2015-17

Legislatively Adopted Budget

Detailed Analysis

Legislative Fiscal Office

October 2015

State of Oregon
Legislative Fiscal Office

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

Following is the **2015-17 Legislatively Adopted Budget Detailed Analysis**, which provides agency program descriptions; analysis of revenue sources and relationships; discussions of budget environment; and review of budget decisions made by the Legislative Assembly for the 2015-17 biennium.

We hope you find this resource useful and invite you to call the Legislative Fiscal Office if you have any questions.

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Analyst: Wilson

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	342,555,451	453,969,907	477,507,151	544,682,780
Lottery Funds	54,160,517	42,371,076	1,434,927	1,434,927
Other Funds	55,850,443	134,784,035	133,175,436	273,993,743
Other Funds (NL)	102,877,565	107,674,086	112,394,452	112,916,253
Federal Funds	926,814,515	1,005,410,381	1,019,470,199	1,026,393,576
Federal Funds (NL)	350,935,688	374,992,872	388,007,727	388,007,727
Total Funds	**$1,833,194,179**	**$2,119,202,357**	**$2,131,989,892**	**$2,347,429,006**
Positions	477	519	491	552
FTE	448.14	485.39	468.57	519.01

The figures above do not include the State School Fund resources which are part of the overall budget for the Department of Education, but for the purposes of the budget process are appropriated in a separate bill from the remainder of the ODE budget and are included as a separate section in this publication.

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 schools (ORS 326.051(1)(b)); implementing statewide standards for public schools (ORS 326.011 and 326.051(1)(a)); and making distributions from the State School Fund to districts that meet all legal requirements (ORS Chapter 327). Under changes made in 2011, the separately elected position was eliminated and the Governor is the Superintendent of Public Instruction. The Governor appoints a Deputy Superintendent who acts as the agency head for Oregon Department of Education (ODE). In 2013, the Legislature passed legislation which moved the administration of programs under the Early Learning Council (HB 3234) and the Youth Development Council (HB 3231) under ODE. The Councils remain the policy boards for these programs. The mission and goals of the agency stress that ODE is to assist and collaborate with educational partners, move toward eliminating the achievement gap, and be "results-focused" with less focus on compliance where possible and more focus on customer service.

ODE provides support to the State Board and the Superintendent in carrying out their responsibilities as well as for the early learning programs and youth development related programs. Traditionally, ODE has been responsible, under federal and state laws, for administering special education programs, including services to disabled children from birth through age 21; the Oregon Pre-Kindergarten programs; compensatory education programs; vocational education programs; and school nutrition programs. ODE's role, generally, is to provide curriculum content standards, technical assistance, monitoring, accountability, contract and grant administration, and statewide leadership on a variety of education issues. Department staff provide direct educational services at the School for the Deaf and assist in the education program at juvenile correctional institutions.

The 2015-17 legislatively adopted budget for General Fund and Lottery Funds of $546.1 million is $49.7 million, or 10%, greater than the 2013-15 legislatively approved budget. The total funds budget of $2.35 billion is 10.8% greater than the 2013-15 amount. More detail on these and other changes in the ODE budget are included in the sections below.

Operations

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	34,299,779	52,025,737	58,393,490	61,893,266
Other Funds	10,692,594	24,236,923	25,364,083	155,754,487
Other Funds (NL)	1,775,669	2,704,452	2,704,452	2,704,452
Federal Funds	51,434,151	75,262,231	69,572,997	76,405,618
Total Funds	**$98,202,193**	**$154,229,343**	**$156,035,022**	**$296,757,823**
Positions	293	432	405	465
FTE	285.54	406.20	389.49	438.76

The large increase in Other Funds for the 2015-17 legislatively adopted budget is primarily due to the $125 million in expenditure limitation for Article XI-P bond proceeds for grants to school districts for construction and improvements to school facilities.

Program Description

Department Operations includes the responsibilities and activities of the State Board and the Deputy State Superintendent, administration of most ODE programs, and assistance to and review of local districts. The Board adopts academic standards for public schools and is the policy-making body. The Superintendent (Governor) and Deputy Superintendent exercise general policy direction, monitoring, and oversight of public schools.

The Department organization is comprised of the following units, which include the staff and related administrative costs for the various grant-in-aid and other programs in the ODE budget:

- Office of the Deputy Superintendent – Provides the overall leadership and management of the agency. This office also includes government and legal affairs functions, the State Board of Education administrator, human resources, internal audit function, and communications. The Native American education specialists are also part of this Office.
- Office of Learning – Includes the primary K-12 related staff and administrative functions and is charged with integrating curriculum, instruction, assessment and accountability, equity, and student support services. Its priorities include improving equity as well as the health and wellness for all students. Included in this largest office in the Department are three primary units. First is the *Instruction, Standards, Assessment and Accountability Unit* with responsibility for administering programs related to educator effectiveness, Common Core State Standards, secondary and post-secondary transitions, various federal programs such as the No Child Left Behind Act, and statewide student assessment related activities. A second unit is the *Student Services Unit*. Programs managed by this unit include special education, child nutrition programs, long-term care/hospital and youth corrections/juvenile detention programs, and the Oregon School for the Deaf. The final unit is the *Equity Unit* which is responsible for activities related to closing the achievement gap, migrant education, civil rights, African American statewide education plan, and English Language Learners support and monitoring.
- Early Learning Division – Established by the 2013 Legislative Assembly, administers programs including Oregon Pre-Kindergarten (OPK), Early Head Start, Great Start, Healthy Start, Relief Nurseries, the new “mixed” delivery preschool program, and child care provider licensing, subsidies, and training.
- Youth Development Division – Established in 2013, administers programs such as the Title XX Youth Investment program, Juvenile Crime Prevention program, Community Schools, Gang Involved Youth Program, and a number of youth related grant programs.
- Office of Research and Data Analysis – Coordinates data analysis and research across ODE as well as coordinates with researchers in other education-related agencies.
- Office of Finance and Administration – Provides fiscal and administrative services, such as accounting, budgeting, payroll, and procurement. This office also is responsible for the calculation and distribution of State School Fund payments to school districts and education service districts (ESDs). The new Office of School Facilities will be located in this unit.

- Office of Information Technology – Responsible for the development and maintenance of agency-wide technical and information infrastructure, as well as data collection from and reporting on individual schools, school districts, and ESDs.

Revenue Sources and Relationships

Other Funds revenues include indirect cost recovery from federal programs based on cost allocation plans, fees for fingerprinting and background checks, funds from the Department of Human Services and Oregon Health Authority for health-related and other programs, funds from the Higher Education Coordinating Commission for professional/technical education services and administration, textbook review fees, and miscellaneous fees, contracts, and grants. "Carve-out" funds from the State School Fund are also treated as Other Funds and are used for staff and other costs associated with the Network for Quality Teaching and Learning and the new English Language Learners initiative.

Major federal revenue sources include the Individuals with Disabilities Education Act (IDEA), the National School Lunch Program, No Child Left Behind assessment funds, Child Care related funds, Title XX funds, and various compensatory education programs.

Budget Environment

As noted above, the agency has established new mission and value statements as part of a new strategic plan. Over the past few biennia, ODE staff resources have moved from being funded with almost 50% General Fund (a much more flexible funding source) in 2007-09 to just over 36% in 2015-17, after factoring out the $125 million in Other Funds expenditure limitation for the School Facilities bond proceeds. The constraint is that the positions funded with Federal and Other Funds are tied to specific programs and functions, such as oversight and monitoring as required by federal law.

SB 447 (2015) established the Office of School Facilities within the Department of Education for administering a program which provides matching grants to school districts for capital costs including construction, improvement, remodeling, equipment purchase, and maintenance and repair of facilities. The grants are funded with up to the authorized $125 million in Article XI-P general obligation bonds. Districts must match the state grants with funds from local voter approved bonds and grants are capped to $8 million. The bill (SB 447) also authorized related grants for assessment and long-range planning of district facilities and for hardship grants. SB 447 authorized a $2.5 million "carve-out" from the State School Fund to fund these grants and 5 positions (3.38 FTE) for the Office of School Facilities. This distribution from the State School Fund will increase to $6 million per biennium after 2015-17.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $61.9 million General Fund ($296.8 million total funds) reflects an increase of $9.9 million (or 19%) from the 2013-15 legislatively approved budget, and a $142.5 million (or 92.5%) increase in total funds over the same period. It should be noted that $125 million of this total fund growth is attributable to the Other Funds expenditure limitation related to the proceeds of Article XI-P bonds for grants to school districts for construction, remodeling, and other costs of school facilities authorized by SB 447. Without this $125 million, the total funds growth is $17.6 million (or 11.4%). Other major factors causing the increase in the budget for ODE Operations include:

- In the Early Learning Division, 22 positions (19.38 FTE) were established relating to quality assurance and to support ongoing programs. All but one of these positions was limited duration in 2013-15, and 13 of the positions are established as limited duration for 2015-17. The remaining 9 positions are permanent. Nine of the positions are limited duration for the first 18 months of the biennium until the federal Race-to-the-Top (RTT) funding is gone. Another 4 limited duration positions that work directly with early learning hubs will be funded with RTT funds for the first 18 months and then with General Fund for the remaining six months of 2015-17. The 9 permanent positions include 8 positions that are part of the core staffing for the Division (e.g., Director of Programs and Policy, Communications, Age 3 to Grade 3 Alignment Specialist, financial analyst, Hub manager) and a new position working with child care quality related activities. These 9 permanent positions will be funded for the first 18 months with RRT funds and with General Fund for the remaining six months. Estimated roll-up costs for the permanent positions for 2017-19 is roughly $2 million General Fund when the RTT funding is no longer available.

- Another 16 permanent positions (9.25 FTE) are established relating to the passage of HB 2015 which aligns state policy with new federal regulations around child care. New federal regulations require on-site inspections of licensed-exempt child care providers and, as a result, 15 positions are phased in during the biennium to meet this new workload. Most of the funding for this is from the federal Child Care Development Fund ($1.87 million Federal Funds) with $155,693 General Fund provided primarily for a position to develop and implement a system of quality supports for providers.
- HB 3380 established a mixed delivery preschool program for low-income children to attend quality pre-school programs starting in the second year of the biennium. A special purpose appropriation to the Emergency Board of $17.5 million General Fund is available for this program. In this budget, $689,464 General Fund is provided for 3 positions (1.50 FTE) to develop and administer the program, as well as for program evaluation and development of a modified quality system.
- The overall ODE budget includes numerous changes to various Grant-in-Aid programming with the creation of new programs and elimination of former programs. These primarily affect the various strategic investments and the Network for Quality Teaching and Learning created in 2013-15. Generally, the existing positions established in 2013-15 will absorb any net increase in workload resulting from these changes. The exception to that is the $35 million General Fund for establishment of new and continuation of existing Career and Technical Education (CTE) and Science, Technology, Engineering, and Mathematics (STEM) programs. While the program or grant related funding is in the Grant-in-Aid section of the ODE budget, $1.3 million General Fund is included in this budget unit for 7 new positions (5.76 FTE) for this CTE/STEM investment.
- The positions in the Youth Development Division are altered both in funding and classification to meet the current set of activities and funding availability. The net result of this is a $429,252 General Fund increase and a $300,909 decrease in Federal Funds affecting the Division's Deputy Director, support staff, the manager for the Juvenile Crime Prevention program, and a federal compliance position. An increase in FTE of 0.50 is included. SB 586 expanded the scope of the Division's work to include youth aged 21 to 24 and 1 position (0.75 FTE) is included to meet this expansion.
- To meet the needs of specific populations, investments were made to address their educational needs. Staffing and other costs for these education plans and other functions are included in this budget unit for: (1) African Americans authorized in HB 2016 ($235,717 General Fund, 1 position, 1.00 FTE), (2) English Language Learners authorized in HB 3499 ($2.4 million Other Funds from the State School Fund, 2 positions, 2.00 FTE), (3) Native Americans ($234,687 General Fund, 1 position, 1.00 FTE), and (4) students with dyslexia as provided for in SB 612 ($190,593 General Fund, 1 position, 0.75 FTE).
- A number of actions were taken to "clean-up" the funding and classifications of positions across the Department. Generally, these did not result in the need for additional resources. The major exception to this was the need to backfill Information Technology positions which had been funded with federal ALDER funds which are no longer available. Overall, 15 positions were funded with these Federal Funds, but General Fund resources were only available to continue funding for 11 of the positions. One more position was added back as limited duration to specifically address the need to replace or retrofit the system which distributes over $10 billion in state and local funding to school districts for K-12 education. The overall cost of this backfill was $1.3 million General Fund.
- As noted above, funding was provided to assist school districts with construction and other costs for district buildings. SB 447 (2015) established the Office of School Facilities and this budget unit includes $125 million Other Funds for matching grants (proceeds of Article XI-P general obligation bonds), $737,256 Other Funds for staffing and related costs for 5 positions (3.38 FTE) for the Office, $1.2 million Other Funds for issuance costs of the bonds, and $1.8 million for hardship and assessment/long-range planning grants.

Oregon School for the Deaf

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	10,980,894	11,375,088	11,501,545	11,512,824
Other Funds	4,297,010	3,695,804	3,795,840	3,795,840
Federal Funds	272,124	511,620	510,809	601,565
Total Funds	**$15,550,028**	**$15,582,512**	**$15,808,194**	**$15,910,229**
Positions	96	83	82	85
FTE	80.59	75.19	75.08	78.25

Program Description

The School for the Deaf (OSD) is a residential/day program that serves students who are hearing-impaired located on 52 acres in Salem. OSD provides academic and career education, living skills development, athletics, and leadership training. OSD serves roughly 115 students per year with approximately 35% to 40% in the day program and the remaining 60% to 65% residing on the campus during the school year. As of December 2014, 50% of the students were in high school, 21% in middle school, 14% in elementary school, and the remaining 15% in an adult transition program.

Revenue Sources and Relationships

Other Funds revenues reflect receipts from special education billings, State School Fund distributions, donations, Medicaid reimbursements, fees from local school districts for services provided to their students, nutrition reimbursements, and other sources.

Budget Environment

HB 3687 (2010) directed the Department of Administrative Services (DAS) to transfer 50% of the net proceeds from the sale of the Oregon School for the Blind (OSB) to ODE for improvements, repairs, and maintenance costs benefitting the health, safety, and housing of the students of OSD. DAS transferred approximately $2.6 million for this purpose.

The OSD facilities are aging and have significant deferred maintenance needs. A report from five years ago estimated over $3.5 million in needed deferred maintenance projects. Projects completed so far include roof replacement/repair on some of the buildings, upgrading an elevator, and refinishing the gym floor. The next major project is installation of a new HVAC system to replace the current boiler system, estimated at a cost of $2.4 million. The agency will have to return to the Legislature for additional expenditure limitation for 2015-17 to complete the project. The deferred maintenance report discussed above will be the basis for the use of the remaining funds transferred from the sale of OSB, sale or lease of unused property on the school grounds, lease of underutilized OSD facilities, donations, General Fund resources, and state issued bond proceeds.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $11.5 million General Fund is just under $138,000 (or 1.2%) greater than the 2013-15 legislatively approved budget. The total funds budget of $15.9 million represents a 2.1% increase over the same period. There are a few changes to the 2015-17 Current Service Level budget. A permanent food service position was added to fully staff the student dining facility as well as to create capacity to provide meals to two charter schools leasing space on the campus. A part-time teacher position was increased to full-time (20 to 24 months) to ensure that behavioral assessments are completed, and 2 limited duration teaching assistant positions were added funded by Federal Funds.

Youth Corrections Education Program

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	15,002,917	16,078,493	16,502,685	16,502,677
Federal Funds	1,743,422	2,157,681	2,222,411	2,222,411
Total Funds	**$16,746,339**	**$18,236,174**	**$18,725,096**	**$18,725,088**
Positions	8	4	4	2
FTE	8.00	4.00	4.00	2.00

Program Description
ODE is responsible for ensuring that educational services are provided to children in the Oregon Youth Authority's (OYA) close custody facilities and county detention centers. The Department contracts with local education agencies (e.g., educational service districts) to provide services to students. A small number of state employees remain connected to the program; an agreement with the labor bargaining unit provides that as these state positions become vacant, they are eliminated and the financial resources are transferred to contracts with the appropriate local education agency.

Revenue Sources and Relationships
Funding for the program comes from the State School Fund and is reflected as Other Funds. The program is treated as a separate school district with per student revenues distributed through the formula. Federal Funds are from the Title I Neglected and Delinquent Program and the Individual with Disabilities Education Act (IDEA).

Budget Environment
The Department contracts with seven school districts and educational service districts (ESDs) to administer education programs in 11 OYA close custody facilities. Approximately 400 youth are served statewide on an average day. Students in these facilities receive double-weighting in the school funding distribution formula.

The Juvenile Detention Education Program provides education services to youth held in county juvenile department detention centers. Approximately 200 students are served on an average day with an average length of stay of three to five days. The Department contracts with nine districts and ESDs to provide programs in 11 county detention centers. Students in county detention centers are assigned a weight of 1.5 in the State School Fund distribution formula.

Overall, spending for these two programs has fallen due to the reduced number of students served in both OYA facilities and county juvenile detention centers.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $18.7 million total funds is $488,914 (or 2.7%) greater than the 2013-15 legislatively approved budget. The net increase is the result of a change in the number of students and an increase in this program's share of the State School Fund (SSF). The resources from the SSF in this budget are an estimate and may change through the biennium. Two positions that had been vacant were eliminated and their funding was used to contract with the local school district or ESD following the agreement with the labor bargaining unit. Only 2 state positions remain with this program compared to roughly 100 positons years ago.

Grant-in-Aid

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	294,041,835	222,100,333	233,998,493	257,628,789
Other Funds	17,618,200	73,227,494	69,441,148	80,715,786
Federal Funds	736,735,772	786,788,751	813,686,180	813,686,180
Federal Funds (NL)	350,935,688	374,992,872	388,007,727	388,007,727
Total Funds	**$1,399,331,495**	**$1,457,109,450**	**$1,505,133,548**	**$1,540,038,482**

Program Description

The majority of the Department's Grant-in-Aid programs purchase educational services for students with specific educational needs. In this budget unit, the Grant-in-Aid programs are primarily directed to K-12 students and are administered by school districts, Educational Service Districts (ESDs), or entities other than state government. Grants are made for special student services, such as compensatory education, physical education, and child nutrition services. They also are made for special education services provided by regional programs, Early Intervention/Early Childhood Special Education (ESDs), educational services for children in day treatment and hospital programs, and programs through private agencies. Other programs include vocational and workforce development, school reform implementation, transition efforts between secondary and post-secondary schools, STEM/CTE programs, and training of teachers and other education professionals. In 2013, the Legislature approved several new programs including the Network for Quality Teaching and Learning and a number of "strategic" investments directed at key program areas.

Revenue Sources and Relationships

Other Funds revenues represent receipts from special education billings, state tobacco tax funds from the Public Health Division of the Oregon Health Authority for physical education programs, and miscellaneous grants. There are also distributions or "carve-outs" from the State School Fund which are treated as Other Funds in this budget unit for a variety of programs including the Long Term Care program, the Network for Quality Teaching and Learning (professional development), English Language Learners program, and a portion of the nutrition or school lunch program.

The Department receives substantial Federal Funds 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 from the U.S. Department of Agriculture for nutrition programs. Most of the funding is passed through to local school districts, ESDs, or contractors.

Budget Environment

The EI/ECSE program 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 (PL 99-457). The Department contracts with education service districts to provide the services. Within the statewide budget development process, EI/ECSE falls under mandated caseload and receives funding adjustments based on caseload count plus inflation. Even with these mandated increases, the service level for the program still lags actual need.

There were a number of new initiatives and grant programs established during the 2013 legislative session – strategic investments and the Network for Quality Teaching and Learning (NQTL). These programs provided targeted investments or grants to school districts and other entities. The strategic investments were grouped into three general categories – Oregon Reads, Connecting to the World of Work, and Guidance and Support for Post-Secondary Aspirations. As demonstrated in the table below, some of these investments were not funded again (e.g., many of the Oregon Reads programs, student mentoring, STEM lab schools), while a number of new programs were created specifically in the Career and Technical Education (CTE) and Science, Technology, Engineering and Mathematics (STEM) area. A similar pattern exists for NQTL, also known as Educator Effectiveness and Professional Development.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $1.54 billion total funds is $82.9 million (or 5.7%) greater than the 2013-15 legislatively approved budget, while the General Fund budget of $257.6 million is $35.5 million (or 16%) greater over the same period. A detailed listing by major program is outlined on the table found on the next page. A large share of the total funds growth is a $13 million increase in Federal Funds for nutrition or school lunch programs and a $14.5 million increase in Federal Funds for No Child Left Behind or compulsory education programs. General Fund growth increases are due in large part to a $15.4 million increase in Early Childhood Special Education/Early Intervention funding and a $12.4 million increase in CTE and STEM programs.

The Legislature approved $35 million General Fund for CTE and STEM programs ($33.7 million General Fund in this budget unit). Funding for the existing CTE Revitalization grants was reduced by $2.1 million to $9 million while funding for the Regional STEM networks was increased from $2.7 million to $5 million. Funding for Student Organizations was maintained at $750,000 General Fund. A number of new programs were established including STEM Innovation grants ($4.75 million), Career Pathway Fund ($8.75 million), CTE Summer Program ($1.75 million), State-wide Teacher Development and Mentoring for CTE/STEM, and Post-Secondary Success ($2 million). This last program will likely be administered by the Higher Education Coordinating Commission (HECC) via an interagency agreement.

As noted above, a number of programs under the NQTL or Educator Effectiveness and Educator Professional Development umbrella were eliminated for 2015-17. The programs under this umbrella are funded with a mix of General Fund and resources “carved-out” from the State School Fund (budgeted as Other Funds). The two largest programs in 2013-15 were both expanded for 2015-17; School District Collaboration was increased by $4.4 million total funds to $16 million and Teacher Mentoring increased by almost $1 million to $10 million total funds. The new programs in this area include funding for low performing schools and districts ($5.7 million total funds), training for district/school leaders ($2 million), Effective Teacher Preparation ($1.5 million), and professional development related to the use of information gathered through assessments ($2 million).

Grant-in-Aid Programs

	2013-15 Leg. Approved		2015-17 Leg. Adopted	
	General Fund	Total Funds	General Fund	Total Funds
Grant-in-Aid Program K-12				
Oregon Reads & Early Literacy Related Programs	***7.80***	***7.80***	***1.53***	***1.53***
Web-Based Resources to familes and caregivers	0.25	0.25	-	-
Training and guidance in preliteracy skills for parents & caregivers	0.74	0.74	-	-
Expand amount of time for reading	0.78	0.78	-	-
Expand Individuallized learning time	3.49	3.49	-	-
Scale-up Response to Invention	1.96	1.96	-	-
Start Making A reader Today (SMART)	0.49	0.49	0.50	0.50
Reach Out to Read Program	0.10	0.10	0.10	0.10
Other Ell Grants	-	-	0.93	0.93
Post Secondary Aspirations & Accelerated Credits	***10.01***	***10.01***	***6.05***	***6.05***
Student Mentoring, Monitoring & Acceleration	3.05	3.05	-	-
Support Accelerated (AP, IB, Dual credit)	2.62	2.62	2.80	2.80
Accelerated College Credits	0.24	0.24	0.25	0.25
Regional Promise Collabortives	4.10	4.10	3.00	3.00
STEM and CTE Related Programs	***21.36***	***21.36***	***33.72***	***33.72***
CTE Revitalization Grants	11.11	11.11	9.00	9.00
CTE Student Organization Grants (Student Leadership Centers 15-17)	0.75	0.75	0.75	0.75
Regional STEM and CTE Networks	2.70	2.70	5.00	5.00
Underserved STEM & CTE Networks	2.31	2.31	-	-
STEM/STEAM Lab Schools	1.86	1.86	-	-
For Inspiration & Recogniation of Science & Technology (ROBOTICS)	0.64	0.64	0.50	0.50
Student Achievement Improvement Grants	2.00	2.00	-	-
STEM Innovation Grants	-	-	4.75	4.75
Career Pathway Fund	-	-	8.75	8.75
CTE Summer Program	-	-	1.75	1.75
Statewide Teacher Development and Mentoring	-	-	1.10	1.10
Post Secondary Success	-	-	2.00	2.00
Course Equivalent	-	-	0.12	0.12
Nutritional Programs	***3.56***	***353.55***	***6.97***	***397.37***
Nutrition Programs	1.93	351.92	1.99	390.00
Farm to School Programs (SB 5507 increases $3.3m one time)	1.18	1.18	4.52	4.52
After School Meal/Snack Program (HB 2729)	0.45	0.45	0.46	0.46
Expansion of free meals - eligible for reduced lunch	-	-	-	2.39
Physical Education Grants	***0.37***	***4.37***	***0.38***	***4.50***
Educator Effectiveness & Educator Professional Development (Network)	***-***	***36.12***	***7.05***	***37.20***
Educator Effectiveness (SD Collaboration)	-	11.61	1.00	16.00
Educator Effectiveness (Mentoring)	-	9.04	-	10.00
Educator Effectiveness (Other)	-	4.55	-	-
Educator Prep	-	2.39	-	-
Aligning Prof Dev Plans to SI Objectives	-	3.01	-	-
Student Centered Learning	-	1.40	-	-
Support for Common Core & Educational Portal	-	4.12	-	-
Low Performing Schools	-	-	-	2.80
School and District Turnaround Efforts	-	-	0.55	2.90
Leadership Training	-	-	2.00	2.00
Effective Teacher Preparation Program	-	-	1.50	1.50
Strengthen Professional Development on Assessments	-	-	2.00	2.00
Closing the Achievement Gap (Network)	***-***	***4.50***	***4.26***	***4.26***
Closing Achievement Gap - Network funded	-	4.50	-	-
African American Education Plan	-	-	2.76	2.76
Tribal Government Attendance Pilot Project	-	-	1.50	1.50
No Child Left Behind Program (NCLB)	***-***	***416.97***	***-***	***431.48***
Title II (NCLB)	-	23.26	-	23.96
Low Income Part A (NCLB)	-	345.29	-	355.65
Voc Ed Grant Programs -Perkins	-	28.26	-	31.12
Migrant Title I- Part C	-	20.15	-	20.76
Individuals with Disabilities Education Act (IDEA)	***-***	***246.86***	***-***	***254.26***
Early Childhood Special Education & Early Intervention (EI/ECSE)	***134.96***	***162.96***	***150.39***	***178.51***
Early Childhood Special Education (ECSE)	106.83	125.62	107.94	127.02
Early Intervention (EI)	28.14	37.34	42.45	51.49
Regional Programs	***25.92***	***56.55***	***26.69***	***58.27***
Long Term Care Program (LTCT)	***15.81***	***39.50***	***18.26***	***43.00***
Hospital Programs	***1.28***	***3.56***	***1.32***	***8.97***
Blind & Visually Impaired Student Fund	***0.97***	***5.67***	***1.00***	***5.85***
Other Grant Programs	***0.05***	***62.34***	***-***	***75.04***
Other Education Improvement & Innovation Grant Programs	-	53.51	-	57.12
Students with Disabilities Transitions (HB 3246)	0.05	0.05	-	-
Other SL & P Programs	-	8.78	-	7.87
English Language Learners Initiative (HB 3499)	-	-	-	10.06
TOTAL Grant-in-Aid (SCR 300)	**222.09**	**1,432.12**	**257.62**	**1,540.01**

During the 2015 legislative session, there was significant discussion on the transition from high school to post-secondary education. The discussion included how to encourage students to continue their education past high school, as well as how to earn post-secondary credits while still enrolled in high school. Funding was continued ($2.8 million General Fund) to offset the costs for Advanced Placement (AP) and International Baccalaureate (IB) tests as well as funding for the continued development of Regional Promise Collabortives ($3 million General Fund). SB 418 included a $6.9 million special purpose appropriation to the Emergency Board (not included in this budget) relating to this issue area. The funds are to be considered for release after a work group organized by HECC completes its work.

Other significant changes to the K-12 Grant-in-Aid programs include:

- Nutrition programs are expanded through a $3.3 million General Fund increase in the Farm-to-School program as well as a $2.4 million Other Funds initiative to provide free meals at school for those students who otherwise are eligible for reduced priced meals. This second item is funded through a “carve-out” from the State School Fund.
- A $12.5 million English Language Learners (ELL) initiative is established to assist low performing districts for ELL students and to implement a statewide ELL plan. This budget unit includes $10.1 million Other Funds for grants to districts. The funding for this initiative is provided through a “carve-out” from the State School Fund.
- To address specific populations, $2.8 million General Fund is included in the budget to implement a statewide African American Education Plan and $1.5 million General Fund is dedicated for a tribal government attendance pilot project.
- Early Childhood Special Education and Early Intervention programs are increased by a total of $15.4 million General Fund to address the growth in the eligible population and other cost increases ($11.4 million), and another $4 million to address anticipated growth in demand for the programs due to the increase of resources in the Early Learning Division for home visiting.
- The resources for the educational services for students participating in Long-term Care Treatment facilities is increased by $3.5 million total funds due to additional funding from the state School Fund and additional General Fund resources. The basis for distributing funds to the various providers is changed to being based on minimum staffing levels which should increase the resources available.

Early Learning Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	3,232,943	161,119,658	164,396,059	201,539,157
Other Funds	2,971,960	10,753,344	11,075,943	11,167,664
Federal Funds	136,629,046	137,702,052	130,400,115	130,400,115
Total Funds	**$142,833,949**	**$309,575,054**	**$305,872,117**	**$343,106,936**
Positions	80	0	0	0
FTE	74.01	0	0	0

The 2011-13 figures include the staffing and related costs (including positions/FTE) for the program as it was in the Employment Department. The staffing and related costs are now part of the ODE Operations budget unit.

Program Description

In 2013, the Legislature established the Early Learning Division to consolidate and streamline the various early learning programs across state government. The Grant-in-Aid component of the Division is in this budget unit while the staffing and other costs are part of the Operations section above. A primary goal for this consolidation was to create an early learning system which would result in children being ready for Kindergarten and elementary school, both in terms of education readiness and health. An estimated 40% of children are not ready for Kindergarten when they enroll. The governing and advisory entity for this new Division is the Early Learning

Council, and the Division is led by the Early Learning Director. While the Division is part of ODE, the Early Learning Director is appointed by the Governor. The programs that are consolidated into this Division include: (1) the Office of Child Care from the Employment Department and the various programs it administers; (2) Oregon's Pre-Kindergarten (OPK) and Early Head Start programs; and (3) various programs formerly part of the Governor's Office, many of which were previously administered by the Commission on Children and Families (e.g., Healthy Start, Relief Nurseries, Race to the Top federal grant). A new "mixed delivery" preschool program was established by the 2015 Legislative Assembly.

Revenue Sources and Relationships

The Early Learning Division receives Medicaid funding from the Oregon Health Authority for The Healthy Families in Oregon program and Title IV-B(2) Federal Funds from the Department of Human Services. These funding streams are spent as Other Funds in the Division's budget. Asset Forfeiture funds are used for Relief Nurseries. Federal child care funding is the largest source of Federal Funds and is used for licensing, monitoring, and subsidies for child care. The largest share of these funds is transferred to the Department of Human Services for the Employment Related Day Care (ERDC) program. The other major federal funding source is the Race to the Top grant, which funds a variety of activities in the Division, but expires 18 months into the 2015-17 biennium.

Budget Environment

The OPK program, established in 1987 and modeled after the federal Head Start program, serves low-income 3- and 4-year-olds to foster their development and enhance their success in school. State and Federal Funds, as well as services, are coordinated to serve eligible children. In 2007, the Legislature expanded services up to 75% of the eligible children. However, since that time, Head Start eased the entry standards from 100% of the federal poverty line to 130% resulting in an increased number of eligible children and a requisite reduction in the percentages served.

The local delivery system for early learning programs are the Early Learning Hubs designated by regional partners such as counties, school districts, ESDs, post-secondary institutions, nonprofit service providers, and others who come together in a region and apply to the Early Learning Council. They were conceptually designed in part to operate in a similar manner as the Coordinated Care Organizations for the Oregon Health Plan. There are 16 Hubs approved at this time covering the entire state. Hubs are primarily planning and coordinating entities and receive funding for their "infrastructure." Program funding does not generally flow through the Hubs, but increased funding provided for 2015-17 will allow the Hubs to direct some of their funding to "purchase" services based on local priorities. This funding is distributed on a per-child (at risk) basis after a $100,000 base funding for each Hub is provided.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Early Learning Division's related Grant-in-Aid programs is $201.5 million General Fund and $343.1 million total funds. This represents increases of $40.4 million General Fund (25.1%) and $33.5 million total funds (10.8%).The Oregon Pre-Kindergarten (OPK) program is by far the largest General Fund program with over 69% of the General Fund allocated to the program. The growth of other existing programs (e.g., Health Families Oregon and Early Learning Hubs) has reduced the prominence of OPK from the 80% it represented in 2013-15. The following table demonstrates the funding for Early Learning Grant-in-Aid programs.

Early Learning Grant-in-Aid Programs

	2013-15 Leg. Approved		2015-17 Leg. Adopted	
	General Fund	Total Funds	General Fund	Total Funds
Early Learning Division Grant-in-Aid				
Oregon Pre-Kindergarten Program (OPK)	127.42	127.42	140.01	140.01
Early Head Start	1.54	1.54	1.59	1.59
Early Learning Hubs - Infrastructure	4.43	4.43	14.88	14.88
Healthy Families Oregon	14.13	18.09	24.00	28.07
Relief Nurseries	6.60	8.85	8.30	10.62
Kindergarten Readiness Grants	4.00	4.00	9.12	9.12
Mixed Delivery Pre-School	-	-	*	*
Childcare Quality Initiatives	-	-	2.28	2.28
Great Start	-	-	1.36	1.36
Race to the Top	-	4.19	-	9.31
Other Early Learning Programs	***2.99***	***141.05***	**-**	***125.86***
Service Continuity Funding (discontinued in 15-17)	0.72	0.72	-	-
Other Early Learning Programs	2.27	2.27	-	-
Other OF & FF Limitation	-	138.06	-	125.86
TOTAL Grant-in-Aid (SCR 500)	**161.11**	**309.57**	**201.54**	**343.10**

** There is a $17.5 million General Fund Special Appropriation to the Emergency Board for the second year of the biennium for the Mixed Delivery Pre-school program.*

Early Learning programs were given priority as noted with a 25% increase in General Fund compared to the 16% growth in the K-12 related Grant-in-Aid programs between 2013-15 and 2015-17. The Early Learning increase grows to almost 36% when the $17.5 million General Fund special appropriation to the Emergency Board for the Mixed Delivery Pre-school program is factored into the totals. HB 3380 established this new program to expand the types of providers that will offer publically funded preschool to include child care providers, elementary schools, and community organizations. One goal is to increase collaboration across the settings. Of the total $27 million General Fund dedicated for this activity, $8.77 million is provided to the OPK program for the first year of the biennium, $17.5 million is in the special purpose appropriation for the new Mixed Delivery program beginning in the second year of the biennium, and the remaining is for staff and other costs to design and administer the new program.

Other changes to the various Early Learning Grant-in-Aid programs include:

- As noted above, funding for the OPK program has increased by $8.77 million General Fund in the first year of the biennium related to the new Mixed Delivery Pre-School program. This is in addition to a $3.8 million General Fund increase in the program. Overall, OPK participation for 2015-16 is estimated at 7,858 children at an average cost of $8,908 per child.
- Funding for the Early Learning Hubs is expanded by $10.5 million General Fund over the 2013-15 amount to $14.88 million for 2015-17. It is expected that this increase will be used for administration and infrastructure costs of the 16 Hubs and to purchase locally identified services for children.
- Kindergarten Readiness grants are increased by over $5.1 million to $9.1 million General Fund. This is because most of the $5 million in 2013-15 grants were awarded in the second year of the biennium.
- The Healthy Families Oregon program, which provides home visiting, family support, and coaching to parents, is expanded by almost $10 million to a total of $24 million General Fund. It is anticipated that this amount will serve approximately 3,900 families a year.
- Relief Nurseries will see an increase of $1.7 million General Fund including $320,279 to cover reductions in Title XX federal funding.
- General Fund in the amount of $2.3 million is directed at initiatives to increase child care quality for Focused Child Care Networks. These networks of providers in an area come together to improve their practices and achieve a higher Quality Rating and Improvement System (QRIS) rating to increase the number of high quality providers in an area.

Youth Development Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	7,349,091	9,217,564	12,108,744
Other Funds	--	6,791,977	6,995,737	6,057,289
Federal Funds	--	2,988,046	3,077,687	3,077,687
Total Funds	--	**$17,129,114**	**$19,290,988**	**$21,243,720**

Program Description

The Youth Development Division (HB 3231, 2013) was established in 2013 to provide a focus point for youth-related programs and insure services provided to youth through 20 years of age are provided in a manner that is integrated, measurable, and accountable and supports academic success and reduces criminal involvement. The 2015 Legislative Assembly passed a bill which increases the scope of this Division's services to include age groups up to age 24. A Youth Development Council provides direction and governance of the Division's program. The Division is led by a Youth Development Director who is appointed by the Governor. The programs transferred into the new Division are generally programs that had been part of the former Commission on Children and Families, including the Juvenile Crime Prevention Program, Title XX Youth Investment Program, Community Schools, and the Gang Involved Youth Program.

Revenue Sources and Relationships

The Youth Development Division receives federal Title XX funding from the Department of Human Services for the Youth Investment program which are treated as Other Funds in the Division's budget. Federal Funds are used for the Juvenile Crime Prevention program and gang-related programs. Funding from the Casey Foundation that had been used for special programming is no longer available.

Budget Environment

Unlike the Early Learning system, the Youth Development Division and Council does not have a formal local system. The Juvenile Crime Prevention grants do flow through the County Juvenile agencies or their designees, but the remainder of the programs are generally administered by Division staff under the Council's direction. Grants are awarded based on need and the ability of the grantee to meet specific deliverables through a set of criteria based on the overall goal of reconnecting the targeted youth with education and careers as well as addressing youth violence and crime. There are four grant streams as part of this programing – Youth and Community grants, Youth and Innovations grants, Youth and Gangs grants, and Youth and Juvenile Crime Prevention grants.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Youth Development Division's Grant-in-Aid programs is $12.1 million General Fund and $21.2 million total funds. This represents growth over 2013-15 funding levels of 22.7% and 24% respectively. Funds for the various programs in this budget unit are detailed in the following table. This budget is generally at the current service level with the following changes:

- The amount of Title XX funds available has been reduced due to federal sequestration reductions. General Fund in the amount of $627,180 was added to cover this reduction and be used for Youth and Community grants.
- The amount available for Youth and Community grants was further enhanced by $2.3 million General Fund to improve education and workforce success for youth.
- Expenditure limitation ($311,268 Other Funds) associated with the Casey Foundation was eliminated.

Youth Development Grant-in-Aid Programs	2013-15 Leg. Approved		2015-17 Leg. Adopted	
	General Fund	Total Funds	General Fund	Total Funds
Youth Development Division Grant-in-Aid				
Juvenile Crime Prevention Grants	5.65	8.64	5.83	8.90
Community Schools	0.09	0.15	0.10	0.15
Youth Innovation	1.60	8.03	3.29	9.92
Youth & Community Grant Program	-	-	2.26	2.26
Casey Program	-	0.30		-
Title XX backfill	-	-	0.63	-
TOTAL Grant-in-Aid (SCR 550)	**7.34**	**17.12**	**12.11**	**21.23**

Debt Service

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Lottery Funds	54,160,517	42,371,076	1,434,927	1,434,927
Other Funds	2,512,937	--	--	--
Other Funds (NL)	2,770,238	--	--	--
Total Funds	**$59,443,692**	**$42,371,076**	**$1,434,927**	**$1,434,927**

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; as well as $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). These bonds will be fully paid over the next few biennia.

Funds provided to districts from the bond proceeds 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 Lottery revenues and 75% of the interest earnings from the Education Stability Fund. Other Funds in previous biennia include net unobligated lottery proceeds and interest earnings from the Education Lottery Bond Fund.

Legislatively Adopted Budget

The 2015-17 legislatively adopted Lottery Funds budget of $1.4 million is $41 million less than the 2013-15 legislatively approved budget. The budget has been adjusted to reflect the latest projections of interest earnings and biennial payment obligations.

Common School Fund Distributions

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds (NL)	101,086,483	104,969,634	109,690,000	110,211,801
Total Funds	**$101,086,483**	**$104,969,634**	**$109,690,000**	**$110,211,801**

Program Description

This program reflects the transfer of Common School Fund (CSF) distributions from the Department of State Lands to the Department of Education for distribution to K-12 school districts. Previously, the Department of State Lands distributed these monies to county treasurers, who in turn made payments to school districts. In 2005, the

Superintendent of Public Instruction became responsible for making these distributions to the districts. These distributions are then considered local revenues for the purposes of the school distribution formula.

Budget Environment

As of January 2006, fund growth is determined on the basis of a 3-year rolling average. The Land Board's distribution policy was that if the growth is 5% or less, a minimum distribution of 2% of the fund's fair market value is made. If the fund grew between 5% and 11%, the distribution percentage grew incrementally, up to a maximum distribution percentage of 5% if the fund grows by 11% or more. 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 3 years if the 3-year rolling average growth is less than 11%. The Land Board can change this policy by a vote – in 2013-15, the distribution was set at 5%.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is based on a 4% distribution. The amount may be increased if the State Land Board votes for a higher increase than the one set out in Board general policy, which the Board also did in 2011-13 and 2013-15. In the development of the final State School Fund number, it was anticipated that the Land Board would increase the distribution to 5% providing another $27 million to school districts and ESDs.

State School Fund

Analyst: Wilson

Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	5,129,904,792	6,322,625,891	6,937,384,687	6,964,849,484
Lottery Funds	545,904,513	327,374,109	327,374,109	408,150,516
Other Funds	340,252	3,936,407	3,936,407	3,260,692
Federal Funds	22,449,100	--	--	--
Total Funds	**$5,698,598,657**	**$6,653,936,407**	**$7,268,695,203**	**$7,376,260,692**

Program Description

The Oregon Constitution directs the Legislature to "provide by law for the establishment of a uniform and general system of common schools." General state support for K-12 schools and Education Service Districts (ESDs) is provided through the State School Fund (SSF) and represents the state share of the amount distributed through the school equalization formula. The Department of Education (ODE) makes distributions of state support to school districts and ESDs that meet all legal requirements.

By far, the largest use of the SSF is for distribution through the equalization formula to school districts (95.5% of the net distribution) and ESDs (4.5% of net distribution). Prior to this distribution, there are a number of other statutorily defined distributions or "carve-outs" from the SSF, including the High Cost Disabilities Account, facilities grants, ESD testing or assessment contract, Talented and Gifted (TAG) programs, funding for speech language pathologists, and Oregon Virtual School District funding. SSF resources are also allocated for students in Youth Corrections and Juvenile Detention programs, the Oregon School for the Deaf, and long-term care facilities and hospitals.

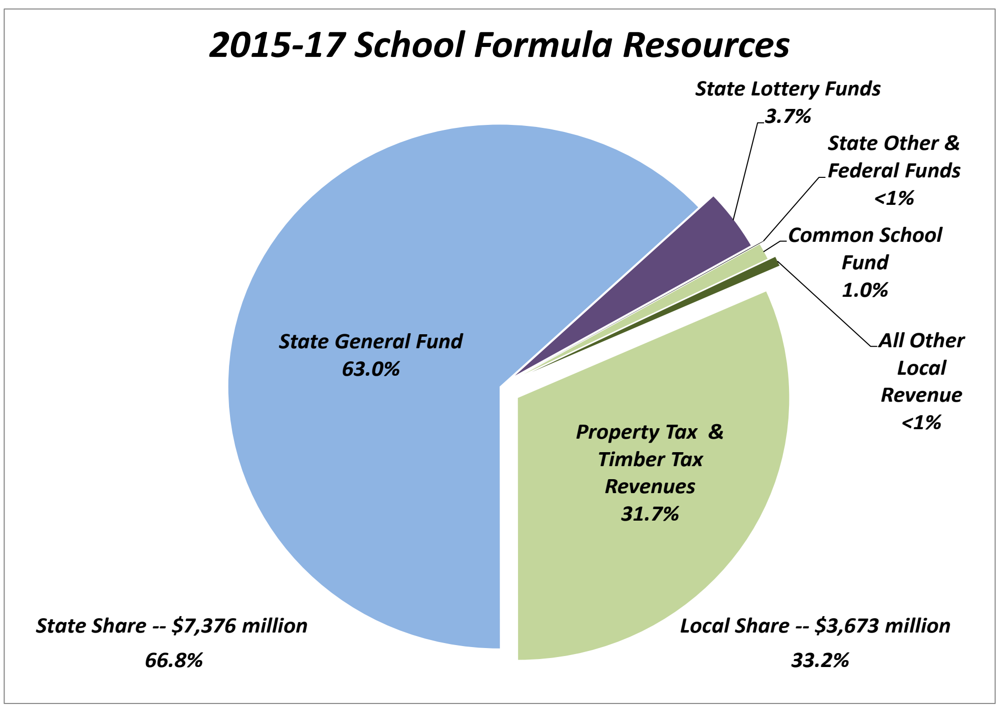
Allocations to school districts include a transportation grant and a general-purpose grant. The general-purpose grant follows a legislatively prescribed distribution formula based on number of students, additional weighting reflecting specific education costs (e.g., poverty, special education, and remote schools), teacher experience, and local tax resources. This formula was designed to equalize allocations to schools. Districts may also have local option levies which the state may provide assistance with if the district qualifies. While the formula distribution provides the largest share of resources for school districts and ESDs, ODE distributes over $1.5 billion of federal and state funding through the grant-in-aid programs for purposes such as child nutrition, special education, specialized education initiatives, professional development, and compensatory education.

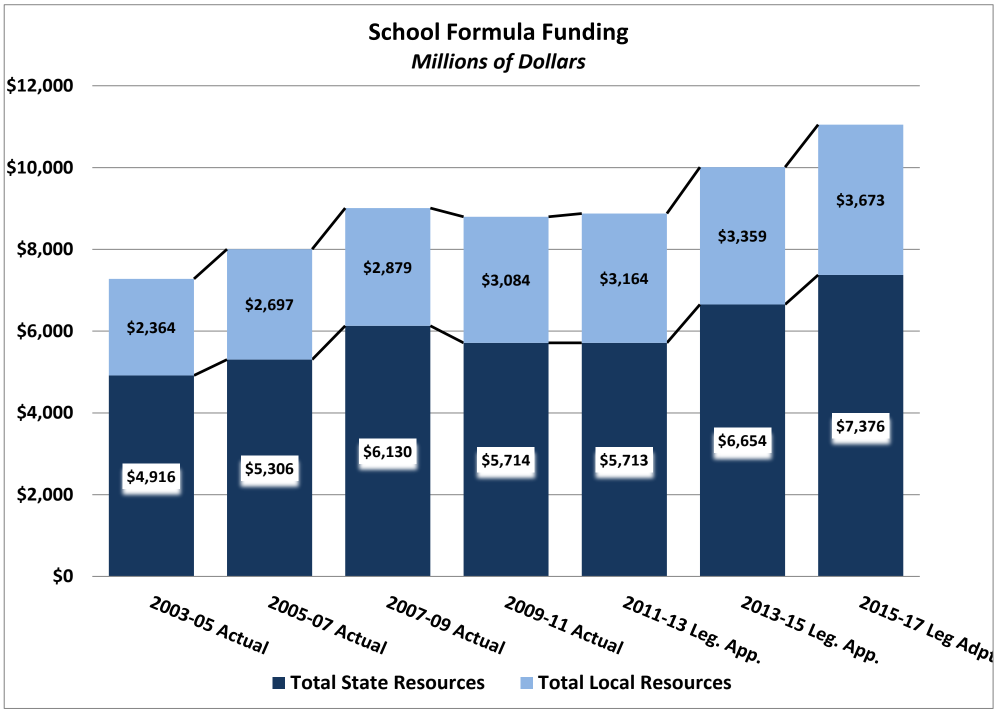
Revenue Sources and Relationships

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, and the state increased its share of funding and passed a new school equalization formula. By the end of the five-year tax limit phase-in, the state primarily funded the school system and virtually eliminated local control over school funding levels. Measure 50 (a rewrite of Measure 47 passed earlier) added another property tax limit more restrictive than Measure 5 and the state again increased its share of the funding. For 2015-17, the estimated SSF share of the distribution amount through the equalization formula for school districts and ESDs represents 66.8% with various local revenues representing the remaining 33.2%.

The majority of the SSF budget relies on General and Lottery Funds. The Other Funds portion reflects receipts from the state timber tax, donations of kicker rebates, and expenditure limitation for Local Option Equalization grants. The Education Stability Fund, which originates as Lottery Funds, was accessed for the SSF during the 2007-09, 2009-11, and the 2011-13 biennia. The Oregon Rainy Day Fund (General Fund) was used for the SSF in 2009-11. Neither Fund was used in 2013-15 or 2015-17.

As noted above, the majority of the SSF is distributed to school districts and ESDs through an equalization formula with the SSF representing the state portion combined with a variety of local revenues. These local revenues include local property taxes, local timber tax revenues, revenue from state managed timber, the Common School Fund, payments in-lieu of property taxes, and excess local ESD revenues. The first pie chart below demonstrates the breakdown between the distribution formula revenue sources for 2015-17 and the second chart provides historical context of the revenue mix.





Budget Environment

Currently, there are 197 elementary and secondary school districts and 19 education service districts, serving about 541,000 students (ADM) in grades K-12. The School Revenue Forecast Committee estimates enrollment growth of 0.1% per year during the 2015-17 biennium with weighted growth of 0.4% per year. Overall, weighted ADM is estimated at 699,000 for the 2015-16 school year including the impact of full-day kindergarten.

In 2001, the Quality Education Commission (QEC) was established to: 1) determine the amount of moneys sufficient to ensure that the state's system of kindergarten through grade 12 public education meets quality goals; 2) identify best practices that lead to high student performance and the costs of implementing those best practices in the state's kindergarten through grade 12 public schools; and 3) prior to August 1 of each even-numbered year, issue a report to the Governor and the Legislative Assembly. This report identifies: a) current practices in the state's system of kindergarten through grade 12 public education system, the costs of continuing those practices, and expected student performance under those practices and b) best practices for meeting the quality goals, the costs of implementing best practices, and expected student performance under best practices. Based on the QEC's Quality Education model estimates, the legislatively adopted budget's SSF amount is still roughly $1.8 billion short of funding Oregon's educational goals as currently defined in law.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget includes $7.376 billion total funds ($6.96 billion General Fund and $408.2 million Lottery Funds) for the State School Fund (SSF) which makes up the state portion of the amount distributed to school districts and ESDs through the school funding formula. This 2015-17 budget represents a $723 million (or 10.9%) increase in General Fund and Lottery Funds for the SSF over the 2013-15 budgeted amount. As with the 2013-15 biennium, no additional funding from the Education Stability Fund or the Oregon Rainy Day Fund is included. Funding will be split between the two school years of the biennium, with 49.2% in the first year and the remaining 50.8% in the second year. An estimated $2.9 million of the SSF is assumed to be the amount needed to cover payments under the Local Option Equalization Grants. An additional $27 million could be available for distribution to districts if the State Land Board increases the distribution from the Common School Fund from the standard policy of 4% to 5%, as it did in 2013-15. The estimated distribution of SSF resources combined with local revenues is outlined in the table below.

There were relatively minor changes to the school funding formula during the 2015 legislative session including: (1) continuing the Small School District Supplement which again had been scheduled to sunset; (2) continuing the carve-out for a funding stream for the Network on Quality Teaching and Learning ($36 million); (3) establishing new carve-outs for school nutrition programs ($2.4 million) and for English Language Learners ($12.5 million); (4) increasing the amount designated for High Cost Disability grants by $34 million to a total of $70 million; and (5) reducing the amount designated for School Facilities grants from $20 million per biennium to $12.5 million. The $7.5 million that was reduced from Facilities grants was used for operations and grants of the Office of School Facilities ($2.5 million) and for distribution through the formula to school districts and ESDs ($5 million). The new Office of School Facilities (SB 447) will assist school districts with matching funds through the issuance of state bonds for various school construction and improvement projects. The carve-out for this office will increase to $6 million in 2017-19.

2015-17 State School Fund & Local Revenues Distribution

Millions of Dollars

State School Fund General Fund and Lottery Funds				**7,373.0**
Less Selected Set-Asides & Carve-outs & Reserve Accounts				**(100.5)**
Small School Supplement - 327.008(10)			(5.0)	
Business Audits - 327.008(10)			-	
Talented & Gifted - 327.008(13)			(0.4)	
Speech Pathologist - 327.008(13)			(0.2)	
Virtual School District - 327.008			(1.6)	
Long-term Treatment & OSD - 343.243			(23.0)	
Network for Quality Teaching (partial, more below)			(5.0)	
Local Option Equalization - 327.339 (will be undated by end of session to reflect newer levies)			(2.9)	
Pediatric Nursing Facilities			(5.1)	
English Language Learners (ELL)			(12.5)	
Nutrition Related			(2.4)	
Office of Educational Facilities (SB 447)			(2.5)	
Reserve Account (distributed to districts later in biennium)			(40.0)	
Estimated Local Formula Revenues				**3,673.3**
Property Taxes			3,498.7	
Common School Fund			109.7	
County School Fund			22.8	
State Managed Timber			38.1	
All Other			4.0	
Total Amount to be Distributed to School Districts and ESDs				**10,945.9**
School District Share (95.50%)			10,430.1	
Education Service Districts (4.5%)			515.8	
School District Distribution				
Total Amount Available	10,430.1			
Less Existing High Cost Disability Grants	(36.0)			
Less Additional High Cost Disability (2015 Session change)	(34.0)			
Less Facilities Grants	(12.5)			
Less School District Share of Network for Quality Teaching	(15.5)			
Formula Revenue for Distribution to School Districts		**10,332.1**		
Education Service District Distribution				
Total Amount Available	515.8			
Less 10th Grade Assessment	(1.0)			
Less ESD share of Network for Quality Teaching	(15.5)			
Formula Revenue for Distribution to ESDs		**499.3**		

HIGHER EDUCATION COORDINATING COMMISSION

Analysts: Wilson

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,251,030,012	1,428,225,965	1,580,471,083	1,776,827,091
Lottery Funds	30,083,102	45,638,739	64,694,771	62,406,155
Other Funds	67,490,109	370,177,018	57,134,793	583,303,714
Other Funds (NL)	--	42,546,031	206,000	275,439,857
Federal Funds	88,359,232	107,788,824	111,219,540	111,680,983
Federal Funds (NL)	4,111,284	18,968,832	18,968,832	18,968,833
Total Funds	**$1,441,073,739**	**$2,013,345,409**	**$1,832,695,019**	**$2,828,626,633**
Positions	92	113	109	143
FTE	87.37	104.02	104.37	124.30

Overview

The Higher Education Coordinating Commission (HECC) is a 15-member commission appointed by the Governor and confirmed by the Senate. Its primary focus is strategic planning for the entire public post-secondary education system in the state. Other responsibilities include: 1) develop goals and accountability measures for the post-secondary system; 2) develop a strategic plan; 3) develop a finance model and distribution formulas for higher education based on the strategic plan; and 4) approve and authorize degrees for the public universities.

The passage of SB 270 and HB 3120 in 2013 added a number of duties to HECC's portfolio. Starting in 2014, the Commission took over the current responsibilities of the State Board of Education as it relates to the Community College system, as well as assumed the responsibilities of the Oregon Student Access Commission (OSAC) which was eliminated. The state staff of the Community College and Workforce Development Department and the staff of OSAC also were transferred to HECC. Two other programs, the Office of Degree Authorization (ODA) and the Private Career School (PCS) program, and their budgets have been transferred to HECC. ODA, which had been part of the OSAC office, evaluates and approves degree granting institutions and their programs that are not part of the public university system, do not have regional accreditation, or offer programs from a base outside of the state. The PCS program was transferred from the Oregon Department of Education and licenses career schools, approves their programs, and investigates complaints regarding these schools.

The HECC budget includes the state funding for community colleges, public universities, Oregon Health and Science University (OHSU) programs, and the Oregon Opportunity Grant program. While these programs generally are pass-through funds (community colleges and public universities), the Commission has a role in determining how much of the funding is distributed. This is not the case for OHSU. In addition, the budgets for OHSU debt service and capital construction expenditure limitation are part of the budget for the Department of Administrative Services (DAS), but for the purposes of this publication are included in these figures for OHSU. Below is a table that divides the 2015-17 legislatively adopted budget into its major components.

	Millions of Dollars						
	General Fund	Lottery Funds	Other Funds	Federal Funds	Other Funds NL	Federal Funds NL	Total Funds
State Support to Community Colleges	589.3	10.5	1.5				601.3
State Support to Public Universities	941.7	40.1	311.3		275.2		1,568.3
State Support to the Oregon and Health Sciences University (OHSU)	85.9		238.7				324.6
Oregon Opportunity Grant Program	127.9	11.8	1.2				140.9
HECC Staff, Operations and Other Programs	32.0	-	30.6	111.7	0.2	19.0	193.5
Totals	**1,776.8**	**62.4**	**583.3**	**111.7**	**275.4**	**19.0**	**2,828.6**

Legislatively Adopted Budget
The 2015-17 combined General Fund and Lottery Funds legislatively adopted budget of $1.839 billion is $365.4 million or 24.8% greater than the 2013-15 legislatively approved budget. The growth is due to major investments in general state support for public universities and community colleges and accounts for over $233 million of the increase. There were also significant increases in the debt service paid for projects at public universities and community colleges and in the Oregon Opportunity Grant program. Comparing total funds changes are more difficult given the effect that change in capital construction expenditure limitation has on the budget. Detailed information on the budget can be found in the various budget components of the overall HECC budget found below.

Staff, Operations and Other Programs

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	9,600,433	22,259,231	42,345,342	32,035,777
Other Funds	26,355,159	29,329,484	26,015,882	30,509,613
Other Funds (NL)	--	200,000	206,000	206,000
Federal Funds	88,359,232	107,788,824	111,219,540	111,680,983
Federal Funds (NL)	4,111,284	18,968,831	18,968,831	18,968,831
Total Funds	**$128,426,118**	**$178,546,370**	**$198,755,595**	**$193,401,204**
Positions	92	113	109	143
FTE	87.37	104.02	104.37	124.30

Program Description
This budget unit includes all of the staff and operating costs of HECC, as well as for programs that do not provide direct funding to community colleges, public universities, OHSU, or to students through the Oregon Opportunity Grant program. The major components within this budget unit are:

- HECC Operations – Includes the agency's leadership staff, some of the financial and other administrative staff, and research capacity and other post-secondary staff responsibilities formally located in the Chancellor's Office.
- The Office of Degree Authorization – Evaluates and approves degree granting institutions and their programs that are not part of the public university system, do not have regional accreditation, or offer programs from a base outside of the state. The Private Career School (PCS) program licenses career schools, approves their programs, and investigates complaints regarding these schools.
- Office of Community Colleges and Workforce Development 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, GED testing, and workforce development services. The workforce initiative passed by the 2013 Legislative Assembly is included in this budget ($10.9 million General Fund) which funds Work Ready Communities, Back to Work Oregon, Supporting Sector Strategies program, and other programs.
- Federal Workforce and Other Programs – Primarily includes the resources that are paid to other entities under the Workforce Investment Act (WIA) and 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 earnings, and decrease welfare dependency.
- Oregon Youth Conservation Corps – Provides education, training, and employment opportunities based on conservation efforts to disadvantaged and at-risk youth ages 14 to 25.
- Office of Student Access and Completion (OSAC) Operations – Includes the staff and some of the programs of the former Oregon Student Assistance Commission, including the administration of the Oregon Opportunity Grant, over 400 private scholarship and grant programs, and a series of smaller financial assistance programs.

- Other OSAC Programs – Includes the Other Funds expenditure limitation for the over 400 private scholarship and grant programs, as well as General Fund for a child care assistance program for community college students.
- Access to Student Assistance Programs in Reach of Everyone (ASPIRE) – Trains volunteers to serve as mentors to middle and high school students in schools across the state with information regarding college and career choices, preparation, and financial aid for post-secondary education. This program is expanding into community colleges in the future.

The 2015-17 legislatively adopted budgets for these various programs are detailed below.

	General Fund	Other Funds	Federal Funds	Other Funds NL	Federal Funds NL	Total Funds	Positions	FTE
			Millions of Dollars					
HECC Operations Staff	8,918,632	4,600,802	49,747		-	13,569,181	33	28.94
Office of Degree Authorization/Professional Career Schools		2,372,560	383,754	206,000		2,962,314	12	9.74
Office of Community College and Workforce Development Operations	16,796,764	3,947,172	12,756,878			33,500,814	55	54.70
Federal Workforce and Other Programs		427,582	95,932,390		18,968,831	115,328,803		
Youth Conservation Corps		2,488,385	1,164,768			3,653,153	3	3.00
Office of Student Access and Completion Operations	3,730,314	1,950,657	731,958			6,412,929	29	20.78
ASPIRE Program	1,641,448	192,887	661,488			2,495,823	11	7.14
Other OSAC Related Programs	948,619	14,529,568	-	-	-	15,478,187	-	-
						-		
Total	**32,035,777**	**30,509,613**	**111,680,983**	**206,000**	**18,968,831**	193,401,204	**143**	**124.30**

Revenue Sources and Relationships

The Office of Degree Authorization and the Private Career School Program rely on fees on the institutions licensed by the two programs. The Tuition Protection Fund of the Private Career Schools Program relies on assessments of the schools under the jurisdiction of the Program, and provides resources to students who attended schools and had funds or services due to them after the school went out of business. Other Funds for the Office of Community Colleges and Workforce Development (OCCWD) include fees from applicants for General Education Development (GED), charges to community colleges for the cost of copying Adult Basic Education curriculum materials, funds for project management of state bond financed projects, summer conference fees, and funds from the Oregon Department of Education for Carl D. Perkins Professional/Technical program support. The Oregon Youth Conservation Corps also receives funding from the Amusement Device Tax levied on the state's video lottery terminals, donations, and fees for contract services. Other Funds revenues for OSAC are primarily received from private award donations and associated charges for administering privately funded scholarship programs.

The Private Career School Program also has a contract with the U.S. Department of Veterans' Affairs for specific programs for veterans. Federal Funds associated with the OCCWD include WIA Title IB, WIA Title II, National Emergency Grants (NEG), 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.

Budget Environment

The 2015-17 biennium is the first budget period that HECC will operate as a single agency with a single budget. However, the agency still must fully integrate its budget, mostly in the administrative and financial areas where staff is budgeted in three or four separate units. A budget note is included instructing the agency to prepare a 2017-19 budget which incorporates all administrative support related positions and associated resources into a single division.

Both the Office of Degree Authorization (ODA) and the Private Career Schools Program have seen growth in the number of schools and programs they are responsible for. The ODA's program growth is primarily due to the number of online and placement programs that have started offering programs to Oregon students. In 2007-09, 39 such institutions were under ODA oversight and the number grew to 147 in 2011-13. More recently, a number of national private colleges have run into financial problems over student loan issues. This has increased the workload of the program.

The budget for 2015-17 added General Fund to backfill Other Fund resources for the private scholarship and grant program staff. The agency charges the organizations providing the student financial assistance for the services of processing applications and distributing the funding. These charges are now insufficient to cover the costs that have been attributed to these functions. The agency is instructed to report back during the 2017 legislative session on funding and the direct and indirect costs of these programs and whether they are sustainable.

The information management system for the Oregon Opportunity Grant program, as well as other OSAC functions, requires replacement. This system requires a high level of security given the type of confidential information that is maintained. A business case for this replacement project must be finalized and the Joint Committee on Ways and Means provided specific instructions to the agency on how to proceed with project management and other steps. Sufficient funding ($800,000 General Fund) was provided to keep the project underway until the agency can return to request further funding after completion of the necessary project management and review steps.

The ASPIRE program has sufficient resources for 2015-17 to operate approximately 250 sites by the second year of the biennium, but funding for over 100 sites are one-time in nature and rely on federal funds. If this funding source is no longer available in the future, General Fund resources may be required for backfill or the program will need to be reduced again.

<u>Legislatively Adopted Budget</u>
The 2015-17 legislatively adopted budget of $35 million General Fund and $193.4 million total funds represents a $9.7 million increase (43.5%) and a $14.9 million (8.3%) increase over the 2013-15 approved budget, respectively. The primary reason for the decrease between the current service level and legislatively adopted budget for the 2015-17 budget is the transfer of the Engineering Technology Industry Council (ETIC) from this budget to the public universities engineering programs and the Talent Council in the Employment Department. Major features of the 2015-17 budget leading to the increase from the 2013-15 budget include:

- Increases in the core infrastructure of HECC as a new agency. These investments include $1.3 million General Fund for 8 positions (8.00 FTE) for basic information systems, accounting, and personnel positions. Two of these positions are for administering the debt financing needs of the agency related to public universities and community colleges.
- General Fund resources are added to address specific information system needs including $250,000 for programming adjustments for the changing Oregon Opportunity Grant (OOG) program, $290,000 General Fund for the general information systems needs of the agency including networking costs, and $800,000 General Fund for the ongoing replacement of the system used by OSAC primarily for the OOG.
- Five positions (5.00 FTE) are funded at a cost of $1.4 million General Fund for the institutional research needs for public universities that had been part of the Chancellor's Office in the past. One of the primary functions of this staff is to provide data and analysis for the distribution of funding for the general operations of the public universities. In addition, $381,317 General Fund is added to pay the dues formally paid for by the Chancellor's Office for membership in the Western Interstate Commission on Higher Education (WICHE) and other post-secondary associations.
- A total of $450,353 Other Funds are added to address workload needs for the Office of Degree Authorization and Private Career Schools program, including $150,000 to respond to greater inquires and complaints due to the retraction and closing of for-profit colleges and universities. A fee increase contributed to the means to finance this increase.
- To address an ongoing problem of matching funding with job responsibilities for staff working on community college related activities, almost $1 million General Fund is added to backfill funding of 8 positions.
- As part of the various educational investments in the K-12 environment, $2 million General Fund and 2 positions (2.00 FTE) are funded to assist and support underserved students to obtain a high school equivalency credential (e.g. GED).

- Almost $1.4 million Federal Funds from the College Challenge Grant program are to fund outreach, technical assistance, and other services through the ASPIRE program and the continuance of a program which increases the number of prospective post-secondary students filling out the federal FAFSA application.
- Just under $300,000 General Fund was provided to backfill revenues and offset increasing costs of the private scholarship program discussed above.
- Over $2.2 million General Fund was provided for the costs of staffing new initiatives (e.g. Oregon Promise), taskforces or workgroups (e.g., SB 418 accelerated learning), and one-time programs (e.g., College Possible and College Inside program). A total of 12 permanent and limited duration positions (4.95 FTE) were added for these purposes.

State Support to Public Universities

Analyst: Siebert

Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	668,264,553	738,772,154	799,670,318	941,746,515
Lottery Funds	22,938,784	33,571,489	43,555,018	40,127,710
Other Funds	--	--	--	311,267,945
Other Funds (NL)	--	--	--	275,233,857
Federal Funds (NL)	--	--	--	1
Total Funds	**$691,203,337**	**$772,343,643**	**$843,225,336**	**$1,568,376,028**

Program Description

For decades, the Oregon University System (OUS) was the state agency for the state's public universities and colleges, with a single governing board named the State Board of Higher Education. OUS provided central administration, support services, and public services for Oregon's seven post-secondary institutions, excluding Community Colleges. Public Universities 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). This organizational structure and its relationship to the state began to change during the 2011 legislative session with passage of SB 242 and changed more significantly during the 2013 session with the passage of SB 270.

SB 242 redefined OUS as a non-state agency for purposes of certain state statutes and constitutional provisions and the seven institutions were reclassified as Public Universities. This change to non-state agency status exempted OUS from certain laws that govern state agency operations, including the need to request authority to spend Other Funds revenues such as tuition, and was intended to provide operational flexibility and create efficiencies. Due to this change of status, state support in the form of General Fund appropriations and Lottery Funds allocations, must made to a state agency, since OUS was no longer eligible for direct General Fund appropriations as it is not considered to be a state agency. These changes had the effect of moving non-state funded expenditures and position counts off the state budget. Further dramatic governance change was approved by the 2013 Legislative Assembly with the passage of SB 270.

SB 270 allowed for the establishment of institutional governing boards at all seven Public Universities, which all universities established by the end of the 2013-15 biennium. Public Universities with institutional boards no longer belong to OUS, as the bill vested institutional boards with specified governance duties and rights including setting tuition and hiring the university president, that had previously been the charge of the State Board of Higher Education. Some academic oversight functions were transferred to the Higher Education Coordinating Commission. With all seven Public Universities establishing their own governance boards, there was no longer a need for the Oregon University System, and it was formally abolished with the passage of SB 80 during the 2015 legislative session. All funding for the state's public universities now flows through the Higher Education Coordinating Commission.

With these changes to Public University governance and budgeting, the program units in the state budget for Public Universities were reorganized to reflect the new budget and governance environment.

Budget Environment

After a number of years of facing unprecedented growth in enrollment, enrollment growth has begun to flatten. At the same time public universities were experiencing high levels of growth, state funding levels were not adequate to support the higher levels of student enrollments without significant tuition increases. While enrollments have grown 26% over the last 10 years, the percentage of the General Fund funding for the Public University Support area has fallen from around 50% in the 2001-03 biennium to 25% for 2013-15, with the vast majority of this difference being made up through tuition increases. In the last 12 years, the average tuition and fees for resident undergraduates has more than doubled, with graduate student tuition going up even more significantly.

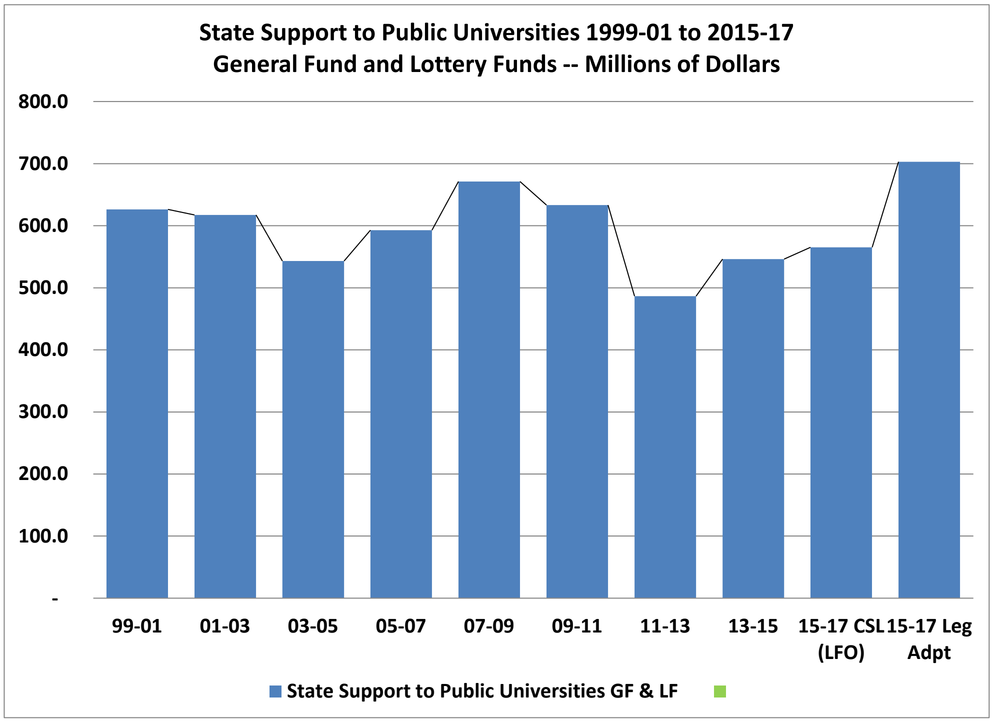
Public University Support Fund

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	450,531,927	522,845,511	554,704,440	665,427,500
Total Funds	**$450,531,927**	**$522,845,511**	**$554,704,440**	**$665,427,500**

The Public University Support Fund program includes the state funding only for instruction, research, and operating costs of the seven public universities. The Legislature appropriates funds for public universities as a whole rather than to the individual institutions. This support had previously allocated to the various institutions and programs in annual budgets through the Resource Allocation Model (RAM), which was based on enrollment. For the 2015-17 biennium the Higher Education Coordinating Commission developed a new method for distribution of Public University Support Fund appropriations that moved away from inputs such as enrollment, and will instead award funding based on outcomes, such as degrees awarded and progress towards degree completion.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Public University Support Fund program, which includes the instruction, research, some public service expenditures, and operating costs of the seven institutions that comprise the state's Public Universities, totals $665 million, which is a $144.5 million or 28% increase from 2013-15 budget levels. This large increase in support came with direction included in SB 502 that if public universities increase 2016-17 academic year resident undergraduate tuition by more than 3% they must provide justification for the higher increase to the Higher Education Coordinating Commission. The following graph shows state support for Public Universities over time. It combines the current Public University Support Fund program area with the State Programs area to allow historical comparison to the time funding went through the Oregon University System and the two programs were combined in the Education and General Services budget unit.



State Programs

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	35,988,769	25,505,757	10,596,516	38,120,363
Total Funds	**$35,988,769**	**$25,505,757**	**$10,596,516**	**$38,120,363**

The State Programs budget unit includes General Fund support for a variety of institutions, centers, and programs operated by Public Universities that address economic development, natural resource, and other public policy issues, rather than providing instructional support for institutions and students. Many of these programs have an industry-specific focus, matching state support with funds from the private sector and other sources. Funding for these programs was shifted from the Public University Support Fund budget unit that had historically been named Education and General Services. Historical comparisons of state support for Public Universities combine this funding with the Public University Support Fund appropriations to allow comparisons to biennia when these were combined under OUS.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget level of $38.1 million represents a large increase over 2013-15 due to changes in the Engineering and Technology Industrial Council (ETIC). During the 2014 legislative session the remaining 2013-15 ETIC funding was transferred to Oregon Education Investment Board. The 2015-17 legislatively adopted budget transferred about $24.5 million General Fund back to continue support for public universities' engineering and technology programs.

Statewide Public Service Programs

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	94,955,580	101,155,580	104,493,713	118,493,713
Total Funds	**$94,955,580**	**$101,155,580**	**$104,493,716**	**$118,493,713**

Oregon State University, as the state's land grant college, operates three Statewide Public Service Programs, which each receive separate General Fund appropriations:

- Agricultural Experiment Station – Organized in 1888. 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.
- Extension Service – 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.
- Forest Research Laboratory at OSU – 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.

Legislatively Adopted Budget

The Legislature increased General Fund support for the three Statewide Public Service programs (Agricultural Experiment Stations, the Extension Service, and the Forest Research Laboratory) at Oregon State University by $14 million General Fund above normal inflationary increases, to a total of $118.5 million, which is 17% above 2013-15 budget levels. These additional funds are intended to provide support to offer new programs and restore some of the losses experienced due to flat funding levels in recent biennia.

Sports Lottery

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Lottery Funds	8,405,488	8,000,000	11,397,647	8,240,000
Total Funds	**$8,405,488**	**$8,000,000**	**$11,397,647**	**$8,240,000**

The Sports Lottery began in 1989 when the Legislature authorized a special Sports Action game and directed that 88% of the proceeds from the game, not to exceed $8 million annually, were to be 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. Due to budget constraints, the Legislature has passed legislation preempting the dedicated 1% amount and allocated less Lottery Funds than would have been generated without legislative action to limit funding.

Legislatively Adopted Budget

Sports Lottery funding was limited by law to $8.24 million total for the 2015-17 biennium, which is $240,000 more than was allocated for 2013-15. Just as in 2013-15 when funding was limited to less than 1% of Lottery proceeds, Oregon State University and the University of Oregon will remain capped at $1 million each. If 1% of Lottery proceeds had been allocated to the Sports Lottery program in 2015-17, $11.4 million Lottery Funds would have been available to Public Universities through the Sports Lottery program.

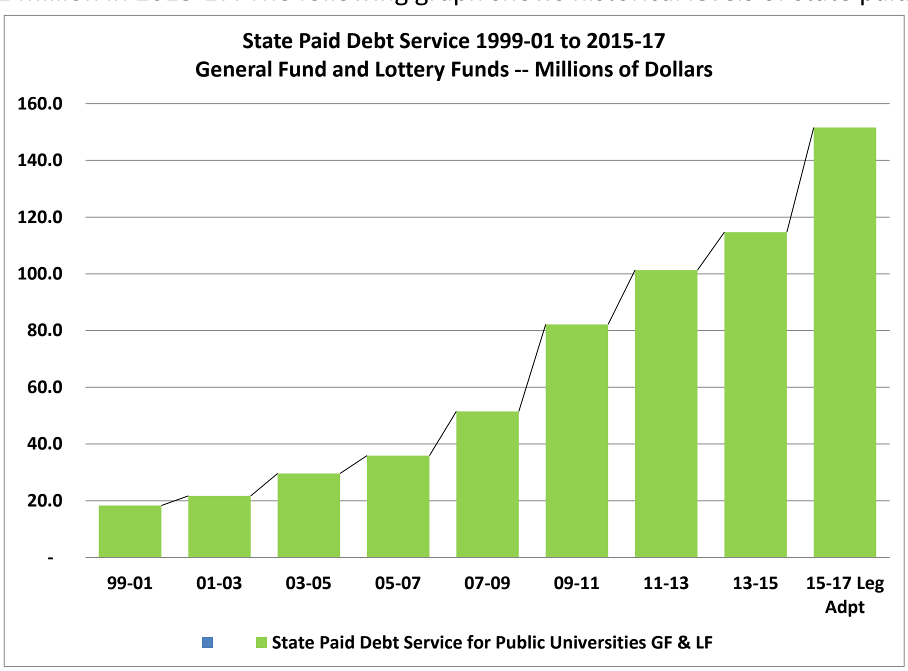
Debt Service

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	86,788,277	89,165,306	129,875,689	119,704,939
Lottery Funds	14,533,296	25,571,489	32,157,371	31,887,710
Other Funds (NL)	--	--	--	275,233,857
Federal Funds (NL)	--	--	--	1
Total Funds	**$101,321,573**	**$114,736,795**	**$162,033,060**	**$426,826,507**

The Debt Service program area now includes both state funded debt service expenditures for capital construction projects financed by bonds as well as debt service paid by public universities for self-supported bonds. 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 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. The sale of these bonds must be approved by the Legislature, but the debt service is paid with non-state funds. After the OUS became a non-state agency these debt service payments were not included in the state budget as OUS was no limited by Other Funds expenditure limitations. While OUS existed, it was the state entity charged with making these payments. With the demise of the Oregon University System, a state agency had to include these payments in their budget because these are state General Obligation bond. This includes legacy debt from prior year sales of Article XI-F bonds. The Legislature dealt with this by giving the Higher Education Coordinating Commission non-limited Other Funds authority to make these debt service payments on behalf of public universities.

Legislatively Adopted Budget

State paid debt service payments (General Fund and Lottery Funds) increased to $151.6 million, which is 32% over the 2013-15 totals. Non-limited Other Funds debt service payments on previously issued self-support bonds is estimated at $275.2 million in 2015-17. The following graph shows historical levels of state paid debt service.



Capital Construction

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	--	--	--	$311,267,945
Total Funds	--	--	--	**$311,267,945**

The Capital Construction program unit is used to account for expenditure of state General Obligation bonds sold for the benefit of the state's public universities. After the Oregon University System became a non-state agency, these Capital Construction payments were not included in the state budget, because, by law, OUS was not limited by Other Funds expenditure limitations. With the demise of the Oregon University System a state agency had to include these payments in their budget, therefore the funding was added to the Higher Education Coordinating Commission's (HECC) Capital Construction program unit. HECC with now treat these expenditures as grants (Article XI-G, Article XI-Q, and Lottery Bonds) or loans if the debt service is supposed to be self-supported (Article XI-F and Article XI-Q).

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget included $311,267,945 Other Funds Capital Construction six-year expenditure limitation for the Higher Education Coordinating Commission for distribution of general obligation bond proceeds to public universities. This amount corresponds to the total project amounts for the 14 university projects authorized by the Legislature in HB 5005. These capital construction projects are funded with proceeds from the issuance of Article XI-G bonds, Article XI-Q bonds, and Article XI-F (1) bonds and will be disbursed as grants or loans, as applicable, pursuant to grant contracts and loan agreements between HECC and each Public University.

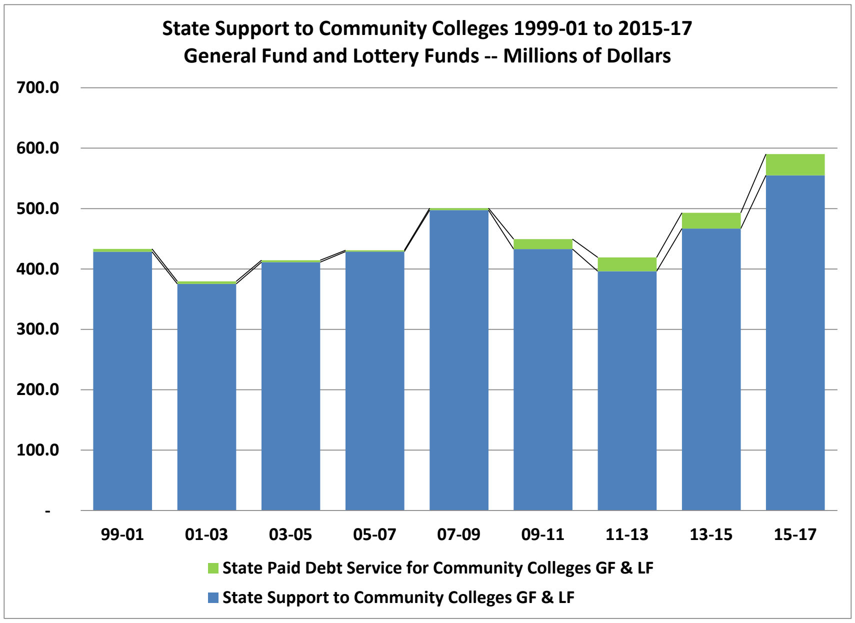
State Support to Community Colleges

Analyst: Wilson

Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	411,984,495	483,425,453	524,375,484	589,305,847
Lottery Funds	7,144,078	9,521,027	10,694,235	10,462,066
Other Funds	9,829,758	109,013,959	45,810	1,588,637
Other Funds NL	--	42,346,031	--	--
Federal Funds NL	--	1	1	1
Total Funds	**$428,958,331**	**$644,306,471**	**$535,115,530**	**601,356,551**

Program Description
This program area represents the funds distributed to the 17 community colleges, debt service payments on state issued bonds for community college facilities, capital construction, and specific payments for programs that are located or benefit community colleges and their students. The chart below shows the amount of General Fund and Lottery Funds resources over time directed at the largest components of this budget – Community College Support Fund and debt service.



