the state's income tax and property tax programs. In addition, the agency collects revenue from a variety of sources and transfers it to various state and local agencies. These revenue sources include taxes on: cigarettes and other tobacco products; amusement devices; payroll (for local mass-transit); timber, oil, and gas severance; and the harvesting of forest products. DOR also collects and distributes hazardous substance fees, court fines and assessments, and taxpayer check-off donations; serves as the collection agency for fines, forfeitures, and assessments owed to state agencies; and administers property tax relief programs for senior citizens and persons with disabilities. Altogether, the tax programs the Department administers generate 96% of General Fund revenue and 88% of local government revenue.

Revenue Sources and Relationships

The Department is mainly supported by the General Fund. Other Funds revenue, which supports about 20% of agency operations costs, is derived from charges to various Other Funds tax, fee, assessment, and other programs to cover administrative costs. Time and activity studies are used to determine each program's administrative costs and corresponding charges. A statewide grant program also helps pay for assessment and taxation costs, providing Other Funds revenue to DOR and to counties. The associated funding comes from interest paid on delinquent property taxes and from a document recording fee. A portion of each recording fee ($1) is dedicated to the development of a statewide mapping system to improve the administration of the property tax system.

DOR's budget has historically been appropriated at the agency-wide level. The agency uses a series of sections, division, and programs to carry out its duties. These functional units and programs are described below.

Program Description

Executive Section (17.00 FTE) is responsible for overall administration of the agency and for coordinating the agency's legislative, rulemaking, communications, and internal audit functions.

Strategic Planning/General Services Section (9.00 FTE) is a newly reorganized section chartered to lead the agency's transformation initiative and movement toward achieving the agency's strategic goals. This section also continues to contain the budget for recording all revenues that flow through the Department.

Administrative Services Division (278.99 FTE) provides computer processing systems and support services agency-wide, processes incoming tax returns, scans returns for errors, processes and banks tax payments, enters and transfers taxpayer data to computer storage, and maintains information files. This Division also provides the Department's purchasing, personnel, facilities management, accounting, and other fiscal support.

Property Tax Division (115.33 FTE) oversees the property tax system and ensures that Oregon's 36 counties comply with all property tax laws and rules. The Division develops procedures, advises and trains county staff, and conducts reviews of county actions. Responsibilities also include conducting appraisals on all industrial manufacturing plants valued at $1 million or more; appraising all utility, transmission, communication, and transportation properties; administering several timber tax programs; and overseeing the Oregon Map Project (ORMAP). The project is responsible for development of a statewide property tax lot base map that is digital, continually maintained, and publicly accessible.

Personal Tax and Compliance Division (386.49 FTE) administers the personal income tax program. Responsibilities include auditing and encouraging voluntary compliance for the personal income tax, collecting delinquent personal income taxes, and collecting local option taxes. In addition, the Division administers the Elderly Rental Assistance Program, and provides help to taxpayers by telephone (Tax Help Section) and through informational publications.

Business Division (212.59 FTE) administers several tax programs, including corporate income and excise taxes, the employer withholding tax, the transit payroll and self-employment taxes, the fiduciary, inheritance, and cigarette taxes, and other agency accounts and special programs. Responsibilities include auditing tax returns and collecting delinquent taxes and other delinquent accounts. The Division also provides debt collection services for state and local agencies and for state and municipal courts in all 36 counties.

Multistate Tax Commission (no FTE) program records the Nonlimited expenditures for dues related to Oregon's participation as a compact member of the Multistate Tax Commission, which has 26 dues-paying members (states). The Commission works on behalf of states and taxpayers to equitably administer tax laws that apply to multistate enterprises. It also promotes uniformity or compatibility in tax systems and taxpayer convenience. Dues to the Commission are proportional to the amount of tax revenue each state collects.

Elderly Rental Assistance (no FTE) program provides direct tax relief to elderly, low-income renters. Benefits are based on income levels and the amount of rent, fuel, and utilities paid. The benefits are available to renters age 58 or over with household incomes under $10,000, with household assets (if under age 65) that do not exceed $25,000, and having gross rent in excess of 20% of household income. Through this program, payments are also made to local governments in lieu of property taxes on certain tax-exempt housing for the elderly.

Senior Citizens' Property Tax Deferral (no FTE) program allows homeowners age 62 and over and disabled persons who meet program income limits to defer payment of property taxes and special assessments until the owner dies, sells the property, or stops using it as a principal residence. The state pays the tax and obtains a lien on the property for the tax and for accrued interest at the rate of 6% per year. The deferred taxes and interest are collected when the property is disqualified. As properties are disqualified and their deferred taxes are paid, monies received finance the taxes the state pays under the program.

Current Service Level

The current service level is 15.3% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Budget Environment and Potential Reductions

The agency is dependent on General Fund to support core programs. Very few of the agency's programs can be reduced without directly impacting the state's General Fund revenue stream. During the 2009-11 beinnium, the agency's proposed allotment reductions brought this issue to the forefront. Due to concerns about potential field office closures and an associated loss in General Fund revenue, the Emergency Board allocated $1.9 million General Fund to help keep field offices open in the short-term. An additional $2.5 million will be needed to keep field offices open through the end of the 2009-11 biennium.

The agency was able to handle about $7 million in 2009-11 allotment reductions through a series of management actions. These included instituting a hiring freeze, capturing project savings, and reducing planned spending. While these actions were mostly one-time in nature, the agency may have capacity to absorb some 2011-13 reductions, perhaps in the 10% range, without have a negative impact on revenue generation. This likelihood will depend on the specific reductions and whether or not they reflect potential statewide strategies for cutting inflation or labor costs.

The agency's proposed budget reduction options include shifting $1.7 million in General Fund to Other Funds made available by charging collection fees to delinquent taxpayers. Other choices include reducing support for collections, auditing, enforcement, and other activities in the income tax programs; decreasing assistance to local property tax offices; and reducing infrastructure support across agency programs. At the 25% reduction level, DOR would propose an extensive reorganization and mission shift to focus solely on the voluntary compliance system for income taxes and provide minimal oversight for the property tax program.

Agency reductions in general are inconsistent with program enhancements approved by the 2009 Legislature, which added positions to increase compliance efforts, along with resources to collect additional assessments (taxpayer liabilities) resulting from the increased level of compliance activity. In addition, HB 3698 (2010) created a new program, the Building Opportunities for Oregon Small Business Today (BOOST) program, using revenue derived from increased audit work at DOR. Those positions were funded with Other Funds in 2009-11, but DOR will need about $6 million General Fund to sustain the program and its 27 positions through 2011-13; this timeline was originally anticipated by the legislation. Both the agency enhancements and BOOST have General Fund revenue generation and receipt components which have been built into revenue forecasts. To gain a better understanding about the relationship between these types of investments, associated revenue, and DOR's success in delivering those dollars, the Legislative Revenue Office is working on a process to incorporate revenue estimates tied to enforcement activities into the forecast and formally track that revenue.

Another concern for the Department is a funding shortfall in the Senior Citizens' Property Tax Deferral program. For 2010, about $21 million was needed to make annual tax payments to counties on behalf of program participants. However, primarily due to the sluggish housing market, repayments are not coming in as initially forecast, which leaves the program's revolving fund short. In addition, fund balances had been used to help support Oregon Project Independence in prior biennia, so DOR has little existing capacity to maintain the program and must rely more than ever on actual repayments. The Department is making the November 2010 payments in installments and expects to complete those payments by the end of the 2009-11 biennium. Based on current projections, program funding is unsustainable and the agency will not be able to make payments in November 2011. The legislative revenue committees have this issue and potential program changes on their radar for the 2011 session.