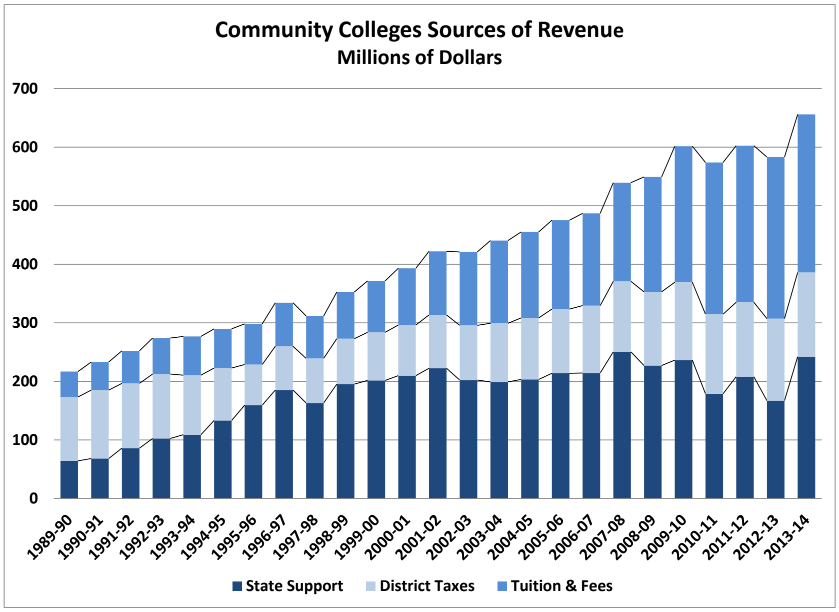
The general purpose Community College Support Fund has been distributed primarily on an adjusted enrollment basis. A small portion is distributed to support contracted out-of-district reimbursements, distance learning, and corrections programs. In addition, up to 1% of the total funds available is set aside and may be used to for statewide initiatives and activities as well as requests from individual community colleges for assistance in meeting new requirements and expectations. 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.

The state finances support for the construction, acquisition, deferred maintenance, and major renovation of community college properties. The projects are generally financed by Article XI-G bonds which are a constitutionally-authorized general obligation debt of the state. Community colleges are required to match the state amount with at least an equal amount of local matching funds. Lottery bonds are also issued on behalf of community colleges. Lottery revenues are used for debt service payments on these bonds and there is no required "local" match. The Other Funds in this budget area is primarily capital construction expenditure limitation for various projects – only one project was newly authorized in the 2015-17 legislatively adopted budget but there was a project for almost every community college in 2013-15. The 2013-15 Nonlimited Other Funds amount was for the refinancing of previously issued bonds.

Revenue Sources and Relationships

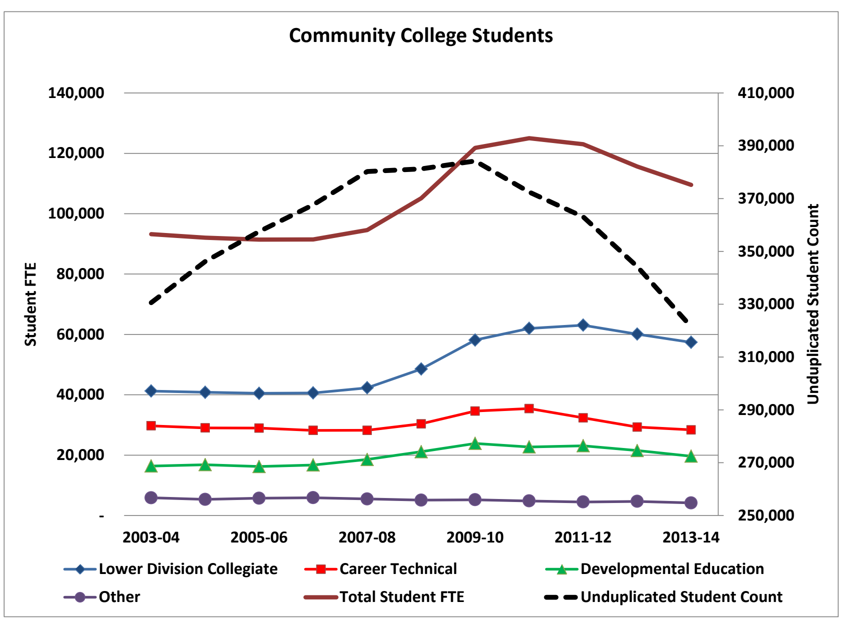
Other Funds reflect receipts from the state timber tax and are distributed through the Community College Support Fund. Community colleges also collect property taxes to fund their operations. These taxes do not flow through the state budget and are not included in any budget figures identified here. Approximately $322.9 million of property tax collections are projected (by the Legislative Revenue Office) for community colleges for operations in 2015-17, up from an estimated $293.2 million in the 2013-15 biennium. Tuition and fee revenues, which are also not included in the state budget, also provide significant resources for community college operations.

The mix of core funding for community colleges between state support, property taxes, and tuition has changed over the past 20 or more years. The chart below shows the source of revenues for the period 1989-90 through 2011-12 and demonstrates that community colleges are depending less on local property tax revenues and more on state support and tuition. The state support share grew from 30% in 1989-90, peaking at 55% in 1998-99, and falling back to 35% in 2011-12. Tuition and fees have become more and more important, growing from 20% in 1998-99 to 44% in 2011-12.

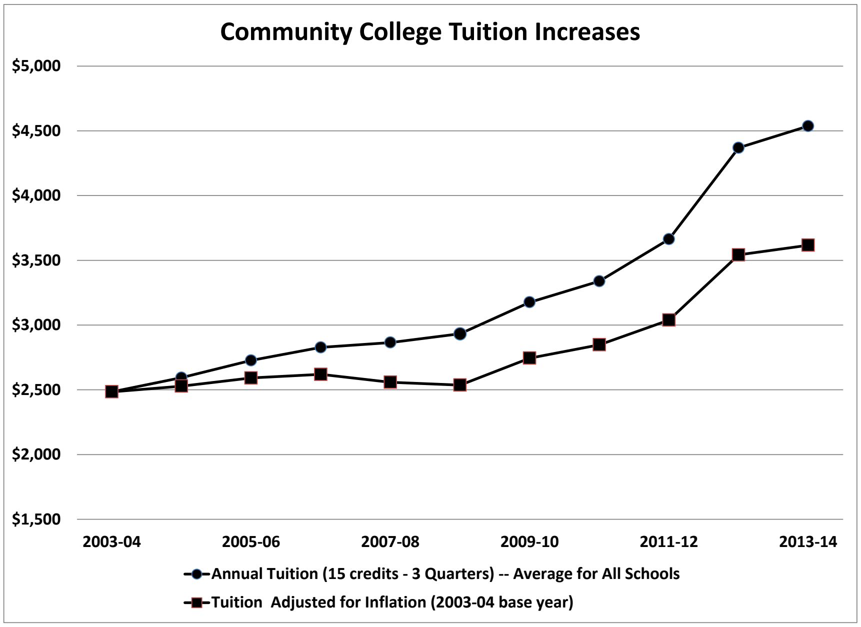


Budget Environment

As demonstrated in the graph below, between the 2006-07 and 2011-12 academic years, full-time equivalent attendance at the community colleges increased by almost 35%, primarily due to students taking lower division collegiate courses similar to what they would receive in the first two years in a four-year college setting. Almost all of this growth is concentrated in the period between 2007-08 and 2010-11 which overlaps with the economic recession. Many have asserted the growth was largely due to the unemployed and underemployed returning to school to attain new skills and post-secondary degrees and certificates; however, this growth is largely due to students taking more classes or credits since the total number of students in that same period grew at a slower rate as measured by the unduplicated student count. As the graph shows, most of the unduplicated student count (dashed line) occurred prior to the recession. As the number of jobs has increased, the FTE count has fallen off and the unduplicated number of students has dramatically fallen off. It should be noted that the system for data collection has changed in recent years so there may be some changes in the way data is collected, but the impact on the numbers and the overall trends in the data should not be significant.



As the use of community colleges increased (as measured by student FTE), so did tuition levels, in large part due to the decreasing amount of state funding. The graph below, based on data maintained by the Higher Education Coordinating Commission (HECC), shows that tuition has climbed steadily since the 2003-04 school year, increasing by over 75% (or 8.4%) per year. When adjusted for inflation (the bottom line on the graph), tuition still saw significant growth over the same period (over 40%). Tuition growth was especially prevalent after 2008-09 when inflation adjusted tuition grew by almost 55% (or 9.1%) per year. This corresponds to the period when state support was reduced because of state budget constraints. With the significant increase in state support for 2015-17 (not reflected in this graph), this trend may ease.



HECC has the authority to adopt rules for distributing appropriations for post-secondary education including the Community College Support Fund. There has been considerable discussion to consider new factors upon which to base this distribution, including using measures of student success or completion such as the number of diplomas or certificates awarded by individual community colleges. For the first year of the 2015-17 biennium, the Community College Support Fund will be distributed as it has been in past years. For the second year, HECC is scheduled to implement a new distribution formula. Distribution of state funding for public universities will be partially based on a new formula for both years of the biennium. A budget note instructs HECC to consult with the Legislature prior to any significant change to the distribution during 2015-17.

In 2015, the Legislature established the Oregon Promise program in SB 81. This program will be implemented in the second year of the 2015-17 biennium and will provide grants to offset tuition and possibly fees for eligible community college students. Eligible students must meet a set of criteria including: (1) first enrolling in the program within six months of high school graduation or completing the requirements for a diploma; (2) accepting all state and financial aid making this a program providing the "last" piece of financial aid; (3) maintaining a 2.5 GPA; (4) being at least a half-time student; and (5) be enrolled in a degree or certificate program or a one year program leading to a transfer to another post-secondary institution. There is $9.6 million General Fund for this program in the second year of the biennium which means enrollment in the program may have to be capped. It also has the potential for significant roll-up costs in 2017-19 as the program will be operational for the full 24 months of the biennium. In addition, costs in 2017-19 will be incurred for new participants as well as for students who began receiving assistance in 2015-17 who will continue to receive assistance in 2017-19.

The table below shows the authorized capital construction amounts for each community college by source on bonding proceeds. While this is the authorized amount, in some cases the project has not yet gone forward; no bonds have been issued for such projects. Many projects that are authorized in one biennium may take more than one biennium to identify the match which is required prior to the sale of state bonds (Article XI-G bonds).

Beginning with projects authorized in 2013-15, a community college is not to have more than one approved outstanding project awaiting Article XI-G financing. Of the 16 projects approved for 2013-15, seven of the projects have yet to identify their local match and these projects' bonding authority was continued for 2015-17.

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

	2005-2007	2007-09		2009-11		2011-13	2013-15	2013-15	2015-17
Community College	**XI-G**	**XI-G**	**Lottery**	**XI-G**	**Lottery**	**Lottery**	**XI-G**	**Lottery**	**Lottery**
Blue Mountain			2,055,500		7,365,968	465,037	3,331,350		
Central Oregon		5,778,000	2,822,250	5,700,000		500,000	3,630,000	1,630,000	
Chemeketa		10,707,500	2,982,500	6,255,000		1,000,000	8,000,000		
Clackamas		6,450,000	62,000	8,000,000	1,000,000	800,000	8,000,000		
Clatsop	7,500,000	4,000,000	1,875,000		1,900,000	281,785	7,990,000		
Columbia Gorge	7,500,000		1,595,000	8,000,000		297,193	7,320,000		
Klamath	7,700,000		1,600,000			300,000	7,850,000		
Lane		6,750,000	8,000,000	8,000,000		1,000,000	8,000,000		
Linn-Benton		3,731,250	1,844,750			800,000	8,000,000		1,500,000
Mt. Hood		2,500,000	3,850,000		950,000	800,000	8,000,000		
Oregon Coast	4,500,000	3,000,000	500,000	2,000,000		273,235			
Portland		10,827,500	3,087,500	8,000,000		1,000,000	8,000,000		
Rogue	4,100,000		4,000,000		1,250,000	500,000	8,000,000		
Southwestern	2,300,000		4,000,000			387,200	8,000,000		
Tillamook Bay	4,900,000		175,000			300,000	2,000,000		
Treasure Valley			1,413,350	3,000,000		500,000	2,830,250		
Umpqua			4,000,000	8,500,000		400,000	8,000,000		
Total	**38,500,000**	**53,744,250**	**43,862,850**	**57,455,000**	**12,465,968**	**9,604,450**	**106,951,600**	**1,630,000**	**1,500,000**

<u>Legislatively Adopted Budget</u>

The 2015-17 legislatively adopted budget of $589.3 million General Fund is $105.9 million (or 21.9%) greater than the 2013-15 legislatively adopted budget. The Lottery Funds budget of $10.5 million, which is entirely for debt service, is $941,039 (or 9.9%) greater than the 2013-15 amount. The table below divides the 2015-17 budget by program or function.

	General Fund	Lottery Funds	Other Funds	Federal Funds NL	Total Funds
Community College Support Fund	550,000,000		45,810		550,045,810
Debt Service/Capital Construction	24,637,915	10,462,066	1,542,827	1	36,642,809
Skill Centers	605,640				605,640
Oregon Promise Program (SB 81)	9,562,292				9,562,292
Increased Access to Underserved populations (HB 3063)	3,000,000				3,000,000
Academic Counselors in second year of biennium	1,500,000	-	-	-	1,500,000
	589,305,847	10,462,066	1,588,637	1	601,356,551

The $550 million General Fund for the general Community College Support Fund represents an $85 million (or 18.3%) increase over the 2013-15 funding level. This amount finally surpasses the $495 million that was the funding level distributed to community colleges in 2007-09.

Funding for debt service reflects the estimated amount necessary to pay the debt service on outstanding bonds at this time. There is no debt service built into this budget to issue any further bonds until late in the 2015-17 biennium. The General Fund required for debt service has grown by $8 million (or 49%) between 2013-15 and the 2015-17 legislatively adopted budget. The only newly authorized project for 2015-17 is a $1.5 million Lottery Bond project at Linn-Benton Community College for advancing statewide transportation energy policy as well as to provide education and training of students. This budget also includes $42,827 Other Funds for issuance costs for this project.

State Support to Oregon Health and Science University

Analyst: Wilson

Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	66,041,261	72,562,387	100,690,118	85,855,331
Lottery Funds	--	--	6,669,787	--
Other Funds	31,305,192	231,675,116	30,909,888	238,724,306
Total Funds	**$97,346,453**	**$304,237,503**	**$138,269,793**	**$324,579,637**

Program Description

The Oregon Health and Science University (OHSU) is Oregon's only public academic medical center. OHSU's mission includes education, research, clinical care, and public service. OHSU provides services across the state through its full service and trauma center hospital, clinics, research centers, community outreach programs, and health care professional training programs. In addition to its primary site in Portland, OHSU also has clinical facilities throughout the Portland metropolitan area, the Oregon Primate Research Center, 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 OHSU budget (or limits its expenditures from tuition and other sources), but the state continues to directly 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, debt service for the Oregon Opportunity Program, and, in the future, the Knight Cancer Institute.

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 to be made in 2024. For 2015-17, the Other Funds amount includes the $30.9 million for the Oregon Opportunity Program, $200 million for the capital construction expenditure limitation for the Knight Cancer Center facilities, and $7.8 million for other debt service payments on state issued bonds that are the responsibility of OHSU (referred to as legacy debt).

Budget Environment

State support for OHSU's education and clinical programs has declined since the institution was reorganized as a public corporation. OHSU received $125.1 million from the state in 1993-95, the last biennium that it was a part of the Department of Higher Education. The amount of General Fund allocated to OHSU fell between 2007-09 ($82.2 million) and 2011-13 ($66 million), but the Legislature increased the amount for 2013-15 to $72.4 million and increased it again to $77.3 in the 2015-17 legislatively adopted budget. (This amount does not include $8.5 million General Fund for debt service that was also approved for OHSU.) This recent growth is partially due to the establishment of a tuition assistance program for health professionals (Scholars for a Healthy Oregon).

Scholars for a Healthy Oregon is a program that provides a scholarship to eligible participants who are entering an OHSU training program for physicians, dentists, nurse practitioners, physician assistants, and nurse anesthetists. Participants who agree to serve in medically underserved communities for at least one year longer than they participated in the training program are provided a conditional scholarship. Failure to complete this requirement results in the repayment of the scholarship plus a 25% penalty. The repayment and penalty is reduced proportionately for each year the participant serves in the designated area or community.

OHSU's educational programs alone do not generate sufficient revenue to cover their operating costs and have been subsidized with operating revenues from healthcare or clinical services as well as the state's General Fund. If the General Fund or other sources decrease, tuition often has had to be increased to make up the difference. Based on information provided by OHSU, the School of Medicine's tuition is ranked third highest of public U.S. medical schools. For the 2014-15 school year, OHSU's rate was $39,196 for residents ($55,740 for non-residents) compared to the mean of all 83 public medical schools of $30,441 ($53,956 for non-residents). According to OHSU, similar trends exist for the Schools of Nursing (graduate level) and Dentistry where in-state tuition rates are higher than for comparable schools.

According to data provided by OHSU, direct state appropriations make up less than a very small percentage of OHSU's total revenues. By far the largest funding source is patient service revenues, which includes indirect state resources through the Oregon Health Plan and state employee health services. In fiscal year 2015, the state's appropriation was 1.3% of OHSU's board approved $2.6 billion operating budget and accounted for the following percentages of unrestricted budgeted revenues: School of Medicine – 3%, School of Nursing – 33%, School of Dentistry – 13%, AHEC/Rural Health – 88%, CDRC – 32%, and Oregon Poison Center – 50%.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Higher Education Coordinating Commission (HECC) includes $77.3 million General Fund for OHSU programs, which represents a $5 million (or 6.9%) increase from the 2013-15 legislatively approved budget. This amount reflects the current service level for these programs including the full biennial costs of the Scholars for a Healthy Oregon program, which operated only in the second year of 2013-15. The state funds for OHSU programs are appropriated to HECC, which is a state agency, and transferred to OHSU. The table below shows historical funding for these programs.

	General Fund -- Millions of Dollars			
Program/Activity	**2009-11 Actual**	**2011-13 Actual**	**2013-15 Leg Approved**	**2015-17 Leg Adopted**
School of Medicine	27.58	22.86	23.98	24.77
School of Nursing	22.68	19.79	20.74	21.42
School of Dentistry	11.26	9.27	9.72	10.04
Area Health Education Centers/Office of Rural Health	4.45	4.05	4.25	4.39
Child Development and Rehabilitation Center	8.62	7.24	7.71	7.96
Oregon Poison Center	2.42	2.32	2.47	2.55
Health Care Professionals Financial Assistance (e.g., SB 2)	-	0.53	3.50	6.20
Total	**77.01**	**66.06**	**72.36**	**77.33**

The budget of the Department of Administrative Services (DAS) provides the General Fund appropriation and Other Funds expenditure limitation authority for the debt service and capital construction budget for OHSU. The table below provides detail for the 2015-17 budget.

	Millions of Dollars		
Program/Activity	**General Fund**	**Other Funds**	**Total Funds**
Oregon Opportunity Program (TMSA funds)	-	30.91	30.91
Knight Cancer Institute Debt Service	8.52	-	8.52
Knight Cancer Institute Capital Construction	-	200.04	200.04
Legacy Debt	-	7.78	7.78
Total	**8.52**	**238.72**	**247.25**

Oregon Opportunity Grant Program

Analyst: Wilson

Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	95,139,260	111,206,740	113,389,821	127,883,621
Lottery Funds	240	2,546,223	3,775,731	11,816,379
Other Funds	--	158,459	163,213	1,213,213
Total Funds	**$95,139,500**	**$113,911,422**	**$117,328,765**	**$140,913,213**

Program Description

The Oregon Opportunity Grant (OOG) is the state's primary student financial aid program providing eligible Oregon students with grants to assist in financing education at community colleges, public universities, and private or independent institutions. The program had been administered by the former Oregon Student Access Commission (OSAC), which was merged into the Higher Education Coordinating Commission (HECC) beginning in 2013-15 and is now administered by HECC's Office of Student Access and Completion.

For 2013-15, just less than 50% of the total OOG recipients (70,634) were community college students, 43.5% were public university students (Oregon University System or public universities), and the remaining 7.3% were students at independent institutions. In terms of total value of grants ($112.2 million total funds) for the same period, 43.1% went to community college students, 48.7% went to public universities students, and 8.2% went to students at independent institutions. Average grant sizes for that period were $1,393 for community college students, $1,779 for public university students, and $1,784 for students at independent institutions. For 2015-17, the distribution between types of institutions is expected to be similar to 2013-15 and the overall average grant is estimated at $1,681.

Revenue Sources and Relationships

In the past, the OOG program received Lottery Funds based upon one-quarter of the earnings of the Education Stability Fund. The 2015 Legislative Assembly changed this so that the OOG receives one-quarter of the earnings plus all of what is not required for debt service on bonds issued by the state for school districts years ago. These bonds will be paid off in the next few biennia. This in part explains the increase in Lottery related funding for 2015-17. It should be noted that revenue from this source is affected when the state uses the corpus of the Education Stability Fund. The amount available for 2013-15 was limited since the Education Stability Fund was accessed in both 2009-11 and 2011-13. Other Funds revenues include JOBs Plus related funds set aside for TANF recipients for education related purposes, but that remain unused. For 2015-17, there is over $1 million of these funds projected to be available for the OOG.

Budget Environment

In 2007, the Legislature approved the OOG Shared Responsibility Model (SRM), a methodology where grants awarded were supposed to be equal to the difference between OSAC's determination of the average cost of education (including books, transportation, living expenses, and tuition and fees) and the student's/family's ability to pay. The ability to pay is based on an amount that varies with the student's financial resources and qualifications for federal student aid (the family share and the federal share). As a result, award amounts varied by income level and other financial resources and by type of institution, and more students from middle income families became eligible for grants. However, the program does not come close to serving the total number of eligible applicants. Between 2007-08 and 2012-13, the number of eligible applicants increased by 272%, in part because of the economic recession that began in 2008, while program funding increased by 51%. In 2012-13, only 18.6% of the eligible students were awarded grants. With the end of the recession, the total number of eligible students has declined since 2012-13, and the overall percentage of eligible students served has increased slightly to 27% in 2014-15.

Overall, General Fund and Lottery Funds for the program have increased from $102.7 million in 2007-09 to $112.2 million in 2013-15. In addition, there was an increase in recipients from 65,823 in 2007-09 to an estimated 70,634 in 2013-15. The average grant size increased from $1,560 in 2007-09 to $1,589 in 2013-15 – an increase of less than 2% over a six year period. For 2015-17, the average grant is expected to grow to approximately $1,681. In contrast, average annual tuition and fee increases for Community Colleges grew by over 58% between 2007-08 and 2013-14 school years (from $2,865 to $4,537 for 15 credits for three quarters). Based on information provided by HECC, even after adjusting for inflation, the growth in community college tuition was over 41%. Tuition for public universities that were previously part of the Oregon University System demonstrated similar trends.

HB 2407 (2015) made a number of changes to the OOG program in terms of eligibility and timing of awards. This bill maintains the principles of the shared responsibility model, but provides that if there are insufficient funds the awarding of grants should be prioritized to first serve those applicants with the greatest financial need. Grants are also guaranteed for a second year if the student is meeting academic standards set by the Commission and the student is making progress toward completion of a degree or a certificate. The program will also change the timing of the grant application and award deadlines so that grants are awarded in an extended window of time.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $140.9 million total funds is an increase of $27 million (or 23.7%) over the 2013-15 legislatively approved budget. General Fund resources are increased by $16.7 million from 2013-15 levels to $127.9 million General Fund, while Lottery Funds were increased by $9.3 million to $11.8 million Lottery Funds. The Legislature also approved an increase of $1.1 million Other Funds expenditure limitation after reviewing the JOBs Plus funding available for the program.

With $140.9 million total funds in resources for the OGG, the agency estimates that it will be able to award approximately 84,000 grants at an average of approximately $1,681 as compared to roughly 70,600 grants at an average of $1,589 for 2013-15.

OREGON EDUCATION INVESTMENT BOARD

Analyst: Wilson

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	21,008,299	12,912,353	6,239,594
Total Funds	**--**	**$21,008,299**	**$12,912,353**	**$6,239,594**
Positions	0	15	15	17
FTE	0	15.00	5.25	14.64

For 2011-13, the Oregon Education Investment Board and the Chief Education Office were under the Office of the Governor. The budgets were part of an appropriation of just less than $3 million General Fund. The largest component of the 2013-15 budget was funding for the Engineering Technology Industry Council, transferred from the Chancellor's Office to OEIB. The 2015-17 current service level reflects a March 2016 sunset date which the 2015 Legislative Assembly extended until June 2019.

Overview

The Oregon Education Investment Board (OEIB) was created as a 13-member board appointed and chaired by the Governor. It was charged with overseeing a unified public education system beginning with early childhood learning and continuing through post-secondary education (P-20). In 2015, the Legislature passed SB 215 which eliminated the Board itself, but retained the OEIB staff (including the Chief Education Officer). This new Chief Education Office does not have "direct and control" authority over education-related agencies as did OEIB, but is responsible for coordinating and collaborating with education stakeholders to establish a unified public education system that ensures students reach the state's educational goals. The sunset date for the new Chief Education Office was extended to June 30, 2019.

The Chief Education Officer is now appointed by the Governor and has direction and control over the education agency heads (Early Learning, Youth Development, Oregon Department of Education, Higher Education Coordinating Commission, and Teacher Standards and Practices Commission) in matters related to the design and organization of multi-agency planning. The Office is taking the lead and has dedicated staff for Science Technology Engineering and Mathematics (STEM) related issues and education system-wide research, including the development of a statewide longitudinal data system.

Revenue Sources and Relationships

The agency relies totally on a General Fund appropriation for support.

Budget Environment

The overall guiding principles for the Chief Education Office and other state education entities include:

- Integration of the P-20 education system centered more on the need to integrate all phases of education from early childhood learning to post-secondary education and the transition between the various components.
- 40-40-20 Goal by 2025, as defined in ORS 351.009, is that 40% of adults earn at least a bachelor's degree, another 40% earn a two-year associate's degree or a post-secondary credential, and the remaining 20% earn at least a high school diploma or its equivalent.
- Tight/loose relationship between the state and educational providers, where the state will be tight or more directive in expectations and expected outcomes, but looser in directing how such outcomes are achieved.

SB 215 (2015) extends the sunset date for the Chief Education Office until the end of the 2017-19 biennium. A workgroup continues to examine options for the organization of education entities at the state level and how education policy and state regulation/assistance is administered. This workgroup may return to the 2016 Legislative Assembly with recommendations for statutory changes.

The Chief Education Office continues to take the lead in the development of a state-wide longitudinal data system to provide a research tool and data source to measure the effectiveness of various educational investments, as well as measure progress of students and the overall education system. The intent is to have the data system include information on students/programs from pre-early learning through college/post-secondary, and to tie student information with employment related data in order to measure outcomes. Funding ($550,000 General Fund) is included in agency's 2015-17 budget for the continuation of the project through March 2016. The agency will need to return to the 2016 Legislative Assembly for ongoing funding and approval to move forward.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $6.2 million General Fund is $14.8 million less than the 2013-15 legislatively approved budget, primarily because funding for the Engineering Technology Industry Council (ETIC) program of almost $15 million General Fund was included in the 2013-15 budget. For 2015-17, the ETIC funds are eliminated in this budget and are now divided between the Public Universities and the Employment Department; over $24 million General Fund is designated for engineering programs at the Public Universities and the remaining $6 million was provided to the Talent Council, which is part of the Employment Department.

A better comparison between the 2013-15 and 2015-17 legislatively adopted budgets is the staffing-related budget and limited programming resources. The $203,986 General Fund difference between the two biennia represents a 3.4% increase. The $6.2 million General Fund 2015-17 budget includes the following changes:

- As noted above, SB 215 extends the sunset date for the agency until June 2019 and eliminates the Oregon Education Investment Board itself. This budget is adjusted to reflect the full 24 months of the biennium instead of the eight and one-half months assumed prior to the extension of the sunset.
- The deputy director position is eliminated and the Board administrator position is continued for one year given the changing nature of the agency's responsibilities. These actions save a net $661,216 General Fund.
- General Fund resources of $550,000 are made available for continuing the planning and initial development of the Statewide Longitudinal Data System through March 2016. This provides funding for 3 positions (1.14 FTE) to move the project through the Chief Information Officer's stage-gate process. It is anticipated that the agency will present a detailed project plan and proposal for funding the actual development of the project during the 2016 legislative session.

TEACHER STANDARDS AND PRACTICES COMMISSION

Analyst: Wilson

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	200,000
Other Funds	4,932,111	5,004,014	5,416,839	6,155,894
Federal Funds	12,893	35,000	--	--
Total Funds	**$4,945,004**	**$5,039,014**	**$5,416,839**	**$6,355,894**
Positions	25	20	20	27
FTE	24.33	20.00	19.46	24.88

Overview

The Teacher Standards and Practices Commission (TSPC) is composed of 17 members who are appointed by the Governor and confirmed by the Senate. TSPC 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.

There are over 60,000 educators licensed by TSPC with teachers representing over 90%. For comparison, there are approximately 30,000 working teachers in Oregon's public schools.

Revenue Sources and Relationships

The agency is primarily supported by Other Funds from licensing and other fees paid by the regulated professionals with the term of a license ranging from three to five years. License fees make up the vast majority of fee revenues with fingerprint related fees being dedicated for that specific purpose. In 2015, the Legislature passed HB 2411 which increased the maximum the Commission can charge in fees -- the last licensure increase occurred in January 2005. The current fee structure remains extensive and complex even though the number of licenses and endorsements has decreased from 80 to 38. The Commission is planning to continue reviewing this structure and may return to the Legislature in the future with recommended changes. Federal Fund in 2011-13 and 2013-15 are from ALDER grants which a number of education agencies used to link data in the various agencies; these funds are no longer available.

Budget Environment

The Commission has faced declining fee revenue in the past leading to staff and other reductions in the budget, as well as backlogs in investigations and processing of licenses. Reserves or ending balances have also been used to fill the revenue gaps. The 2011-13 budget for TSPC was based on the assumption that total revenues would be $5.2 million Other Funds but actual revenues were closer to $4.6 million. Of the 24 permanent authorized positions for 2011-13 biennium, only 17 were filled at the end of the biennium. The 2013-15 legislatively adopted budget was based on revenues of under $4.5 million which was a 12% drop since 2009-11. The declining revenues were due to fewer individuals applying for new licenses or renewing licenses. Applications received dropped from over 27,750 in 2009-10 to just over 22,600 for 2011-12. With the recovery of the economy and with school districts increasing the number of teachers they employ, the revenue stream has recovered. The final 2013-15 revenues were $5 million Other Funds, $400,000 more than anticipated two years before.

HB 2411 (2015) increases the maximum amount the Commission can charge for most of its fees. The 2015-17 budget assumes the following changes in fees effective January 2016, which is expected to generate additional revenue of $1.1 million for 2015-17 and $1.6 million for 2017-19:

- New In-State Licenses and License Renewal $100 to $140
- New Out of State Licenses $120 to $190
- Charter School Registrations $25 to $140
- Late Fees $25 to $40/month capped at $200
- Reinstatements (expired license) $100 to $200
- Reinstatements (disciplinary reinstatement) $100 to $200

The Commission will also implement a new on-line licensing system later this year replacing a very labor intensive "low tech" system. The cost of developing and maintaining this system is paid through a processing fee of $10 paid to an outside contractor which is "outside" of the state budget.

The Commission is required to investigate all complaints received from educators or the public. This is a growing workload area. The number of new cases each year has grown; in 2004, there were 135 new cases and in 2012 there were 291 new cases. In the past two years (2013 and 2014), the number has been around 260. The source of cases has changed with the number reported by school districts growing slower than those coming from other sources, such as parents or community partners. The average length of time for all cases from the time the case is submitted to when the Commission hears and takes action on the case was 12.9 months in 2012. The most recent average available is 11.5 months. For cases that challenge the Commission's decisions or that are moved to the Office of Administrative Hearings, settlement agreements, or the court system, the total time to "close the case" is longer.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $6.2 million Other Funds is an increase of $1.2 million (or 23%) from the 2013-15 legislatively approved budget. This increase follows a period of retrenchment as Commission revenues had fallen and staff and other spending were reduced. The budget restored 7 positions (4.88 FTE) that were previously eliminated and includes $200,000 General Fund for a program authorized in SB 78 to assist teacher preparation programs at the state's post-secondary institutions to earn national accreditation. Currently, seven of the 18 programs in Oregon have been accredited by the Council for the Accreditation of Educator Preparation. The $200,000 will be placed in a trust-like fund and be available for grants to prepare for the accreditation process over a multi-biennial period.

The 2015-17 operations budget for the Commission includes a number of enhancements funded largely by the fee increase, including:

- Two limited duration positions (1.96 FTE) are established at a cost of $251,931 Other Funds to assist in the licensing process including evaluating applications, issuing educator licenses, and responding to phone and email requests for information.
- Two limited duration positions are added to address backlog and other workload in the investigative area at a cost of $194,042 Other Funds. One full-time position will be added to the "front-line" investigative staff while a second position (0.5 FTE) will scan discipline-related case files so they are available electronically in the future and storage fees will be reduced. If the scanning is not projected to be completed in the first year of the biennium, the Commission may request continuation of the position to complete the task.
- A permanent full-time compliance position (0.96 FTE) is created to assist in training the on-site teams that assess educator preparation programs and provide assistance to the programs in meeting the new Commission and federal standards. The position will also administer the Educational Teacher Performance Assessment for student teachers and provide data and analysis for the 18 educator preparation programs. Total cost of this position is $155,951 Other Funds.
- A permanent half-time position ($95,966 Other Funds) is added to provide administrative capacity in the areas of budget/finance, security planning, administrative rules, reports, legislative tracking, and other functions currently performed by the Executive Director and Deputy Director.

HUMAN SERVICES

PROGRAM AREA

COMMISSION FOR THE BLIND

Analyst: To

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,148,036	1,598,027	1,608,959	2,892,992
Other Funds	2,612,522	2,025,381	1,512,345	992,094
Federal Funds	11,175,815	12,693,894	12,510,659	12,319,703
Total Funds	**$14,936,373**	**$16,317,302**	**$15,631,963**	**$16,204,789**
Positions	48	51	50	56
FTE	44.21	46.98	46.21	52.21

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 agency's programs are focused on two main objectives: employment and independence. The Commission is a consumer-controlled, seven-member board appointed by the Governor. The Board appoints the agency's executive director.

The agency's 2015-17 legislatively adopted budget is $16.2 million total funds and 56 positions (52.21 FTE). The agency is organized into the following four program areas:

- Rehabilitation Services ($10.2 million, 28.13 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 offices throughout the state. This program also includes the Older Blind program.
- Orientation and Career Center ($3 million, 11.60 FTE) is a highly specialized teaching center that provides counseling and intensive skills 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.
- Business Enterprises ($1.3 million, 5.00 FTE) provides 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.
- Administration Services ($1.7 million, 7.48 FTE) coordinates the mission and goals of the agency and manages Human Resources, Budget, Accounting, Operations, and Information Systems.
- Oregon Industries for the Blind program ceased operations during the 2013-15 biennium and was dis-appropriated in HB 5201 (2014). This program was an alternative work and vocational program specializing in serving clients with multiple disabilities who are both developmentally disabled and blind. Historically, the program had served about 40 clients. All clients have been placed in other programs.

Revenue Sources and Relationships

The Commission is funded with $2.9 million General Fund (18%), $0.9 million Other Funds (6%), and $12.3 million Federal Funds (76%).

Federal Funds are provided by formula and special grants from the U. S. Department of Education, Rehabilitation Services Administration (RSA) as authorized by the Rehabilitation Act of 1973. The Workforce Innovation and Opportunity Act of 2014 (WIOA) replaces the Workforce Investment Act of 1998 and amends the Rehabilitation Act of 1973. WIOA designates the RSA as the principal funding agency to oversee the national Vocational Rehabilitation (VR) system throughout the nation, in collaboration with the U.S. Department of Labor and other workforce entities. WIOA requires state VR agencies to make pre-employment transition services available to all students with disabilities and to set-aside at least 15% of federal VR program funds towards providing these services for students with disabilities transitioning from secondary school to postsecondary education programs and competitive integrated employment. Additionally, WIOA provides restrictions on the use of administrative costs as applied to the 15% set aside. It also dedicates half of the federal Supported Employment (SE) program funds to provide support for youth with the most significant disabilities, including extended services, to enable them to obtain competitive integrated employment (extended services for adults is not allowed). WIOA also directs states to increase opportunities to assist employers in providing work-based experience for individuals with disabilities and ensure that priority is given to individuals who are otherwise eligible for VR program services and who are at imminent risk of losing their jobs unless they receive additional necessary post-employment services. The Commission will need to develop appropriate business practices to track spending of these Federal Funds and may need to make modest program changes to ensure compliance with WIOA.

Vocational Rehabilitation basic support 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 receives 87.5% of Section 110 Vocational Rehabilitation basic support grant funding with the Commission receiving the remaining 12.5%. This grant is expected to provide $11.1 million in funding for the Commission during the 2015-17 biennium. Other RSA grants include in-service training, Supported Employment, independent living, and the Older Blind program, which total $1.2 million federal funds. These grants are funded with 90% Federal Funds and 10% state matching funds.

The Business Enterprises (BE) program contracts with public agencies, sets up cafeteria, snack bar, and vending machine management businesses, and then sub-contracts with licensed blind managers to provide services desired by facilities. Licensed blind managers direct the day-to-day operations, retaining the majority of the profits they generate. Each licensed blind manager pays 11% of their net earnings as a set-aside to support the BE program. The set-aside is used for continuing training of the licensed blind managers, as well as maintenance, repair, and purchasing of equipment. Currently, the BE program has 16 individuals operating over 500 food service and vending machines sites throughout Oregon. The BE program is funded primarily by federal VR funds that are leveraged by a combination of General Fund and the set-aside.

General Fund and a limited amount of Other Funds are used to meet matching Federal Funds requirements. There is also an RSA maintenance of effort 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 maintenance of effort agreement, however, is for the state as a whole, which again includes both the Department of Human Services and the Blind Commission RSA grant funding. The 2015-17 budget meets the federal matching funds and maintenance of effort requirements.

Until the 2013-15 biennium, over half of the agency's Other Funds revenue was comprised predominately of payments from Multnomah County for services to developmentally disabled persons to support the Industries for the Blind program. This program was discontinued during the 2013-15 biennium. At present, Other Funds revenue sources for the 2015-17 biennium include: cooperative agreements with school districts and non-profit rehabilitation providers; a transfer from the Department of Education by intergovernmental agreement; and business enterprise vendor assessments.

The agency also maintains an interest-bearing Blind Bequest and Donation Fund. The fund has an estimated 2015-17 beginning balance of approximately $153,420. In the past, the Commission used only the interest earnings to fund programs. However, beginning in 2003-05 the Commission has been forced to use donation funding to match federal funds in order to offset the loss of General Fund support. Because this level of expenditure from the donation account is not sustainable, the 2015-17 legislatively approved budget reflects a General Fund investment to allow the agency to maximize federal matching funds and meet maintenance of effort requirements, thereby preventing program reductions, while allowing the agency to replenish the depleting Blind Bequest and Donation Fund.

Budget Environment

Most causes of blindness are age-related – caused by macular degeneration, cataracts, diabetic retinopathy, and glaucoma. Other causes include illness, accidents, and injuries. Population trends indicate the elderly population in Oregon will increase significantly in the coming years. Elderly populations have a demonstrated higher rate of vision loss. Furthermore, recent studies have noted spikes in non-elderly adults with uncorrectable vision loss due to increases in obesity and diabetes. The total number of individuals in Oregon age 55 and older who are visually impaired is estimated to grow from approximately 58,000 to 122,000 between 2015 and 2035. As this population grows, there is increased demand for agency services, especially for those who develop blindness or greater visual impairment later in life. The federal Rehabilitation Act of 1973, as amended, prescribes what services are provided and the eligibility for those services. The number of people served is a function of available revenue.

A higher general unemployment rate, both statewide and regionally, makes placement of vocational rehabilitation clients with vision loss or impairment more difficult. According to the Commission, the unemployment rate for individuals who are blind approaches 70%. The Vocational Rehabilitation caseload for federal fiscal year 2013 was 713, which is up 4.3% from the 2010 case load of 684. The Older Blind program served an additional 703 clients in 2013. Per counselor caseload is currently about 75 cases. In 2013, over 75% of the individuals in the Vocational Rehabilitation program who entered into a plan for employment were successful in reaching their goals. For an average caseload cost of $3,493, individuals who experienced vision loss and returned to work had combined earnings totaling $1.9 million. As taxpayers, individuals on average pay back the state contribution of their rehabilitation program in 8.3 months.

Independent Living Services in the form of rehabilitation teaching interventions can delay or eliminate the need for other expensive state funded supports. These successful interventions, which mitigate the need for nursing or assisted living care, result in savings to the state ranging from $19,310 for assisted living to $92,963 for nursing home care per individual per year. In 2013, the average caseload cost is $737. Based on these numbers, when the Commission is able to delay even the lowest level of care for individuals served for only one year, the potential savings to the state is $13 million.

Some geographical areas of the state are underserved in the Older Blind program. There can also be waiting lists for a period of three to six- months before services are provided. 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.

Order of Selection is a federally required wait list system that mandates vocational rehabilitation agencies to prioritize individuals with the most significant disabilities and rehabilitation needs. An agency is required to enter into an Order of Selection when they have either inadequate staffing levels or case service funds to serve all eligible clients in the vocational rehabilitation program. The Commission has been in Order of Selection twice in the recent past, both times as a result of insufficient case service funds available to serve all eligible individuals (from August 2000 to September 2005 and from January 2009 to December 2010). The 2015-17 legislatively adopted budget provides sufficient resources and staff for the Commission to remain outside the Order of Selection.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $16.2 million is 0.4% less than the 2013-15 legislatively approved budget and includes 56 positions (52.21 FTE). Although the Federal Funds portion remains constant, the General Fund portion of the budget increased by 8% over the 2013-15 level in order to offset the loss of Other Funds revenue.

The budget restores program reductions that would have been necessary due to Other Funds revenue shortfall, providing authority to add three Rehabilitation Instructors for the Independent Living for Older blind Population. These positions will allow the Commission to allocate staff time more efficiently and to do outreach to Oregon’s increasing aging population who are currently underserved.

The adopted budget also includes authorization for 3 additional positions to improve the efficiency of existing operations, and to expand the Business Enterprise (BE) program. This program is currently understaffed compared to other states, with only two staff members working with federal and state agencies to implement all of the federal and state required mandates. Additional staffing will bolster the viability of the BE program by responding to the increasing need for strategic and technical services requested by program participants in order to grow their businesses to increase sales and income.

The adopted budget meets federal maintenance of effort requirements and allows the Commission to match all available Federal Funds.

OREGON HEALTH AUTHORITY

Analyst: Ames

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,692,058,113	1,933,995,531	2,862,916,600	2,120,607,875
Lottery Funds	10,098,261	10,592,532	10,923,154	11,292,544
Other Funds	2,271,074,220	4,298,153,731	2,869,943,521	5,683,377,776
Other Funds (NL)	2,910,050,130	1,934,789,195	1,859,287,088	143,500,000
Federal Funds	5,062,816,693	9,575,251,558	9,599,471,616	11,400,938,911
Federal Funds (NL)	108,360,598	106,880,067	106,653,023	106,653,023
Total Funds	**$12,054,458,015**	**$17,859,662,614**	**$17,309,195,002**	**$19,466,370,129**
Positions	4,226	4,532	4,530	4,428
FTE	4,109.69	4,143.41	4,479.45	4,361.01

For comparison purposes, the 2015-17 Current Service Level column values for OHA and DHS are from the 2015-17 Governor's Budget; this includes adjustments resulting from the fall 2014 caseload forecasts, and so may not be consistent with other LFO tables or publications.

Overview

The Oregon Health Authority (OHA) was created by the 2009 Legislative Assembly 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 is the largest health care purchaser for the state of Oregon, purchasing health care for about 1.3 million Medicaid clients, state employees, and local educators.

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. Programs provide medical coverage to low-income individuals and families, and to public employees; offer treatment services to persons with mental illness, alcohol, or drug addictions; provide supports for Oregonians with disabilities; and regulate the state's public health system.

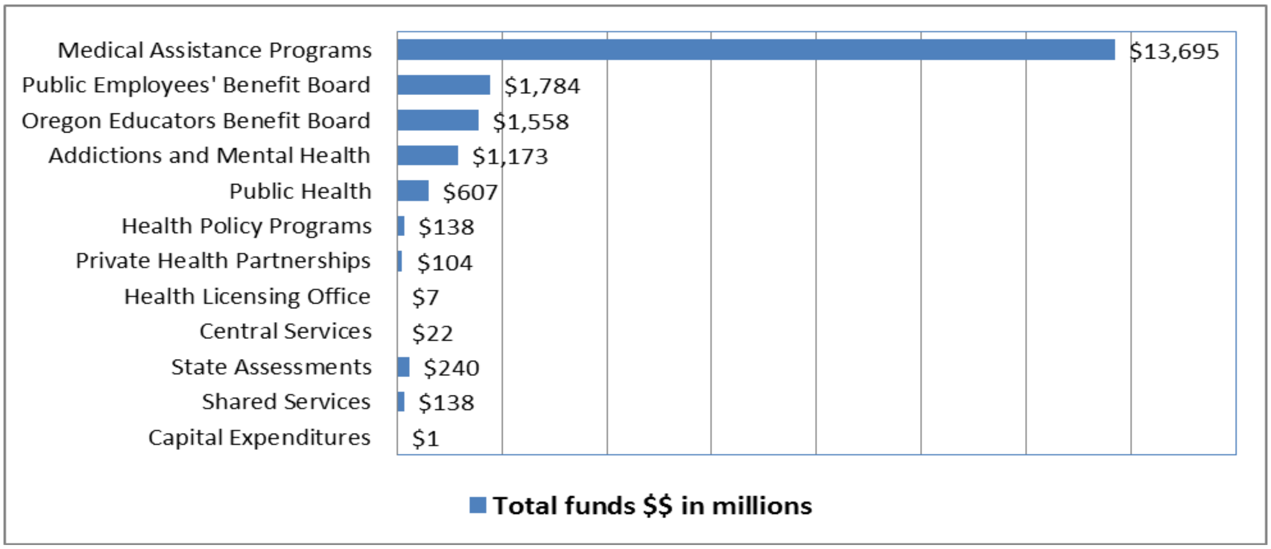
OHA is the largest agency within the Human Services program area, making up about 66% of total program area expenditures. Overall, OHA's 2015-17 legislatively adopted budget comprises about 11% of the state's combined $18.9 billion General Fund and Lottery Funds budget, and 43% of the state's total funds budget.

Leadership at OHA is currently in the process of reorganizing the agency to better align with the agency's external partners under healthcare transformation. The details of the new structure will not be complete until later in the biennium. Currently, based on the legislatively adopted budget, the OHA budget is organized into twelve program areas:

- Medical Assistance Programs includes the Oregon Health Plan.
- Public Employees' Benefit Board provides health insurance for state employees.
- Oregon Educators Benefit Board provides health insurance for various school, education service, and community college districts throughout the state.
- Addictions and Mental Health includes community mental health services; alcohol and drug treatment and prevention; gambling treatment and prevention; and the Oregon State Hospital.
- Public Health includes community health, environmental public health, family health, and disease prevention and epidemiology.

- Health Policy Programs includes offices providing policy support, technical assistance, and access to health information statistics and tools.
- Private Health Partnerships includes the Oregon Transitional Reinsurance Pool program.
- Health Licensing Office is a central licensing and regulatory office overseeing multiple health and related professions.
- Central Services includes the OHA Director's Office, and central administrative support functions.
- State Assessments and Enterprise-wide Costs includes central government assessments and usage charges, and agency-wide costs such as rent, as well as the debt service payments on bonds that were issued to build the new Oregon State Hospital.
- Shared Services provides administrative services to both OHA and the Department of Human Services.
- Capital Expenditures supported the Oregon State Hospital facility replacement project in past biennia, and now includes limited capital improvements for the hospital.

The chart below shows how OHA's $19.47 billion total funds legislatively adopted budget for 2015-17 is allocated among these program areas.



<u>Revenue Sources and Relationships</u>

For the 2015-17 biennium, the General Fund supports 11% 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 $11.3 million of statutorily dedicated Lottery Funds for gambling addiction prevention and treatment services.

Other Funds revenues support 30% of OHA expenditures. These come from a wide variety of sources including tobacco taxes, Medicaid provider assessments, grants, beer and wine taxes, fees, estate collections, self-insurance payments, health care premiums, insurer assessments, third party recoveries, pharmaceutical rebates, transferred federal funds from other state agencies, and charges for services. Since 2003, health care provider assessments have been a significant source of Other Funds revenue. These assessments are used to support the Oregon Health Plan. In 2015, the Legislature continued the current hospital provider assessment, which was scheduled to sunset in September of 2015 (HB 2395). The total assessment is expected to raise over $900 million Other Funds revenues and result in additional federal matching revenues of $2.4 billion.

This budget includes some Nonlimited expenditures. Nonlimited expenditures can be increased administratively as long as revenue is available. Nonlimited Other Funds primarily represent insurer assessments to pay claims costs under the Oregon Transitional Reinsurance Program, and infant formula rebates in the Women, Infants and Children (WIC) program.

Federal Funds support 59% of OHA expenditures in the legislatively adopted budget for the 2015-17 biennium, and total $11.5 billion. The largest source of these Federal Funds comes from the Title XIX Medicaid program, and to a lesser extent, the Children's Health Insurance Program (CHIP). Nonlimited Federal Funds are for the Women, Infants and Children (WIC) nutrition program.

Budget Environment

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. Caseload forecasts attempt to factor in projected economic conditions, but considerable risks always remain.

- Federal Law and Funding – Federal revenue supports about 59% 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 CHIP program was recently reauthorized at the federal level for two more years, but it is unclear what will happen to the program after that. One possibility is that the children served in this program would be required to get their health coverage through the health insurance exchange. The Affordable Care Act has significantly changed Oregon's Medicaid program, as health coverage was expanded to all adults under 138% of the federal poverty level, effective January 1, 2014. About 400,000 adults were added to the program during the 2013-15 biennium, bringing the total number of low-income Oregonians receiving health insurance through the Oregon Health Plan to a little over one million. This expansion is entirely federally funded through 2016, and the state will pay 5% of those costs for the last six months of the biennium. While this example is a larger change than many, the OHA budget must adjust to changing federal program and revenues on an on-going basis.

- Health Care Cost Inflation and Utilization – The biggest single share of OHA's budget is medical costs. At the legislatively adopted budget level, OHA uses $13.5 billion of its $19.5 billion total funds budget for direct payments to acute health care providers or Medicare premium payments in the OHP and non-OHP budgets. In the past, health care inflation rates have significantly outpaced general economic inflation rates, as well as the rate of state revenue growth. As a result, health care has consumed a larger share of the total state budget. However, under Oregon's current Medicaid waiver, per-client cost increases were capped at 4.4% in 2013-14, and 3.4% per year since then. This represents a significant change from the past.

- Politics – About 84% 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 the 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.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget for the Oregon Health Authority is $2.12 billion General Fund and $19.47 billion total funds. For comparison, OHA's 2013-15 legislatively approved budget was $1.93 billion General Fund and $17.86 billion total funds. The 2015-17 legislatively adopted budget is 9.6% General Fund and 9% total funds more than the agency's 2013-15 legislatively approved budget. The total funds budget has grown by 61% since 2011-13 as the Medicaid expansion under the Affordable Care Act was phased in.

General Fund increases $187 million as a result of investments in the community mental health system, as well as caseload costs, inflation, and backfill of one-time revenue in the Oregon Health Plan. Total funds increase $1.6 billion over the 2013-15 level. This is largely a result of the expansion of health coverage under Medicaid to all persons under 138% of the federal poverty level, effective January 2014. Services for most of these new clients will be paid with 100% federal funds through 2016, and the state will contribute 5% of costs for the last six months of the 2015-17 biennium.

Health care costs in the Oregon Health Plan are capped at per-client increases of 3.4% per year, as required by Oregon's current federal waiver. Those increases are fully funded in this budget. The adopted budget also makes significant investments in both the community mental health and addictions systems. Four of the six wards in the new Junction City hospital facility are funded for the 2015-17 biennium.

Because of the continuing transition of the Oregon Health Plan caseload, as well as caseload volatility in the Department of Human Services (DHS), the Legislature recognized the on-going increased risk of caseload forecast changes. A special purpose appropriation of $40 million is made to the Emergency Board for caseload costs or other budget challenges in either agency.

More detail follows on each of the major program areas in OHA.

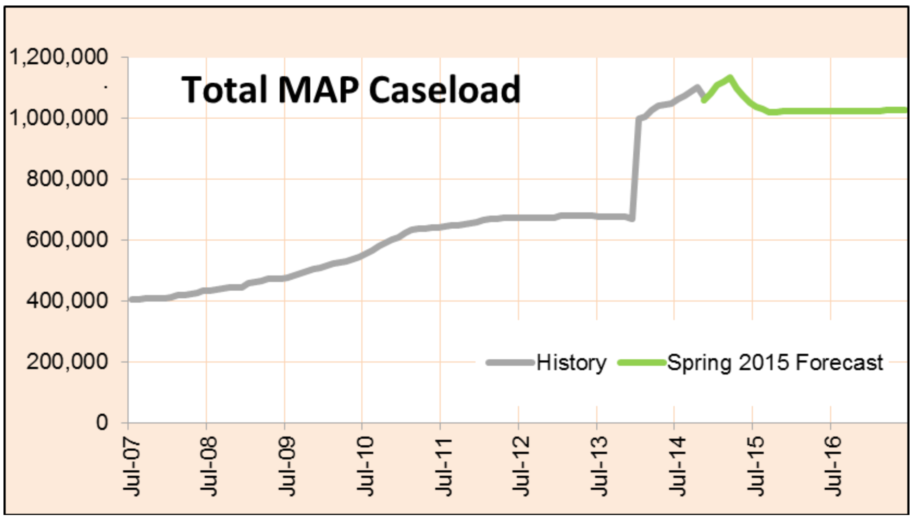
Medical Assistance Programs

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	850,961,311	1,001,520,202	1,852,327,029	1,111,847,789
Other Funds	1,878,229,292	2,180,918,663	886,015,451	1,890,978,714
Federal Funds	4,096,613,488	8,760,150,153	8,909,693,375	10,692,267,026
Total Funds	**$6,825,804,091**	**$11,942,589,018**	**$11,648,035,855**	**$13,695,093,529**
Positions	397	498	528	518
FTE	387.71	489.85	519.85	509.35

Program Description
Medical Assistance Programs (MAP) deliver health services to over one million people, primarily through the Oregon Health Plan which includes both Medicaid and the Children's Health Insurance Program (CHIP). The programs provide a system of comprehensive health services to qualifying low-income Oregonians and their families to improve their health status and promote independence. The MAP budget includes the Oregon Health Plan (OHP), Non-Oregon Health Plan (Non-OHP), and other health-related programs. Payments for services delivered to clients, primarily medical assistance clients, represent 98% of the MAP budget.

This program has experienced significant changes in the last several years. In the 2011-13 biennium, Oregon implemented health care reform efforts. This included the implementation of the new health care delivery system for the Oregon Health Plan called Coordinated Care Organizations (CCOs). CCOs focus on the triple aim of better health, better care, and lower costs by focusing on prevention, chronic disease management, earlier interventions, integration of physical, behavioral, and dental health, and the reduction of waste and inefficiency in the health system. Reform efforts also included finalizing the federal Designated State Health Programs (DSHP) waiver with the Centers for Medicare and Medicaid Service (CMS) to hold per capita cost growth in the Oregon Health Plan to 2% per year below earlier trends.

In addition, Oregon expanded Medicaid coverage with the implementation of the Affordable Care Act (ACA) in January of 2014 to all persons under 138% of the federal poverty level. With this expansion, about 400,000 additional Oregonians have received coverage through OHP, which now has a little over a million Oregonians, and about 90% of these enrollees are members of CCOs.



The state's success at health care transformation is measured through statewide performance on key measurements, rates of health care utilizations, and costs through CCOs. This accountability system is a key element of the new health care system.

The ***Oregon Health Plan*** includes medical assistance coverage as part of the state's Medicaid waiver program under Title XIX of the Social Security Act, as well as the Children's Health Insurance Program (Title XXI of the Social Security Act) which is a federal program designed to improve the health of children by increasing their access to health care services. The 2015-17 legislatively adopted budget for the Oregon Health Plan (OHP) is $12.75 billion total funds ($664 million General Fund). OHP is providing medical care to about one million low income Oregonians in 2015. Services include physician, pharmaceutical, hospital, behavioral health, vision, dental, and other services. Generally, Medicaid services are matched at about 64% federal funds with 36% state funds. However, for the 400,000 members of OHP that are the result of the ACA expansion, federal funding pays 100% of costs through 2016. The match rate will transition to 90% federal/10% state in 2020. (Federal funding shares are 95% for 2017, 94% for 2018, 93% for 2019, and 90% for 2020.)

OHP is governed by a state plan and waivers to various Medicaid regulations. 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 regulations all require review and approval by the Centers for Medicare and Medicaid Services (CMS), the federal agency that administers Medicaid. This means that policy changes to the plan and waivers, particularly those that would have a significant program or budgetary impact, must pass muster with CMS.

Oregon's Children's Health Insurance Program (CHIP) was implemented in July 1998. Oregon's policy makers took advantage of the more favorable federal CHIP match rate 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 uninsured and ineligible to receive OHP benefits under a Medicaid eligibility category. In addition, the children must be living in households with incomes between 138% and 300% of the Federal Poverty Level (FPL). The current match rate for CHIP is about 75% federal/25% state. As a result of the ACA, this rate will increase by 23 percentage points, to about 98% federal, on October 1, 2015. In 2015, the federal government extended the authorization of CHIP through September 2019.

The ***Non-Oregon Health Plan*** budget includes several types of expenditures: General Fund payments to the federal government required under the Medicare Modernization Act for Medicare Part D coverage for clients eligible for both Medicare and Medicaid, known as the "clawback" payment ($179 million total funds), and expenditures for the Citizen Alien Waived Emergency Medical (CAWEM) program ($37 million total funds). This budget also includes assistance for low-income Qualified Medicare Beneficiaries and Specified Low-Income Medicare Beneficiaries for certain forms of Medicare cost sharing, such as Medicare Part B premiums, Medicare Part A premiums in certain cases, deductibles, coinsurance, and copayments ($440 million total funds). The entire Non-OHP legislatively adopted budget for 2015-17 is $659 million total funds ($353 million General Fund), with a caseload of about 65,000 in 2015.

Finally, the budget includes funding for state policy and administrative staff for Medical Assistance Programs. This section increased significantly in 2011-13 when the OHP-only eligibility unit (i.e., OHP Central Processing Center) was transferred from the Department of Human Services to OHA. The Processing Center is responsible for determining eligibility and enrolling people in OHP, as well as facilitating the redetermination process to determine whether clients continue to be eligible for services. This unit has been under a lot of pressure since the failure of the Oracle project, when the state opted to use the federal Exchange, and the Processing Center continued using a hybrid process, partially automated and partially manual, for eligibility and enrollment. The agency is now in the process of implementing a Medicaid system from Kentucky that will be called the OregONEligiblity system, or ONE. Once this is fully implemented in the spring of 2016, the workload for this unit is expected to decrease.

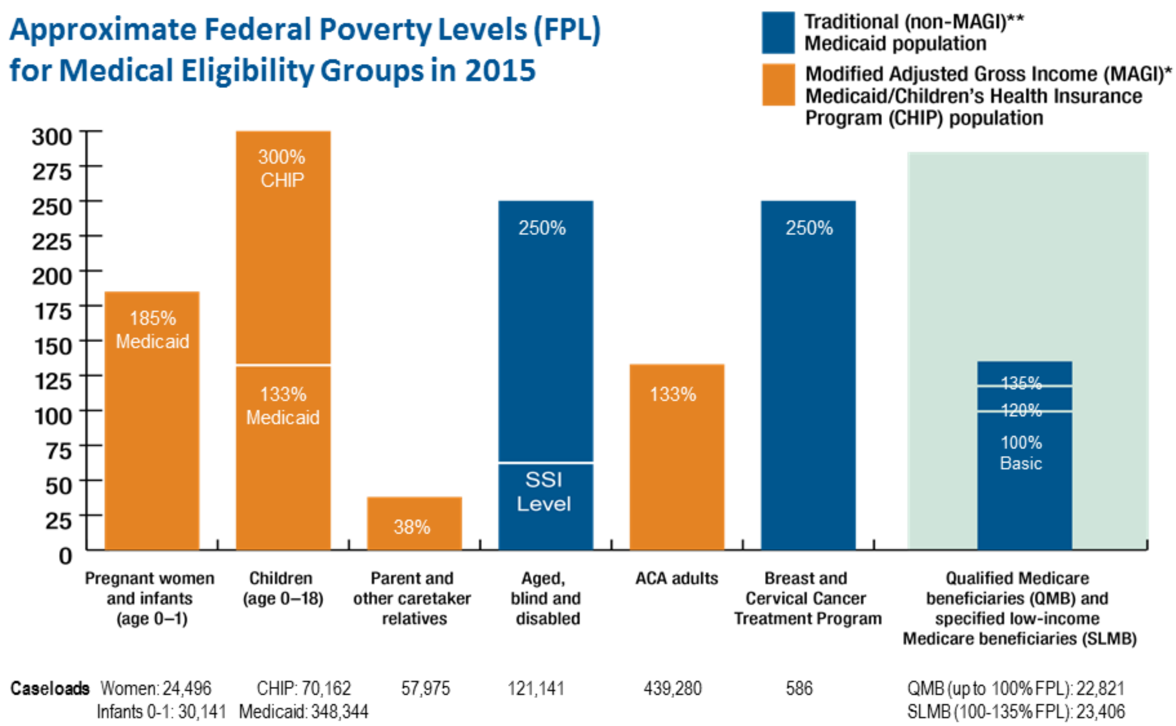
The Medicaid state plan and OHP waivers detail eligibility for the program, what services or benefits are offered, and how, in general terms, providers will be reimbursed. These three elements – eligibility, benefits, and reimbursement – are the main cost drivers of the OHP budget.

Eligibility – The following is a list of those who are currently eligible for the Oregon Health Plan. Below the list is a chart showing the current eligibility groups, as well as a chart showing income levels associated with various Federal Poverty Levels for 2015. 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. If a state wants to reduce eligibility, it has to receive approval from CMS to do so, and certain restrictions apply under the ACA.

Note that certain categories include households with incomes up to 133% of FPL. However, the way this threshold is actually implemented, with certain income disregards, it actually covers households up to 138% of FPL. While this chart shows the technical 133%, narrative elsewhere refers to the operational threshold of 138%.

- Pregnant women and their newborn babies up to age one in households with incomes up to 185% of FPL.
- Children from age 0 to 18, covered through Medicaid for households with incomes up to 133% of FPL, and covered through CHIP for households from 133% FPL to 300% FPL. Children from 0-1 are included here only if incomes are over 185% of FPL. This category also includes children in foster care or for whom adoption assistance payments are made.
- Parents or other caretaker relatives receiving, or meeting the eligibility requirements to receive, cash assistance under the Temporary Assistance to Needy Families (TANF) program. Also included are families transitioning from TANF into employment, who are eligible for 12 months after cash assistance ends. This category no longer includes the children in these households; they are included with other children.

- Aged, blind and disabled persons who are eligible for Supplemental Security Income (SSI) or are eligible for Medicaid long-term care. The income standard for Medicaid long-term care is 300% of the SSI grant, or about 250% of FPL. Persons in this eligibility category must meet requirements of certain impairments and also meet income requirements. Some in this population are commonly referred to as "dually eligible," meaning Medicare is their primary health coverage and Medicaid is secondary.
- ACA adults are all those adults in households with incomes up to 133% of FPL, who are not eligible under any of the other categories. This is the group that is currently funded with 100% federal funds.
- The Breast and Cervical Cancer Treatment Program was established for women who did not have other insurance to help pay for treatment. With most women now covered by insurance, this caseload is steadily declining.
- Qualified Medicare beneficiaries (with incomes up to 100% of FPL), and specified low-income Medicare beneficiaries (with incomes between 100% and 135% of FPL) are eligible for certain forms of Medicare cost sharing, such as Medicare Part B premiums, Medicare Part A premiums, deductibles, coinsurance, and copayments. This population is dually eligible for both Medicare and Medicaid.



* MAGI is the means-tested Medicaid/CHIP eligibility criteria.
** Non-MAGI has other eligibility criteria in addition to the means test.

These eligibility categories have changed since the expansion starting in 2014. The OHP Standard program no longer exists, with its distinct benefits and limited enrollment based on a reservation list. Instead, all non-pregnant adults with incomes less than 138% of FPL are now eligible for OHP. In addition, all children up to 300% of FPL are now eligible for OHP. The TANF category no longer includes children, and Healthy Kids Connect phased out January 1, 2014.

2015 Federal Poverty Levels by Monthly Income and Household Size

Number in household	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
100% FPL	$981	$1,328	$1,674	$2,021	$2,368	$2,714	$3,061	$3,408
133% FPL	**$1,305**	**$1,766**	**$2,227**	**$2,688**	**$3,149**	**$3,610**	**$4,071**	**$4,532**
185% FPL	$1,815	$2,456	$3,097	$3,739	$4,380	$5,021	$5,663	$6,304
200% FPL	$1,962	$2,655	$3,348	$4,042	$4,735	$5,428	$6,122	$6,815
300% FPL	$2,942	$3,983	$5,023	$6,062	$7,103	$8,143	$9,182	$10,223

Benefits – All those eligible for OHP currently receive the same benefit package. This includes hospital, physician, prescription drug, therapies (i.e., physical, occupational, and speech therapies), durable medical equipment, dental, limited vision services, non-institutional mental health and drug and alcohol services, and transportation to medical providers. Clients are not required to pay premiums, but are charged nominal copayments for some services. Pregnant women receive a somewhat better benefit package for certain services.

Underlying all the benefits is the OHP "prioritized list of services." 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 Evidence Review 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. CMS has been reluctant to limit treatment by excluding treatments based on the prioritized list. In fact, as of July 2012, the OHP waiver agreement states that Oregon may not reduce benefits.

Provider Reimbursement – OHP Medicaid payments are made to coordinated care organizations (CCOs) and, on a fee-for-service basis, to doctors, hospitals, pharmacies, dentists, and other contractors to provide medical services. As of March 2015, about 90% of those eligible are served through CCOs, which receive a global budget from OHA and who assume the risk of providing necessary medical services for their members. The remaining 10% are served on a fee-for-service basis.

<u>Revenue Sources and Relationships</u>

Federal Funds revenue sources are mainly two: Medicaid, which accounts for more than 96% of MAP'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 2015-17 budget for Medicaid is approximately 64% Medicaid funds and 36% state funds for most services. (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 current match rate for CHIP is about 75% federal/25% state. As a result of the ACA, this rate will increase by 23 percentage points, to about 98% federal, on October 1, 2015. CHIP Federal Funds are allotments, and each state's allotment is limited by a calculation in federal law.

Federal Funds in MAP's 2015-17 budget increase about $1.9 billion because of the expansion of health care coverage starting January 2014. Services for most of these new clients will be paid with 100% Federal Funds for the first three years, through 2016. By 2020, the match will phase down to 10% state funds and 90% federal funds.

The 2015-17 budget for OHA includes $380 million in resources as a result of the federal Designated State Health Programs (DSHP). This is part of the approved Medicaid waiver with Oregon's federal partners, who have agreed to invest $1.9 billion in Oregon over five years if the state reduces the inflation of Medicaid per member health care costs by two percentage points, including the 2015-17 biennium. The waiver allows Oregon to match funds that support services and programs to meet health needs that the traditional Medicaid program did not allow. These additional federal resources then free up state funds that can be reinvested in OHP. The MAP budget includes $136 million Other Funds and $244 million Federal Funds related to DHSP.

Most of the state's 36% match comes from the General Fund, as well as a variety of Other Funds. Other Funds revenue includes a hospital Medicaid provider assessment, tobacco tax ($300 million), Tobacco Master Settlement Agreement revenues ($101.8 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.

The 2015-17 budget includes the continuation of the current hospital assessment, which was scheduled to sunset in September 2015 but now continues through September 2019 (HB 2395). These assessment revenues are used to support the Oregon Health Plan. The rate includes a 1% assessment, to create the Hospital Transformation Pool, splitting the revenues in the pool between the hospitals based on their achievement of performance metrics, and coordinated care organizations based on recommendations from the OHA metrics and scoring committee. The total assessment for the biennium is expected to raise over $900 million Other Fund revenues and result in additional federal matching revenues of $2.4 billion. The 2015-17 budget also includes $145 million of hospital assessment revenues that are expected to be left at the end of the 2013-15 biennium and will be carried forward for the 2015-17 biennium.

Budget Environment

In March 2010, Congress passed federal health care reform legislation, the Affordable Care Act (ACA), which was intended to reduce health care spending over the next decade. Beginning in January 2014, it has expanded health care coverage to over 500,000 additional Oregonians through a combination of subsidized private insurance and expanded Medicaid coverage. Approximately 95% of all Oregonians are now covered by health insurance. For Medicaid, federal subsidies to states will cover 100% of the additional cost of those who are newly eligible through 2016. The ACA also allocated funding to improve quality and halted certain insurance practices. In addition, the law created exchanges or marketplaces for health insurance starting in 2014. Oregon now uses a state-based federal exchange model to provide subsidized private insurance to Oregonians.

HB 2009, from the 2009 legislative session, began 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 has been involved in making recommendations on the health care workforce, medical liability, population health, integrated primary care, health purchasing, administrative simplification, and technology, and is currently working on coordinated care model alignment, looking for ways to utilize a model with coordinated care attributes in programs other than Medicaid, such as PEBB and OEBB.

Oregon, like all other states, had taken an incremental approach to controlling cost growth in Medicaid programs in past years. Historically, three main levers have been used to control the OHP budget: limit client eligibility, reduce client benefits, and cut provider reimbursement. None of these approaches ultimately result in a healthier population or in an overall reduction in health care costs.

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. That is what Oregon is attempting to do, starting with the passage of HB 3650 in the 2011 legislative session which launched health system transformation efforts and created Coordinated Care Organizations (CCOs). Transformation is focused on changing the health system to achieve better health, better care, and lower costs. Key components include integrated and coordinated benefits and services; one global budget that grows at a fixed rate; use of metrics to assure standards for safe and effective care; local accountability for health, outcomes, and cost; and local flexibility.

The first CCO began enrolling Medicaid clients August 1, 2012, and there are now 16 CCOs certified in Oregon, covering all geographic areas of the state and serving about 90% of the Medicaid population as of March 2015 (see chart below). CCOs are focused on a number of key components:

- Integration of physical health, behavioral health, and oral health.
- Focus on primary care and prevention.
- Focus on patient-centered care, such as chronic disease management and patient-centered primary care homes.
- Accountable for health outcomes.
- Community based health workers and non-traditional health workers.
- Implementing alternative payment methodologies that align payment with health outcomes.

Oregon Coordinated Care Organizations

CCO Name	Service Area (Counties)	Clients Enrolled *
AllCare Health Plan	Curry, Josephine, Jackson, part of Douglas	50,039
Cascade Health Alliance	Most of Klamath	16,681
Columbia Pacific CCO	Clatsop, Columbia, Tillamook	27,656
Eastern Oregon CCO	Baker, Gilliam, Grant, Harney, Lake, Malheur, Morrow, Sherman, Umatilla, Union, Wallowa, Wheeler	48,348
FamilyCare, Inc.	Clackamas, Multnomah, Washington, part of Marion	122,678
Health Share of Oregon	Clackamas, Multnomah, Washington	239,158
Intercommunity Health Network CCO	Benton, Lincoln, Linn	56,341
Jackson Care Connect	Jackson	29,687
Pacific Source Community Solutions CCO - Central Oregon Region	Deschutes, Crook, Jefferson, part of Klamath	67,088
Pacific Source Community Solutions CCO - Columbia Gorge Region	Hood River, Wasco	
PrimaryHealth of Josephine County, LLC	Josephine, parts of Douglas and Jackson	11,347
Trillium Community Health Plan	Lane, parts of Benton, Coos, Douglas and Linn	90,688
Umpqua Health Alliance	Most of Douglas	26,577
Western Oregon Advanced Health, LLC	Coos, Curry	20,590
Willamette Valley Community Health, LLC	Marion, Polk, and parts of Clackamas and Yamhill	98,788
Yamhill County Care Organization	Yamhill, parts of Marion, Clackamas, Polk, Tillamook, and Washington	22,939
* As of March 2015	Total:	928,605

The state is still in the process of integrating services into CCO contracts and rates. The integration of behavioral and physical health was a key piece, and was incorporated in the original CCO contracts beginning in the fall of 2012. A number of other components are being transitioned into CCOs over time. Mental health supported employment and assertive community treatment services were integrated into CCOs effective January 2013. Alcohol and Drug residential services moved over effective July 1, 2013. Most CCOs have integrated non-emergency medical transportation, and the remaining six CCOs will integrate those services effective October 1, 2015. Dental services were integrated into CCOs by July 2014. However, over 50,000 clients continue to be served through managed care dental contracts, through seven Dental Care Organizations (DCOs). Primarily, these are clients with private insurance who cannot enroll in a fully integrated CCO, or dually eligible clients who can opt to enroll in a CCO but are not required to. Mental health residential services are scheduled for integration effective July 1, 2017.

A key component of the health system transformation is to select and track a number of metrics in order to measure progress toward better health, better care, and lower costs. OHA's Metrics and Scoring Committee developed 17 outcome and quality measures. Each year, OHA awards CCOs funds from a quality incentive pool based on their performance on these 17 measures during the previous calendar year. OHA also reports to CMS on 16 additional state performance measures. The final report for 2014 data came out in June 2015. Even with the addition of about 400,000 new OHP clients in 2014, a number of measures continue to show large improvements:

- Emergency department visits have decreased 22% since 2011.
- Hospital admissions for short-term complications from diabetes have dropped by almost 27% since 2011.
- Hospital admissions for chronic obstructive pulmonary disease have decreased by 60%.
- Enrollment in patient-centered primary care homes has increased 56% since 2011.
- The number of adults who had appropriate screening and intervention for alcohol or other substance abuse has shown strong improvement.

Other measures highlight room for improvement. The specific measures that are included are evolving as certain goals have been accomplished and new issues become more important. The metrics will continue to be an important tool to incent system changes in areas that need improvement.

The changes resulting from the federal health care reform, as well as Oregon's health system transformation, have been discussed above. However, regardless of the systems that are created to deliver health care services, many factors affect the cost of health care, 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.

Caseload Changes – The OHP budget is based on caseload forecasts and cost estimates that are projected for the coming two years. Because of the size of the OHP budget, even the slightest variance from the original forecast can result in a significant budget shortfall – or windfall. The caseload forecasts for OHP used to generate the 2015-17 legislatively adopted budget were developed in the spring of 2015. These forecasts used actual data through September 2014 – two years and nine months prior to the end of the 2015-17 biennium. Clearly, this forecast is inherently risky – and made even more so by the changes resulting from the expansion of Medicaid. Unlike commercial insurers, the OHP does not have established reserves that can be used if caseload forecasts or costs per case are understated and more funding is required – except for the state's General Fund.

Caseloads are 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. While the economy has improved, there is usually a long lag between the end of a recession until caseloads drop significantly. Certain caseloads are expected to drop during the 2015-17 period. Some of these reductions are a result of an improving economy, while others are related to the increase in the insured population generally.

Medical Inflation and Utilization Trends – Under federal Medicaid law and state statutes, OHA is responsible for paying rates that are sufficient to assure access to health care services for Medicaid recipients. In other words, Medicaid must adequately reimburse providers of medical care to compete with other health care purchasers in the market place so Medicaid clients may receive services. Because costs for medical services have risen significantly up until the last couple of years, states purchasing Medicaid services have had to spend greater proportions of their budgets on medical services. Causes for these cost increases are complex and include greater use of medical services by an aging population, the use of new high-cost medical technology such as pharmaceuticals or diagnostic tools, medical labor shortages, and a growing uninsured population. When uninsured persons use medical care, but cannot pay for it, providers may be forced to increase their charges to clients who can pay, thereby driving up commercial and public health care costs. Further, some analysts believe that unique billing systems and extensive paperwork requirements may be responsible for as much as 25-30% of all health care costs. Solutions to health care cost problems have been proposed, but have not been easy to implement in either the private health care market or in public programs such as Medicaid or Medicare. As part of the Oregon's federal Medicaid waiver, the state has committed to reducing the cost curve for health care, on a per member basis, by 2 percentage points. Consistent with this, the budget for OHP is based on an inflationary increase of 3.4% per member per year.

Federal Policy and Funding Changes – Medicaid is a state-federal partnership of unequal partners. The federal share of administrative costs ranges from a low match rate of 50% for most administrative functions to 100% for certain programs. Most program costs, excluding the ACA expansion population, are currently matched at a rate of approximately 36% state to 64% federal funds. The federal government sets the rules and guidelines for the program and must approve any waivers and changes to waivers that are authorized for the state. However, changing congressional priorities and federal revenue levels can greatly impact funding for these programs.

The Affordable Care Act has significantly changed Oregon's Medicaid program, as health coverage was expanded to all adults under 138% of the federal poverty level, effective January 1, 2014. About 400,000 adults were added to the program during the 2013-15 biennium, bringing the total number total number of low-income Oregonians receiving health insurance through the Oregon Health Plan to a little over one million. This expansion is entirely federally funded through 2016, and the state share of these costs will transition to 10% state/90% federal in 2020. (Federal funding shares are 95% for 2017, 94% for 2018, 93% for 2019, and 90% for 2020.) The total cost of the expansion population during the 2015-17 biennium is estimated to be $4.8 billion, while the state cost is expected to be roughly $63 million.

Even as the ACA rolls out, there continues to be concern that the federal government will not live up to these matching revenue expectations. In addition, there are on-going concerns that CMS may eventually phase out the provider tax option that has allowed Oregon to match billions of federal dollars.

<u>Legislatively Adopted Budget</u>
The 2015-17 legislatively adopted budget for Medical Assistance Programs is $13.7 billion total funds. This is $2 billion, or 17.6%, higher than the 2013-15 legislatively approved budget. This increase is primarily the result of the continuation of the Affordable Care Act expansion of health coverage under Medicaid to all persons under 138% of the federal poverty level. Over 400,000 additional low-income Oregonians have health care coverage through the Oregon Health Plan since the expansion. Services for most of these new clients are currently being paid for with 100% federal funds. The state will pay 5% of those costs starting January 1, 2017, for the last six months of the biennium. General Fund of $1.1 billion in the adopted budget is $110 million, or 11%, higher than the 2013-15 approved budget.

Health care costs in the Oregon Health Plan continue to be capped at an increase of 3.4% per person per year, consistent with Oregon's current federal waiver. Those increases are fully funded in this budget. The budget includes the continuation of the current hospital assessment, which was scheduled to sunset in September 2015, but will now continue through September 2019 (HB 2395). These assessment revenues are used to support the Oregon Health Plan. The rate includes a 1% assessment, to create the Hospital Transformation Pool, splitting the revenues in the pool between the hospitals based on their achievement of performance metrics, and coordinated care organizations based on recommendations from the OHA metrics and scoring committee. The total assessment for the biennium is expected to raise over $900 million Other Fund revenues and result in additional federal matching revenues of $2.4 billion. The 2015-17 budget also includes $145 million of hospital assessment revenues that are expected to be left at the end of the 2013-15 biennium and will be carried forward for the 2015-17 biennium.

The budget includes $101.8 million in Tobacco Master Settlement Agreement resources for OHP, which is a decrease of $22.2 million from the current service level. This is a result of a reduction in total resources expected in 2015-17, as well as transfers of these revenues to community mental health programs, tobacco prevention and cessation programs, and physical education programs.

Two smaller programs that were previously in the Medical Assistance Programs budget have been transferred to other programs. The CAREAssist program, with a 2015-17 total funds budget of $72.9 million, was transferred to Public Health. This is a program that helps people living with HIV or AIDS pay for medical care expenses by paying for insurance premiums and prescription/medical services co-pays. The Oregon Prescription Drug Program, which provides pharmacy services for OEBB, uninsured Oregonians, and participates in a consortium of Northwest insurers, was moved to OEBB.

Caseload forecasts were updated to the spring 2015 forecast. Because of the continuing transition of the Oregon Health Plan caseload, there continues to be an increased risk of caseload forecast changes. Partially because of this, a special purpose appropriation of $40 million was made to the Emergency Board for caseload costs or other budget challenges in either OHA or the Department of Human Services.

Other budget actions include the following:

- An increase of $3.9 million General Fund and $30 million Federal Funds will provide for the partial restoration of dental services for clients on OHP. This will cover crowns for adults, dentures when dentally appropriate and replacement every ten years, and partial dentures with replacement every five years.
- Funding of $10 million General Fund will provide grants to safety net providers, through the Safety Net Capacity Grant Program, on a one-time basis for the 2015-17 biennium. This program will provide grants to community health centers, including Federally Qualified Health Centers and Rural Health centers, as well as School-Based Health Centers, with the goal of providing services for children not eligible for any current state program.
- An increase of $12.4 million General Fund and $80.1 million totals funds will fund the Modified Adjusted Gross Income (MAGI) Project, to develop a Medicaid eligibility system in Oregon. Of this General Fund total, about $3.7 million is related to completing the information technology transfer from the Kentucky system to Oregon, and $8.7 million is for eligibility staff and IT costs related to continuing the current hybrid process of enrolling members and doing determinations.
- Three additional Federally Qualified Health Centers will transition over to the alternative payment methodology starting July 1, 2015, at a 2015-17 cost of $1.1 million General Fund and $4.3 million total funds. The new methodology moves payments to a prospective basis, so while total costs have not increased, funding must be available sooner.
- An increase of $1 million total funds will cover the anticipated fee-for-service costs related to Psychiatric Emergency Services. This is a new service delivery model being developed by a consortium of Portland-area hospitals, and is expected to start near the end of the 2015-17 biennium.
- One-time General Fund resources of $160,000 are provided for MAP to contract with the Dental Lifeline Network, or other qualified organization, for development and operation of a Donated Dental Services program to benefit needy, disabled, aged, and medically compromised individuals.

Public Employees' Benefit Board

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	7,553	0	0	0
Other Funds	6,618,440	1,671,049,752	1,644,093,309	1,783,578,908
Other Funds (NL)	1,186,733,112	0	0	0
Total Funds	**$1,193,359,105**	**$1,671,049,752**	**$1,644,093,309**	**$1,783,578,908**
Positions	19	20	19	22
FTE	18.50	19.50	18.50	21.50

Program Description

The Public Employees' Benefit Board (PEBB) designs, contracts for, and administers health plans, group insurance policies, and flexible spending accounts for state and university employees and their dependents. The Board provides medical and dental insurance programs representing about 135,000 Oregonians. The Board also selects and administers life and disability insurance coverage for eligible state and university employees. A major part of the Board's responsibility is developing benefit packages to meet the needs of state government and its employees, preparing benefits information for communication materials, and answering inquiries from employees and their dependents about coverage.

PEBB began to move toward self-insurance in 2006. Currently, 80% of PEBB members are enrolled in self-insured medical, dental, and vision plans. The remaining 20% are enrolled in fully-insured plans. PEBB members include active agency and university employees and their dependents; active semi-independent agency employers and their employees; early retirees and other self-pay members and their dependents; and COBRA subscribers. The program is administered by 22 staff (21.50 FTE), with actuarial services and third-party self-pay administrator services provided through contract.

Revenue Sources and Relationships

PEBB is funded entirely with Other Funds. PEBB collects premiums for all insured individuals, and then purchases insurance with those revenues. Program expenditures were administered as Nonlimited Other Funds in the budget in past biennia, but were switched to Other Funds Limited starting in 2013-15. The resources to pay for employee health insurance are budgeted in each state agency for that agency's employees. The resources may be General Fund, Lottery Funds, Other Funds, or Federal Funds. Once the resources are transferred to PEBB, they are shown as Other Funds.

For fully-insured plans, the premiums PEBB collects are passed through to the appropriate insurance carrier who carry the risk on those plans. For self-insured plans, PEBB carries the risk and must maintain a Stabilization Fund which requires a sufficient balance to cover large claims risk. That fund balance is expected to be about $376 million by the end of 2015.

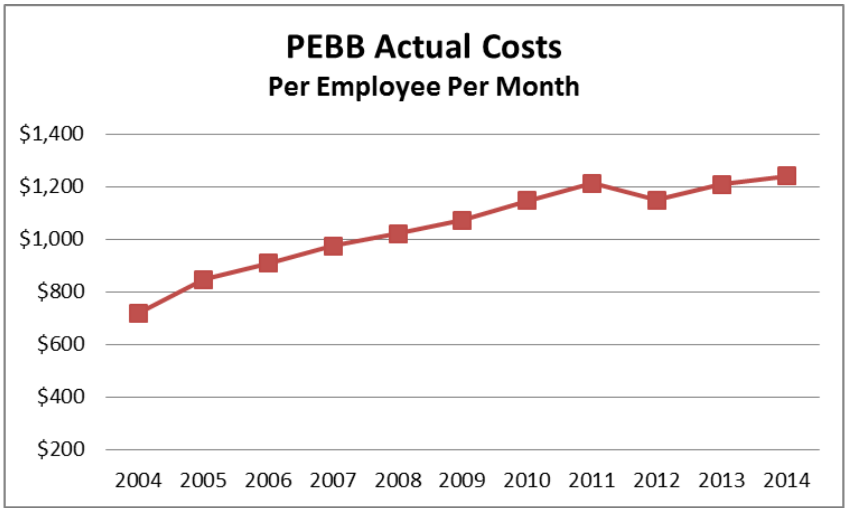
Operational costs are funded through an administrative charge (assessment) added to medical and dental insurance premiums and premium equivalents. By statute, the assessment cannot exceed 2% of monthly contributions from employees and employers. For the years 2011 through 2013, PEBB reduced the assessment from 0.6% to 0.4%, and will further reduce it to 0.37% starting in 2016. These administrative expenditures are shown as Other Funds (Limited) in the budget, and total $9.9 million for the 2015-17 biennium.

Budget Environment

Like most health care costs, PEBB's per-employee costs had been increasing 5% to 7% per year for a number of years. Causes for these cost increases are complex and include greater use of medical services by an aging population, the use of new high-cost medical technology such as pharmaceuticals or diagnostic tools, medical labor shortages, and, at least until recently, a growing uninsured population. When uninsured persons use medical care, but cannot pay for it, providers may be forced to increase their charges to clients who can pay, thereby driving up commercial and public health care costs. Further, some analysts believe that unique billing systems and extensive paperwork requirements may be responsible for as much as 25-30% of all health care costs. Solutions to health care cost problems have been proposed, but have not been easy to implement in either the private health care market or in public programs such as Medicaid or Medicare.

Both the Oregon Health Policy Board and the Public Employees' Benefit Board have been active in implementing programs to help reduce these cost trends. The Oregon Health Policy Board is currently working on coordinated care model alignment, looking for ways to utilize a model with coordinated care attributes in programs such as PEBB. Over the last few years, PEBB has implemented a number of programs that fit within this model. This includes increasing the percentage of PEBB members in patient-centered primary care homes, implementing additional cost tiers to promote value-based benefits, full coverage for preventive services, coverage for weight management and tobacco cessation programs, and implementing benefit design to reduce barriers to care for members with chronic diseases. The Board also implemented a Health Engagement Model (HEM) to promote member participation in reducing health risks and improving overall health status. In 2014 the Board conducted a full Request for Proposal process and selected carriers with the coordinated care model attributes and sustainable cost growth in mind. These new contracts were effective for the 2015 plan year.

These efforts appear to be paying off, as the most recent data show that per-employee costs in 2014 were only 2.2% higher than in 2011. However, it may be challenging to sustain these lower cost growth rates, particularly as a new generation of expensive pharmaceuticals come onto the market.



Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is $1.78 billion Other Funds, or 6.7% higher than the 2013-15 legislatively approved budget. The budget continues to cap PEBB's total core program expenditure growth at 3.4% per employee per year, consistent with the Oregon Educators Benefit Board (OEBB) and the Oregon Health Plan.

The budget includes the addition of three staff to address the additional workload of managing more plans with the recent plan contracts, and of implementing HB 2279 (2013) which allows local governments to participate in PEBB or OEBB. The administration of the gym subsidy program will also be done in-house.

A total of $120 million of the Stabilization Fund was authorized in SB 501 to be transferred to the General Fund as of May 1, 2017. Because actual costs have come in significantly below budgeted costs over the last several years, the Fund has grown larger than the Board believes is necessary for a prudent reserve. Even after the required federal penalties are paid, the Fund is expected to maintain an adequate balance through 2015-17.

Oregon Educators Benefit Board

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	9,015	0	0	0
Other Funds	9,508,012	11,692,737	11,514,734	1,557,774,757
Other Funds (NL)	1,438,904,026	1,628,294,000	1,715,787,088	0
Total Funds	**$1,448,421,053**	**$1,639,986,737**	**$1,727,301,822**	**$1,557,774,757**
Positions	25	24	22	25
FTE	22.75	24.00	22.00	25.00

Program Description

The Oregon Educators Benefit Board (OEBB) was created in 2007. The Board administers medical, dental, vision, and other benefits for Oregon's school districts, community colleges, and education service districts, and some cities, counties, and special districts. Over 147,000 participating governmental entity employees and early retirees, and their eligible dependents, are enrolled in benefit plans in 250 school districts, education service districts, community colleges, charter schools, counties, and special districts throughout Oregon. The law prohibits those entities, with certain exceptions, from offering benefit plans other than those offered by the Board. Unlike

PEBB, all plans are fully insured. OEBB has prioritized choice in plan options for employers and employees, and consequently offer a large number of different plans.

The agency has recently moved the Oregon Prescription Drug Program (OPDP) from Medical Assistance Programs to OEBB. OPDP provides pharmacy services for OEBB, uninsured Oregonians, and participates in a consortium of Northwest insurers. OPDP contracts with a commercial carrier to provide these services. OEBB's experience with commercial insurance carriers will be an asset in managing this program.

OEBB is administered by 25 staff (25.00 FTE), with actuarial services provided through contract. This includes two staff to manage OPDP.

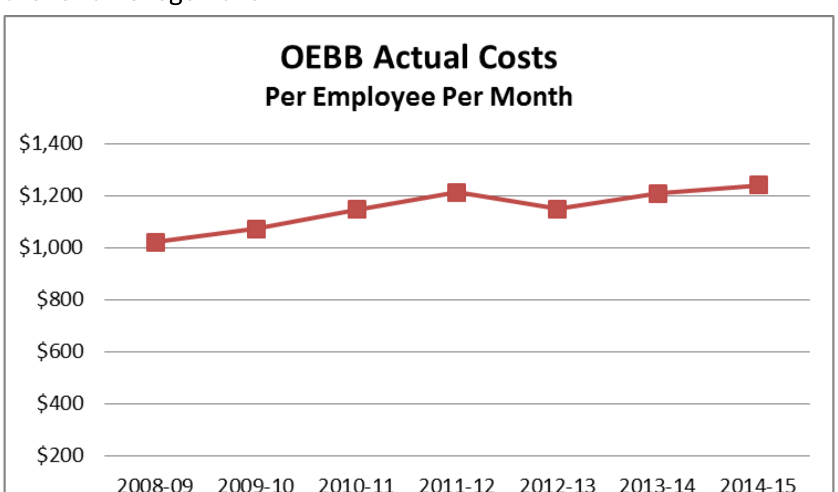
Revenue Sources and Relationships

OEBB is funded entirely with Other Funds. OEBB collects premiums for all insured individuals, and then purchases insurance with those revenues. These program expenditures were administered as Nonlimited Other Funds in past biennia, but were switched to Other Funds (Limited) in 2015-17. Operational costs are funded through an administrative charge (assessment) built into the health, dental, and vision insurance premiums. By law, the assessment cannot exceed 2% of monthly premiums. OEBB's current assessment has been increased from 0.90% to 1.00% of monthly premiums effective October 1, 2015, to cover additional wellness program options implemented recently. These administrative expenditures are shown as Other Funds (Limited) in the budget, and total $13 million for the 2015-17 biennium.

Budget Environment

Both the Oregon Health Policy Board and the Oregon Educators Benefit Board have been active in implementing programs to help reduce cost trends and improve health. The Oregon Health Policy Board is currently working on coordinated care model alignment, looking for ways to utilize a model with coordinated care attributes in programs such as OEBB. Over the last few years, OEBB has implemented a number of programs that fit within this model. This includes increasing the percentage of OEBB members in patient-centered primary care homes, implementing additional cost tiers to promote value-based benefits, full coverage for preventive services, coverage for weight management and tobacco cessation programs, and implementing benefit design to reduce barriers to care for members with chronic diseases. The Board implemented the Healthy Futures program to promote member participation in reducing health risks and improving overall health status.

As shown in the graph below, OEBB has been successful at keeping the rate of growth of average costs per employee at a low level. Partly this is attributable to members shifting to lower cost plans with higher deductibles. However, OEBB has held medical premium increases to below Oregon medical cost trends in all but one of the plan years. In 2014-15 OEBB added several new plans with lower cost, narrowed network options, as an alternative to savings achieved through higher deductibles, and in support of OHA's movement toward better managed health care for all Oregonians.



Legislatively Adopted Budget
The 2015-17 legislatively adopted budget is $1.56 billion Other Funds, or 5% lower than the 2013-15 legislatively approved budget. The reason for the decrease is that the limitation provided for the 2013-15 biennium was significantly higher than will actually be spent. The budget eliminates all Other Funds Nonlimited authority, and instead moves all expenditure limitation to Other Funds Limited. The budget also caps OEBB's total core program expenditure growth at 3.4% per employee per year, consistent with the Public Employees' Benefit Board (PEBB) and the Oregon Health Plan.

The budget includes the addition of 1 new staff position to address workload related to implementation of HB 2279 (2013) allowing cities, counties, and other municipalities to participate in OEBB or PEBB, as well as work to align OEBB with the coordinated care model. The budget also include $450,000 Other Funds expenditure limitation to continue to allow OEBB to make its online plan selection tool available to employees and allow for enhancements, following the end of the grant that funded this tool.

Addictions and Mental Health

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	669,455,397	686,397,175	782,737,248	782,731,632
Lottery Funds	10,098,261	10,592,532	10,923,154	11,292,544
Other Funds	41,513,056	63,724,126	65,399,843	106,675,754
Federal Funds	296,107,878	272,972,802	255,017,555	271,885,454
Total Funds	**$1,017,174,592**	**$1,033,686,635**	**$1,114,077,800**	**$1,172,585,384**
Positions	2,329	2,506	2,567	2,393
FTE	2,319.87	2,236.55	2,565.56	2,384.97

Program Description
The Addictions and Mental Health (AMH) budget provides prevention and treatment services for behavioral health care for Oregonians at risk of developing or who have been diagnosed with any behavioral health disorder, including drug and alcohol addiction, problem gambling, and mental illness. The goal is to deliver behavioral health care in the least restrictive and most integrated setting possible. Services are delivered through community non-profit providers, county mental health agencies, coordinated care organizations (CCOs), as well as the Oregon State Hospital. The program also includes state policy and administrative staff.

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). In the past, mental health organizations received capitation payments and managed much of the risk of providing treatment for OHP eligible persons with mental disorders. That system has mostly transitioned over to CCOs. Starting in August 2012 when the first CCOs started, global budgets included the funding for both physical health and significant portions of behavioral health treatment services. The focus has been on integrating and coordinating physical and behavioral health services. Mental health supported employment and assertive community treatment services were integrated into CCOs effective January 2013. Alcohol and drug residential services moved over effective July 1, 2013. The integration of mental health residential services has been delayed, and these services are now expected to move to CCOs effective July 1, 2017.

Historically, the Medical Assistance Programs budget has included a significant level of OHP mental health and addiction services expenditures. This increased during the 2013-15 biennium, as significant resources related to Medicaid-eligible services were transferred from AMH to MAP in the 2013-15 budget. In addition, with the Affordable Care Act expansion of Medicaid in 2014, many more adults are now covered under OHP and are eligible for addiction and mental health services. The AMH budget is focused on providing services for people that have a slightly higher income level and do not qualify for OHP (services provided through AMH are generally available up to 200% of the federal poverty level), for people that have insurance but not enough to cover the services they need, and for services that are not eligible through Medicaid, such as housing.

Addictions and Mental Health is comprised of three main programs: community mental health; addiction prevention and treatment, including alcohol and drug and problem gambling prevention and treatment; and the Oregon State Hospital (OSH). Nearly all the positions associated with this budget are state employees who work at OSH.

Community Mental Health – Mental health community services are provided through county and other local governments, private non-profit organizations, CCOs, 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 the state psychiatric hospital.

Addiction Treatment and Prevention – Like community mental health services, alcohol and drug treatment services are also offered through counties, tribes, and other local governments, CCOs, 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 – The state operates institutional facilities in Salem and Junction City for patients who have a severe mental illness. OSH provides psychiatric evaluation and diagnosis, as well as intermediate and long-term inpatient care, for individuals who are civilly committed, have been adjudicated guilty of a crime except for insanity, need to be evaluated to determine if they are fit to participate in legal proceedings, or have been found unable to participate in legal proceedings.

The old facilities in Salem have been replaced with a modern psychiatric treatment and recovery hospital. This facility was completed at the end of 2011 and has a capacity of 620 beds. A second new hospital, located in Junction City, was opened in March 2015. This facility has a total capacity of 174 beds, but only three wards, or 75 beds, were opened in March. With the opening of the Junction City facility, the Oregon State Hospital campus in Portland closed. The lease on that property ended March 2015, and all patients were transferred to either the Salem or Junction City hospital. The Blue Mountain Recovery Center in Pendleton was closed in early 2014.

AMH also operates a state-delivered, 16-bed secure residential treatment facility in Pendleton. This program treats people who need a secure level of care as their first step out of the state hospital. While this is not part of OSH, it is included in the same budget unit.

Revenue Sources and Relationships

Funding for mental health and alcohol and drug treatment programs is about 67% General Fund, 10% Other Funds and Lottery Funds, and 23% Federal Funds.

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, Medicare Part A, B, and D reimbursements, and other miscellaneous sources. Other Funds revenue also includes patient resources such as Social Security benefits and private insurance, as well as personal assets. Lottery Funds are used to fund the prevention and treatment of gambling addiction. The Gambling Addiction and Treatment Account receives 1% of net lottery proceeds.

An increase in the cigarette tax was passed during the September 2013 special session, and dedicated to funding community mental health programs. The 2015-17 budget includes about $40 million tobacco tax revenues, up from $20 million in the 2013-15 biennium. The AMH budget, for the first time, includes $16 million of revenues from the Tobacco Master Settlement Agreement. In the past, most of these revenues were dedicated to OHP. These two revenues sources account for most of the increase in Other Funds between 2013-15 and 2015-17.

Most of the federal funding comes from Title XIX Medicaid, which supports institutional care for some elderly patients and community mental health services. This is funding related to the Designated State Health Program (DSHP). Medicaid requires a state match and the match rate is recalculated each year by the federal government. The program match rate is based on the economy of the state compared to the nation as a whole. The composite Medicaid match rate used in the 2015-17 budget for program expenditures is approximately 36% state funds and 64% Medicaid funds. Administrative expenditures are matched at a 50% rate.

In addition to Title XIX Medicaid funding, the federal Alcohol and Drug and Mental Health Services Block Grants provide about $53 million for adult community support services and for local services for severely emotionally disturbed children and adolescents. The budget also includes a modest amount of Temporary Assistance for Needy Families (TANF) funds. Both the federal Alcohol and Drug and Mental Health Services Block Grants have maintenance of effort (MOE) requirements.

In addition, the agency was awarded two grants from the Substance Abuse and Mental Health Services Administration (SAMHSA) for addictions treatment and prevention. The Access to Recovery (ATR) grant provides $7 million from May 2015 through April 2018, or $4.7 million for the 2015-17 biennium. Emphasis is placed on recovery support services such as peer-delivered mentoring, coaching, recovery housing, transportation, child care, care coordination, and other supports. The Strategic Prevention Framework-Partnership for Success (SPF-PFS) grant is for the time period September 2014 through September 2019 and provides $4 million federal funds during the 2015-17 biennium. This grant addresses underage and high risk drinking and prescription drug misuse and abuse for ages 12-25.

Budget Environment

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 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.

Over the last 50 years, mental health services have become less institutional and centralized and more community-based. The continued development of community residential capacity and 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.

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 (July 2015) population of about 600 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. 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 maintains an appropriate continuum of care.

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,* which resulted in the discharge of 31 patients at OSH who were ready to enter the community and development of 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, often referred to as "Aid and Assist" patients, within seven days of the finding. This continues to pose significant budget challenges. More recently, a March 2006 settlement agreement in the lawsuit *Harmon v. Fickle* required OSH to achieve higher staffing ratios to improve patient care.

The replacement of the old state hospital involved a long process of study and assessment, beginning in the 2003-05 biennium. 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. In 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.

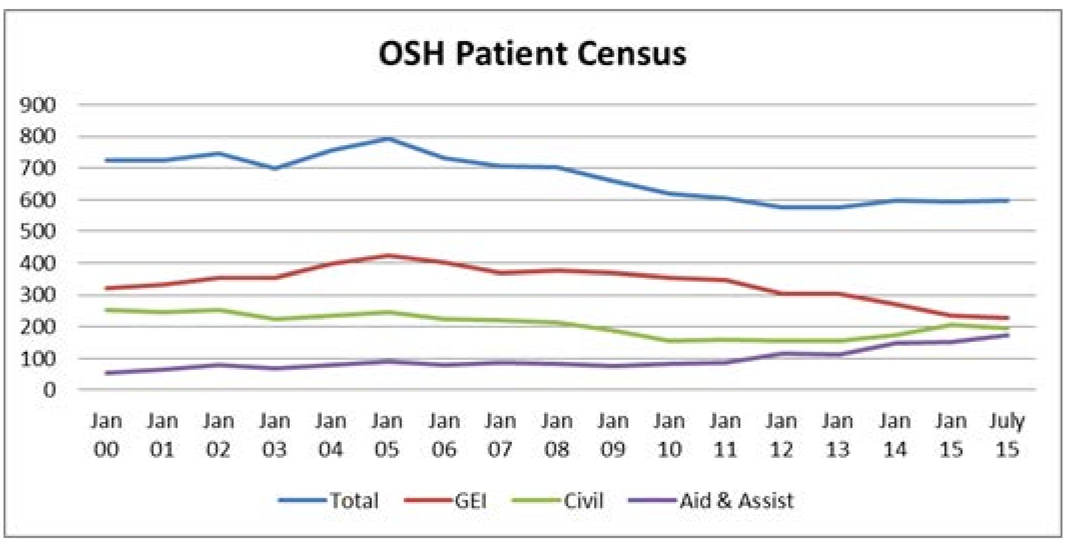
In response to the report, Governor Kulongoski and legislative leadership decided to build two new facilities – a 620 bed facility in Salem at the present OSH campus and a 360 bed unit near Junction City adjacent to a planned Department of Corrections facility. During the 2007-09 biennium, the agency completed extensive planning, and finally, in September 2008 broke ground for the new Salem hospital. Based on the amount of time that had passed since the original *Master Plan Phase II Report,* changes in the mental health system and the economy, in 2011 OHA updated the forecast of the needed hospital and community-based treatment beds for people living with mental illness in Oregon through 2030. The report concluded that the Junction City hospital would be needed, but at a smaller 174-bed size. This conclusion was based on a number of critical assumptions, including the closure of the Portland campus and Blue Mountain Recovery Center, as well as continued development of the community mental health system. That is ultimately what was constructed. The entire project, including the Salem and Junction City facilities, project management and staffing costs, and the Behavioral Health Integration Project (BHIP) electronic health record, is expected to cost slight more than $500 million.

At the same time, the agency developed 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. 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. Housing and facility development continues as part of caseload growth planning.

As a more recent backdrop to all of this, the U. S. Department of Justice (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. Many of these issues have been addressed in the new hospital, although concerns remain that patients are not always moved out of the hospital quickly enough. A critical element of that equation is the availability of adequate services in the community.

More recently, USDOJ has shifted its focus to Oregon's community mental health system. In 2011, it requested extensive documentation relating to services being provided in the least restrictive and most appropriate setting (as required by the Olmstead case). Effective November 2012, the State of Oregon and USDOJ have entered into a four year agreement for the collection and analysis of specific data and for action steps to address gaps in the state's delivery of community mental health. The agreement recognizes the work happening in Oregon to create a more coordinated health care system, including the mental health system. The goal of the agreement is to use the health system transformation process to provide people living with serious and persistent mental illness with the critical community services they need to live in the most integrated setting possible. The agreement creates a framework, timeline, and milestones for the state, CCOs, and local mental health agencies to work together.

Over the last few years, the state hospital has been able to move patients out to the community more quickly, in part because more community placements are available. Patients in OSH that have been adjudicated guilty of a crime except for insanity (GEI), or forensics patients, have declined from about 400 at any given time in the 2004 to 2009 period down to about 230 in July 2015 (see chart below). This is partly due to fewer forensics patients being admitted to the hospital, and partly due to patients being discharged more quickly. That is a significant change in a relatively short time period. At the same time, however, there has been an unanticipated increase in the numbers of Aid and Assist patients being admitted. This population has doubled, from about 85 at any given time in 2011 to about 170 currently. When the hospital is at capacity, the civil commitment population has been the balancer, sometimes resulting in patients being held in emergency rooms while they wait for a bed in OSH. Investments made in the 2015-17 budget are expected to help address these issues, as more services become available to serve Aid and Assist patients in the community, and as an additional ward is opened in Junction City to increase OSH capacity.



Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $1.17 billion total funds is $138.9 million, or 13.4%, more than the 2013-15 legislatively approved budget. Other Funds increases result from an increase in tobacco tax for community mental health programs in 2015-17, as well as the inclusion of $16 million of Tobacco Master Settlement Agreement revenues in this budget. General Fund supporting the adopted budget is $782.7 million, which is $96.3 million more than the 2013-15 budget. Much of this increase comes from roll-up costs from the prior biennium program increases, as well as 2015-17 investments in community mental health and addiction services.

Designated State Health Program (DSHP) expenditures in 2015-17 total $136 million federal funds, and is capped at $68 million per year. This includes $100.5 million in community mental health, $20 million in alcohol and drug treatment, and $15.5 million in the Oregon State Hospital. This is the last biennium for this funding.

The legislatively adopted budget includes $44 million of state resources to fund the roll-up of all on-going program investments made in community mental health programs in the 2013-15 biennium, and caseload increases and inflation included in the current service level. It also includes $8.7 million General Fund for caseload growth associated with the spring 2015 caseload forecast. The budget includes new investments of $22.2 million in community mental health treatment services. This includes approximately $7 million for crisis services, including mobile crisis services; $6.5 million for jail diversion; $7 million for supported housing (rental assistance) and peer-delivered services; and $1.5 million to expand the Oregon Psychiatric Access Line for Kids (OPAL-K). Some of these services may be provided through the Oregon Health Plan and through coordinated care organizations, in which case additional federal funding may be leveraged.

Another $6 million General Fund is included in the budget for addictions treatment and recovery support, including increased capacity for detoxification/withdrawal management, sobering facilities, and peer-delivered services, as well as fee-for-services rate increases for addiction treatment providers. Additional federal funds may also be leveraged. A number of the new investments in both community mental health and addictions are intended to reduce the number of individuals with mental illness and substance abuse disorders from entering the criminal justice system.

The 2015-17 budget includes funding to open four wards at the Junction City facility. Three wards were opened in March 2015, and the fourth is expected to open in the fall of 2015. This will increase the total bed capacity of OSH by 38 over the capacity during most of the last year. This is expected to reduce the wait list for civilly committed patients. The budget continues the closure of the neuro-geriatric unit at the Salem facility. An increase in Medicare revenues of $4 million was included in the budget, as a result of recent efforts at OSH to increase Medicare billings and to pursue Medicare certification for additional wards.

During the December 2014 meeting of the Emergency Board, the OSH budget for 2013-15 was increased in order to true-up the budget to actual expenditures. Across the board services and supplies reductions over the previous two biennia, as well as other budget reductions had proven to be unmanageable, in a budget where services and supplies represent food and pharmaceuticals for patients. The 2015-17 impact of that adjustment resulted in an increase of $23.5 million General Fund for 2015-17. The budget also includes an increase of $10 million General Fund for OSH cost allocation to ensure compliance with federal requirements.

Other budget changes include the following:

- An increase of $4.1 million General Fund will add restoration services at the community level for individuals requiring services in order to aid and assist in their own defense before they can stand trial. This is one of the agency's strategies for reducing the Aid and Assist population at OSH.
- Funding of $859,620 General Fund will support 4 positions to allow AMH to centralize regulatory responsibilities for the oversight of community mental health programs. The budget also includes $106,320 and 1 half-time position to implement HB 3230, which requires registration of community-based structured housing. The bill authorizes OHA to establish standards and review processes for these facilities, which had not been regulated in the past.
- Other Funds expenditure limitation of $2.3 million is included in anticipation of new revenues from the taxes on recreational marijuana. This revenue estimate is very uncertain, but if revenues are received they will help to fund addiction prevention and treatment services related to marijuana.

While the following do not directly affect the AMH budget, they are relevant to its programs:

- Lottery bond proceeds of $20 million for the development of housing for individuals with mental illness or addiction disorders are included in the budget for the Housing and Community Services Department.

- Lottery bond proceeds of $3 million will fund a portion of the costs to build a new sixteen-bed facility for the Secure Adolescent Inpatient Program, run by Trillium Family Services. This project will replace old, obsolete facilities at the Children's Farm Home campus near Corvallis. This program serves adolescents at the highest level of mental health acuity in the state, including children on the Oregon Health Plan, and those referred through the Oregon Youth Authority and the Juvenile Psychiatric Security Review Board. The funds will be distributed through the Department of Administrative Services.

Public Health

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	35,946,937	40,217,433	42,682,993	42,004,433
Other Funds	70,013,847	88,608,993	89,746,717	168,719,680
Other Funds (NL)	30,318,220	40,000,000	40,000,000	40,000,000
Federal Funds	219,346,075	253,022,418	250,561,052	253,303,178
Federal Funds (NL)	104,086,190	102,729,051	102,729,051	102,729,051
Total Funds	**$459,711,269**	**$524,577,895**	**$525,719,813**	**$606,756,342**
Positions	704	726	703	753
FTE	682.34	700.17	685.92	728.42

Program Description

Public Health provides a variety of services to improve and protect the health of all Oregonians. The program manages more than 100 prevention-related programs that halt the spread of disease, protect against environmental hazards, and promote healthy behaviors. Public Health programs can complement and amplify investments in health care programs, and, by focusing on prevention, they have the potential to reduce the need for costly health care services. Public health also directly helps clinical health care providers, including coordinated care organizations, adopt evidence-based best practices for the delivery of clinical preventive health services.

Oregon's public health system includes federal, state, counties, and local agencies, private organizations and other diverse partners working together to protect and promote the health of Oregonians. As the state component of the system, the OHA Public Health plays a unique leadership role. Public Health operates some programs directly. Other programs are delivered in collaboration with the 34 local health departments. Local health departments play an important role in the delivery of many public health services, with the state providing technical support and oversight.

The state Public Health program consists of three Centers, overseen by the Office of the State Public Health Director.

The ***Office of the State Public Health Director*** is responsible for strengthening the application of policy, planning, and performance measurement across the programs. The office guides the strategy, operations, scientific activities, communications, and policies of public health programs and ensures that Oregon's public health system is effective and coherent. The office also provides support and technical assistance to county health departments and oversees county health plans and funds from OHA.

The ***Center for Prevention and Health Promotion*** works to prevent disease and promote health by creating environments, policies, and systems that support wellness, such as access to healthy food, physical activity, and safe, tobacco-free environments. These programs promote health throughout the lifespan, including pregnancy, early childhood, adolescence, and adulthood. The center provides leadership in the following priority areas:

- Preventing tobacco use
- Decreasing obesity/overweight
- Preventing or reducing heart disease and stroke, and increasing survivability

- Reducing suicide
- Preventing family violence
- Supporting the coordinated care organizations
- Ensuring health in all policies
- Demonstrating excellence in epidemiology and surveillance

Programs focused on pregnancy and early childhood promote the health and well-being of pregnant women and children by providing a variety of primary preventive activities and health services. Home visiting is one of the most commonly used and effective approaches in serving families with pregnant women, newborns, and young children. The center is leading efforts to develop an integrated home visiting approach in Oregon. The center also supports the Women, Infants and Children (WIC) program. Programs focused on school-aged children, adolescents, and young adults promote oral health awareness and education, and increases access statewide. Programs also focus on teen pregnancy prevention, school-based health centers, nutrition, and adolescent mental health. Finally, programs focused on adults include chronic disease self-management and injury prevention programs including a focus on preventing falls. The center also 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 ***Center for Health Protection*** protects the health of individuals and communities through establishing, applying, and ensuring reliable compliance with regulatory and health-based standards. It monitors the health status of communities and the performance of the health care systems, and has a regulatory role in ensuring that 3,400 drinking water systems, 22,000 restaurants, 13,800 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 center includes the Emergency Medical Services and Trauma Systems program which provides regulatory oversight for emergency medical service providers and emergency medical service agencies throughout the state. The center also works with public and private entities to ensure that Oregonians have wide access to the health care they need and that these entities meet established standards. Health care facilities covered include:

- Hospitals
- Ambulatory surgical centers
- Birthing centers
- Dialysis facilities
- Home health agencies
- Hospice agencies
- In-home care agencies
- Rural health clinics
- Trauma hospital program
- Patient-centered primary care medical homes

The Oregon Medical Marijuana Program is also administered as a part of the center.

The ***Center for Public Health Practice*** supports a strong public health system by strengthening the partnership between the state and local public health departments, and by ensuring core public health functions are sustained in the areas of infectious disease prevention and control, laboratory services, and vital records.
The Health Security, Preparedness, and Response Program is a part of the office, and ensures that communities and hospitals are prepared for health and medical emergencies. The program develops and tests preparedness plans, provides training and technical assistance, and supports collaboration across communities for possible emergency incidents such as threats of terrorism, tsunamis, and other environmental hazards, or epidemics such as H1N1. The center identifies and investigates disease outbreaks, hazardous exposures, and other health threats.

The Immunization Program coordinates the purchase, management, and distribution of vaccines to prevent diseases. The center also includes a program designed to reduce illnesses and death from sexually-transmitted diseases, tuberculosis, and human immunodeficiency virus. The Oregon State Public Health Laboratory, which 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, and New Mexico. It also tests for diseases caused by viruses and other microorganisms to support outbreak investigations and public health surveillance.

A number of programs in Public Health include significant amounts of special payments out to counties or other providers of services. Special payments of $286 million are about 47% of Public Health's total funds legislatively adopted budget for 2015-17. Of this total, over 44% is paid to counties to support local public health departments in their efforts to promote public health initiatives, and most of 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 the federal poverty level. 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 that in Multnomah County, 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. Most counties supplement state and federal funding with local resources to carry out local public health activities.

Revenue Sources and Relationships

General Fund of $42.2 million is only 6.9% of the total 2015-17 legislatively adopted budget. About 2/3 of the General Fund is special payments that go to counties.

Total Other Funds of $208.7 million comprise 34.4% of the total 2015-17 budget. These Other Funds 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. In 2015-17, $57.8 million of Other Funds are related to the CAREAssist program, and the revenues come from certain drug rebates that are dedicated to this program. Other Funds revenue also includes tobacco tax receipts from the Department of Revenue that are used to support the tobacco prevention and education program (TPEP). The Nonlimited Other Funds of $40 million are rebates from manufacturers of infant formula and are used in the Women, Infants and Children (WIC) program.

Total Federal Funds of $356 million represent 58.7% of the total 2015-17 budget. Almost 60% of these resources are expended as special payments. Federal Funds that support the public health budget include Medicaid for family planning through Title XIX, as well as Title X and Oregon ContraceptiveCare (CCare). Federal grants include the Maternal and Child Health Block Grant, Immunizations, Emergency Preparedness and Response and Hospital

Preparedness, 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. Public Health also receives federal support from the Environmental Protection Agency (EPA) in administering the State Drinking Water Program (Primacy) and the EPA State Revolving Loan Fund. Overall, Public Health administers over 120 different federal grants. The Nonlimited Federal Funds of $102.7 million represent WIC food voucher expenditures.

<u>Budget Environment</u>

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.

The challenges for public health in Oregon, as in states across the country, are significant. They include shifting demographics and causes of disease, the rising burden of chronic diseases, funding challenges, and changes in the health care system. 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 (16.2%) and the 9th highest rate of syphilis, but ranked 50th 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 16th 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 Trust for America's Health ranks Oregon 39th in per capita state funding of public health, at less than half the median level for all states. 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."

While the report is old, the information is still relevant. When the report was written, General Fund expenditures for Public Health were $46.7 million (2007-09 biennium). For the 2015-17 budget, General Fund totals $42.2 million, or a 9.6% decrease since 2007-09.

During the 2013-15 biennium, Public Health created the Task Force on the Future of Public Health Services to study the regionalization and consolidation of public health services, the future of public health in Oregon, and to make recommendations for legislation. This report was finished in September 2014. The task force recommended a number of changes to modernize Oregon's public health system and focus on the need to achieve sustainable and measurable improvements in population health, continue to protect individuals from injury and disease, and be fully prepared to respond to public health threats. The recommendation was to allow local public health to have flexibility to operationalize a set framework of programs either at the individual county level or in a multi-jurisdiction setting. The report also stated that significant and sustained state funding for governmental public health system should be identified and allocated. These recommendations were adopted in HB 3100 by the 2015

Legislative Assembly. The agency will continue forward with planning and assessment activities during the 2015-17 biennium, as a first step in implementation of the new system.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget is $606.9 million total funds, which is 15.7% more than the 2013-15 legislatively approved budget level. The increase is primarily the result of the transfer of the CAREAssist program from Medical Assistance Programs to Public Health, which accounts for $4 million General Fund, $57.8 million Other Funds, and $11.1 million Federal Funds in the 2015-17 biennium. This is a program that helps people living with HIV or AIDS pay for medical care expenses by paying for insurance premiums and prescription/medical services co-pays. The adopted General Fund budget of $42.2 million is 4.8% above the 2013-15 level of $40.2 million. The growth in General Fund would have been larger, but $5 million of medical marijuana resources were used in place of General Fund.

Budget changes include the following:

- An investment of $500,000 General Fund will fund planning and assessment activities related to the implementation of HB 3100 and the modernization of public health.
- An additional $1 million General Fund will enhance emergency preparedness and response activities.
- Both CCare (family planning) and the Breast and Cervical Cancer Screening Program are fully funded for the 2015-17 biennium. The CCare budget is reduced by $1.3 million General Fund, and $1.5 million of medical marijuana revenues expected to be left over at the end of 2013-15 is removed. The final budget includes $1.65 million General Fund and $2.82 million Other Funds related to medical marijuana revenues, as well as federal matching revenues. This will fully fund its current caseload of about 3,000 enrollments per month. The budget for the Breast and Cervical Cancer Screening Program is reduced by $700,000 General Fund, which is expected to be adequate to fund the current caseload of about 225 clients per month.
- Tobacco Master Settlement Agreement resources of $4.1 million are restored for tobacco prevention and cessation programs. This is in addition to current tobacco prevention and cessation programs funded with tobacco tax revenues, which are estimated at $15.6 million in 2015-17.
- Medical marijuana excess ending balance revenues of $5 million are used in place of General Fund in the per capita distributions to local public health programs.
- Funding for the Patient Safety Commission is increased by $302,000 General Fund to support additional outreach and education activities.
- Fees are increased in the areas of drinking water services, vital records, and lead-based paint, in order to allow these programs to be maintained at current levels. Fees that were increased in the interim in the areas of radiation protection and newborn screening are ratified and will continue at those levels.
- An additional $200,000 General Fund will provide fresh Oregon-grown fruits and vegetables from farmers' markets and roadside stands to eligible low-income seniors under the Senior Farm Direct Nutrition Program. Another $100,000 is added for the same purpose for eligible individuals through the Women, Infants and Children Program.
- General Fund is increased by $600,000 for school-based health centers. This funding will provide state grants of $300,000 to three new school-based health centers that recently completed their planning processes. It will also allow the agency to provide $300,000 of funding to existing school-based health centers to bring all centers closer to parity in state funding.
- Other Funds expenditure limitation of $137,152 will allow the program to increase the staffing level for the Pesticide Analytical Response center by 1 half-time position. Funding for the position will come from the Department of Agriculture supported by an increase in pesticide product registration fees.
- HB 3400 and SB 460 are part of the package to implement Measure 91, relating to marijuana programs. These bills have significant impact on the medical marijuana program in Public Health. Other Funds expenditure limitation of $4.4 million and 24 positions (19.36 FTE) are added to the Public Health program in HB 5047, the marijuana budget bill. Revenues are expected to be generated by licensing fees for growers, processors, and dispensaries. Staffing is included to do inspections and enforcement related to grow sites, processors, and dispensaries. The budget also includes staff to manage the program, including policy, rule-making, communication, and education. Other staff will ensure the accountability of tracking and product reporting,

conduct data analysis and process improvement. OHA anticipates using the Oregon Liquor Control Commission tracking system. The agency expects to use a portion of the current ending balances for the existing medical marijuana program and dispensary program in order to start work on implementing these new responsibilities before fee revenues are received.

- Funding is added to Public Health as a result of several other substantive bills passed during the 2015 legislative session. SB 606 extends the Dental Pilot Program established in 2011, and includes $100,000 General Fund and 1 half-time position. SB 660 includes $200,000 General Fund and 1 position to expand the screening and provision of dental sealants to appropriate student populations. SB 698 includes $216,365 General Fund to establish a State School Nursing Consultant position to coordinate and collaborate with the Oregon Department of Education's school nurse specialist in providing leadership and integration in the delivery of nursing services in schools. SB 469 changes certain hospital nurse staffing requirements, and funds 3 positions (2.64 FTE) in Public Health to audit hospitals to verify compliance with the requirements of selected statutes relating to nurse staffing. SB 478 includes $87,673 General Fund and 1 part-time position to establish and maintain a list of designated high priority chemicals of concern for children's health, and that are used in children's products. This list will be included on the Public Health website.

Health Policy Programs

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	6,628,926	44,261,932	15,436,692	19,428,056
Other Funds	4,554,366	3,685,699	2,971,438	3,152,471
Federal Funds	101,868,534	87,670,492	112,336,464	114,885,423
Total Funds	**$113,051,826**	**$135,618,123**	**$130,744,594**	**$137,465,950**
Positions	126	130	126	132
FTE	85.54	122.87	112.68	125.88

<u>Program Description</u>

Health Policy Programs (HPP) includes offices that provide policy support, technical assistance, and access to health information statistics and tools to all organizations and providers participating in Oregon's health system transformation, including programs within OHA. Together these offices provide services and support focused on achieving the triple aim of better health, better care, and lower costs. Offices within HPP include:

- Office of the Chief of Health Policy – Coordinates with the Governor's Office, the Legislature, other state and federal agencies, partners and stakeholders, local government, advocacy and client groups, and the private sector to achieve the triple aim.
- Office of the Chief Medical Officer-Clinical Services Improvement – Designed to align and integrate clinical resources and policies to support the implementation of the coordinated care model through all provider and payer organizations, including OHA.
- Office for Oregon Health Policy and Research – Provides policy analysis, development, and evaluation services to support the work of the Oregon Health Policy Board, the Medicaid Advisory Council, OHA programs, and other stakeholders engaged in the design of Oregon's health system transformation.
- Office of Health Analytics – Collects and statistically analyzes utilization, quality, and financial data to evaluate OHA program performance, provide data to support health system and program planning and implementation, analyze trends across all payers and claims data, and performs actuarial analysis to support rate development and benefit design.
- Office of Health Information Technology – Responsible for providing coordination across programs, departments, and agencies in developing policies and procedures that accelerate state and federal health reform goals through implementation and integration of health information technologies, and that leverage health IT funding opportunities. This office also increases collaboration and communication among agencies and programs for planning and shared decision-making, leveraged IT purchases, and coordination of service

delivery. Three projects are currently being implemented, including the Oregon Common Credentialing Programs, a statewide Provider Directory, and a Clinical Quality Metrics Registry.

- Office of Equity and Inclusion – Promotes good health and wellness for all Oregonians by acting as a catalyst in helping to promote equitable health and human services for communities of color, Indian tribal governments, and other multicultural groups.
- OHA's Transformation Center – Promotes effective and innovative practices among Oregon's existing coordinated care organizations (CCOs), by establishing learning collaboratives, assigning innovator agents to help CCOs, providing technical assistance, and disseminating outcome and best practice information. The center also encourages the adoption of the coordinated care model of patient care among health plans and payers.

Revenue Sources and Relationships

HPP is supported by General Fund that is matched with federal Medicaid administrative funds. The match rates vary depending on the type of work being performed. The office also receives federal funds through the Children's Health Insurance Program Reauthorization Act (CHIPRA) grant, the State Innovation Model (SIM) grant, the Health Resources and Services Administration Primary Care grant, the Adult Medicaid Quality grant, and Health Information Technology for Economic and Clinical Health (HITECH) grant. Significant funding has been awarded through HITECH both in 2013-15 and in 2015-17 to support Medicaid-focused health information technology and health information exchange policies, programs, and infrastructure. These activities include incentive payments to Oregon providers and hospitals that adopt electronic health records. The 2015-17 revenues are expected to be $48 million. The SIM grant is also a large federal grant that spanned both the 2013-15 biennium ($25.5 million) and the 2015-17 biennium ($24.3 million). The State Innovation Model grant ends in September 2016.

Other Funds come from various grants such as the American Cancer Society and the Robert Wood Johnson Foundation, as well as fees and the Primary Care Provider Loan Repayment program.

Budget Environment

Part way through the 2013-15 biennium, the programs in HPP were moved out of Central Services into this separate budget unit. The 2011-13 numbers are split out for comparison purposes.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for Health Policy Programs is $137.5 million total funds, which is 1.4% more than the 2013-15 legislatively approved budget. The adopted General Fund budget of $19.4 million is 56% less than the 2013-15 level of $44.3 million. The General Fund reduction is primarily due to the $30 million one-time funding provided for investment in health care transformation in the 2013-15 biennium, but not funded in the 2015-17 biennium.

The Legislature made a number of investments in this budget:

- Funding of $634,672 General Fund and 2 positions is added for REAL+D, to design, build, and implement a tool to collect, report, and analyze data on race, ethnicity, language, and disability. There is also funding for this project in the Department of Human Services. The goal of the project is to improve the alignment of data collection and reporting outlined in HB 2134 (2013), and ultimately to better serve vulnerable and under-served client populations. It is expected that the agency will be able to utilize capabilities from the Medicaid eligibility system it is putting into place, rather than designing this project from the ground up.
- Because the federal State Innovation Model grant ends in September 2016, funding is added to the budget to continue the work of the Transformation Center and the Office of Health Policy and Research after that date. The Transformation Center budget is increased by $1 million General Fund and $1 million Federal Funds to support 13 existing positions (4.94 FTE) for nine months, as well as other contracted technical assistance. A total of $1.4 million General Fund and $1.4 million Federal Funds is added to the Office of Health Policy and Research allowing the continuation of 8 positions (3.04 FTE), for the All-Payer All-Claims data collection program, the Patient-Centered Primary Care Home Program, and support of the Health Evidence Review Commission.

- Funding is added to this program for four different projects as part of substantive legislation. HB 2828 includes $300,000 General Fund for OHA to contract with a third party to conduct a study to examine options for financing health care delivery in Oregon. HB 3396 includes $180,000 General Fund to study the effectiveness of current financial incentives offered by the state to recruit and retain qualified health care providers. SB 844 requires OHA to establish a Task Force on Medical and Public Health Research of Cannabis, to study and report on the development of a medical cannabis industry. Funding of $123,218 Other Funds expenditure limitation and 1 position (0.22 FTE) is provided in the marijuana budget bill, HB 5047. SB 900 appropriates $238,276 General Fund and 1 position (1.00 FTE) for OHA to post health care information to it website at least annually.

Private Health Partnerships

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	2,609,493	1,744,317	0	0
Other Funds	56,726,532	22,736,127	701,884	701,884
Other Funds (NL)	254,094,772	236,417,565	103,500,000	103,500,000
Federal Funds	244,150,444	116,408,573	0	0
Total Funds	**$557,581,241**	**$377,306,582**	**$104,201,884**	**$104,201,884**
Positions	91	62	0	0
FTE	80.73	15.67	0.00	0.00

Program Description

Private Health Partnerships (PHP) administered six programs that closed in the 2013-15 biennium due to the implementation of the federal Affordable Care Act (ACA) in January 2014: the Family Health Insurance Assistance Program (FHIAP), Oregon Medical Assistance Pool, Federal Medical Assistance Pool, Children's Reinsurance Pool, Healthy Kids Connect, and the Information, Education, and Outreach program. Once the ACA was implemented, Oregonians had access to health insurance in the individual insurance market, which was the main goal of these programs.

The only program remaining in the PHP budget for the 2015-17 biennium is the Oregon Transitional Reinsurance Pool program. It was adopted by the 2013 Legislative Assembly (HB 3458) as a temporary measure to help stabilize individual market premiums during the transition to "guaranteed issue" health insurance coverage required by the ACA. It does this by covering a portion of exceptionally high claims costs for roughly 2,100 high-risk Oregonians, for claims through December 2016.

Revenue Sources and Relationships

The Oregon Transitional Reinsurance Program is funded with annual assessments on all insurers for calendar years 2014, 2015, and 2016. These revenues are used primarily to pay claims costs.

Budget Environment

Clients enrolled in Healthy Kids Connect were transferred to the Oregon Health Plan by January 1, 2014. The FHIAP program also ended as of the end of December 2013, with eligible clients shifting to the Oregon Health Plan while others were able to purchase health insurance through the Exchange. The high risk pools that Oregon administered are no longer needed, since under the Affordable Care Act the clients served in these pools can no longer be denied health coverage because of a pre-existing medical condition. These phased out in 2013. It is anticipated that the PHP budget structure will end after the 2015-17 biennium.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget for Private Health Partnerships is $104.2 million total funds, which is a 72% decrease from the 2013-15 budget. General Fund in the adopted budget is eliminated, as programs were phased out.

Health Licensing Office

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	--	3,957,176	7,374,784	7,232,059
Total Funds	**--**	**$3,957,176**	**$7,374,784**	**$7,232,059**
Positions	0	35	35	34
FTE	0.00	17.50	35.00	33.28

Program Description
The Health Licensing Office (HLO) is a central licensing and regulatory office overseeing multiple health and related professions. HLO reviews and approves applicant qualifications, conducts examinations, inspects thousands of licensed facilities and independent contractors, responds to and investigates consumer complaints, and disciplines licensees who are found in violation of state requirements. In 2013-15, HLO regulated over 71,000 authorizations (practitioners, facilities, and independent contractors) among 12 boards and councils, including over 4,800 facilities.

Revenue Sources and Relationships
Other Funds revenues come from fees from applications, examinations, authorizations, authorization renewals, charges for services, and fines.

Budget Environment
This is a new office created within OHA per HB 2074 passed during the 2013 legislative session, which transferred the previous Oregon Health Licensing Agency into OHA. HLO retains the same function, purpose, and funding structure as before. Each board and council is self-sufficient and supports its own expenses within HLO's budget.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget for the Health Licensing Office is $7.2 million Other Funds. The $4 million Other Funds budget for 2013-15 represents only one year of expenditures, since the agency only became a part of OHA as of July 1, 2014.

This budget maintains current program levels, except for the addition of the Board of Certified Advanced Estheticians, established by HB 2642. The budget was increased by $386,294 Other Funds for expenditures anticipated after July 1, 2016 when the Board is established.

Central Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	11,465,747	17,727,809	12,525,964	13,436,943
Other Funds	2,209,229	2,844,213	884,815	1,278,042
Federal Funds	66,140,162	29,861,100	6,754,499	7,452,251
Total Funds	**$79,815,138**	**$50,433,122**	**$20,165,278**	**$22,167,236**
Positions	61	63	61	69
FTE	59.43	60.81	59.43	67.43

Program Description
Central Services provides the necessary leadership and business support to achieve the agency's mission, including the offices below:

- Office of the Director and Policy – Responsible for the overall leadership, policy development, and administrative oversight for the agency. This includes coordination with the Governor's Office, Legislature, other state and federal agencies, partners and stakeholders, local governments, advocacy and client groups, and the private sector.
- Office of Communication – Supports OHA's mission by providing information to employees, clients, legislators, stakeholders and interest groups, news media, targeted audiences, and the general public.
- Office of Human Resources – Develops and delivers human resource programs including recruitment and staffing, employee relations, organizational and employee development, risk management, HR information management, and regulatory compliance.
- Office of Budget, Planning, and Analysis – Provides leadership and collaboration for strategic decisions of OHA programs by providing an in-depth knowledge of OHA financial processes, federal program and fiscal policy, business line funding streams, and state budget processes.

Revenue Sources and Relationships
The 2015-17 legislatively adopted budget is about 60% General Fund, 6% Other Funds, and 34% Federal Funds. Administrative costs are allocated to the other 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 include Title XIX Medicaid administrative reimbursement, as well as 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.

Budget Environment
During the 2013-15 biennium, OHA moved a number of offices previously located in Central Services to the newly created Health Policy Programs structure. This included the Office of the Health Director, Office of Health Policy and Research, Office of Health Analytics, OHA Transformation Center, Office of Equity and Inclusion, and the Office of Health Information Technology.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $22.2 million total funds is $28.3 million less than the 2013-15 legislatively approved budget. This reduction is primarily due to moving a number of programs out of Central Services to their own budget structure, Health Policy Programs. The program is funded at current service level, with the exception of a few positions transferring from other programs during rebalance actions, as well as the realignment of positions in the Performance Excellence Program. In this case, positions that had previously been a part of the OHA/DHS shared services were transferred to Central Services and will focus on strictly OHA issues.

State Assessments and Enterprise-wide Costs

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	114,973,734	141,447,425	156,507,059	150,459,407
Other Funds	28,839,405	33,174,445	24,511,662	24,762,464
Other Funds (NL)	--	30,077,630	--	--
Federal Funds	38,590,112	55,166,020	65,108,671	61,145,579
Federal Funds (NL)	4,274,408	4,151,016	3,923,972	3,923,972
Total Funds	**$186,677,659**	**$264,016,536**	**$250,051,364**	**$240,291,422**

Program Description

State Assessments and Enterprise-wide Costs (SAEC) includes the budget for costs that affect the entire agency. This includes central government assessments and usage charges, such as the state government service charges, risk assessments, State Data Center usage charges, Secretary of State audit charges, mass transit charges, and information technology direct charges. This budget also includes all facilities costs including rent, maintenance, and utilities. In addition, the funding to pay for shared services received from both OHA and DHS is included in this budget. Beginning in 2013-15, debt service is included in this section. The debt service costs are for bond repayment related to the construction of the new Oregon State Hospital facilities in Salem and Junction City. This section does not include any staff.

Revenue Sources and Relationships

The 2015-17 legislatively adopted budget is about 63% General Fund, 10% Other Funds, and 27% Federal Funds. Debt service costs include $69.2 million General Fund, $50,000 Other Funds, and $3.9 million Federal Funds (Nonlimited). Other costs in SAEC are funded based on cost allocation statistics under a federally approved cost allocation plan. This allocation method determines distribution of expenditures to various programs in OHA, and the revenue distribution by General Fund, Other Funds, and Federal Funds.

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.

Budget Environment

Assessments and usage charges are paid to other state agencies, in particular the Department of Administrative Services, the Department of Justice, and the Secretary of State. As those budgets are adjusted by the Legislature, this budget is also adjusted to reflect those changes.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $240.3 million total funds is $23.7 million, or 9%, lower than the 2013-15 legislatively approved budget for total funds. This is the result of $30.1 million Other Funds Nonlimited that was added to the 2013-15 budget late in the biennium to reflect bond refunding and reissuance costs. This was done to take advantage of lower interest rates. Without that adjustment, there would be an increase of 2.7% between 2013-15 and 2015-17. General Fund is $150.5 million, which is 6.4% more than the 2013-15 budget level.

Budget adjustments include a reduction of $8.4 million total funds ($4.5 million General Fund) as a result of reductions to the Department of Administrative Services budget.

Shared Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	112,962,041	136,360,270	136,728,884	137,823,428
Total Funds	**112,962,041**	**$136,360,270**	**$136,728,884**	**$137,823,428**
Positions	474	468	469	482
FTE	452.82	456.49	460.51	465.18

Program Description

Shared Services includes costs associated with business functions that support both Department of Human Services (DHS) and OHA under a joint governance agreement. Shared Services supports both agencies by providing consistent and coordinated administrative services to all programs within both agencies. Funding for Shared Services, in both agencies, is based on cost allocation statistics which determines the distribution of expenditures to OHA or DHS and the revenue distribution by General Fund, Other Funds, or Federal Funds.

OHA Shared Services contains the information services budget:

- Information Security and Privacy 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 OHA and DHS and their partners meet all federal and state security regulations and contractual obligations.
- 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 throughout Oregon; and provides the information infrastructure and technical support necessary to maintain the business services such as payroll distribution, vendor payments, and personnel actions. The office is in the process of implementing a new Medicaid eligibility system, known as ONE, the OregONEligiblity system. This system is scheduled to be implemented in late 2015/early 2016.

Services that are shared with OHA, but housed within DHS include the Office of Forecasting; Office of Financial Services; Office of Human Resources; Facilities; Office of Imaging and Records Management; Office of Payment, Accuracy, and Recovery; and Internal Audit.

Revenue Sources and Relationships

Shared Services is funded entirely with Other Funds transferred from other programs through a federally approved cost allocation plan. These Other Funds reflect revenues received from both DHS and other parts of OHA for purchased services. The revenues to pay for Shared Services within the OHA budget are primarily in the State Assessments and Enterprise-wide Costs budget.

Budget Environment

The shared services model was new beginning with the 2011-13 biennium, when OHA and DHS split into two separate agencies. The shared services structure was chosen to help ensure that administrative services are provided cost-effectively without duplication of resources.

As noted above, the Shared Services 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 reduce costs elsewhere in OHA and DHS.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $137.8 million Other Funds is 1% higher than the 2013-15 legislatively approved budget. The program is funded at current service level, with the exception of an increase of $898,312 Other Funds expenditure limitation and 12 positions (3.67 FTE) to implement the new marijuana program (included in HB 5047, the budget bill for the changes in the marijuana programs).

Capital Improvements

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	679,238	699,615	699,615
Other Funds	--	--	--	699,615
Total Funds	**--**	**$679,238**	**$699,615**	**$1,399,230**

Capital Construction

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	59,900,000	79,401,530	--	--
Total Funds	**$59,900,000**	**$79,401,530**	**--**	**--**

Program Description
The capital improvements budget includes capital expenditures that are necessary to maintain the two campuses of the Oregon State Hospital. Since both campuses are newly constructed and do not require significant improvement, the 2015-17 General Fund budget is expected to be transferred to a dedicated account for the purpose of saving for capital improvement projects needed in the future as outlined in ORS 276.285. Other Funds expenditure limitation is provided in case expenditures are necessary during the biennium.

The capital construction budgets in 2011-13 and 2013-15 included expenditure limitation to continue work on the Oregon State Hospital Replacement Project, including the Salem and Junction City campuses. The project was completed in 2013-15, except for a few minor expenditures related to closing out the Junction City campus project.

Revenue Sources and Relationships
The project has been funded through bond sales, between the 2005-07 and 2013-15 biennia. The debt service on the bonds is included in the Statewide Assessments and Enterprise-wide Costs budget.

Budget Environment
The entire project cost, including the Salem and Junction City facilities, project management, and staffing costs, and the cost of the Behavioral Health Integration Project (BHIP) to develop electronic health records, is expected to be slightly over $500 million including expenditures in the biennia from 2005-07 to 2015-17. While no more bonds will be issued in 2015-17, there will be some minor expenditures related to closing out the Junction City campus project.

Legislatively Adopted Budget
There is no new capital construction budget for the 2015-17 biennium. Since capital construction expenditure limitation is good for six years, the final expenditures in 2015-17 will be made using the limitation that was authorized in 2013-15.

DEPARTMENT OF HUMAN SERVICES

Analyst: Byerly

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	2,181,831,985	2,331,938,111	2,683,265,564	2,700,922,689
Other Funds	442,634,121	525,411,809	517,398,669	500,033,526
Federal Funds	3,309,228,368	4,042,575,062	4,333,784,291	4,488,244,260
Federal Funds (NL)	2,482,546,921	2,514,345,331	2,514,345,331	2,514,345,331
Total Funds	**$8,416,241,395**	**$9,414,270,313**	**$10,048,793,855**	**$10,203,545,806**
Positions	7,427	7,635	7,712	8,038
FTE	7,319.54	7,479.14	7,619.00	7,897.81

For comparison purposes, the 2015-17 Current Service Level column values for OHA and DHS are from the 2015-17 Governor's budget; this includes adjustments resulting from the Fall 2014 caseload forecasts and so may not be consistent with other LFO tables or publications.

Overview

The Department of Human Services (DHS) supports children, families, seniors, people with physical disabilities, and individuals with intellectual/developmental disabilities by providing a range of services through 170 field offices and many community partners. The agency's mission is to help Oregonians in their own communities achieve safety, well-being, and independence through services that protect, empower, respect choice, and preserve dignity. Since the creation of the Oregon Health Authority (OHA) in 2009, when health programs (physical, public, mental) were moved out of the agency, the Department has worked to more clearly define roles for the programs it retained and to adopt organizational and budget structures supporting those roles and improving accountability.

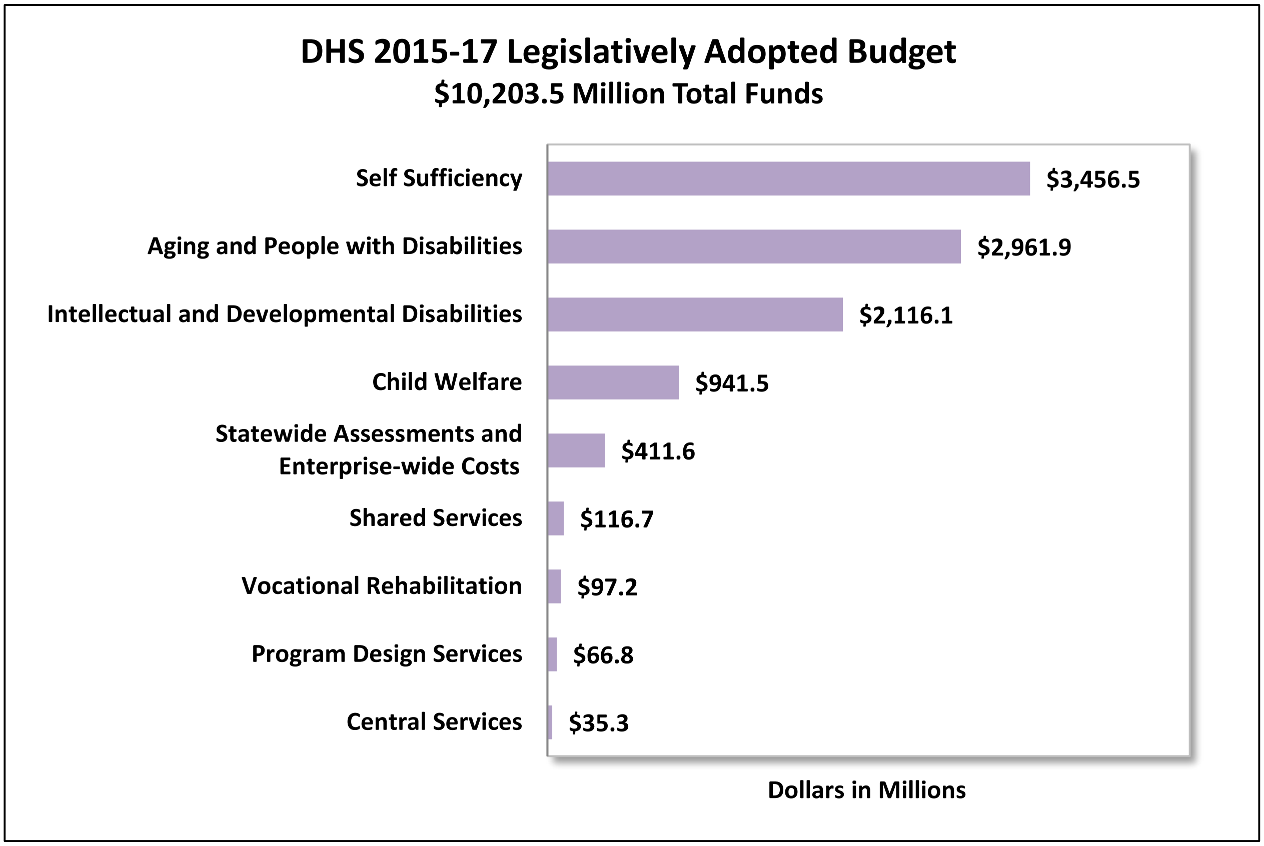
The agency's 2015-17 legislatively adopted budget reflects these ongoing efforts, including a recent change implemented during the prior biennium. In 2014, a new budget structure, Program Design Services, was created to consolidate a subset of services to DHS clients and programs that span across the Department's five major program areas. This structure is addition to the Central, Shared Services, and State Assessments and Enterprise-wide Costs budget displays capturing DHS administrative and agency-wide support services and, for some shared functions, services provided to OHA. Certain cross-program activities, such as licensing and protective services, are also consolidated into these structures.

On the program side, budget structures distinguish between five separate program budgets:

- Self Sufficiency – Assists low-income families by promoting family stability and helping them become self-supporting. Programs help clients meet basic needs, such as food and shelter, and provide job training, employment assistance, parenting supports, health care, and childcare.
- Child Welfare – Provides prevention, protection, and regulatory programs for Oregon's vulnerable children. This includes programs that provide safe and temporary or, if necessary, permanent families for children that have been abused or neglected through child protective services, in-home services, out-of-home services, and adoptions.
- Vocational Rehabilitation – Works with businesses, schools, and community programs to assist youth and adults with disabilities other than blindness to obtain, maintain, or advance in employment.
- Aging and People with Disabilities – Provides long-term care and other services to seniors and people with physical disabilities. Clients receive services in their own homes, in community-based care settings, and in nursing facilities.
- Intellectual and Developmental Disabilities – Serves children, adults, and families affected by intellectual and developmental disabilities. Program services include in-home family support, intensive in-home supports, and out-of-home, 24-hour services delivered by foster or residential care providers.

At the 2015-17 legislatively adopted budget level, DHS has the second largest budget of any state agency, after OHA. DHS makes up about 15% of the statewide General Fund and total funds budgets.

The following chart shows how the agency's $10,203.5 million total funds 2015-17 legislatively adopted budget is allocated across programs and budget structures.



<u>Revenue Sources and Relationships</u>

For the 2015-17 biennium, the General Fund supports 26.5% of DHS' budget. Almost all of the General Fund is used as match or to meet state maintenance of effort (MOE) requirements to receive Federal Funds. The overall General Fund share of DHS' budget is slightly higher than it was in the 2013-15 biennium and includes General Fund added to offset 2013-15 one-time non-General Fund revenues, General Fund savings from one-time revenues assumed in the 2015-17 biennium, and ongoing or new General Fund investments.

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. Federal Child Care and Development Fund moneys are received from the Department of Education (Office of Child Care – Early Learning Division) and used as Other Funds in this budget for Employment Related Day Care (ERDC).

Federal Funds support 68.6% of DHS expenditures for the 2015-17 biennium. The largest single Federal Funds source is the Supplemental Nutrition Assistance Program (SNAP, previously known as food stamps), which makes up 24.6% of DHS' total budget; these 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).

Several of the agency's federal funding streams have been subject to federal sequestration in the past and could be affected in the future if across-the-board cuts are triggered; currently sequester spending level caps are scheduled to return in federal fiscal year 2016 but could be mitigated by other federal actions. In prior biennia, some lost revenues were backfilled with General Fund to maintain programs; this was addressed on a program by program and a case by case basis.

Budget Environment

DHS operates within a complex and dynamic budget environment primarily due to the broad range of Oregonians it serves and its multiple funding sources. Oregon's economy, demographics, federal law and funding levels, and state human services policy all affect demand for DHS' services and influence its budget.

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. Economic effects are felt most strongly in safety net programs such as TANF and SNAP, but can also help create family circumstances that drive other needs served by the agency, such as interventions to keep children safe or in-home care services.

Demographics have a long-term impact, most notably for services to seniors. As the number of Oregonians aged 65 and up 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.

With federal dollars supporting more than two-thirds of DHS' budget, federal law and funding levels can give the state more or less capacity to meet the needs of Oregonians. DHS must adjust its budget on an ongoing basis for changes in the Federal Medical Assistance Percentage (FMAP) match rate, which determines the state's share of Medicaid program costs. More broadly, all federal revenue is directly tied to federal law and regulations. DHS' long-term care program for seniors and people with disabilities, for example, is governed by waivers of certain federal Medicaid regulations. Proposed program changes must be approved by the Centers for Medicare and Medicaid Services (CMS) before being implemented.

In many programs, such as TANF, the federal government establishes 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 also have state Maintenance of Effort (MOE) funding requirements, which prevent states from reducing state program funding below identified levels without risking penalties. For example, in exchange for the $166.8 million for the annual federal TANF block grant, Oregon must meet both MOE requirements and client work participation rate requirements. The MOE requirement means non-federal support from the General Fund or other state resources must be at least $91.6 million per year (75% of the state contribution in the 1994 base year) unless JOBS participation has not been met at which point 80% is required. Oregon currently requires 80% or $97.7 million in MOE per year.

Dependence on federal funding also leaves agency programs vulnerable when there is uncertainty at the federal level with respect to either funding amounts or program requirements. For example, sequestration (automatic spending cuts) has affected some DHS programs; most large programs – SNAP, Medicaid, TANF – have been exempt from sequester. But many smaller and often discretionary grant programs in Child Welfare, Self Sufficiency, and Vocational Rehabilitation have seen funding reduced under sequester.

Uncertainty and unknown costs tied to program requirements may be driven by potential reauthorization of federal laws governing those programs or a reinterpretation or clarification under federal rules. A renewed program may include changes, for example, in eligibility or authorized spending, that increase workload or restrict program availability. Timing for changes frequently does not mesh well with state legislative or budget development timelines, leaving financial or other risks unquantified and difficult to address in the budget.

The Office of Forecasting, Research, and Analysis (OFRA), which is a shared service of DHS and OHA housed in DHS, issues client caseload forecast semiannually (spring and fall) for the major DHS program areas. OFRA staff use a combination of time-series techniques, deterministic models, and information from program experts to produce each forecast. Monthly reports track accuracy by comparing forecast caseloads with actual caseload counts. This information is used to develop program budgets, to monitor budget versus actual expenditures, and to make management decisions. The 2015-17 legislatively adopted budget is based on the spring 2015 forecast, which was issued in May 2015.

The agency's service delivery system relies on both state staff and contracted community partners for child care, foster care, residential treatment, long-term care, and other services. Approximately 80% of the DHS budget will be spent directly on provider services and in direct payments to clients. The application of inflationary, cost of living, or other adjustments to provider reimbursement rates vary by program but most do not have a formal review cycle or consistent pricing methodology. Typically, the rates are reviewed in response to federal actions, stakeholder concerns, or when access to services becomes an issue. A recent legislative concern tied to rates has been on how those rates translate into direct care worker wages.

About 16% of the budget pays for DHS employees who directly serve clients in communities across Oregon; only 2% of the budget pays for staff supporting policy development, training, and operational functions within the agency. For most programs, the agency uses a model to determine the number of direct service staff and supervisors that are needed to serve agency clients. Over the past several years, DHS has contracted for staffing studies to review current workload and staffing needs. 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. For most programs, DHS has moved to these new models. Due to budget constraints, these models are frequently funded at less than 100% but the funded percentage of the model is used as a target or reference point. To manage caseloads within budget, DHS continues to refine its workload models, leverage process improvements, and seek technology solutions.

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. As an 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 intellectual and developmental disabilities, stay at home rather than be moved to out of home care. More recently many of these services have moved under the K Plan, which is a Medicaid state plan option authorized under the Affordable Care Act. The TANF program is in part a family safety program, using cash assistance and other services to help stabilize families. Child welfare is focusing more on in-home services, where appropriate, instead of foster care. Prevention and early intervention have been clear policy choices. The dilemma comes when available funding is not enough to support earlier, less-costly services as well as more intensive, often more expensive services to meet emergent needs while also addressing changing caseloads.

When budget reductions are needed, options in human services programs focus on client eligibility, benefit levels, and staffing and service delivery costs. In some programs, such as Medicaid, the agency has limited flexibility in determining eligibility and providing services. Benefit levels in some programs are direct payments to individuals; in others they reflect reimbursements to 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 for consideration. The agency 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.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Department is $2.7 billion General Fund and $10.2 billion total funds. This is 15.8% General Fund and 8.4% total funds more than the 2013-15 legislatively approved budget of $2.3 billion General Fund and $9.4 billion total funds. The 8,038 positions (7,897.81 FTE) authorized for 2015-17 reflect a 5.3% increase (403 positions) from the 2013-15 biennium.

The legislatively adopted budget attempts to address the agency's most significant budget and cost drivers, which include caseload growth, cost per case, continuation or roll up of prior biennium investments or policy choices, loss of one-time non-General Fund revenues, and new spending.

To support the prioritization of finite resources, the adopted budget includes two strategies initially proposed in the Governor's budget. The first removes standard inflation on base expenditures and the second applies a 3% across-the-board vacancy factor. These actions provide $47.9 million General Fund to help balance the overall budget but will require careful management of spending and positions. Other key General Fund budget elements include:

- Uses $30 million General Fund from TANF caseload savings to maintain TANF programs and staffing while addressing program changes under HB 3535 (2015). These include expanding contracts for pre-TANF services, raising the monthly income level for TANF exit from $616 to $1,012, reducing Employment Related Day Care (ERDC) program co-pays and providing limited transition payments while exiting TANF, and increasing flexibility in issuing support services to prevent TANF entry.
- For the ERDC program, adds $45 million General Fund to support program changes required under federal law and reflected in HB 2015 (2015), increases provider rates, and allows approximately 800 more families to participate. Program modifications include protecting eligibility for children for 12 months, allowing working student parents and self-employed parents to access ERDC, and moving exit eligibility from 185% to 250% of the Federal Poverty Level.
- Continues support for 2013-15 Child Welfare program enhancements, which include increased staffing and expansion of Differential Response and Strengthening, Reunifying, and Preserving Families efforts.
- To cover initial costs associated with implementing new U.S. Department of Labor Fair Labor Standards Act rules affecting home care and personal support workers, the budget includes $18 million General Fund.
- Contains $24.5 million General Fund to continue funding investments made in senior programs during the 2013 special session.
- To build on previous Employment First efforts, $4.4 million General Fund is added to improve employment outcomes for Intellectual and Developmental Disabilities (I/DD) clients in the workplace and to continue helping providers transform services.
- The Stabilization and Crisis Unit (SACU) program is expanded, at a cost of $5.7 million General Fund, by 127 positions to address safety and staffing concerns.

More detail on the DHS budget is presented through the following narratives for programs or functional areas: Self Sufficiency, Child Welfare, Vocational Rehabilitation, Aging and People with Disabilities, Intellectual and Developmental Disabilities, Program Design Services, Central Services, Shared Services, and Statewide Assessments and Enterprise-wide Costs.

Self Sufficiency Programs

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	393,507,702	339,500,597	416,130,061	404,569,001
Other Funds	116,637,598	136,863,602	126,405,396	100,138,332
Federal Funds	301,877,938	466,464,698	404,188,935	437,409,828
Federal Funds (NL)	2,482,546,921	2,514,345,331	2,514,345,331	2,514,345,331
Total Funds	**$3,294,570,159**	**$3,457,174,228**	**$3,461,069,723**	**$3,456,462,492**
Positions	2,045	2,001	2,018	2,039
FTE	2,027.15	1,981.99	2,008.97	2,029.49

Program Description

Self Sufficiency Programs (SSP) 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) – Federally funded benefit program to help low-income families, single adults, and childless couples buy the food they need to stay healthy. In July 2015, 757,824 people – about 1 in 5 Oregonians – received SNAP benefits worth over $95 million for the month. The benefit costs are included in the Self Sufficiency budget as Nonlimited Federal Funds; eligibility determination staff costs are part of the budget as limited expenditures.
- Temporary Assistance to Needy Families (TANF) – Provides cash assistance grants, which, when coupled with SNAP benefits, supply basic supports for families with children under the age of 19 that meet eligibility criteria. In June 2015, a total of 26,776 single- and two-parent families received TANF cash assistance. Income qualification and benefit amounts are based on family size and expenses. Program changes approved in HB 3535 (2015) include modifying pre- and post-TANF services, raising the income level for TANF exit from $616 to $1,012, reducing ERDC co-pays, providing limited transition payments while exiting TANF, and increasing flexibility in issuing support services to prevent TANF entry. TANF also provides Job Opportunity and Basic Skills (JOBS) services, which include education, training, job placement, and support services. Other program services include 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) – Designed to help parents stay employed by subsidizing child care services for low-income working families. Clients make a co-payment based on income and household size, and the state subsidizes the remaining costs up to the DHS maximum rate. In June 2015, 7,509 families received ERDC subsidies for 14,195 children in day care. In 2015-17, program changes consistent with federal law and reflected in HB 2015 (2015) will protect eligibility for children for 12 months; allow working student parents and self-employed parents to access ERDC; and move program exit eligibility from 185% to 250% of the Federal Poverty Level.
- 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.
- Youth Services – Supports 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.

SSP administers these programs through coordination and collaboration with families and individuals as well as community partners, and through direct services provided by state staff. Field staff provide program services and benefits to clients through more than 100 field and branch offices throughout the state.

Revenue Sources and Relationships

For the 2015-17 biennium, General Fund supports 11.7% of this budget, Other Funds, 2.9%, and Federal Funds, 85.4%. The General Fund share is 19.2% higher than 2013-15 proportion partially due to the backfill of one-time non-General Fund revenues used in 2013-15. The 2015-17 adopted budget also includes one-time resources: $10 million in TANF carryover and $24 million in TANF contingency funds. Since the federal TANF law continues to be up for reauthorization or extension, it is possible that the provision regarding contingency funds could change during the 2015-17 biennium, so there is some risk assumed in the use of these funds.

The major source of Other Funds is $97.1 million in federal Child Care Development Fund (CCDF) dollars transferred from the Department of Education for ERDC. The transfer is $11.1 million lower than in 2013-15 due to the absence of one-time carryforward dollars; these were replaced with General Fund. The budget also includes child support recoveries and client trust account funds from client resources, such as federal Supplemental Security Income disability payments. Overpayment recovery revenues are also used in offset and preserve General Fund.

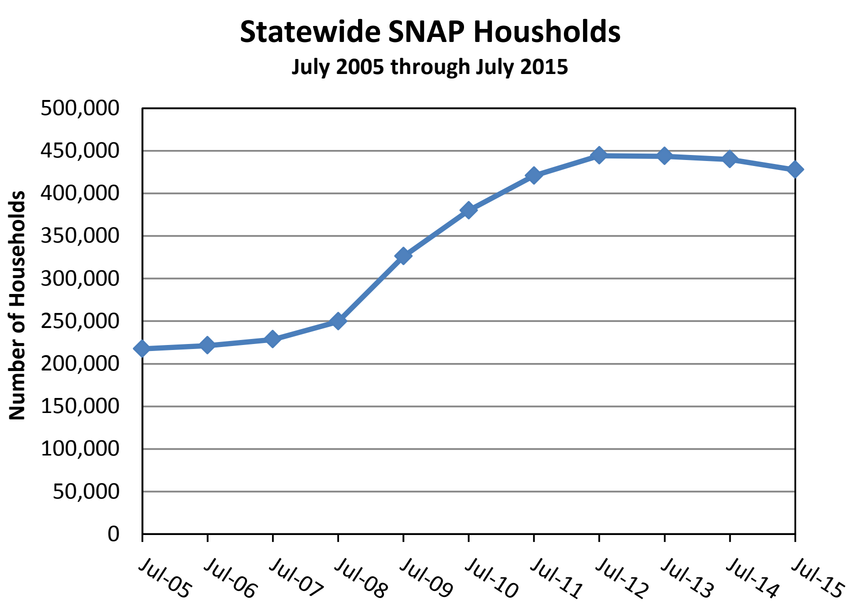
Nonlimited SNAP benefits are the single largest source and use of Federal Funds in SSP. SNAP benefits are projected at $2.5 billion for the 2015-17 biennium. SNAP caseloads are still far above pre-recession levels but are expected to decline over the biennium. Federal dollars also help pay for program administrative costs.

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.

Budget Environment

Demand for many SSP services increase in poor economic times as demonstrated by significant increases in caseloads for SNAP benefits and TANF cash assistance during the most recent recession. Federal funds supporting TANF and child care programs are capped; TANF program cash benefits and employment services are funded primarily with the capped TANF block grant. The block grant does not increase based on higher caseload demands or costs, so the state is faced with adding state funds or decreasing services when costs exceed the available federal funding. Similarly, the federal CCDF that supports ERDC is a capped federal grant. Oregon historically uses TANF funds or General Fund to cover program costs above the available level of CCDF funding.

SNAP benefits make up over half of the SSP budget. The benefits are Nonlimited Federal Funds expenditures without a direct General Fund cost, but staffing to determine and monitor eligibility for the program is a 50% state/50% federal cost. The SNAP caseload grew dramatically between 2008 and 2012 as a result of both Oregon's economic conditions and program outreach to encourage eligible individuals and families, especially the elderly, to apply for the assistance. The chart below displays recent caseload history for the program:



Caseloads grew from 217,510 households in July 2005 to 427,538 households in July 2015; the volume virtually doubled during the last decade. While SNAP caseloads have declined since they peaked in 2012 and are expected to continue dropping in 2015-17, they are not forecasted to return to pre-recession levels. General population growth and SNAP clients working in low paying and frequently part-time jobs will add or keep more individuals on the caseload. Embedded in the overall decline is an increase in senior participation, which DHS expects will continue to grow along with Oregon's aging population.

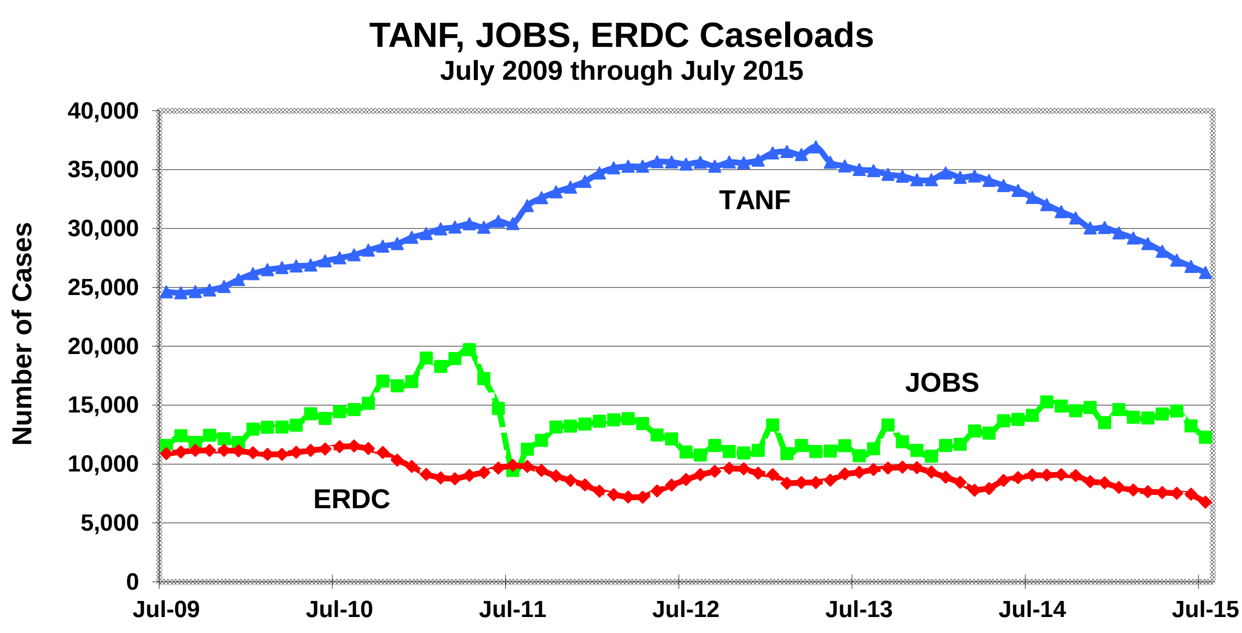
While federal SNAP funding has not been capped, efforts at the federal level to reduce spending or change policy could impact the program. For example, while no action has been taken, some members of Congress would like to eliminate categorical eligibility under SNAP. Oregon uses this eligibility pathway, which allows states to simplify and streamline eligibility determination processes for multiple state and federal assistance programs by aligning the programs' eligibility rules. Eliminating this option would mean that some current recipients would lose benefits and DHS would need to redetermine eligibility for SNAP, incurring additional administrative costs.