Over the last two biennia, DOR has been focused on developing and implementing a business case for a comprehensive overhaul of its current technology foundation and organization. This project to replace core information technology systems with industry best-practice solutions is a key component of the agency's strategic plan and process reengineering initiative. In its 2009-11 budget, DOR requested $10.7 million General Fund for the initial phase of the project. The agency did not receive that funding, but continued to work on a business case and funding strategy.

DOR is now proposing to fund the overall project, which is estimated to cost $92 million over seven years, with dedicated revenue sources. A portion of the funding would come from increasing the rate charged on tax deficiencies and delinquencies; this change is estimated to provide $10-15 million in each of the 2013-15 and 2015-17 biennia. The remainder of the project would be funded through a performance-based procurement, also known as benefits-based funding. Under this type of contract, the service provider typically agrees to invest upfront in the process and technology solutions with the promise of payment when future benefits from the investment are realized. The business case, funding model, and performance expectations/outcomes will need to be thoroughly vetted, understood, and approved by the Legislature for this initiative to move forward.

Secretary of State – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	13,964,221	11,639,792	13,639,792	12,625,823
Other Funds	36,525,613	38,386,600	38,386,600	40,605,602
Federal Funds	6,421,887	7,505,935	7,505,935	7,798,373
Total Funds	**$56,911,721**	**$57,532,327**	**$59,532,327**	**$61,029,798**
Positions	199	198	198	198
FTE	198.50	197.30	197.30	197.30

Agency Overview

The Office of the Secretary of State is one of three constitutional offices established at statehood. The Secretary is auditor of public accounts, chief elections officer, and manager of the state's records, a role that includes preserving official acts of the Legislative Assembly and the Executive Branch. The Secretary of State also serves with the Governor and Treasurer of State on the State Land Board which manages state-owned lands.

The agency's major divisions include the: ***1) Elections Division***, which administers state and federal elections laws, provides training to county and city election officials, political party representatives, and candidates; publishes statewide voter's pamphlets; and administers the filing and verification of initiative, referendum, and recall petitions; ***2) Audits Division***, which carries out the Secretary's constitutional duties as auditor of public accounts to assure that public funds are properly accounted for and spent in accordance with legal requirements; the Division performs, or contracts for, financial and compliance audits and performance audits of state agencies; ***3) Archives Division***, which stores public records and protects and provides public access to Oregon's documentary heritage; the Division provides records management advice and assistance to state and local agencies and publishes the state's administrative rules; and ***4) Corporation Division***, which is responsible for three major programs: Business Registry – the filing of business names, Uniform Commercial Code (UCC) – the filing of secured transactions, and Notary Public – commissioning and regulating notaries. The agency also has additional divisions that provide administrative support and executive oversight, including the Executive Office which houses the Secretary and immediate staff.

Revenue Sources and Relationships

The $12.6 million of General Fund in the 2011-13 biennium current service level budget finances one-fifth (20.7%) of total agency expenditures. General Fund support varies considerably, however, by agency program. General Fund supports 98% of the Elections Division budget ($6.5 million General Fund) and 60% of the Archives Division budget ($4 million General Fund). The remaining $2.1 million of General Fund finances 14% of central administrative expenses. The Audits and Corporation Divisions receive no General Fund and are fully supported by Other Funds, however, portions of the Audits Division assessments to state agencies are financed by General Fund appropriations to those agencies.

Other Funds revenues are received from various sources, including:

- ***Assessments*** to state agencies, based on a pro-rata share of four risk factors (cash, revenues, expenditures, and full-time equivalent positions), are the primary funding source for the Audits Division. However, agencies whose operations are predominately funded with dedicated trust funds (e.g., Department of Transportation) are billed for actual audit costs rather than an assessment. Audits Division assessments and billings are projected to total $23.9 million in 2011-13, and will support the Division's direct costs plus a portion of the agency's central administrative costs (these include the Executive Office, the Information Systems Division, and internal administrative functions). The Audits Division houses 72 full-time positions (approximately 36% of agency staff) and is fully funded from these revenues. The Archives Division also assesses agencies for the storage and retrieval of inactive, non-permanent records maintained by the Division. These assessments are projected to total just under $3 million in 2011-13, but they do not fully support the Archives Division. The current service level (CSL) also includes $4 million of General Fund for the Archives Division. The Division houses 22 full-time positions (approximately 11% of agency staff).

- ***Licenses and fees*** are collected from business filings, secured transactions, and notaries public to support the Corporation Division (these revenues are projected to total $15.4 million in the 2011-13 biennium); and municipal audits for the Audits Division. The Corporation Division revenues fully support the Division's operations. The Corporation Division houses 32 positions (approximately 16% of agency staff), and is fully funded by these Division licenses and fees. In addition, the Division's license and fee revenues support about 45% of the agency's central administrative costs. In 2009 the Legislature passed HB 3405, which was subsequently referred by petition to the voters and approved as Measure 67. This bill doubled the fee to obtain a notary public commission and increased the UCC filing fee by 50%. The bill also increased business registry fees, but allocated the full amount of the increase to the General Fund. The agency continues to retain the revenue from the first $20 of each registration fee. Significantly for the agency budget, however, was the provision in HB 3405 that allows the agency to retain all of the fee revenues dedicated to it. Previously the agency had only been able to retain a cash balance equivalent to two months of operating expenditures for the Corporation Division, from notary public commissions, UCC filing fees, and the initial $20 of the business registry fee received. HB 3405 allows the agency to retain all of these proceeds. The various HB 3405 provisions combined will increase the agency's Other Funds (and correspondingly reduce General Fund revenue) by a projected $2.4 million in the 2011-13 biennium.

- ***Sale of publications***, including the annual Oregon Administrative Rules Compilation, the monthly Oregon Bulletin which provides updates to the Compilation, and the Oregon Blue Book, generate revenues for the Archives Division.

- ***Internal transfers*** of Other Funds revenues are made to the Executive Office, Business Services, Information Systems, and Human Resources Divisions by the Audits and Corporations Divisions for a proportionate share of administrative costs.

In past biennia, Federal Funds revenues were received primarily under the Help America Vote Act (HAVA). As was the case for the 2009-11 biennium, the HAVA program will spend Federal Funds revenues already received by the state, and almost all of the agency's Federal Funds expenditures will be for this program. There is no need for General Fund for the state's matching portion of these funds. The 2011-13 biennium will begin with approximately $9.3 million of remaining HAVA funds. These are sufficient to finance $7.8 million of program expenditures in the CSL; however, the $1.5 million that will remain at the end of the biennium will be insufficient to continue the program through 2013-15.

Current Service Level

The current service level is 2.5% higher than the 2009-11 legislatively approved spending level at December 2010; however, the General Fund amount in the CSL is 9.6% less than the 2009-11 biennium legislatively approved spending level. This decline is entirely due to the one-time addition of $2 million of General Fund in the 2009-11 budget to finance the costs of a special election (voters pamphlet and county election office reimbursements). These funds covered costs of the special election conducted to decide referendums on two income tax measures (Measures 66 and 67). Since there typically is not a special election for referendums, the $2 million is not included in the CSL. Excluding this special election funding, the General Fund amount in the 2011-13 biennium CSL is an 8.5% increase over the current biennium level. This increase over the 2009-11 biennium level includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. There are no program phase-ins for the General Fund portion of the agency budget, and only a $135,960 phase-out of one-time start-up costs of a signature verification program established in 2009.

The Legislature has exempted the Secretary of State from the Governor's budget review and allotment authority. As a result, the agency's General Fund appropriations were not reduced by two General Fund allotment reductions imposed this biennium to avoid deficit. This reduces the rate of growth in CSL General Fund over the approved 2009-11 spending level, compared to most other General Fund agencies. Although no funding reductions were imposed on the agency by the allotment cuts, the Secretary has reduced General Fund and Other Funds expenditures by $1,062,372 this biennium (an amount equivalent to what its General Fund allotment reductions would have been if the agency had been under the Governor's allotment authority). These spending reductions release these funds for use to rebalance the 2009-11 biennium General Fund budget, but the Legislature will need to adjust the agency budget to allow this to happen, so the reductions have not been included in the approved spending level figures shown above.

Budget Environment and Potential Reductions

The agency has identified reduction options totaling up to 25% of its General Fund support. These reductions most impact the Elections Division and the Archives Division, which are the agency programs that rely most on General Fund support. A 25% General Fund reduction for the agency totals $3.16 million. The agency provided information, however, on $5.03 million of budget reductions, an amount equal to 25% of the sum of its General Fund and Corporate Division (Other Funds) budgets.

The full 25% reductions include the following program impacts:

- Elections Division – The agency identified two alternative reduction options. One involves eliminating the Voter's Pamphlet. Under this option, the Voter's Pamphlet elimination saves about $1.3 million General Fund, approximately 20% of the Division's General Fund expenditures. An additional 5% reduction would be realized by eliminating two of the Division's three investigator positions. These individuals investigate violations of elections laws. Under the alternative scenario, the Voter's Pamphlet would not be eliminated. Instead, the Division would eliminate all three investigator positions, plus its Contribution and Expenditure Team (which consists of six of its existing 17 full-time positions), for a total of nine positions. In the second scenario the agency would no longer monitor political contributions and expenditures or enforce campaign finance laws, and would not provide telephone support for campaign finance filings. The reductions would also extend the time required to prepare the Voter's Pamphlet, reduce the proofing of that document, and end the Division's ability to verify petition signatures in a timely manner.

- Archives Division – The agency would eliminate printing the Oregon Blue Book, reduce utilization of the Archives Building and move some employees into the public reference area, reduce employment by 1.75 FTE, close the Division one day per week, and suspend work to enhance public records access.

- Corporation Division – The agency would eliminate nine positions (out of 32). These reductions would reduce the scope of investigations of notary applicants, reduce services relating to the updating of the Division's website and forms, eliminate notary education, and increase processing times for business document filings by up to a month.

- Central Administrative Functions – The agency would eliminate some staff positions and reduce others to part-time, thereby reducing effectiveness of administrative functions.

Treasurer of State – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
Other Funds	28,820,083	31,609,761	32,541,377	34,987,832
Other Funds (NL)	2,844,712	3,500,000	3,500,000	3,500,000
Total Funds	**$31,664,795**	**$35,109,761**	**$36,041,377**	**$38,487,832**
Positions	83	84	84	84
FTE	80.73	83.10	83.10	83.10

Program Description

The Treasurer of State acts as the "banker" for the State of Oregon by maintaining all state agency financial accounts, and by investing state funds that are not needed to meet current expenditure demands, including the state's Trust Funds and bond fund proceeds. The State Treasury operates five programs. The **Investments Program** invests state-held funds including the Oregon Public Employees Retirement Fund, the State Accident Insurance Fund, the Common School Fund, and other smaller funds; the **Cash Management Program** processes monetary transactions for all state agencies and over 1,500 local government accounts, and operates the Oregon Short-Term Fund which manages and invests state monies (and the funds of local governments that choose to participate) that are not needed for immediate demands in short-term securities; the **Debt Management Program** coordinates and approves issuance of state agency and authority bonds; the **Public Funds Collateralization Program** assures that public funds held in financial institutions are properly collateralized, and acts as pool manager for Oregon banks; and the **Oregon 529 College Savings Network** administers three tax-advantaged savings programs designed to encourage people to save money for future education costs.

Revenue Sources and Relationships

Agency expenditures are entirely financed with Other Funds, although portions of the banking charges to state agencies are financed by General Fund appropriations to those agencies. Each Treasury program is supported by its own charges. The agency's central administrative functions, in turn, are financed by a portion of each program's revenues that is internally assessed to support those functions.

Approximately 46% of Treasury limited Other Funds revenues consists of revenue from charges the Treasury levies for administering investments in the Investments Program. These charges are projected to raise $16.6 million during the 2011-13 biennium. The charges are levied as a percentage of the value of the administered funds.

Statutes limit the Treasury administrative charge to no more than 0.052% per year of the Oregon Short-Term Fund's balance, and to no more than 0.03% per year of other investment fund balances. Revenues from these charges vary directly with the values of the managed portfolios, and portfolio values have fluctuated greatly since the start of the financial crisis. For example, the value of the state's largest investment fund, the Oregon Public Employees Retirement Fund, declined by 36% from its November 2007 peak to March 2009. Since then, the Fund's portfolio value has increased 32% through October 2010. Nonetheless, the Fund's value in October 2010 remained 15.4% below the November 2007 peak level. With a fixed-rate charge, the agency's revenues from the charge would have varied by these same percentage amounts. The Treasury's actual administrative charges, however, have been less than these statutory maximums, and in practice the Treasurer sets the assessment charges at the levels needed to finance the agency's legislatively approved budget.

The next largest category of Other Funds revenues are the revenues that support the Cash Management Program. These are projected to total $10.6 million in 2011-13, approximately 29% of total limited revenues. This category includes charges for administering the Oregon Short-Term Fund (approximately 54% of the $10.6 million), and charges to state agencies and to local government accounts for banking services (the remaining 46%).

The Oregon 529 College Savings Network receives Other Funds from an annual assessment on plan assets of 10 basis points (0.10%), and from interest earned on the assessment revenues. As such, its program revenues also vary directly with the total balance in participants' accounts. The college savings network revenues are projected to total $4.2 million in the 2011-13 biennium, or approximately 12% of total limited revenues. The next largest revenue source are the charges levied by the Debt Management Program, projected to total $3.8 million, or approximately 11% of total limited revenues. These revenues are generated from charges to state agencies for bond and coupon redemption on outstanding general obligation bonds, and to state agencies and municipalities for bond issuance costs. Finally, the smallest revenue category is the $764,000 (2% of total limited revenues) collected from banks that participate in the Public Funds Collateralization Program. The combined sum of these Other Funds revenues is projected to total $36 million in the 2011-13 biennium current service level budget, an amount essentially unchanged from the prior biennium.

In addition, payments for cash management services are not limited in the budget. These represent the fees the Treasury pays to financial institutions for direct banking services. The Treasury recovers the cost of banking fees related to banking services from state agencies and local governments. These recoveries are calculated on the basis of the agency's or local government's actual banking transactions, and are forecast to total $3.5 million.

Current Service Level

The current service level (CSL) is 7.5% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. There are no program phase-ins or phase-outs in the CSL calculation.