With federal TANF program reauthorization in 2006, Oregon restructured its program in an attempt to both meet federal requirements and achieve better outcomes for the very low-income families with children who receive TANF services. In 2007, the Legislature passed HB 2469 and added funding to implement the restructured program. Initial reports after changes were put into practice showed higher work participation rates and improved employment outcomes. However, as the economy weakened during the recession, cash assistance caseloads increased and services funded under the modified program were diluted due to budget constraints.

After peaking in 2013, TANF caseloads started to decline, which meant that approximately $42 million General Fund for caseloads built into the 2013-15 budget would not need to carry forward into 2015-17. The Legislature used that funding to reinvest in TANF and enhance the ERDC program.

Frequently, clients face barriers to employment such as drug and alcohol problems, lack of reliable transportation or affordable child care, or a work disability such as mental illness. Timely access to treatment programs and support services is critical to address these problems and move clients off cash assistance. Many of these needed services are funded in DHS or by other government programs.

The chart below shows recent caseload history in the TANF, JOBS, and ERDC programs.



For the 2015-17 biennium, TANF caseloads are projected to average 28,050 a month, down 12.9% from the 32,212 monthly average in 2013-15. Caseloads in both the JOBS and ERDC programs fluctuate but generally align with historical spending patterns.

Along with a MOE requirement, the TANF program also has client work participation rate requirements. If Oregon fails to meet the work participation rate – states must reach 50% work participation for most families and 90% for two-parent families – the MOE requirement increases from 75% to 80%. Oregon's MOE has come from several agencies, including the Department of Human Services, Employment Department, and the Department of Education. Budget decisions on General Fund appropriations in these agencies can affect the state's ability to meet TANF MOE requirements. In recent years, Oregon has also counted the refundable Working Family Child Care tax credit towards its MOE. Oregon has been able to meet MOE funding requirements, but it has not been able to meet federal work participation rates, and faces potential penalties for federal fiscal years 2007, 2008, and 2009.

Legislatively Adopted Budget

SSP's 2015-17 legislatively adopted budget is $404.6 million General Fund and $3,456.5 million total funds, with 2,039 positions (2,029.49 FTE). While the overall budget essentially continues the 2013-15 funding level, the General Fund is 19.2% higher than the 2013-15 legislatively approved budget; this is driven by the backfill of one-time non-General Fund revenues used in 2013-15 and program enhancements. Nonlimited Federal Funds for SNAP benefits make up more than 70% of SSP's total budget.

The legislatively adopted budget maintains the TANF Basic and Unemployed Two-Parent programs – including the current 60-month time limit – and most other related services. In addition, the budget for TANF contains a reinvestment of $30 million General Fund, which supports TANF redesign efforts and implementation of program changes approved in HB 3535 (2015). The investment includes 17 new positions (17.00 FTE) to focus on redesign and preserves 1,195 positions (1,189.08 FTE) that were at risk because of empty expenditure limitation. This problem was an outstanding artifact of the DHS/OHA split; one-time Other Funds and resources to pay for health program eligibility activities were not resolved during the transition. Overall, Self Sufficiency staffing is maintained at 75.8% of the workload model.

The reinvestment plan also provides funding to raise the income limits for clients exiting TANF, reduces the ERDC co-pay for three months while exiting TANF, provides transition payments to families who are exiting TANF, eliminates deprivation as an eligibility requirement, expands the caretaker relative definition, expands contracts for pre and post TANF services, increases flexibility in issuing support services to prevent TANF entry, provides training required to implement changes, maintains the workload model and expands intensive client services, supports evaluation strategies and data analytics, improves EBT card security by adding names on replacement cards (HB 2392), and accesses lottery prizes for overpayment recovery (HB 2393).

The budget contains a $45 million General Fund appropriation for the ERDC program to bring child care provider rates up to the 75th percentile of the market study, allows between 700 and 800 more families to participate in the program, and implements changes required in HB 2015 (2015). Other supported program changes include protecting eligibility for 12 months, allowing working student parents to access ERDC, allowing self-employed parents to access ERDC, lowering co-pay for using higher quality providers, giving incentives to high quality providers caring for subsidy children, funding program infrastructure and system costs, and changing ERDC exit eligibility from 185% to 250% of the Federal Poverty Level. While the overall caseload is projected to average just over 8,000 per month, program capacity will likely vary in part due to actual cost per case; among other factors this is influenced by caseload composition and costs associated with collective bargaining.

The budget transfers in food-related programs from the Oregon Housing and Community Services Department, adding $1.8 million General Fund and $1.8 million Federal Funds. The Oregon Food Bank will receive $850,000 General Fund to further augment those food programs. To support the Hunger Task Force, $150,000 General Fund is provided to the agency; HB 2442 (2015) designates DHS as the entity for administering the state policy on hunger and also requires the agency to support and staff the task force. The task force is charged with advocating for hungry persons, and contributing to the implementation and operation of activities and programs designed to alleviate or eradicate hunger in Oregon.

To provide and test targeted community college career pathway training opportunities for TANF and ERDC clients, $500,000 General Fund is included for a one-time pilot project in Jackson and Josephine counties. Eligible clients will be enrolled in training programs that match up with in-demand, high wage job openings, such as in the healthcare or information technology areas. Clients will receive a scholarship/stipend to help augment Pell grants, with average awards expected to be about $2,000 per client; about 150 clients are estimated to participate in the program over the biennium.

With $1 million General Fund, the budget continues and expands upon a 2013-15 investment in the statewide 211 system. Along with the vacancy factor and inflation adjustments noted in the agency-wide narrative, the budget includes an adjustment to eliminate empty expenditure limitation.

Child Welfare

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	281,301,656	429,106,967	482,435,080	470,458,889
Other Funds	26,650,855	23,042,429	23,432,630	22,837,863
Federal Funds	419,325,752	465,621,415	458,049,022	448,219,252
Total Funds	**$727,278,263**	**$917,770,811**	**$963,916,732**	**$941,516,004**
Positions	2,254	2,481	2,521	2,599
FTE	2,207.35	2,402.82	2,470.34	2,551.05

Program Description

Child Welfare (CW) programs work to assure the safety of children and provide services to their families, including responding to reports of child abuse or neglect, providing in-home supports or out-of-home care when necessary, and arranging adoption or guardianship services and supports. The children served are dependent, neglected, abused, mentally or physically disabled, and/or placed in the state's legal custody.

- Child Safety Services – Assesses reported child abuse or neglect and, if needed, prepares and implements safety plans for children, including case management or contracted services for families. Services may include substance abuse treatment, domestic violence and sexual abuse services, in-home safety and reunification services, and System of Care flexible funding. The Strengthening, Preserving and Reunifying Families (SPRF) program delivers community based programs and services for children and families involved in the child welfare system. Under Differential Response, caseworkers conduct a safety assessment, the family participates in a needs and strengths assessment, and alternative services may be offered.
- Substitute Care, or 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 "special rates" 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 state's custody. For older youth, independent living services help with the transition out of the foster care system.
- Adoptions Program – Provides adoption and guardianship services to help achieve permanent living placements for children in the child welfare system who cannot return home, including subsidy payments to help remove financial barriers to adoption or guardianship for special needs children.

Revenue Sources and Relationships

For the 2015-17 biennium, General Fund and Federal Funds each support about one-half of the budget; Other Funds covers less than 3%. 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 and is estimated at about $254 million for 2015-17. Overall, federal reimbursement for the programs varies with federal match rate changes, the number of children served, and eligibility of the services provided. For 2015-17, Oregon's base Federal Medical Assistance Percentage (FMAP) is estimated at 64.2%; at this rate, Oregon pays 35.8% of eligible program costs for those children eligible for Title IV-E funding. Most administrative functions are paid only on a 50% state/50% federal share.

Under SB 964 (2011) DHS received legislative direction to pursue a new or revised IV-E waiver demonstration project to support ongoing development and sustainability of community based services for families and children. The agency received approval for a new Title IV-E foster care capped allocation waiver and is in the implementation process.

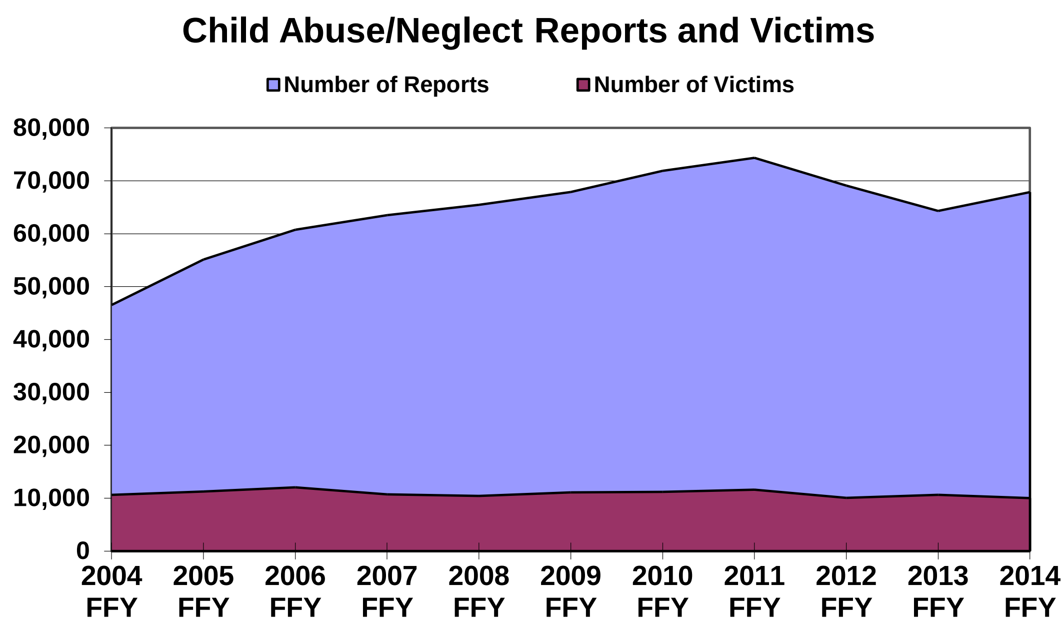
About $17 million in federal dollars come through Title IV-B formula grants, which support basic child welfare services and family preservation and support activities. The latter includes family reunification and post-adoption services. Child Welfare will also transfer about $12 million in federal funds to the Department of Education to support Early Learning programs (former State Commission on Children and Families activities), which include relief nurseries.

The Title XX Social Services Block Grant (SSBG) is estimated at about $39 million for the biennium; these flexible dollars are used for field staff, residential treatment beds, and administrative services. Proposals at the federal level regarding repeal of the SSBG are concerning, as the grant fills gaps in Child Welfare services that are otherwise not funded by Title IV-E or that are under-funded by other federal fund sources, such as Title IV-B.

Other Funds revenues include Criminal Fine Account funds 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. User fees support the Adoption Assisted Search Program and Independent Adoption Home Studies. 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.

Budget Environment

In federal fiscal year (FFY) 2014, CW received 67,863 reports of suspected child abuse or neglect; 29,382 of these reports were referred for further investigation. The number of victims decreased from the prior year, down to 10,010 from 10,630; this represents about 1.2% of the state's estimated 857,571 children aged 0 to 18. Over half of the victims are age 6 or younger. As the following graph shows, the number of abuse and neglect reports has steadily increased since 2004. About 75% of the reports were made by public and private officials required by law to report suspected child abuse and neglect.



Child safety expenditures in this program area are designed to give early intervention and support services to families to help prevent the need for out-of-home placement or to return children home more quickly. However, funding for the services in this budget has not kept pace over time with the continuing growth in reports of abuse and neglect. Other agency or external programs, such as Family Support and Connections in the Self-Sufficiency program area, or the Healthy Start and relief nurseries programs in the Oregon Department of Education (Early Learning Division), provide complementary services for at-risk families.

The estimated average Child Welfare monthly caseload for 2015-17 is forecast to be 21,177 slightly below the average 21,195 caseload in 2013-15. Within the projected caseload, more children are moving into guardian assistance and fewer into in-home and out-of-home care.

In FFY 2014, 11,443 children spent at least one day in some kind of foster care, a decrease from the 12,113 children in the prior year. Family foster care is the primary setting. There were 4,006 certified foster family homes in 2014 and over 44% of the children placed in family foster care were placed with relatives. The agency reports that 58.5% of children who left foster care during the year were reunited with their families.

Families and other foster care providers receive partial reimbursement for the cost of room and board, clothing, school, and personal items for foster children. Many children in foster care require special services (and special rate payments), based on emotional, behavioral, mental, or physical problems that require increased skills and supports for foster parents and caregivers. Children in foster care also are eligible for physical and mental health services through the Oregon Health Plan, funded in the OHA budget.

Other, higher cost services may be required in residential treatment or specialized service plans for children whose needs cannot be met in existing service settings. Capacity in residential treatment programs has been constrained by budget, and many providers' costs have increased more rapidly than the rates paid by DHS.

The Adoptions Program provides adoption and permanent guardianship options for children in foster care who are unable to safely return to the care of their biological parent(s). During FFY 2014, 836 adoptions were finalized. This is 2.3% higher than the 813 adoptions finalized in 2013; the count of finalized adoptions has not exceeded the 1,000 mark since 2009. An additional 293 children left foster care for a guardianship arrangement, down 6% from the 313 arrangements completed in 2013. In almost all cases, children placed receive adoption or guardian assistance payments and medical coverage to provide for their special needs.

Legislatively Adopted Budget

At $470.5 million General Fund and $941.5 million total funds, the 2015-17 legislatively adopted budget for Child Welfare is 9.6% General Fund and 2.6% total funds higher than the 2013-15 legislatively approved budget. The position count of 2,599 (2,551.05 FTE) reflects a 4.8% increase over 2013-15.

The General Fund and position growth is primarily due to adjustments in the program's staffing and workload model; those account for increases of $8,636,677 General Fund, $3,691,018 Federal Funds, and 71 positions (71.00 FTE). With these changes, Child Welfare staffing is at 85.9% of the workload model. While overall caseloads are flat, the workload associated with both screening and assessment is becoming more complex and time consuming, especially with alternative responses to be determined and assigned if a family meets differential response criteria.

Other budget components include a change in funding practice for guardianship subsidies (saves $1.9 million General Fund) and applying a correction to an inflation adjustment for Behavioral Rehabilitative Services (BRS) rates to keep those rates consistent with agreement levels. The budget also adds $1.6 million General Fund for the Homeless and Runaway Youth program, which supports local programs providing services such as street outreach, day drop-in, and overnight shelters for unaccompanied minors.

An investment of $250,000 General Fund covers the startup and ongoing base costs for a youth shelter project in Lane County. The funding will pay for rehabilitation of an existing building, initial staff support, and program supplies. The project will help stabilize and assess high risk youth who are unable to stay at home or in foster care, with a goal of minimizing exposure to or progression through both the child welfare and juvenile justice systems.

The budget contains $800,000 General Fund ($960,000 total funds) to support two pilot projects, one serving a rural area of the state and the other serving an urban area. In partnership with community-based organizations, the projects are targeted at improving the quality and effectiveness of foster care, with a focus on youth who have experienced multiple, unsuccessful foster care placements. A budget note lays out goals and expectations for the pilot projects, along with reporting requirements.

One position (0.75 FTE) and $149,205 total funds support another pilot project under HB 3503 (2015). The bill establishes a sentencing alternative pilot program that allows a person on probation, who is also the legal guardian of a child, to receive comprehensive supervision where accountability and the child's well-being are of primary importance.

Along with the vacancy factor and inflation adjustments noted in the agency-wide narrative, the budget includes the 2015-17 biennium impacts of December 2014 Emergency Board actions: the transfer of funds from the Oregon Department of Transportation (ODOT) for Driver's Education courses for foster children, the transfer out of the Child and Adolescent Needs and Strengths (CANS) program to OHA, and a realignment of expenditures between CW and SSP. The budget also accounts for a fund shift to capture a federal percentage increase in the FMAP rate, transfers of positions between programs, other position actions to repurpose or reduce doublefills, and a decrease in budgeted rate for attorney services provided by the Department of Justice.

Vocational Rehabilitation

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	13,756,161	20,866,337	21,226,188	20,689,220
Other Funds	1,877,706	2,324,758	2,388,141	2,320,512
Federal Funds	72,758,146	74,438,950	76,031,436	74,151,600
Total Funds	**$88,392,013**	**$97,630,045**	**$99,645,765**	**$97,161,332**
Positions	224	234	234	253
FTE	220.28	229.08	230.28	249.28

Program Description

Vocational Rehabilitation (VR) services works with businesses, schools, and community programs to help youths and adults with disabilities other than blindness prepare for and find employment. In federal fiscal year 2014, the program served a total of 15,559 individuals with disabilities.

- Vocational Rehabilitation "Basic 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 intensive training, job placement, and job coaching services to individuals with the most significant disabilities who can obtain competitive employment.
- Independent Living Program – Supports the State Independent Living Council and community-based Centers for Independent Living, which help persons with severe disabilities maintain independence at home, in the community, and in employment.

Revenue Sources and Relationships

For the 2015-17 biennium, General Fund supports 21.3% of this budget; Other Funds, 2.4%; and Federal Funds, 76.3%. 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; DHS receives about 87.5% of Oregon's allocation of Section 110 Federal Funds and 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. Since this formula grant is essentially capped, the purchasing power of the federal revenue component is decreasing and putting more pressure on state funds.

Budget Environment

Almost all of the clients who receive vocational rehabilitation services have severe disabilities (cognitive, psychosocial, physical, or mental impairments) which require a broad array of services. The severity of the disabilities, and the extent of the services needed to correct or address the disabilities, increase the cost and difficulty of rehabilitation and employment. In addition, even while Oregon's economy has improved, the program continues to face challenges in finding employment for clients due to limited availability of and tight competition for jobs.

VR is not an entitlement program like SNAP or Medicaid long-term care services, where funding is tied directly to the number of program eligibles. For the past two decades, federal funding for vocational rehabiliation services has been generally flat, with only cost-of-living adjustments. This has not always kept pace with increased costs and demands for services, and state budget resources have not always been able to fill the gap. Periodically, when demand for services exceed capacity and budget, the program has operated under an Order of Selection, which mandates that services be provided first to the most severely disabled individuals. People who cannot be served are put on a wait list. DHS has not had to use the list since July 2010 but the program continues to assign priority levels to individuals. While VR does not expect to need a wait list in 2015-17, if one is needed, this action postions the agency to be able to reinstitute a wait list in a manner that minimizes both client and program impacts.

The Department is still working through program adjustments associated with reauthorization of the federal Rehabilitation Act, as part of the Workforce Innovations and Opportunities Act (WIOA) in July 2014; these may affect state service delivery and budget adequacy. The new act was effective October 1, 2014, but the legislation allowed for two years of transition and implementation specifics are still being developed. Some provisions of the Act include changes in plan timelines, pre-employment transition services, program performance metrics, employment definitions, subminimum wage, order of selection priorities, and services to employers.

Legislatively Adopted Budget
At $20.7 million General Fund and $97.2 million total funds, the legislatively adopted budget for VR is less than 1% below the 2013-15 approved budget level. However, positions increase by 19 (19.00 FTE) due to an adjustment establishing positions to eliminate doublefills by using non-personal services dollars that were already being used operationally to cover the associated position costs.

While not directly budgeted within this program, VR will also continue working with the DHS Intellectual and Developmental Disabilities (I/DD) program on the Employment First initiative. The I/DD budget includes funding to further improve employment outcomes, increasing capacity for VR to serve that population and by expanding benefits counseling and enhancing provider transformation through proven practices.

Along with the vacancy factor and inflation adjustments noted in the agency-wide narrative, the budget contains a change reflecting the budgeted rate for attorney services provided by the Department of Justice.

Aging and People with Disabilities

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	741,872,154	734,669,584	847,352,513	867,362,910
Other Funds	139,658,310	165,359,591	186,803,755	189,744,711
Federal Funds	1,405,438,685	1,597,720,670	1,830,373,538	1,904,836,928
Total Funds	**$2,286,969,149**	**$2,497,749,845**	**$2,864,529,806**	**$2,961,944,549**
Positions	1,134	1,163	1,194	1,251
FTE	1,123.31	1,147.68	1,184.28	1,241.28

Program Description
Aging and People with Disabilities (APD) and its partners provide services for seniors and adults with physical disabilities. Historically, APD administered Oregon's Medicaid long-term care program per a federal Home and Community-Based Care (HCBS) waiver under Section 1915(c) of the Social Security Act. As of July 2103, many services now fall under the K Plan, which is a Medicaid state plan option authorized under the Affordable Care Act. Oregon Project Independence (OPI) provides in-home services outside of the Medicaid program. Federal Older American Act services include abuse prevention, caregiver supports, medication management, nutrition services, senior employment, legal issues, and other support services. The program also includes federally required supports to aged, blind, and disabled persons who receive Supplemental Security Income (SSI).

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 Area Agencies on Aging (AAAs). Community-based facilities include adult foster care homes, assisted living, residential care, and enhanced residential care. Providence Elder Place is a jointly funded Medicare and Medicaid Program of All-Inclusive Care for the Elderly (PACE), a program that integrates acute medical care and community-based care under a system of capitated rates, serving people at high risk of needing nursing facility care. The program integrates acute and long-term care services, with seniors in this program generally attending adult day care services while living in a variety of care settings.

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. Participation can also be tied to income, assets, and eligibility under other programs.

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 waiver allowing 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. This change shifted the service split between community-based care and nursing facilities. In the 1980s, about half of the caseload resided in nursing facilities; today those cases represent only about 13% of the Medicaid long-term care cases. In-home cases represent about 51% of the caseload and community-based facility cases, 36%.

Oregon Project Independence (OPI) provides in-home services to about 2,000 Oregonians each month. Under the traditional program, 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 in Medicaid long-term care). Those with incomes over 100% of the federal poverty level pay all or part of the cost of services. Under a 2013-15 pilot project that is continuing into 2015-17, younger individuals may also be served by the program.

APD is the state administrator of the ***Older Americans Act (OAA)***, a federal program targeted to people 60 years of age and older. The state distributes the funds to local AAAs, 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)*** provides special needs cash payments for items such as prescription drug copayments, non-medical transportation, or one-time emergency payments, for low-income aged and disabled individuals receiving federal Supplemental Security Income (SSI) benefits though the Social Security Administration.

Field services for seniors and people with physical disabilities are delivered through two 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. In areas served by Type A AAAs, local APD offices administer Medicaid, cash assistance, and SNAP services.
- "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, SNAP services, OAA, and OPI programs.

The budget includes funding, but not positions and FTE, for the staff who work in the Type A AAAs and for the Transfer AAAs. While under statute DHS is required to establish a budget level for Transfer AAAs that is not less than 95% of the cost to run a similarly staffed state office, budget constraints at different times have suppressed that level. The 2015-17 budget sets equity at 95%.

Local APD office staff are part of this budget, which include SNAP eligibility staff; however, the SNAP benefit payments are part of the Self-Sufficiency Programs (SSP) budget.

The Disability Determination Services (DDS) program assesses clients' eligibility for Social Security Act claims for disability insurance (SSDI) and Supplemental Security Income (SSI). Staffing for the DDS program is 100% federally funded.

Revenue Sources and Relationships

General Fund makes up 29.3% of the APD budget. This is slightly above the 28.7% share in the 2013-15 budget, primarily due to continuation or expansion of General Fund-only programs, such as OPI. Most of the program's General Fund is used to match federal Title XIX Medicaid and other federal funds.

Other Funds revenue is 6.4% of the overall budget. The Other Funds come primarily from nursing facility Medicaid provider taxes, clients' contributions towards their care, and estate recoveries. The nursing facility provider tax, described in statute as the Long Term Care Facility Assessment, is used to match federal Medicaid funds for facilities that serve Medicaid clients, allowing for higher levels of nursing facility reimbursement. The provider tax was scheduled to sunset in 2014, but under HB 2216 (2013) it was reauthorized and extended through June 30, 2020.

Federal Funds make up 64.3% of the budget and are predominately Medicaid funds. Federal matching funds for the Medicaid program are determined by the FMAP rate, which is the federal share of eligible program expenditures. The program match rate changes each federal fiscal year and depends on Oregon's per capita income relative to other states. Under the K Plan, the state draws down an additional 6% in Medicaid funds for some APD services.

Most Medicaid administrative functions, however, are paid only on a 50% state/50% federal share. Federal 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. APD 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 SNAP.

Budget Environment

Over the past several biennia, the APD budget has grown significantly due to mandated caseloads, service cost increases, and program improvements such as provider rate increases and new program services. Oregon's ability to maintain current services is and will continue to be a challenge, with ongoing growth in the number of Oregonians who receive those services and increasing costs to provide quality care on one side, and limited resources on the other.

Over the last three decades, the delivery of services for seniors and people with disabilities has shifted from institutional care to community-based care. In Oregon, long-term care for Medicaid-eligible seniors and people with disabilities has moved from nursing facilities and "training centers" to use of in-home care, adult foster homes, group homes, and residential care and assisted living facilities. Federal waivers have allowed continued use of federal funds to support more community-based care at a lower overall cost than institutional care.

Demand 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 by almost 80,000, or 18%, in the decade from 2000 to 2010. The Department of Administrative Services' Office of Economic Analysis projects this population will grow by 8.5% during the 2015-17 biennium, reaching over 701,334 by July 1, 2017. As of July 2015, APD was serving 30,802 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' spring 2015 caseload forecast projects long-term caseloads overall will increase by 10.6% for the 2015-17 biennium.

Given the demographic projections, the issue of sustainability of the long-term care system has been a recurring topic of discussion. Under SB 21 (2013), DHS convened a planning committee to develop an improved and secure system of long-term services and supports system. The committee included community partners, providers, consumers, seniors, people with disabilities, and legislators. While no funding was specifically allocated to implement recommendations in the committee's final report, the agency is continuing to work with stakeholders toward system goals to the best of its ability.

More recently, as part of legislative budget discussions during the 2015 legislative session and concerns about caseload and cost growth, the agency was directed to develop program sustainability options. DHS will bring the results of that work, which the agency expects to complete with assistance from an outside consultant, forward for review during the 2016 session.

In addition to population growth, provider reimbursement is a major driver in APD costs. Adequate provider reimbursement assures access for clients, and allows providers to operate effectively with an appropriate number of skilled staff, while inadequate reimbursement puts access and services at risk. Reimbursement rates are based on a mix of where clients live and 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 levels at certain percentiles of audited allowable nursing facility costs. Community-based provider rates such as those for assisted living facilities and residential care facilities are tiered based upon client impairment. In-home service caregivers and adult foster home rates are now subject to collective bargaining.

Examples of changes to APD programs in response to state budget constraints in past biennia include eliminating Medicaid long-term care services for people who had been categorized by level of impairment in service priority levels 14-17 (the least impaired), discontinuing the General Assistance program, and reducing OPI. Agency expenditures and provider reimbursement have also been adjusted over the past several biennia, both in the legislatively adopted budgets and in interim adjustments for statewide General Fund revenue shortfalls and to "rebalance" the APD budget.

With the K Plan and updates to existing waivers, DHS was able to expand person-centered and community-based services for eligible seniors and people with physical and developmental disabilities. The plan also allows Oregon to receive a six percentage point increase in the matching rate the state receives from the federal government. These additional dollars are built into the budget but have not been able to offset growth in caseload and cost per case, some of which are associated with the K Plan or other policy changes.

Other federal changes affecting services and providers are in the pipeline. In January of 2014, the Centers for Medicare and Medicaid Services released new HCBS rules that all states must follow in order to participate and receive funding in the Medicaid program. The rules strengthen the requirements for personal autonomy, community integration, and choice in home and community-based services funded. In certain settings, providers must make sure clients have specific rights to things such as tenant protections, privacy (lockable doors, choice of roommates, decorating freedom), control of schedule including access to food at any time, and visitors at any time. The rules have a five year implementation timeline from the effective date of the rule, which means they need to be adhered to by March 17, 2019. It is unclear to what extent these changes will potentially drive system costs; in part those will be provider specific and variable. Associated budget impacts are likely be a topic for discussion during the 2017 legislative session.

<u>Legislatively Adopted Budget</u>
At $867.4 million General Fund and $2,961.9 million total funds, the legislatively adopted budget for APD is 18.1% General Fund and 18.6% total funds greater than the 2013-15 legislatively approved budget. While the budget includes some actions to reduce General Fund need and offset costs, about half of the budget growth is due to caseload/workload while a significant portion is tied to addressing other budget needs.

The budget accounts for overall caseload growth and cost per case changes based on the spring 2015 forecast. It also includes adjustments (increases) to workload models for the APD field offices and the AAAs; APD workload is at 90% of the workload model with the AAAs at 95% equity. The bulk of the net increase of 88 positions (93.60 FTE) between biennia – a 7.6% increase – is associated with this field workload. General Fund costs are partially offset by a higher FMAP rate.

Due to extraordinary caseload and cost growth, a budget note in HB 5026 (2015) directs DHS to report during the 2016 legislative session on ways to ensure services remain sustainable into the future with a goal of capping biennial General Fund budget growth at 10%. Issues to be explored include service eligibility, income eligibility criteria, and service array or level of services offered. For identified options, the report will cover associated fiscal impacts, potential implementation timelines, state law or rule changes required, experiences from or comparisons to other states, and the likelihood of obtaining any needed federal authorization.

While nursing facility caseloads are funded based on the caseload forecast and statutory rates, a portion of the second year cost may need to be covered out of a $40 million General Fund special purpose appropriation to the Emergency Board for DHS and OHA caseload costs or budget challenges. Second year rates may fluctuate based on bed reduction targets or depending on any movement on a potential discussion about aligning nursing facility cost increases with Oregon Health Plan inflation rates. This idea was developed as a component of the Governor's budget but may have lost momentum in light of executive branch leadership changes.

To cover initial costs associated with implementing the federal Fair Labor Standards Act rule changes affecting home care workers, the budget contains $14.4 million General Fund ($48 million total funds). The rule extends minimum wage and overtime protections to these workers. Additional future costs are anticipated to be addressed by an allocation from the $40 million special purpose appropriation to the Emergency Board designated for DHS and OHA costs. Pending litigation has kept the final regulations in a state of uncertainty; the agency expects to know more by the 2016 legislative session and is continuing to work with stakeholders on rule implementation.

For the next phase of a streamlined and integrated Statewide Adult Abuse and Report Writing System, $2,277,037 General Fund and $3,355,000 Other Funds expenditure limitation ($5.6 million total funds) is budgeted. The first phase was approved by the Emergency Board in May 2014, based upon demonstrated need for a stable, integrated adult abuse data and report writing system to deal with Oregon's growth in an aging population, an annual increase of 5-8% in abuse referrals, and an increased need for services across all demographics. The Other Funds portion of the project will be financed with Article XI-Q bonds.

Other notable components of the budget include:

- An increase of $6.7 million General Fund and $15.8 million Federal Funds to cover a 2.5% annual increase in Home and Community-Based Care provider rates for residential, assisted living, and in-home agencies. While the budget does not address wage or other compensation increases for home care workers outside these groups, a $10.7 million General Fund special purpose appropriation to the Emergency Board is expected to help pay for costs driven by collective bargaining for workers who are not state employees. Home care workers fall into this category.
- A one-time expenditure of $1.6 million General Fund to pay back property taxes for seniors eligible for hardship relief stemming from changes made to the Senior and Disabled Property Tax Deferral Program (HB 2510 and HB 2489) during the 2013 session. It is estimated about 200 households still need assistance.
- An investment of $200,000 General Fund will support a statewide community-based needs assessment, which is intended to provide valuable data to help DHS and agency partners to effectively address the social, educational, and health disparities experienced by members of the deaf, deaf-blind, deaf-plus, and hard of hearing communities.
- Bridge funding in the amount of $350,000 General Fund for the Home Care Commission's private pay registry. This program, which enables private payers to buy home care services through the home care registry, was authorized by HB 1542 (2014) and is expected to be fee supported once fully up and running in January 2016.

- To account for increased costs under SB 454 (2015),which will modify paid sick leave provisions for home care workers and personal support workers, the budget contains $654,986 General Fund. Any federal funding needed to implement the bill can be addressed in a rebalance action.
- SB 774 (2015) requires DHS to help the Home Care Commission adopt a statewide plan to improve certain components of the home care registry and program; $1 million General Fund is provided in the budget to cover plan development costs.

The budget includes a total of $24,442,985 General Fund in DHS to continue funding investments made in senior programs during the 2013 special session; some portions of the overall $42.4 million General Fund commitment are budgeted in other agencies. Under this spending plan, the overall 2015-17 funding for the base OPI program is at $20.1 million; the current OPI pilot expansion project serving younger people with disabilities is continued with an additional $6 million General Fund. The DHS components of the senior commitment are as follows:

Department of Human Services - 2015-17 Senior Commitment

Item	Item Description	Amount
A	Enhanced Oregon Project Independence (OPI) funding for individuals 60 and over	$ 10,300,000
B	OPI pilot to expand coverage for younger persons with disabilities	$ 6,000,000
C	Geriatric medication competency training pilot Training on Alzheimer's/dementias Training for caregivers on challenging behaviors First responder training on Alzheimer's/dementias Increase access to caregiver training statewide	$ 3,300,000
D	Re-establish annual reporting for long term care	$ 734,800
E	Personal Incidental Fund (PIF) from $60 per month, plus annual inflation	$ 539,728
F	HB 4151 (2014) - Elder Abuse Task Force Recommendation	$ 241,330
G	AAAs - Replace Older Americans Act lost due to sequestration cuts	$ 2,077,127
H	AAAs - Evidence based health promotion/disease prevention	$ 1,250,000
	DHS Total	**$ 24,442,985**

Some actions to reduce General Fund need were included as part of the budget: a fund shift of $5 million General Fund to Federal Funds to reflect claiming additional funding for individuals newly eligible under the Affordable Care Act, the elimination of $2 million General Fund tied to federal Older Americans Act programs, the elimination of all but $350,000 General Fund paying for the Innovation Fund (frees up $1.95 million) which continues support for Our House, and a cut of $2.8 million General Fund supporting the Gatekeeper program.

Along with the vacancy factor and inflation adjustments noted in the agency-wide narrative, the budget includes the 2015-17 biennium impacts of various interim actions primarily tied to program or position transfers and technical adjustments. The budget also makes a fund shift to capture a federal percentage increase in the FMAP rate, corrects errors, realigns positions, and accounts for a decrease in budgeted rates for attorney services provided by the Department of Justice.

Intellectual and Developmental Disabilities

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	536,602,209	582,623,185	669,218,379	689,697,718
Other Funds	33,641,248	39,270,255	29,838,935	36,385,915
Federal Funds	862,808,675	1,177,172,754	1,321,323,210	1,389,980,015
Total Funds	**$1,433,052,132**	**$1,799,066,194**	**$2,020,380,524**	**$2,116,063,648**
Positions	777	761	760	898
FTE	770.93	745.59	757.33	851.15

Program Description

The Intellectual and Developmental Disability (I/DD) program serves over 23,000 children and adults with intellectual and developmental disabilities throughout their life span. This program's mission is to help individuals be fully engaged in life and, at the same time, address any critical health and safety needs. The state, counties, brokerages, providers, families, and self-advocates are all critical parts of Oregon's Developmental Disabilities service system that focuses on individuals with I/DD living in the community and having the best quality of life at any age. Oregon no longer has an institutional facility for persons with developmental disabilities, so all clients are served in the community. Most of these services are administered under Medicaid waivers.

To receive services, individuals must meet Medicaid financial eligibility requirements and have intellectual or developmental disabilities that impede their ability to function independently. These disabilities include mental retardation, cerebral palsy, Down's syndrome, autism, and other impairments of the brain that occur during childhood. Some program clients also have significant medical or mental health needs.

Community Developmental Disability Program (CDDP) offices at the county level determine eligibility for I/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. The budget covers payments to counties and brokerages for program administration as well as for program services. Brokerage enrollment is capped, so when services demand increases, the CDDPs try to cover the gap.

Core program services are described below; clients may receive services from more than one category and require services from different categories at different points of their lives:

- 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. Primary support services available 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, 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 service 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, 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 Stabilization and Crisis Unit (SACU) provides 24-hour community residential care for approximately 104 people who have intensive support needs because of medical or behavioral conditions. State employees operate 22 group homes serving these clients. Prior to a name change early in the 2013-15 biennium, this unit was called the State Operated Community Program.

Revenue Sources and Relationships

General Fund makes up 32.6% of the I/DD budget. Most of the General Fund is used to match federal Title XIX Medicaid and other federal funds.

Other Funds revenue is 1.7% of the overall budget. The Other Funds come primarily from clients' contributions towards their care. There is some legislative interest in exploring a provider assessment component to help fund I/DD programs; the assessment could potentially be associated with lodging taxes and could generate revenue to improve services and address workforce issues. A budget note was included in SB 5507 (2015) directing DHS to work with stakeholders to assess and report on such an assessment.

Federal matching funds for the Medicaid program are determined by the FMAP rate, which is the federal share of eligible program expenditures. The program match rate changes each federal fiscal year and depends on Oregon's per capita income relative to other states. For the 2015-17 biennium, the average Medicaid match rate is estimated at 64.2%; at this rate, Oregon will pay 35.8% of eligible program costs. For K Plan services, the state draws an additional 6% in federal match.

Budget Environment

A major budget driver for I/DD programs is caseload growth; for 2015-17 demand is projected to increase 9.2% from the 2013-15 level, growing from an average biennial caseload of 22,383 to 24,438. Within that overall caseload count, both the number of individuals and the proportion of the caseload receiving services beyond case management enrollment (minimum service for all clients) continue to grow. Individuals served are projected to increase by 13%, or more than 2,000 clients, while the percentage of the enrolled population receiving services looks to increase from 72% to 75%.

While the forecast represents the best estimate currently available, it continues to be an area of concern and volatility. Under the K Plan changes, access to services for children is virtually unrestricted while lifting caps on support services make programs more attractive to adult clients. Trying to estimate how many more clients, particularly children, may come seeking services is challenging. The agency is working on a survey of the CDDPs to better sense for that potential influx. Data on caseload actuals coming in since the spring 2015 caseload forecast indicate that the spring forecast is likely understated.

Other issues that may affect caseload include the outcome of the proposed class action settlement agreement for a 2012 lawsuit (*Lane v. Brown*) alleging that Oregon unnecessarily segregates individuals with I/DD in sheltered workshops, in violation of the rights of these individuals under federal law. In 2013, under an executive order and with funding from the Legislature, the agency committed to phasing out sheltered workshops and to replace them with employment services directed toward integrated workplaces. The agency is currently evaluating whether or not the agreement, which generally continues the integrated employment efforts already underway, requires additional funding in 2015-17. A settlement hearing is set for December 7, 2015, so the final status of the agreement and any associated costs should be known prior to the 2016 legislative session.

Historically, the I/DD budget 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. The 1999 Olmstead decision, which said states must provide Medicaid services in the most integrated setting appropriate to the needs and wishes of people with disabilities, further reinforced the shift out of institutions. In 2000, in lieu of a federal class action lawsuit, Oregon entered into the Staley Settlement Agreement, which eliminated waiting lists and phased-in universal access to support services via the brokerage system. Most recently, access and general service demand aside, there are policy components within the K Plan, such as the new functional needs assessment, that continue to influence the budget.

Similar to many other agency programs, I/DD relies heavily on partners and providers to meet program and client needs. Rate reductions in recent biennia, along with policy changes, make this relationship especially challenging. While the current budget does include some rate increases, many providers indicate rates are inadequate and make it difficult to run their operations and pay competitive wages. Wages continue to be an issue for discussion, due to differences in wage assumptions DHS makes when pricing rates versus the decisions providers actually make about wages and other costs of doing business.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for this program area is $689.7 million General Fund and $2,116.1 million total funds; the General Fund portion is 18.4% higher than the 2013-15 legislatively approved budget while the total fund amount increases by 17.7% between biennia. While the budget includes some actions to reduce General Fund need and offset costs, about half of the budget growth is due to caseload/workload while a significant portion is tied to addressing other budget needs. The position count of 898 (851.15 FTE) reflects an 18% increase in position authority, the bulk of which is 127 positions to bolster staff coverage and improve safety in the SACU program.

Caseload and cost per case changes based on the spring 2015 forecast are covered in the budget and include adjustments (increases) to workload models for the CDDPs and brokerages to align with that growth. The budget also includes $8.5 million General Fund and $26.7 million total funds to increase service rates for I/DD providers (for unrepresented employees and excluding transportation providers) by 4% effective January 1, 2016. To clarify intent around provider use of those funds, a related budget note was approved in SB 5507 (2015); it states that compensation for direct care staff should be increased by at least 4% during the 2015-17 biennium. Providers are required to present their action plans during the 2016 legislative session and a $100,000 special purpose appropriation to the Emergency Board is intended to be made available for DHS to follow up on complaints or provider noncompliance, if needed.

Similar to budget methodology used in APD, while the I/DD budget does not include funding for personal support worker compensation increases, a $10.7 million General Fund special purpose appropriation to the Emergency Board is expected to help pay for costs driven by collective bargaining for workers who are not state employees. Personal support workers fall into this category. Funding, in the amount of $360,588 General Fund, is provided directly in the budget to account for increased costs under SB 454 (2015), which will modify paid sick leave provisions for personal support workers.

Consistent with budget treatment in APD, to cover initial costs associated with implementing federal Fair Labor Standards Act rule changes affecting personal support workers, the budget contains $3.6 million General Fund ($10 million total funds). Additional future costs are anticipated to be addressed by an allocation from the $40 million special purpose appropriation to the Emergency Board designated for DHS and OHA costs. Pending litigation has kept the final regulations in a state of uncertainty; the agency expects to know more by the 2016 legislative session and is continuing to work with stakeholders on rule implementation.

To improve employment outcomes for people with intellectual and developmental disabilities, $4,358,223 General Fund ($5,200,121 total funds) and 12 positions (10.80 FTE) will help increase capacity for Vocational Rehabilitation to serve the I/DD population and expand availability of benefits counseling and enhance provider transformation through proven practices. Oregonians with I/DD are underrepresented in Oregon's workforce and this investment builds on the 2013-15 Employment First investment and outcomes. As noted previously in this narrative, it is unknown what additional budget impacts may result from a proposed legal settlement around these employment services. However, there is some existing capacity and this new investment that should help implement an agreement.

The 2015-17 legislatively approved budget includes three adjustments for the Stabilization and Crisis Unit (SACU) program. To develop provider agency capacity for serving people with I/DD that have significant, long-term challenges but who are not in crisis, $0.8 million total funds and 2 limited duration positions (1.76 FTE) are included. To address safety and staffing concerns within the SACU program, $5.7 million General Fund ($13.4 million total funds) and 127 permanent positions (84.26 FTE) will support a float pool to cover staffing gaps and reduce overtime. These resources will also be used to establish crisis and outreach teams to be first responders on critical incidents. Lastly, to pay for costs associated with HB 2618 (2015), which extends Public Employees Retirement System (PERS) police and fire benefits to SACU employees, the budget includes $1,418,668 total funds ($528,450 General Fund plus $890,218 Federal Funds).

The budget contains $40,000 General Fund to preserve inflation and maintain the eight Family to Family networks. Another component is $92,500 General Fund to be paid into the community housing ("Fairview") trust account to account for the fair market value of former Eastern Oregon Training Center property that was transferred to the City of Pendleton under SB 671 (2015). The budget does not make any other adjustments to the trust, leaving the balance of about $6 million intact.

To free up General Fund, the budget removes $3.8 million General Fund related to a now-completed contract with Umatilla County for transitional services for Community Developmental Disability Programs. The budget also assumes $900,000 General Fund savings from an effort to validate the assessment tool the agency uses to determine the level of service needed by developmentally disabled clients.

Along with the vacancy factor and inflation adjustments noted in the agency-wide narrative, the budget includes expenditure limitations of $6.8 million Other Funds and $9 million Federal Funds to facilitate local match for I/DD transportation services. Also accounted for in the budget are technical adjustments, position transfers, a fund shift to capture a federal percentage increase in the FMAP rate, and a decrease in budgeted rates for attorney services provided by the Department of Justice.

Program Design Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	44,599,872	23,204,193	26,552,127	30,441,568
Other Funds	24,761,081	14,616,714	590,596	410,196
Federal Funds	98,039,066	78,907,230	44,088,598	35,961,799
Total Funds	**$167,400,019**	**$116,728,137**	**$71,231,321**	**$66,813,563**
Positions	313	253	248	236
FTE	311.05	253.00	247.96	236.00

Program Description

The Program Design Services (PDS) budget structure was created as part of the agency's first 2013-15 rebalance (2014 legislative session) to capture services to DHS clients and programs that span across the Department's five major program areas. The budget was created primarily through budget transfers from other programs. The change is targeted at increasing both program utility and transparency by consolidating certain services, which include the following offices: Program Integrity, Licensing and Regulatory Oversight, IT Business Supports, Business Intelligence, and Continuous Improvement.

While the change did not actually take place until the 2013-15 legislatively approved budget window, historical PDS expenditures have been allocated to prior columns in the display above for comparison purposes.

Revenue Sources and Relationships

The 2015-17 legislatively adopted budget is 45.6% General Fund, 0.6% Other Funds, and 53.8% Federal Funds; the funding mix is dependent on the receiving program and services provided. Federal funding is subject to a federally approved cost allocation plan.

Budget Environment

Functions within this relatively new budget structure include quantifying desired agency outcomes, measuring the outcomes, designing programs to achieve the outcomes, implementing the design through business and IT processes, and systematically reviewing whether the processes are being implemented as designed and how well the outcomes are being achieved. It is likely that program services and their associated budgets will continue to evolve and be refined over time. While pulling these functions together outside of the programs has increased transparency, that action also requires the agency to clearly describe the linkages back and benefits provided to the client and programs PDS serves.

Legislatively Adopted Budget

For PDS, the 2015-17 legislatively adopted budget is $30.4 million General Fund, $66.8 million total funds, and 236 positions (236.00 FTE). This is a 42.8% total funds decrease from the 2013-15 legislatively approved budget and is primarily due to the phase-out of the agency's curtailed Modernization Project, which included a significant amount of Other Funds and Federal Funds expenditure limitation.

However, as the agency's systems still need updating, the budget includes $750,000 General Fund ($7.5 million total funds) for initial planning to improve eligibility determination systems for non-MAGI (Modified Adjusted Gross Income) Medicaid programs. Planning efforts are eligible for 90/10 enhanced federal match over the next three years and the agency plans to return in the 2016 legislative session with a project update and a request for additional funding.

The 2015-17 budget contains a new permanent position (1.00 FTE), along with $79,725 General Fund and $79,725 Federal Funds to support child welfare quality control and improvement efforts. To correctly align the budget by fund type, $13.5 million in empty Federal Funds expenditure limitation is removed and then $3.8 million of that amount is backfilled with General Fund.

Along with the vacancy factor and inflation adjustments noted in the agency-wide narrative, the budget contains an adjustment related to 2013-15 interim budget actions, which transfers long-term care annual reporting from PDS to APD. The approved budget also accounts for technical adjustments, position transfers, and actions to resolve doublefilled positions.

Central Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	14,267,066	16,843,168	16,866,324	17,781,015
Other Funds	698,005	765,040	738,730	692,845
Federal Funds	19,366,153	17,213,823	17,971,473	16,796,502
Total Funds	**$34,331,224**	**$34,822,031**	**$35,576,527**	**$35,270,362**
Positions	78	87	87	95
FTE	76.80	85.93	86.42	94.42

Program Description

Central Services includes functions directly related to policy and program in the agency, such as the agency director's office, communications, portions of budget and human resources, and the Governor's Advocacy office.

Revenue Sources and Relationships

The 2015-17 legislatively adopted budget is 50.4% General Fund, 2% Other Funds, and 47.6% Federal Funds; the funding mix is dependent on the services provided. Federal funding is subject to a federally approved cost allocation plan that charges programs for the services received.

Budget Environment

The Central Services budget structure was created as part of a reorganization resulting from the creation of OHA in 2011-13; responsibilities and budget for this and other administrative structures continue to be refined as the Department matures as an organization after the split.

Legislatively Adopted Budget

For Central Services, the 2015-17 legislatively adopted budget is $17.8 million General Fund, $35.3 million total funds, and 95 positions (94.42 FTE). The total funds budget increase from the 2013-15 legislatively approved budget is 1.3%, which includes a 5.6% increase in General Fund and offsetting decreases in Other and Federal Funds. This is primarily due to adding $1.3 million General Fund to cover federal block grant funds that are needed to cover direct program rather than centralized costs.

The 2015-17 legislatively adopted budget includes $831,865 General Fund and 3 positions (3.00 FTE) to fund the DHS portion of the REAL+D project to improve collection, reporting, and analysis of data on race, ethnicity, language, and disability. The goal of the project is to improve the alignment of data collection and reporting outlined in HB 2134 (2013), and ultimately to better serve vulnerable and under-served client populations. There is also funding for this project in OHA; the work will likely be completed using tools from that agency's new Medicaid eligibility system.

Another budget adjustment linked to OHA is the realignment of positions in the Performance Excellence Program between the agencies, with 4 positions shifting from DHS Shared Services to OHA. Two positions (2.00 FTE) and $589,747 totals funds are retained by DHS, but move into Central Services. A review by the agencies indicated the positions would be more effective if dedicated to each agency rather than shared.

Along with the vacancy factor and inflation adjustments noted in the agency-wide narrative, the budget contains adjustments related to 2013-15 interim budget actions, which include transfer of the volunteer transportation program to OHA. The approved budget also accounts for technical adjustments, position transfers, actions to resolve double-filled positions, changes in hearing charges, and legal rate adjustments.

Shared Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	98,673,428	112,945,673	117,178,386	116,733,535
Total Funds	**$98,673,428**	**$112,945,673**	**$117,178,386**	**$116,733,535**
Positions	602	655	650	667
FTE	582.67	633.05	633.42	645.14

Program Description

With the transition of some former DHS programs to OHA, a new model was developed in 2011-13 for providing administrative functions to the two agencies. A number of support functions, including information technology, financial services, budget, human resources, facilities, and procurement were designated as shared services. Some of the functions are housed in OHA and some in DHS, but all shared services units support both agencies. The two agencies developed a joint governance model under which service-level agreements define the relationship between the agency providing service and the agency receiving the service.

DHS' Shared Services budget includes the Shared Services Administration; Budget Center; Office of Forecasting, Research, and Analysis; Office of Financial Services; Office of Human Resources; Office of Facilities; Office of Imaging and Records Management; Office of Contracts and Procurement; Internal Audit and Consulting Unit; Office of Payment Accuracy and Recovery; and the Office of Adult Abuse Prevention and Investigations.

Revenue Sources and Relationships

Shared Services funding is all Other Funds, based on revenues received from other parts of DHS and from OHA for purchased services, primarily in those agencies' budgets for State Assessments and Enterprise-wide Costs.

Budget Environment

The Shared Services model was implemented to help make sure that administrative services for the two agencies are provided cost-effectively without duplication of resources between DHS and OHA. As a result of this model, however, the Other Funds expenditures for those services are counted twice in the budget (technically known as "non-add" funding); once in Shared Services as work is completed and again in DHS and OHA programs as they pay for those services.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $116.7 million Other Funds is 3.4% more than the 2013-15 legislatively approved budget.

The legislatively adopted budget contains 13 positions (8.45 FTE) and $1,889,626 Other Funds to pay for Package 121 - Oregon Enterprise Data Analytics. This new effort supports integration and analysis of client and customer service information across state agencies and programs. While some ad-hoc efforts are already underway, this investment will provide coordination, consolidation, and clear accountability for that work.

A total of $709,292 Other Funds and 5 positions (4.27 FTE) provides resources tied to three different pieces of 2015 legislation: HB 2393 (lottery prizes for overpayment recovery), HB 2250 (centralized background checks and fitness determinations), and HB 5047 (recreational marijuana background checks).

The budget also includes changes to realign the Performance Excellence Program and to account for technical adjustments and transfers, and revised rates for legal services.

Statewide Assessments and Enterprise-wide Costs

	2011-13 Actual	**2013-15 Legislatively Approved**	**2015-17 Current Service Level**	**2015-17 Legislatively Adopted**
General Fund	155,925,165	185,124,080	203,055,886	199,922,368
Other Funds	35,890	30,223,747	30,497,409	30,769,617
Federal Funds	129,613,953	165,035,522	181,711,776	180,888,336
Total Funds	**$285,575,008**	**$380,383,349**	**$415,265,071**	**$411,580,321**
Positions	0	0	0	0
FTE	0.00	0.00	0.00	0.00

Program Description
The budget for Statewide Assessments and Enterprise-wide Costs (SAEC) contains statewide assessments including various Department of Administrative Services' assessments/charges, Central Government Service Charges, and assessments for the Oregon State Library and Secretary of State audits. General Fund and Federal Funds expenditures associated with covering Shared Services program components are also included, along with agency-wide costs for rent, debt service, and computer replacements.

Revenue Sources and Relationships
The 2015-17 legislatively adopted budget is 48.6% General Fund, 7.5% Other Funds, and 43.9% Federal Funds; the overall funding mix is dependent on the specific assessments or charges being budgeted and the agency's cost allocation model. Beginning in the 2013-15 biennium, this budget includes $30 million Other Funds for a line of credit to manage cash flow issues through the biennium close-out period. This allows the agency to borrow, on a short-term basis, funds from the state treasury to finance prepayments and account for a lag in receipt of certain revenues, including provider taxes.

Budget Environment
When the separate DHS and OHA budgets were created, assumptions regarding the revenues supporting some centralized services were based on overall fund splits for the "old" DHS agency and those splits were used to budget within each agency. After a biennium of operations and with refinement of a cost allocation model for the "new" DHS, it became clear the programs retained within DHS relied more heavily on General Fund than the programs that moved to OHA. This left administrative services budgeted with Other Funds and Federal Funds expenditure limitation that was "empty," having no actual revenue to support it. This issue was initially corrected in the 2013-15 legislatively adopted budget, but will continue to need monitoring.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $199.9 million General Fund and $411.6 million total funds is 8% General Fund and 8.2% total funds more than the 2013-15 legislatively approved budget. The budget includes $1.5 million General Fund to align expenditures with updated cost allocations or revenues. Changes in facilities costs, primarily forced office relocations due to leases not being renewed, are driving an increase of $3,104,579 General Fund and $6,209,158 total funds.

The shared services funding line is increased by $946,393 General Fund and $943,233 Federal Funds to support the Oregon Enterprise Data Analytics effort within the Office of Forecasting, Research, and Analysis. To cover shared services costs associated with HB 2393 (2015), $204,900 total funds is also included. The fiscal impact for another piece of 2015 legislation, HB 2250, drives an increase of $509,472 total funds.

Total 2015-17 biennium debt service is budgeted at $4,702,903 General Fund, the bulk of which is $3,863,400 for certificates of participation or bonds issued in prior biennia. The remainder ($839,543) is for obligations associated with Phase II development and implementation of a streamlined and integrated Statewide Adult Abuse and Report Writing System.

Budget adjustments include a decrease of $9.4 million total funds ($5 million General Fund) from the current service level due to reductions in the Department of Administrative Services' assessments and charges.

LONG TERM CARE OMBUDSMAN

Analyst: Byerly

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,583,563	3,784,880	6,066,619	6,172,203
Other Funds	644,092	743,321	726,536	719,522
Total Funds	**$2,227,655**	**$4,528,201**	**$6,793,155**	**$6,891,725**
Positions	12	24	25	25
FTE	11.25	16.81	24.25	24.50

Overview

The Office of the Long Term Care Ombudsman (LTCO) is a federally-mandated consumer protection program under the federal Older Americans Act (OAA). The LTCO supports a network of certified volunteers to investigate and resolve complaints for those who live in Oregon's nursing facilities, residential care facilities, assisted living facilities, and adult foster homes. Agency personnel give 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 case is referred to local adult protective services agencies for investigation. The LTCO also advocates for system change to promote and protect the rights and interests of long term care facility residents.

With passage of SB 626 (2013), the agency's services were expanded to address needs of residents of care facilities who have a mental illness or developmental/intellectual disability. Most recently, SB 307 (2015) requires the LTCO to also advocate for residents of the independent living section of a Continuing Care Retirement Community (CCRC).

The agency continues to ramp up new work approved in SB 1553 (2014), which established the Public Guardian and Conservator within the Office. The program helps persons without relatives or friends willing or able to serve as guardians or conservators; services range from making care decisions to handling financial issues.

Revenue Sources and Relationships

Historically, most of the LTCO's General Fund was used to match federal Title XIX Medicaid and OAA funds through the Department of Human Services' (DHS) budget; however, beginning in the 2011-13 biennium, the federal Centers for Medicare and Medicaid Services (CMS) no longer allowed Oregon to claim federal Medicaid administrative funds for LTCO costs. This change increased the budget's reliance on General Fund from under 40% to over 70% of the total funds budget. After the expanded and new programs noted above, which do not have a source of federal or other matching funds, the 2015-17 budget is at 90% General Fund.

This level of dependency on General Fund is anticipated to continue, and may increase, as growth in other revenue sources will unlikely be able to keep pace with inflation and other cost drivers. These revenues, budgeted as Other Funds, consist of OAA funding passed-through DHS and civil penalties assessed on residential facilities and adult foster homes that serve persons with mental illness or intellectual/developmental disabilities. A portion of the OAA funding is specifically for the Senior Medicare Patrol (SMP) program, which educates seniors, their families, and caregivers on health care fraud, error, and abuse.

Budget Environment

Demand for ombudsman services is directly related to the number of care facilities and clients falling under the agency's umbrella of services; in 2015-17 those potential clients are expected to more than 50,000 people in almost 2,500 licensed facilities. The system has grown and is expected to continue increasing in size as the population ages; however, the complement of beds by facility type may shift or fluctuate. With respect to the new

CCRC independent living population, there could be up to about 2,900 residents in 12 CCRCs; the actual number of clients will depend on unit occupancy (single versus double) and vacancy rates.

The number of certified volunteers providing ombudsman services is partially constrained by the number of LTCO staff available to provide training and technical assistance. Usually, 1 Deputy Long Term Care Ombudsman position will support 25 to 30 volunteers. In federal fiscal year 2014, about 180 certified ombudsman volunteers made 12,624 facility visits, or more than 240 visits per week. A typical volunteer covers 4 to 5 facilities, with some having as many as 20 facilities. The agency also received over 3,400 verified complaints ranging from concerns about food portion size to allegations of abuse.

While facility coverage has improved, the budget does not support the agency's goal of having a volunteer assigned to and regularly visiting every licensed facility in Oregon. During 2014, volunteers visited 100% of nursing homes, 96% of residential care and assisted living facilities, and 80% of adult foster homes. The increase in visits to adult foster homes (up from 60% in 2012) was the result of adding, in 2013-15, another deputy ombudsman position to supervise additional volunteers with a specific emphasis on increasing facility coverage (visits) for adult foster homes.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $6.2 million General Fund is 63.1% more than the 2013-15 budget of $3.8 million General Fund, primarily due to the phase-in of new programs authorized by recent legislation (discussed in the agency overview section). Budget adjustments due to this expansion account for increases of about $2.2 million General Fund and 1 position, as well as adding additional months on several positions (7.44 FTE). In addition, to provide support for the agency's growing responsibilities, particularly workload due to data collection and reporting, the budget increases the data (research) analyst position from 0.75 FTE up to 1.00 FTE by adding $24,914 General Fund and $8,306 Other Funds expenditure limitation. Another approved change tied to expanded scope is the reclassification of the agency director position from a Principal Executive Manager E to a Principal Executive Manager F.

The budget also includes $59,325 General Fund to cover costs that would have been paid for with federal resources, if the base OAA funding stream for required ombudsman services, which was already unable to keep pace with inflation, had not been subject to federal sequestration. The backfill action allows the agency to continue a Program Analyst 2 position at full-time.

Other budget adjustments account for a modification in the vacancy savings calculation to reflect the agency's growth in positions and a turnover rate of 8% each year, changes in Other Funds to capture updated projections for SMP funding and civil penalty revenue, and retention of $40,000 of the General Fund resources made available by the use of civil penalties revenue as a placeholder for information technology (IT) related expenditures. The agency has recently identified two issues in the IT arena: 1) higher costs for telecommuting associated with new staff that are regionally located and 2) loss of a volunteer that was providing IT services free of charge.

To provide interim support for the Office as it continues to ramp up new programs, $100,000 General Fund was added on a one-time basis. The agency has also been undergoing a leadership transition and is facing challenges in volunteer recruitment. The additional funding will allow LTCO to contract or to make a short-term hire for program development expertise to focus on these needs over the first year of the biennium.

Adjustments to the Other Funds component of the budget include an increase of $103,334 to cover additional SMP funding; the program is expected to continue at least through May 31, 2018. The agency is also receiving civil penalty revenue from DHS to help cover costs of work under SB 626 (2013). About $40,000 in Other Funds revenue is projected to be in the 2015-17 beginning balance, with an additional $90,000 estimated to come in over the course of the biennium. The budget uses $80,000 Other Funds to replace (free up) General Fund in several services and supplies accounts. Since this is still a new and relatively untested revenue stream, the balance of the projected revenue is left for potential later use, assuming estimates are correct.

PSYCHIATRIC SECURITY REVIEW BOARD

Analyst: Ames

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,749,915	2,372,291	2,533,824	2,604,005
Other Funds	216,225	110,734	2,168	2,168
Total Funds	**$1,966,140**	**$2,483,025**	**$2,535,992**	**$2,606,173**
Positions	12	11	11	11
FTE	11.76	11.00	11.00	11.00

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. The Board's functions have expanded several times since then. 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 duties of the Board were expanded in 2009 to require 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. SB 420 (2011) changed the jurisdiction of persons found "guilty except for insanity" in certain circumstances. PSRB maintained jurisdiction over offenders who committed Tier 1 crimes (more serious crimes), while the Oregon Health Authority took over jurisdiction of offenders at the Oregon State Hospital (OSH) who committed Tier 2 crimes (less serious crimes). Once a Tier 2 offender is conditionally released from OSH, jurisdiction transfers to PSRB.

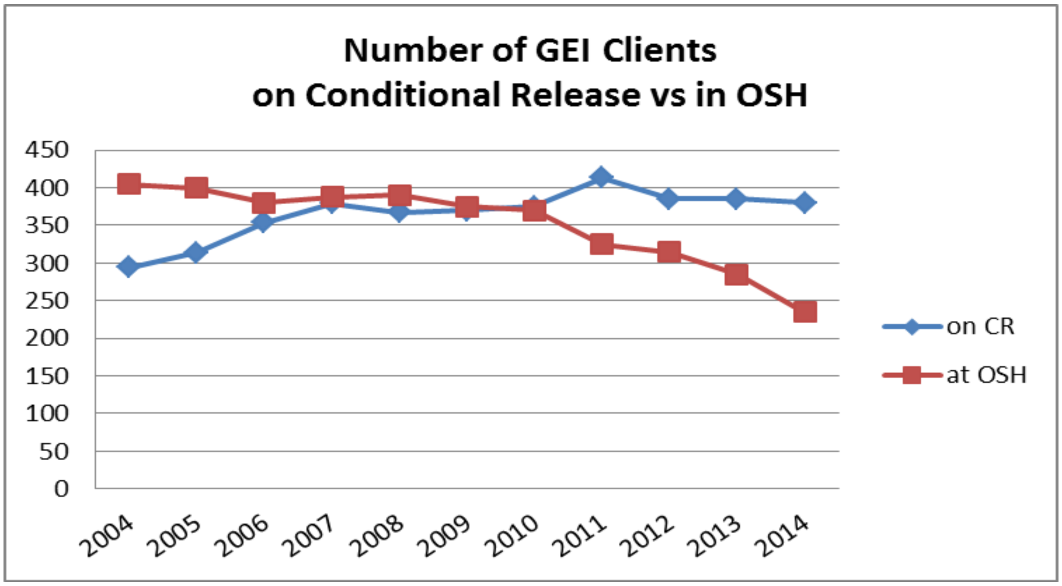
The ten-member board is appointed by the Governor and consists of a five-member adult panel and a five-member juvenile panel. The Board's primary purpose is to protect the public through the on-going review of the progress of those placed under its jurisdiction and a determination of their appropriate placement. Administrative hearings are conducted to determine appropriate placement of both juvenile and adult clients. The agency oversees treatment outcomes for certain PSRB clients who are committed to OSH; coordinates treatment and case management for clients under conditional release; revokes conditional release and orders the return of clients to OSH, if appropriate; and discharges clients from the Board's jurisdiction.

Revenue Sources and Relationships

Agency operations are funded with General Fund. There is a small amount of Other Funds available for training.

Budget Environment

The entire system for "guilty except for insanity" (GEI) clients has changed significantly over the last several years. The number of adults on conditional release to community-based programs at any one time has stabilized over the last few years at a little less than 400. But during the same period, the number of GEI patients at OSH has declined, from about 380 patients in 2010 to a little under 250 in 2014. These trends can be seen in the following graph.



With the number of clients on conditional release stabilizing, the workload for the agency has also stabilized, at least for the time being. Adults on conditional release require monitoring by agency staff, regular reporting, and frequent contacts with case managers. This requires significantly more staff time than the workload associated with clients at OSH. Although fewer cases have come before the juvenile panel than was originally expected, the volume is expected to increase over time and the workload associated with the juvenile panel's cases has been much greater than expected. On the other hand, workload associated with the Gun Relief program has been less than originally anticipated.

Staffing for the agency was increased in 2011, when two additional staff were added to address workload issues, and two staff were added related to SB 420. Even with the elimination of one of the positions in 2013-15, the percentage of hearings scheduled within statutory timelines has increased significantly over this period.

Legislatively Adopted Budget

The legislatively adopted budget for the Board is $2,604,005 total funds, which represents a 5% increase from the 2013-15 legislatively approved level. In past biennia, federal grant funding was passed through the Department of State Police to this agency for the gun relief program. That has ended and a portion of those expenditures has been shifted to General Fund.

PUBLIC SAFETY

PROGRAM AREA

DEPARTMENT OF CORRECTIONS

Analyst: Gilbert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,359,596,909	1,484,533,867	1,564,005,330	1,555,904,536
Other Funds	29,873,109	42,995,385	35,186,893	53,232,352
Other Funds (NL)	346,773,770	5,558,586	--	--
Federal Funds	7,892,138	7,369,007	5,587,424	5,710,107
Federal Funds (NL)	1,232,825	1,262,826	1,119,495	1,119,495
Total Funds	**$1,745,368,751**	**$1,541,719,671**	**$1,605,899,142**	**$1,615,966,490**
Positions	4,513	4,488	4,482	4,523
FTE	4,415.74	4,441.68	4,441.58	4,479.62

Overview

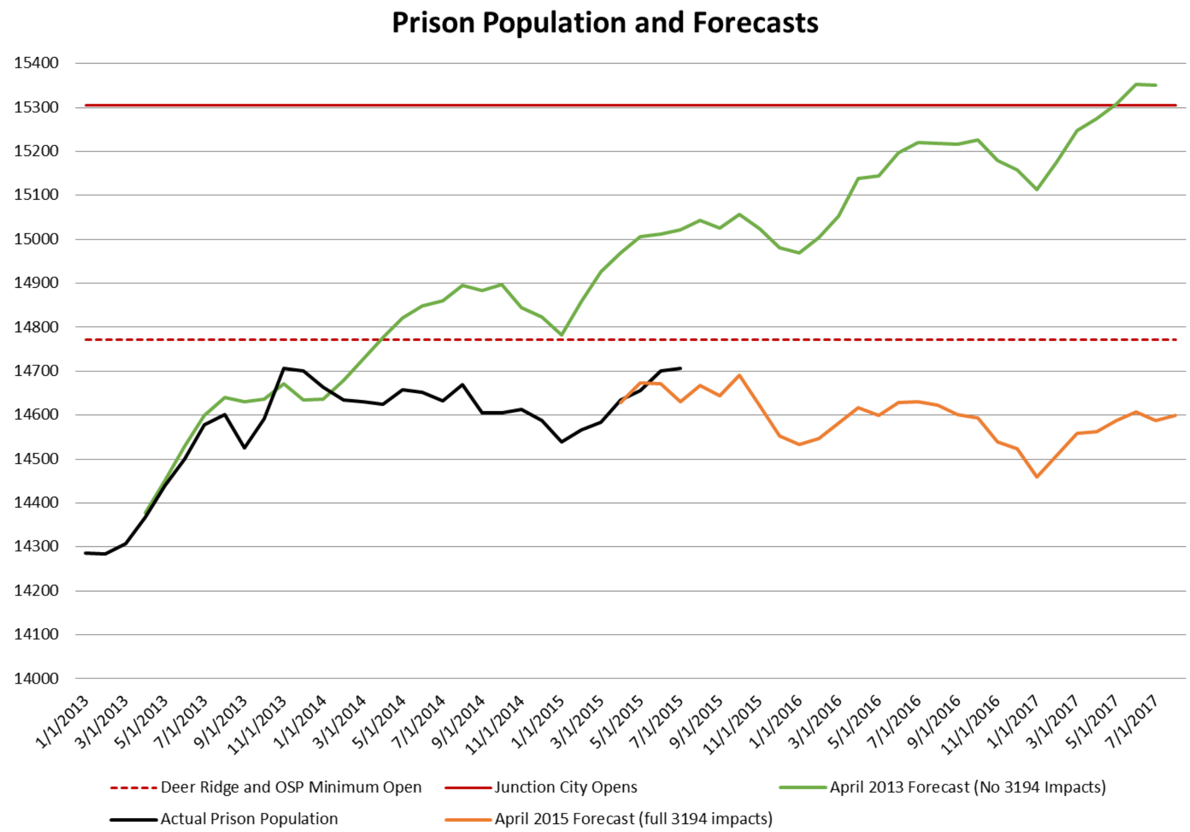
The Department of Corrections (DOC) has two primary functions – the operation of prisons and the state responsibility for the community corrections system. The Department operates 14 institutions for the incarceration of adult and certain juvenile felons sentenced to prison for more than twelve months by the courts. The budget is based on the April 2015 prison forecast and other changes made by the Legislature during the 2015 session that affect the prison population. The community corrections system is based on SB 1145 (1995) which transferred management of offenders sentenced or sanctioned to incarceration of 12 months or less, and all felony offenders under community supervision, to the counties. Funds are provided to counties for the costs of supervising these offenders.

Budget Environment

In 2011 and 2012, the Governor established a Commission on Public Safety for "analyzing Oregon's sentencing and corrections data, auditing existing policies, and submitting recommendations that will protect public safety while containing corrections costs and holding offenders accountable." The Commission's work culminated in the passage of HB 3194 (2013). The measure made changes to felony marijuana offenses, felony driving while suspended or revoked, and the Measure 57 crimes of robbery in the third degree and identity theft. Additionally, the measure increased the transitional leave period from 30 days to 90 days prior to inmate discharge and provided for dispositional downward departure for certain Measure 57 crimes where the inmate is a repeat offender.

All of these changes were anticipated to result in a reduction of offenders incarcerated in DOC facilities and to increase the amount distributed to the community corrections departments of counties for probation, post-prison supervision, and local control. The reduction in offenders would, in turn, defer the need for new prison construction for a minimum of five years. The 18-month experience during 2013-15 shows a downturn in population compared to what it would have been without the passage of HB 3194. It should be noted, however, that DOC will continue to use emergency beds to meet its capacity needs.

The following display shows the expected population without HB 3194 (green line), actual population from January 2013 to July 2015 (black line), and the expected population according to the April 2015 population forecast developed by the Oregon Office of Economic Analysis (orange line). The top solid, red line is the population level that would require the opening of a new prison on the Junction City site. The dotted line in the center represents the population level at which remaining areas of the Deer Ridge facility would need to be prepared and used to house minimum security male offenders and at which Oregon State Penitentiary - Minimum (OSPM) would need to be activated and used for female offenders. Actual population numbers will determine if one, both, or neither facility needs to be used.



With respect to females, the current and expected populations are quite close to maximum for the Coffee Creek Correctional facility. The Legislature directed DOC to report back regularly on actual female population, especially in view of potentially activating the OSP Minimum facility. As a potential offset, HB 3503 diverts certain offenders from prison, if they are in custody of their children at the time of their offense and if the offense qualifies for diversion. The subject offenders are to remain in their communities and be provided with enriched services – parenting training, addiction and mental health treatment, vocational training, education, and life skills as appropriate – such that the offenders can maintain a bond with their children and that the intergenerational cycle of criminality can be interrupted. The bill is a pilot program in five counties and expectations are that up to 120 offenders would be diverted from prison.

DOC has depended on “emergency beds” to meet its capacity needs for many years. These beds are generally additional beds in dormitory-like settings in minimum security facilities or additional beds in what had been single bed cells. In a few cases, a new unit has been added in space originally designed for another purpose.

DOC states that it has generally reached the limit for double occupancy cells in its system. There still remain the special unit beds where double occupancy cells are not always feasible and some single cells exist for those with special needs. All facilities, except the Oregon State Penitentiary, will have almost all available cells at double occupancy. Structural load issues prevent the double occupancy use of the remaining single occupancy cells at the Oregon State Penitentiary. Under the current population management plan, which the agency uses to determine what units should be used and when they should open, it is anticipated that all 964 emergency beds will be used during the 2015-17 biennium. Short-term work camp beds may also be added as forest related work needs arise.

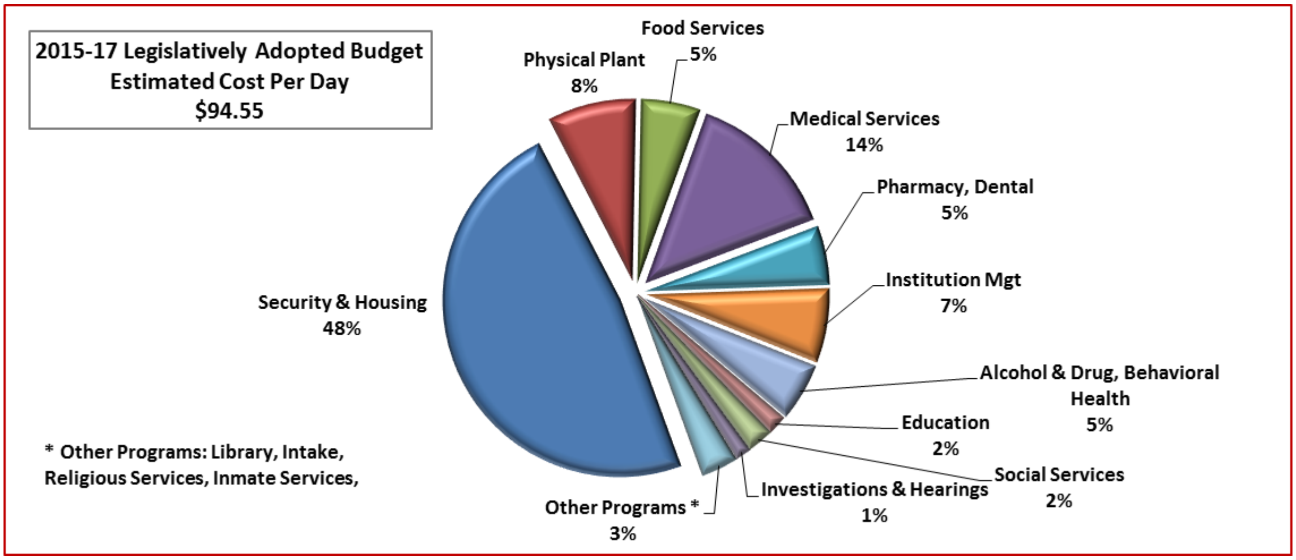
Department of Corrections Faciliites Active Beds During 2015-17					
		Capacity by Security Level - 14,456		E-Beds	
Facility	Location	Minimum	Medium	6/30/2017	Total
Columbia River	Portland	553	-	40	593
Deer Ridge	Madras	657	-	130	787
Mill Creek	Salem	240	-	50	290
Powder River	Baker City	286	-	80	366
Santiam	Salem	440	-	40	480
Shutter Creek	North Bend	302	-	-	302
Snake River	Ontario	174	2,888	80	3,142
South Fork	Tillamook	204	-	-	204
Two Rivers	Umatilla	128	1,750	96	1,974
Warner Creek	Lakeview	406	-	90	496
Eastern Oregon	Pendleton	-	1,659	108	1,767
Oregon State Correctional	Salem	-	890	52	942
Coffee Creek - Male Intake	Wilsonville	-	432	-	432
Penitentiary	Salem	-	2,194	98	2,292
Coffee Creek - Female	Wilsonville	540	713	100	1,353
Women's Correctional	Salem	-	-	-	-
Totals		**3,930**	**10,526**	**964**	**15,420**

Notes:

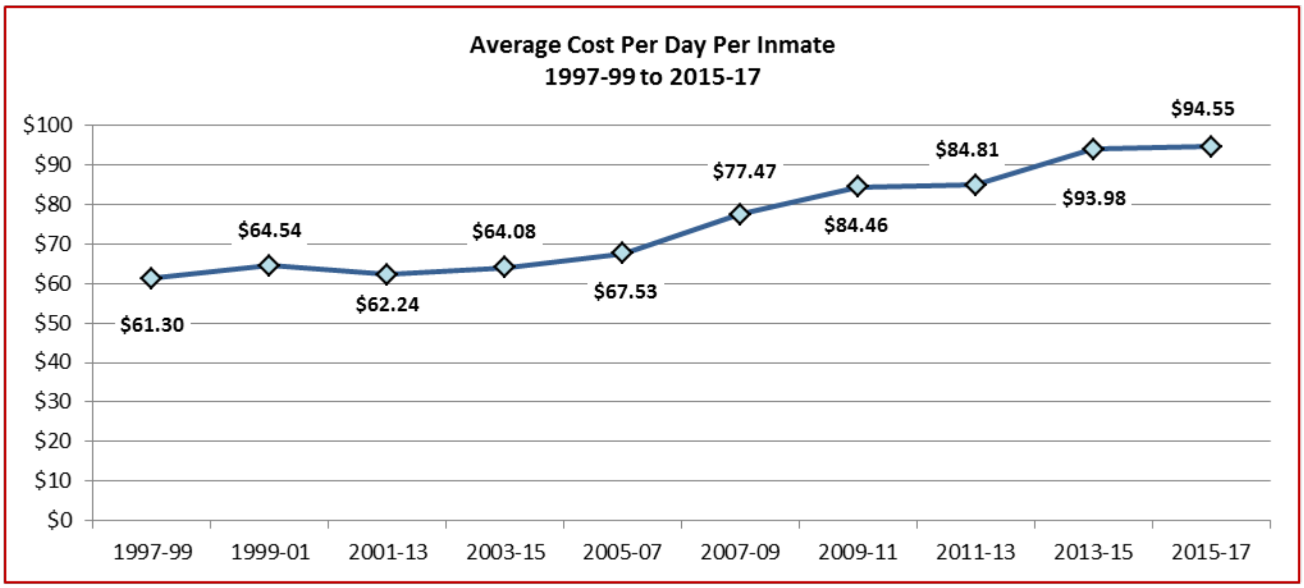
- Deer Ridge has a planned total capacity of 1,880, but only the minimum facility is planned to be occupied in 2015-17.
- Unused (inactive) permanent capacity includes: Shutter Creek (two 50-bed units), Deer Ridge (1,223 additional medium beds) and the mothballed Oregon State Penitentiary Minimum (176 beds).
- As of the end of 2015-17, it is expected that all 964 emergency beds (E-Beds) will be in use.
- There are 338 permanent maximum security beds distributed in various institutions across the state. (49 Death Row, 49 Behavioral Health Unit, and 240 Intensive Management Unit)

The estimated cost per day calculation based on the 2015-17 legislatively adopted budget is $94.55, or a 3.9% increase from the 2013-15 biennium's $90.97, which was calculated based on appropriations through February 2014. It should be noted that the cost per day varies from institution to institution due to a number of factors including the age of facility, seniority of staff, size and characteristics of the population, programming at each facility, and the security level. The cost per day is a "snapshot" and will change depending on the number of inmates and change in the budget during the biennium. The cost per day is an outcome of the given budget; it is not an input used to develop a budget. The total costs included in the calculation are $1.066 billion total funds.

The components of the cost-per-day are reflected in the following display. What this chart does not include is the community corrections budget; debt service for the agency's facilities; department-wide costs of administering the agency, including the overall management; state government service charges; financial and personnel staff; and information systems costs. The total cost excluded from the calculation is $550.2 million total funds.



For context, the following display shows average cost per inmate per day from 1997-99 to the 2015-17 legislatively adopted budget.



Based on the April 2015 corrections forecast, DOC anticipates the felony probation and parole/post- prison supervision caseload to total 33,055 by the end of the 2015-17 biennium, resulting in a community corrections mandated caseload increase of $26 million over the 2013-15 legislatively approved budget.