The 2009-11 legislatively adopted budget included $604,826 Other Funds for incentive compensation bonus payments to fourteen investment officers in the agency's Investments Program. These payments vary from zero to 30% of base salary based on the performance of the portfolios the investment officers manage. As such, the cost of the payments is unknown at the time the budget is adopted. In 2009, the Legislature approved the sum mentioned above for the first of two annual compensation payments. In December 2010, the Emergency Board increased the Other Funds expenditure limitation for the incentive compensation payments to $1,536,442 to cover the cost of the 2010 payments, plus the maximum possible cost of payments that may be paid in 2011.

The 2011-13 biennium current service level, however, is calculated on the limitation amount prior to the Emergency Board action. The CSL includes $909,274 for first-year incentive compensation payments in the 2011-13 biennium. This is approximately $864,105 less than the maximum cost of incentive payments under the Treasurer's existing compensation plan.

Budget Environment and Potential Reductions

Because of the transition in the Treasurer's office in 2010, the agency has not completed its reduction option proposals. The agency will present these with the Governor's recommended budget.

Legislative Branch (LEG) – Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	77,919,436	75,178,600	75,178,600	87,120,124
Other Funds	37,088,427	6,406,599	6,729,165	4,026,576
Other Funds (NL)	1,469,780	1,463,029	1,835,019	1,470,003
Total Funds	**$116,477,643**	**$83,048,228**	**$83,742,784**	**$92,616,703**
Positions	696	675	675	675
FTE	403.27	381.37	381.37	381.15

Overview

The Legislative Branch includes members of the Legislative Assembly and their employees, the costs of four statutory committees or offices, and the Commission on Indian Services. The statutory committees, which provide either administrative and operations support or specialized analysis, include: 1) the Legislative Administration Committee; 2) the Legislative Counsel Committee; 3) the Legislative Fiscal Office; and 4) the Legislative Revenue Office.

Budget Environment and Potential Reductions

The Governor instituted two administrative rules to balance the budget during the 2009-11 biennium after General Fund revenues were forecast to be short of projections. These rules reduced the allotment authority for all Executive Branch agencies that had General Fund. While the Legislative Branch was not covered by the rules, they voluntarily took reductions to help with the General Fund shortfall. These reductions included holding positions vacant, extending a salary freeze, and using one-time Other Funds resources to backfill General Fund.

The Legislative Branch is funded primarily with General Fund (94%) and would be impacted by any significant reduction to those funds. The Branch has made extensive use of Other Funds to backfill General Fund shortfalls during the last two biennia and those resources are nearly exhausted. It is also, by far, the smallest branch of state government. Any major reductions to the budget in 2011-13 may have an impact on the ability of the Branch to perform its constitutional duties. Given that personal services and debt service make up more than 82% of the Branch's budget, reductions would likely affect positions and/or salaries.

LEG – Legislative Assembly

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	31,781,326	32,943,483	32,943,483	37,957,590
Other Funds	125,145	208,653	208,653	268,970
Other Funds (NL)	86,682	137,087	137,087	91,360
Total Funds	**$31,993,153**	**$33,289,223**	**$33,289,223**	**$38,317,920**
Positions	443	443	443	443
FTE	216.20	207.44	207.44	207.36

Program Description

The Legislative Assembly budget includes salaries and per diem for legislative members and their staffs, the leadership and caucus offices, the Secretary of the Senate, the Chief Clerk of the House, session staff, and Senate Executive Appointments.

Revenue Sources and Relationships

The General Fund supports 99% of the Legislative Assembly's activities. Other Funds revenue subject to expenditure limitation comes from reimbursements for duplicating services. The Nonlimited Other Funds are from the Lounge Revolving Account, established in ORS 171.117, which receives payments from legislative members for food services, to be used to pay for the costs of food served in members' lounges.

Current Service Level

The current service level is 15.20% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

LEG – Legislative Administration Committee

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	30,183,274	25,297,160	25,297,160	30,359,959
Other Funds	35,918,079	4,403,308	4,625,874	2,115,390
Other Funds (NL)	502,054	597,932	597,932	597,932
Total Funds	**$66,603,407**	**$30,298,400**	**$30,520,966**	**$33,073,281**
Positions	155	145	145	145
FTE	107.45	99.15	99.15	99.01

Program Description

The Legislative Administration Committee (LAC) appoints an administrator to direct and manage the service and support systems for the Legislative Assembly and Legislative Branch agencies. Services include: 1) substantive committee staffing; 2) information systems and technology support; 3) building operations and maintenance for the State Capitol; 4) accounting, payroll, and personnel functions; and 5) public information.

Revenue Sources and Relationships

The General Fund typically supports 90% of LAC's requested expenditures, but it only accounted for 45% of the 2007-09 budget. This was due to a large increase in Other Funds revenue from the issuance of certificates of participation for the Capitol renovation project. There is also Other Funds revenue from Capitol Building office space and hearing room rent, parking fees, donations for Holidays at the Capitol, equipment rentals, sales of publications and audio tapes, and copy/vending machine usage. LAC adopts the same rental rate for occupants of the Capitol, except Legislative Administration and the Legislative Assembly, as the rate imposed by the Department of Administrative Services for occupants of other state buildings. Parking fees and revenue from rentals, pay phones, and vending machines go into the State Capitol Operating Account which is used to partially cover expenses incurred in operating, maintaining, protecting, and insuring the Capitol. A Nonlimited Stores Revolving Account accommodates revenue from retail sales in the Capitol Gift Shop and a Nonlimited Property and Supply Stores Account accommodates revenue from the sale of supplies to legislative agencies.

Current Service Level

The current service level is 8.4% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

LEG – Legislative Counsel

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	8,359,019	8,394,303	8,394,303	9,406,507
Other Funds	1,044,451	1,788,358	1,788,358	1,635,785
Other Funds (NL)	881,044	728,010	1,100,000	780,711
Total Funds	**$10,284,514**	**$10,910,671**	**$11,282,661**	**$11,826,003**
Positions	67	57	57	57
FTE	50.12	45.28	45.28	45.28

Program Description

The Office of the Legislative Counsel (LC) drafts legislation for legislators, legislative committees, and state agencies. LC also provides research services and legal advice to legislators and legislative committees. LC prepares indexes and tables for all measures introduced during a legislative session and, every two years following each session creates, annotates, indexes, publishes, and sells the only official codification of the *Oregon Revised Statutes (ORS)* and session laws (*Oregon Laws*). LC also conducts a review of all new administrative rules adopted by state agencies to determine if they are consistent with the agencies' statutory authority.

Legislative Counsel is charged by statute (ORS 173.335) with providing necessary drafting services "as legislative priorities permit" to the Oregon Law Commission. The Commission was established in 1997 to identify defects or anachronisms in the law and recommend needed reforms to the Legislative Assembly.

Revenue Sources and Relationships

The General Fund supports 80% of LC's expenditures. Other Funds are derived from sales of the *Oregon Revised Statutes*, *Oregon Laws*, bill drafting services, and other LC publications. The budget reflects increased revenue from bill drafting services due to an increase in the fee charged for the service. A small portion of the publication sales income is expended as limited Other Funds and used to defray that part of the agency's General Program expenses that are related to *ORS* publication editing. The balance of the publication sales income is expended as Nonlimited within the *ORS* Publications Program. LC has statutory authority to charge state agencies and other entities for drafting legislation, and has been doing so since 2001-03.