The Prison Rape Elimination Act (PREA) was authorized in 2003, but the U.S. Department of Justice did not release implementing rules until 2012. The Act applies to public and private institutions that house adult or juvenile offenders. Both DOC and the Oregon Youth Authority (OYA) have developed plans to address requirements for safety, facility oversight, training, and audits. Using existing resources, DOC has achieved the following, since the 2012 rules were issued:

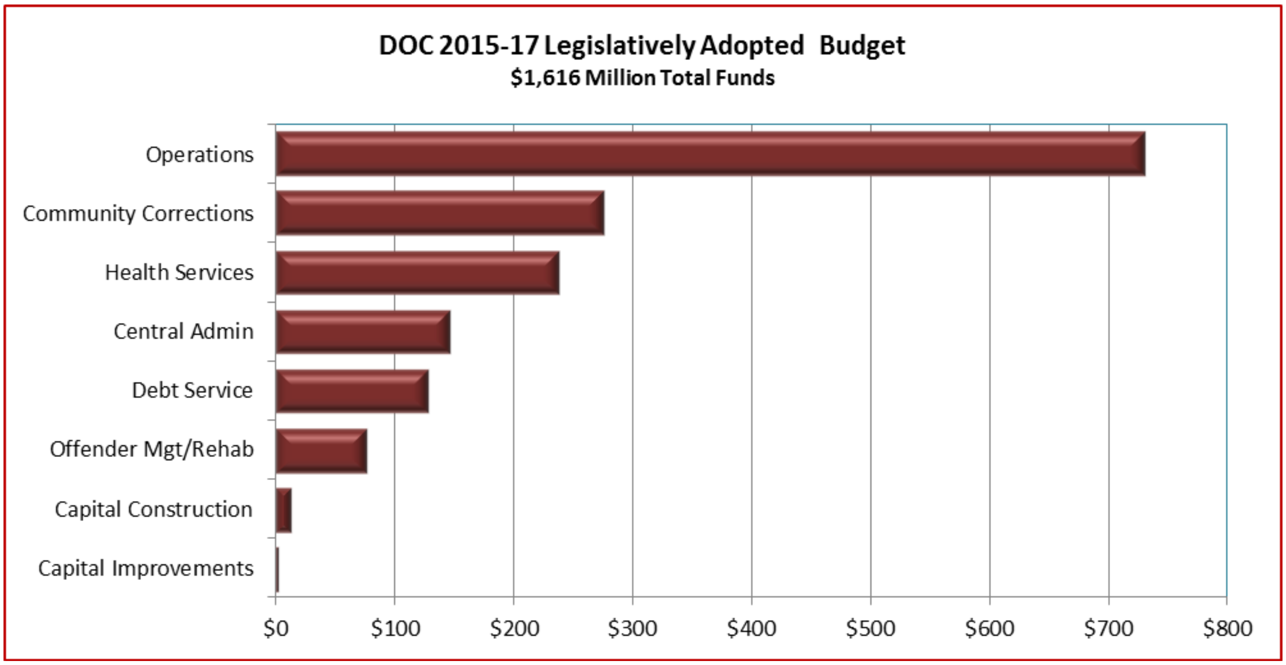
- PREA training for all staff, contractors, and volunteers.
- Education for the inmate population on their rights to be free from sexual abuse and harassment, and how to report.
- Closer initial screening to determine potentially vulnerable or aggressive inmates.
- Improvements in handling vulnerable or aggressive inmates with respect to housing, jobs, and program assignments, to ensure their separation.

- Monitoring for retaliation against inmates who report.
- Development of an advocacy program.

As of September 2015, eight facilities have passed their PREA audits. Six facilities will be audited in 2016. Of a total $14 million in authorized Article XI-Q bond issuance for deferred maintenance and security needs, $1.6 million will be directed to upgrading or replacing security cameras in support of PREA requirements.

There is no specifically identified funding for PREA implementation, nor dedicated staff. Existing resources are currently used. The risks to the agency is potential failure to pass audits, which would reduce any U.S. Department of Justice funding by 5%, or DOC's being liable for an actual PREA incident occurring, which would subject DOC to damage recovery costs.

Legislatively Adopted Budget
The following display is the total funds budget by division for the Department.



The 2015-17 legislatively adopted budget of $1.616 billion total funds is 4.8%, or $74.2 million, greater than the 2013-15 legislatively approved budget. The budget includes the following:

- Support for the Department's staff wellness initiative that adds 33 positions in the Operations Division to reduce the use of overtime.
- General Fund to accommodate the April 2015 population forecast, which includes adjustment for the second biennium impact of 2013's HB 3194.
- Bond funding for deferred maintenance projects.
- Support for two information technology projects.
- Technical adjustments to centralize print services.
- New positions at no additional cost due to redirecting existing Department resources.
- General Fund to support the pilot project in HB 3503.
- General Fund reductions in recognition of statewide limited General Fund availability. The reductions are taken in Operations ($13.3 million), Health Services ($1.7 million), and Community Corrections ($5.2 million). Operations and Health Services are expected to meet the reduction targets through holding vacancies and other personal services actions. No positions are eliminated.

These issues are discussed in more detail in subsequent sections.

Operations

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	653,128,901	709,046,797	723,238,689	716,886,226
Other Funds	7,983,424	12,897,141	10,055,122	13,625,807
Total Funds	**$661,112,325**	**$721,943,938**	**$733,293,811**	**$730,512,033**
Positions	3,263	3,260	3,259	3,292
FTE	3,224.41	3,242.67	3,241.60	3,271.85

Program Description

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, inmate intake, and inmate transportation.

Revenue Sources and Relationships

The Other Funds revenues originate from a variety of sources including: services provided by inmate work crews, meal tickets, and canteen sales; sale of items produced by inmate work and training programs; and Inmate Welfare Fund revenues received from inmates or inmate-related sources such as coin operated telephones, canteen profits, vending machines, and copiers.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $730.5 million total funds is 1.2% higher than the 2013-15 legislatively approved budget. This budget includes the following:

- The addition of 33 new correctional officer positions to address staff wellness by reducing overtime and to simultaneously achieve a post-relief factor of 1.72, as recommended by a recent Association of State Corrections Administrators study. The total cost is $5.2 million General Fund.
- $3.1 million General Fund to accommodate an increased caseload in the April 2015 prison population forecast, compared to the April 2014 forecast.
- An unspecified reduction of $13.3 million General Fund to be addressed through management actions and/or additional vacancy savings to reach a statewide budget balancing target.

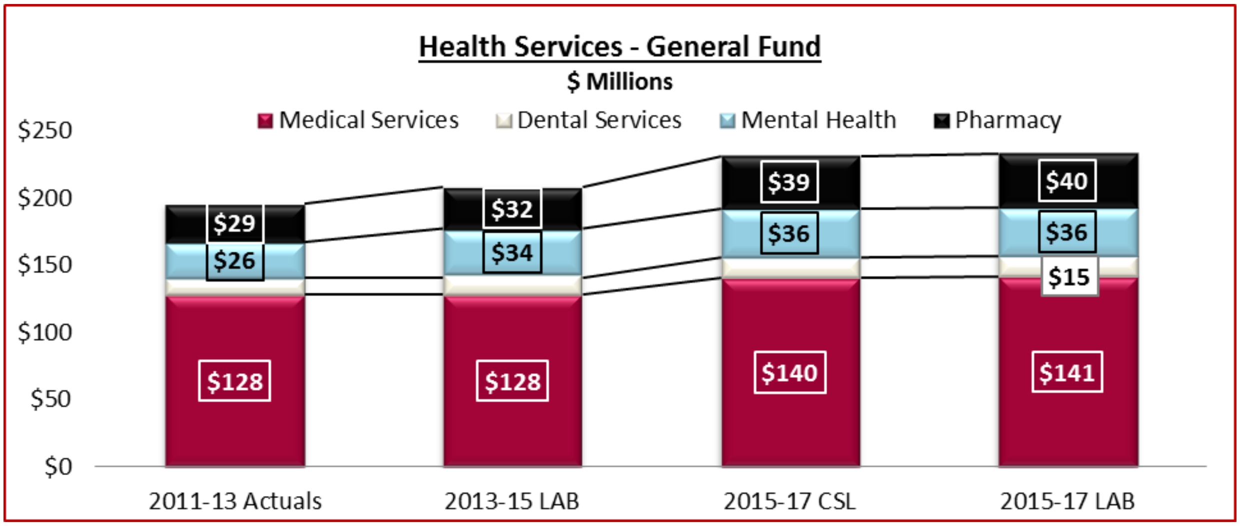
Health Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	196,086,421	212,530,848	231,652,927	233,400,856
Other Funds	572,219	561,676	625,144	625,144
Federal Funds	6,727,220	6,458,521	4,437,428	4,437,428
Total Funds	**$203,385,860**	**$219,551,045**	**$236,715,499**	**$238,463,428**
Positions	559	559	559	563
FTE	524.72	539.63	539.99	543.99

Program Description

Health Services is organizationally part of the Operations Division, but has been designated as a separate budget unit due to its size. It includes the health services employees that provide services at all of the DOC prisons. The level of service varies significantly with a much more extensive set of services at larger facilities like the Oregon State Penitentiary and Snake River. While most of the health services are provided by DOC employees and contractors inside the prisons, some services are provided by community hospitals and providers. The agency estimates that 95% of the services are provided at a DOC facility; but the costs of the remaining 5% of services, which are provided outside of DOC facilities, is roughly 33% of the total Medical unit's spending. This budget unit also includes the mental or behavioral health program which provides a range of services addressing problems dealing with mental illness, developmental disability, and co-occurring disorders (mental illness and substance abuse).

As shown in the following display, healthcare costs have risen significantly due to increasing population, aging population, and a population that arrives at DOC largely having had very poor health care. In addition, a disproportionately large segment of offenders are infected with Hepatitis C. Recently a new drug has become available that is a significant improvement over previous therapies; it will not cure Hepatitis C, but it features improved symptom management over previously available remedies, with significantly reduced negative side effects. Its cost is upwards of $70,000 per treatment for eligible inmates, who are in the latter stages of the disease. The 2015-17 current service level budget funds both the costlier drug and higher usage by inmates.



Revenue Sources and Relationships

Other Funds revenue is generated from charges to inmates to offset the cost of dentures and some vision-related services. Federal Funds are from the federal State Criminal Alien Assistance Program (SCAAP) to offset General Fund needs for incarceration of illegal aliens. This SCAAP grant, however, funds a very small percent of the total costs of incarcerating illegal aliens.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $238.5 million total funds is 8.6% greater than the 2013-15 legislatively approved budget. This budget includes the following:

- $3 million to accommodate the increased caseload identified in the April 2015 population forecast, as compared to the April 2014 forecast.
- $500,000 General Fund to begin conversion of inmate health records to electronic format.
- Four additional positions to help meet increasing mental health demands.
- The current service level budget provided extraordinary inflation for all medical costs, including significantly more expensive treatment for Hepatitis C.
- An unspecified reduction of $1.7 million General Fund to be addressed through management actions and/or additional vacancy savings to reach a statewide budget balancing target.

Community Corrections

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	192,655,359	238,165,055	271,085,060	269,509,472
Other Funds	9,392,105	6,559,372	6,757,387	6,757,387
Federal Funds	288,151	291,797	300,551	300,551
Total Funds	**$202,335,615**	**$245,016,224**	**$278,142,998**	**$276,567,410**
Positions	67	62	62	64
FTE	66.62	62.33	62.33	64.12

Program Description

This budget provides funding to counties for administering the community corrections program. DOC has taken over this responsibility for two counties – 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. The Grant-in-Aid is based on the number and risk levels of offenders to be managed. Three groups are funded through this program:

- Felony Probation – Those individuals sentenced for a felony to probationary supervision instead of incarceration in a local or state correctional facility.
- Parole and Post-Prison Supervision – Those individuals that were incarcerated in a state correctional facility, but have been released, and are now supervised in the community corrections system. Individuals who committed their crime prior to November 1989 are placed on parole; post-prison supervision applies to individuals that were sentenced under the sentencing guidelines.
- Local Control – Offenders that are: (1) convicted of 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 under 30 days for violating the terms of community supervision.

Also included in this budget unit is the funding for reimbursing counties for the jail costs associated with the pre-trial and post-trial incarceration costs for Ballot Measure 73 offenders. In addition, beginning with the 2011-13 biennium, revenue from court fees and fines are distributed to counties for correction programs, facilities, and alcohol and drug programs. In 2015-17, the total from court fees and fines is $4.4 million.

Revenue Sources and Relationships

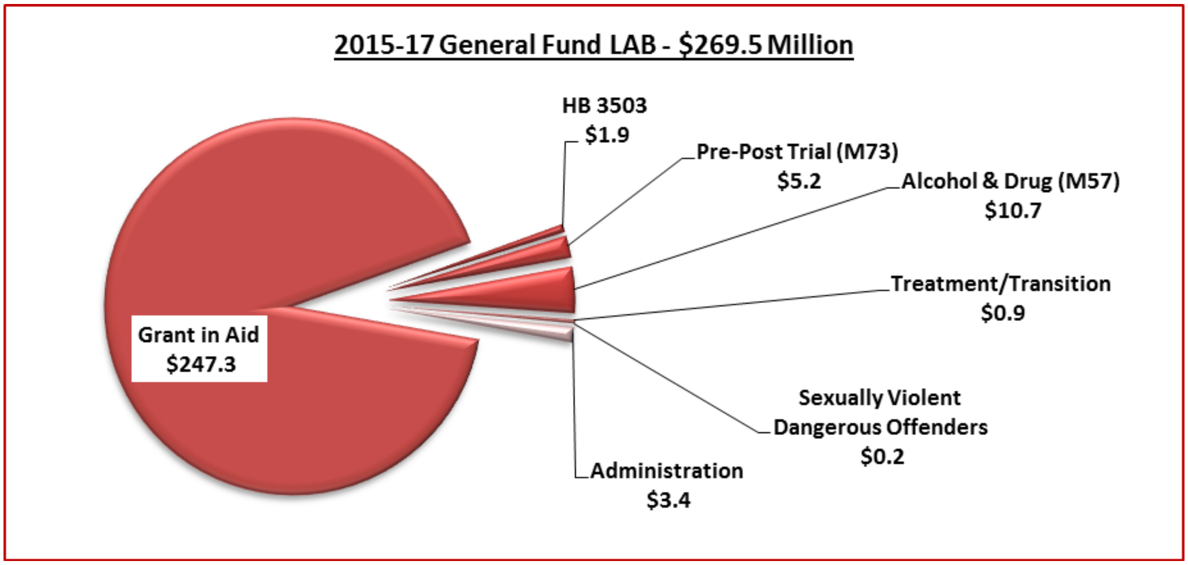
For the 2015-17 biennium, 81% of the General Fund resources for grant-in-aid to counties will be distributed based on the need for felony probation, post-prison supervision, and parole supervision. The remaining 19% will be distributed for the 2.1% of the population classified as local control. Counties also contribute varying amounts to the community corrections system.

The primary source of Other Funds revenue in the Community Corrections budget is the Criminal Fine Account ($4.4 million) to support distributions to counties for correction programs, facilities, and alcohol and drug programs. This Division also receives supervision fees and other revenues collected by the Linn and Douglas county programs totaling $1.6 million, as well as Inmate Welfare Funds.

Federal Funds revenue is from the U.S. Department of Justice, Bureau of Justice Assistance SMART probation grant to develop more effective and evidence-based probation programs. This revenue was inadvertently included; the Department, however, did not receive the grant for 2015-17. The limitation will be unscheduled during the 2016 legislative session.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $276.6 million total funds is a 12.9% increase over the 2013-15 legislatively approved budget. This budget includes an increase of approximately $26 million for mandated caseload growth compared to the April 2014 forecast, and a reduction of $5.1 million in jail support payments. To implement HB 3503, $1.9 million General Fund is added to fund grants for the five participating counties – Deschutes, Jackson, Marion, Multnomah, and Washington. The grants are to provide services to assist eligible offenders in their efforts to not reoffend. There is also funding to support administration of the grant program; 1 position is added to evaluate programs, services, systems, and program effectiveness with respect to evidence-based standards, among other duties.

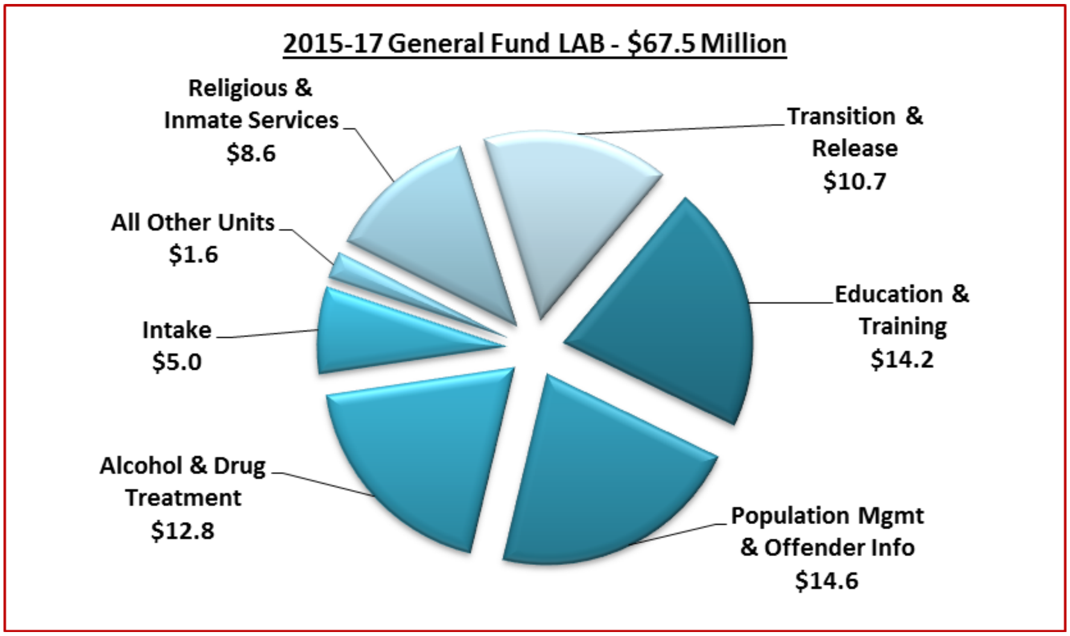


Offender Management and Rehabilitation

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	60,796,556	62,496,247	66,952,181	67,475,379
Other Funds	5,338,159	9,140,289	9,510,156	9,510,156
Federal Funds	467,976	--	--	--
Total Funds	**$66,602,691**	**$71,636,536**	**$76,462,337**	**$76,985,535**
Positions	194	193	193	195
FTE	186.32	191.50	191.50	193.50

Program Description

The Offender Management and Rehabilitation Services Division seeks to reduce the risk of future criminal conduct by offenders under the supervision of DOC and counties. Through programs including workforce development (e.g., education and cognitive/life skills) and substance abuse treatment, DOC works toward preparing the incarcerated offender for a transition back into the community when released, and to reduce recidivism. This Division is also responsible for administering jail inspections, religious services, sentence computation, inmate classification, victim services, and offender records.



Revenue Sources and Relationships

Other Funds revenue consists of inmate welfare funds to support alcohol and drug programs; charges for the inmate work; and resources transferred in for education programs from the Department of Education and the Higher Education Coordinating Commission.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $77 million total funds is 7.5% higher than the 2013-15 legislatively approved budget. This budget includes increased General Fund for the April 2015 prison population forecast increase and 2 new education positions. In addition, SB 5507 appropriated $400,000 General Fund to the Department of Administrative Services for the Greater Portland YWCA to implement an enhanced visitation and bonding program for children of incarcerated parents. A related budget note directs the Department to cooperate with the YWCA by providing space and personnel to support the program.

Central Administration, General Services, and Human Resources

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	123,935,082	129,940,046	140,477,338	138,233,454
Other Funds	6,195,081	8,010,907	8,239,084	8,493,426
Other Funds (NL)	1,820,943	--	--	--
Federal Funds	408,791	618,689	849,445	972,128
Total Funds	**$132,359,897**	**$138,569,642**	**$149,565,867**	**$147,699,008**
Positions	428	414	409	409
FTE	411.67	405.55	406.16	406.16

Program Description

This section includes three organizational units within the Department of Corrections:

- Central Administration – Includes the Office of the Director, the Office of the Inspector General, the Internal Audits Office, the Government Efficiencies and Communications Unit, Research and Projects, and the Planning and Budget Office. All state government service charges are budgeted in this unit.
- General Services – Includes fiscal Services which provides accounting and contract-related services; information Systems and Services including operations and user support, application development, and system maintenance; distribution Services which provides goods and services to operate facilities across the

state including food and canteen supplies; and facilities Services which is responsible for the repair and maintenance program, management of leased facilities, and energy conservation.

- Human Resources staff – Provides agency wide services including labor management, recruitment, employee development, training, employee safety, and risk management.

Revenue Sources and Relationships

Other Funds revenues are primarily generated through commissary sales; General Services' miscellaneous sales, rentals, and surplus equipment; and debt financed cost of issuance. Federal Funds revenue in the 2015-17 biennium is from a grant related to the Prison Rape Elimination Act.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $147.7 million total funds is a 6.7% increase from the 2013-15 legislatively approved budget. This budget includes funding for lifecycle replacement of the thin client intranet equipment that accesses educational and law library materials, for increased caseload as calculated in the April 2015 prison population forecast, reductions related to changes in the Attorney General hourly rates and DAS assessments, and technical adjustments to centralize print services costs.

Debt Service

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	130,359,165	129,710,174	127,875,094	127,675,455
Other Funds	--	865,000	--	--
Other Funds (NL)	344,952,827	5,558,586	--	--
Federal Funds (NL)	1,232,825	1,262,826	1,119,495	1,119,495
Total Funds	**$476,544,817**	**$137,396,586**	**$128,994,589**	**$128,794,950**

Program Description

Debt service is the obligation to repay the principle and interest costs of certificates of participation (COPs) and Article XI-Q bonds issued to finance the costs of construction and improvement of correctional facilities. Beginning with the construction of the Snake River Correctional Facility in Ontario in the early 1990s, DOC has used COPs to finance the major expansion of the prison system. The proceeds from COPs are also used for 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. For the 2013-15 biennium forward, debt financing will utilize Article XI-Q bonds.

Revenue Sources and Relationships

Other Funds are unused balances in various capital financing accounts that were used to offset General Fund debt service. The Nonlimited Other Funds was used to accommodate refinancing of existing COPs, while the Nonlimited Federal Funds limitation allows for the use of "Build America" bonds where the federal government provides a subsidy for taxable bonds for eligible projects.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for debt service of $128.8 million total funds is 6.3% less than the 2013-15 legislatively approved budget. This budget reflects updated debt service requirements from refinancing completed in the 2013-15 biennium. Newly authorized deferred maintenance capital construction bond issuance is scheduled in 2017, such that no additional debt expenditures are incurred in the 2015-17 biennium. The 2015-17 debt service is 8% of the Department's total General Fund budget.

Capital Improvements

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	2,635,425	2,644,700	2,724,041	2,723,694
Other Funds	392,121	--	--	--
Total Funds	**$3,027,546**	**$2,644,700**	**$2,724,041**	**$2,723,694**

Program Description

This budget unit captures maintenance and asset protection expenditures for the agency's 14 institutions and approximately 4.6 million square feet of building space. Qualified projects must be less than $1 million; if projects exceed $1 million, they are categorized as capital construction.

Revenue Sources and Relationships

This budget unit is supported by General Fund.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $2.7 million General Fund is 3% higher than the 2013-15 legislatively approved budget. The only adjustment was standard inflation provided in developing the current service level budget.

Capital Construction

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	--	4,961,000	--	14,220,432
Total Funds	**--**	**$4,961,000**	**--**	**$14,220,432**
Positions	2	0	0	0
FTE	2.00	0	0	0

Program Description

This 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, with an aggregate cost of $1 million or more. The expenditure limitation for each project is in effect for six years. These projects are typically debt financed, which is reflected in a preceding budget unit. The agency inventory of deferred maintenance need is in excess of $68 million.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget includes a $14.2 million authorization for 25 Priority 1 statewide deferred maintenance projects from the $68 million list including: road and erosion stabilization; camera upgrades and replacements; roof replacements for prisons; boiler and HVAC upgrades; kitchen floor replacement; public address and other electronic control upgrades; cooler repairs; and lighting upgrades.

Project work will begin later in the biennium when bonds are sold, such that additional debt expenditures are not incurred until the 2017-19 biennium, when the debt service will be $3.7 million General Fund.

CRIMINAL JUSTICE COMMISSION

Analyst: Gilbert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	4,760,995	23,851,046	25,047,019	55,035,612
Other Funds	71,880	1,341,680	494,068	494,015
Federal Funds	16,386,362	9,770,318	6,830,202	7,304,929
Total Funds	**$21,219,237**	**$34,963,044**	**$32,371,289**	**$62,834,556**
Positions	10	9	9	11
FTE	9.00	8.38	8.50	11.00

Overview

The Criminal Justice Commission (CJC) and its staff focus their activities on developing and analyzing state criminal justice policies and sentencing guidelines, administering the Justice Reinvestment grant program, as well as both state and federal criminal justice grant programs including specialty court funding, providing technical assistance to local public safety coordinating councils, and supporting the Asset Forfeiture Oversight Advisory Committee.

Revenue Sources and Relationships

General Fund supports most of the budget and has grown significantly in response to the passage of sentencing reform legislation in 2013, HB 3194. The Commission's Other Funds revenue is derived from forfeiture proceeds, which fund the activities of the Asset Forfeiture Oversight Advisory Committee. The Federal Funds in the budget are mostly provided by the Edward Byrne Memorial Justice Assistance Grant (JAG).

Budget Environment

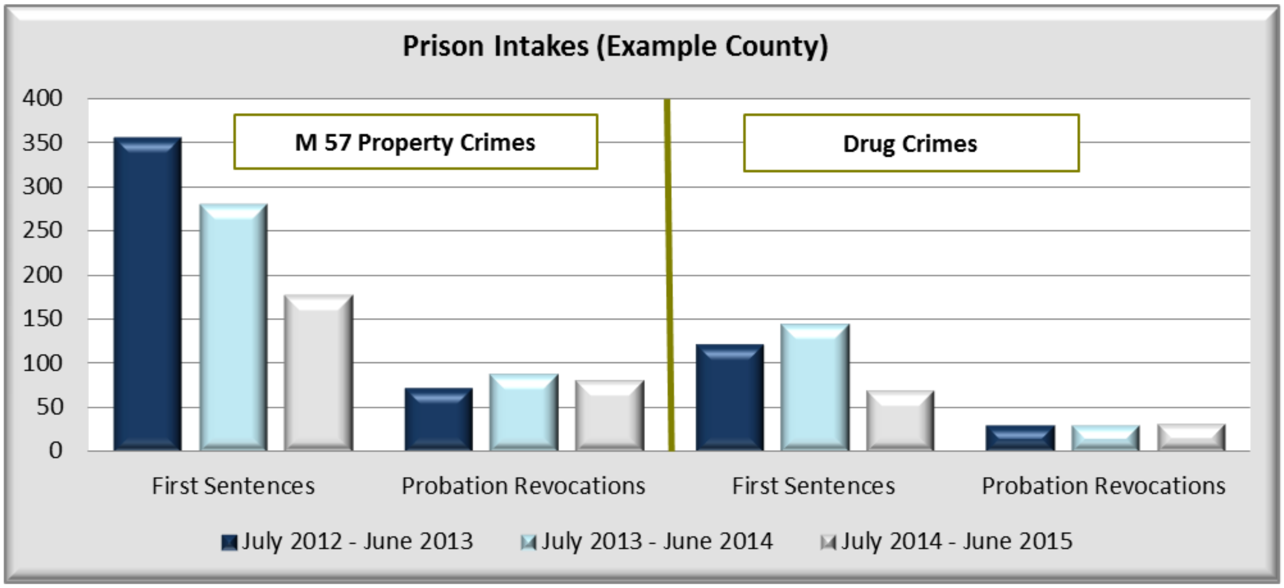
The 2005 Legislature created a program to expand the capacity of drug courts and instructed the Commission to take the lead in developing the program and evaluating drug courts. Initial funding of these courts came from the state's General Fund and supported expenditures for treatment and court coordinators. In 2009, the program was expanded and continued through the 2011-13 biennium with additional resources through JAG and American Recovery and Reinvestment Act (ARRA) grants. ARRA funding expired in September 2013.

While specialty courts have existed since 1991, CJC's first involvement was in 2005 to expand drug courts in response to higher methamphetamine production and use. There are 66 specialty and 18 other alternative docket programs in Oregon. CJC is involved in 34 courts and the budget for 2015-17 is about $14 million total, of which $13.4 million is General Fund.

In accordance with HB 3194, the Commission administers the Justice Reinvestment Account (Account) to support grants to counties for programs to reduce recidivism and decrease utilization of state prison capacity. The measure did not establish a funding level for the Account. However, it was generally understood that a minimum of $10 million General Fund would be appropriated for the 2013-15 biennium. Further it was understood that the Governor's Office would direct the Commission to allocate $5 million in federal funds from the 2012 and 2013 JAG resources for similar grants to counties. For the 2015-17 biennium, the current service level for the Account is $10 million General Fund.

CJC is responsible for determining expected HB 3194 program goals, selecting grant recipients, and providing data on actual program outcomes. Actual outcomes are shared with recipients and compare, for the specific offenses covered by HB 3194, changes by county year-over-year in: Number of prison intakes, including revocations; length of stay in months; total prison months; and short term transitional leave increases.

This display is an example of one of the ways CJC reports back to counties. In this case, intakes for two kinds of crime show first sentences for both HB 3194 property and drug crimes decreasing, as would be expected from the measure's changes, and revocations remaining flat. With this kind of feedback, counties can compare implementation methods with other counties, to see what practices could safely reduce prison use numbers.



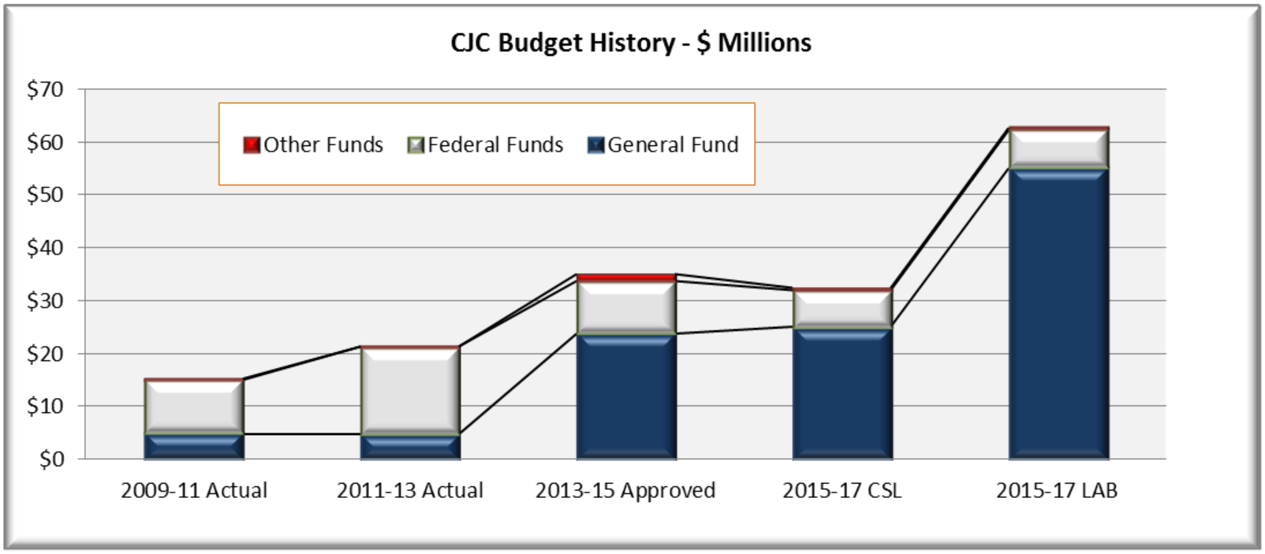
<u>Legislatively Adopted Budget</u>

The 2015-17 legislatively adopted budget for the Commission of $62.8 million total funds is a 79.7% increase from the 2013-15 legislatively approved budget. This budget reflects an increase of $31.2 million General Fund and reductions in Other Funds of $847,665 and in Federal Funds of $2.5 million. Positions increase by 2, or 22%.

Specific Changes from the 2013-15 legislatively approved budget are:

- General Fund increase of $30 million over the current service level $10 million for Justice Reinvestment grants to local criminal justice systems and treatment providers:
  - $28.7 million for direct grants
  - $1.3 million for 2.50 FTE and associated services and supplies to administer the Justice Reinvestment grant program
- Federal Funds net increase of $474,727, consisting of a $5.2 million reduction to phase out the one-time drawdown of accumulated Federal Funds to support the Justice Reinvestment program in 2013-15 and an increase of $5.7 million to recognize grants that were not yet known during budget development:
  - Byrne/JAG $5.5 million for drug courts
  - Statistical Analysis $119,484 for federal reporting compliance
  - Residential Substance Abuse Treatment $101,478 for jail substance abuse treatment in one county
- $11,604 total funds reduction to reflect lower Department of Administrative Services' assessments and Attorney General hourly rates.

The following display illustrates the dramatic rise in the agency's total budget over a relatively short period of time, for the most part due to General Fund ties to the enactment of HB 3194 in 2013. The increase in Federal Funds in 2011-13 is due to the infusion of one-time American Recovery and Reinvestment Act dollars for local grants.


CJC Budget History - $ Millions
$70
$60
$50
$40
$30
$20
$10
$0
Other Funds
Federal Funds
General Fund
2009-11 Actual
2011-13 Actual
2013-15 Approved
2015-17 CSL
2015-17 LAB

DISTRICT ATTORNEYS AND THEIR DEPUTIES

Analyst: Rocco

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	10,565,984	10,925,293	11,644,429	11,610,450
Total Funds	**$10,565,984**	**$10,925,293**	**$11,644,429**	**$11,610,450**
Positions	36	36	36	36
FTE	36.00	36.00	36.00	36.00

Overview

District Attorneys and their deputies (DAs) 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.

Although this “agency” is listed separately, the budget described here only includes the salaries for the 36 separately elected district attorneys, all of whom are state employees, and state government service charges that primarily cover tort liability and other insurance related purposes. There is a two tier, annual compensation plan for DAs. Ten DAs in counties with populations exceeding 100,000 receive $116,868; all else receive $99,288. Twenty-six counties provide supplemental compensation for their elected District Attorney, ranging from $6,000 to $55,238 per year; the ten other counties provide no supplement. The state budget has not contributed to the cost of the deputy district attorneys since the 2007-09 biennium, nor witness fees for trials and grand jury hearings since the 1999-2001 biennium. The Department of Justice (DOJ) provides administrative and financial support for the agency.

Revenue Sources and Relationships

State payments for the salaries of District Attorneys are made entirely with General Fund. The state’s portion of the total budgets for District Attorney Offices across the state, however, is small. A county DA office survey compiled in 2000 (which appears to be the most recent) showed that state funds covered approximately 9% of the $57 million total statewide expenditures, but ranged between 2% (Multnomah) and 70% (Wheeler) of county prosecution budgets. District Attorneys have offices ranging from just the elected official to offices with nearly 100 Deputy District Attorneys. Statewide, there are over 350 Deputy District Attorneys which are now funded entirely by local resources.

Budget Environment

There are a number of measures of workload for DAs and their offices including number of arrests for person, property, and behavior crimes; or the number of filings where a felony was the most serious charge. While these are indicators of DA workload, they do not capture all of the potential workload. When reported crimes and arrests are higher or when there are few resources, DA offices must take a variety of actions to meet the increased demand, including: (1) prioritize cases; (2) rely more on plea bargaining negotiations and alternative dispositions (deferred sentencing and reduction of certain felonies and misdemeanors to violations) to reduce the number of trials; and (3) limit the amount of time spent in preparation and prosecution of each case.

The most significant policy/budget issue facing the 2015-17 budget was the DAs continuing efforts to obtain salary increases. The DAs proposed a $10,000 compensation increase to the Legislature during the 2014 legislative session comprised of two $5,000 increments over time. The Legislature approved the first of these increments, approving a $5,000 increase effective July 1, 2014. In addition to this increase, DAs (as state employees without statutorily set salaries) also received cost-of-living adjustments during the 2013-15 biennium of 1.5% on December 1, 2013 and 2% on September 1, 2014. The proposed increase of another $5,000 per year effective on July 1, 2015 was not included in the 2015-17 legislatively adopted budget.

A second policy issue is related to sentencing reform and the passage of HB 3194 (2013) designed to make changes to felony marijuana offenses, felony driving while suspended or revoked, and the Measure 57 crimes of robbery in the third degree and identity theft. Additionally, the measure increased the transitional leave period from 30 days to 90 days prior to inmate discharge and provided for dispositional downward departure for certain other Measure 57 crimes where the inmate is a repeat offender. All of these changes were anticipated to result in a reduction of offenders incarcerated in Department of Corrections' (DOC) facilities and increase the amount distributed to the community corrections departments of counties for probation, post-prison supervision, and local control. DAs were expected to play a key role in applying these changes. Currently, the anticipated avoided costs from the sentencing reform are not materializing to the extent projected and changes in DOC population are not being experienced as quickly as projected.

A third policy issue is related to witness fees. In the past, the state contributed partial reimbursement for witness fees required to be paid for trials and grand jury proceedings in criminal cases. Witness fees were eliminated in the 2003-05 budget in response to state budgetary shortfalls. ORS 44.415(2) requires payment of $5 per day plus 8 cents per mile for witnesses subpoenaed to attend grand jury proceedings, trials, probation violation hearings, pre-trial hearings, and other court actions. Expert witnesses are also often required to be hired to prepare and testify in certain situations. The DAs proposed an increase of $930,000 General Fund for the 2015-17 biennium to partially cover witness fees. This proposal was not included in the 2015-17 legislatively adopted budget.

DOJ and the Department of Human Services (DHS) have been working with local partners to discuss improvements to juvenile dependency proceedings. Key areas of concern include the limited or declining district attorney resources to address consistent processes, and the need for legal representation or support for case workers. The Legislature is expecting a proposal during the 2016 legislative session to address this issue.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the District Attorneys and Their Deputies was essentially a current service level budget designed to fund all existing services through the next biennial budget period. The total budget of $11.6 million General Fund is 6.4% higher than the 2013-15 legislatively approved budget and only included increases for higher state government service charges assessed against the agency's budget.

DEPARTMENT OF JUSTICE

Analyst: Borden

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	58,984,867	65,463,853	80,722,195	76,083,264
Other Funds	216,864,634	258,769,616	260,788,031	284,955,845
Other Funds (NL)	5,179,686	4,753,390	4,895,992	4,895,992
Federal Funds	101,301,300	123,061,473	117,124,477	142,401,423
Federal Funds (NL)	14,681,023	15,281,798	15,740,252	15,740,252
Total Funds	**$397,011,510**	**$467,330,130**	**$479,270,947**	**$524,076,776**
Positions	1,295	1,285	1,268	1,305
FTE	1,273.17	1,266.83	1,260.48	1,291.70

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. DOJ is also responsible for a number of programs, including child support, district attorney assistance, crime victims' compensation, charitable activity enforcement, organized crime-related law enforcement, criminal investigations, criminal intelligence, and consumer protection and education services.

Revenue Sources and Relationships

The Department of Justice is funded with General, Other, and Federal Funds.

For the 2015-17 biennium, the General Fund accounts for 15% of the legislatively adopted budget and is used primarily for the Child Support Program, Defense of Criminal Convictions, crime victims' programs, legal work for which no state agency can be billed directly (e.g., ballot measure related), and the law enforcement activities of the Criminal Justice Division. Indirect General Fund (i.e., Other Funds) is received in the form of an allocation from the Criminal Fines Account and the payment of some legal service costs by General Funded agencies.

Other Funds resources support 55% of the budget (including Nonlimited) and include charges to agencies for legal services, Tobacco Settlement Funds Account, settlements, license and other fees, charges, and fines.

DOJ generates the majority of its Other Funds revenue from charges to state agencies for legal services. The rates cover direct program costs and indirect costs of providing administrative services tied to services funded by charges to state agencies. The 2013-15 biennium Attorney General rate was $159 per hour and generated an estimated $139.1 million. The 2015-17 Attorney General rate for the legislatively adopted budget is $175 per hour and is estimated to generate $153.3 million. This is a $14.2 million increase (or 10.2%). Although the agency has the statutory authority to determine the various hourly rates, the rate has historically been reviewed through the legislative budget process.

Federal Funds (including Nonlimited) make up 30% of the budget and include the federal share of the Child Support program, the Child Support Enforcement Automated System information technology project, the Medicaid Fraud program, and crime victims' grants.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for DOJ is $524.1 million and includes $76.1 million General Fund, $289.9 million Other Funds, and $158.1 million Federal Funds. The adopted budget is a $56.8 million (or 12.1%)

increase from the 2013-15 legislatively approved budget. Highlights of the changes between the two biennial budgets include:

- $45.2 million Other and Federal Funds to continue the Child Support Enforcement Automated System information technology project, plus $4 million in General Fund Debt Service.
- $2.6 million Other Funds for the Mortgage Mediation program (Oregon Foreclosure Avoidance Program).
- $2.5 million Other Funds increase, a $6.4 million Federal Funds reduction, and the transfer of two positions (2.00 FTE) for the Criminal Justice Division to move the fiduciary responsibilities of the High Intensity Drug Trafficking Area to the Department of Public Safety Standards and Training.
- $2.3 million Other Funds for the Administration Division for a legal case management system and website.
- $2 million Other Funds for the Civil Division for Cover Oregon Litigation.
- $2 million Other Funds for the Administration Division for the Portland Office relocation.
- $1.5 million Other Funds and 9 permanent positions (7.39 FTE) for the Trial Division for defending the state in civil lawsuits.
- $806,958 General Fund and 3 limited duration positions (3.00 FTE) for the Criminal Justice Division to continue operation of the Fusion Center.
- $794,618 Other Funds and 5 permanent positions (3.75 FTE) for the Civil Division for financial fraud enforcement.
- $243,783 General Fund and 1 position (1.00 FTE) for the Civil Division to continue the defense of court-ordered arbitration associated with the Master Tobacco Settlement Agreement.

Apart from the agency's budget, the Legislature established a $2 million General Fund special purpose appropriation to the Emergency Board for the Defense of Criminal Convictions as a contingency for potential caseload increases.

There are no budget notes for the agency.

Administration

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	289,500	321,115	--	--
Other Funds	24,441,625	27,881,531	28,797,631	32,774,478
Total Funds	**$24,731,125**	**$28,202,646**	**$28,797,631**	**$32,774,478**
Positions	110	111	110	111
FTE	109.00	109.59	109.00	109.26

<u>Program Description</u>

Administration includes the Office of the Attorney General and Administrative Services. The Office of the Attorney General, which includes the executive management of the Department, sets direction and policy for the Department. Administrative Services provides centralized operational support services for most of the Department and includes fiscal services, information services, facility operations, and human resources. Some programs, such as the Child Support Division, maintain some separate administrative services.

<u>Revenue Sources and Relationships</u>

The primary revenue source for Administration is derived from a cost allocation plan that charges the other divisions and programs in the Department for services such as fiscal, personnel, facilities management, and information systems. The distribution of these costs is based on the amount of time or service each section of Administration provides to other divisions or programs.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for this unit of $32.8 million total funds is $4.6 million (or 16.2%) greater than the 2013-15 legislatively approved budget. The budget includes the following:

- $2.3 million Other Funds for a new legal case management system ($1.84 million) and website.
- $2 million Other Funds for the Portland Office relocation project, which includes 1 limited duration project manager position (0.88 FTE).
- $444,608 Other Funds reduction for staffing changes including: adding 2 Human Resource Analyst positions (1.50 FTE); 1 Fiscal Analyst 2 position (1.00 FTE); abolishing 1 Accountant 2; 2 Accounting Technician 2s; and 1 Principal Executive Manager B position; and reclassifying 2 project manager positions and one procurement contract specialist position.

Appellate Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	307,785	280,533
Other Funds	15,381,040	17,300,602	19,513,540	18,549,768
Total Funds	**$15,381,040**	**$17,300,602**	**$19,513,540**	**$18,830,301**
Positions	56	58	61	57
FTE	55.44	57.37	60.13	56.37

Program Description

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. Attorneys in this Division spend the majority of their time preparing briefs and arguing appeals in criminal, civil, and administrative cases in which the parties disagree with the trial court or agency results. In most of these cases, attorneys appear before the Oregon Court of Appeals, the Oregon Supreme Court, and the federal Ninth Circuit Court of Appeals. Attorneys occasionally appear in other federal appellate courts and the U.S. Supreme Court. Attorneys in this Division also must prepare and defend ballot measure titles.

Revenue Sources and Relationships

Approximately 70% of the billable hours for this Division are charged to the General Fund appropriation for the Defense of Criminal Convictions (see later section). Revenues for civil or administrative appeals are Other Funds generated from the hourly fees billed to state agencies. General Fund is for preparing and defending ballot measure titles.

Budget Environment

Since the Department is usually responding to appeals filed by others, it has little or no control over its workload. The Division handles roughly 4,000 cases (approximately 1,000 civil and 3,000 criminal) per biennium and is involved in about 80% of the Oregon Court of Appeals cases and about half of the Oregon Supreme Court cases.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for this Division totals $18.8 million, including $280,000 General Fund and $18.5 million Other Funds. The total budget is $1.5 million (or 8.8%) higher than the 2013-15 legislatively approved budget.

Civil Enforcement Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	6,099,829	3,809,509	3,763,637	4,005,706
Other Funds	50,335,966	68,920,197	67,735,255	72,282,820
Other Funds (NL)	143,214	471,040	485,171	485,171
Federal Funds	2,498,135	4,003,121	3,545,632	3,535,552
Total Funds	**$59,077,144**	**$77,203,867**	**$75,529,695**	**$80,309,249**
Positions	195	202	198	205
FTE	193.55	200.11	196.79	202.54

Program Description

The Civil Enforcement Division represents the state in civil cases and also enforces certain criminal laws. This Division includes five sections:

- Child Advocacy – Represents the Division of Child Support (DCS) in judicial proceedings to establish paternity and enforce child support orders. This section also represents the Department of Human Services (DHS) in juvenile dependency and termination of parental rights cases and mental health commitments.
- Civil Recovery – Prosecutes plaintiff's civil litigation on behalf of any agency with a tort, contract, statutory, or other claim to recover money or property. It also represents agencies in bankruptcy proceedings and in post-judgment collections, obtains injunctive relief on behalf of state agencies, and represents the state's interest in probate matters, including conservatorship and guardianship cases. This section also enforces child support orders, prosecutes environmental crimes, enforces state tobacco laws relating to the Master Settlement Agreement, enforces civil rights laws, and represents the state's interest in securities litigation.
- Medicaid Fraud Unit – Investigates and prosecutes fraudulent billings by Medicaid-funded providers; instances of patient abuse or neglect committed by Long-Term Care Facilities or their employees; and fraud in the administration of the Medicaid program. Federal Medicaid law requires each state have a fraud unit separate from its Medicaid designated agency (DHS).
- Financial Fraud/Consumer Protection- Educates consumers to better protect themselves against marketplace fraud and abuse. It also prosecutes violations of these and antitrust laws, seeking restitution, attorney fees, and penalties for injured consumers and state agencies to deter future wrongdoing.
- Charitable Activities – Supervises and regulates the activities of charitable, professional fundraisers, and, to some degree, other nonprofit organizations; and enforces laws related to charitable trusts, charitable solicitations, and nonprofit gaming.

Revenue Sources and Relationships

Revenue to support the Child Advocacy and Civil Recovery sections comes from billings to state agencies. Federal Funds provide 75% of the resources for the Medicaid Fraud Control Unit, while the state must contribute a 25% match to receive the federal funds. The federal government allows DOJ to use Medicaid recoveries for the state match in some cases as long as the Medicaid program and other victims are first made whole. Financial Fraud/Consumer Protection section services are funded by Other Funds, including funds in the Department of Justice Protection and Education Revolving Account paid by companies and organizations that sign assurances of voluntary compliance for violations of consumer protection laws. Fees charged to charitable and non-profit organizations for registration, filing financial reports, and gaming activities provides funding for the Charitable Activities section.

Budget Environment

Oregon's Medicaid Fraud unit is relatively small when compared to other states with comparable Medicaid budgets. The number of senior citizens in long-term care facilities, the size of the Medicaid budget, the number of Medicaid providers, federal expansion of the section's jurisdiction, and the sophistication seen in health care fraud schemes all affect the unit's workload.

The Financial Fraud/Consumer Protection section anticipates a continued flow of consumer complaints, including that of Internet fraud. Consumer hotline calls totaled just under 78,000 for a two-year period between January 2012 and December of 2013, and the written and electronically submitted complaints totaled just under 24,000 for the same period. Restitution to consumers between July 2011 and June 2013 totaled approximately $6.4 million.

The number of registered charitable organizations has increased from about 3,000 in the early 1990s to currently over 19,000. This unit must monitor performance and proposed actions of charitable organizations. Prior to modifying or terminating a charitable trust, the trust's proposed actions must be reviewed by this unit. Nonprofit gaming organizations, numbering around 640, are also monitored including screening applicants for licenses and insuring compliance with rules.

ORS 9.320 requires state agencies to appear in court proceedings with attorney general counsel. In practice, due to resource constraints, Department of Human Services child welfare case workers appear in court without counsel in post-jurisdictional, uncontested hearings. During the 2014 legislative session, this practice was codified until June 30, 2015 (see HB 4156 from 2014). SB 222 (2015) extended the sunset from June 30, 2015 to June 30, 2018. In addition to the extension of the sunset, SB 222 established an 18-member Task Force on Legal Representation in Childhood Dependency. The task force is charged with recommending models to ensure adequate representation for children and parents served by the child welfare system. The task force is required to submit a report to the Legislature by July 15, 2016.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget for this Division of $80.3 million total funds is $3.1 million (or 4%) higher than the 2013-15 legislatively approved budget. The budget includes the following:
- $2.6 million for the Mortgage Mediation program (Oregon Foreclosure Avoidance Program).
- $2 million Other Funds for Cover Oregon Litigation and the state's Oregon False Claims Act lawsuit against Oracle America, Inc., for the health care exchange (filed in August 2014).
- $794,618 Other Funds and 5 permanent positions (3.75 FTE) for financial fraud enforcement of Oregon's Unfair Trade Practices Act and the Oregon False Claim Act.
- $243,783 General Fund and 1 position (1.00 FTE) to continue the defense of court-ordered arbitration associated with the Master Tobacco Settlement Agreement.
- $270,224 Other Funds to transfer 1 Attorney-in-Charge position (1.00 FTE) from the General Counsel to the Civil Enforcement Division.
- $139,583 Other Funds for an increase in the charities fee. The revenue impact for the 2015-17 biennium is $370,964 Other Funds. Once the new fee structured is phased-in, the biennial revenue is estimated to increase from $1.5 million to $3.1 million.

Criminal Justice Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	7,919,417	9,104,539	10,680,362	$10,889,810
Other Funds	11,013,413	11,573,415	10,036,539	12,834,991
Other Funds (NL)	523,034	--	--	--
Federal Funds	9,149,861	9,552,203	9,740,289	3,747,531
Total Funds	**$28,605,725**	**$30,230,157**	**$30,457,190**	**$27,472,332**
Positions	73	58	51	54
FTE	60.51	54.65	50.70	53.00

Program Description

The Criminal Justice Division provides investigation, prosecution, and analysis to a broad spectrum of public safety programs. Specifically, the Division assists the 36 District Attorney (DA) offices in criminal cases and matters relating to prosecution and law enforcement in their respective counties by providing trial and investigative assistance, technical-legal and prosecutorial advice and services, and legal education and training in criminal law and procedures. In isolated cases, DOJ staff may step in and act as the county District Attorney. Further, the Division is charged with investigating and prosecuting organized crime groups, and operates or participates in the following joint efforts: operates the Oregon Internet Crimes Against Children (ICAC) unit; participates in the Cooperative Disabilities Investigation Unit (CDIU); participates in the federal, state, and local High Intensity Drug Trafficking Areas (HIDTA) initiative; operates the Criminal Intelligence Unit (CIU), which provides analytical services to Oregon law enforcement and also maintains the Oregon State Intelligence Network (OSIN), the primary intelligence sharing network for Oregon law enforcement; hosts the Western States Information Network (WSIN) for Oregon which shares intelligence information among five western states; and manages the Oregon TITAN Fusion Center, which provides intelligence services to law enforcement to combat terrorism in Oregon.

Revenue Sources and Relationships

General Fund resources support three program areas within this Division. Approximately 60% supports the Division's efforts to investigate and prosecute organized crime, 30% to assist district attorneys, and the balance to support the ICAC unit.

The largest portion of Other Funds revenue is received from legal fees (under $10 million) primarily billed to the General Fund programs noted above. A grant from the Department of Transportation ($474,382 Other Funds) supports the DUII program, and funds from the Department of Human Services provide for the operation of the Cooperative Disability Investigations Unit ($1.2 million Other Funds).

The fiduciary responsibilities of the High Intensity Drug Trafficking Area federal grant program was transferred from DOJ to the Department of Public Safety Standards and Training (DPSST). DOJ's Criminal Justice Division will retain the Investigative Support Center Initiative (ISC); as part of this action the budget shifts ISC funds from Federal Funds to Other Funds. The Other Funds revenue source is from DPSST.

Federal funding includes federal asset forfeiture and Marijuana Eradication. Most of these federal funds are passed along to local law enforcement agencies. The Division receives federal grants to support the Internet Crimes Against Children (ICAC) program.

In prior biennia, the Division received federal grant funds passing through the Oregon Military Department to support the TITAN Fusion Center.

Budget Environment

During the 2013-15 biennium, the Division investigated or prosecuted 50 cases of murder, attempted murder, and solicitation to commit murder. From July of 2011 to June of 2014, the Division prosecuted 724 cases and conducted 904 investigations.

During the past year, the workload for the Internet Crimes Against Children unit also grew especially in the number of cybertips received from the National Center for Missing and Exploited Children and requests for assistance from law enforcement agencies. The unit processed and evaluated 681 cybertips in 2011, 1,079 in 2012, and 1,489 between January of 2013 and January of 2015.

The Criminal Intelligence Unit and the Oregon TITAN Fusion Center offered case assistance covering a range of criminal activity including amber alerts, illegal narcotic, hate crimes, homicides, public corruption, and terrorism related crimes. The Fusion Center had 1,194 reports of suspicious activity, created 1,497 intelligence profiles, issued 594 intelligence publications, and conducted 24 threat assessments.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for this Division of $27.5 million total funds is $2.7 million (or 9.1%) less than the 2013-15 legislatively approved budget. The budget includes the following:

- $2.5 million Other Funds increase, a $6.4 million Federal Funds reduction, and the abolishment of 2 positions (2.00 FTE) to address two actions related to the High Intensity Drug Trafficking Area federal grant program: transfers the fiduciary responsibility from DOJ to the Department of Public Safety Standards and Training (DPSST), with the DOJ Criminal Justice Division retaining the Investigative Support Center Initiative (ISC); and, shifts ISC funds from Federal Funds to Other Funds, with the Other Funds revenue source coming from DPSST.
- $806,958 General Fund and 3 limited duration Research Analyst 3 positions (3.00 FTE) to continue operation of the Fusion Center.
- $474,382 Other Funds, $382,856 Federal Funds, and 3 limited duration positions (2.00 FTE) to continue grant funding for the Driving Under the Influence of Intoxicants (DUII) program; the Resource Prosecutor Program; and the Internet Crimes Against Children Taskforce (ICAC). The Other Funds revenue to support this package comes from the Oregon Department of Transportation, which pays for the DUII prosecutor; Federal Funds revenue comes from the Federal ICAC grant.
- $50,979 Other Funds reduction abolishes 1 permanent part-time Legal Secretary position (0.70 FTE) and provides for the upward reclassification of a Research Analyst 3 to a Research Analyst 4.

Crime Victims' Services Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	5,619,489	9,957,398	10,138,698	12,342,750
Other Funds	26,265,778	29,328,483	30,229,571	28,054,042
Other Funds (NL)	686,969	--	--	--
Federal Funds	19,620,035	19,892,594	17,075,998	19,093,972
Total Funds	**$52,192,271**	**$59,178,475**	**$57,444,998**	**$59,490,764**
Positions	42	43	35	35
FTE	39.46	35.90	34.06	33.21

Program Description

The Crime Victims' Services Division is responsible for administering the following programs on behalf of crime victims:

- Crime Victims' Compensation – Created to provide assistance to innocent victims who sustain injuries resulting from criminal activity.
- Federal Victims of Crime Act – Provides funds to states and local organizations for victims' assistance.
- Prosecutor-based Victim/Witness Assistance – Grant program for certified prosecutors' offices across the state that maintain local crime victims' assistance programs.
- Crime Victim Grant – Makes grants to local public and private agencies that provide services to victims of violent crimes.
- Child Abuse Multidisciplinary Intervention – Grant program that provides state funds to 36 county teams for a multidisciplinary approach to assessment, investigation, and prosecution of child abuse cases.
- Regional Child Abuse Services – Grant program that provides funding to five regional service providers to support and provide technical assistance to CAMI teams and others.
- Child Abuse Medical Assessment – Pays for child abuse medical assessments in certain cases.
- Domestic and Sexual Violence Services Fund – Advocates, provides safety, promotes cooperation among agencies, and stabilizes the infrastructure for victims of assault.
- Sexual Assault Victims' Emergency Medical Response Fund – Provides assistance to victims of sexual assault to ensure they have access to an immediate medical exam and forensic evidence collection.
- Address Confidentiality – Provides a substitute address for forwarding mail for victims of domestic violence, sexual assault, and stalking.

- Federal Violence Against Women Act – Formula grant program that provides funding for prosecution, advocacy, law enforcement, and court activities dedicated to stopping violence against women.

Revenue Sources and Relationships
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 Fines Account (CFA)($20.5 million Other Funds). Crime victims programs also receive funding from punitive damages and restitution ($2.6 million Other Funds), and federal grant funds ($19.1 million Federal Funds). These federal grants are derived from penalty assessments levied against offenders in federal courts. The General Fund provides resources for the Address Confidentiality Program and the Domestic and Sexual Violence Program.

Budget Environment
The total number of compensation claims has fallen to 5,202 in 2014 after reaching a high of 6,150 in 2010. Compensation payments for the 2013-15 biennium are estimated to total $7.8 million, down from a recent high of $8.9 million during the 2007-09 biennium. A major part of the decrease is attributed to child assessment centers not being as dependent on this program's funds since the Oregon Health Plan now covers more uninsured children.

The Address Confidentiality program forwards around 2,100 pieces of mail a month to approximately 2,200 participants.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget for this Division of $59.5 million total funds is $300,000 (or 0.5%) greater than the 2013-15 legislatively approved budget. The budget includes the following:
- $4 million total funds reduction for one-time funding for the Intimate Partner Violence and Pregnancy grant.
- $2.1 million Other Funds reduction and the elimination of 9 permanent positions (8.50 FTE) for a revenue shortfall due to a projected loss of Punitive Damage Awards funding resulting from Tort Reform. Punitive damage awards are deposited into the Criminal Injuries Compensation Account.
- $2 million General Fund and 8 permanent positions (7.00 FTE) to backfill a revenue shortfall in punitive damage awards with General Fund.
- $2 million Federal Funds and 1 Program Analyst 3 limited duration position (0.65 FTE) to continue the Safer Futures Grant fund through the Federal Office of Adolescent Health.
- $240,550 General Fund to support the Oregon Crime Victims Law Center. This will bring total funding for the program to $367,800 for the biennium, including $77,250 General Fund and $50,000 Other Funds from the renewal of a state grant.
- $28,737 Federal Funds to provide an upward reclassification of a Program Analyst 2 to a Program Analyst 3 and an Office Specialist 2 to an Administrative Specialist 2, plus a downward reclassification of a Principal Executive Manager D to a Principal Executive Manager B.

General Counsel Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	39,567,848	43,513,339	47,978,155	47,505,875
Total Funds	**$39,567,848**	**$43,513,339**	**$47,978,155**	**$47,505,875**
Positions	143	141	139	138
FTE	142.44	140.96	139.00	138.00

Program Description
The General Counsel Division provides a broad range of legal services to state officials, agencies, boards, and commissions. Staff provide oral and written legal advice, draft or review contracts and other documents, represent agencies in administrative hearings, and furnish legal opinions. The Division also handles some litigation and appellate work involving client agencies. State agencies generate varied and diverse legal issues. To deal with this broad range of subject matter, the Division is organized into the following eight sections: Business Activities, Government Services, Human Services and Education, Labor and Employment, Natural Resources, Regulated Utility and Business, Tax and Finance, and Business Transactions. 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.

Revenue Sources and Relationships
Funds to support the General Counsel Division come from billings to state agencies.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget for this Division of $47.5 million total funds is $4 million (or 9.2%) greater than the 2013-15 legislatively approved budget. The budget includes a $270,224 Other Funds reduction that transfers 1 Attorney-in-Charge position (1.00 FTE) from the General Counsel Division to the Civil Enforcement Division.

Trial Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	23,948,670	27,656,244	27,979,008	29,249,942
Total Funds	**$23,948,670**	**$27,656,244**	**$27,979,008**	**$29,249,942**
Positions	99	94	98	107
FTE	98.14	93.08	97.36	104.75

Program Description
The Trial Division defends the state and its agencies, departments, boards, commissions, officers, employees, and agents in all state and federal trial courts. The Division is organized into four sections: (1) Civil Litigation (jury trials); (2) Criminal and Collateral Remedies; (3) Special Litigation; and (4) Defense of Agency Orders. The cases include defending state agencies and state officials against tort claims, employment claims, cases alleging civil-rights violations, and other claims for money damages; representing state agencies in contract disputes and in the acquisition of land for public roads; defending the state in all trial court cases filed by prisoners; and defending state laws, ballot initiatives, and policies at the trial court level.

Revenue Sources and Relationships
Most of the revenue to support this Division is from billings to state agency clients. However, some types of appeal cases heard in trial courts are filed by or on behalf of incarcerated persons and are charged against the General Fund appropriation for the Defense of Criminal Convictions (DCC).

Budget Environment
The program typically has around 1,400 non-criminal cases and 1,200 criminal cases. As outlined in the DCC discussion, the agency asserts that workload has grown and is likely to continue increasing with more cases filed, tighter deadlines, and increased complexity due in part to active participation by the petitioners and counsel. This unit also handles mandamus cases and hearings before the Psychiatric Security Review Board.

The Civil Litigation Section is the largest section within the Division, and is responsible for defending the state's interests in a wide variety of cases that may be tried to a jury in state and federal courts. These cases range from complex disputes or legal arguments with far-reaching implications for the state, to the business of settling more routine disputes that arise in the course of the state's business. CLS cases fall into five general categories: torts, employment, commercial disputes, prisoner civil rights lawsuits, and real estate condemnation. Amendments to the Oregon Tort Claims Act have increased the state's liabilities and financial risk in litigation substantially.

The agency also asserts there has been a substantial increase in the costs of litigation discovery and the need for discovery support in litigation within the Civil Litigation and Special Litigation Sections as a result of the extra work associated with electronic discovery (e-mails have caused an increase in the number of records that must be examined and produced) and the threat of judicial sanctions if an agency complies less than fully with its discovery obligations.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget for this Division of $29.3 million Other Funds (ore 5.8%) greater than the 2013-15 legislatively approved budget. The budget includes $1.5 million Other Funds and 9 permanent positions (7.39 FTE) for defending the state in civil lawsuits, which include 5 Assistant Attorney Generals, 2 Paralegals, and 2 Legal Secretaries. The package also reclassifies 6 word processing positions to Legal Secretaries.

Child Support Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	21,841,118	23,767,893	30,818,310	24,259,144
Other Funds	25,910,294	32,595,805	28,518,332	28,288,929
Other Funds (NL)	3,826,469	4,282,350	4,410,821	4,410,821
Federal Funds	70,033,269	89,613,555	86,762,558	86,026,377
Federal Funds (NL)	14,681,023	15,281,798	15,740,252	15,740,252
Total Funds	**$136,292,173**	**$165,541,401**	**$166,250,273**	**$158,725,523**
Positions	577	578	576	576
FTE	574.63	575.17	573.44	573.44

Program Description
The Child Support Division locates parents, establishes paternity, enforces and modifies child support obligations, and receives and distributes support payments from absent parents. The Child Support program provides these services automatically for families that are requesting, are receiving, or have received public assistance from the Department of Human Services (DHS); if the child is in the care of DHS's child welfare program or the Oregon Youth Authority (OYA); or if the case has been referred by another state. The program also provides these services to other families if they request the service. In addition, the Douglas, Gilliam, Hood River, Lake, Curry, Linn, Sherman, Deschutes, Jefferson, and Wheeler County District Attorneys have chosen not to provide their own programs and contract with DOJ to handle all their child support cases.

Revenue Sources and Relationships
Federal Funds provide 66% of eligible program costs to maintain the child support program mandated under Title IV-D of the federal Social Security Act. General Fund resources provide the matching funds. The Nonlimited Federal Funds are matching funds passed through to district attorneys for work they complete.

Other Funds revenue is generated through the Temporary Assistance to Needy Families (TANF) program, the Oregon Health Plan, and Oregon Youth Authority recoveries. The Nonlimited Other Funds are incentive funds received from the federal program.

Budget Environment
The Program serves roughly 228,000 families per year which is roughly the same level as 2011. In the past, the District Attorney Programs have provided services to approximately 16.5% of these families. The other 83.5% represents open and former public assistance cases and private cases. Approximately 19.6% of the DOJ caseload is receiving, or has recently received, a DHS payment or service. Total collections continue to grow, in part, due to economic factors like inflation. The ratio of the Division's costs to collections is as follows: for every dollar spent, $6.01 was collected in 2008, $5.46 in 2009, $5.29 in 2010, $5.41 in 2011, and an estimated $5.14 in 2013. The average number of cases handled per FTE during federal fiscal year 2009 was 306 cases, 327 cases in 2011, and 353 cases in 2013.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget for this Division of $158.7 million total funds is $6.8 million (or 4.1%) less than the 2013-15 legislatively approved budget. The budget includes the following:

- $14.4 million Other Funds increase and $27.5 million Federal Funds reduction for the elimination of one-time funding for the Child Support Enforcement Automated System (CSEAS) project.
- $4.8 million General Fund Debt Service reduction to reflect the issuance of fewer Article XI-Q bonds during the 2013-15 biennium than was originally anticipated.
- $1.6 million General Fund Debt Service transferred to the newly established Debt Service program.

Defense of Criminal Convictions

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	17,215,514	18,503,399	$25,013,403	20,300,219
Total Funds	**$17,215,514**	**$18,503,399**	**$25,013,403**	**$20,300,219**

Program Description
Defense of Criminal Convictions (DCC) is a budgetary unit used to track the cost of defending 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. Personnel and resources connected to this work are part of the Trial and Appellate Divisions who bill this budget unit for the work on the individual cases. Work on ballot measure titles is also billed to this fund as well as other areas where no agency or Division can be billed.

Budget Environment
A number of factors drive the workload and costs of the Trial and Appellate Divisions in working DCC cases. These include:

- The number of contested criminal convictions is primarily due to the number of offenders in the correctional system.
- Resources available to other parts of the criminal justice system have an impact on the demand for these funds. If the amount of resources available for the Public Defense Services Commission (PDSC) programs change, this can affect the number of appeals at the state level. The courts limit the amount of time that cases can be delayed. Timelines set by the Court of Appeals in the past few years had been met by DOJ and PDSC. With the court increasing from 10 judges to 13 judges in the fall of 2013, however, briefing deadlines could be modified.
- If there are delays in the state appeals process, some offenders may appeal directly through the federal *habeas corpus* process where DOJ also defends the state's interest. Since public defender resources are greater at the federal level, and cases are further developed, individual case costs for DOJ are greater.

- The complexity of individual cases is a major factor since it drives up the time spent on each case. Although the Department receives few death penalty appeals during each biennium, these cases are very complex and time consuming. The Department is now handling over thirty active death penalty cases at various stages of litigation in state and federal courts. In addition, the first death penalty cases to reach the federal courts will continue to be actively litigated and further cases are expected to move from the state courts to the federal courts.
- The attorneys of the Appellate and Trial Divisions charge the DCC program for their work on these cases at the same rate as they charge other state agencies for legal work. Growth in this program in recent years has increased in part due to the increasing legal rate.
- Whenever the U.S. Supreme Court issues significant rulings in the area of criminal law, there may be hundreds of state criminal convictions affected. Those significant rulings may require new appeals or new trials.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the DCC program of $20.3 million General Fund is $1.8 million (or 9.7%) greater than the 2015-17 legislatively approved budget. The budget includes a General Fund reduction of $2.5 million (or 10%). Apart from the agency's budget, the Legislature established a $2 million General Fund special purpose appropriation to the Emergency Board for the Defense of Criminal Convictions as a contingency for potential caseload increases.

Child Support Enforcement Automated System

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	--	--	--	15,209,670
Federal Funds	--	--	--	29,997,991
Total Funds	**--**	**--**	**--**	**$45,207,661**
Positions	--	--	--	22
FTE	--	--	--	21.13

Program Description

Since 2010, the Division of Child Support has been working with federal oversight on a multi-year, federally prescribed process to replace its current antiquated COBOL-based mainframe child support case management and financial system. In 2012, upon completion of a comprehensive business case (i.e., feasibility study report) and submission of the required "Implementation – Advanced Planning Document (IAPD) documentation" to the federal government, DOJ received approval to move forward with the replacement of the current Child Support System (pending legislative approval of the proposed project). Long term, the new system will allow the Child Support Division (CSD) to remain in compliance with federal requirements, to compete for federal incentives, and to keep up with increasing caseload demands. However, there is no federal mandate directing that a new system be put in place.

This program segregates the Child Support Enforcement Automated System (CSEAS) project from the agency's operating budget.

Revenue Sources and Relationships

Federal Funds provide 66% of eligible program costs under Title IV-D of the federal Social Security Act. General Fund resources provide the matching funds.

Budget Environment

The current CSEAS was originally designed and implemented in the 1980's. Although it has been modified over the years to keep current with federal system certification requirements and state mandates, it retains much of its original functional and technical design for performing CSD essential functions.

The current CSEAS System is only 12 years old; however, there are significant elements of the system that are much older. Some components date back more than 20 years, making Oregon's CSEAS System one of the oldest child support enforcement systems in the country.

The CSD, through its 700+ state and county staff, serves more than 227,000 families and their child support cases and collects over $350,000,000 in child support a year and passes most of the collections directly to families.

The 2013 Legislature initially approved phase-I funding for the project; however, much of the funds remain unexpended as the program completed key foundational documentation. The CSEAS budget was budgeted previously under the Child Support Division.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget totals $45.2 million dollars and includes 22 positions (21.13 FTE). This includes $15,209,670 of Other Funds for project costs, which is to be financed with Article XI-Q bonds and $29,997,991 Federal Funds. This includes personal services of $3.6 million and services and supplies of $41.8 million. The amount for services and supplies includes $35.3 million total funds of contractor payments for: project management, including organization change management services; implementation; independent quality assurance; and independent verification and validation.

Debt Service and Related Costs

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	4,005,102
Other Funds	--	--	--	205,330
Total Funds	**--**	**--**	**--**	**$4,210,432**

Program Description

The Debt Service Program provides the funding to make payments on principal, interest, and financing costs associated with the issuance of Article XI-Q bonds, which are tax exempt government securities. These costs are exclusively associated with the Child Support Enforcement Automated System (CSEAS) project. The purpose of the Debt Service program is to segregate Debt Service and financing costs from the agency's operating budget.

Revenue Sources and Relationships

The Department's debt service is funded with General Fund, which is associated with the state's portion of CSEAS costs. Financing of issuance costs are paid as Other Funds from bond proceeds with agencies receiving net proceeds for project costs.

Budget Environment

Article XI-Q bonds for information technology projects are financed over a seven year period. Debt service for the CSEAS budget was previously budgeted under the Child Support Division.

Legislatively Adopted Budget

The legislatively adopted budget totals $4 million General Fund and $205,330 Other Funds for the cost of issuance. The budget includes a $1,597,515 General Fund Debt Service transfer from the Child Support Division.

MILITARY DEPARTMENT

Analyst: Gilbert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	27,975,478	21,832,071	23,632,023	25,019,969
Other Funds	112,147,990	117,196,910	97,672,979	110,312,549
Other Funds (NL)	3,041,910	75,955	--	--
Federal Funds	226,182,554	290,059,506	280,239,389	278,357,971
Total Funds	**$369,347,932**	**$429,164,442**	**$401,544,391**	**$413,690,489**
Positions	515	522	488	449
FTE	458.59	477.51	445.01	406.01

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 the Office of Emergency Management (OEM).

The National Guard is a federal-state partnership with a dual mission:

- Provide combat-ready units and equipment in support of national defense.
- Provide units and equipment to protect life and property during natural disasters and civil unrest, as well as to provide backup support to law enforcement.

The National Guard serves on a day-to-day basis under the command of the Governor, but is available to the federal government upon order of the President of the United States. The Department is overseen by an Adjutant General, appointed by the Governor to a four-year term of office. The Adjutant General also serves as the homeland security advisor to the Governor and chief of staff of the Governor's Military Council.

The federal government directly funds federal employees, guard member salaries and wages, and all equipment and equipment maintenance. For the state, federal responsibility primarily centers on providing facilities and facility maintenance for the Oregon Guard. The federal government also is a major source of funds for new construction facility operating funds, and Homeland Security.

The Department provides assistance to National Guard veterans and their families. This is another example of federal-state partnership funding with Oregon providing supplemental funding for programs the state considers important to Oregon soldiers, such as the state's reintegration program and emergency financial assistance for soldiers and their families.

An unrelated responsibility is the Youth Challenge Program, which provides at-risk high school dropouts an opportunity to complete educational credits with a goal of reintegrating into high school to earn a diploma or prepare for the General Education Development (GED) examination. Other youth educational opportunities also exist at Oregon's two airbases.

The 2007 Legislature (HB 2370) expanded the Department's statutory mission to include the responsibility of state emergency management. Also in 2007, the Legislature established the Seismic Rehabilitation Grant Program, whose purpose is providing funds for public education and emergency services facilities to retrofit existing facilities to meet seismic standards. In 2013, the Legislature transferred the Seismic program to the Oregon Business Development Department.

Revenue Sources and Relationships

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

The federal government provides two types of funding for the Department:

- State budgeted Federal Funds ($278 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 $607 million for 2,024 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.

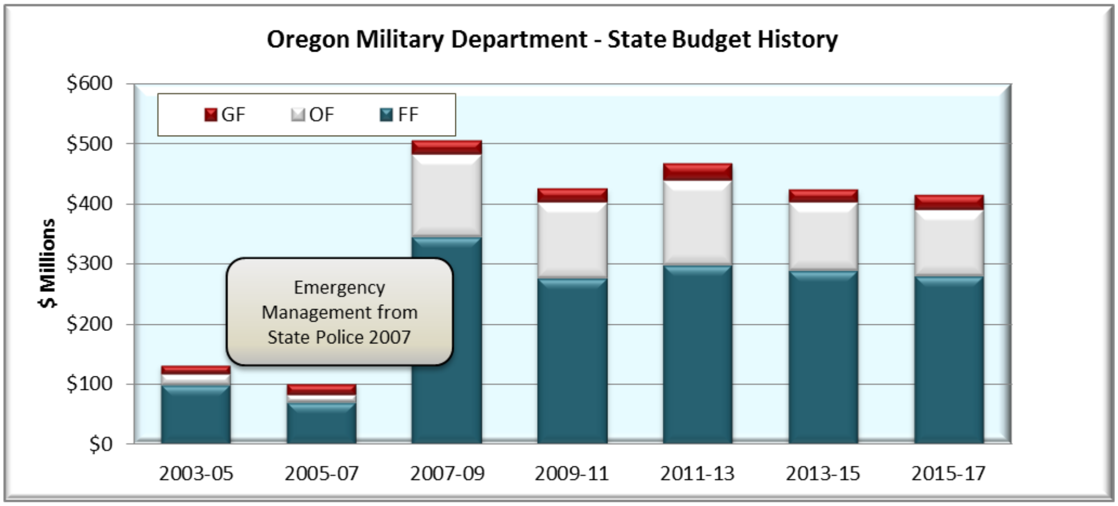
If combined, the federal and state expenditures for the Department total over $1 billion over the course of a biennium.

The level of federal support in the state budget varies by program, type of facility, and type of construction project. For example, troop training costs are entirely supported by Federal Funds as are base security, and Science and Technology Academy Reinforcing Basic Aviation and Space Exploration (STARBASE). 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. Oregon Youth Challenge Program costs come from the federal government at the 75% level. Federal Funds converted to Other Funds support almost entirely the Other Funds expenditures related to the Department's administrative costs. OEM receives Federal Funds for emergency management, disaster recovery, and homeland security.

General Fund supports wages and salaries of state employees, debt service, OEM, and state matching funds for various federal/state agreements.

Other Funds revenue received by the Department totals $110.3 million. Approximately $81.3 million is related to 9-1-1 emergency telecommunications surcharge revenues under OEM. Another source of Other Funds for the Department is facility rental fees and 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 approximately $3 million. Miscellaneous sales revenues are derived from vending machine profit, coin operated telephones, and recycling programs. Other Funds revenue includes approximately $92,000 in Oregon individual tax check-off deduction revenue, which 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 $1.9 million as well as approximately $414,000 National School Breakfast and Lunch transfers from the Oregon Department of Education. Lastly, the budget includes Other Funds for bond proceeds for Capital Construction projects.

The following display shows total funds, by fund type, from 2003-05 through the 2015-17 legislatively adopted budget. The sharp increase in federal funding in 2007-09 reflects the transfer of Oregon Emergency Management from the Department of State Police to OMD. The Other Funds increase in the same biennium is for the seismic program bonding proceeds.



Budget Environment

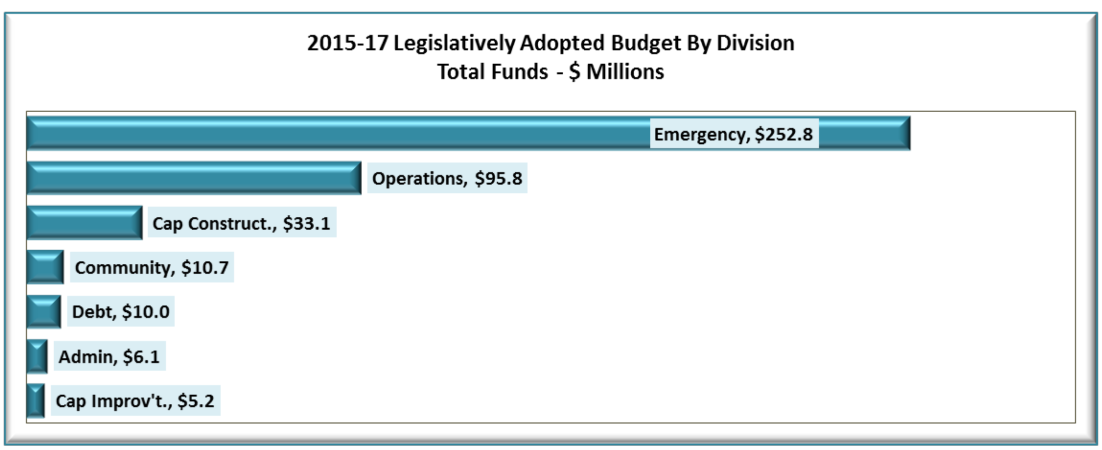
Agency leadership will be in a state of transition with the departure of the Adjutant General and recent position changes in Deputy Director, the OEM Director and Deputy, as well as the Financial Administrator.

The Department continues to have many competing priorities. In the larger picture, the critical issues are: (a) addressing the state's emergency preparedness and response, particularly with respect to earthquake recovery planning; (b) managing federal and state deployments; (c) maintaining and constructing new and existing installations; and (d) maintaining federal funding for the agency.

The Department also has to focus on the variety of needs of soldiers and their families, both during deployment and post-deployment. This includes the Department's reintegration efforts and its continued focus on reducing the suicide rate among veterans.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $413.7 million is $15.5 million (or 3.6%) less than the 2013-15 legislatively approved budget and includes 451 positions (408.01 FTE). The General Fund portion of the budget totals $25 million and is $3.2 million (or 14.6%) higher than the 2013-15 legislatively approved budget. The Other Funds limitation is 5.9% less than the 2013-15 legislatively approved budget. Federal Funds limitation is 4% under the 2013-15 budget. The following display shows the 2015-17 adopted budget by agency division.



The reduction in the agency's budget, compared to 2013-15 legislatively approved budget is attributable to eliminating:

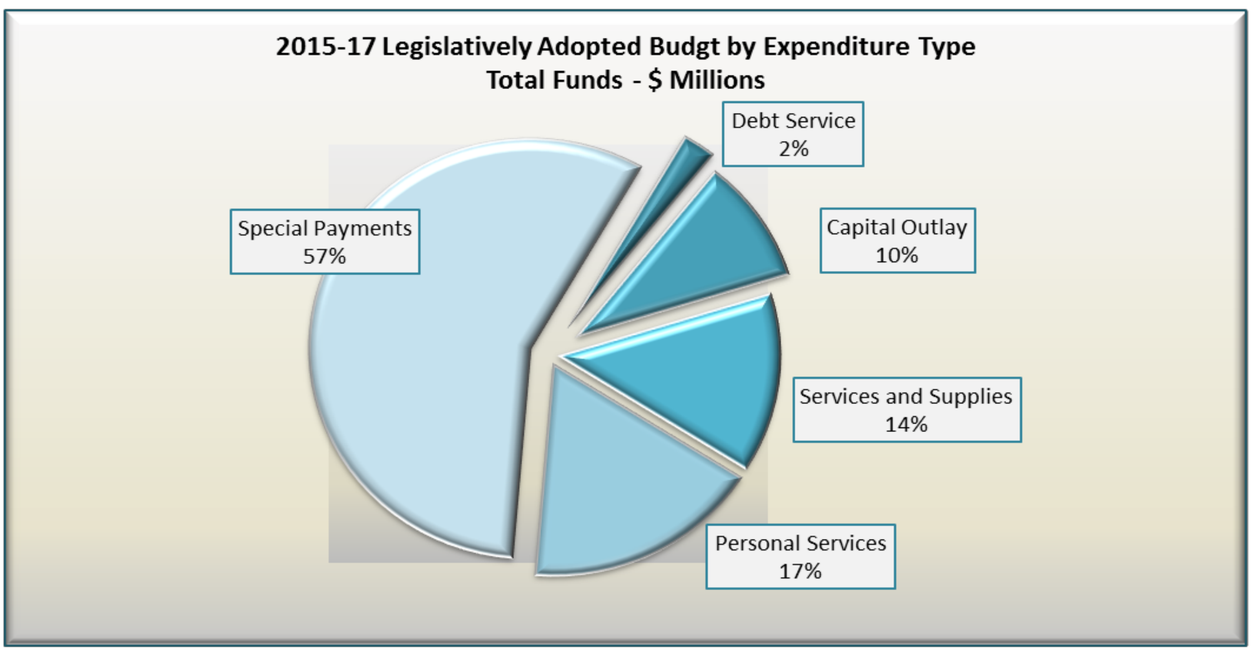
- $30.9 million Federal Funds expenditure limitation for the federal phase-out of the Readiness Sustainment Maintenance Site as of November 2014.