Current Service Level

The current service level is 4.8% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

LEG – Legislative Fiscal Office

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	5,433,438	5,995,339	5,995,339	$6,582,859
Other Funds	0	0	100,000	0
Total Funds	**$5,433,438**	**$5,995,339**	**$6,095,339**	**$6,582,859**
Positions	22	21	21	21
FTE	21.00	20.50	20.50	20.50

Program Description

The Legislative Fiscal Office (LFO) is a non-partisan, legislative service agency created by statute in 1959. The Office researches, analyzes, and makes recommendations concerning state expenditures, financial affairs, program administration, and agency organization. The Office reports to the Joint Committee on Ways and Means during legislative sessions and to the Emergency Board during the interim between sessions. LFO determines the fiscal impact of all legislative measures and, when applicable, publishes fiscal impact statements that accompany bills through the legislative process. The 2007 Legislature approved an information technology analyst for LFO. The Office now provides budget analysis and policy recommendations concerning state agency information systems projects. LFO produces various publications to guide the Joint Committee on Ways and Means processes; address specific budgetary topics; provide legislative members, agencies, and the public with detailed and summary information as each budget is presented and after it is adopted; and annually reports on the status of all liquidated and delinquent accounts, as well as agency efforts to collect on such accounts.

Revenue Sources and Relationships

The Legislative Fiscal Office is usually completely supported by General Fund. During the 2009-11 biennium the Legislature approved a one-time $100,000 Other Funds expenditure limitation for the purposes of paying for a contract with the National Center for State Courts to study and to identify the best practices around the nation for funding the Judicial Branch, including fee structures. The revenue to support this expenditure was from HB 2287 (2009).

Current Service Level

The current service level is 8.0% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

LEG – Legislative Revenue Office

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	1,783,399	2,134,888	2,134,888	2,354,579
Total Funds	**$1,783,399**	**$2,134,888**	**$2,134,888**	**$2,354,579**
Positions	7	7	7	7
FTE	6.50	7.00	7.00	7.00

Program Description

The Legislative Revenue Office (LRO) provides staff assistance to the House and Senate Revenue Committees during legislative sessions and to interim revenue committees, task forces, and work groups between sessions. The Office was established in 1975 to provide non-partisan analysis of tax and school-finance issues. The Office prepares research reports and writes revenue impact statements on initiatives, proposed legislation affecting state or local public finance, personal and corporate income taxes, property taxes, consumption taxes, school finance, and distribution of the State School Fund.

Revenue Sources and Relationships

The Legislative Revenue Office is completely supported by General Fund.

Current Service Level

The current service level is 10.3% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

LEG – Commission on Indian Services

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	378,980	413,427	413,427	455,630
Other Funds	752	6,280	6,280	6,431
Total Funds	**$379,732**	**$419,707**	**$419,707**	**$462,061**
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Program Description

The Commission on Indian Services compiles information on services available to Indians, assesses state programs and services, serves as a forum for considering Indian problems, and advises on matters relating to the preservation and protection of Indian historic and archaeological resources. The Commission, created in 1975, has 13 members appointed by the President of the Senate and Speaker of the House of Representatives for two-year terms. In addition to one senator and one state representative, each of Oregon's nine federally recognized tribal groups is entitled to one member. The remaining two members are from the Portland area and Willamette Valley Indian communities.

Various statutes require that the Commission be consulted on matters related to the preservation and protection of Indian fish, wildlife, historic, and archaeological resources. SB 770 (2001) requires state agencies to take Oregon's nine federally recognized tribal governments into account when developing policies and implementing programs that may affect tribal interests. The law also requires the Governor to annually convene a meeting of agency representatives and the tribes, the Department of Administrative Services to provide annual training to agency managers and employees that have regular contact with tribes, and state agencies to submit annual reports to the Governor and the Commission on their activities with tribes.

Revenue Sources and Relationships

Other Funds revenue is from registration and other fees derived from sponsorship of special meetings. The funds are used to cover costs associated with the events.

Current Service Level

The current service level is 10.1% higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

Judicial Department – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level*	2011-13 Current Service Level
General Fund	310,336,253	299,252,533	297,215,227	356,079,948
Other Funds	44,642,997	58,102,359	80,639,820	46,680,285
Federal Funds	829,955	859,163	859,163	884,626
Other Funds (NL)	9,721,566	0	0	0
Total Funds	**$365,530,771**	**$358,214,055**	**$378,714,210**	**$403,644,859**
Positions	2,077	1,861	1,862	1,982
FTE	1,928.35	1,696.06	1,815.97	1,844.93

** The General Fund amount excludes the Judicial Department's equivalent allotment reduction of $13.3 million.*

Agency Overview

The Oregon Judicial Department's (OJD) current program structure includes:

- ***Judge Compensation*** ($65 million, 191.00 FTE) is the personal service costs of the state's 191 statutory judgeships.
- ***Appellate Courts*** ($19.2 million, 98.45 FTE) are the Supreme Court, Court of Appeals, Tax Court (a circuit-level court), and legal support cost.
- ***Trial Courts*** ($214.5 million, 1369.33 FTE) are the courts of general jurisdiction. District courts were abolished effective January 15, 1998 and circuit courts assumed jurisdiction for all state trial court functions. A circuit court is located in each of Oregon's 36 counties. Circuit courts are organized administratively into judicial districts. Some of these, primarily rural, districts include more than one circuit court. However, most of the 27 judicial districts comprise a single circuit court.
- ***Administration and Central Support*** ($70.3 million, 161.75 FTE) includes the Office of the State Court Administrator, information systems management, fiscal and human resources management, and centralized state agency assessments.
- ***Revenue Management/Collections*** (not discretely budgeted) is the program estimated to have 311.81 FTE to collection of amounts owed to the state that are subject to collection by the Judicial Branch of government. In general, collections are for past-due crime victim restitution payments, compensatory fines, and other fines, costs, and assessments.
- ***Mandated Payments*** ($15.1 million, 20.50 FTE) includes the cost of providing trial and grand jurors, court interpreters, civil appellate transcript costs for indigent persons, and Americans with Disabilities Act accommodation services.
- ***State Court Facilities Security Account*** ($3.2 million, 3.90 FTE) provides funding for security improvements, emergency preparedness, and business continuity for Oregon's circuit, appellate, justice, and municipal courts.
- ***Electronic Court*** ("eCourt")(see analysis) provides funding for a business process reengineering and information technology modernization program.
- ***Debt Service*** ($16.4 million) provides for Debt Service on certificate of participation financing used to finance Electronic Court.

OJD occasionally budgets for Capital Improvements to the Supreme Court Building, the only facility owed by the Department.

Revenue Sources and Relationships

In the 2011-13 biennium, OJD will generate an estimated $291.5 million in revenue from fines, assessments, forfeitures, filing fees, and individuals' contributions toward their public defense. In addition, compensatory fines and restitution, which are expected to total $25.7 million, are also collected by the courts and distributed to individual victims. Because these are trust funds, they are not accounted for in the Department budget nor are they subject to the Department's collection withholding.

The Department will retain approximately 10% ($34.7 million) to fund the costs of the Department's collections program, including funds used to reimburse the Department of Revenue and private collection agencies for their costs from collection of delinquent debt.

Of the revenue collected, $61.1 million will be transferred to the General Fund and $123.9 million will be transferred to the Criminal Fines and Assessment Account. City and county governments will receive a combined $58.3 million in transfers from the Department.

Other sources of operating Other Funds revenue include the sale and distribution of court publications; fees charged for public access to the Oregon Judicial Information Network; fees charged for the interpreter and shorthand reporter certification programs; fees collected in the public defense Application Contribution Program; grants from the Department of Human Services (foster care) for the Citizen Review Board; and various grants from other state and federal agencies. Direct Federal Funds come from a grant for a Juvenile Court Improvement Project. There is also revenue generated from Multnomah Circuit Court's administration of parking violations program for Multnomah County.

The State Law Library is funded with a combination of assessment revenue charged to most state agencies and the General Fund. The assessment revenue has a General Fund component since some agencies use General Fund to pay the assessment. A decrease in this assessment would produce General Fund savings to fund agency budgets.

OJD will have a beginning Other Funds balance of $6.7 million and a projected ending balance of $39.6 million, which represents a 20.4 month operating reserve. OJD Other Fund balances have been transferred to the General Fund on one occasion, which was during the 2009-11 biennium ($6.7 million).

The state's Report on Liquidated and Delinquent Accounts Receivable (dated June 2010) reports a 13% increase ($107.1 million) over the prior year and a 206% increase over the last ten years. The amount of receivables reported by OJD is $949.3 million.

During the 2009-11 interim, the Joint Interim Committee on State Justice System Revenue reviewed the current statutory revenue and distribution structure for civil and criminal revenues and has proposed legislation that would significantly simplifying the current revenue structure and distribution processes.

Current Service Level

The current service level (CSL) is 6.6% higher ($24.9 million) than the 2009-11 legislatively approved spending level at December 2010. General Fund increased by 19.8% ($58.9 million), Other Funds decreased by 42.1% ($34 million), and Federal Funds increased by 3% ($25,463). The budget includes adjustments for personal services costs, inflation, and state government service charges.

During the 2009 session, the Legislature passed HB 2287 as a temporary source of revenue to backfill specific General Fund reductions in the Judicial Branch. All the fees and surcharges will sunset on June 30, 2011. The measure was anticipated to raise $39.6 million, with 65% going to the Judicial Department (OJD) and 35% going to the Public Defense Services Commission (PDSC). With projected revenues well short of the original target, the 2009 Legislature provided OJD with $22 million of expenditure limitation and PDSC with $12.4 million of expenditure limitation. OJD's 2011-13 budget includes a fund shift of this $28.1 million in HB 2287 revenue back to General Fund as the revenue source was one-time in nature and no longer available.

OJD's CSL is comprised of 80.5% personal services ($325 million), 15.4% services and supplies ($62.2 million), and 4.1% debt service ($16.4 million).

The CSL does not include budgetary authority for the Oregon eCourt Program, which is being requested in a policy package at a cost of $7.1 General Fund, $24 million Other Funds, and $4.4 million Debt Service (32.41 FTE).

Budget Environment and Potential Reductions

The Department has no control over the number of case filings it receives, and has legal restrictions on its ability to manage its caseload. For example, there are clear statutory requirements for speedy trials in criminal matters. If a case is not processed within allowable timeframes, it could be dismissed or could be subject to other prescribed statutory sanctions or relief. Thus, as demonstrated in the budgetary reductions during the 2001-03 biennium, delays in adjudication of criminal matters will result in an increase in case backlogs, and Oregon's justice system will become less of a deterrent to crime as the probability of a swift sanction diminishes. Any flexibility the Department has resides primarily within its ability to delay adjudication in civil case filings. Yet, if contentious civil issues remain unresolved for extended periods of time, this could also lead to citizen frustration and potential increases in criminal cases.

The Chief Justice will need to make difficult decisions and develop innovative and resourceful solutions to meet these requirements within a declining budget.

January-to-June 2010 circuit court caseloads are down 11,280 cases, or 3.8%, when compared to 2009 case data. The two largest changes were in violation cases, which declined by 12,547 cases, or 10%, and general civil case filings, which rose by 3,669, or 10%. Caseloads at the Court of Appeals, especially for criminal and administrative review case-types, continue to increase. Between 2008 and 2009, criminal cases in the Court of Appeals increased by 15%, or 204 cases. Administrative review case-types are up 53%, or 112 cases.

As with many state agencies, OJD has budgeted General Fund items not subject to reduction. For example, Article VII, Section 1, of the Oregon Constitution prohibits any reduction in the compensation of judges during the term for which they are elected. Additionally, there are Debt Service obligations for the repayment of Oregon eCourt Program's certificates of participation. These prohibitions mean that any General Fund reduction for the Department falls disproportionately on administrative and support staff.

The Legislative Fiscal Office is awaiting receipt of OJD's 5%, 10%, and 25% reduction option plans.

Since the 2001-03 biennium, OJD has, on average, received 2.3% of the state's General Fund. A proportionate share of the state's projected $3.5 billion budget deficit for OJD would be $80.5 million, or a 22.6% reduction to its CSL.

Continued financing of the Oregon eCourt Program using certificates of participation may be in question as state debt capacity may be at its limit. The General Fund revenue deficit may also limit debt financing of the Program, if General Fund is necessary for servicing debt. Continuation of the Oregon eCourt Program, which is critically needed, could further be in jeopardy as General Fund reductions faced by all agencies will impact staffing levels and the Department's ability to support ongoing operation and maintenance costs of the Program.

Commission on Judicial Fitness and Disability – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	160,475	178,929	178,929	201,311
Total Funds	**$160,475**	**$178,929**	**$178,929**	**$201,311**
Positions	1	1	1	1
FTE	0.50	0.50	0.50	0.50

Agency Overview

The Commission on Judicial Fitness and Disability investigates and acts upon complaints of judicial misconduct or disability. The basis for a finding of misconduct is a violation of the Oregon Code of Judicial Conduct. The Commission does not have formally approved administrative rules, but has rules of procedure.

The Commission has jurisdiction over the following categories of judges: justices of the peace (30), circuit court judges (173), appellate court judges (18), temporary or pro-tem judges (approximately 100), senior or "Plan B" semi-retired judges (approximately 50), and judicial referees (24). In total, the Commission's jurisdiction extends to approximately 395 of Oregon's state judges. A 2003 Supreme Court decision determined that the Oregon Constitution does not give the Commission jurisdiction over local municipal court judges.

The nine-member Commission is comprised of three judges, three lawyers, and three members of the public. The executive director of the Commission is also an attorney in private practice. The Commission is co-located within the executive director's private law office. Commission members, as well as the executive director recuse themselves when they have personal involvement or prejudice regarding a complaint or complainant. By statute, the Commission's initial complaint proceeding and records are confidential until such time as a public hearing is held on a formal charge. Also, the Commission considers all its proceedings, including those pertaining to administrative matters, non-public.

The Commission receives approximately 250 written complaints each biennium. The majority are complaints involving the legal determination of a judge, and after initial review by the Commission, are dismissed because they fall outside the Commission's statutory authority. Those complaints that are within its statutory authority are initially investigated. If there is sufficient evidence in support of a complaint, a formal investigation is conducted by outside counsel hired by the Commission. The outcome of the investigation could lead to the dismissal of a complaint, an informal disposition by the Commission, or a formal charge leading to prosecution. For a formal charge, a public hearing is held, the outcome of which is either the judge's exoneration or a recommendation by the Commission to the state's Supreme Court to censure, suspend, or remove the subject judge. The Supreme Court's determination on the Commission's recommendation is a final decision, but may be appealed to the U.S. Supreme Court. At any point in the process, a judge may resign, retire, or enter into a stipulated agreement with the Commission by agreeing to the recommended sanction. All stipulated agreements must be approved by the Supreme Court. A case determined by the Supreme Court typically takes two years to prosecute at an estimated cost to the state of over $50,000 General Fund.