- $673,230 one-time funding for 8 limited duration positions at the Portland Airbase Civil Engineering Program.
- $738,387 General Fund one-time funding for fire protection pay gaps, the $6 million Umatilla caretaker contract.
- $7.3 million covering seismic rehabilitation grants from July – December 2013, after which the grant program was transferred to Oregon Business Development Department (OBDD).
- $1.4 million one-time Other Funds expenditure limitation provided for firefighting costs associated with two fires during the 2013 wildfire season.
- $218,000 Other Funds expenditure limitation for Youth Challenge to make up for federal sequestration reductions.
- $15,000 one-time General Fund for fuel costs of cadets' parents or guardians traveling to visit cadets.
- $237,345 Other Funds for Article XI-Q bonds cost of issuance expense.
- One-time Other Funds of $385,000 to purchase property in Forest Grove.
- $920,835 General Fund due to limited statewide resources.

These reductions are offset by additional funding provided by the Legislature and described in the individual divisions' sections.

The Department's budget is composed of $71.6 million personal services, $56.9 million services and supplies, $39.4 million capital outlay, $235.9 million special payments, and $9.8 million debt service. Special Payments, the largest sector, are primarily in Emergency Management and are provided to local governments and state government to prevent, mitigate, prepare for, respond to, and recover from natural and man-made disasters. Additionally, 9-1-1 tax revenue is distributed to public safety answering points for operations and equipment maintenance.

The following display depicts the 2015-17 adopted budget by expenditure type.



Administration

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	3,814,012	4,328,682	5,079,117	3,961,858
Other Funds	1,857,557	2,270,492	2,109,347	2,094,454
Total Funds	**$5,671,569**	**$6,599,174**	**$7,188,464**	**$6,056,312**
Positions	25	23	25	24
FTE	22.26	22.50	23.88	22.88

Program Description

The Administration program consists of the office of the Adjutant General, Command Group, Financial Administration, Personnel, and Public Affairs. These functions support, administratively, the command of over 8,200 soldiers and airmen, over 2,400 state and federal employees, and the oversight for over $4 billion in facilities and equipment.

Beginning with the 2005 biennium, the program became responsible for assisting National Guard members and their families through the following programs:

- Reintegration and Veterans' Assistance Program – Provides post-mobilization assistance to National Guard members and their families after soldiers and airmen return from federal deployments.
- Emergency Financial Assistance Program – Provides hardship grants and loans to members and immediate family of members of the Oregon National Guard on active duty. It is funded with periodic General Fund appropriations (the most recent being in the 2009-11 biennium) and by charitable check-off revenues from Oregon personal income tax returns. Overall, the fund has supported over 1,000 individuals.

Revenue Sources and Relationships

The program is funded with a combination of General Fund and Federal as Other Funds. Other Funds revenue includes approximately $92,000 in Oregon individual tax check-off deduction revenue associated with the Emergency Financial Assistance Program.

Budget Environment

The budget environment for the Administration Program is one of managerial and financial complexity given the interrelationship between its state and federal budgets.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $6.1 million is $542,862 (or 8.2%) less than the 2013-15 legislatively approved budget and includes 24 positions (22.88 FTE).

The legislatively adopted budget incorporates the following changes:

- $201,446 General Fund and $14,893 Other Funds reduction due to insufficient General Fund resources. One position from the Command Group is eliminated, and services and supplies are reduced to switch from using the state motor pool to federal.
- $915,813 reduction in services and supplies due to DAS assessment changes and Attorney General (AG) hourly rate decrease.

Operations

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	9,057,413	7,163,378	6,709,186	9,057,681
Other Funds	3,148,817	5,574,425	4,751,092	4,751,092
Federal Funds	81,064,477	114,940,328	105,096,589	82,013,077
Total Funds	**$93,270,707**	**$127,678,131**	**$116,556,867**	**$95,821,850**
Positions	394	408	375	339
FTE	340.01	365.51	332.51	296.51

Program Description

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 four 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 provides basic operation, maintenance, repair, and alteration support for Oregon Army National Guard facilities. 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 facilities construction, which includes project oversight, contract administration, and quality assurance to ensure that construction work is completed according to plans, specifications, and terms of the contract. The program is funded with General Fund and Federal Funds.
- Army National Guard Environmental Program – Responsible for overseeing compliance with federal and state environmental regulations for Oregon Army National Guard facilities. The program is 98% federally funded with 2% General Fund match.
- Army National Guard Wildfire Fire Management Program – Responsible for compliance with fire protection requirements set forth in Oregon Revised Statutes; supporting the Oregon National Guard's training mission; sustaining the natural environment and native vegetation of training ranges and lands; enhancing both military and public fire safety in the vicinity of Oregon Military Department training ranges and lands; and enhancing Oregon National Guard support during state declared wildland fire emergencies or natural disasters. The program is 100% federally funded from the National Guard Bureau.

There are seven Air National Guard subprograms:

- Air National Guard Administration Program – Provides command and administrative support for all Oregon Air National Guard programs. Administrative staff is 100% federally funded, while services and supplies are supported by the General Fund.
- Air National Guard Civil Engineering Program – 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 20%.
- Air National Guard Security Program – 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. The program is 100% federally funded.
- Air National Guard Fire Protection Program – 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 firefighting protection. It is the only source for crash/rescue and firefighting at the Klamath Falls Airport. 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 Program – 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. Its level of funding depends on federal equipment need and activity in warzones. In 2015-17, all funding and positions are eliminated, but the program could be needed again at another time.
- Counterdrug Program – Supports local, state, and federal law enforcement efforts to stop the flow of illegal drugs into the state and the manufacture of illegal drugs in Oregon. In addition, the program supports the drug abuse prevention education and training efforts of community-based organizations. The program utilizes Oregon National Guard members, equipment, and specialized technology to provide technical, operational, training, and reconnaissance that augments drug abuse prevention programs within Oregon. It supports the High Intensity Drug Trafficking Area efforts and State Police detectives by providing trained criminal analysts. The program is 100% federally funded.
- Electronic Security System Program – Provides security for facilities designed for storage of small arms or ammunition. Electronic security system equipment and replacement components are procured directly through the federal supply system.
- Telecommunications Program – Procures, operates, and maintains the Oregon Army National Guard telecommunications system and is 100% federally funded.
- Distributive Learning Program – Provides 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.
- Anti-Terrorism Program Manager – Develops, implements, manages, and monitors a comprehensive anti-terrorism program for personnel and installations. The program is 100% federally funded.

<u>Revenue Sources and Relationships</u>
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 (approximately $3.2 million), but includes some Federal as Other Funds. Federal Funds are received through Federal/State Cooperative agreements, only to support the programs for which they are received.

<u>Budget Environment</u>
The Oregon National Guard currently has 559 buildings totaling 4.55 million square feet spread across the state in 27 counties. The largest of these facilities are fifteen training/logistical sites, two air bases, and 40 armories.

The major Oregon National Guard facilities are:
- Air National Guard Installations – Portland Airbase and Kingsley Field Airbase.
- Army National Guard Installations – Armories, Readiness Centers, Armed Forces Reserve Centers, and two aviation facilities.

- Unit Training Areas – Camp Rilea Armed Forces Training Center, Camp Adair, Central Oregon Training and Education Facility, Biak Training Center, Oregon Military Academy, Boardman Training Range, and former Umatilla Chemical Weapons Army Depot.
- Other – Oregon Youth Challenge educational facility and Christmas Valley energy site.

The age of some National Guard facilities makes them inefficient and expensive to operate and maintain. The Department reports that 39% of its facilities are in compliance with National Guard Bureau/Department of Army standards and are in the best condition, 56% do not fully meet standards, and the remaining 5% are substandard and in very poor condition. Facility compliance with these standards has improved in recent biennia due to a combination of state and federal investments.

An increased federal focus on energy conservation efforts drives the agency to examine ways to lower its energy costs and generate energy from alternative sources such as solar and ocean waves.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $95.8 million is $31.9 million (or 25%) less than the 2013-15 legislatively approved budget and includes 339 positions (296.51 FTE).

The legislatively adopted budget incorporates the following changes:
- $1,390,116 General Fund for fire and emergency services support for Portland and Kingsley Field Air National Guard Bases. Recent changes in federal requirements have capped federal payroll reimbursements at a level lower than the amount bargained by the state in 2013.
- Funding the Umatilla Chemical Depot caretaker agreement with the U.S. Army at $6.5 million one-time Federal Funds and restoring 23 limited duration positions (23.00 FTE).
- $1,881,600 (half General Fund and half Federal Funds) to clean the Forest Grove Armory firing range and convert it to storage, replace contaminated ventilation ductwork, and replace fire suppression pipes above the ceiling. A survey had revealed unacceptably high lead levels on surfaces in the building, and the fire suppression pipes had failed.
- $89,563 General Fund and $358,253 Federal Funds to continue 3 limited duration facilities operations and maintenance positions as permanent at Portland Air National Guard base.
- A Federal Funds reduction of $30.9 million to phase out the Readiness Sustainment Maintenance Site, which was responsible for equipment refurbishment. The drawdown of military troops in the Middle East reduced the amount of military equipment needing restoration. Additionally, 64 positions (64.00 FTE) were eliminated.
- A reduction in General Fund of $67,040 reflecting limited General Fund resources.

The budget includes an $8,220 reduction for drops in Department of Administrative Services' assessments and Attorney General hourly rates.

Oregon Emergency Management

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	6,037,907	1,848,191	2,231,851	1,855,221
Other Funds	99,769,033	92,966,041	88,605,319	89,099,316
Federal Funds	122,379,327	157,448,807	161,951,558	161,857,041
Total Funds	**$228,186,267**	**$252,263,039**	**$252,788,728**	**$252,811,578**
Positions	50	45	42	42
FTE	50.32	43.50	42.62	42.62

Program Description

OEM takes the lead in responding to emergencies across the state and coordinating a statewide emergency services system. This system incorporates the separate local and state emergency service elements 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 seven major areas of responsibility:

- Oregon Emergency Response System (OERS) – Maintains OERS 24 hours/day, 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 to respond to emergencies, hazard mitigation planning, and project implementation throughout the state.
- Search and Rescue Program – Works with sheriffs in relation to the ground, marine, and air search rescue program.
- Domestic Preparedness – Provides the central point of planning, training, and exercising for the state's domestic preparedness efforts and offers guidance to local governments that receive grants through the program.
- Terrorism – Responsible for obtaining homeland security grants, and distributing grant proceeds to sub-grantees as well as monitoring grant outcomes.
- Oregon Local Disaster Assistance Loan and Grant Account – 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. The Account is not permanently capitalized.

The Legislature moved the state's emergency management, and a portion of the Criminal Justice Services Division related to homeland security, from the Department of State Police to the Military Department in 2007. With this action, OEM and homeland security functions became a program within the Military Department.

Revenue Sources and Relationships

The major funding source is Federal Funds received for state homeland security, Federal Emergency Management Agency (FEMA) disaster recovery, 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. This funding has decreased, as Congress moves toward appropriating funding for homeland security-related training activities to cities rather than states.

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.

Oregon's 9-1-1 toll-free emergency number to access safety services is a state and local partnership. The state's portion is funded through an Emergency Communications Tax, a per-month $0.75 tax for any phone line capable of accessing 9-1-1 services, excepting federal, state, and local governments. During the 2013 legislative session, the 9-1-1 program's statutory sunset was extended from January 1, 2014 to January 1, 2022 (HB 3317). Additionally, prepaid cellphones are taxed at $0.75 per month, per customer until October 1, 2015, when the tax changes to $0.75 per retail transaction.

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. DOR transfers the revenue to the Emergency Communications Account, net of up to 1% of the revenue amount it retains for administration.

The Emergency Communications Account is distributed quarterly according to statute for the following purposes: (1) up to 4% of the balance may be used by OEM for program administration costs; (2) 35% is transferred into the Enhanced 9-1-1 subaccount; and (3) the remaining balance is distributed to cities and counties.

Local governments use the revenue to partially fund the expense of 43 Public Safety Answering Points (PSAPs) 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 basis for some costs.

Budget Environment
Program leadership is in a state of transition with the recent replacement of the Director. The expectation of OEM is to coordinate, facilitate, organize, resource, and manage pre-event and post-event disaster activities for the state. The challenge for this program will be its planning and potential implementation of next generation 9-1-1 technology across the state.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $252.8 million is $548,539 (or 0.2%) higher than the 2013-15 legislatively approved budget and includes 42 positions (42.62 FTE).

The budget includes $500,000 Other Funds limitation from Emergency Communication Tax revenue to enable OEM to proceed with one portion of the Next Generation 9-1-1 (NG911) conversion. This funding supports the Department of Administrative Services' Enterprise Technology Services to coordinate the conversion of the existing frame-relay system to an internet protocol broadband network at all 43 PSAPs. This conversion is consistent with work in other states and would need to be accomplished regardless of NG911 migration.

The budget includes a $376,534 General Fund reduction due to limited General Fund resources. Of that amount, $283,250 is eliminated from the Local Disaster Assistance Loan and Grant fund and the rest is a reduction in services and supplies.

Other Funds expenditure limitation in the amount of $7.3 million is phased out due to transferring the Seismic Rehabilitation program to OBDD.

The Legislature directed OMD to work with the Oregon State Chief Information Officer to produce an NG911 project plan for the collection, management, and sharing of geographic data sets and geographic information systems capabilities required to effectively implement NG911 throughout the state of Oregon, and to report on the plan in December 2015 and February 2016.

Community Support

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	418,805	206,062	197,381	197,381
Other Funds	2,025,451	4,478,259	2,101,207	2,101,015
Federal Funds	7,954,750	8,249,962	8,420,643	8,419,836
Total Funds	**$10,399,006**	**$12,934,283**	**$10,719,231**	**$10,718,232**
Positions	46	46	46	46
FTE	46.00	46.00	46.00	46.00

Program Description
The Community Support program coordinates support for local education programs and emergencies that require assistance of the National Guard. The unit includes:

- Oregon Youth Challenge Program (OYCP) – Since 1994, the Oregon National Guard has operated the OYCP through a federal/state agreement with the National Guard Bureau. OYCP is Oregon's only statewide alternative high school and only public military school for at-risk students. It offers at-risk high school dropouts an opportunity to complete educational credits with a goal of reintegrating into high school to earn a diploma or prepare for the General Education Development (GED) examination. The program is a 22-week residential training program followed by a 12-month nonresident mentored program. The school is an accredited program. OYCP graduates approximately 234 students per year.
- Science and Technology Academy Reinforcing Basic Aviation and Space Exploration (STARBASE) – STARBASE is designed to increase at-risk third through eighth grade students' awareness of the importance of math and science. National Guard members demonstrate applicability of math and science to flight operations, weather reporting and forecasting, electronics maintenance, and firefighting facilities.
- Emergency Operations – In times of state emergency, the Governor can call upon the National Guard to provide personnel and equipment to assist agencies with the state's response to such emergencies. For example, in August 2015, the Governor has ordered 375 soldiers to assist the Oregon Department of Forestry and the State Fire Marshal's Office with wildland fire suppression efforts. The Department's own Office of Emergency Management is the coordinating entity for state resources.

The National Guard typically provides four types of assets with associated support personnel: helicopters; ground transportation including fuel trucks; field support equipment such as generators; and firefighting apparatus from Kingsley Field and the Portland Airbase fire stations for Conflagration Act fires.

Soldiers and airmen called into active duty are paid a State Active Duty (SAD) rate, which is a uniform daily rate of pay based upon a soldier or airman's rank. National Guard equipment, as assets of the U.S. Department of Defense, is invoiced separately to the federal government. The Department's legislatively adopted budget does not include funding for Emergency Operation expenses as they are unpredictable. Therefore, the Department has historically requested an increase in expenditure limitation from the Legislature or the Emergency Board for amounts it is unable to absorb within its normal operating budget, as well as General Fund reimbursement of expenditures.

Revenue Sources and Relationships

The program is funded with a combination of General Fund, Other Funds, and Federal Funds.

In 2009, a federal law change moved the OYCP state match from 40% to 25%, such that OYCP is able to meet federal match requirement almost exclusively with Other Funds, which is Average Daily Membership (ADM) revenue through the Bend-LaPine School District. The STARBASE program is 100% federally funded through the National Guard Bureau.

The revenue for Emergency Operations comes from the state agencies that the National Guard is supporting, most commonly the Department of Forestry, as Other Funds, or to a lesser extent the General Fund.

Budget Environment

The budget environment centers on supporting at-risk youth and the Department's response to an emergency declaration by the Governor. The severity of the fire season in 2015 will likely require an increase in Other Funds expenditure limitation for the program to account for the reimbursement of OMD's fire-related expenditures.

The Legislature included resources for additional space to accommodate 60 more males and 24 more females in the 2015 capital construction and bond authorization bills.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $10.7 million is $2.2 million (or 17.1%) less than the 2013-15 legislatively approved budget and includes 46 positions (46.00 FTE).

The legislatively adopted budget incorporates the following changes:
- Phase-out of $1.4 million Other Funds for one-time 2013 firefighting expense.
- Phase-out of $15,000 one-time General Fund appropriated by the 2013 Legislature for gas expenses for family visiting youth in the YCP, as well as a $218,000 bump to make up for federal sequestration.
- A $999 reduction reflecting lower DAS assessment and Attorney General hourly rates.

Debt Service

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	8,647,341	8,285,758	9,414,488	9,697,828
Other Funds	655,859	344,700	106,014	259,014
Other Funds (NL)	3,041,910	75,955	--	--
Total Funds	**$12,345,110**	**$8,706,413**	**$9,520,502**	**$9,956,842**

Program Description
The Debt Service Program provides funding for principal, interest, and financing costs associated with the issuance of Article XI-Q bonds and previously issued certificates of participation (COPs), which are tax exempt government securities.

Budget Environment
The Department largely relies on the issuance of bonds to match National Guard Bureau Federal Funds when constructing, altering, or repairing National Guard installations. The percentage of state matching funds required varies by the type of installation. Bonds provide financing for federally non-allowable project costs, which, for example, include the cost of real property. Bonds also fund certain armory additions/alterations that are a 100% state responsibility.

The Department's Capital Construction Account, funded through the sale of real surplus property, generally has an insufficient balance to meet matching fund requirements on major construction projects.

Revenue Sources and Relationships
The Department's debt service is funded with a combination of General Fund and Other Funds.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $10 million is $1.3 million (or 14.4%) more than the 2013-15 legislatively approved budget.

The legislatively adopted budget incorporates the following changes:
- $151,493 General Fund reduction to recognize debt service savings from bond refunding.
- $434,833 General Fund for new debt service on borrowing for a replacement Joint Forces Headquarters structure and $153,000 Other Funds for Article XI-Q bonds cost of issuance.

Capital Improvement

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	250,000
Other Funds	--	385,000	--	194,377
Federal Funds	4,521,824	4,631,304	4,770,599	4,770,599
Total Funds	**$4,521,824**	**$5,016,304**	**$4,770,599**	**$5,214,976**

Program Description
This program provides for capital improvements to existing facilities. Capital improvement projects are those with a total cost of $1 million or less. As discussed below, Major Construction projects total more than $1 million. Maintenance/custodial positions in the Operations Program play a key role in facility maintenance.

The Department's capital improvement projects are overseen and coordinated by agency construction staff budgeted under the Operations Program.

Revenue Sources and Relationships
The revenues associated with the Department's capital improvement projects are primarily Federal Funds, but may include General Fund or Other Funds. As noted, however, the Operations Program also has expenditures for capital improvement, which are General, Other, and Federal Funds.

Budget Environment
Capital improvement expenditures are used to address the Department's backlog of deferred maintenance, which is estimated at over $79 million, but has decreased from $110 million in the 2009-11 biennium due to the construction of new facilities, one-time federal funding, and multiple biennia of state bond funding. Capital improvement expenditures delay, where possible, facility replacement. This is important for certain installations, especially armories, whose replacement schedule is dependent upon the National Guard Bureau's Long-Range Construction Plan and Congressional funding of that plan.

In the display above, the amount shown for 2011-13 actual expenditures is the budgeted amount. The actual expenditures were made as part of the Operations section.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $5.2 million is $198,672 (or 4%) more than the 2013-15 legislatively approved budget. Changes to the budget include an additional:
- $194,377 Other Funds expenditure limitation to use Heritage Outreach Foundation funds to enhance a federally funded capital project to relocate and restore Building 6100 at Camp Withycombe to its historic structure as the Quarter Master Supply Building. As restored, the building will be used as military museum display space.
- $250,000 General Fund, also for the military museum at Camp Withycombe.

Major Construction

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	4,691,273	11,177,993	--	11,813,281
Federal Funds	10,262,176	4,789,105	--	21,297,418
Total Funds	**$14,953,449**	**$15,967,098**	--	**$33,110,699**

Program Description
This program provides for new construction, remodeling, or improvements to facilities to carry out the agency's mission. Oregon faces the loss of National Guard units to other states if the readiness of facilities is not adequately maintained. Since 1986, the Department has undertaken 44 major construction projects totaling over $246 million with a federal/state funding ratio of 7:1. Federal planning and design funds for other projects add $15 million.

The Department's construction projects are overseen and coordinated by agency construction staff budgeted under the Operations Program.

Revenue Sources and Relationships

Typically, Federal Funds provide the majority of construction funding. In general, Other Funds, and at times General Fund, are required matching funds for projects. State funds pay for certain costs ineligible for federal match (e.g., real property, local permitting, etc.). The sources of Other Funds are either bonds or the Department's Capital Construction Account, which is discussed below.

Depending on the type of facility constructed, the federal government pays between 67% and 100% of the approved construction cost. By emphasizing construction of Armed Forces Reserve Centers (AFRC) wherever possible, the Department can access Federal Funds for approximately 97% of the design and construction costs. Site improvements and multi-purpose accommodations outside the federal guidelines are 100% state obligations. Where possible, the Department partners with other federal, state, or county agencies to co-locate functions. This reduces the Department's design and construction cost obligations, and reduces the long-term operations and maintenance burden of each agency. As an example, in 2014 the Department opened a new-built readiness center in The Dalles on the Columbia Gorge Community College property; the facility is shared with the college. The Department is also cognizant of the need to build facilities with multi-purpose features that enhance a facility's rental income. Over 30% of armory usage is attributable to the public.

The Military Department Capital Construction Account (CCA) is a statutory, interest-bearing account into which proceeds from the sale of Military Department real property are deposited. The Department requires legislative approval to dispose of surplus property. Moneys in the CCA can only be used for Capital Construction expenditures on legislatively approved projects, which include: (a) paying for construction costs that are a state obligation outside federal guidelines; (b) state matching requirements on federal Capital Construction funding; and (c) miscellaneous land acquisitions.

Other revenue sources are project management fees charged to the federal government and bond revenues transferred into the account. Some of the Department's real property originally donated by counties is on a reversion clause, which requires that the land returns to the county if the Department determines it is no longer needed for military purposes.

Budget Environment

Of all the Department's programs, the Capital Construction program is the one most likely to be affected by shifting federal priorities. The Legislature is frequently requested to add projects or transfer limitation between existing projects. Such changes may require additional state matching funds. The fluidity of the Department's capital projects as compared to other state agencies' capital projects underscores the uniqueness of this state agency and the influence federal funding has over its budget. It also underscores the need for OMD to communicate short- and long-term Capital Construction priorities frequently to the Legislature.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $33.1 million is $17.1 million higher than the 2013-15 legislatively approved budget. While the period-to-period change can be significant, the legislatively approved expenditure limitation for any Capital Construction project has a six-year duration.

Funding for the following projects is included in the budget:

- Joint Forces Headquarters new facility: $6,700,000 Article XI-Q bond proceeds, $18,463,000 Federal Funds, to be built near the Anderson Readiness Center in Salem. A portion of the bonds will be sold in 2016, which will drive new General Fund debt service of $434,833 during the 2015-17 biennium.
- Oregon Youth Challenge Program facility: $4,977,000 Article XI-Q bond proceeds to expand the facility to accommodate an additional 60 male and 24 female students. The expansion is subject to National Guard Bureau approval.
- Military Museum: $2,082,893 Federal Funds expenditure limitation was added to 2013-15 capital construction. The limitation is approved to update the primary building at the Military Museum at Camp Withycombe. The project includes expansion of the building entrance and lobby, installation of a fire

protection system, upgrades of facility utilities, modifications to classrooms, additional restrooms, and a weapons storage vault. An Other Funds donation from the Historic Outreach Foundation of $613,163 will need to be added to the 2015-17 adopted budget during the 2016 legislative session.

- Baker City Readiness Center: Additional National Guard Bureau federal funding of $750,000 added to $1,189,579 Other Funds (Article XI-Q bonds) approved in 2013 for the transfer of real property with Baker County, to conduct demolition of the County Extension Building, and to construct a new Military Vehicle Storage Compound.
- Medford Armory: $1,943,648 National Guard Bureau federal funding is added to existing limitation of $2,391,660 Article XI-Q funds approved by the Legislature in 2013 for a service life extension project to renovate the facility, including upgrades to the building envelope, HVAC system, seismic resilience, utility system, lighting, restrooms, and finishes throughout the building.
- Planning and Design: $136,281 Other Funds (Capital Construction Account) and $140,770 Federal Funds for planning and preliminary design work at a number of sites throughout the state where the agency is planning future capital construction projects.

The Legislature approved the extension of the project expiration date and expenditure limitation for the Roseburg Armory Service Life Extension project (Federal Funds) to June 30, 2016.

BOARD OF PAROLE AND POST-PRISON SUPERVISION

Analyst: Walker

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	3,533,911	4,539,720	4,595,471	7,807,978
Other Funds	--	10,536	10,852	10,852
Total Funds	**$3,533,911**	**$4,550,256**	**$4,606,323**	**$7,818,830**
Positions	14	16	16	28
FTE	14.00	15.67	16.00	26.00

Overview

The three member Board of Parole and Post-Prison Supervision (BPPPS) is responsible for setting parole release dates for offenders who committed 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 hearings and releases.

Revenue Sources and Relationships

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.

Budget Environment

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 (April 2013), this number is expected to grow by 10% over the biennium and reach 14,934 by July 2015. 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.

HB 2549 (2013) created a three-tier system for ranking sex offenders based on their risk as established by a designated risk assessment tool. It requires all offenders in the current system to be reclassified. BPPPS estimates that approximately 4,000 of the close to 20,000 registered sex offenders in Oregon would need to complete a "Static 99" assessment by December 1, 2016. Once all of the assessments have been completed, there may be petition hearings to appeal classifications and to request relief from registering. Depending on the number of petitions and hearings that need to be conducted, the agency may need additional staffing resources.

HB 2320 (2015) directs BPPPS to adopt a sex offender risk assessment methodology and classify sex offenders into risk levels. This bill is in response to the requirements established by HB 2549 (2013) and provides funding for the "Static 99" assessments. The bill also requires the Board to have five members and authorizes a minimum of three board members to make and review certain discussions for the 2015-17 biennium. The bill adds 9 permanent full-time positions and 3 full-time limited duration positions, and provides $420,000 for a potential location move for all or part of the agency to accommodate the additional staffing. In addition, the bill appropriates $3,163,183 General Fund to establish the 12 positions (10.00 FTE) to adopt a sex offender risk assessment methodology and to classify sex offenders into risk levels. The bill also extends the deadline for classifying registrants to December 1, 2018.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Board of $7.8 million total funds is an 72% increase from the 2013-15 legislatively approved level. The budget includes an increase of $3,163,183 General Fund and 12 positions (10.00 FTE) for implementation of HB 2320.

DEPARTMENT OF STATE POLICE

Analyst: Neburka

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	221,267,355	240,382,479	258,900,297	271,442,947
Lottery Funds	6,549,992	7,166,858	7,866,688	7,841,010
Other Funds	82,358,056	93,291,730	97,555,140	100,483,764
Federal Funds	8,214,066	9,446,084	9,746,648	9,760,242
Total Funds	**$318,389,469**	**$350,287,151**	**$374,068,773**	**$389,527,963**
Positions	1,233	1,259	1,257	1,287
FTE	1,227.98	1,245.63	1,254.50	1,255.24

Overview

The Department of State Police (OSP) enhances livability and safety by protecting the people, property, and natural resources of the state. Key programs include patrol, criminal investigation, fish and wildlife law enforcement, forensic lab services, State Medical Examiner, criminal justice information systems, enforcement of tribal gaming laws and the Lottery, and the State Fire Marshal.

Legislatively Adopted Budget

The legislatively adopted total funds budget for the Department of State Police is $389.5 million, with $271.4 million General Fund, $100.5 million Other Funds, $7.84 million Lottery Funds, and $9.76 million Federal Funds. The budget contains 1,287 positions or 1,255.24 full-time equivalent (FTE) jobs. The total funds budget is 11.2% higher than the legislatively approved 2013-15 budget. General Fund increased by 12.9%, in part due to a fund shift of $5.2 million from Oregon Department of Fish and Wildlife Other Funds fee revenues to General Fund.

Other General Fund increases include:

- $2.74 million for 20 new trooper positions to be phased in over the upcoming biennium.
- $623,000 for 2 new forensic scientist positions.
- $1.88 million for 33 patrol cars.
- One-time General Fund is added to move the Astoria office out of a tsunami inundation zone, and to move the Springfield patrol office into adequate space and to expand the Springfield lab, $1.85 million in total.
- HB 3225 added $365,000 and 1 position for coordinating the statewide response to hazardous spills during rail transport.
- SB 128 added $214,000 to fund collectively-bargained pay increases for OSP telecommunicators.

15% of the anticipated revenue from the legal sale of marijuana is dedicated for law enforcement; the adopted budget adds $1.34 million Other Funds and 4 positions (4.00 FTE) to the Patrol and Criminal Investigation programs for this purpose. Other Funds expenditure limitation is increased by $5 million to begin replacing the CrimeVue criminal history repository database, and is further increased by $994,000 to pay for capital equipment replacements.

Patrol Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	112,587,971	121,051,548	132,443,118	137,087,946
Other Funds	9,195,889	11,645,413	12,545,778	12,862,178
Federal Funds	599,260	366,711	377,556	377,556
Total Funds	**$122,383,120**	**$133,063,672**	**$145,366,452**	**$150,327,680**
Positions	462	499	499	520
FTE	459.92	490.50	497.50	500.50

Program Description

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. This Division includes the field command and support staff as well as the Capitol Mall Security, Oregon State University, and the Dignitary Protection units. The Division works with city and county law enforcement agencies by assisting with emergency calls for services, providing crash reconstruction specialists, drug recognition experts, and Special Weapons and Tactics Teams; and with the Oregon Department of Transportation's (ODOT) Traffic Safety Section. Research has shown that traffic accidents account for about 25% of the congestion on the highway system, and motor vehicle traffic injuries are one of the leading causes of death and hospitalization in Oregon. The Patrol Division's traffic enforcement priorities center on impaired driving, speed, occupant safety, lane safety, distracted driving, and commercial vehicle investigations.

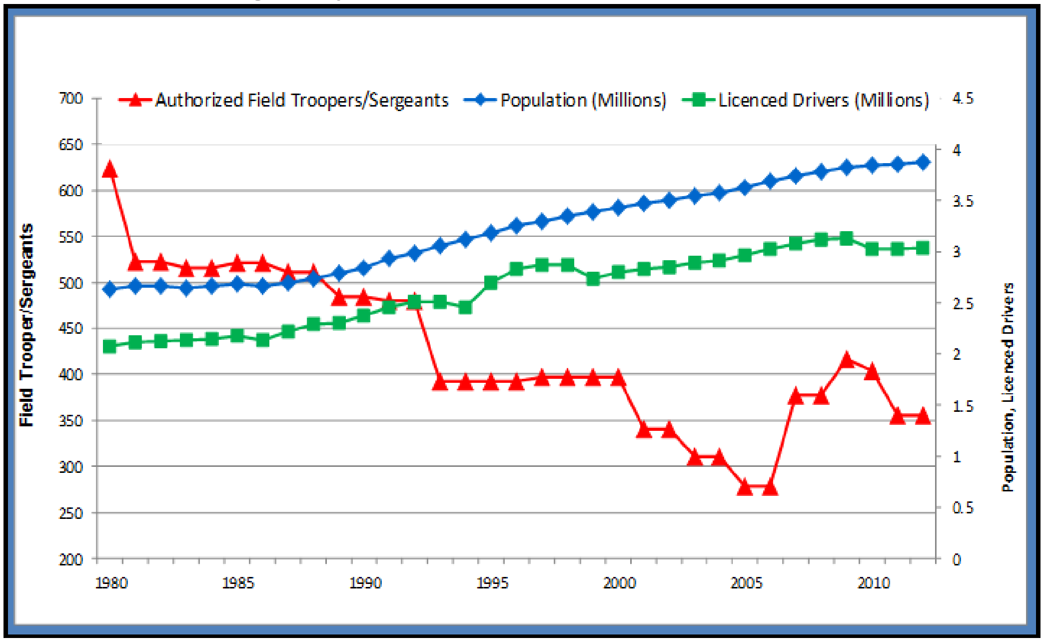
Revenue Sources and Relationships

Ninety one percent of the Patrol Division budget is funded by the state's General Fund. Other Funds revenues of $4.7 million are received from ODOT for a variety of purposes including traffic safety patrols in highway construction zones, snow-park enforcement, and DMV vehicle identification (VIN) inspections. Additional Other Funds sources include Oregon State University for campus security ($3.5 million), the Parks and Recreation Department, the State Fair ($510,000), and the Oregon Judicial Department ($518,000). Also included in the Other Funds for this Division is the Capitol Mall Security unit ($4.8 million) which is funded by the Legislative Administration Committee and the Department of Administrative Services. Federal funding for this Division includes funding from the Army Corp of Engineers and the Forest Service.

Budget Environment

The Patrol Division's major cost drivers are personnel costs, fuel, equipment, patrol vehicles, vehicle maintenance, and facilities. Staffing levels have not kept pace with growth factors directly affecting transportation safety, including increases in population, licensed drivers, registered vehicles, and miles traveled on state highways, which are currently increasing at a higher-than-average rate. Oregon is ranked 46th in the number of troopers per capita compared with all other states. Holding positions vacant, retirements, and increased competition for new public safety officers continue to affect the Division's service capacity. Currently, none of the patrol offices maintain 24/7 patrol coverage. The Division continues to experience an increase in calls from several counties that have reduced local law enforcement presence due to county financial needs. For example, 65% of the 5,323 calls for service the Patrol Division received in Josephine County from January 2012 through May 2014 were referred to OSP by the Josephine County Sheriff's Office.

Authorized Field Troopers & Sergeants Compared to Oregon Population and Licensed Drivers, 1980-2012



<u>Legislatively Adopted Budget</u>

The 2015-17 legislatively adopted budget for the Patrol Division of $150.3 million total funds is 13% greater than the 2013-15 legislatively approved budget. This budget includes General Fund increases of $490,000 for moving the Springfield and Astoria patrol offices, $1.88 million for 33 additional patrol cars, and $2.74 million for 20 additional trooper positions (10.25 FTE), to be phased in throughout the 2015-17 biennium. Other Funds changes include an increase of 1 trooper position in the Capitol Mall Security program, a technical adjustment to reduce the FTE of seasonal or retired sworn officers who provide security services to the Legislature during its annual sessions, and $120,000 in new revenue from the legal sale of marijuana, for supplies and equipment related to enforcing the new marijuana laws.

Fish and Wildlife

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	2,418,717	2,841,349	3,016,993	8,190,625
Lottery Funds	6,549,992	7,166,858	7,866,688	7,841,010
Other Funds	22,448,972	24,051,992	26,257,651	22,917,325
Federal Funds	1,813,342	2,278,982	2,396,434	2,412,246
Total Funds	**$33,231,023**	**$36,339,181**	**$39,537,766**	**$41,361,206**
Positions	121	132	132	135
FTE	120.50	132.00	132.00	125.62

<u>Program Description</u>

The Fish and Wildlife Division is the single enforcement entity designated by law to protect fish and wildlife resources. The Division's officers have special training in fish and wildlife enforcement and are positioned throughout the state. These officers are often the only law enforcement presence available in some of Oregon's more rural communities. In addition to fish and wildlife law enforcement, they also enforce traffic, criminal, boating, livestock, and environmental protection laws, and respond to emergency situations. OSP fish and wildlife officers work closely with the Department of Fish and Wildlife (ODFW), the Water Resources Department, and the Marine Board in the enforcement of their rules.

Revenue Sources and Relationships
Lottery Funds (Measure 76/66) are distributed to this Division to fund enforcement activities associated with the Oregon Plan to protect fish habitat and stream bed enhancement.

Other Funds revenues are received from various sources, but the primary service contract is with the Oregon Department of Fish and Wildlife ($23.4 million), with smaller service contracts with the Marine Board ($2 million) for enforcement of boating laws, the Parks and Recreation Department ($560,000) for activities on the Deschutes River and for ATV enforcement, the and the Department of Environmental Quality ($287,000) for environmental investigations. Federal Funds are primarily received through National Oceanic Atmospheric Administration Joint Enforcement Agreements ($2 million).

Budget Environment
While the overall state population is increasing, hunting and fishing participation rates per 1,000 residents are declining. Sales of hunting licenses and tags depend in large part on populations of various animal species and access to those populations. The levels of animal populations, in turn, are dependent on such variables as weather, fire, and predator populations. These trends have the potential to negatively impact revenue streams that support enforcement, but do not necessarily translate into the need for less enforcement. For example, over the last decade, angler and hunter compliance has maintained in the high-80s to 90%. However, the compliance rate in Central Oregon was trending below the statewide average. This trend was attributed to the dramatic increase in population in Deschutes County, which grew by 54% from 1990 to 2000, and has increased by an additional 22.5% since 2000. OSP has assigned additional troopers to the Central Oregon area to provide additional hunter/angler contact, training, and law enforcement.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget for the Fish and Wildlife Division of $41.4 million total funds is 13.8% greater than the 2013-15 legislatively approved budget. This budget adds $5.2 million General Fund to the Fish and Wildlife Division to offset a $5.2 million loss of fee revenue from the Oregon Department of Fish and Wildlife, which has seen its revenues decline as fewer people purchase hunting and fishing licenses. The Legislature approved the addition of 3 fee-supported Fish and Wildlife trooper positions to enforce fish and wildlife regulations on Sauvie Island and along the Columbia River, funded from the Oregon Department of Fish and Wildlife through the Columbia River Endorsement, SB 830 (2013). Other Funds expenditure limitation was increased by $993,000 for capital equipment replacements, and 14 temporary sworn positions were reduced from 1.00 FTE each to 0.33 FTE each (a total reduction of 9.38 FTE) to reflect the actual months each biennium that each position works. These positions are temporarily assigned to provide law enforcement on private land during hunting seasons.

Criminal Investigation

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	29,302,763	31,410,965	32,866,130	32,975,739
Other Funds	5,593,023	5,411,440	5,640,591	6,629,354
Federal Funds	1,101,003	1,557,014	1,451,751	1,451,751
Total Funds	**$35,996,789**	**$38,379,419**	**$39,958,472**	**$41,056,844**
Positions	127	131	119	122
FTE	126	128.00	119.00	122.00

Program Description
The Criminal Investigation Division provides investigative services in support of criminal justice agencies statewide. Investigations include intrastate and multijurisdictional crimes related to drug trafficking, arson, explosives, acts of terrorism, and major crimes. The Division also provides specialized investigative support with

polygraph examiners and crime analysts. The Division has jurisdiction of crimes at all state institutions and routinely conducts sensitive criminal investigations involving public officials. The Division deploys resources throughout the state to participate in local major crime teams, multi-disciplinary child sex abuse teams, interagency drug teams, fire and explosives investigative teams.

Revenue Sources and Relationships
This program area is largely funded with General Fund. Other revenues include sex offender registration fees ($518,000 Other Funds); arson/bomb investigation funding ($3.7 million Other Funds) from the State Fire Marshal in Fire Insurance Premium Tax revenue; fees from records requests, civil penalties, and state seizures ($1.2 million Other Funds); and federal funds for drug enforcement ($1.4 million Federal Funds).

Budget Environment
The major workload driver for this Division beyond the crime rate is the capacity and specialized expertise of local law enforcement agencies and their willingness to use OSP resources. State Police detectives are deployed across the state, but the larger local law enforcement agencies have many more resources available than smaller agencies. For eastern Oregon, the coast, and other more rural areas of the state, OSP sometimes is the primary resource available to assist local jurisdictions with investigation of major crimes.

The Department asserts that the workload and the complexity of investigations have generally increased in all areas of the Division, including drug enforcement, major/violent crimes, sex abuse crimes, polygraph, and public official corruption cases. During 2012-13, the Division conducted over 11,000 investigations, including 1,947 investigations related to drug enforcement, 574 related to explosives, and 401 related to fires; 3,486 child abuse investigations; and 103 computer forensics investigations. In the 2013-15 biennium, detectives participated in 20 child abuse multi-disciplinary teams; 25 interagency major crime teams; 14 interagency drug task forces; and 13 interagency fire investigation teams.

Similar to the Patrol Division, this Division is experiencing an increase in calls from several counties that have reduced the local law enforcement presence due to county financial needs. For example, comparing a six-month period from 2011 to 2012 in one southern Oregon county, investigations and Department of Human Services' referrals increased by nearly 17-fold from 22 to 371 cases. Also, within the last three years, the average number of assists in narcotic investigations ranged from 31 to 41.6 cases per detective which continues to exceed the targeted key performance measure level of 25 cases per detective.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $41 million total funds is 7% greater than the 2013-15 legislatively approved budget. This budget includes $166,000 General Fund for relocating the Springfield and Astoria patrol offices, and $997,000 in new revenue from the legal sale of marijuana for 3 criminal investigator positions (3.00 FTE) for law enforcement related to the new marijuana laws.

Forensic Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	30,529,388	34,491,426	36,405,147	38,159,093
Other Funds	300,844	310,732	319,820	528,349
Federal Funds	1,649,752	1,989,549	2,047,717	2,047,717
Total Funds	**$32,479,984**	**$36,791,707**	**$38,772,684**	**$40,735,159**
Positions	125	124	124	127
FTE	124.76	123.88	124.00	126.25

Program Description

The Forensic Services Division supports the criminal justice system by providing forensic analysis of evidence related to crimes. Scientific analysis and expert testimony assists judges and juries with determining guilt or innocence. The Division provides analysis and investigative assistance in several disciplines, including biology, chemistry, toxicology, crime scene investigation, DNA, latent prints, firearms, and tool marks. The Division operates five forensic laboratories, which are located in Bend, Central Point, Pendleton, Portland, and Springfield. The Division also operates an Implied Consent Unit which provides a breath alcohol testing program and instruments for law enforcement to use when a person is arrested for impaired driving. As Oregon's only full service forensic laboratory system, 90% of the Division's work is for agencies other than the State Police.

Revenue Sources and Relationships

The forensics labs do not charge for services and have been funded primarily with General Fund resources. The Other Funds revenues 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.

Budget Environment

The Forensics Division conducted analysis on 46,531 and 51,438 evidentiary submissions (approximately 10% increase) in the 2009-11 and 2011-13 biennia, respectively. Based on current trends, the Division anticipates an additional 10% increase, or more than 56,800 evidentiary submissions, during the 2015-17 biennium. The average number of working days from when a request is received until it is completed is approximately 51 days, well in excess of the 30 day performance target. The DNA Unit alone has experienced an average yearly increase in submissions of 15.7% over the past five years, demonstrating that as scientific technologies improve, demand for their products increases. DNA analysis of biological evidence has proven to be one of the most significant forensic tools for the criminal justice system; on average, there is one "hit" in the DNA database for every 44 offender submissions, with a nearly 50% "hit" rate in burglary cases. Many states limit DNA analysis to person crimes; Oregon accepts DNA evidence from property crimes, but prioritizes person crimes, leading to large backlogs and long turn-around times for property crime cases. While the number of DNA evidentiary submissions completed has increased by 12% annually over the past five years, a backlog of cases remains.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $40.7 million total funds is 10.7% greater than the 2013-15 legislatively approved budget. This budget includes General Fund for expanding and re-equipping the forensics lab in Springfield ($1.18 million), and for 2 additional forensic scientist positions ($623,000) to be phased in during the 2015-17 biennium. Other Funds additions include $208,000 in new revenue from the legal sale of marijuana, for forensics supplies and equipment related to enforcing the new marijuana laws.

Medical Examiner's Office

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	4,018,196	4,463,501	4,569,752	4,565,927
Other Funds	132,674	260,207	266,060	265,505
Total Funds	**$4,150,870**	**$4,723,708**	**$4,835,812**	**$4,831,432**
Positions	9	9	9	9
FTE	9.00	9.00	9.00	9.00

Program Description

The Medical Examiner's Office is located in Clackamas and provides direction and support to the state death investigation program. The Office is responsible for the investigation of all deaths due to homicide, suicide, accident, drug overdose, deaths in state custody, deaths on the job, and natural deaths occurring while not under medical care. The Medical Examiner manages all aspects of the state medical examiner program and has responsibility for technical supervision of county offices in each of the 36 counties of Oregon. The Office oversees roughly 8,000 death investigations per biennium, maintains records, and provides training on death investigations to medical school physicians and students, law students, police officers, and emergency medical technicians.

Revenue Sources and Relationships
Other Funds revenues for the Medical Examiner include payments for building support from the three metro area counties, and fees charged for autopsy reports.

Budget Environment
The workload for the Medical Examiner's Office increases based on population growth in Oregon. Medical Examiner cases remain a consistent 12% of all deaths that occur. In addition to investigating deaths, the State Medical Examiner has the responsibility of overseeing a statewide medical examiner system. This system is comprised of 36 county medical examiners, each with a different method of funding and staffing for their respective offices. Each county office is overseen by a county medical examiner who is a physician/coroner with varying degrees of death investigation experience. The death investigators are, for the most part, law enforcement personnel whose first priority is police work. Most of the death investigators perform only one or two medical examiner investigations a year. Therefore, their experience in death scene investigations is extremely limited and may leave them inadequately prepared. To address the needs of part-time death scene investigators, the State Medical Examiner offers an annual 40-hour Certified Medicolegal Death Investigator Course to Oregon medical examiners, district attorneys, law enforcement, and medical professionals.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $4.8 million total funds is 2.3% greater than the 2013-15 legislatively approved budget, and funds Medical Examiner services at the current service level.

Agency Support Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	31,550,568	31,640,945
Other Funds	--	--	3,195,281	3,189,513
Federal Funds	--	--	130,054	129,461
Total Funds	--	--	**$34,875,903**	**$34,959,919**
Positions	0	0	120	120
FTE	0	0	120.03	120.03

This Division is new as of the 2015-17 biennium, with programs transferred from the Administrative Services Division, below.

Program Description
The Agency Support Program is a new budget structure in the 2015-17 biennium that was previously part of the Administration Division. Agency Support was created in order to distinguish support services required for operating police/patrol programs and services from those administrative functions required for basic agency operations. Those specific "sworn" support services that moved to Agency Support include six service areas: executive leadership and policy direction; professional standards management; training and recruitment; internal audit; dispatch services through two dispatch centers; and sworn support. Sworn support includes fleet services and central records management.

Revenue Sources and Relationships
Other Funds revenues are provided through a cost allocation plan that charges the non-General Fund resources within the Fish and Wildlife, Criminal Justice Information System, and Office of the State Fire Marshal divisions. This Division also receives miscellaneous grant reimbursement from other state agencies and Federal Funds.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget for Agency Support Services is $35 million total funds, which supports the current level of service. SB 128 added $214,000 General Fund to fund collectively-bargained pay increases for OSP telecommunicators.

Administrative Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	33,385,623	37,900,960	12,828,409	12,801,695
Other Funds	9,890,950	8,319,677	5,718,817	5,707,929
Federal Funds	314,027	430,758	443,680	443,680
Total Funds	**$43,590,600**	**$46,651,395**	**$18,990,906**	**$18,953,304**
Positions	175	165	76	76
FTE	174.67	164.5	70.71	70.71

This Division was re-organized for the 2015-17 biennium, with programs transferred to the Agency Support Division, above.

Program Description
The Administrative Services Program consists of the administrative support functions of the Department. It includes budget and financial reporting, accounting, payroll, grant management, human resources, information technology, contracting and procurement, facilities management, and legislative coordination.

Revenue Sources and Relationships
Other Funds revenues are provided through a cost allocation plan that charges the non-General Fund resources within the Fish and Wildlife, Criminal Justice Information System, and Office of the State Fire Marshal divisions. This Division also receives miscellaneous grant reimbursement from other state agencies and Federal Funds.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget for Administrative Services of $19 million total funds is 59.4% less than the 2013-15 legislatively approved budget, but the reduction is due to a re-organization within the agency that created the Agency Support Services Division. This budget supports the current level of service for the Administrative Services Division.

Criminal Justice Information Systems

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	8,212,515	8,430,516	5,220,180	5,655,752
Other Funds	8,130,547	12,011,639	12,066,403	17,031.947
Federal Funds	1,978,806	2,328,125	2,389,134	2,387,615
Total Funds	**$18,321,868**	**$22,770,280**	**$19,675,717**	**$25,075,314**
Positions	107	95	77	77
FTE	106.50	94.50	81.00	80.41

Program Description
The Criminal Justice Information Services Division maintains Oregon's central computerized repository of criminal offender records and related law enforcement information, and it provides for the immediate and secure access of these confidential records. The Division serves the criminal justice information needs and requirements of Oregon law enforcement at the city, county, state, and federal levels. The customer base is primarily external to the Department but includes the Department as one of approximately 700 agencies served.

This Division consists of two sections, Law Enforcement Data System (LEDS) and Identification Services Section (ISS). LEDS connects law enforcement, criminal justice agencies, and other authorized users to centrally maintained files including 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. LEDS also operates the Oregon Uniform Crime Reporting Program, which collects, processes, and distributes Oregon crime and arrest statistics; and provides Oregon data to the FBI for the national crime statistics program. Identification Services is comprised of the Criminal History, Regulatory Compliance, Automated Fingerprint Identification System, and Firearms programs.

Revenue Sources and Relationships

The LEDS program receives Other Funds from charges to user agencies through terminal and other fees charged to agencies using the system ($490,000). Other major sources of Other Funds revenue is from fees for Identification Services including open records checks of criminal histories, firearms, concealed gun, and employment and licensing background checks ($12 million). The Division also receives federal grant funds from the NICS Act Record Improvement Program through the U.S. Department of Justice ($2.5 million).

Budget Environment

Oregon Revised Statute (ORS) 181.730 directs OSP to establish a Law Enforcement Data System (LEDS), a criminal justice information system for storage and retrieval of criminal justice information submitted by criminal justice agencies in the State of Oregon. *CRIMEvue* is the moniker used to describe a series of interrelated systems deployed to enable OSP LEDS to fulfill that statutory obligation. LEDS functions as the control point for access to similar programs operated by other states and the federal government; undertakes other projects as necessary for the speedy collection and dissemination of information relating to crime and criminals; and provides information as available to all qualified criminal justice agencies and designated agencies. OSP provides criminal justice information to local, state, and federal law enforcement agencies for enforcement and criminal justice purposes.

The Identification Services unit's core function of maintaining the state's criminal history repository is critical not only to the criminal justice community and law enforcement through positive fingerprint identification of reported arrestees; but to non-criminal justice users such as regulatory agencies making employment and licensing decisions, as well as the public. *CRIMEvue* is a mission critical system that must operate 24 hours a day, 7 days a week, 365 days a year, with a 99.95% required uptime.

The database to support the repository was purchased more than two decades ago and is no longer supported by the vendor. The agency is in the process of identifying an appropriate replacement strategy to ensure continuity of this key system. As of Spring 2015, the agency had developed its initial business case and mapped its procurement and contract strategies for the 2015-17 biennium.

The Division has also experienced a significant increase in requests for firearm background checks. Firearms background checks increased by 59% between 2007 and 2014. The increased demand has required the addition of temporary staff which may need to be considered for permanent addition if the workload trend continues.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget for the Criminal Justice Information Systems Division of $25.1 million total funds is 10.1% more than the 2013-15 legislatively approved budget. This budget increase is net of the 13.50 FTE transferred to the Administrative Services Division in the Department's reorganization; a legislatively-approved increase in Other Funds expenditure limitation to begin replacement of *CrimeVue*, Oregon's criminal justice repository database ($5 million), and a General Fund increase of $447,000 for access to DMV records.

Gaming Enforcement Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	812,182	--	--	--
Other Funds	8,872,820	10,203,727	10,389,785	10,235,452
Total Funds	**$9,685,002**	**$10,203,727**	**$10,389,785**	**$10,235,452**
Positions	37	37	36	35
FTE	37.00	37.00	36.26	35.26

Program Description
The Gaming Division provides regulatory, investigatory, and security services for the Oregon State Lottery, tribal gaming centers operating in Oregon, and ring sports under the authority of the Oregon Athletic Commission. Activities include background investigations of vendors, contractors, and licensees; security against ticket counterfeiting or alteration and other means of fraudulent winning; and protecting the interests of professional athletes and the public concerning medical standards, fairness, financial fraud, and event environmental safety at boxing, wrestling, and mixed martial arts competitions.

Revenue Sources and Relationships
The Lottery Commission fully funds the Lottery Security Section services ($6.1 million). Native American Gaming Tribes fund the Tribal Gaming Section activities ($3.7 million). The Vendor Investigation Section is funded by both the Oregon Lottery and vendors who conduct business with Oregon's Gaming Tribes ($1.5 million). License fees and a gross receipts tax (6%) fund the Oregon Athletic Commission regulatory activities ($285,000). Three-fourths of any ending balance for the Oregon Athletic Commission is sent to the Children's Trust Fund; however, the Commission has not had an ending balance during the past few biennia.

General Fund resources are not budgeted for this program. However, in the past and with legislative approval, OSP has needed to rebalance existing General Fund appropriations to cover shortfalls in revenue for ring sport regulation and/or employment related expenditures that would not have been fairly allocated to the Lottery or the tribal gaming centers.

Budget Environment
The workload of the Gaming Division is driven by the number and complexity of games, the number of retailers, and changing technology. The Oregon Lottery Commission now offers approximately 40 scratch-it games per year, and has 3,700 lottery retailers with more than 14,000 video lottery terminals throughout the state. The Lottery Security Section conducts background investigations on all Lottery retailers, retailer employees that qualify as a key person, Lottery vendors, and all Lottery employees. The number of retailer background investigations has increased from 475 annually in 2000 to currently about 800 annually. The Lottery Security Section also conducts compliance inspections on all Lottery retailers with a goal of inspecting 75% each year.

Currently, there are eight tribal casinos operating over 7,400 slot machines in this state. The vendors who conduct business with both the Lottery and the tribal casinos are adding to their business models, often by purchasing subsidiary companies that operate in the area of complex gaming technology. This requires the Vendor Inspection Section to stay current in new technologies and to have adequate staff to provide appropriate investigations.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget for the Gaming Division of $10.2 million total funds is 0.3% more than the 2013-15 legislatively approved budget. This budget includes the reduction of 1 Government Auditor 2 position ($161,500) in the Tribal Gaming Section to better align positions with workload. The Tribal Gaming Section's workload has been reduced by the closure of one tribal casino, by the change from annual compliance reviews to biennial compliance reviews, and by background checks on casino employees being increasingly performed by Tribal Gaming Commissions.

State Fire Marshal

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	365,225
Other Funds	17,792,337	21,076,903	21,154,954	21,116,212
Federal Funds	757,876	494,945	510,322	510,216
Total Funds	**$18,550,213**	**$21,571,848**	**$21,665,276**	**$21,991,653**
Positions	70	67	65	66
FTE	69.63	66.25	65.00	65.96

Program Description
The State Fire Marshal (SFM) is charged with protecting life and property from fire and hazardous materials. It has the following three major program areas:

- Fire and Prevention Services – Responsible for fire prevention and investigation, emergency response including the Conflagration Act, administration of the Uniform Fire Code, a clearing house for fire prevention information, and collection of fire incident data. There are 18 Deputy Fire Marshals and supervising Deputy Fire Marshals who serve Oregon communities who choose to not provide their own full-service fire prevention programs.
- Licensing and Permit Services – Regulates the storage and use of explosives, fireworks, and liquid petroleum. This unit also administers regulations governing non-retail fuel dispensing.
- Hazardous Materials Services – Administers the Community Right to Know law, collects and maintains data on hazardous substances, and ensures state and local jurisdictions are prepared to respond to incidents. This unit is also responsible for equipping, training, and assisting the 13 Regional Hazmat Response Teams to ensure timely and complete mitigation of hazardous materials incidents. The unit also manages the state's three Incident Management Teams and the Urban Search and Rescue Team.

Revenue Sources and Relationships
The largest Other Funds revenue source 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. A portion of these FIPT funds are transferred to the Department of Public Safety Standards and Training and to the OSP Criminal Investigation Division, while the remainder ($8 million) is used for State Fire Marshal programs.

Additional Other Funds revenues are generated through the hazardous substance user fees ($3.3 million) for the Community Right to Know program, and petroleum load fees ($4.2 million) for the Hazardous Response Teams, non-retail fuel dispensing fees ($970,000) for card lock enforcement, licenses and permits (relating to liquefied petroleum, gas, and fireworks) totaling $950,000, and from an interagency agreement with the Department of

Human Services for fire and life safety inspections of Medicare and Medicaid funded facilities ($770,000). Federal Funds revenue of $510,000 is from Hazardous Materials Emergency Preparedness grants.

Budget Environment

Western states, including Oregon, have seen more severe firefighting seasons than usual for the current and past several summers. The Governor declared 4 conflagrations in 2013, 6 conflagrations in 2014, and five as of August 2015. Under the Emergency Conflagration Act (ORS 476.510 et seq.) the State Fire Marshal is responsible for supporting the Oregon fire service during major emergency fire operations in the state by mobilizing task forces, incident management teams, and firefighting equipment and personnel. Estimated conflagration mobilization expenses incurred in 2013 and 2014 total $5 million; final 2015 expenses are not yet available. Fires that are fought on federal or tribal lands are eligible for partial reimbursement of expenses from the federal government, while fires fought on non-federal lands are not, a situation that creates fiscal uncertainty for the agency.

Oregon faces additional fire or hazardous material spill risks from the transportation of crude oil by rail across the state. Domestic crude oil production and transport have increased dramatically in the last decade. From 2010 to 2012 shipment of crude oil by truck was up 38% and by barge by 53%, while rail transport of crude oil increased over 400% nationally. According to the Oregon Department of Transportation's Rail Division, the number of carloads in Oregon increased 247% from 5,491 carloads in 2005 to 19,065 carloads in 2013.

Trains carrying crude oil and other hazardous materials move throughout Oregon on railroads owned by Burlington Northern & Santa Fe (BNSF), Portland & Western (PNWR), and Union Pacific (UP). In Oregon between 2005 and 2012 there were zero accident or spill incidents involving crude oil (incident- defined in CFR 171.16). In 2013 and 2014 there were five minor rail incidents involving crude oil (ODOT, 2015). A recent survey of Oregon Fire Chiefs revealed that a significant majority of jurisdictions do not have the necessary equipment, training, or personnel to respond to a railway crude oil incident.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Office of the State Fire Marshal of $22 million total funds is 2% greater than the 2013-15 legislatively approved budget. This budget includes $365,000 General Fund from HB 3225, which directs the State Fire Marshal to adopt a plan to coordinate response to oil or hazardous material spills that occur during rail transport. This funding will allow the State Fire Marshal to hire a position to coordinate outreach, develop a spill response plan in conjunction with local public safety organizations, and conduct exercises and training.

Analyst: Neburka

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	10,593,375	9,788,298	9,550,476	9,550,476
Other Funds	30,570,748	35,668,666	37,097,042	37,238,170
Other Funds (NL)	59,971,796	415,461	--	--
Federal Funds	15,605	382,614	260,660	4,148,299
Total Funds	**$101,151,524**	**$46,255,039**	**$46,908,178**	**$50,936,945**
Positions	131	135	135	139
FTE	129.54	133.06	133.54	137.17

The 2011-13 Actuals Other Funds Nonlimited amount is the result of refinancing debt.

Overview

The Department of Public Safety Standards and Training (DPSST) is responsible for developing and maintaining standards for employment and providing training to over 39,000 public safety constituents in Oregon through five programs:

- Criminal Justice Training and Certification Program – Provides training and certification for state troopers, police, sheriff deputies, local correctional officers, parole and probation officers, 9-1-1 telecommunicators, and emergency medical dispatchers. Mandated training is set out by statute or rule, and ranges from 16 weeks for the basic police course, six weeks for local correctional officers, five weeks for parole and probation officers (with an additional week for those who carry firearms), two weeks for telecommunicators, and one week for emergency medical dispatchers. The Department of Corrections (DOC) continues to train its correctional officers, and DPSST audits DOC's training program. DPSST maintains approximately 12,700 certifications for nearly 11,000 state and local criminal justice professionals.
- Fire Training and Certification Program – Provides training across the state to over 14,000 career and volunteer firefighters on an annual basis. This program also certifies firefighters based on national standards, maintains approximately 52,000 certifications for fire service professionals, and accredits fire departments and local training programs that meet minimum requirements.
- Private Security Program – Provides training, licensing, and certification to private security personnel that meet minimum requirements. There are about 1,140 private security firms and over 19,000 licensed private security providers statewide. There are approximately 720 active Private Investigator licensees.
- 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 facility's construction. Beginning in 2015, this program will also provide accounting support for Oregon's federal High Intensity Drug Trafficking Area grant program.
- 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.

Most training is provided at DPSST's 236-acre Oregon Public Training Academy in Salem, completed in 2006. In addition to classroom and dormitory facilities, the training academy contains an emergency vehicle operations course, an indoor firearms range, a tactical tower for firefighter and search and rescue training, and various "scenario" buildings, replicating schools, homes, businesses, and other buildings typically found in Oregon communities. The agency also has regional offices in four locations – Central Point, Eugene, Hermiston, and Redmond. The agency has professional trainers on staff, but also relies heavily on part-time trainers who are practicing professionals in their fields.

Total Funds Budget by Program Area

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Criminal Justice	14,525,641	18,186,571	18,790,923	19,169,926
Fire Training	3,917,218	4,371,788	4,436,854	4,562,941
Private Security	1,872,974	2,160,162	2,120,511	2,120,511
Admin & Support	10,391,244	10,957,499	11,749,590	11,511,715
Debt Service	70,202,497	9,788,298	9,550,476	9,550,476
PS Memorial Fund	241,950	251,539	259,824	259,824
Oregon HIDTA	--	--	--	3,761,552
Total Funds	**$101,151,524**	**$45,715,857**	**$46,908,178**	**$50,936,945**

Revenue Sources and Relationships

General Fund resources support only debt service payments for the training facility in Salem. The agency's primary source of funding is an allocation from the Criminal Fine Account (CFA) totaling $27.4 million, which supports the Criminal Justice Training and Certification, Administration, and Support Services Programs, and the Public Safety Memorial Fund. The second largest source of Other Funds is a transfer of $4.6 million of Fire Insurance Premium Tax revenue from the Department of State Police, State Fire Marshal to support fire services training.

The agency charges licensing and certification fees to support the Private Security/Investigators Program ($2.2 million), and receives traffic safety grant funding from the Oregon Department of Transportation ($0.4 million). The 9-1-1 telephone excise tax ($0.5 million) supports training services for telecommunicators and emergency medical dispatchers.

Federal dollars are received from the Federal Emergency Management Agency for training developed by the U.S. Fire Academy, and from the U.S. Department of Justice (DOJ) to coordinate training for the High-Intensity Drug Trafficking Area program.

Budget Environment

While not the sole source of public safety training, DPSST is a primary provider of essential and perishable skills training for public safety professionals in Oregon. As local economies improve in the aftermath of the recent recession and with increasing numbers of "baby boomers" retiring, state and local public safety agencies are struggling to fill vacant positions. Demand for Basic Police classes is increasing, and during the 2015-17 biennium the agency may need to add classes to its schedule in order to certify new public safety officers in a timely manner.

In 2013, the Legislature authorized the Oregon Center for Policing Excellence supported by $1 million Other Funds (CFA) and 4 positions (3.52 FTE). During the last biennium, DPSST expanded regional training, and added two-week training courses for supervisors and mid-level management and a three-day class for executive management, training over 200 students. These training opportunities will be continued in the current biennium.

The Oregon Public Safety Academy campus is ten years old, and though the buildings are comparatively new and are well-maintained, life cycle replacements will be necessary in the years ahead. Funding for major capital repairs and replacements is not currently identified.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for this agency is $50.9 million total funds, and is 10.1% higher than the 2013-15 legislatively approved budget. Almost all of this increase is due to the transfer in of fiscal responsibility for the Oregon High Intensity Drug Trafficking Area (HIDTA) program from the Department of Justice. The 2015-17 Other Funds budget for DPSST totals $37.2 million, which is 4.4% greater than 2013-15, and just 0.4% more than the 2015-17 current service level. All programs continue at the current service level in the new biennium, with the addition of a new Mental Health Crisis Intervention program ($379,003 and 2 positions [1.63 FTE]).

This budget transfers the fiduciary responsibility for Oregon's federal High Intensity Drug Trafficking Area (HIDTA) grant program from the Department of Justice to DPSST. The Department of Justice is the current fiscal agent through which federal HIDTA grant funds flow to initiatives to reduce drug trafficking in the state. Beginning in 2015, DPSST will assume responsibility for submitting requests to the federal government for funding, ensuring that the federal fiscal rules are followed, and distributing funds to the various initiatives. Total HIDTA grant revenues for the 2015-17 biennium are projected at $7,090,000. Of this amount, $2,497,563 will go via a revenue transfer to DOJ for its HIDTA initiative, $3,368,301 will be granted to Oregon cities, counties, or multi-jurisdictional entities for drug trafficking reduction initiatives, and $393,251 will be used by DPSST for grant accounting and administrative support. This award supports 13.00 FTE, eleven of which are in DOJ and two of which will transfer to DPSST to provide financial support for the program.

OREGON YOUTH AUTHORITY

Analyst: Gilbert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	255,625,166	275,459,280	289,985,793	291,989,720
Other Funds	8,306,362	19,553,725	13,250,954	63,325,954
Federal Funds	27,194,810	34,680,918	36,125,986	36,097,766
Federal Funds (NL)	--	1	--	1
Total Funds	**$291,126,338**	**$329,693,924**	**$339,362,733**	**$391,413,441**
Positions	1,153	1,025	1,008	1,022
FTE	1,009.31	989.79	972.50	985.88

Overview
The Oregon Youth Authority (OYA) is a fundamental partner in the state's juvenile justice system. Its statutory purpose is to protect the public, hold youth offenders accountable for their actions, and provide youth offenders with opportunities for reform in safe environments. OYA works closely with county juvenile departments, the judicial system, and other youth-serving systems.

OYA provides a balanced continuum of services through a statewide network of close-custody facilities and contracted community providers. OYA manages out-of-home placement of youth in foster homes and Medicaid-funded residential treatment programs; provides parole and probation services; provides funding to counties for basic juvenile justice services and diversion from OYA commitment programs; and operates the state juvenile corrections institutions. Youth correctional facilities are located at Albany, Burns, Grants Pass, Salem, Tillamook, Warrenton, and Woodburn; transition programs are in Florence, La Grande, and Tillamook. OYA's facilities and services are designed to address:

- Offenders ranging in age from 12 through 24.
- Unique treatment and reformation needs for males and females.
- Diverse ethnic groups.
- Offenders whose crimes range from behavioral offenses and property crimes to person-to-person crimes such as assault.
- Mentally ill and developmentally disabled offenders.

OYA's jurisdiction includes youth adjudicated as juveniles and young offenders convicted as adults who committed their crimes before age 18. There are no mandatory sentence lengths 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 if they can be better served in an adult facility. Ballot Measure 11 (1994) set mandatory sentences through adult court for 15-17 year old juveniles that are convicted of certain offenses. OYA is funded to provide 657 close-custody beds. Just under half of the close custody capacity, 325 beds, is for youth adjudicated in juvenile court. The remaining 332 beds are for youth convicted in adult court or waived on Measure 11 offenses.

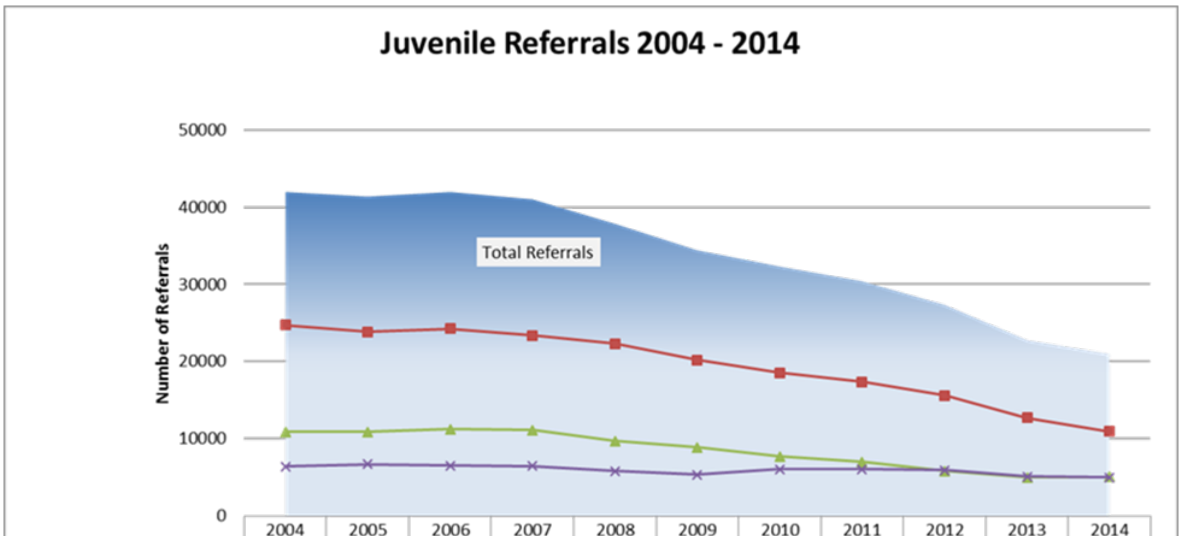
Revenue Sources and Relationships
General Fund supports the major share of OYA's activities and operations. Typically, anywhere from 9% to 11% of the total budget comes from Federal Funds, and about 3% to 6% from Other Funds.

Federal Medicaid reimbursements partially pay for the cost of community residential treatment programs and targeted case management services provided by OYA juvenile parole and probation staff. The budget anticipates continuing revenue from this federal source, which provides about 47% of the funding for residential treatment and about 16% of parole and probation staff personnel costs. Overall, federal fund reimbursements are over 25% of the Community Services program costs in the 2015-17 biennium. Residential treatment room and board costs are supported with General Fund.

Federal funds for institution operations are $2.9 million for the school nutrition program.

The largest Other Funds sources are county contracts and youth trust fund reimbursements. The budget includes $2.6 million Other Funds revenue from counties to operate detention beds and $6.6 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.

<u>Budget Environment</u>
Oregon has experienced a substantial decline in referrals to county juvenile departments over the past decade, mirroring the national experience. A simple comparison between 2004 and 2014 shows total referrals have declined by 50%. Furthermore, criminal referrals declined 56% over the same period and non-criminal referrals by 53%. Also notable is that referral trends do not reflect the size or growth of Oregon's at-risk population—youth age 10 to 17—which has remained relatively flat.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total Referrals	42011	41423	42012	40961	37805	34407	32300	30400	27357	22756	20967
Criminal	24723	23845	24268	23381	22296	20179	18547	17365	15591	12701	10945
Non-Criminal	10867	10880	11231	11131	9674	8876	7697	6981	5840	4972	5065
Dependency Status	6421	6698	6513	6449	5835	5352	6056	6054	5926	5083	4957

While the delinquency referrals are dropping, there is still considerable need for services. The Department of Administrative Services' Office of Economic Analysis (OEA) prepares a semi-annual forecast of demand for close custody and community placements. 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. A fourth category, community placement, covers youth committed to OYA and placed in residential treatment or foster care while on probation or parole.

Because OYA's actual close-custody bed capacity of 1,182 is greater than what has been budgeted for the past six biennia, some capacity is unused. For example, of Hillcrest's 298 beds, 136 are budgeted in 2015-17 and of MacLaren's 347 beds, 136 are budgeted. Additionally, some facilities need significant maintenance, which repeatedly has been deferred due to insufficient funding. In view of these conditions, in 2013 the Legislature directed the agency to study and report on the optimum use of existing, aging facilities in the Willamette Valley to maximize the efficiency and effectiveness of operations. Additionally, the Legislature directed the agency to continue developing the Youth Reformation System method of determining the best evidence-based placement and treatment for each youth such that the youth is released from OYA prepared to be a productive, crime-free, healthy member of the community.

Accordingly, OYA developed the 10-Year Strategic Plan for Facilities, which recommends:
- Aligning programs with physical layout by changing close custody configuration at all facilities such that, for example, the number of beds per unit is reduced from 25 to 16 in order to provide more attention to the youth, starting with the MacLaren facility.
- Constructing a 32-bed single occupancy unit at MacLaren.
- Closing the Hillcrest facility by June 30, 2017.
- Opening and operating the existing young women's transitional housing facility at Oak Creek.
- Improving youth intake.
- Improving other facilities, such as adding a machine shop for expanded vocational education at the Burns facility.
- Addressing ADA, seismic, and deferred maintenance needs statewide.

The Legislature authorized $49 million in bond proceeds to fund the first half of the plan's implementation.

DOC and PSR youth are considered mandatory caseload and are forecast like the DOC adult population. Forecasting discretionary close-custody and residential treatment demand is based on the Youth Reformation System, or YRS, that determines recidivism risk based on a range of factors including the youth's placement. This model helps forecast the setting that best meets each youth's treatment needs and is most likely to lead to the lowest probability of committing another crime within three years of release from OYA's custody. The forecast is demand driven and indifferent to available budget or available close-custody capacity.

SB 267 (2003) requires state agencies that provide certain treatment programming to gradually increase the percentage of state-funded treatment that is evidence-based. From 2009-11 forward, compliance was defined as 75% of treatment funding being used for evidence-based programs. OYA operates evidence-based treatment and intervention programs such as sex offender or drug and alcohol treatment, family based treatment, and transition services. These programs exceed the Legislature's requirement, achieving 89% compliance, as reported in the September 2014 progress report to the Interim Judiciary Committee.

The use of isolation in corrections facilities is of concern both nationally and in Oregon. The Oregon Youth Authority's Isolation and Reintegration Project is intended to address prevention and reduction of isolation. In consideration of this concern, the Legislature directed OYA to report on progress by February 2016 on:
- Redefining when and how youth may be placed in isolation.
- Delineating how OYA will ensure due process rights are met.
- Developing an effective reintegration program and process after isolation.
- Identifying resources to support a reintegration program and process so that it is implemented and sustained as designed.
- Aligning related OYA policies and administrative rules.

At the same time, OYA is to report on how the Youth Reformation System, Positive Human Development, and the 10-Year Strategic Plan for Facilities address culture, practice, and facility design issues to influence positive outcomes for youth.

Legislatively Adopted Budget
The total funds 2015-17 legislatively adopted budget is an 18.7% increase over the 2013-15 legislatively approved budget. The 2015-17 General Fund budget is 6% higher than 2013-15 and 0.7% higher than current service level. In addition to 657 close custody beds, the number of community placements authorized is 615.

The Legislature kept direct county funding assistance at the current service level in county Juvenile Crime Prevention Basic Services and Diversion funding, as well as support for Multnomah County's gang intervention services.

Due to reduced Department of Administrative Services' assessments and an adjusted Attorney General hourly rate, OYA's services and supplies budget was decreased.

Facility Programs

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	143,213,860	152,100,070	152,239,947	153,536,413
Other Funds	5,189,529	9,180,341	9,136,143	9,136,143
Federal Funds	104,764	24,405	--	--
Total Funds	**$148,508,153**	**$161,304,816**	**$161,376,090**	**$162,672,556**
Positions	912	790	760	769
FTE	771.85	755.25	726.75	734.75

Program Description
OYA operates close-custody facilities across the state with varying levels of security and structure and a range of treatment services. Facilities include:

- Oak Creek Youth Correctional Facility (YCF) for young women in Albany
- Eastern Oregon YCF in Burns
- Camp Florence Youth Transitional Facility (YTF) in Florence
- Rogue Valley YCF in Grants Pass
- Camp Riverbend YTF in La Grande
- Hillcrest YCF in Salem
- Camp Tillamook YTF and Tillamook YCF in Tillamook
- North Coast YCF in Warrenton
- MacLaren YCF in Woodburn

The total of 657 beds budgeted for 2015-17 includes 582 beds in seven youth correctional facilities for more violent offenders; and 75 beds in three formal transition programs to help youth move successfully back into the community. MacLaren and Hillcrest are each budgeted at 136 beds for males, and serve a variety of populations as well as statewide 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.

Budget Environment
As described above, the Office of Economic Analysis prepares a semi-annual forecast for close custody and community placements. Because of the agency's dependence on General Fund and because not all juvenile adjudications result in DOC or PSR sentencing, the state last supported full funding in the 2001-03 biennium, but only through February of 2003. OYA currently has physical capacity for 1,182 close custody beds and 50 beds used for county detention programs.

In addition to providing "bed and board" for youth offenders, the facilities provide a range of services as needed for correctional treatment; physical, dental, and mental health; substance abuse; recreation; classroom and vocational education; life skills and work experience; and other support needs. OYA uses risk/needs assessment tools to develop individual correctional case plans for all youth placed in its custody, whether in a close-custody or community placement. OYA reports in the 2014 Biopsychosocial Summary that 63% of male and 71% of female offenders in its custody have been assessed as substance-abusive or -dependent. Further, about 70% of the males and 89% of the females meet the psychiatric requirements for a mental health disorder.

Because females are more likely to have substance abuse or mental health issues than are their male counterparts, OYA convened a Young Women's Work Group during the 2005-07 biennium. The committee's recommendations include more gender-specific and evidence-based services, and providing services for female offenders in "single-gender" facilities. The February 2008 reopening of the Oak Creek facility in Albany supported specialized services for young women.

Legislatively Adopted Budget
The legislatively adopted Facilities budget is 0.9% above the 2013-15 legislatively approved total funds budget, and is essentially the current service level budget. Except as described in the 10-Year Strategic Plan for Facilities, no facilities other than Hillcrest are slated for closure and the agency is maintaining its statewide presence.

Education services for eligible youth are supported by the state school fund, while vocational and other educational services for older youth are paid for within the OYA budget.

The 2015-17 budget includes restoration of 8 of 12 positions that were eliminated with the 2% budget holdback taken in 2013. The positions will support Youth Reformation System implementation. There are 4 Group Life Coordinators, a registered nurse, a psychiatric social worker, an administrative specialist, and a manager. The positions are budgeted at a total of $1.1 million and expected to begin October 1, 2015, to allow recruiting time. In addition, a psychiatric social worker position is added to ensure completing psychological evaluations at intake within 30 days of admission. All of these positions are funded by taking reductions in the Community Programs budget.

Community Programs

	2011-13 Actual	**2013-15 Legislatively Approved**	**2015-17 Current Service Level**	**2015-17 Legislatively Adopted**
General Fund	75,699,996	91,462,267	98,725,478	96,294,156
Other Funds	2,992,673	4,062,352	4,020,508	4,020,508
Federal Funds	25,391,273	33,373,760	35,007,203	34,990,106
Total Funds	**$104,083,942**	**$128,898,379**	**$137,753,189**	**$135,304,770**
Positions	140	137	143	143
FTE	136.96	136.54	141.25	141.25

Program Description
Community Programs provide community-based supervision and services to youth offenders committed to OYA by the juvenile courts. Agency staff members design an individual treatment and reformation plan for each youth in OYA's custody. The Community Programs budget includes funding for community residential services and foster

care; parole and probation services; individualized community services; and assistance to county juvenile departments for diverting high-risk youth offenders from OYA placement, basic local juvenile justice services, and youth gang services in Multnomah County.

Budget Environment

As of July 2015, OYA had 506 youth in the community on probation, and 371 youth on parole. OYA staff provides case management services to youth on probation and parole, and case planning in facilities. Further, the agency contracts for a range of other treatment services and residential placements with foster care or Behavioral Rehabilitation Services (BRS) providers.

Rates paid to BRS providers were first established in 1997 and had been updated only for small inflationary increases since that time. Providers have faced a number of increased operating costs, such as liability insurance and utility costs, that outstrip inflation. At the same time, providers see more youth with greater service needs. In 2013, the Legislature addressed these increases with specific General Fund appropriations. In 2015-17, BRS cost increases of about $2.7 million are included in the development of the current service level budget.

Legislatively Adopted Budget

The Community Programs 2015-17 legislatively adopted total funds budget is 5% above the 2013-15 legislatively approved budget and 1.8% under the current service level. This level covers 615 community treatment, foster care, and residential beds.

The match rate on federal Medicaid dollars is adjusted to align with the latest federal estimate.

The 2015-17 payments to counties for juvenile crime prevention and diversion are set at $17.6 million General Fund. State support for gang prevention, intervention, and enforcement activities in Multnomah County is budgeted at $5.3 million General Fund, which is a 3% increase from 2013-15 service levels. The amount includes $1.9 million General Fund specifically designated for the East Metro Gang Enforcement Team and $3.4 million for Multnomah County gang intervention.

In recognition of statewide General Fund resources and to fund other priorities in the OYA budget, a reduction of $1.3 million General Fund was made. It will affect BRS residential bed counts (a reduction of 18), individualized counseling, treatment, and other services. An additional $1.1 million reduction in Community Programs professional services supports adding 5 positions in the Facilities and Program Support divisions.

Program Support

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	30,673,188	29,541,094	34,946,296	35,147,511
Other Funds	124,160	851,214	94,303	94,303
Federal Funds	1,698,773	1,282,753	1,118,783	1,107,660
Total Funds	**$32,496,121**	**$31,675,061**	**$36,159,382**	**$36,349,474**
Positions	101	98	105	110
FTE	100.50	98.00	104.50	109.88

Program Description

The Program Support unit 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 also part of this budget. Agency-wide costs that are not allocated to other programs, such as insurance premiums and attorney general costs, complete this budget.

This unit, coordinating with the rest of the agency, oversees development of the Youth Reformation System.

Budget Environment
The major cost driver in this budget is intergovernmental service charges, which pay for some shared government functions and pooled costs, such as risk insurance. These costs make up a substantial portion of the Program Support budget.

Legislatively Adopted Budget
The 2015-17 Program Support total funds budget is 14% over the 2013-15 legislatively approved budget and 0.5% above current service level. The budget includes funding for 5 new positions. An Operations and Policy Analyst is added to assist with YRS implementation, including data management, culture change, and measuring outcomes, and a clinical psychologist is added to meet evaluation needs of youth at intake and to provide continuing psychological services at Hillcrest, MacLaren, and Oak Creek. A consulting physician position is increased by 0.50 FTE. Finally, there are three new transition specialists to support youth with specialized cultural needs.