In a matter where a judge's conduct is determined to be the result of a physical or mental disability, the Commission generally refers the matter directly to the Chief Justice for disposition.

Revenue Sources and Relationships

General Fund supports the Commission. The Commission's statutory authority does not allow for the imposition of civil penalties or the recovery of Commission extraordinary costs from judges sanctioned by the Supreme Court.

The Commission relies upon the support of the Oregon Judicial Department for financial and limited administrative support services (e.g., information technology). This occurs without remuneration.

Current Service Level

The current service level is 12.5% ($22,382) higher than the 2009-11 legislatively approved spending level at December 2010. It includes adjustments for personal services costs, inflation, and state government service charges.

The CSL is comprised of $133,027 personal services (1 position, 0.50 FTE) and $68,284 services and supplies. The Commission's operating budget is $170,110 (85%) and its extraordinary budget is $31,201 (15%).

Budget Environment and Potential Reductions

The Commission budgets for normal and extraordinary expenditures. The normal operating budget pays for a half-time executive director, office rental, office supplies, meeting accommodations, travel reimbursements, and initial investigations.

Formal investigations and prosecutions are classified as an extraordinary expense of the Commission since it has no control over the number of valid complaints or their cost. Extraordinary expenses may include: private attorney fees ($100/hour flat rate plus expenses) for investigations and trial, court reporter services, meeting space rental, executive director and board member travel expense for formal hearings, and miscellaneous expenses. The Legislature historically has provided the Commission with an approved budget for extraordinary expense with the understanding that the Commission may return to the Emergency Board or the Legislature if extraordinary expenses exceed the available budget. The Commission's prior four Emergency Board appearances for extraordinary expenses occurred in 1995, 1996, 1998, and 2006 with allocations of $20,000, $50,000, $43,000, and $61,944, respectively. For the 2009-11 biennium to-date, the Commission has not expended any of its extraordinary budget. If this trend continues, this will be the second biennium in a row in which there have been no extraordinary expenses.

General Fund reduction options for the Commission consist of reductions to its extraordinary budget. This could hinder the number of formal investigations and prosecutions. If the Commission then requires funding for extraordinary costs, it would need to make a formal request to the Emergency Board or to the Legislature prior to any expenditure of funds or not pursue the case.

Reduction options aimed at achieving administrative savings are far more limited given the size of the Commission.

The Commission, as an independent agency within the Judicial Branch of government, enjoys unusual autonomy in establishing and executing its budget. The Executive Branch makes no recommendation and exercises no budgetary control over the Commission's budget since the Commission resides in a separate branch of government. The Chief Justice also makes no recommendation and takes no formal budgetary control over the Commission because the Judicial Branch does not have a unified budget similar to the Executive Branch. In other words, neither the Chief Justice nor the Governor reviews or approves the Commission's recommended budget or monitors its expenditures. That responsibility falls solely to the Legislature.

Public Defense Services Commission – Agency Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	211,417,131	210,794,161	209,794,161	241,961,766
Other Funds	1,054,057	3,981,401	12,861,974	468,312
Total Funds	**$212,471,188**	**$214,775,562**	**$222,656,135**	**$242,430,078**
Positions	72	69	69	83
FTE	70.15	69.00	69.00	81.84

Agency Overview

The Public Defense Services Commission (PDSC) was established as an independent state agency in 2001 assuming responsibility for the State Public Defender Office which provided appellate representation. In 2003, the agency took over responsibility for trial-level representation which had been administered by a division within the Oregon Judicial Department since the early 1980s. Prior to the early 1980s, trial level public defense (and Oregon trial courts) was a local government responsibility.

The Commission is comprised of seven members appointed by the Chief Justice of the Oregon Supreme Court, who also serves on the Commission as an ex-officio member. By statute, the Commission is to "establish and maintain a public defense system that ensures the provision of public defense services in the most cost-efficient manner consistent with the Oregon Constitution, the United States Constitution, and Oregon and national standards of justice."

Eligible persons are entitled to adequate legal representation in court, at state expense, under provisions of the Oregon and federal constitutions and Oregon statutes. Public defense representation is not limited to criminal cases. Other statutory and constitutional provisions include: the right to appointed counsel in court proceedings involving life and liberty, including habeas corpus; post-conviction relief; contempt; juvenile dependency, delinquency, and termination of parental rights; civil commitments for the mentally ill or developmentally disabled; and parole and probation violation proceedings. The U.S. Supreme Court has also held that the right to appointed counsel includes related costs such as expert witnesses and investigation expense.

Public defense at the trial court level is accomplished primarily through a state-funded and state-administered competitive contracting system that is on a two-year cycle (January to December). The Commission contracts with nonprofit public defender offices, private law firms, consortia of attorneys or law firms, or individual attorneys. Legal representation on criminal matters for eligible persons at the appellate court level is primarily handled by attorneys who are employees of the Commission.

The costs of "non-routine" expenses for primarily investigators, but also forensic and medical experts, is typically paid directly by the Commission after a contractor receives pre-approval. Some public defender contracts, however, do include a provision for investigators. The Commission also has a limited service contract with a private forensics laboratory.

The Commission is organized into three divisions:

- ***Appellate Division*** ($14.8 million, 65.88 FTE) consists of public defense attorneys who represent eligible persons at the appellate court level. The Appellate Division is responsible for providing appellate representation on criminal matters, juvenile dependency and termination of parental rights cases, and parole cases. This is accomplished primarily through the use of staff attorneys. The division is the counterpart to Oregon's Attorney General's appellate division.
- ***Public Defense Services Account*** ($224 million, 0.00 FTE) consists of the funding, primarily at the trial court level, for contract defense services, including attorneys, investigators, and expert witnesses; and
- ***Contract and Business Services Division*** ($3.6 million, 15.96 FTE) which is responsible for administering the public defense contracts that provide legal representation for eligible persons, processing requests and payments for non-contract fees and expenses, and the budget and other financial activities of the Commission.

Revenue Sources and Relationships

The General Fund supports PDSC with a relatively nominal amount of Other Funds revenue. PDSC receives approximately $3.4 million Other Funds revenue from an application fee ($20) and a contribution amount that is paid by persons seeking representation at state expense. The fees are used to offset the General Fund cost of public defense eligibility verification staff in the Judicial Department (approximately $2.1 million, 22.70 FTE) and for operating expenses for public defense administration (approximately $468,312, 2.37 FTE). The ACP account has a beginning balance of $1 million and a projected ending balance of $1.4 million. This provides reserve funding of 12 months. During recent biennia, there have been transfers of excess funds from this account to the General Fund ($500,000).

Current Service Level

The current service level (CSL) is 8.9% higher ($19.8 million) than the 2009-11 legislatively approved spending level at December 2010. General Fund increased by 15.3% ($32.2 million) and Other Funds decreased by 96.4% ($12.4 million) with the sunset of temporary court fee revenues. The budget includes adjustments for personal services costs, inflation, and state government service charges.

The following table details PDSC's mandated caseload adjustment for trial-level representation. The package totals $15.2 million in adjustments.

Adjustment Category	Amount
Standard inflation	$5,731,373
Trial-level (non-death penalty) caseload decrease	<$6,522,289>
Death penalty increase from prior biennia caseload	$4,044,918
Forensic and medical expert services increase	$3,016,498
Contract personal services adjustment increase	$8,894,750
Total	$15,165,250

For what appears to be the third biennia in a row, trial-level caseloads may experience little growth from the prior biennia and may remain flat at approximately 345,000 cases. The number of new death penalty cases may also be falling from 48 in the 2007-09 biennium to a projected 42 in the 2009-11 biennium. Total death penalty cases are estimated to be 85 for the 2009-11 biennium.