Department of Administrative Services and Attorney General rate reductions drive a decrease of $967,793 total funds.

Debt Service

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	5,342,502	1,632,438	3,328,941	6,266,509
Other Funds	--	384,877	--	1,055,565
Federal Funds (NL)	--	1	--	1
Total Funds	**$5,342,502**	**$2,017,316**	**$3,328,941**	**$7,322,075**

Program Description
OYA pays debt service on certificates of participation (COPs) and Article XI-Q bonds issued through the Department of Administrative Services.

Debt in 2015-17 includes $3.3 million for previously funded infrastructure and deferred maintenance needs in OYA's facilities.

Also, the economic stimulus package passed by the 2009 Legislature in SB 338 authorized OYA to spend an additional $9.2 million for various projects around the state. These included control room and HVAC renovations at Burns, Albany, La Grande, and Warrenton. Additionally, there were significant facilities renovations at Albany, Hillcrest (Salem), and MacLaren (Woodburn) and the Youth Correctional Facility in Tillamook.

Budget Environment
OYA's debt service budget is supported by General Fund and reflects the estimated cost of debt on all certificates of participation and Article XI-Q bonds sold or approved to be sold for the agency. Portions of OYA's obligations have been paid off, accounting for the significant reduction in General Fund from 2011-13 to 2013-15. In 2015-17, however, new bonded capital spending is approved, which drives additional debt service.

Legislatively Adopted Budget
The 2015-17 legislatively approved budget is set at a level to cover existing and new debt. The new debt service in the amount of $3 million General Fund is associated with project work described in the following Capital Construction section. Other Funds limitation is provided at $1million for the cost of issuing $49 million in Article XI-Q bonds.

Capital Improvements and Capital Construction

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	695,620	723,411	745,131	745,131
Other Funds	--	5,074,941	--	49,019,435
Total Funds	**$695,620**	**$5,798,352**	**$745,131**	**$49,764,566**

Program Description

The capital budgets reflect spending on OYA's 96 buildings at 10 locations, which have an estimated $192 million replacement value. Capital Improvement covers land and building improvements that cost more than $5,000 but less than $1 million (General Fund in the above display). The Capital Construction Program provides safe and secure facilities through new construction, building, or system renovation; land acquisitions; assessments; and improvements or additions to existing buildings with an aggregate cost of $1 million or more, and is represented in the Other Funds line in the previous display. Planning for future capital construction projects is also included in this category.

Budget Environment

The agency constructed the regional youth correctional facilities in 1997. These facilities have reached an age where maintenance and repair needs have increased. Most of OYA's other facilities are much older, and while all the agency's buildings are in fair condition, maintenance continues to be deferred and necessary improvements remain in building safety, security, and functionality. Also relevant is that the building designs no longer comport with evidence-based best practices around living, learning, and therapeutic space.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget includes $49 million in new Article XI-Q bond proceeds and capital construction 6-year limitation for significant changes and improvements throughout the system, as laid out in the 10-Year Strategic Plan for Facilities. Bond proceeds will fund:

- Renovating housing units and treatment space, as well as seismic improvements, at the MacLaren Youth Corrections Facility (YCF) in Woodburn.
- Closing the Hillcrest YCF in Salem by June 2017, and moving those youth to MacLaren.
- Expanding the Oak Creek YCF (Albany) medical clinic.
- Building a high school/vocational education center and new multipurpose treatment program space, adding a new behavioral health unit, expanding clinic and administration space, adding a recreation field and perimeter fence, and renovating the courtyard at Rogue Valley YCF (Grants Pass).
- Adding a vocational education area for a machine shop at Eastern Oregon YCF (Burns).
- Renovating the main kitchen, dining room, and control room at Tillamook Camp and Tillamook YCF.
- Adding capacity for vocational education and treatment programming and main kitchen and dining room renovation at Camp Florence.
- Addressing deferred maintenance and program improvements or renovations to meet Positive Youth Development standards at all facilities.
- Adding security cameras.

The total 10-Year Plan cost is currently estimated at just under $100 million; the first two years' projects are $47.9 million; cameras add $1.1 million.

JUDICIAL BRANCH

JUDICIAL DEPARTMENT

Analyst: Bender

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	365,417,114	402,434,862	430,137,118	422,015,555
Other Funds	47,973,194	107,478,241	33,402,862	138,932,144
Federal Funds	1,198,808	1,233,153	1,258,284	1,598,284
Total Funds	**$414,589,116**	**$511,146,256**	**$464,798,264**	**$562,545,983**
Positions	1,869	1,889	1,834	1,921
FTE	1,742.95	1,763.60	1,722.18	1,783.83

Overview

The Judicial Department (OJD) includes the judges and administrative staff to operate general-jurisdiction trial or circuit courts, a tax court, an intermediate court of appeals, and a supreme court. Oregon's 36 counties are consolidated into 27 judicial districts. In 1983, Oregon's district courts, circuit courts, and appellate courts were unified into a statewide court system. In 1998, district courts were abolished and merged with circuit courts into single unified trial level courts. Oregon's Justice, County, and Municipal courts fall outside the jurisdiction of the agency.

The Chief Justice is the administrative head of the Department and has the authority to make rules and issue orders related to the administrative and procedural operations of state courts. The Chief Justice appoints the chief judge of the Court of Appeals and the presiding judges of all state trial courts. The Chief Justice also appoints the state court administrator, a position created in 1971. The Judicial Conference, comprised of all elected judges, serves an advisory role. The Department's administrative proceedings are generally not open to the public. The Department's other responsibilities include the collection of court-ordered judgments, providing court interpreters, and state court security.

The Department is unique in many aspects. It has a decentralized structure of independently elected judges and non-unionized employees who are overseen by a single administrative head (i.e., the Chief Justice). Circuit court judges and staff work in county-owned and county-maintained buildings. Each presiding judge exercises a degree of autonomy in prioritizing the budget for local courts depending upon the needs of local jurisdictions.

The Department's 1,921 positions (1,783.83 FTE) are organized into the following program areas:

- Judicial Compensation – ($70.4 million, 194.00 FTE) Holds the personal service costs of the state's 194 statutory judgeships.
- Appellate and Tax Courts – ($25.1 million, 101.80 FTE) Includes the operating costs for the Supreme Court, Court of Appeals, Tax Court (a court of original jurisdiction), and legal support costs.
- Trial Courts – ($219.1 million, 1,261.90 FTE) Courts of general jurisdiction. 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 – ($143.2 million, 177.28 FTE) Includes the Office of the State Court Administrator, information systems management, fiscal and human resources management, and centralized state agency assessments. The program area also includes Article XI-Q bond proceeds and county matching funds for county courthouse replacement projects funded through the Oregon Courthouse Capital Construction and Improvement Fund (OCCCIF).

- Mandated Payments – ($16.2 million, 22.61 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 and Security Account – ($11.1 million, 4.00 FTE) Provides funding for security improvements, emergency preparedness, business continuity, and facility upgrades for Oregon's courts.
- Electronic Court ("eCourt") – ($19.3 million, 22.24 FTE) Provides funding to complete implementation of Oregon eCourt, a business process reengineering and information technology modernization program, in all remaining courts.

Revenue Sources and Relationships
The Judicial Department is funded with 75% General Fund, 24.7% Other Funds, and 0.3% Federal Funds.

In the 2015-17 biennium, OJD will generate an estimated $296 million in revenue (including $22.6 million of fines collected from passage of HB 2621 authorizing photo-radar in the City of Portland) from a variety of sources, including fines and forfeitures ($140.3 million), state court fees ($144.1 million), and individuals' contributions toward their public defense ($3.7 million). Compensatory fines and restitution, which are expected to total $21.6 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. Other sources of operating Other Funds revenue include the sale and distribution of court publications ($650,000); fees charged for public access to Oregon eCourt and the Oregon Judicial Information Network ($4.8 million); State Law Library assessment revenues ($2.4 million); fees charged for the interpreter and shorthand reporter certification programs; and various grants from other state, local, and federal agencies.

The majority of court-generated revenues are distributed to the General Fund ($123.9 million, or 42%), the Criminal Fine Account ($101.8 million, or 34%), cities and counties ($38.6 million or 13%), the Oregon State Bar Association for Legal Aid Services ($11.9 million, or 4%), or the Public Defense Services Commission ($3.7 million, or 1%). OJD will receive approximately $3.7 million Other Funds in the 2015-17 biennium from the Application/Contribution Program (ACP) related to public defense services. ACP includes 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 OJD (22.70 FTE) and for operating expenses for public defense administration in the Public Defense Services Commission (2.30 FTE).

The Department is also responsible for the collection of amounts owed to the state that are subject to collection by the Judicial Branch. In general, collections are for past-due crime victim restitution payments, compensatory fines, and other fines, costs, and assessments. After accounting for an administrative fee, the remaining collections revenue is distributed by case type (i.e., criminal, civil, etc.) according to statute. Depending on the case type and obligation type (i.e., fines or restitution), balances remaining after statutory obligations and administrative costs are deducted are then distributed to the state or local governments.

According to the most recent Report on Liquidated and Delinquent Accounts Receivable dated June 2014, the Judicial Department reported that $1.50 billion is owed the state. Since 2002, the amount of debt has increased $1.18 billion (or 378%). OJD defines its liquidated and delinquent accounts as "…those cases on which no payment has been received within 30 days of the agreed upon payment date." OJD's definition therefore includes deferred payment plan accounts.

Direct Federal Funds come from a grant for a Juvenile Court Improvement Project. The grant has a 25% matching funds requirement. The Department also receives grants from the Department of Human Services for the Citizen Review Board, but that federal grant is received and expended as Other Funds.

Budget Environment
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. Any flexibility OJD has resides primarily in its ability to delay adjudication in civil case filings; however, if contentious civil issues remain unresolved for extended periods of time, could result in citizen frustration and a negative impact on business activity.

OJD workload is driven by a number of factors, including: the number and complexity of cases filed; the impact of social issues, such as drug abuse and family dissolution; crime rates; and the effect of new laws and regulations. Case types vary in their impact on judicial resources and staff. Criminal felony, misdemeanor, juvenile, and complex civil case types have the greatest workload impact on judicial and staff resources. Violations and Small Claims cases have a lower impact on such resources.

<u>Legislatively Adopted Budget</u>
The 2015-17 legislatively adopted budget of $562.5 million is $51.4 million (or 10.1%) above the prior biennium level, and is 21% above the current service level. Details on the enhancements and reductions in the legislatively adopted budget are provided in the program area summaries below, but budget highlights include:

- $873,660 General Fund, $2.7 million Other Funds, and 22 new positions, to provide ongoing operational support for the Oregon eCourt system and help courts more fully utilize the capabilities of the new system. The positions are housed in several divisions of the Office of State Court Administrator (OSCA) to provide services on a central basis to both the courts and to OSCA. The Other Funds source is revenue accrued to the State Court Technology Fund (SCTF). Although the SCTF will have sufficient resources to finance its share of costs in the 2015-17 biennium, the Fund’s revenues are not sufficient to continue funding this level of expenditures on an ongoing basis.
- $1.25 million General Fund and 12 additional positions for the Multnomah County Circuit Court Violations Bureau for workload associated with additional citations generated by HB 2621. That bill authorizes the City of Portland to operate fixed photo radar systems in urban high crash corridors. The budget also includes an additional $1 million General Fund special purpose appropriation to the Emergency Board for HB 2621-associated costs, if the number of citations generated by the photo radar units exceeds 50,000 per year.
- $190,229 General Fund and 1 additional position, dedicated to improving outcomes related to how courts address family law and child support issues, and the special needs of self-represented litigants.
- $17.3 million Other Funds (Article XI-Q bond proceeds) and 38 limited duration positions for the final implementation of the eCourt system in all remaining courts.
- $77.7 million of Article XI-Q bond proceeds and county matching funds (both Other Funds) for county courthouse capital construction projects funded through the Oregon Courthouse Capital Construction and Improvement Fund (OCCCIF). This expenditure authority supports funding for courthouse replacement projects in Multnomah and Jefferson counties. State support for these projects, plus for a courthouse replacement project in Tillamook County, includes $27.8 million of Article XI-Q bond proceeds to be provided in a spring 2017 bond sale.
- $3.5 million Other Funds (State Court Facilities and Security Account) to finance life/safety upgrades and install fire sprinkler and fire alarm systems at the Malheur and Wallowa County courthouses, and smaller projects at the Grant, Coos, Douglas, Clatsop, and Josephine County courthouses.
- $1.1 million Other Funds (State Court Facilities and Security Account) in one-biennium supplemental funding for county court facilities security accounts to accommodate temporary funding reductions associated with HB 2562 (2013).
- $5.6 million General Fund reduction to revise debt service funding for previously-issued Article XI-Q General Obligation bonds to meet current requirements. The debt service cost reduction reflects both the reduced amount of bonds that were issued for eCourt and favorable interest rates that were obtained in the spring 2015 bond sale.
- $2.4 million General Fund reduction to be replaced with prior-biennium General Fund ending balances carried forward into the 2015-17 biennium budget.
- $1.9 million General Fund reduction to remove General Fund that was rolled-up in the budget for the cost of continuing unfunded compensation plan changes adopted for OJD employees following the 2013 legislative

session. This reduction requires the fiscal impact of the plan changes to be financed from operating efficiencies, as was done in the 2013-15 biennium.

Judicial Compensation

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	64,334,995	69,167,133	70,885,909	70,395,909
Total Funds	**$64,334,995**	**$69,167,133**	**$70,885,909**	**$70,395,909**
Positions	191	194	194	194
FTE	191.00	193.64	194.00	194.00

Program Description

The Judicial Compensation program contains the personal service costs (salary plus other payroll expenses) of the 194 statutory judgeships currently in Oregon. These include 173 circuit court judges, one tax court judge, thirteen Court of Appeals justices (increased from ten on October 1, 2013), and seven Supreme Court justices. The judges of the Supreme Court, Court of Appeals, and Tax Court are elected by voters in nonpartisan statewide elections for six-year terms. The judges of the circuit courts are elected by voters in nonpartisan judicial district elections for six-year terms. The Chief Justice, selected by members of the Supreme Court, serves as the administrative head of the Judicial Department. Costs for non-statutorily established judgeships, such as temporary or pro-tem judges, and 50 senior or "Plan B" semi-retired judges, and judicial referees, are included within the budgets for the Appellate Courts, Trial Courts, and the Administration and Central Support programs rather than under this program area. The services and supplies supporting each statutory judgeship also reside within those programs.

Judicial salaries, as with most other elected official's salaries, are set in statute. Prior to the passage of SB 501 in the 2015 legislative session, any change, including a cost-of-living-allowance, required legislative action. During the 2007-09 biennium, the Public Officials Compensation Commission's recommended an increase in judicial compensation of 15% above the current statutory amounts. This increase was not approved by the Legislature in the 2009 session. The 2011 Assembly also made no change to statutory judge salaries.

In 2013, the Legislature approved two $5,000 salary increases, effective on January 1, 2014 and January 1, 2015. These increases were equal to between 8% and 9% over the two-year period, depending on court type. The salary rates established by the 2013 legislative session actions are shown in the table below.

Statutory Judges	2013	2014	2015 and Beyond
Chief Justice	$128,556	$133,556	$138,556
Supreme Court Justices	$125,688	$130,688	$135,688
Court of Appeals Chief Judge	$125,688	$130,688	$135,688
Court of Appeals Judges	$122,820	$127,820	$132,820
Tax Court Judge	$118,164	$123,164	$128,164
Circuit Court Judges	$114,468	$119,468	$124,468

In addition to annual salaries, the Judicial Compensation program also finances judges' other payroll expenses (OPE), which are equal to approximately 46% of salary (that is, roughly two-thirds of costs are for salaries and one-third are for OPE). About half of the OPE total is to pay PERS contributions. A judge's retirement benefit is defined by statute (ORS 238). PERS operates a separate Judge Member Plan exclusively for judges to comply with ORS 238. The 2015-15 biennium contribution rate for this plan is 20.05% of salary, compared to a 15.79% PERS contribution rate for non-judge employees.

Revenue Sources and Relationships
Statutory judgeships are funded with General Fund.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $70.4 million is $1.2 million (or 1.8%) above the prior biennium level, and is 0.7% below the current service level. The modest increase over the prior biennium reflects the impact of a substantial reduction in the PERS contribution rate from 25.33% of salary in 2013-15 to 20.05% of salary in the 2015-17 biennium budget. This reduction offset more than half of the $2.6 million dollar roll-up cost associated with the 2013-15 biennium judicial salary increases.

The amount funded in the legislatively adopted budget is $490,000 below the current service level, and therefore that same amount below the projected compensation costs at current salary levels. Approximately $498,000 General Fund from the prior biennium appropriation, however, is projected to remain unspent at the end of the 2013-15 biennium. OJD will retain these funds and they will be available to support 2015-17 biennium judicial compensation costs. The current-level salary costs are, therefore, fully funded in the budget.

The Legislature modified judicial salaries in SB 501. Beginning with the 2015-17 biennium, salaries of judges will be increased by the same percentage increases that are provided to management service employees in the Executive Branch for cost of living adjustments. The Legislature may provide additional General Fund to support any salary increases granted from funds appropriated to the Emergency Board or funds otherwise available to the General Fund.

Appellate and Tax Courts

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	16,637,802	20,904,522	22,471,944	22,414,951
Other Funds	2,733,794	3,037,047	2,672,146	2,672,146
Total Funds	**$19,371,596**	**$23,941,569**	**$25,144,090**	**$25,087,097**
Positions	99	108	103	103
FTE	94.11	103.12	101.80	101.80

Program Description
The Appellate and Tax Courts program includes the Oregon Supreme Court and the Court of Appeals. The Supreme Court consists of seven justices elected to serve 6-year terms. The Court of Appeals, which was statutorily created in 1969, consists of thirteen judges who hear appeals from trial courts, agencies, and boards. The administrative head of the Court of Appeals is the Chief Judge, who is appointed by the Chief Justice. The Court of Appeals has an Appellate Settlement Conference Program that mediates some civil, domestic relations, and workers' compensation cases.

The Appellate and Tax Court program also includes the Tax Court, which is a court with original jurisdiction over tax law matters located in Salem. Currently, there is one Tax Court judge who hears matters arising from Oregon tax law and appeals from the Tax Magistrate Division. A Tax Magistrate Division was created in 1997 to replace the informal administrative tax appeals process conducted by the Department of Revenue. The Tax Magistrate Division has three magistrates. The Tax Court has exclusive, statewide jurisdiction for all matters related to state tax laws, including income taxes, corporate excise taxes, property taxes, timber taxes, cigarette taxes, local budget law, and property tax limitations.

Revenue Sources and Relationship
The Appellate and Tax Court program is primarily funded with General Fund, but also includes some Other Funds revenue, including State Law Library assessment revenues ($2.4 million) and publication sales revenue ($715,000).

Budget Environment
The following table contains historic case filing data for the Appellate and Tax courts. As of 2013, the number of case filings for the Supreme Court has increased modestly, while case filings for the Court of Appeals have continued to decline to twelve-year lows. The Tax Court – Regular Division caseload level fluctuates significantly on a year-to-year basis, while Magistrate Division caseloads have also fallen over the last four years to multi-year lows.

Appellate and Tax Court Historic Case Filings by Calendar Year

Court-Type	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Supreme Court	939	1,028	999	1,062	1,347	1,274	1,321	1,368	1,001	922	923	949
Court of Appeals	3,277	3,314	3,677	3,801	3,517	3,312	3,220	3,416	3,089	2,936	2,909	2,652
Tax Court Regular Division	47	55	39	43	27	26	73	50	53	73	97	43
Tax Court Magistrate Division	1,245	1,047	1,184	1,021	827	915	1,237	1,641	1,370	1,310	885	580

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $25.1 million is $1.1 million (or 4.8%) above the prior biennium level, and is 0.2% below the current service level. The budget includes one reduction from the current service level: Compensation Plan Change Roll-up Costs – ($56,993 General Fund reduction) This represents this program area's portion of a total $1.9 million General Fund reduction to remove General Fund that was rolled-up in the budget for the cost of unfunded compensation plan changes adopted for OJD employees following the 2013 legislative ession. The reduction requires the fiscal impact of the compensation plan changes to continue to be financed from operating efficiencies, as was done in the 2013-15 biennium.

Trial Courts

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	176,466,483	202,507,148	212,675,780	211,057,230
Other Funds	5,621,391	7,856,286	4,705,753	7,680,753
Federal Funds	--	--	--	340,000
Total Funds	**$182,087,874**	**$210,363,434**	**$217,381,533**	**$219,077,983**
Positions	1,357	1,360	1,347	1,373
FTE	1,242.09	1,245.07	1,238.90	1,261.90

Program Description
Trial Court operations includes the funding and operations of all state trial courts (Circuit Courts). The program also includes staff who verify the eligibility of applicants for representation at public expense (Application/ Contribution Program).

There are circuit courts in each of the 36 counties, which are consolidated administratively into 27 judicial districts. These courts act as courts of general jurisdiction and adjudicate matters and disputes in criminal, civil, domestic relations, traffic, juvenile, small claims, violations, abuse prevention act, probate, mental commitment, adoption, and guardianship cases. One circuit court, Multnomah, also operates as the municipal court for City of Multnomah parking violations. Jurisdiction over tax law is reserved to the Tax Court.

Revenue Sources and Relationships

The circuit courts are primarily funded with General Fund. Other Funds revenue includes transfers from the Public Defense Services Commission for a portion of the Application/Contribution Program, which is used for verification of eligibility for public defense representation in circuit courts ($3.1 million), and grants funds supporting specialty court operations ($3.6 million).

Budget Environment

In calendar year 2013, caseloads totaled 541,928 cases across nine major case-categories. This is less than the 555,141 cases in 1994 (which is the lowest caseload count prior to 2011), and significantly below the high of 655,574 cases in 2003. The types of cases filed in circuit courts have changed since 1990 with fewer violations and criminal cases being filed, while the numbers of civil and small claims cases have increased.

Case-Type by Calendar Year	1990 to 2010 Average	2000 to 2010 Average	2005 to 2010 Average	2011 Caseload	2013 Caseload
Civil	76,060	84,686	93,874	92,449	95,191
Small Claims	64,683	71,232	76,118	73,673	70,259
Domestic Relations	51,501	47,699	46,088	47,919	43,898
Felony	33,481	35,304	32,364	31,086	32,464
Misdemeanor	65,254	64,156	62,960	59,589	53,029
Violations	285,795	276,816	249,869	214,654	215,080
Juvenile	18,971	17,853	16,845	14,013	11,783
Civil Commitments	6,974	8,236	8,674	8,871	9,582
Probate	10,136	10,029	10,006	10,347	10,642
Total	612,809	615,982	596,797	552,601	541,928

Oregon's circuit courts have also operated specialty courts and dockets for over two decades. Such courts have become a significant component of the Department's service delivery model and as such have a significant budgetary impact. Specialty courts perform a unique function that is separate and distinct from the adjudicatory functions of the courts. There are types of specialty courts that have been established include: drug; driving under the influence; family; community; domestic violence; mental health; clean slate; and early resolution.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $219.1 million is $8.7 million (or 4.2%) above the prior biennium level, and is 0.8% above the current service level. The budget includes two reductions from the current service level and two funding increases:

- Compensation Plan Change Roll-up Costs – ($1,318,550 General Fund reduction) This represents this program area's portion of a total $1.9 million General Fund reduction to remove General Fund that was rolled-up in the budget for the cost of unfunded compensation plan changes adopted for OJD employees following the 2013 legislative session. The reduction requires the fiscal impact of the compensation plan changes to continue to be financed from operating efficiencies, as was done in the 2013-15 biennium.

- General Fund Carry-Forward Adjustment – ($1,550,000 General Fund reduction) Starting with the 2009-11 biennium ending balance, Judicial Branch agencies are able to retain General Fund ending balances. Furthermore, without additional legislative action, an appropriation amount equal to the ending balance is transferred from the ending biennium to the next biennium. An estimated $1.58 million of General Fund is forecast to be rolled forward from the 2013-15 biennium ending balance to the 2015-17 biennium budget, which will be available for 2015-17 biennium Administration expenditures. Noting this, the budget subtracted $1.55 million General Fund with the understanding that this reduction will be restored when the 2013-15 biennium General Fund ending balance is rolled forward.

- Portland Photo Radar (HB 2621) – ($1,250,000 General Fund plus $1 million General Fund special purpose appropriation to the Emergency Board) HB 2621 allows the City of Portland to operate fixed photo radar systems in "urban high crash corridors." The systems must be in the same location for a minimum of 180 days; however, there is no limit on the hours of use. The bill is projected to significantly increase the number of violations cases submitted to the Multnomah County Circuit Court. The budget provides General Fund to, and authorizes additional positions for, the Multnomah County Circuit Court Violations Bureau to address the increased workload generated by HB 2621.

  The budget includes a $1,250,000 General Fund appropriation, and establishes 12 new full-time permanent positions to begin January 1, 2016 (9.00 FTE) when the bill becomes operative. This level of staffing is assumed to be sufficient to handle the initial rollout with an estimated 50,000 additional citations per year, or 75,000 additional citations in the 2015-17 biennium. The added staff includes 10 Judicial Services Specialist 2 positions, 1 Judicial Services Specialist 3 position, and 1 Hearings Referee position. The budget also provides a $1,000,000 General Fund special purpose appropriation to the Emergency Board dedicated to OJD in the event that citations reach levels beyond the estimated 50,000 per year. OJD estimates that three additional processing staff would be required for every 10,000 additional citations, with additional Hearings Referees and support staff added for every 35,000 increase in citations.

- Specialty Court Grants – ($2,975,000 Other Funds, $340,000 Federal Funds, and 14 positions [14.00 FTE]) Other Funds expenditure limitation and position authority associated with specialty grants to support family and treatment courts, pretrial release programs, and the Citizen Review Board. The budget provides expenditure limitation for expenditure of grant monies that were awarded in the 2013-15 biennium, but that will be spent in the 2015-17 biennium, and also for grants that are likely to be renewed in 2015-17. The grant funds are used to pay fourteen employees who work in these program areas; the positions are established on a limited duration basis.

Administration and Central Support

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	45,801,966	48,620,107	55,130,735	54,482,618
Other Funds	5,409,638	44,889,546	6,993,275	87,378,442
Federal Funds	1,198,808	1,233,153	1,258,284	1,258,284
Total Funds	**$52,410,412**	**$94,742,806**	**$63,382,294**	**$143,119,344**
Positions	160	160	163	186
FTE	157.03	157.50	160.87	177.28

<u>Program Description</u>
The State Court Administrator serves under the direction of the Chief Justice of the Supreme Court. The State Court Administrator is responsible for the centralized functions of the Oregon courts system. The Office of the State Court Administrator is divided into the following eight divisions:
- Court Programs and Services Division
- Legal Counsel Division
- Human Resource Services Division
- Office of Education, Training, and Outreach
- Executive Services Division
- Enterprise Technology Services Division
- Appellate Court Services Division
- Business and Fiscal Services Division

The State Court Administrator also provides management and oversight of the Citizens Review Board, the Interpreter Certification program, revenue management, the Supreme Court building, internal auditing, the administration of the Appellate Court Records Office, and the Supreme Court library. Centralized assessments and costs to state agencies are also managed and paid by this office.

Revenue Sources and Relationship

The program is predominately funded with General Fund, but includes the following Other Funds and Federal Funds revenue sources:

- Article XI-Q bond proceeds ($28.2 million) and county matching funds ($38.4 million) for courthouse replacement projects funded through the Oregon Courthouse Capital Construction and Improvement Fund.
- Department of Human Services moneys for the Citizen Review Board ($1.9 million).
- Fees charged for public access to eCourt and the Oregon Judicial Information Network ($4.8 million).
- Revenue from a 5% filing fee increase transferred to the State Court Technology Fund ($3.4 million).
- Federal Funds from grants that are used for assessments of state foster care and adoption laws and judicial processes, juvenile case data management, and training specific to juvenile case process improvements under the Juvenile Court Improvement Project ($1.26 million).

Budget Environment

The State Court Administrator and staff provide centralized legal, analytical, business, and administrative support for the Department, which is challenging given the decentralized structure of the Department, and the aging information technology infrastructure on which decision-making must rely. The eCourt program is in the final phase of being implemented and represents a significant upgrade to the technology infrastructure.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $143.1 million is $48.4 million (or 51.1%) above the prior biennium level, and is 126% above the current service level. The large increase reflects support for the Oregon Courthouse Capital Construction and Improvement Fund, support for which is not included in the current service level budget. This amount financed includes three budget enhancements and two reductions. The adjustments in the Administration and Central Support program are:

- Oregon Courthouse Capital Construction and Improvement Fund Program – ($77.7 million Other Funds) $77.7 million of Article XI-Q bond proceeds and county matching funds (both Other Funds), for county courthouse capital construction projects funded through the Oregon Courthouse Capital Construction and Improvement Fund (OCCCIF). This expenditure authority accommodates funding for courthouse replacement projects in Multnomah and Jefferson counties, and includes expenditures of both newly-approved bond proceeds and county matching funds and of bond proceeds and county matching funds that were authorized in the 2013-15 biennium and carried forward to 2015-17. The expenditure limitation does not include expenditures for a third courthouse replacement project approved for Tillamook County. OJD will report to the Joint Committee on Ways and Means or to the Emergency Board on the Tillamook County Courthouse project, and request Other Funds expenditure limitation for the project, prior to distributing any money from the OCCCIF for the Tillamook County Courthouse project. New Article XI-Q bonds authorized in the 2015-17 biennium budget total $27,775,000, which includes $17.4 million for the Multnomah County Central Courthouse project, $2.5 million for the Jefferson County Courthouse project, and $7,875,000 for the Tillamook County Courthouse project.

- eCourt Technical Operations, Training and Business Processes – ($873,660 General Fund, $2.7 million Other Funds, and 22 positions [15.49 FTE]) The budget establishes permanent and limited duration staffing and provides funding to enhance training programs, enhance ongoing operational support of the Oregon eCourt system, and help courts more fully utilize the capabilities of the new system. The additional positions include 5 permanent full-time positions in the Business and Fiscal Services Division; 8 permanent full-time and 2 limited duration full-time positions in the Office of Education, Training, and Outreach; and 2 permanent full-time and five limited duration full-time positions in the Enterprise Technology Services Division. The Other

Funds source consists of moneys in the State Court Technology Fund, which receives 4.75% of certain filing fee revenues plus user fees assessed to eCourt system users.

The state has issued Article XI-Q bonds to fund staff support for eCourt implementation, as shown in the eCourt program area section below. Forty positions were established for this purpose in the 2013-15 biennium budget, and 38 are continued in the 2015-17 biennium budget. All of these positions are being phased out during the current biennium as eCourt implementation is completed in all remaining courts. Fifteen permanent positions are established for continued support of eCourt operations in the 2015-17 biennium and ongoing. Additional ongoing eCourt costs will also include approximately $2.3 million for software maintenance in 2017-19, with costs increasing in the following biennium.

- Family Law Program – ($190,229 General Fund and 1 full-time position [0.92 FTE]) This program was eliminated in the 2009-11 biennium when the OJD budget was reduced to address a General Fund shortfall. The Family Law Program worked with courts and other state agencies to improve the courts' outcomes in child support and family law cases, and to assist self-represented (pro se) litigants in those cases. OJD requested 3 positions to restore the Family Law Program; the budget restores 1 of the 3 requested positions.

- Compensation Plan Change Roll-up Costs – ($508,806 General Fund reduction) This represents this program area's portion of a total $1.9 million General Fund reduction to remove General Fund that was rolled-up in the budget for the cost of unfunded compensation plan changes adopted for OJD employees following the 2013 legislative session. The reduction requires the fiscal impact of the compensation plan changes to continue to be financed from operating efficiencies, as was done in the 2013-15 biennium.

- State Government Service Charge Adjustments – ($1.2 General Fund reduction) General Fund was reduced to reflect legislative actions that reduced Attorney General charges and state government assessments and charges collected by the Department of Administrative Services and the Secretary of State Audits Division.

Mandated Payments

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	13,783,984	15,301,463	15,588,373	15,558,373
Other Funds	525,255	595,264	660,444	660,444
Total Funds	**$14,309,239**	**$15,896,727**	**$16,248,817**	**$16,218,817**
Positions	23	23	23	23
FTE	22.31	22.31	22.61	22.61

Program Description

The Mandated Payments program provides for trial and grand jurors, court interpreters, arbitration services, civil appellate transcript costs for indigent persons, and Americans with Disabilities Act (ADA) accommodation services.

Revenue Sources and Relationship

The Mandated Payments Program is primarily funded with General Fund, but includes a relatively nominal amount of Other Funds revenue (4.1%) generated from juror fees and mileage donated back to the Department.

Budget Environment

Demand for mandated services is a function of the volume of cases heard by the courts, and therefore any increase in proceedings can translate to higher services and costs. Mandated payments were higher than initially funded in the 2013-15 legislatively adopted budget. The Legislature transferred $400,000 of General Fund appropriation from the Third-Party Debt Collection program to Mandated Payments during the 2015 legislative session to address this funding shortfall.

Approximately 53% of the budget supports interpreter services, 47% supports jury payments, with less than 1% supporting ADA compliance and arbitration expenses.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $16.2 million is $322,090 (or 2%) above the prior biennium level. Funding is $30,000 below the current service level, however, approximately $51,000 of General Fund resources are expected to carry forward from the prior biennium ending balance, more than offsetting the shortfall.

Revenue Management

Program Description

The purpose of the program is to collect 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.

After accounting for the program's administrative expenses, the remaining collections revenue is distributed by case type (i.e., criminal, civil, etc.) according to statute. Depending on the case type and obligation type (i.e., fines or restitution), balances remaining after statutory obligations and administrative costs are deducted are distributed to the state or to local governments.

Delinquent accounts move through a progressive series of collection efforts as defined by each circuit court. In general, these steps include: circuit court late payments notices (up to one year); referral of an account by the circuit court to the Department of Revenue (DOR) for collection (up to one year); referral to a private collections firm (up to two years); and finally, a circuit court may refer an uncollected item to the Judicial Department's central staff for their attempt at collection. The Department also works with DOR to intercept state tax refunds, including intercepting surplus kicker checks.

In the closing days of the 2001 legislative session, the Legislature transferred the collections program from the General Fund to Other Funds revenue from OJD collections. In 2011, the Legislature moved the program back to the General Fund to simplify the budget process in the trial courts.

Revenue Sources and Relationships

During the 2015-17 biennium, OJD will generate an estimated $296 million in revenue from fines, assessments, forfeitures, filing fees, and individuals' contributions toward their public defense. The majority of the revenues collected will be transferred directly to either the General Fund, the Criminal Fine Account, or to cities and counties. Court filing fees are transferred to the General Fund, with the exception of $11.9 million that will be transferred in quarterly increments to a Legal Aid Services account for transfer to the Oregon State Bar, and 4.75% of certain filing fees dedicated to the State Court Technology Fund (totaling approximate $3.4 million in the 2015-17 biennium). Other entities that had historically received court revenue transfers now receive their funding through the budget process with General Fund appropriations.

Legislatively Adopted Budget

Generally, the actual budget and position authority for revenue management activities resides under the Trial Court, Administration and Central Support, and Appellate/Tax Courts budget structures. A separate General Fund appropriation is made, however, for payments to third party debt collectors, who assist the collection efforts. The appropriation funds payments to the Department of Revenue and private collection firms for collection fees that are paid as a percentage of the amount collected, plus bank fees and Treasury charges.

The budget projects that third-party collection fees will total $11.8 million in 2015-17, and that the parties will collect approximately $64.3 million in revenue. Funding was reduced $80,000 below the current service level. However, approximately $450,000 of General Fund resources are expected to carry forward from the prior biennium ending balance, thereby more than offsetting the shortfall, and allowing for potential increases in debt collection activity over the prior biennium level.

State Court Facilities and Security Account

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	7,550,163	9,714,580	6,471,244	11,071,244
Total Funds	**$7,550,163**	**$9,714,580**	**$6,471,244**	**$11,071,244**
Positions	4	4	4	4
FTE	4.00	4.00	4.00	4.00

Program Description

In 2005, the Legislature established a State Court Facilities Security Account (SCFSA) within the Oregon Judicial Department (OJD). Revenue for the account is currently derived from moneys allocated from the Criminal Fine Account (CFA). By statute, account proceeds may be used to provide security in buildings that contain or are utilized by the Supreme Court, Court of Appeals, Oregon Tax Court, or the Office of the State Court Administrator (SCA). Additionally, expenditures may be made for developing and implementing a plan for state court security improvement, emergency preparedness, business continuity, and statewide training on state court security.

In 2011, the Legislature expanded the use of the account to include the funding of capital improvements for court facilities and the distribution of support to County Local Court Security Accounts (see HB 2712), and changed the name of the account to the State Court Facilities and Security Account.

Revenue Sources and Relationships

Thee SCFSA is financed from Criminal Fine Account revenues. In the 2011-13 biennium, the account received an initial allocation of funding from the Criminal Fine Account of $7.6 million. This included an allocation of $2.9 million for state court security and $4.7 million for local court security (formerly part of the county assessment and deposited directly into local court security accounts).

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $11.1 million is $1.4 million (or 14%) above the prior biennium level, and is 71% above the current service level. Expenditures are entirely supported by monies from a CFA allocation of the same amount. The approved budget will generate a zero ending balance in the SCFSA. There are three general categories of SCFSA expenditures included in the funding: 1) OJD Security and Emergency Preparedness Office - $3,422,322; 2) Capital Improvements for Courthouses - $3,500,000; and 3) Distributions to County Local Court Security Accounts - $4,148,922. The Security and Emergency Preparedness Office is funded at the current service level. Capital improvements for courthouses were funded at approximately the same level as last biennium, but these expenditures are phased-out each biennium so the entire amount in the 2015-17 adopted budget is an enhancement above current service level. The distribution to county local court security accounts is a 40.2% increase over the current service level.

The budget includes two budget enhancements:

- Local Court Facilities Infrastructure – ($3,500,000 Other Funds) The budget finances Life/Safety Upgrades to install fire sprinkler and fire alarm systems at the Malheur and Wallowa County courthouses. These projects were the highest-rated priority in terms of life/safety in the 2008 statewide facility assessment, and smaller projects at the Grant, Coos, Douglas, Clatsop, and Josephine County courthouses.

- County Court Facilities Security Account Supplemental Funding – ($1,100,000 Other Funds) In 2013, the Legislature passed HB 2562, which changed justice and municipal court (aka: local courts) distributions to county court facilities security accounts. Previously, the state contributed to the county court facilities security account on behalf of both circuit and municipal courts, and received payments from justice and municipal courts to assist in funding these payments. HB 2562 reduced local court payments to the state, and required local courts to distribute funds directly to counties for county court facilities security accounts.

  This change reduced county court facilities security accounts revenues. The funding shortfall is expected to be resolved over time. During the 2015-17 biennium, however, as courts transition to HB 2562 provisions, funding for court facilities security is inadequate. The funding provided by this package is one-time only, and will be phased-out in the development of OJD's 2017-19 current service level budget. The Chief Justice may prioritize and distribute the one-time funding provided in this package to county courts facilities security accounts to address funding shortfalls and impacts resulting from HB 2562.

External Pass-Throughs

	2011-13 Actual	**2013-15 Legislatively Approved**	**2015-17 Current Service Level**	**2015-17 Legislatively Adopted**
General Fund	14,557,000	14,530,829	15,142,390	15,842,390
Other Funds	--	11,900,000	11,900,000	11,900,000
Total Funds	**$14,557,000**	**$26,430,829**	**$27,042,390**	**$27,742,390**

Program Description

In the 2011-13 budget, General Fund appropriations were added to the OJD budget to support funding of county law libraries and law library services, and county mediation and conciliation programs. These programs had previously been funded through court fee revenue transfers. In addition, the External Pass-Through program includes General Fund appropriation passed through to fund the Council on Court Procedures and the Oregon Law Commission. In 2013-15, the Legislature added the transfer of court fee revenues (Other Funds) to the Oregon State Bar for the Legal Services Program (Legal Aid).

Revenue Sources and Relationship

The External Pass-Through program is funded with General Fund, and (for the Legal Aid program) with court fee revenues. All funds are transferred by the Department to other entities.

Budget Environment

In 2011, the Legislature passed HB 2710 which simplified court fees and generally eliminated the dedication of court fee revenue to specific programs. Other than Legal Aid, which retains an $11.9 million per biennium dedication from court fees, and a 5% surcharge incorporated into most filing fees dedicated to the State Court Technology Fund, court fees are now directed to the General Fund. Two county programs that had been financed from dedicated fees – county law libraries and mediation/conciliation programs – plus the Oregon Law Commission and Council on Court Procedures, were provided equivalent General Fund appropriations after the dedicated fees were eliminated.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $27.7 million is $1.3 million (or 9%) above the prior biennium level, and is $700,000 above the current service level. This amount includes two budget enhancements:

- Legal Aid Support – ($600,000 General Fund) The budget adds a one-time General Fund appropriation of $600,000 for support of the Oregon State Bar Legal Services Program (Legal Aid). The General Fund appropriation will supplement the $11.9 million of Other Funds support for Legal Aid provided from court fee revenues, and is approximately a 5% increase over the base funding level.

- Oregon Law Commission – ($100,000 General Fund) The budget adds $100,000 General Fund to increase funding for the Oregon Law Commission. This action raises total General Fund support for the Oregon Law Commission in the 2015-17 biennium to $331,319, a 45.3% increase over the 2013-15 funding level.

eCourt Program

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,500,515	2,158,734	2,228,661	1,978,661
Other Funds	26,132,953	24,555,199	0	17,276,215
Total Funds	**$27,633,468**	**$26,713,933**	**$2,228,661**	**$19,254,876**
Positions	35	40	0	38
FTE	32.41	37.96	0.00	22.24

Program Description
The Oregon eCourt Program is the estimated seven year project to modernize Oregon court business practices. The Oregon Judicial Information Network (OJIN), which is the Department's current electronic case management system, has been in operation for the past 25 years. OJIN contains all of the records of circuit courts, including financial information. The records are an integral part of Oregon's civil, business, and public safety systems and provide various jurisdictions and agencies with data relevant to judicial determinations.

Implementation of the Oregon eCourt Program involves far more than information technology, and will require major reengineering of the Judicial Department's business practices across the 36 circuit courts, as well as the Oregon Supreme Court, Court of Appeals, and the Tax Court. The complexity of revising (and gaining acceptance) of business practices equals, if not exceeds, its high technical complexity.

The eCourt Program will be completed by middle of the 2015-17 biennium at an estimated total development cost of $97 million, according to the Judicial Department.

Revenue Sources and Relationships
The eCourt Program is funded with a combination of General Fund, certificates of participation, and Article XI-Q general obligation bond proceeds. The program carried forward over $2.8 million from the 2013-15 biennium.

OJD has imposed fees to pay for maintenance, upgrades, development, and system replacement. The Legislature provided this authority in the 2013 legislative session.

Budget Environment
The Oregon eCourt Program had a troubled history of program deficiencies since its launch in July of 2007 when the Legislature first approved funding for the program. The Legislature recognized the critical need for the program and determined that it should proceed, albeit with greater involvement by the Legislature. This same concern was shared by the Chief Justice, which led to an agreement in 2011 between legislative leadership and the Chief Justice on a detailed remediation plan as part of the ongoing funding evaluation of the program.

The remediation plan was meant to address long-standing deficiencies of the program as identified by the Quality Assurance vendor (QA), including the development of a budget and schedule, and to provide updated planning documentation that is standard for major information technology projects. The Department met the requirements set out in the plan and has begun to implement the eCourt Case Information and File and Serve Systems in the state's circuit courts. During the 2013-15 biennium, an additional fourteen circuit courts, including the largest, Multnomah County Circuit Court, went live and are now operating under the eCourt system. All remaining circuit courts and the Tax Court are scheduled to transition to eCourt during the first year of the 2015-17 biennium.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $19.3 million is $7.5 million (or 27.9%) below the prior biennium level. Because bond proceeds are the Other Funds source for the program's Other Funds, all Other Funds expenditures are approved on a one-biennium basis and are therefore above the current service level.

The legislatively adopted budget includes $17.3 million of Article XI-Q general obligation bond proceeds, including $2.8 million of carry-forward bond proceeds and $14.5 million of new bonds, plus $2 million General Fund, to finance the final implementation of eCourt. Because the bonds will not be issued until the spring of 2017, no debt service payments for them will be due in the 2015-17 biennium. Debt service costs for the bonds in the 2017-19 biennium are projected to equal approximately $6.8 million General Fund. The issue was delayed until spring 2015 to avoid current biennium debt service costs.

Services and supplies expenditures are significantly reduced from the prior biennium, reflecting the elimination of one-time costs that were necessary last biennium as the program was being initially implemented, and the completion of eCourt implementation. The schedule is to transition all 19 remaining circuit courts and the Tax Court to eCourt by summer 2016. No additional implementation costs are anticipated in future biennia.

Debt Service

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	20,114,374	18,133,375	24,156,428	18,508,525
Other Funds	--	530,319	--	292,900
Total Funds	**$20,114,374**	**$18,663,694**	**$24,156,428**	**$18,801,425**

Program Description

The eCourt Debt Service Program provides the funding to make payments on principal, interest, and financing costs associated with the issuance of certificates of participation (COPs) and general obligation Article XI-Q bonds. These payments include cost of issuing the bonds. COPs are tax-exempt government securities, but they have been replaced with general obligation bonds authorized under Article XI-Q of the state Constitution. Debt service on both the COPs and the general obligation bonds is paid by General Fund. The cost of issuing the COPs or bonds is paid from their proceeds as Other Funds.

Until the 2013-15 biennium the Department's debt service was related exclusively to the Oregon eCourt Program. Beginning in 2015-17, debt service for capital construction and for support of county courthouse capital projects is also included in the Debt Service budget.

Revenue Sources and Relationships

The Department's debt service is currently funded with General Fund. In the future, there exists the opportunity to fund part of eCourt debt service with Other Funds revenue generated from eCourt transaction charges and Revenue Management funds.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget includes $18.5 million General Fund to pay debt service on debt issued to finance implementation of eCourt, a Supreme Court Building renovation project, and the Multnomah and Jefferson County Courthouse replacement projects. This represents a 2.1% increase over the prior biennium level. The budget includes $292,900 Other Funds to pay the cost of issuing $14.5 million of new Article XI-Q bonds authorized for the 2015-17 biennium for eCourt. Bond proceeds will be the source of these funds.

Because the new bonds will not be issued until the spring of 2017, there will be no debt service costs that need to be paid on them this biennium. Debt service costs on the new bonds are projected to equal $1.11 million General Fund in the 2017-19 biennium.

Capital Construction

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	--	4,400,000	--	--
Total Funds	**--**	**$4,400,000**	**--**	**--**

Program Description

This program provides for capital construction to existing state-owned facilities. The Department owns a single building, the Supreme Court Building, which was constructed in 1914 and is the oldest building on the Capital Mall. All other buildings used by the Judicial Department are either leased from private parties or are owned and maintained by the county. The Appellate Court Services Division, under the Administration and Central Support Program Areas, is responsible for the Supreme Court Building Service Section.

In 2008, the Department contracted with the private firm that was undertaking the State Court Facilities Assessment of 48 county-owned circuit court buildings to perform a similar assessment of the Supreme Court Building. This assessment reported an estimated total cost of $19.2 million (excluding some additional items that the Department would likely add), for renovation of the Supreme Court Building. By 2013, OJD had re-estimated the cost to fully renovate and seismically retrofit the building at $26.8 million.

(Note: Capital construction support for county-owned facilities is included in the Administration and Central Support and State Court Facilities and Security Account programs.)

Revenue Sources and Relationships

Other Funds are provided by proceeds of the sale of Article XI-Q general obligation bonds. In the 2013-15 biennium budget, $4.4 million of bond proceeds were provided for a deferred maintenance project at the Supreme Court Building.

Legislatively Adopted Budget

The 2015-17 biennium legislatively adopted budget does not include any capital construction projects. Only state-owned facility projects are included in this program area. Funding support for county courthouse capital projects, on the other hand, is categorized as special payments in the state budget and included in the Administration and Central Support program for OCCCIF-supported projects, and in the State Court Facilities Security Account program for SCFSA-supported projects.

COMMISSION ON JUDICIAL FITNESS AND DISABILITY

Analyst: Bender

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	169,135	206,651	209,602	219,804
Total Funds	**$169,135**	**$206,651**	**$209,602**	**$219,804**
Positions	1	1	1	1
FTE	0.50	0.50	0.50	0.50

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.

Major updates to the Code of Judicial Conduct are reviewed by the Judicial Conference, which is comprised of all state court judges, and then approved by the Oregon Supreme Court. The Code of Judicial Conduct can also be updated by Chief Justice Order, as noted above. Thus, the Supreme Court is charged not only with promulgating the Code, but also with the review and approval of Commission recommendations.

The Commission has jurisdiction over the following categories of judges: justices of the peace (32), circuit court judges (173), appellate court judges (20), temporary or pro-tem judges (approximately 100), senior or "Plan B" semi-retired judges (53), judicial referees, and the Tax Court judge. In total, the Commission's jurisdiction extends to approximately 395 Oregon judges. The Commission does not have jurisdiction over municipal court judges, arbitrators, or administrative law 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 non-public, including those pertaining to administrative matters.

The Commission reviews approximately 110 to 160 written complaints each year. A significant number of the complaints involve the legal determination of a judge, and after initial review by the Commission, are dismissed because they fall outside the Commission's statutory authority to investigate judicial misconduct. 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 in-kind support from the Oregon Judicial Department for financial and limited support services as discussed below.

Budget Environment

The Commission budgets for normal and extraordinary expenditures. The normal operating budget pays for a half-time executive director, office rental and supplies, meeting accommodations, travel reimbursements, and initial investigations. The Commission does not have budgeted resources for budget, accounting, and website services. These activities are undertaken for the Commission by the Oregon Judicial Department (OJD). OJD assists the Commission in the technical development of its budget, Emergency Board actions, and related accounting transactions. The services provided by OJD are done without financial remuneration.

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 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 has not needed to request additional funding from the Emergency Board since 2006. During the 2007-09 and the 2009-11 biennia, the Commission did not expend any of its regularly budgeted extraordinary expenditures.

This situation has changed, however. The agency spent approximately $11,000 for extraordinary expenses in the 2011-13 biennium, and approximately $22,000 in the 2013-15 biennium.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $219,804 General Fund is $13,153 (or 6.4%) above the prior biennium level and is equal to the corrected current service level. Of this total, $202,296 is appropriated for administration (i.e., normal expenses), and $17,508 is appropriated for extraordinary expenses.

No enhancements or specific budget reductions were approved for the Commission budget; however, $10,212 General Fund was added to correct an error in the agency's current service level calculation and to provide support at the correct current service level amount.

PUBLIC DEFENSE SERVICES COMMISSION

Analyst: Bender

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	230,208,646	253,165,468	265,595,131	272,353,866
Other Funds	3,799,452	3,995,099	5,033,764	3,833,764
Total Funds	**$234,008,098**	**$257,160,567**	**$270,628,895**	**$276,187,630**
Positions	76	76	76	77
FTE	75.23	75.79	75.11	76.11

Overview

The Public Defense Services Commission (PDSC) was established as an independent state agency in 2001. The agency combined the state Public Defender, which provided appellate representation, with the trial court representation function, which had been a division within the Oregon Judicial Department since the early 1980s. Prior to the early 1980s, trial level public defense, as well as 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. The Commission holds public meetings across the state approximately once every quarter. The agency is overseen by an executive director, appointed by the Commission. 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.”

The Commission is organized into three divisions:

- Appellate Division – ($14.2 million, 60.00 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 state counterpart to the Oregon Attorney General’s appellate division.
- Professional Services Account – ($230.9 million, 0.00 FTE) Consists of the funding for contract defense services, including attorneys, investigators, and expert witnesses, primarily at the trial court level.
- Contract and Business Services Division – ($3.7 million, 15.79 FTE) 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.

Eligible people 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, liberty, and property, 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 held that the right to appointed counsel includes related costs such as expert witnesses and investigation expense.

Oregon statutes broadly define who is financially eligible for public defense. Each applicant for state-paid representation is required to provide a verified financial statement detailing income, assets, debts, and dependents. This process is administered by Verification Specialists employed by the Oregon Judicial Department. Verification Specialists assist judges in their decision whether to appoint state-paid counsel. A person is presumed eligible for services if the applicant's income is less than or equal to the eligibility level for the federal food stamp program (130% of the federal poverty level), unless the applicant has liquid assets that could be used to hire an attorney. If an applicant 's income exceeds food stamp standards, the applicant is eligible for state-paid counsel only if the applicant's income and liquid assets are determined to be insufficient to hire an attorney suitable for the type of case pending against the applicant.

Public defense at the trial court level is accomplished primarily through a state-funded and state-administered competitive contracting system that operates on a two-year cycle (January to December). The Commission contracts with over 100 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 services or experts, is typically paid directly by the Commission after a court-appointed attorney receives pre-approval. The Commission has approximately ten contracts with non-attorney providers including one with a private forensics laboratory. Some public defender contracts, however, do include a provision for investigators.

Budget Environment

- Caseloads – The state has a constitutional obligation to provide counsel for eligible persons, and to provide for timely adjudication. If insufficient funding for public defense results in violation of these constitutional provisions, the court must dismiss the case and release the person. 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. In the absence of any prioritization and adequate public defense funding, the courts would need to dismiss cases.

  The number of cases is impacted by numerous factors, including crime rates and demographic factors, such as population size and age distribution. The state of the economy also affects the number of people who are financially eligible for public defense services, and it may affect funding levels for public safety and judicial services. When, for example, law enforcement is reduced or expanded as a result of economic conditions, the number of arrests and number of prosecutions can change. Trial-level caseloads (excluding death penalty cases) increased substantially in the 1990s and into the 2003-04 fiscal year. Between the 1993-94 and 2003-04 fiscal years, annual caseload count increased from 108,963 to 170,902 – a 57% increase. Since 2003-04, caseload counts have fluctuated from year to year but remained relatively flat overall, coming in between 170,000 and 180,000 cases per year. The 2013-14 caseload count of 170,482 is practically unchanged from the 2003-04 count.

Trial-Level Non-Death Penalty Public Defense Caseloads	Caseload	Change
Fiscal Year 2003-04	170,902	16.3%
Fiscal Year 2004-05	171,850	0.6%
Fiscal Year 2005-06	179,058	4.2%
Fiscal Year 2006-07	178,002	-0.6%
Fiscal Year 2007-08	170,288	-4.3%
Fiscal Year 2008-09	169,795	-0.3%
Fiscal Year 2009-10	172,480	1.6%
Fiscal Year 2010-11	170,381	-1.2%
Fiscal Year 2011-12	172,357	1.2%
Fiscal Year 2012-13	170,084	-1.3%
Fiscal Year 2013-14	170,482	0.2%

Finally, law changes affecting crimes and how crimes are categorized will affect both the number of cases and the cost of providing public defense. The average cost to PDSC of criminal cases, for example, varies from $373 for a misdemeanor charge to $1,848 for a Class A felony. Death penalty cases are particularly costly and require expenditures over multiple years. Costs related to death penalty cases were estimated to total $25 million in the 2013-15 biennium, even though only 41 new death penalty cases were taken into the public defense system those two years. Death penalty cases are forecast to cost $29.5 million in 2015-17 biennium.

- Compensation and Workload – The quality of legal representation for eligible persons is dependent upon many factors, including the experience and workload level of the public defender. As such, important budget issues often relate to the recruitment and retention of qualified attorneys and investigators, and to keeping workloads at manageable levels. PDSC undertakes extensive public defense delivery system reviews and investigations in cooperation with local public defense contractors, Circuit Court Judges, District Attorneys, and other local justice system representatives, and prepares service delivery plans for each judicial district or county. These plans help to promote cost-effective delivery systems unique to each locale that incorporate the best practices from around the state. PDSC routinely performs quality assurance assessments of providers in each judicial district.

The Commission sets guideline rates administratively, based upon available resources, to pay nonprofit public defenders, law firms, consortia of attorneys, or individual attorneys for their services. Rates the Commission pays directly, and salaries nonprofit public defenders pay, are generally below the rates paid to privately-paid defense attorneys, investigators, and expert witnesses; to deputy district attorneys; and to federal public defenders. This impacts the ability to recruit and retain qualified professionals in the public defense system.

In 2007, the Legislature provided funds to increase salaries of public defenders and to increase the hourly rate for investigators and hourly-paid attorneys. The following table details the hourly-rate changes.

Category	1991 to July 2007 Guidelines/Budget		Post- July 2007 PDSC Guidelines/Budget		Difference/(percent)	
Hourly Rates	Non-Death Penalty	Death penalty	Non-Death Penalty	Death Penalty	Non-Death Penalty	Death Penalty
Attorney	$40	$55	$45	$60	$5 (+13%)	$5 (+9%)
Investigator	$25	$35	$28	$39	$3 (+12%)	$4 (+11%)

Even after these adjustments, payment rates remain lower than for professionals in private practice or for prosecuting attorneys. According to the Commission, attorneys in public defense organizations are, on average, paid approximately 21% less than their district attorney counterparts, with the percentage varying greatly among the organizations. Organizations have had to accept more cases in order to maintain funding levels necessary for operations. This has led to attorney caseloads that exceed national standards.

Salary levels for the Commission's own attorneys in the Appellate Division show a similar situation. PDSC attorneys are compensated less than other state attorneys, for example those in the Department of Justice. Compensation parity remains an issue and continues to impact the quality of representation as more experienced defenders are able to move to higher paying jobs within the legal community.

Revenue Sources and Relationships

General Fund finances 98% of the PDSC budget, with the remaining 2% financed by Other Funds. The General Fund support provided to PDSC equals approximately 1.5% of statewide General Fund resources. Temporary court fees and surcharge revenue (Other Funds) were used to support Professional Services Account expenditures in 2009-11, but these sources were replaced with General Fund in the 2011-13 biennium.

Since the 2011-13 biennium, there has been a single Other Funds source for the agency: revenue from the Application/Contribution Program (ACP). Applicants for state-appointed counsel pay a $20 application fee, unless the fee is waived for financial hardship reasons. In addition, the court may find that individuals are able to pay a contribution toward their defense costs. Revenue from these application fees and contributions was projected to total $4.4 million in the 2013-15 biennium. These revenues are dedicated to support of the public defense system. PDSC will transfer $2.7 million of the revenue to the Judicial Department to support program Verification Specialist positions in the courts. PDSC supports compensation of 2.30 FTE positions in the Contract and Business Services Division with the ACP revenue it retains. ACP cash balances above reserve requirements have also been used to augment Professional Services Account expenditures. During the 2011-13 biennium, $3.4 million of ACP funds were used for Professional Services Account expenditures in the PDSC budget.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $276.2 million is $19 million (or 7.4%) above the prior biennium level and is 2.1% above the current service level. Position count of 77 is in increase of one from the prior biennium.

Appellate Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	11,852,817	14,802,298	15,183,755	15,166,287
Total Funds	**$11,852,817**	**$14,802,298**	**$15,183,755**	**$15,166,287**
Positions	60	60	58	58
FTE	59.44	60.00	57.11	57.11

Program Description

The Appellate Division is responsible for providing legal representation for eligible persons on criminal matters, and for parents in juvenile dependency and termination of parental rights cases at the appellate court level. The Division also represents inmates requesting judicial review of Board of Parole and Post-Prison Supervision decisions. These services are primarily provided through the use of staff attorneys. The Division is the defense counterpart to the Oregon Department of Justice's Appellate Division. Representation is primarily in the Oregon Court of Appeals and the Oregon Supreme Court, although the Division occasionally appears in the U.S. Supreme Court.

The Juvenile Appellate Section in the Appellate Division handles dependency and termination of parental rights cases appealed to the Oregon Court of Appeals. The section also serves as a resource for trial-level counsel.

Revenue Sources and Relationships

The Appellate Division is fully supported by General Fund.

Budget Environment

The Appellate Division's workload is driven by the number of criminal and parole appeals, and the legal complexity of the appealed cases. Statutory changes, ballot initiatives, and United States and Oregon appellate court decisions also affect the number of appeals that are filed.

The Appellate Division caseload fluctuates from one biennium to the next, with no clear trend being observed. The number of cases assigned to its attorneys fell from 4,042 in the 2005-07 biennium to 3,744 in the 2007-09 biennium, then increased back to 4,226 in the 2009-11 biennium. The 2011-13 biennium budget added 7 division positions to reduce attorney caseloads. Caseload totals fell to 3,600 cases in the 2011-13 biennium and to 3,497 cases in 2013-15. At this rate, the average caseload level for the Commission's appellate attorneys is approximately 46 case assignments per year. Some states, including Washington, have established a maximum appellate caseload of 25 cases per attorney; Nebraska sets the maximum at 40 per year.

Comparing maximum salaries, Appellate Division attorneys were paid 10% to 28% less than their Department of Justice counterparts in the 2013-15 biennium. This disparity affected attorney recruitment and retention and can affect timeliness and effectiveness of services. The PDSC, which establishes the compensation plan for agency employees, increased Appellate Division attorney salaries effective January 1, 2015. The agency did not request additional General Fund to pay 2013-15 biennium costs associated with the salary increases, estimated to total approximately $120,000, with costs totaling approximately $735,000 in the 2015-17 biennium when fully phased in. Pay levels were increased by between 1% and 14% depending on classification. Salary levels for the largest single classification affected by the changes, the Deputy Defender 2 (with 22 positions), were increased 7%. The salary increases reduced the pay level differentials compared to Department of Justice attorneys to between 6.4% and 7.6% below DOJ salaries for all three deputy defender classifications.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $15.2 million is $363,989 (or 2.5%) above the prior biennium level and is 0.1% below the current service level. No enhancements or unique budget reductions were approved for the Appellate Division budget; however, General Fund was reduced $17,468 to reflect legislative actions that reduced Attorney General charges and state government assessments and charges collected by the Department of Administrative Services and the Secretary of State Audits Division.

Professional Services Account

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	215,442,730	235,035,855	246,590,044	253,151,744
Other Funds	3,357,464	3,502,955	4,491,980	3,291,980
Total Funds	**$218,800,194**	**$238,538,810**	**$251,082,024**	**$256,443,724**

Program Description

The Professional Services Account pays the cost of legal representation for eligible defendants in criminal matters, and for persons who are entitled to state-paid legal representation if they are financially eligible and are facing involuntary civil commitment proceedings; contempt; probation violation; juvenile court matters involving allegations of delinquency and child abuse or neglect (including termination of parental rights cases); and other limited civil proceedings. The Constitutions of both the U.S. and Oregon guarantee the right to legal representation, at state expense, to financially eligible persons facing criminal prosecutions. This program is also responsible for the cost of transcripts and appellate legal representation for cases not represented by the Appellate Division.

The Professional Services Account funds public defense primarily at the trial court level for eligible defendants. Trial-level caseloads (excluding death penalty cases) increased substantially in the 1990s and into the 2003-04 fiscal year. Between the 1993-94 and 2003-04 fiscal years, annual caseload count increased from 108,963 to 170,902 – a 57% increase. Since 2003-04, caseload counts have fluctuated from year to year but remained relatively flat overall, coming in between 170,000 and 180,000 cases per year. The 2011-12 caseload count of 172,357 is less than 1% above the 2003-04 count.

The largest category of case type is Dependency and Juvenile Delinquency, which represents 39% of total trial-level non-death penalty caseload. This is followed by Misdemeanors and Misdemeanor Probation Violations, at 29%; Felonies and Felony Probation Violations, at 28%; and all other at 4%. Costs for the different case types vary substantially, with felony cases being especially expensive. As a result, the distribution of costs for the same categories listed above is much different than the distribution of the number of cases: Dependency and Juvenile Delinquency, comprises 31% of total trial-level non-death penalty costs; Misdemeanors and Misdemeanor Probation Violations, 19% of total costs; Felonies and Felony Probation Violations, 45% of total costs; and all other, 5% of total costs.

Revenue Sources and Relationships
The General Fund has historically supported the program. Other Funds were from two sources. During the 2009-11 biennium, temporary court fees and surcharges were established to provide revenue used to support Professional Services Account expenditures. These revenues were eliminated in the 2011-13 biennium and replaced with General Fund. Beginning with the 2011-13 biennium, revenue from the Application/Contribution Program provides the Other Funds used to help support the public defense expenditures.

Budget Environment
Although many factors affect caseload levels, including the state of the economy and state budget, caseload levels have remained relatively stable in recent biennia. Instead, concerns over compensation rates for public defenders, and their workload levels, have been prominent. Compensation paid directly by the Commission to attorneys, investigators, and expert witnesses; and compensation paid by public defender organizations that are funded by the Commission, are below the levels available for district attorneys and privately-paid defense attorneys. This negatively affects the ability to recruit and retain employees in the public defense system.
The impact of high caseload levels on public defense services has also been a concern. The caseload levels are especially high for attorneys that deal in Juvenile Dependency cases.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $256.4 million is $17.9 million (or 7.5%) above the prior biennium level and is 2.1% above the current service level. Three enhancements are included in the Professional Services Account budget.

Additional funding provided includes:
- Consistent Rates for Providers – ($5.2 million General Fund) General Fund was added to increase case rates paid to private and consortia attorneys to the levels paid to public defender offices. Case rate increases are provided in two steps. Beginning January 1, 2016, the PDSC will increase case rates by approximately 55% of the amount initially requested, to move case rates for private and consortia attorneys closer to the levels paid to public defender offices. Beginning January 1, 2017, PDSC will increase case rates to the full levels provided for in their initial budget request.
- Mileage Reimbursement – ($161,700 General Fund) Funding will be used to pay mileage reimbursements to providers in the Eastern, North Coast, Central, Southern Oregon, and Willamette Valley regions. Funding for mileage reimbursements becomes effective in contracts beginning January 1, 2016.
- Restoration of General Fund for the Professional Services Account – ($1.2 million General Fund) A fund shift of $1.2 million from Other Funds to General Fund was approved. This shift reverses a one-time fund shift in 2013-15 that utilized available fund balances from the Application/Contribution Program to support the public defense system. The projected Other Funds ending balance, after this action, will be sufficient to cover approximately 2.6 months of expenditures.

Contract and Business Services Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	2,913,099	3,327,315	3,821,332	4,035,835
Other Funds	441,988	492,144	541,784	541,784
Total Funds	**$3,355,087**	**$3,819,459**	**$4,363,116**	**$4,577,619**
Positions	16	16	18	19
FTE	15.79	15.79	18.00	19.00

Program Description
The Contract and Business Services Division (CBS) is responsible for administering the public defense contracts that provide legal representation for financially eligible persons, and for processing requests and payments for

non-contract fees and expenses. The Division also houses the administrative functions of the Juvenile Dependency Improvement Program (a.k.a., the Parent Child Representation Program), a program established in the 2013-15 biennium that operates pilot programs in Yamhill and Linn counties to expand representation services in juvenile dependency cases. The agency intends to establish a third pilot project in Columbia County during the 2015-17 biennium.

Revenue Sources and Relationships

The General Fund and Other Funds support the majority of the program. The agency is budgeted to receive approximately $3.7 million Other Funds during the 2015-17 biennium 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 (22.70 FTE) and for operating expenses for public defense administration (2.30 FTE). The Commission entered into an intergovernmental agreement with the Judicial Department regarding use of these fees for public defense verification staffing.

The estimated ending balance in the Application Contribution Program Account for the 2015-17 biennium is $421690, which is approximately 2.6 months of reserves.

Budget Environment

This program administers over 100 contracts in all 36 counties, receives and verifies invoices for payment on contractual services, and issues over 20,000 payments per year. The program also reviews over 10,000 requests per year for non-routine expenses such as investigations. The administrative expense of the Commission, as represented by this CBS Division, is 1.7% of the agency's budget.

The program works with public defense contractors on the development and use of best management and business practices, and also receives and investigates complaints regarding concerns over the quality of legal representation and the appropriate expenditure of public defense funds.

The fiscal administration and oversight of the $256.4 million Professional Services Account and the other expenditures of the Commission are essential functions of this program, as is the role of the program to minimize administrative costs of public defender organizations through review of management and operational processes and procedures. Less fiduciary oversight of the Account could translate into added and inappropriate expenses charged to the Account.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $4.6 million is $758,160 (or 19.8%) above the prior biennium level and is 4.9% above the current service level. One enhancement was approved for the Contract and Business Services Division budget: Juvenile Dependency Improvement Program – ($222,023 General Fund and 1 position [1.00 FTE]) One permanent full-time Deputy General Counsel position was established to administer the Parent Child Representation Program (aka, Juvenile Dependency Improvement Program).

ECONOMIC DEVELOPMENT

PROGRAM AREA

BUSINESS DEVELOPMENT DEPARTMENT

Analyst: Bender

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	3,842,479	8,371,867	13,252,554	16,845,486
Lottery Funds	129,621,500	117,636,290	88,648,842	111,789,423
Other Funds	18,380,783	77,260,374	66,679,836	293,644,535
Other Funds (NL)	259,589,335	240,583,659	200,972,465	225,972,465
Federal Funds	24,904,462	39,051,307	39,811,990	39,967,883
Total Funds	**$436,338,559**	**$482,903,497**	**$409,365,687**	**$688,219,792**
Positions	129	135	132	137
FTE	126.05	131.88	129.50	134.74

Overview

The Oregon Business Development Department (OBDD) provides economic and community development and cultural enhancement throughout the state, administers programs that aid businesses and communities, and administers the Seismic Rehabilitation Grant Program. The Oregon Business Development Department receives General Fund, Lottery Funds, Federal Funds, and Other Funds, the latter primarily from lottery revenue bonds, general obligation bonds, and the Oregon Bond Bank; 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:

- Shared Services/Central Pool – 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 24% of the agency's employees, and is financed primarily with Lottery Funds.
- Business, Innovation, Trade – Includes the staff, and the funding sources, used by the Department to support research and policy development, and 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 42% of the agency's employees, and is primarily financed with Lottery Funds. Other Funds in its budget are primarily from loan repayments and general obligation bond proceeds. Prior to the 2015-17 biennium, Federal Funds supported the Brownfields Program. In the 2013-15 and 2015-17 biennia, the budget also includes Federal Funds expenditures for federal grants awarded to the Department.
- Infrastructure Finance Authority – Includes the staff and the funding sources used by the Department to provide grants and loans to assist communities with infrastructure development projects, including projects developed within the Regional Solutions Program. 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. In the 2013 legislative session, the Seismic Rehabilitation Grant Program was transferred from the Military Department to the IFA. Beginning with the 2015-17 biennium budget, the IFA also houses the Brownfields, Industrial Lands, and Broadband programs. The program area now houses 26% of the agency's employees.
- Oregon Arts Commission and the Oregon Cultural Trust – Foster 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 arts-related nonprofit organizations and individuals. 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 8% of the agency's employees. The Arts Commission is the only part of the agency budget that regularly receives General Fund to support its operations (General Fund is also provided to pay debt service on general obligation bonds). The remaining portions of the program budget are financed by Other Funds (including donations to the Cultural Trust) and Federal Funds from the National Endowment for the Arts.

- Film and Video Office – Semi-independent agency that receives pass-through Lottery Funds support in the OBDD budget to promote and support the film, video, and multimedia industries in Oregon. The Office is not part of the Department, and its employees are not included in the agency employment count.
- Lottery and General Obligation Bond Debt Service – Used exclusively for debt service payments on lottery revenue bonds, Article XI-Q general obligation bonds, and general obligation bonds financing the Seismic Rehabilitation Grant Program (Article XI-M and Article XI-N bonds). The funding source is almost entirely Lottery Funds and General Fund, although bond interest earnings applied to pay debt service are categorized as Other Funds.

Budget Environment

The workload of the agency is driven by Oregon's economic and community development needs. This includes support to businesses; assisting communities to meet needs for clean water and wastewater disposal and for other public infrastructure, including community facilities and ports; and providing support for community-identified economic and community development programs and for seismic rehabilitation.

The agency budget has been expanded significantly in recent years, as the Legislature has sought to promote job creation and retention in the face of a severe recession, and assist community development projects in a low interest rate environment. A large component of the state support (that is, of General Fund and Lottery Funds support) in the budget is used to pay debt service on lottery revenue bonds and general obligation bonds that have been issued to support economic development, community development, and seismic rehabilitation grants. State support for debt service totaled $82.1 million in the 2011-13 biennium, equal to approximately 61% of the total state support provided to the agency. Debt service costs were significantly reduced in the 2013-15 biennium, however, the result of a one-time balloon payment owed in 2011-13 that is not repeated in 2013-15, and the result of lower interest realized from refinancing the agency's bonds. The current service level debt service costs for the 2015-17 biennium are $25.4 million (or 30.9%) below the 2011-13 level.

Legislatively Adopted Budget

The legislatively adopted budget for the agency totals $688.2 million, a $205.3 million (or 42.5%) increase over the prior biennium level. The primary driver for the expenditure increase is the expansion of general obligation bond support for the Seismic Rehabilitation Grant Program. Bonds for this program are increased by $177.3 million over the prior biennium level. The lottery revenue bond proceeds of $48.5 million approved in the budget also represent a significant increase over the prior biennium level. The General Fund and Lottery Funds portion of the agency budget totals $128.6 million, a $2.6 million (or 2.1%) increase over the prior biennium. Of this total, $70.8 million supports operating programs and $57.9 million supports debt service. The $70.8 million of General Fund and Lottery Funds for support of the agency's operating programs is a $3.3 million (or 4.5%) reduction from the prior biennium level. The total amount of General Fund and Lottery Funds support dollars transferred to businesses, governments, and non-profit organizations (special payments) through the agency's ongoing programs equals $49.5 million, a $3.4 million (or 6.9%) reduction from the prior biennium. Five positions (5.24 FTE) were added above current service level, including two funded by Lottery Funds and 3 Other Funds-funded positions.

Most Lottery Funds expenditures, excluding debt service payments for lottery revenue bonds, are in the Business, Innovation, Trade (business development) program area, or in the Shared Services/Central Pool program area. The Infrastructure Finance Authority (community development) program area is financed with Other Funds and Federal Funds, and beginning with the 2015-17 biennium budget, Lottery Funds to support Regional Solutions projects and Broadband, Industrial Lands, and Seismic Rehabilitation Grant program administration. General Fund is typically restricted to the Arts Commission, which does not expend Lottery Funds, and to pay debt service on general obligation bonds.

Shared Services/Central Pool

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Lottery Funds	6,494,693	8,176,956	7,434,268	7,037,404
Other Funds	569,974	1,318,020	1,959,160	1,757,369
Federal Funds	--	--	197,214	197,214
Total Funds	**$7,064,667**	**$9,494,976**	**$9,590,642**	**$8,991,987**
Positions	31	34	35	33
FTE	30.25	33.75	35.00	33.00

Program Description

The Shared Services/Central Pool program area was established with the reorganization of the Department in 2009. The Shared Services/Central Pool program area includes agency administrative services that support both the business development (Business, Innovation, Trade) and the community development (Infrastructure Finance Authority) programs. With the Department's reorganization in 2009, the business development and community development programs operate under separate policy boards, but continue to share the services included in this program area.

The program area was further restructured in the 2015-17 biennium budget, and now includes the Office of the Director, Employee Services, Fiscal and Budget Services, and the Technology Project Office (Information Services).

Revenue Sources and Relationships

Revenues for the 2015-17 biennium include $1.5 million in Other Funds, but the program area is primarily financed with Lottery Funds. The Other Funds include funds transferred from community development programs for administrative costs. The sources of these funds are primarily interest earnings on balances in the infrastructure funds (within the IFA) and loan repayments on infrastructure loans.

Budget Environment

Community and regional needs and the needs of businesses and industry drive the Department's workload. External forces, including changes in Oregon's economy, also have a direct impact on the workload. Workload is affected by changes in organization and staffing. The additional workload generated by new programs, such as the Safe Drinking Water Revolving Loan program, the Seismic Rehabilitation Grant Program, and expanded infrastructure programs, have also impacted the budget.

Legislatively Adopted Budget

The legislatively adopted budget reduces support for Shared Services/Central Pool. The $7 million of Lottery Funds in the legislatively adopted budget is a 13.9% reduction from the prior biennium level, and is 5.3% below the current service level. The primary cause of the Lottery Funds reduction from the current service level was the transfer of 2 positions out of the program area to the Business, Innovation, Trade program. The reduction from the prior biennium level includes both this factor, plus the transfer of 3 previously limited duration positions to the Office of the Governor. The limited duration positions included two Regional Solutions coordinators and a state lobbyist position based in Washington, D.C.

Budget adjustments include transfer of the Research and Policy Section to the Business, Innovation, Trade Division. The transfer reduced Shared Service's Lottery Funds by $339,417, Other Funds by $200,705, and position and FTE counts by two each.

Business, Innovation, Trade

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Lottery Funds	39,924,575	60,301,853	32,442,920	55,448,172
Other Funds	4,200,676	13,743,263	10,720,980	11,231,898
Other Funds (NL)	8,257,525	15,306,752	15,080,205	12,483,982
Federal Funds	3,068,129	8,208,309	7,998,702	5,430,920
Total Funds	**$55,450,905**	**$97,560,177**	**$66,242,807**	**$84,594,972**
Positions	56	58	58	57
FTE	53.80	55.13	55.50	54.74

Program Description

The Business, Innovation, Trade Division (BITD) was established in the reorganization of the Department in 2009. BITD houses the Department's business development initiatives that support business creation, recruitment, and retention; international trade; development of industrial lands; and initiatives to increase innovation in the Oregon economy and improve the state's economic competitiveness. The largest of these programs are the Oregon Innovation Council (Oregon InC) Innovation Plan, and the Strategic Reserve Fund. Other BITD programs include the Industry Competitiveness Fund, and the direct business support programs including the Small Business Development Centers and the Certification Office for Business Inclusion and Diversity (formerly the Office for Minority, Women and Emerging Small Business).

Revenue Sources and Relationships

Revenues for the 2015-17 biennium include Other Funds and Federal Funds, but the program area is primarily financed by Lottery Funds allocated to support business development. The Other Funds revenues include interest earnings on business development funds and loan repayments, plus assessments that fund the Certification Office for Business Inclusion and Diversity. The reduction in Other Funds from the prior biennium primarily reflects a lack of Article XI-Q bond proceeds in the budget, following the addition of Article XI-Q bond proceeds in the 2013-15 biennium budget that provided funds on a one-time basis. There were $5,235,000 of general obligation bond proceeds provided in 2013-15 on a one-time basis to fund Innovation Infrastructure capital projects to increase research and commercialization capacities at Oregon universities.

Prior to the 2015-17 biennium, Federal Funds supported the Brownfields Program. The 2015-17 biennium budget, however, transferred this program and the Federal Funds to the Infrastructure Finance Authority to reflect an agency reorganization. Remaining Federal Funds expenditures are funded from federal grants, including the State Small Business Credit Initiative (SSBCI) grant and the State Trade and Export (STEP) grant.

Budget Environment

The Business, Innovation, Trade Division houses the agency's primary initiatives to create and retain jobs, and its budget has been substantially expanded in recent years. Even before the start of the most recent recession, the 2007 Legislative Assembly approved a 71% increase in Lottery Funds for distribution to businesses and non-profits, primarily to increase support for the Oregon Innovation Council's (Oregon InC) Innovation Plan, which was expanded from $7 million lottery funds in the 2005-07 biennium to $28.2 million in 2007-09.

The first biennial budget developed after the start of the recession was in 2009-11. In that biennium, and in the 2011-13 biennium, the Legislature continued to expand support in an effort to promote job creation and retention. Nonetheless, the number of jobs created has fallen in recent years, and the number of jobs retained has remained relatively stable. In 2013-15, state support was increased an additional 51%, increasing support for Oregon InC initiatives, the Strategic Reserve Fund, and a number on one-time projects.

Legislatively Adopted Budget

The $55.4 million of Lottery Funds in the legislatively adopted budget is a $4.9 million (or 8%) reduction from the prior biennium level, but is 71% above the current service level. The budget establishes 2 full-time positions (1.74 FTE). The 2 new positions will increase the agency's research capacity and its capacity to promote international trade. The budget also moves 2 positions from Shared Services to BITD, and 3 other positions from BITD to the IFA, as part of an agency reorganization.

The primary reason why Lottery Funds support exceeds the current service level (CSL), even though it is reduced from the prior biennium, is that funding for Oregon InC initiatives has always been provided on a one-time basis, and therefore excluded from the current service level calculation. Therefore, although Oregon InC funding of $17.9 million in the 2015-17 biennium budget is approximately $1.1 million less than the $19 million provided in 2013-15, the full $17.9 million provided represents funding above the current service level. The 2015-17 biennium changes this, however. The 2015-17 biennium Oregon InC funding was approved on an ongoing basis, meaning that funding will no longer be phased out in the calculation of the agency's CSL.

Reductions in the Lottery Funds budget from the prior biennium include the Oregon InC funding reduction described above, plus the elimination of one-time funds provided in 2013-15 for the dredging of South Coast ports, for the WISE management project in Jackson County, and for Innovation Infrastructure Projects. Lottery Funds support for the Strategic Reserve Fund was also reduced. .

Enhancements and funding reductions approved in the budget include:

- Oregon InC – ($17.9 million Lottery Funds) The budget supports continued funding of six of the seven Oregon InC programs funded in the 2013-15 biennium. Funding for the Oregon Story Board was discontinued. Support for the six continuing initiatives totals $17,908,981 Lottery Funds, a 5.8% reduction from the prior biennium level. Signature research center funding was increased slightly, while support for the emerging industry initiatives (excluding SOAR) was sharply reduced. Funding and the percent funding change for each individual initiative is shown in the table below. In a change from prior practice, the Oregon InC funding amount was approved on an ongoing and not one-time basis, meaning that the total funding amount will not be phased-out in the calculation of the agency's 2017-19 biennium current service level. Individual program funding amounts, however, are not specified in the current service level. OBDD will identify the proposed funding levels for individual Oregon InC programs in the current service level budget, and may change support levels for individual initiatives from prior biennium levels within the current service level portion of its budget request.