PDSC also has a mandated caseload adjustment for appellate-level defense, which includes 12 new appellate attorneys and two legal secretary positions. The package totals $2.6 million, which includes $298,644 of services and supplies. This package was calculated on 4,480 appellate cases occurring during the 2009-11 biennium, which would be a 21% increase over the prior biennium. This trend, however, may be overstated as current biennium caseloads are falling below the original estimate.

During the 2009 session, the Legislature passed HB 2287 as a temporary source of revenue to backfill specific General Fund reductions in the Judicial Branch. All the fees and surcharges will sunset on June 30, 2011. The measure was anticipated to raise $39.6 million, with 65% going to the Judicial Department (OJD) and 35% going to PDSC. With projected revenues well short of the original target, the 2009 Legislature provided OJD with $22 million of expenditure limitation and PDSC with $12.4 million of expenditure limitation. PDSC's 2011-13 budget includes a fund shift of this $12.4 million in HB 2287 revenue back to General Fund as the revenue source was one-time in nature and no longer available.

PDSC's CSL is comprised of 7% personal services ($16.4 million) and 93% services and supplies ($226 million), of which $224 million is for professional services payments to providers of public defense services.

Budget Environment and Potential Reductions

The Commission has no legal authority to control the number of public defense cases it receives nor does it have the authority to prioritize case-types. Federal courts require that states provide adequate and timely representation on appeal. Oregon's Court of Appeals determines the maximum amount of time for an appellate brief to be filed in a criminal case (250 days each for plaintiff and defendant). Failure to meet timeliness requirements could result in dismissal of a case.

General Fund reduction options are limited, as discussed below. Over the course of the last two biennia, the Legislature has disappropriated budget savings in trial-level caseloads. This trend may continue as projected state and local General Fund deficits adversely impact law enforcement, prosecutions, courts, and incarceration. Similar caseload savings have not been experienced at the appellate level where caseloads have been increasing. Other opportunities for the 2011-13 biennium could be to reduce professional service increases (inflation factor and some personal services) thereby lowering contract payments to service providers. This could reduce the number of service providers who may no longer be able to cover the cost of providing defense services.

Another option that may exist is that a portion of the Other Funds ending balance could potentially be moved into either the state's General Fund or into the Public Defense Services Account in lieu of a General Fund appropriation as was done at the beginning of the 2009 legislative session in order to balance the 2007-09 budget.

The state's last experience with a significant General Fund revenue shortfall was during the 2001-03 biennium. PDSC's budget, over the course of several special legislative sessions, was significantly reduced; a portion of the reductions were subsequently restored by the Legislature. The reductions were so late in the biennium that public defense funding was virtually eliminated during the last quarter. This resulted in three problems in the public safety system: (1) District Attorneys were required to prioritize the cases that were filed, resulting in many offenders avoiding prosecution; (2) existing cases were postponed, resulting in a sharp increase in the number of offenders who failed to appear once the cases were rescheduled; this had an effect on community safety as offenders became aware that they could avoid swift prosecution; and (3) circuit court case backlogs increased, which impacted the court's ability to process its existing docket of cases. The one significant difference between the 2001-03 biennium and the upcoming 2011-13 biennium is that the revenue shortfall occurs at the beginning of the biennium. This should allow the public safety system to better manage and coordinate efforts under reduced operating budgets. However, the failure to adequately fund public defense could lead to the dismissal of cases, as funding would no longer be available to pay for representation.

The Commission, as an independent agency within the Judicial Branch of government, enjoys unusual autonomy in establishing and executing its budget. The Executive Branch makes no recommendation and exercises no budgetary control over the Commission's budget since the Commission resides in a separate branch of government. The Chief Justice also makes no recommendation and takes no formal budgetary control over the Commission because the Judicial Branch does not have a unified budget similar to the Executive Branch. In other words, neither the Chief Justice nor the Governor reviews or approves the Commission's recommended budget or monitors its expenditures. That responsibility falls solely to the Legislature.

Emergency Board – Totals

	2007-09 Actual	2009-11 Legislatively Adopted	2009-11 Approved Spending Level	2011-13 Current Service Level
General Fund	0	76,147,321	0	0
Total Funds	**$0**	**$76,147,321**	**$0**	**$0**

Overview

The Emergency Fund consists of General Fund appropriations made to the Emergency Board. The Board allocates money from the Emergency Fund to finance contingencies that are not addressed in approved agency budgets. The Board allocates money to finance general employee compensation increases (salaries and benefits) when an appropriation is made for this purpose. Appropriations are also made to the Board for allocation to specific agencies for specific purposes. This is done in lieu of a direct appropriation to an agency when additional information is required or conditions need to be met prior to making the funds available. The following table separately identifies components within the Emergency Fund:

	2003-05 Adopted	2005-07 Approved	2007-09 Adopted	2009-11 Adopted
General Purpose Emergency Fund	40,000,000	30,000,000	30,000,000	30,000,000
Salary and Benefit Adjustment*	9,000,000	131,000,000	125,000,000	32,000,000
Special Purpose Appropriations	47,442,994	107,100,764	45,514,219	14,147,321
Total	$96,442,994	$268,100,764	$200,514,219	$76,147,321

** For the 2009-11 legislatively adopted budget, no allocation was made to the Emergency Board specifically for salary and benefit adjustments; the special purpose appropriation was included for supplemental state agency costs, which could include increased costs for state employee health benefits for the 2010 and 2011 benefit years.*

During the February 2010 special session, the Legislature disappropriated $32 million from the special purpose appropriation made to the Emergency Board for supplemental state funding needs and disappropriated another $12.3 million from the general purpose Emergency Fund. Both of these actions were part of the legislative plan to rebalance the 2009-11 biennium budget due to declining revenue forecasts. Also during the February 2010 special session, the Legislature made five new special purpose appropriations to the Emergency Board totaling $41.5 million, the largest of which was $30 million designated for caseload, cost-per-case, and other potential expenses of the Department of Human Services.

The Emergency Board met five times during the 2010. Three of these meetings were regularly scheduled meetings with the other two being special meetings to deal with issues resulting from the Governor's announced allotment reductions due to revenue shortfalls. At the last meeting of the Board in December 2010, the final pieces of the interim plan for dealing with the allotment reductions were completed. This included the transfer of $30.7 million of special purpose appropriations to the general purpose legal citation and the allocation of $20 million to the Department of Corrections, $6.5 million for the Department of Human Services, $3 million to the Oregon Youth Authority, and $1.9 million to the Department of Revenue. The allocations were made to partially mitigate the effects of allotment reductions on those agencies. The final parts of the 2009-11 rebalance plan will need to be implemented by the Legislature during the 2011 session. The actions taken by the Emergency Board in December 2010 resulted in a zero ending balance for the Emergency Fund.

Current Service Level

There is no current service level budget for the Emergency Board.

Budget Environment and Potential Reductions

While there is no current service level budget for the Emergency Board, it is generally assumed in the development of the state's biennial budget that some amount of General Fund will be appropriated to the Board for emergency needs during the biennium. As the table above indicates, this amount has recently been $30 million. With the approval of annual sessions by the voters in November 2010, it is likely that the Emergency Board will continue to have only three regularly scheduled meetings per biennium, with the option of additional meetings depending on the state's fiscal situation and any emergency need.