Oregon InC Innovation Plan

Lottery Funds

Program	2011-13 Legislatively Approved	2013-15 Legislatively Approved	2015-17 Legislatively Adopted	Biennial Change
Signature Research Centers				
1) ONAMI - Oregon Nanoscience and Microtechnologies Institute	$5,018,000	$5,978,000	$5,995,325	0.3%
2) OTRADI - Oregon Translational Research and Development Institute	$2,702,000	$1,960,000	$1,989,700	1.5%
3) BEST - Oregon Built Environment and Sustainable Technology Center	$3,667,000	$5,880,000	$5,923,956	0.7%
Emerging Industry Initiatives				
4) OWET - Oregon Wave Energy Trust	$2,412,500	$1,960,000	$250,000	-87.2%
5) Drive Oregon	$1,158,000	$1,470,000	$750,000	-49.0%
6) SOAR Oregon	$0	$882,000	$3,000,000	240.1%
7) Oregon Story Board	$0	$882,000	$0	-100.0%
Established Industry Initiatives				
8) Northwest Food Processors Innovation Productivity Center	$482,500	$0	$0	Inactive
Total	**$15,440,000**	**$19,012,000**	**$17,908,981**	**-5.8%**

- Innovation Initiative – ($3,249,065 Lottery Funds) Lottery Funds in the amount of $3.2 million were provided to support the Oregon Metals Initiative and the Northwest Collaboratory for Sustainable Manufacturing. The total represents all state support for these initiatives. Previously, approximately $749,000 support was provided in the Oregon University System budget and included in the current service level budget, but those funds, plus $2.5 million in enhanced support above current service level, are consolidated in the 2015-17 biennium OBDD budget. A minimum of $500,000 of the funding is dedicated to research equipment purchases at Oregon State University, Portland State University, and the Oregon Institute of Technology. A budget note was adopted with the funding package stating an understanding that the OBDD Director or Director's designee will be added to the Oregon Metals Initiative Board.

- Strategic Reserve Fund – (-$1,700,000 Lottery Funds, +$900,000 Other Funds) Net support for the Strategic Reserve Fund was reduced by $800,000 to fund other policy option packages in the OBDD budget. A Lottery Funds reduction of $1.7 million was partially offset by a $900,000 increase in Other Funds expenditures. The Other Funds revenue source consists of Other Funds balances, including loan repayments, in the Strategic Reserve Fund's Other Funds beginning balance. After these adjustments, the budget provides a total of $11.7 million for new projects in the 2015-17 biennium, a 3.6% reduction from the prior biennium level.

- Western Juniper – ($1,050,000 Lottery Funds) HB 2997 and HB 2998 provided a combined total of $1,050,000 Lottery Funds to support Western Juniper harvesting and the manufacturing of products from Western Juniper. Funds are designated for the following purposes:
  - $250,000 for cooperative efforts and promoting liaison efforts with wildlife management programs (HB 2997)
  - $500,000 for business loans, forgivable loans, and grants (HB 2998)
  - $200,000 for technical business assistance (HB 2998)
  - $100,000 for workforce training programs (HB 2998)

  Funds were provided on a one-time basis and will be phased out in the development of the agency's 2017-19 biennium current service level budget.

- Industry Competitiveness Fund – ($950,000 Lottery Funds) $950,000 Lottery Funds were provided to support the following programs: a) $750,000 to supplement funding for the Oregon Manufacturing Extension Partnership, and b) $200,000 to support the Grow Oregon economic gardening pilot project. The $200,000 Lottery Funds expenditure limitation provided for the Grow Oregon pilot project is approved on a one-biennium basis, and will be phased out in the development of the department's 2017-19 biennium current service level budget.

- Oregon Growth Board – ($583,968 Lottery Funds and expansion of an existing half-time position to full-time [0.50 FTE]) The budget provides an additional $83,968 Lottery Funds to OBDD for the Oregon Growth Board program administration, to increase the staff support for the Board from a half-time to a full-time position, plus $500,000 of Lottery Funds for deposit to the Oregon Growth Fund. The Oregon Growth Board is projected to receive approximately $20.3 million of new uncommitted funds into the Oregon Growth Account, and the $500,000 of uncommitted funds into the Oregon Growth Fund, to manage during the 2015-17 biennium. HB 2280, passed in the 2015 legislative session, sited the Oregon Growth Board in OBDD, and transferred Oregon Growth Board expenditures to the OBDD budget.

- Agency Staffing – ($411,043 Lottery Funds and 2 positions [1.74 FTE]) The budget establishes 2 additional permanent, full-time positions for the Department. These include 1 full-time Research Analyst 4 position (0.87 FTE) to support the work of the Department through research, data collection, and analysis, and 1 full-time permanent Operations and Policy Analyst 4 position (0.87 FTE) to increase the international trade capacity of the Department and increase its ability to grow foreign direct investments that bring new capital and global business operations into the state.

- Oregon Small Business Development Center Network – ($300,000 Lottery Funds) The budget increases Lottery Funds by $300,000 to support two Oregon Small Business Development Center Network programs, and is allocated as follows: a) $200,000 to the Capital Access Team for the purpose of assisting small business access to capital, and b) $100,000 to the Network Technology Impact Program for the purpose of providing technology advising to small businesses. The funding is expected to service at least 50 small business clients seeking capital, to provide 1,300 hours of technology advising, and to lead to the creation of 65 new jobs during the 2015-17 biennium.

- Carryover Technical Adjustment – ($1 million Lottery Funds) Lottery Funds expenditures were increased by approximately $1 million, to permit expenditures in 2015-17 of Lottery Funds that were allocated in the prior biennium and committed in that biennium. Under ORS 461.559, OBDD will be required to return prior biennium Lottery Funds allocations that are uncommitted back to the Administrative Services Economic Development Fund (EDF), for the first time, in the 2015-17 biennium. The agency is projected to return over $5.3 million Lottery Funds to the EDF in 2015-17, including $4.7 million that were previously allocated to BITD.

- Agency Budget Realignment – (-$6.2 million total funds) The budget reduces BITD expenditures by $6.2 million total funds to reflect the net impact of a realignment of agency programs between divisions. The budget reduces Lottery Funds by $692,045, reduces Other Funds expenditure limitation by $345,615, reduces Other Funds Nonlimited by $2,596,223, reduces Federal Funds expenditure limitation by $2,566,743, and removes a net of 3 full-time positions (3.00 FTE). Two full-time positions, and associated services and supplies, were transferred from the Research and Policy Section in Shared Services to the Business, Innovation, Trade Division. Five full-time positions in the Brownfields, Industrial Lands, Broadband, and Seismic Rehabilitation Grant programs, and associated services and supplies expenditures, were transferred out of the Business, Innovation, Trade Division to the Infrastructure Finance Authority.

Infrastructure Finance Authority

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Lottery Funds	--	--	--	3,025,181
Other Funds	6,161,485	48,717,055	45,508,968	267,126,521
Other Funds (NL)	155,764,369	207,034,253	185,892,260	213,488,483
Federal Funds	20,043,600	29,006,812	29,724,756	32,448,431
Total Funds	**$181,969,454**	**$284,758,120**	**$261,125,984**	**$516,088,616**
Positions	33	34	30	36
FTE	33.00	34.00	30.00	36.00

Program Description

The Infrastructure Finance Authority (IFA) program area was established to reflect the reorganization of the Department in 2009. The Infrastructure Finance Authority program area houses the Department's community development initiatives that assist communities primarily through support of infrastructure improvements. The largest of these programs are the revolving fund loan and grant programs of the Special Public Works Fund and the Water Fund. Other IFA programs include the Port Revolving Loan Fund and Port Planning and Marketing Fund programs, the Safe Drinking Water Revolving Loan Fund program, the Main Street program, and the Community Development Block Grant program. In the 2013 legislative session, the Legislature added the Seismic Rehabilitation Grant Program to the IFA's portfolio. That program was transferred from the Oregon Military Department to the IFA effective on January 1, 2014. Other programs transferred to the IFA from BITD in the 2015-17 biennium budget include the Brownfields Redevelopment, Industrial Lands, and Broadband programs.

Revenue Sources and Relationships

Prior to the 2015-17 biennium, Infrastructure Finance Authority program expenditures were not supported by Lottery Funds, although the state issued lottery revenue bonds to finance a portion of these programs' costs. In these instances, lottery revenue bond proceeds ($12 million in 2013-15) are deposited into revolving loan funds and made available for infrastructure loans and grants, and for payment of administrative costs relating to IFA programs. The lottery revenue bond proceeds are in some cases used to match proceeds from Oregon Bond Bank bonds. The mixture of bond, loan, and grant funds increases OBDD's capacity for financing projects. The expenditures of the bond proceeds distributed to localities as loans or grants are shown as Nonlimited Other Funds (and not as Lottery Funds). Expenditures for program administrative costs (typically financed from interest earnings on, and loan repayments of, the lottery bond proceeds, and not from the proceeds directly) are shown as Other Funds expenditures. Lottery revenue bond proceeds for Regional Solutions projects were added to the budget in 2013-15. These proceeds are not deposited to revolving loan funds but are instead transferred directly to recipients. Expenditures of these proceeds are included as Other Funds and not as Nonlimited Other Funds.

Debt service costs on the lottery revenue bonds issued to provide these funds are paid with Lottery Funds, but those payments are shown in the Lottery Bond Debt Service program area, and not in the Infrastructure Finance Authority budget. Beginning in 2013-15, the IFA has also received general obligation bond proceeds for the Seismic Rehabilitation Grant Program. The 2015-17 biennium budget includes $205 million of these bond proceeds, which are spent as Other Funds.

IFA program area revenues include fees and service charges, interest earnings, loan repayments, federal grant funds, and Nonlimited Other Funds from the sale of program specific revenue bonds and lottery-backed bonds. Nonlimited Other Funds revenue includes $32.5 million of interest income and $56.6 million of loan repayments from community and port infrastructure projects and business finance loans. Programs include the Special Public Works Fund, Water/Wastewater Funds, Brownfields Redevelopment, and Port Revolving Funds for the investment of proceeds from lottery-backed bond sales. Nonlimited Other Funds revenues also include $17.7 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 support the Community Development Block Grant and Brownfields Redevelopment programs.

Budget Environment

The 2007-09 biennium legislatively adopted budget supported an additional $33.4 million of lottery revenue bonds for infrastructure and specified projects. In 2009-11, $17.5 million of lottery bond proceeds were added to the infrastructure funds. This amount was partially offset, however, by a $10 million withdrawal of monies from those funds to support business development programs *in lieu* of Lottery Funds. The 2011-13 biennium budget included $10 million of lottery revenue bonds for the infrastructure funds and eliminated the use of those funds for business development programs. The 2013-15 biennium budget included $22 million of lottery revenue bond proceeds for infrastructure funds and Regional Solutions projects, and $30 million of general obligation bonds for the Seismic Rehabilitation Grant Program.

Legislatively Adopted Budget

The legislatively adopted budget represents an 81.2% increase over the prior biennium level. The increase in the limited funds IFA budget, however, is 289% above the prior biennium level. This largely reflects a large increase in bond support for the Seismic Rehabilitation Grant Program, though expansions of other IFA programs were also approved, as described below.

The budget includes the following enhancements to the IFA programs:

- Regional Accelerator and Innovation Network (RAIN) – ($2 million Lottery Funds) The budget includes $2 million for support of the Regional Accelerator and Innovation Network (RAIN), a project of the South Valley / Mid Coast Regional Solutions Advisory Committee. Funding is provided on a one-time basis and will be phased out in the development of the agency's 2017-19 biennium current service level budget.

- Regional Coordinator Position – ($189,859 Other Funds and 1 full-time position [1.00 FTE]) An additional Regional Coordinator position was established to allow assignment of a Regional Coordinator to each of the eleven Regional Solutions areas.

- Seismic Rehabilitation Grant Program – ($207.3 million Other Funds) Funding was added for the Seismic Rehabilitation Grant Program**.** The amount includes $205 million for grants plus $2.3 million to pay the costs of issuing the General Obligation bonds that fund the grants. Funding includes $175 million for public education building grants and $30 million for emergency services building grants. The funds will be distributed from the proceeds of Article XI-M and Article XI-N bonds issued in the spring of 2016 ($50 million) and spring of 2017 ($125 million). Funding in the prior biennium totaled $15 million for public education building projects and $15 million for emergency services building grants. The program is a competitive grant program that provides funding for the seismic rehabilitation of critical public buildings. The state issues general obligation bonds, authorized under Article XI-M and Article XI-N of the Oregon Constitution, to finance the grants. The proceeds are projected to finance approximately 115 school seismic rehabilitation projects, and approximately 50 emergency services facility seismic rehabilitation projects, during the 2015-17 biennium.

  Debt service costs on the bonds issued to provide these funds will be paid by General Fund, and are projected to total approximately $4.1 million for school seismic bonds in the 2015-17 biennium, and $28.7 million for school seismic bonds and $4.9 million for emergency services facility bonds per biennium, beginning in the 2017-19 biennium, when costs fully phase in.

- Special Public Works Fund (SPWF) – ($18 million of Nonlimited Other Funds and $323,147 of Other Funds) Funding was provided to add capital to Special Public Works Fund (SPWF). The budget includes $18 million of lottery bond proceeds for this purpose. To supply these funds, the state will issue a projected $20.2 million of lottery revenue bonds in the spring of 2017. Approximately $1.9 million of these bond proceeds will be held in reserves and $323,147 will be allocated to the Department to pay costs of issuance (Other Funds). The remaining $18 million will be deposited into the SPWF to provide loans and grants to local governments under the direction of the Infrastructure Finance Authority. The monies finance the planning, purchasing, and improvement of municipally-owned facilities such as water and sewer systems, road extensions, community buildings, or other facilities. SB 306, passed in the 2015 legislative session, authorizes the SPWF to also finance levee inspection and repair projects, including projects for levees that are not municipally-owned. The $18 million in total support includes $5 million specifically dedicated to levee inspection and repair projects. The remaining $13 million of bond proceeds may be applied to any eligible Special Public Works Fund projects. The funding designated for levees is projected to support approximately 17 levee projects, and the undesignated funding is projected to support an additional 11 projects. Because the bonds will be issued in the spring of 2017, most project activity will occur after the end of the current biennium. Debt service costs for the Lottery bonds are expected to total $3.8 million Lottery Funds, per biennium, when the costs fully phase in beginning in the 2017-19 biennium.

- Regional Solutions – ($13 million of Other Funds) Expenditure limitation for lottery revenue bond proceeds was included for capital construction priority projects identified by Regional Solutions Advisory Committees. The funding is projected to support approximately 28 capital construction projects in ten of the state's eleven Regional Solutions regions. The projects are funded with a combination of $995,000 of lottery revenue bond proceeds remaining from the spring 2015 bond sale and $12,005,000 of new bond proceeds from lottery revenue bonds that will be issued in the spring of 2017. Because most of the funding will become available late in the biennium, most project activity will occur after the end of the current biennium. Debt service costs for the lottery revenue bonds are expected to total $2.6 million Lottery Funds, per biennium, when the costs fully phase in beginning in the 2017-19 biennium. The budget also added $243,677 Other Funds expenditure limitation for the costs of issuing the lottery revenue bonds. These costs are paid from the gross proceeds of the bond sale.

  The $13 million of support is dedicated to fund projects on a Regional Solutions project list that sum to more than $14 million in total costs. The agency was directed to best apply the available funding toward the project list identified costs, taking into consideration other possible funding sources available for individual projects. If the agency determines that funds would be better utilized to support other projects not on the identified project list, it must obtain legislative approval to do so before the lottery revenue bonds are issued. The agency is also expected to work with the Governor's Office to facilitate review of proposed Regional Solutions projects to ensure they meet certain criteria, including: supporting job growth and retention, obtaining leverage from other sources, possessing a clear business plan for sustainability without additional state funding, meeting regional priorities recommended by a Regional Solutions Advisory Committee, and, if bond proceeds are requested as the funding source, qualifying as a capital construction project.

- Brownfields Redevelopment Fund – ($7 million of Nonlimited Other Funds and $129,239 of Other Funds) Funding was provided to add capital to the Brownfields Redevelopment Fund. The budget includes $7 million of lottery bond proceeds for this purpose. To supply these funds, the state will issue a projected $7.9 million of lottery revenue bonds in the spring of 2017. Approximately $746,000 of these bond proceeds will be held in reserves and $129,239 will be allocated to the Department to pay costs of issuance (Other Funds). The remaining $7 million will be deposited into the Brownfields Redevelopment Fund to support approximately 27 brownfields redevelopment projects. Because the bonds will be issued in the spring of 2017, most project activity will occur after the end of the current biennium. Debt service costs for the Lottery bonds are expected to total $1.5 million Lottery Funds, per biennium, when the costs fully phase in beginning in the 2017-19 biennium.

- Port of Brookings Harbor – $1,562,157 of net Lottery bond Other Funds proceeds for repairs and upgrades to the Port of Brookings Harbor dock. The bonds will be issued in the spring of 2017. Debt service costs for the Lottery bonds are expected to total approximately $300,000 Lottery Funds, per biennium, when the costs fully phase in beginning in the 2017-19 biennium. The budget includes $41,812 Other Funds for the costs of issuing the Lottery bonds. These costs are paid from the gross proceeds of the bond sale. The $1,603,969 of bond proceeds and costs of issuance expenditures were added to the agency's Infrastructure Finance Authority Other Funds expenditure limitation.

- Agency Budget Realignment – ($6.8 million total funds) The budget increases IFA expenditures by $6.8 million total funds to reflect the impact of a realignment of agency programs between divisions. The budget increases Lottery Funds by $1,031,462, increases Other Funds expenditure limitation by $546,320, increases Other Funds Nonlimited by $2,596,223, increases Federal Funds expenditure limitation by $2,724,495, and adds 5 full-time positions (5.00 FTE). Five full-time positions in the Brownfields, Industrial Lands, Broadband, and Seismic Rehabilitation Grant programs, and associated special payments and services and supplies expenditures, were transferred to the IFA from the Business, Innovation, Trade Division.

Film and Video Office

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Lottery Funds	1,102,030	1,130,544	1,164,460	1,164,460
Total Funds	**$1,102,030**	**$1,130,544**	**$1,164,460**	**$1,164,460**

Program Description

The Film and Video Office is a marketing agency for Oregon's statewide promotion of the film, video, and multimedia industries. The 1995 Legislative Assembly authorized the semi-privatization of the Film and Video Office, which provides the program with greater flexibility in marketing activities. OBDD is responsible for the pass-through of Lottery Funds to the Office. The Office recruits film productions through its marketing efforts, provides assistance to productions to identify film locations, and administers the state's film and video incentive programs. Services include maintaining a photo library of potential movie and television locations statewide and assisting in film permitting.

Revenue Sources and Relationships

The state-funded portion of the Office budget is from Lottery Funds, which OBDD passes through to the semi-independent office. The Lottery Funds finance the Film and Video Office's operating expenses, including the personnel costs of the office's four staff members. As a semi-independent agency, the office's employees are not considered state employees and are not included in the OBDD position count. The Office administers film incentive programs, including the Oregon Production Investment Fund Program. These are financed through tax credits which impact the state budget as reductions in revenue. The incentive programs are not funded from the Lottery Funds provided to the Office in the OBDD budget.

Legislatively Adopted Budget

Lottery Funds support for the Office is increased 3% over the prior biennium level and is equal to the current service level amount.

The budget also retains current levels of the Office's film incentive programs – including the Oregon Production Investment Fund (OPIF) Program. This program provides film producers with a cash rebate of up to 20% of qualified goods and services expenditures and up to 10% of Oregon payroll costs. Rebates awarded under this program, however, are not included in the Film and Video Office budget.

Funding for these rebates comes from money donated to the OPIF. Donors to the Fund are eligible for a credit against Oregon personal income taxes. Potential donors will purchase credit rights at auction. Total tax credits that can be awarded have been limited to $20 million per biennium since the 2013-15 biennium. Previously, the limit had been $10 million per biennium prior to 2009-11, $15 million in 2009-11, and $13.5 million in 2011-13.

Arts

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	3,842,479	4,496,609	4,115,924	4,104,679
Other Funds	5,382,871	8,482,036	8,090,728	13,128,747
Federal Funds	1,792,733	1,836,186	1,891,318	1,891,318
Total Funds	**$11,018,083**	**$14,814,831**	**$14,097,970**	**$19,124,744**
Positions	9	9	9	11
FTE	9.00	9.00	9.00	11.00

Program Description

The Arts Commission is responsible for making the arts and culture available to all Oregonians by working with other agencies on a variety of initiatives in education, arts, and tourism. 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 for programs in Oregon; working with the leadership of local arts organizations; conducting assessment and maintenance to protect existing public art; approving new public art; and supporting Oregon's Art in Education program. The Commission coordinates regional efforts and arts education programs through a network of regional arts councils and collaborates to advance arts education for all students. The Commission became a part of OBDD in 1993.

The program also operates the Trust for Cultural Development (Oregon Cultural Trust). The Oregon Cultural Trust was established in 1999 to support the arts and culture of the state. The Trust is funded primarily by donations. Subject to certain restrictions and limitations, donors are eligible for a credit against Oregon income taxes for the full amount of their donations to the Trust. Since 2002, the Trust has received over $32 million of donations. The Trust also receives funds from the sale of Cultural Trust vehicle license plates. The Department of Motor Vehicles offers Cultural Trust license plates available for passenger vehicles. A surcharge of $30 per biennium is added to the regular vehicle registration fee. Revenues from this surcharge are transferred to the Cultural Trust, where they are used for marketing purposes.

Revenue Sources and Relationships

The Arts Commission is the only part of the Department's operating budget that is regularly supported by General Fund. (The remaining General Fund is for debt service on general obligation bonds.) The Commission also receives federal NEA funding, and Other Funds from the 1% for Arts program, from donations (including donations to the Cultural Trust), and from the surcharge on Cultural Trust vehicle license plates. The 1% for Arts program is a state law which requires that 1% of appropriations to construct or alter certain state buildings must be used for the acquisition of art works.

About 80% of the expenditures in the program area are special payments, which are grants to non-profit programs and individuals that support the goals of the Arts Commission and Cultural Trust.

Budget Environment

In 2013-15, the budget included a number of one-time enhancements. A one-time $500,000 General Fund appropriation as approved to support arts programs that benefit underserved students, and $1.75 million of lottery revenue bond proceeds were provided to support development of the Confluence Project Celilo Park Project Site, and the High Desert Museum in Bend.

Legislatively Adopted Budget

The legislatively adopted budget includes significant increases over the prior biennium. Although the $4.1 million of General Fund in the legislatively adopted budget is an 8.7% reduction from the prior biennium level, the total funds budget is 29.1% above the prior biennium and 35.7% above the current service level. The funding increases are for specified purposes, and the budget adds 2 positions to the prior biennium level. The funding enhancements include:

- $306,770 Other Funds and 1 full-time position (1.00 FTE) relating to passage of SB 441. SB 441 changed the annual disbursements of Cultural Trust monies for grants and operating expenses, from up to 42% of the amount in the Cultural Trust, to between 50% and 60% of the amount raised from donations, plus interest earnings received, during the prior fiscal year. The bill also increased the amount of donation-based revenue that the Cultural Trust may use for administrative purposes from 7.5% of the annual disbursement (currently approximately $140,000) to $400,000 per year. The Other Funds expenditure limitation increase actually allows the Cultural Trust to increase expenditures by $1,664,000 per biennium over previous levels. The budget previously included approximately $1.36 million of excess expenditure limitation, therefore, the statutory expenditure limitation only needed a slightly over $300,000 increase to accommodate an almost $1.7 million increase in expenditures. The Cultural Trust is expected to double the level of Cultural Development grants. The budget also expands Cultural Trust administrative expenditures by $523,000 (a 38% increase). One position is added to administer the expanded grant activity.
- $165,542 Other Funds expenditures and 1 full-time position (1.00 FTE) were added to improve administration of the Percent for Art program.
- $4,500,000 of Lottery revenue bond proceeds (Other Funds) were approved on a one-time basis for cultural organization capital projects. The proceeds are specifically dedicated as follows:
  - $2 million to the Oregon Shakespeare Festival
  - $1.5 million to the Portland Japanese Garden to expand visitor and education facilities
  - $600,000 to Oregon Public Broadcasting for renovation of its headquarters and productions facility
  - $400,000 to the Aurora Colony Historical Society for a storage facility for historical artifacts

Lottery and General Obligation Bond Debt Service

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	3,875,258	9,136,630	12,740,807
Lottery Funds	82,100,202	48,026,937	47,607,194	45,114,206
Other Funds	2,065,777	5,000,000	400,000	400,000
Other Funds (NL)	95,567,441	18,242,654	0	0
Total Funds	**$179,733,420**	**$75,144,849**	**$57,143,824**	**$58,255,013**

Program Description

The Lottery and General Obligation Bond Debt Service program includes debt service payments on all lottery revenue bonds and general obligation bonds that have been approved and issued to support OBDD programs, and certain lottery revenue bonds issued to finance legislatively-specified projects promoting economic development. Debt service on lottery revenue bonds is paid by Lottery Funds; debt service on general obligation bonds is paid by General Fund. Other Funds (primarily interest earnings) may also be used to pay debt service when available. Nonlimited Other Funds represent expenditures to refinance outstanding lottery revenue bonds. Proceeds of new bonds are used payoff previously issued bonds when more favorable interest rates are available.

Prior to the 2013-15 biennium, only lottery revenue bonds, and not general obligation bonds, were issued for OBDD programs. The 2013-15 legislatively approved budget authorized general obligation bonds for OBDD for the first time. The 2015-17 biennium budget authorizes a total of $207,310,000 of general obligation bonds to provide $205 million of bond proceeds to the Department for the Seismic Rehabilitation Grant Program. The total includes:

- $176.9 million of Article XI-M bonds to finance $175 million of seismic rehabilitation projects for public education buildings. This bond authorization is approximately 10.8 times the level of Article XI-M bonds issued in the 2013-15 biennium. Only $50.7 million of these bonds will be issued before the spring of 2017, thereby limiting 2015-17 biennium debt service costs to $4.1 million General Fund.

- $30.4 million of Article XI-N bonds to finance $30 million of seismic rehabilitation projects for emergency services buildings. This bond authorization is slightly more than twice the level of Article XI-N bonds issued in the 2013-15 biennium. Because the $30.4 million in bonds will not be issued until spring of 2017, there are no debt service payments made in the 2015-17.

The 2015-17 legislatively approved budget also authorizes $48,450,000 of lottery revenue bonds for the Department, including:

- $20.2 million of lottery revenue bonds to increase the corpus of the primary IFA infrastructure revolving loan fund – the Special Public Works Fund – with $5.6 million of the total specifically dedicated to levee projects.
- $13.5 million of lottery revenue bonds for Regional Solutions capital projects. The bond proceeds will be combined will approximately $1 million of bond proceeds remaining from the prior biennium to provide $14 million in project funding.
- $7.9 million of lottery revenue bonds to increase the corpus of the Brownfields Redevelopment Fund.
- $5.1 million of lottery revenue bonds for cultural organization capital projects.
- $1.8 million of lottery revenue bonds for repairs and upgrades to the Port of Brookings Harbor dock.

Because the lottery revenue bonds will not be issued until spring of 2017, there are no debt services payments due in the 2015-17 biennium. The $45.1 million of Lottery Funds and the $400,000 of Other Funds in the budget are entirely to pay debt service on lottery revenue bonds issued prior to the 2015-17 biennium. Debt service costs on the newly-approved lottery bonds are projected to equal $9.1 million in the 2017-19 biennium, when the first debt service payments become due.

Debt service on revenue bonds issued for the Oregon Bond Bank is included in Nonlimited Other Funds in the Infrastructure Finance Authority program area.

Budget Environment

Debt service is paid with Lottery Funds allocations. To minimize the size of the required Lottery Funds allocation, however, interest earnings on lottery bond reserves are also applied to pay debt service. Interest earnings are spent as Other Funds. Nonlimited Other Funds expenditures represent the refunding of previously-issued bonds. The State Treasurer restructured portions of the state’s lottery bond debt in both the 2011-13 and 2013-15 biennia.

The state received favorable terms on its spring 2015 lottery revenue bond sales, and therefore 2015-17 biennium debt service costs were $2.4 million below the amount included in the current service level calculation. The restructuring and refinancing of OBDD lottery bonds reduced debt service costs further. Debt service costs on lottery bonds are now projected to total $45.5 million in the 2015-17 biennium. This amount represents a 14% reduction from the amount budgeted for lottery revenue bond debt service in the prior biennium.

Legislatively Adopted Budget

The legislatively adopted budget includes $45.5 million for debt service payments on outstanding lottery bonds. All payments are for bonds authorized and issued prior to the 2015-17 biennium. The total includes $45.1 million of Lottery Funds and $400,000 of Other Funds. The Lottery Funds amount is a 6.1% decline from the prior biennium level. This reduction is made possible from the highly favorable interest rates obtained in the spring 2015 bond sale, and the 2013-15 biennium refinancing of outstanding bonds at lower interest rates.

The $48.5 million of new lottery bonds approved in the 2015-17 budget to provide additional capital to the Special Public Works Fund and Brownfields Redevelopment Fund, and to support Regional Solutions and Arts projects and the Brookings Harbor dock repair, do not generate debt service costs in 2015-17 because the bonds will not be issued until shortly before the end of the biennium. Debt services costs for the bonds are projected to equal $9.1 million per biennium when payments begin in 2017-19.

The budget includes $12.7 million General Fund to pay debt service on general obligation bonds. The General Funds amount is a 229% increase over the prior biennium level. The expenditures support $8.6 million of debt service costs for previously-authorized bonds for Seismic Rehabilitation Grants and other projects, plus $4.1 million of debt service costs for $50.7 million of Article XI-M bonds that will be issued to support Seismic Rehabilitation Grants for public education buildings in the spring of 2016. The remaining $126.2 million of Article XI-M bonds and $30.4 million of Article XI-N bonds authorized in the budget will not be issued until the spring of 2017 and thus impose no debt service costs on the 2015-17 biennium budget. Debt service costs for the $207.3 million of new bonds authorized for Seismic Rehabilitation Grants are projected to total $33.7 million per biennium when fully phased in beginning in 2017-19.

EMPLOYMENT DEPARTMENT

Analyst: Deister

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	6,112,818
Other Funds	109,943,193	127,704,596	122,514,742	141,800,701
Other Funds (NL)	1,544,709,275	1,634,912,351	1,520,000,000	1,520,105,053
Federal Funds	171,190,409	168,973,715	155,935,577	157,985,169
Federal Funds (NL)	1,471,745,386	264,035,745	94,832,000	94,832,000
Total Funds	**$3,297,588,263**	**$2,195,626,407**	**$1,893,282,319**	**$1,920,835,741**
Positions	1,514	1,347	1,206	1,272
FTE	1,426.05	1,286.63	1,176.58	1,237.76

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 (B&ES) offers job listing and referrals services and career development resources.
- Workforce and Economic Research (Research) coordinates the collection and dissemination of occupational and economic climate data for the state, workforce regions, and counties.
- Office of Administrative Hearings (OAH) conducts contested case hearings for approximately 70 state agencies.
- The Oregon Talent Council focuses on developing core talent for high-skill, high demand occupations. With the passage of HB 2728, the 2015 Legislative Assembly established the Oregon Talent Council within OED. The Talent Council can be considered a more integrated iteration of its predecessor, the Engineering and Technology Industry Council, which had formerly been administered by the Oregon University System before being transferred to the Chief Education Officer and the Oregon Education Investment Board in 2014 (HB 4020).

Revenue Sources and Relationships

Sources of Other Funds revenues include:

- Oregon UI Trust Fund – Balance totaled $2.5 billion in June of 2015, up from $2 billion in June 2014. These funds are designated for unemployment insurance compensation payments to qualified individuals and are budgeted as Nonlimited funds.
- 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 $6.1 million was distributed in 2008-09 as a result of Federal stimulus legislation. These funds, estimated at $24.3 million at the end of the 2013-15 biennium, can and have been spent over multiple biennia, but only for expenditures relating to UI and employment services administration. The 2015-17 legislatively adopted budget level assumes that 100% of remaining Reed Act funds will be expended in support of Business and Employment Services, Research, and Unemployment Insurance administration.
- Special Administrative Fund – Receives revenues 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 Employment Department. For the 2015-17 biennium, the Employment Department expects to have $21.8 million available, based on $10.1 million of estimated new revenue and $11.7 million of estimated carryover from 2013-15.

- Supplemental Employment Department Administrative Fund (SEDAF) – Funded by a 0.09% unemployment tax diversion from employer Unemployment Insurance payroll taxes to fund OED administrative expenses. The 2015-17 legislatively adopted budget assumes that the diversion will generate $72.2 million, which supplements $6 million in carryover from 2013-15. A total of $13 million from this source will be transferred to the General Fund per SB 501 (2015).
- Fraud Control Fund – Supported by interest earnings on delinquent repayments of UI benefit overpayments for costs associated with the prevention, discovery, and collection of those overpayments. In 2015-17, the Department projects $13.7 million in interest collections, which supplements $10.1 million in carryover from 2013-15.

OED also receives Other Funds revenues from other state agencies as reimbursement for providing job placement services and conducting contested case hearings. The 2015-17 legislatively adopted budget includes 111 permanent and 3 limited duration positions for conducting these hearings. Eight limited duration positions and 18 permanent positions are approved in the budget for job placement services provided to other state agencies, as described in the Business and Employment Services section below.

General Fund supports the Oregon Talent Council (OTC), which was transferred to the Employment Department in HB 2728 (2015).

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 2015-17 biennium, an estimated $112 million will be distributed by the U.S. Department of Labor for administration of the Unemployment Insurance program, and $16.5 million is expected for Business and Employment Services provided under the Wagner-Peyser Act.
- The Trade Adjustment Act funds training and case management services for displaced workers. In 2015-17, $10.9 million is anticipated from this source for administration of the program.
- Veterans' placement services are assumed to amount to $4.2 million in 2015-17.
- Estimates of funding for federal unemployment insurance benefits – payments to federal workers -- are expected to amount to $94.8 million in 2015-17.
- Bureau of Labor Statistics funding for workforce and economic research is anticipated to be $1.9 million in 2015-17.
- Unemployment Insurance Modernization Funds are one-time revenue that OED received during June and July of 2009 as a result of adopting several changes to the UI program, including an alternative base year calculation for unemployment insurance benefits. Like Reed Act funds, the money can only be used for expenditures relating to UI and Employment Services administration. The funds are held in the UI Trust Fund and the legislatively adopted budget authorizes OED to utilize $3,046,026 of the $85.6 million in the 2015-17 biennium for planning and feasibility costs associated with the replacement of legacy information technology systems that are becoming obsolete.

<u>Budget Environment</u>

Economic conditions and trends directly affect OED's policy decisions and workload. During times of economic recession, high unemployment rates increase the number of clients served through unemployment insurance payments and employment services in field offices. The change in total expenditures since 2013-15 largely reflects administrative funding and program expenditures tapering off as the recession eased and ended. The unemployment rate in Oregon continues to hover around 5.9%, down from 7.0% the previous year but slightly higher than the U.S. average of 5.3% (July, 2015).

As the number of unemployed Oregonians qualifying for benefits decreases, so has workload and positions in the agency's programs. Emergency Unemployment Compensation, budgeted as Federal Funds Nonlimited, has been discontinued, and the Department anticipates that federal funding for the Unemployment Insurance, Business and Employment Services, and Workforce and Economic Research programs will be a combined total of $11 million lower than in the 2013-15 biennium. Spending down the balance of non-recurring Reed Act funds will mean a potential funding gap of as much as $33 million in 2017-19 if the Oregon economy remains on firm footing.

With the improving economy, the Department has turned its attention to workforce issues, seeking ways to efficiently identify what gaps in skilled workers exist for Oregon businesses, and working with education, employer, and workforce investment board partners to fill training and recruitment needs. The Department also is continuing efforts to increase transparency and better monitor overhead costs, and intends to create a new program area budget for administrative/central office expenditures for inclusion in its 2017-19 budget.

OED is also focused on assessing its information technology needs and updating its security protocols following a breach that was discovered in 2014. Existing information technology systems are in need of replacement, as the Department's existing information systems were developed before the internet was part of business practices. Extensive modifications over time have increased complexity and contributed to system outages and disruptions, and many systems are at or near the end of their lifecycles.

The Department is a member of the Interagency Compliance Network. Member agencies share wage, tax, and reporting information for the purpose of improving employers' and workers' compliance with Oregon tax and employment laws. Other agency members include the Bureau of Labor and Industries, Construction Contractors Board, Department of Consumer and Business Services, Department of Justice, Department of Revenue, and the Landscape Contractors Board. The group's focus has been on educating and sanctioning employers regarding the improper classification of workers as independent contractors, although there is legislative interest in expanding that focus to include more timely investigations into alleged construction licensing and contracting violations with the goal of more timely and effective enforcement action.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is a 12.52% total funds reduction from the 2013-15 legislatively approved budget. This decrease is primarily due to a reduction in Nonlimited unemployment insurance benefit payments and reductions in expenditures for agency operations to match lower levels of Federal Funds anticipated to be available in 2015-17. The Legislature continued to authorize expenditure limitation for efforts related to benefit payment control, contracted employment services, job placement for Trade Act recipients and clients of other state agencies, completion of information technology projects, and other grant-funded initiatives begun in the 2013-15 biennium.

The Legislature approved $3.1 million in Other Funds expenditure limitation to begin planning for agency-wide replacement of information technology systems. Other Funds expenditure limitation was approved for contracted information technology professionals (e.g. project management, business analysis, independent quality management) to assist the Department. The expectation is that this investment will result in a detailed business case, feasibility study, risk assessment, project management plans, procurement statements of work, and independent quality assurance review and oversight. A phased, incremental approach involving each of the Department's divisions will help to ensure that technology solutions meet business needs, and that new technology comes online in an orderly way. Employment Department divisions are charged a pro-rata share of services and supplies expenditures related to the initial planning costs, and division-specific costs will be identified and allocated as appropriate in later phases of the plan. The Department was instructed to return to the 2016 legislative session with a progress report so that a determination can be made about whether, when, and the extent to which additional resources are necessary to move forward with its modernization project.

Approval to reallocate existing positions across agency divisions was also granted, along with expenditure limitation related to grants awarded in the 2013-15 biennium and other projects requiring limitation to be carried over from the previous biennium to facilitate completion. These technical adjustments were partially offset by decreases in expenditure limitation associated with declining state government service charges.

Unemployment Insurance

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	11,272,490	15,850,902	11,300,439	27,399,093
Federal Funds	143,156,692	132,256,974	127,067,310	119,722,141
Total Funds	**$154,429,182**	**$148,107,876**	**$138,367,749**	**$147,121,234**
Positions	764	694	611	631
FTE	704.58	634.12	585.24	602.02

Program Description

The Unemployment Insurance program determines eligibility for benefits, processes benefit payments, enforces UI laws, collects employer payroll taxes, and provides support to the Employment Appeals Board (EAB). EAB, made up of three Governor-appointed members, is a separate and federally funded entity located within OED for administrative purposes and is responsible for reviewing decisions of the Office of Administrative Hearings on UI benefit cases.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is a 0.7% decrease from the 2013-15 legislatively approved level. Expenditure limitation increases from the current service level were approved for the following:

- Of the $3.1 million approved for the information technology modernization planning project, $1.6 million is attributable to the UI program.
- Nine permanent positions (8.75 FTE) dedicated to fraud detection and overpayment ($1.4 million Other Funds and $77,105 Federal Funds). This staffing level is expected to result in review of approximately 10,000 claims per quarter and recovery of up to $11 million in overpayments for the UI Trust Fund. Limited duration positions had been approved for this purpose in the past three biennia.
- Software enhancement that will reduce the risk of security breaches, data theft, and compromises to the Department's IT systems ($250,000 Other Funds, $663,000 Federal Funds).
- $1.6 million Other Funds for completion of secure front-end access for employers to the Oregon Payroll Reporting System, used to report wage and tax records.
- $352,484 Other Funds and 4 positions (2.50 FTE) to maintain conformity with federal law regarding UI administration. Three permanent seasonal positions are related to interception of tax refunds of those who received UI overpayments, and 1 permanent Compliance Specialist position to further support Oregon's Workshare program per federal guidelines.
- Reallocation of positions across agency programs and carryforward of expenditure limitation to complete projects begun in 2013-15 is also included in the legislatively adopted budget for the UI program.

Business and Employment Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	62,696,952	76,016,096	74,186,075	72,586,548
Federal Funds	21,368,001	29,090,323	21,854,363	34,739,583
Total Funds	**$84,064,953**	**$105,106,419**	**$96,040,438**	**$107,326,131**
Positions	553	470	421	461
FTE	529.97	474.21	419.05	459.05

Program Description

The Business and Employment Services (B&ES) program's mission supports businesses and promotes employment. Services are provided through field offices which recruit and refer qualified applicants to employers by matching the skills of the job seeker with employer job openings. Job seekers and employers can access employment information through interactive job services on OED's website. OED coordinates services with other Workforce partners to help customers access training, skills assessment counseling, and employability planning.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is a 2.1% increase from the 2013-15 legislatively approved budget. Adjustments included in the B&ES program are:

- $1.1 million in Other Funds expenditure limitation to fund the program's share of services and supplies costs related to information technology modernization planning costs.
- $3.8 million Other Funds expenditure limitation and 26 positions (26.00 FTE, 18.00 of which are permanent) for job search and placement assistance to clients of the Department of Human Services. Over past biennia, the Employment Department has used a minimum of 18 and a maximum of 26 limited duration positions funded on a fee-for-service basis. In the event that demand for placement services from state agencies exceeds the approved FTE for this package, the Department may request additional limited duration positions for this purpose.
- $2.8 million Federal Funds expenditure limitation and 19 limited duration positions (19.00 FTE) for job training and placement services provided under the federal Trade Adjustment Act.
- $1.9 million in Other Funds expenditure limitation for project management services and remodeling costs associated with approximately eight WorkSource Centers. The Employment Department will report back to the Legislature in February 2016 on progress made on remodeling efforts and may request additional expenditure limitation at that time.
- $2.4 million Federal Funds expenditure limitation related to a federal grant received for Reemployment Eligibility Assessment.
- Reallocation of positions across agency programs and carryforward of expenditure limitation to complete projects begun in 2013-15 is included in the legislatively adopted budget for the B&ES program.

Office of Administrative Hearings

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	27,459,259	27,147,751	27,969,741	29,056,813
Total Funds	**$27,459,259**	**$27,147,751**	**$27,969,741**	**$29,056,813**
Positions	128	115	111	114
FTE	123.00	111.80	109.79	112.29

Program Description

The program's mission is to be an independent and impartial forum for citizens and businesses to adjudicate their disputes with state agencies. Approximately 70 state agencies and two municipalities utilize the services of the Office of Administrative Hearings for their contested case proceedings.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is a 7.0% increase from the 2013-15 legislatively approved budget, due to expenditure limitation approved to cover the division's share of information technology modernization costs, as well as $856,803 Other Funds expenditure limitation approved for the purpose of completing the program's case management system, begun in the 2009-11 biennium. Three limited duration positions (2.50 FTE) were also approved as part of this project, to train agency system users on how to load and access case related documents and report information. Other Funds expenditure limitation in the amount of $49,800 was included to complete work on projects begun in the 2013-15 biennium and for software upgrades approved by the State Chief Information Office.

Workforce and Economic Research

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	8,514,492	8,689,847	9,058,487	12,758,247
Federal Funds	6,665,716	7,626,418	7,013,904	3,523,445
Total Funds	**$15,180,208**	**$16,316,265**	**$16,072,391**	**$16,281,692**
Positions	69	68	63	64
FTE	68.50	66.50	62.50	62.75

Program Description

This program coordinates the collection and dissemination of occupational and labor force data for the state, workforce regions, and counties, and is Oregon's designated employment statistics agency under the federal Workforce Investment Act. Data can be accessed through monthly and annual publications such as *Labor Trends*, which outlines payroll, unemployment, and other economic-related issues by workforce region, or through online resources such as the Oregon Labor Market Information System. The program also conducts specialized employment surveys requested through the U.S. Bureau of Labor Statistics, local workforce investment boards, private businesses, and industry consortiums.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is a 0.2% reduction from the 2013-15 legislatively approved budget. The Legislature approved Other Funds expenditure limitation in the amount of $107,015 for the program's share of information technology modernization costs, as well as an adjustment to reallocate two positions to another program. Federal Funds expenditure limitation in the amount of $517,000 and three limited duration positions (2.25 FTE) were carried forward to complete improvements to the Employment Department's longitudinal data system, for which the Department received a federal grant award in the 2013-15 biennium. Technical adjustments to the program's budget were also made to incorporate updated revenue forecasts, accurately depict the fund type from which expenses will be made, complete projects begun in 2013-15, and reduce state government service charges.

Talent Council

	2013-15 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	6,112,818
Total Funds	--	--	--	**$6,112,818**
Positions	0	0	0	2
FTE	0	0	0	1.65

The passage of HB 2728 (2015) eliminated the Engineering Technology Industry Council, and established a replacement entity, known as the Oregon Talent Council, within the Employment Department. The Talent Council is supported by General Fund and includes 2 permanent positions, an Operations and Policy Analyst 4 (1.00 FTE) and an Operations and Policy Analyst 2 (0.65 FTE). Per statute, up to 10% of funds appropriated may be used for staff and support of the Council. The legislatively adopted budget includes $5.6 million for investments to fill gaps in training and education of workers in key industries, as identified by the Council, with the assistance of Oregon industries, workforce investment boards, and educational institutions. A portion of these investments are expected to be augmented by other resources, including other public and private resources.

Nonlimited

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds (NL)	1,544,709,275	1,634,912,351	1,520,000,000	1,520,105,053
Federal Funds (NL)	1,471,745,386	264,035,745	94,832,000	94,832,000
Total Funds	**$3,016,454,661**	**$1,898,948,096**	**$1,614,832,000**	**$1,614,937,053**

Program Description

Payments of unemployment benefits (associated with the UI program) and certain payments associated with the federal Trade Adjustment Act (associated with the Business and Employment Services program and the UI program) are budgeted as Nonlimited.

Legislatively Adopted Budget

Oregon's UI system is funded through a counter-cyclical strategy of raising revenue to pay benefits from employers when the economy is strong. Employer premiums are set in law and adjust annually so that sufficient reserves are on hand to cover 18 months of a recession. Unlike other states with a "pay-as-you-go" UI system, Oregon's employers are more insulated from sharp increases in premiums and the risk for insolvency is minimized.

The 2015-17 legislatively adopted budget estimates over $1.6 billion in UI benefit payments, a 15.0% decrease from the 2013-15 legislatively approved budget. This decrease reflects continuing improvement in Oregon's economy as more Oregonians find jobs and return to work. Benefit payments to federal employees are included in the "Federal Funds Nonlimited" category since these payments are paid by federal, not state UI taxes. The substantial decrease in the Federal Funds Nonlimited category is due to expiration of federally funded benefit extensions and benefit payment increases that were attributable to Emergency Unemployment Compensation, which expired December 31, 2013.

HOUSING AND COMMUNITY SERVICES DEPARTMENT

Analyst: Deister

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	16,374,753	20,426,812	13,238,551	15,679,188
Lottery Funds	10,464,680	9,428,966	11,937,489	11,676,469
Other Funds	131,786,323	138,522,567	136,988,473	212,088,734
Other Funds (NL)	634,042,969	943,757,955	938,043,926	783,429,303
Federal Funds	155,310,950	117,493,813	121,110,888	119,926,854
Federal Funds (NL)	107,148,727	110,250,000	112,320,000	112,320,000
Total Funds	**$1,055,128,402**	**$1,339,880,113**	**$1,333,639,327**	**$1,255,120,548**
Positions	209	169	127	130
FTE	191.97	150.33	124.38	126.17

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 Oregon Housing Council, a seven-member panel appointed by the Governor, advises the Governor, Legislature, HCSD, and local governments on affordable housing issues.

Revenue Sources and Relationships

General Fund support is provided to the Statewide Homeless Assistance Program which funds emergency shelter programs and associated services ($3.3 million); the Emergency Housing Assistance Program ($6.5 million) which provides supportive services, emergency mortgage, rent, or utility payments to those who are homeless or at risk of becoming homeless; and support for the low-income rental assistance program ($478,368). A General Fund appropriation of $50,000 is included for the Oregon Wildfire Damage Relief Account, which provides assistance to low-income Oregonians whose homes are damaged due to a wildfire. General Fund support is also provided for mortgage resolution services and foreclosure prevention counseling for homeowners who are at risk of foreclosure ($1.4 million), and the Housing Choice Landlord Guarantee Program ($307,287), which provides reimbursement up to $5,000 for damages caused by renters receiving federal tenant-based assistance payments. The amount of 2015-17 General Fund support for the Court Appointed Special Advocates program, including program staff, is $2.8 million. Administration of food and nutrition programs was transferred to the Department of Human Services as part of the 2015-17 legislatively adopted budget, but $590,860 General Fund remains in the HCSD budget for 2015-17 for expenditures until the transition is complete. *Oregon Volunteers!* the Commission on Voluntary Action and Service received a one-time General Fund appropriation of $250,000 for operational expenses that in prior biennia had been subsidized by the Department's investment earnings. HCSD was directed via budget note to report the 2016 Legislature Assembly on the status of the commission and plans to ensure fiscal sustainability and future governance options.

Lottery Funds in the amount of $11.7 million are provided for debt service payments on bonds issued for the following purposes: the Community Incentive Program ($3.6 million); the Housing PLUS program which provides low income housing with on-site personal support ($2.1 million); and debt service payments on bonds to preserve affordable rental housing and manufactured home parks ($6 million).

HCSD has numerous sources of Other Funds that include the following: proceeds from the sale of bonds ($225 million); mortgage and down payment assistance repayments ($239 million); Federal HUD contract administration fees for service ($4 million); Homeownership Stabilization Initiative fees for service ($1.8 million); loan, tax credit, and other fees for service ($7.7 million); interest earnings ($138.5 million); the energy bill payment assistance charge ($40.9 million); a portion of the public purpose charge ($26.6 million); and special assessments on manufactured dwellings ($1.2 million). The passage of HB 2436 in 2009 added $28.6 million from fees for recording certain documents, including $7.1 million expected to be dedicated to veterans' housing. Lottery bond proceeds are also part of the legislatively adopted budget, and are budgeted as Other Funds. The Legislature approved $2.5 million in bond proceeds for affordable housing preservation for 2015-17 biennium and approved $20 million in bond proceeds for affordable housing for people with mental health and addictions issues. For the first time, the Legislature approved Article XI-Q bonds as a means of financing affordable housing projects, and HCSD is in the process of defining how the state will demonstrate its ownership interest in developments financed with the $40 million in bond proceeds approved through this financing mechanism.

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. General Fund for the Court Appointed Special Advocates (CASA) and the Housing Choice Landlord Guarantee programs is also transferred and expended as Other Funds.

Federal Funds are received primarily as formula grants for weatherization and anti-poverty programs. The 2015-17 legislatively adopted budget assumes Federal Funds revenues as follows:

- Community Services Block Grant: $11.1 million
- Homeless Assistance Grants: $2.3 million
- HOME tenant-based rental assistance: $3 million
- Low Income Energy Assistance Program: $63 million
- Federal weatherization funding: $16 million
- HOME funds for housing development from Housing and Urban Development: $13.6 million
- Section 8 rent subsidy (Federal Funds Nonlimited): $112.3 million
- Foreclosure mitigation counseling grant: $1 million
- Carryforward from the 2013-15 Neighborhood Stabilization Grant for redevelopment efforts in areas hard hit by foreclosure: $1.5 million
- Corporation for National and Community Service (*Oregon Volunteers!* grant funds): $5.2 million
- HUD 811 Project Rental Assistance Program grant: $1 million

Budget Environment

While there has been improvement in the national and Oregon economy, Oregon is still experiencing a bit of a hangover with respect to housing affordability. The recession further increased the demand for affordable housing which was already insufficient at the start of the downturn, and the creation of additional units was limited during that time period; families displaced by foreclosure turned to renting, leading to low rental vacancy rates that have driven up rental costs in several urban areas. The Legislature increased its investment in affordable housing in the 2015-17 biennium in an effort to address the increase in demand.

The low-interest rate environment is good news for individuals able to refinance or access credit for a single family mortgage on the open market, but for HCSD, this means that their single family loan program interest rate advantage is all but eliminated. As such, fewer bonds have been issued, resulting in less income-generating loan activity, and new market standards and federal regulations have increased the cost of bond issuance while decreasing earnings on this investment option.

HCSD is implementing changes to its governance structure in response to an internal assessment of service delivery conducted in 2013-14. In response, the agency proposed and the Legislature approved the transfer of food and nutrition programs to the Department of Human Services. The passage of HB 2442 (2015) expands and renames the Department's advisory council; the Housing Stability Council (formerly the State Housing Council) membership is increased by two members and is charged with increased oversight of department activities, including the state housing plan and advice on budget, financial, and policy matters. Other advisory bodies have been eliminated, with their responsibilities transferred to the Housing Stability Council. The passage of SB 296 (2015) transfers the Elderly Rental Assistance program from the Department of Revenue to HCSD, but the transfer will not take place until July 1, 2017; despite the absence of budget implications in 2015-17, HCSD will plan for the transition.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for HCSD is $1,255,120,548, a 6.3% decrease from the 2013-15 legislatively approved budget. The majority of the decrease in General Fund is attributable to transfer of food and nutrition programs to the Department of Human Services and foreclosure counseling related to the Oregon Foreclosure Avoidance Program being funded only through February 2016, rather than a full 24 months. The reduction in Other Funds Nonlimited funding in the 2015-17 budget compared with the previous biennium reflects fewer anticipated bond refundings.

The Legislature increased its General Fund support for CASA and maintained support at 2013-15 levels for the Emergency Housing Account and the State Homeless Assistance Program. General Fund was appropriated for HB 3148 (2015), the Wildfire Damage Housing Relief Account, and for one time operating support to *Oregon Volunteers!* the Commission on Voluntary Action and Service. Major changes in Other Funds for 2015-17 included approval of expenditure limitation in SB 5507 for the following purposes: extension of the Oregon Energy Assistance program under HB 3257 (2015); affordable housing development for people with mental health and addictions; preservation of affordable housing; and issuance of Article XI-Q bonds to finance new affordable housing.

Safety Net Programs

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	10,125,157	12,781,951	10,949,571	11,224,870
Other Funds	6,900,099	10,339,156	9,686,209	11,056,937
Federal Funds	21,786,153	18,947,305	19,338,943	17,490,263
Total Funds	**$38,811,409**	**$42,068,412**	**$39,974,723**	**$39,772,070**
Positions	11	9	9	8
FTE	10.00	9.00	9.00	8.00

Program Description

Formerly called the Self-Sufficiency/Emergency Assistance program, Safety Net Programs provide services to very low-income Oregonians to help meet short-term, daily needs for food and shelter. The types of assistance provided include the following:

- Rental Assistance – Includes subsidizing housing costs and, in some cases, developing a self-sufficiency plan to assist individuals with other support, counseling, and training to avoid on-going reliance on assistance. The Housing Choice Landlord Guarantee program, which provides reimbursement for damages to units caused by Housing Choice Voucher tenants, is also included in this category.
- Homeless Assistance – Targets homeless individuals, or those at risk of becoming homeless, to provide emergency shelter, transitional housing, and prevention activities such as training and employment assistance and counseling services. HCSD receives both General Fund and Federal Funds, as well as a share of Oregon's Document Recording Fee, for homeless programs. HUD funds the Emergency Solutions Grant Program. Administrative expenses related to the Continuum of Care program are retained by HCSD, while the majority of funds are passed through directly to not-for-profits for housing, mental health, and other services to holistically address homelessness in rural counties.
- Food Programs – Funding comes from the General Fund and the United States Department of Agriculture. In previous biennia, Food Programs that partner with the Oregon Food Bank to coordinate the distribution of donated foods through regional coordinating and direct service agencies were included in the HCSD budget.

The 2015-17 legislatively adopted budget transfers all but a nominal amount of the administration and funding of these programs to the Department of Human Services.

- Community Services Block Grant – Funded by the federal Department of Health and Human Services, serves all 36 Oregon counties, and provides the foundation funding for community based organizations that coordinate and administer a variety of services to assist low-income Oregonians. CSBG was formerly located in the Community Capacity Building program and was relocated to this program area to better integrate it with other HCSD anti-poverty programs.
- Individual Development Accounts – Assists low-income individuals who enroll in personal development plans to obtain appropriate financial counseling, career or business planning, and other services. IDAs can be used for a variety of purposes that help account holders achieve financial stability, including post-secondary education, job training, housing or transportation, or to capitalize or expand a small business.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget includes $50,000 for a new safety net program, the Wildfire Damage Housing Relief Account. This program provides up to $5,000 of grant assistance to families at or below 75% of the federal poverty level whose home is damaged due to a wildfire.

The 2015-17 legislatively adopted budget is a 5.4% decrease from the 2013-15 legislatively approved budget, primarily due to the transfer of food and nutrition programs from HCSD to the Department of Human Services.

Energy/Weatherization

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	46,055,969	51,234,973	47,900,947	57,900,870
Federal Funds	100,158,074	73,851,917	76,313,274	76,300,370
Total Funds	**$146,214,043**	**$125,086,890**	**$124,214,221**	**$134,201,240**
Positions	21	6	8	8
FTE	17.00	6.00	8.00	8.00

Program Description

Energy and Weatherization programs help low income families by providing assistance payments, installing energy-saving and home health-related 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 various energy and weatherization activities through state and federal funding sources; the programs are delivered to low income Oregonians through the statewide network of local community action agencies.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Energy and Weatherization program is a 7.3% increase from the 2013-15 legislatively approved budget. The passage of HB 3257 (2015) extended the sunset under which an additional $5,000,000 can be collected each year from utility companies for the purpose of providing energy assistance payments to eligible Oregonians. An additional $10 million in Other Funds expenditure limitation was included in the 2015-17 legislatively adopted budget to reflect this extension.

Multifamily Rental Housing Programs

	2009-11 Actual	2011-13 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
Other Funds	48,270,118	49,419,523	52,328,097	75,409,816
Other Funds (NL)	2,174,171	1,005,000	1,005,000	1,005,000
Federal Funds	14,395,155	13,757,591	13,621,446	14,630,320
Federal Funds (NL)	107,148,727	110,250,000	112,320,000	112,320,000
Total Funds	**$171,988,171**	**$174,432,114**	**$179,274,543**	**$203,365,136**
Positions	30	28	25	27
FTE	29.50	28.00	25.00	25.75

Program Description

HCSD assists in making available housing options for low-income and fragile Oregonians. The agency promotes affordable housing development and rehabilitation of existing rental housing through the issuance of tax-exempt bonds, provision of conduit financing and loan programs, and administration of three housing tax credit programs. Several of the grants and tax credits are allocated through the semi-annual, competitive Notice of Funding Availability. These resources are one piece of an often complex financing plan used by affordable housing developers, often in conjunction with other resources which may include federal grants, foundation monies, loans, and private-sector investment. The agency also monitors the condition, management, and tenant eligibility of housing projects that have received funding, and serves as the Performance Based Contract Administrator for project-based, federal Housing and Urban Development funded Section 8 housing. Federal Rent subsidy payments, budgeted as Federal Funds Nonlimited, are administered through the Multifamily Rental Housing Program. HCSD, in partnership with the Department of Human Services and the Oregon Health Authority, was awarded $2.3 million in May of 2015 for HUD Project 811 rental assistance. The award will enable the development of approximately 76 units of supportive housing to serve extremely low income households with a member who has a severe persistent mental illness, or intellectual or developmental disability.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is a 16.6% total funds increase from the 2013-15 legislatively approved budget. An additional $22.5 million in Other Funds expenditure limitation is budgeted this biennium for one-time initiatives:

- $2.5 million is included for preservation of units of existing affordable housing that is at risk of converting to market rate rents due to expiring federal contracts. Dollars will likely be leveraged with other funds and tax credits. Eligible projects are defined as one of the following:
  - Privately owned multi-family rental properties where at least 25% of the units are subsidized by a project-based rental assistance contract through the USDA Rural Development or the U.S. Department of Housing and Urban Development.
  - Existing manufactured housing communities to be acquired by a mission-based non-profit organization, resident cooperative, tenants' association, housing authority, or local government.
  - Public housing projects undergoing a preservation transaction which involves a comprehensive recapitalization, and which will secure ongoing rental subsidies.
- $20 million is budgeted to finance the development of affordable housing for people with mental illness and addictions disorders. The number of units financed will depend on program parameters developed with stakeholders. HCSD will work closely with the Oregon Health Authority, which will engage stakeholders and set up a workgroup to provide recommendations on priorities to HCSD.

Both of these initiatives are funded with lottery bond proceeds. Cost of issuance related to these lottery bonds is budgeted in the Bond Activities program, below.

Also budgeted in this program is $585,000 Other Funds expenditure limitation for cost of issuance of $40 million in bonds approved by Legislature, pursuant to Article XI-Q of the Oregon Constitution. The $40 million is budgeted as Other Funds Capital Construction, and additional information regarding this investment is discussed in that program area, below.

Single Family Housing

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	3,729,220	5,244,646	--	1,440,000
Other Funds	5,219,186	3,903,648	4,312,456	4,311,746
Federal Funds	11,502,276	2,800,233	2,574,178	2,574,178
Total Funds	**$20,450,682**	**$11,948,527**	**6,886,634**	**$8,325,924**
Positions	10	9	7	7
FTE	9.00	7.88	6.50	6.50

Program Description

HCSD promotes homeownership by supporting below-market-rate loans financed through the sale of tax-exempt mortgage revenue bonds, providing down-payment and closing cost assistance, and funding home ownership education. This program also funds counseling and legal assistance services to homeowners facing foreclosure, through the Oregon Foreclosure Avoidance Program, created in response to high rates of foreclosure experienced in and following the most recent recession. The program provides an avenue through which Oregonians who have received notice of foreclosure can request a mediation conference with their lender after meeting with a housing counselor. The actual mediation services are budgeted in the Department of Justice and are supported on a fee-for-service basis, while the HCSD portion of the program helps prepare an individual for the actual mediation, by reimbursing contracted not-for-profit entities providing housing counseling services or, in more complicated circumstances, legal aid.

HCSD administers the federal Neighborhood Stabilization Program grant for communities to redevelop areas with high instances of foreclosure. No new federal funding was assumed in the 2015-17 legislatively adopted budget; however, HCSD will continue to compile reporting results until localities disburse their remaining federal grant funds.

Also included here is the manufactured communities resource center, which promotes cooperative relationships and alternatives to court action among owners and tenants. The program is funded through an annual assessment on manufactured homes and park registration fees.

Legislatively Approved Budget

The 2015-17 legislatively adopted budget is a 30.3% decrease from the 2013-15 legislatively approved budget. The decrease is due to a decline in Federal Funds due to the transfer of the majority of Community Development Block Grant funding to Business Oregon, as well as the federal wind down of the National Foreclosure Mitigation Counseling Grant and Neighborhood Stabilization programs. Part of the decline is also attributable to the decision to provide General Fund for counseling services connected with the Oregon Foreclosure Avoidance Program through February 2016 (amounting to $1.4 million) rather than operating the program for a full 24 months. HCSD and its partners in the program will report back during the 2016 legislative session regarding program utilization, foreclosure rates, and actual monthly expenditures. This data may facilitate decisions regarding whether or how much additional funding to provide for the program’s counseling and legal aid services.

Home Ownership Stabilization Initiative

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	13,529,956	3,850,634	371,497	1,750,424
Total Funds	**$13,529,956**	**$3,850,634**	**$371,497**	**$1,750,424**
Positions	55	37	0	10
FTE	45.30	23.93	0.00	7.92

Program Description

The Homeownership Stabilization Program is a temporary, three-biennium program that was set up to administer disbursement of $220 million in federal Troubled Asset Relief Program dollars. Oregon was one of 18 states to receive "Hardest Hit" funding as a result of recessionary high unemployment and home foreclosure rates experienced during the economic recession. The program has provided, to qualified applicants, temporary mortgage payment assistance, loan refinancing assistance for borrowers who owe more in mortgage loan than the market value of their home, and help with fees and charges amassed through late payments. As of the first quarter of 2015, the program had provided $184 million in cumulative assistance to 11,740 households. Specific assistance remaining open for application include the Rebuilding American Homeownership Assistance Pilot Program to refinance existing mortgages, and the Loan Refinance Assistance Pilot Project, which is available to homeowners in Crook, Deschutes, Jackson, Jefferson, and Josephine counties.

Legislatively Approved Budget

The 2015-17 legislatively adopted budget is a 54.4% reduction from the 2013-15 legislatively approved budget, reflecting the phase-out and spending down of federal Troubled Asset Relief Program dollars that fund the administration of the Homeownership Stabilization Program. The Department is on track to close out the majority of the program (except for miscellaneous reporting requirements) by December, 2017. Because funds must be distributed by the end of December 2017, all funding and positions in this program are budgeted as limited duration.

Central Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	2,520,376	2,400,215	2,288,980	3,014,318
Other Funds	11,779,566	17,016,167	19,252,322	18,277,980
Federal Funds	7,469,292	8,136,767	9,263,047	8,931,723
Total Funds	**$21,769,234**	**$27,533,149**	**$30,804,349**	**$30,224,021**
Positions	82	79	78	70
FTE	81.17	75.52	75.88	70.00

Program Description

The Central Services program includes the administrative functions of the department, and contains three separate divisions:

- Director's Office – Provides leadership and policy direction for the Department, and includes the Director, Assistant Director of Public Affairs, Government Relations and Communications, policy staff, and the executive assistant to the director. Also included is the Housing Stability Council, consisting of nine members who are appointed by the Governor and confirmed by the Senate to develop policies and provide guidance on proposed projects to stimulate and increase the supply of affordable housing.
- Business Operations Division – Comprises several administrative support sections. Budget development and implementation, accounting, contract and grant awards, compliance and monitoring, information systems,

facilities management, human resource services, bond issuance, and debt management are among the activities performed by personnel in this unit.

- *Oregon Volunteers!* the Oregon Commission for Voluntary Action and Service/Court Appointed Special Advocates – *Oregon Volunteers!* has the mission to promote and support AmeriCorps, volunteerism, and civic engagement in order to strengthen Oregon communities. *Oregon Volunteers!* receives Federal Funds from the Corporation for National and Community Service. CASA consists of 30 local CASA programs and more than 1,800 judicially appointed volunteers who advocate for abused and neglected children, ensuring that their interests are represented in the legal and social services system. CASA was moved here in 2012, after the disbandment of the Commission for Children and Families. *Oregon Volunteers!* has provided administrative support and grant administration services to local CASA organizations.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is a 9.2% total funds increase over the 2013-15 legislatively approved budget. The Legislature approved continuing as permanent an administrative support position for the CASA program, and increased special payments to local CASAs by $210,000 General Fund. Of the total $2.8 million in total General Fund CASA support, $265,338 is for administrative expenses and $2,498,980 is for grants to local CASAs.

The Legislature also included one-time General Fund administrative support for Oregon Volunteers! HCSD has been subsidizing a portion of the operating expenditures of the Commission since its transfer to the agency, but HCSD resources would be better focused on the core mission of providing stable, affordable housing. The Legislature approved the following budget note: “The Housing and Community Services Department and the Board of the Oregon Commission on Voluntary Action and Service shall report to the Legislature during the 2016 legislative session on the status of Oregon Volunteers and the future of the commission. The report should include: An analysis of the current financial state of the commission, its ongoing and predictable revenue and expenditures, and a plan to ensure the fiscal sustainability of the commission without reliance on Housing and Community Services Department Resources by the 2017-19 biennium and beyond; comparison of Oregon’s volunteer oversight and coordinating entity to similar entities in other states; and recommendations on whether the commission shall: remain as an entity within the Housing and Community Services Department; become incorporated into another state agency; be incorporated into an existing not-for-profit agency or institution of higher education; or become an independent agency or not-for-profit entity.”

Bond-Related Activities

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	31,429	2,758,466	3,136,945	3,380,961
Other Funds (NL)	149,802,054	261,015,313	230,975,523	230,975,523
Total Funds	**$149,833,483**	**$263,773,779**	**$234,112,468**	**$234,356,484**

Program Description

The Bond-Related Activities program was created as part of the agency realignment that took place over the 2011-13 interim. In previous biennia, these activities were budgeted under single family/home ownership and multi-family/affordable rental programs.

Bond-Related Activities provide the mechanism to expend funds related to the agency’s bond-financed loan programs. HCSD sells tax-exempt bonds to investors and uses the proceeds to finance multifamily and residential (single family) mortgage loans. Investors accept lower interest yields because the interest earned is generally exempt from income tax; the result is lower borrowing costs, which are passed on to borrowers in the form of below-market interest rates on their loans. Because of their tax-exempt status, the bonds are subject to certain federal requirements, such as the following: for multi-family housing projects, a certain number of units must be affordable to people with incomes within a specific range; and single family loans must be for owner-occupied homes with purchase price limitations for low-to-median income first-time home buyers. Bonds issued for projects take one of two approaches: issuance of direct revenue bonds (for single family loans and some multifamily projects which remain within the agency's multifamily loan portfolio); and pass-through (or "conduit") revenue bonds, which simply provide borrowers with access to lower financing rates. The latter are sold as private placements to large commercial banks, which underwrite the projects and negotiate specific transaction terms with the borrower, and depend on commercial bank capacity and willingness to participate as lenders.

Expenditures related to the program include disbursement of bond proceeds for loans, mortgages, and down payment assistance; bond issuance costs for sales fees and bond re- marketing; administrative expenses including fees attributable to underwriting, attorneys, financial advisors, trustees, state treasury assessments, and liquidity necessary to assure compliance with tax code requirements and bond covenants throughout the outstanding life of the bonds; and asset protection expenses, including insurance and maintenance.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is an 11.1% total funds decrease from the 2013-15 legislatively approved budget. Expenditure limitation for costs related to the issuance of $2.5 million in lottery bonds for preservation of affordable housing are included, in the amount of $51,972 Other Funds. Other Funds expenditure limitation is included for $307,817 in costs related to the issuance of $20 million in lottery bonds for financing of housing for individuals with mental illness or addiction disorders. Based on current projections and available proceeds, HCSD expects to originate $218.5 million in new single family loans in the 2015-17 biennium. This equates to estimated financing for 1,400 single family units.

For the years 2013-14, HCSD resources were leveraged to construct 1,514 units of multifamily affordable housing. For the 2015-17 biennium, HCSD would anticipate similar numbers of units will be constructed. This figure does not include the units financed through Lottery Bond proceeds for mental health/addiction disorders or the affordable units financed with $40 million in Article XI-Q Bond proceeds, since these bonds are not expected to be issued until the last quarter of the biennium.

Bond Debt Service

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Lottery Funds	10,464,680	9,428,966	11,937,489	11,676,469
Other Funds (NL)	482,066,744	681,737,642	706,063,403	551,448,780
Total Funds	**$492,531,424**	**$691,166,608**	**$718,000,892**	**$563,125,249**

Program Description

Expenditures in this program represent the largest portion of HCSD's budget each biennium, and reflect the following: regular scheduled principal and interest payments on all of the agency's outstanding direct revenue bonds and Elderly and Disabled Housing project bonds; principal and interest related to early redemption of these bonds; net interest payments owed to parties as a result of interest-rate exchange agreements; and repayments to the U.S. Treasury of any investment earnings that exceed regulated earnings rates. In previous biennia, these costs were budgeted under single family/home ownership and multi-family/affordable rental programs.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is based on projected debt service needs to pay outstanding obligations of just under $955 million as of July 2015.

Lottery Funds allocations are related to specific projects for which lottery bonds were issued in previous biennia, including affordable housing preservation and housing for the homeless with supportive services. Debt service payments on $22.5 million in lottery bond proceeds approved in the 2015-17 biennium for affordable housing preservation and affordable housing for people with mental illness or addiction disorders will not be due until the 2017-19 biennium, as the bonds are not expected to be issued until the spring of 2017.

Capital Construction

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	--	--	--	40,000,000
Total Funds	**--**	**--**	**--**	**$40,000,000**

Legislatively Adopted Budget
This program provides expenditure limitation for a period of six years (expires June 30, 2021) for the construction of affordable housing that is financed with proceeds of bonds issued under the authority of Article XI-Q of the Constitution. The housing to be developed with the bonds will be targeted to low income individuals and families. It is assumed that the investment will result in the development of an estimated 1,200 to 1,600 units of new affordable housing units. HCSD will be working throughout the 2015-17 biennium on the following: developing criteria for selecting project funding proposals; determining the amount of administrative or indirect program costs that can be funded with the proceeds, if any; determining acceptable levels of ownership interest in properties that are envisioned to be managed by others and financed with multiple other sources of funding; and evaluating potential design strategies to maximize available funding and streamline construction. The bonds are anticipated to be issued in the spring of 2017.

DEPARTMENT OF VETERANS' AFFAIRS

Analyst: Deister

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	6,394,644	9,699,442	10,908,167	12,748,351
Lottery Funds	--	--	2,093,963	--
Other Funds	53,357,640	50,400,107	81,630,223	83,768,166
Other Funds (NL)	152,151,905	352,225,000	318,333,710	318,333,710
Federal Funds	26,702,288	400,000	--	2,805,304
Total Funds	**$238,606,477**	**$412,724,549**	**$412,966,063**	**$417,655,531**
Positions	94	84	83	88
FTE	93.20	82.63	83.00	87.76

Overview

The Oregon Department of Veterans' Affairs (ODVA) has three program areas: the Veterans' Loan Program, the Veterans' Services Program, and the Veterans' Home Program. The Veterans' Loan Program, funded entirely with Other Funds, provides home loans to veterans and the budget includes loan servicing and Department administration costs. The Veterans' Services Program provides claims and appeals assistance, conservatorship services, and partnerships with counties and national veterans' service organizations to assist veterans. The Veterans' Services Program is funded with General Fund and Other Funds, including conservatorship fees. The Veterans' Home Program operates skilled nursing and memory care facilities in The Dalles and Lebanon. The operational costs of the facilities are funded with Other Funds. HB 5030, the Lottery Bill, authorizes $10.5 million in net lottery bond proceeds to be issued for a portion of the state's share of construction costs for a third facility in Roseburg; however, the agency does not anticipate detailed design work beginning on a this facility until capacity in the existing homes is reached and data supports sustainable operations.

Revenue Sources and Relationships

The largest sources of ODVA Other Funds revenues are bond sales ($100 million), veteran loan and contract-related repayments ($80.0 million), and interest earnings ($45.1 million). The balance of revenue comes from insurance premiums and other service charges, licenses, fees, and miscellaneous revenues totaling approximately $1.5 million. Available revenues and reserves are expected to be sufficient to cover operations and necessary debt service. The Home Loan program'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.

The Claims and Appeals section is funded with General Fund and the Conservatorship program is funded from both General Fund and Other Funds. Conservatorship fee income in the 2015-17 biennium is estimated to total approximately $806,000. General Fund supports the majority of ODVA's Veterans' Service Officer (VSO) positions, a small emergency assistance program, and service delivery partnership programs, whereby funding is largely passed through as special payments to counties, national service organizations, and telephone hotline/crisis support.

The Veterans' Home Program operational costs are financed entirely with Other Funds. Revenues are primarily moneys received from the residents of the facilities, Medicare and Medicaid payments, and a per diem amount received directly from the federal Veterans' Administration. Veterans who reside in the Homes receive benefits not available to them if they reside elsewhere. Many veterans receive aid and attendant benefits along with disability compensation or income-based VA pensions, which, combined with their social security benefits, provides the revenue with which to pay for their care in the Homes. These funds are estimated to total $68.3

million in 2015-17. The total amount of revenue is based, in part, on occupancy projections from the Homes' contractor.

Budget Environment

The Veterans' Home Loan program is a state lifetime benefit for eligible veterans. Federal law has a limitation of 25 years from discharge in which the veteran must apply for a state home loan, thus limiting the ability to issue tax-exempt 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. At the same time that more veterans are eligible and the product to serve them is restricted, reserves from the Loan program have subsidized services and supplies costs of the Veteran Services and administrative functions of the Department. The recession and bursting of the real estate bubble meant that ODVA's home loans were not significantly less expensive than market rate mortgages and interest rates, and new loan generations were stagnant. In the past couple of years, demand for veteran home loans has increased slightly, as evidenced by the addition of 1 loan origination position in the 2015-17 legislatively adopted budget. This uptick is not enough to offset other circumstances, including that the loan program is projecting operating losses of between $4-6 million in the 2015-17 biennium due to the smaller size of the loan program, continued low interest rates, and the need to subsidize services and supplies costs in the Veterans' Services program. ODVA projects that it would require a loan servicing portfolio of approximately $1 billion – up from the current portfolio of $240 million – to "break even" in the current environment.

Expenditures for the Oregon Veterans' Homes relate to the cost of providing residential care. Operation of the facilities is contracted out to a health care service provider. Obtaining and maintaining a high occupancy rate is important to each facility's financial condition. A second Veterans' Home was opened in the city of Lebanon in Linn County in the autumn of 2014. A third home in Roseburg was authorized in 2011, with lottery bond proceeds set aside to fund a portion of the non-federal match obligation for construction expenses, but, as noted above, the agency does not anticipate beginning detailed design work until capacity in the existing facilities is reached and data supports sustainable operations.

The 2015-17 legislatively adopted budget reinvested a portion of the direct funding to individual veterans in more strategic investments in training and support for local veteran service officers. This change is anticipated to help more veterans understand and access their benefits, and reduce the need for limited individual assistance.

Loan Program

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	11,649,430	15,519,622	15,078,719	15,477,065
Other Funds (NL)	152,151,905	352,225,000	318,333,710	318,333,710
Total Funds	**$163,801,335**	**$367,744,622**	**$333,412,429**	**$333,810,775**
Positions	63	50	50	51
FTE	62.30	50.10	50.10	51.10

Program Description

The Loan Program provides home acquisition and home improvement loans to veterans at favorable interest rates. Since 1945, the Department has made over 334,000 home and farm loans with a principal amount over $7.7 billion. The state funds the loans by issuing General Obligation bonds authorized under Article XI-A of the state Constitution. The program consists of:

- Director's Office – policy, public information, and communications.
- Veterans' Home Loan Services – functions dealing with the loan program, including originating and servicing loans.

- Financial Services – overall financial oversight of the Department, including accounting, cashiering, and financial management.
- Support Services – human services, information services, business services, and records and information management.

Legislatively Adopted Budget

The 2015-17 legislatively adopted limited budget of approximately $15.5 million Other Funds is a 0.3% reduction from the 2013-15 legislatively approved budget due to continued depression of loan program demand. The budget includes Other Funds expenditure limitation of $148,346 to add one additional, permanent full-time loan origination specialist due to a slight increase in activity, bringing the total number of loan specialists to seven. The Legislature also approved $250,000 in Other Funds expenditure limitation to upgrade and improve loan program computer software. The legislatively adopted budget provides sufficient operational funding for up to $100 million in new loan originations during the 2015-17 biennium.

Veterans' Services Program

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	6,394,644	9,699,442	8,289,227	10,129,411
Other Funds	2,164,404	956,689	873,803	873,803
Federal Funds	--	400,000	--	1
Total Funds	**$8,559,048**	**$10,553,317**	**$9,163,030**	**11,003,215**
Positions	29	30	30	32
FTE	28.90	29.40	29.40	31.66

Program Description

The Veterans' Services Program includes:

- Claims and Appeals – Assists veterans, their dependents, and survivors to obtain service-connected and non-service related benefits. Over 71,000 active claims were filed under ODVA's power of attorney in 2013-14, up from 32,000 in FY 2010-11. This program also provides outreach and assistance to individuals in state institutions, hospitals, domiciliaries, and nursing homes to help ensure that adequate care is being provided and that the federal Veterans Administration pays its share of that care.
- The Conservatorship Program – Provides conservatorship services for veterans and their dependents who are determined to be "protected persons" and who are recipients of U.S. Department of Veterans' Affairs' benefits. Conservatorship services are provided when no other entity or person is willing or able to act as conservator. The staff serves as trust officers, files required legal reports, apply for all benefits due the veteran, and counsel with families, hospital personnel, social workers, and protected persons to ensure their needs are met within the resources available.
- Service delivery partnerships – Include pass-through support to counties for County Veteran Service Officers (CVSO), and aid to veterans' organizations.
  - An emergency assistance program was established by the Legislature in 2005 to provide emergency financial assistance to Oregon veterans and their immediate families.
  - Pass-Through to Counties, which began in 1947, is a network of trained individuals operating in 34 Oregon counties to help them provide services to veterans on a local level;
  - Aid to Veterans' Organizations was established in 1949 and consists of partnerships with other veterans' service organizations in Oregon, which in 2013-15 included the American Legion, Disabled American Veterans, Military Order of the Purple Heart, National Association of Black Veterans, and Veterans of Foreign Wars.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $11 million total funds represents a 4.3% increase from the 2013-15 legislatively approved budget level, with the General Fund component increasing by 4.4% over the 2013-15 legislatively approved budget level.

The legislatively adopted budget redirected $303,954 in Current Service Level General Fund dollars that, in the 2013-15 biennium, had been allocated for educational aid payments to individuals, as a well as a portion of emergency assistance dollars. The Legislature elected to invest these dollars in direct payments for CVSOs and in training CVSO personnel.

The 2015-17 legislatively approved budget allocated $179,512 General Fund for 1 position (1.00 FTE), a Training and Development Specialist 2 position, which will provide enhanced training and support for Veteran Service Officers in achieving certification, submitting successful claims submitted to the federal Veterans' Administration, and continuing education. Reclassification of 1 existing positions funded with $63,623 General Fund will enable the department to utilize existing position authority in a more strategic manner.

The Statewide Veteran Services program had a demonstrable return on investment in 2013-15, resulting in $238 in Federal pension and compensation benefits returned to veterans for every $1 of General Fund invested. A total of $746,046 in additional General Fund dollars was appropriated for CVSO support for the 2015-17 biennium, augmented by $303,954 associated with the Educational Aid and Emergency Assistance Programs.

The Legislature also continued $350,000 in General Fund for a telephone crisis and suicide prevention resource targeted at veterans, pursuant to the following budget note: "The Oregon Department of Veterans' Affairs (ODVA) shall coordinate with the Oregon Health Authority (OHA) to establish a veterans' crisis suicide line that offers free, anonymous assistance, 24 hours a day, to active-duty service members, veterans and their families. To avoid duplication of Services and in order to provide delivery of the most efficient services, coordination should ensure that the contract for suicide crisis intervention services is with a provider that has contractual affiliation with the National Suicide Prevention Line and the National Veteran's Crisis Line. Specific statistical information shall be maintained associated with services delivered to veterans." This investment is not intended to be part of the agency's 2017-19 base budget; an opportunity to revisit the service delivery in future biennia will enable the Legislature to monitor the use of need for such services going forward."

Policy bills were enacted to enhance services to veterans, with a focus on providing outreach to under-served veteran populations, as follows: HB 3479 established a permanent Women Veterans' Coordinator position (0.88 FTE, to be phased in) and included $263,217 General Fund to support the position; SB 946 created a Lesbian/Gay/Bisexual/Transgender Veteran Coordinator position (again at 0.88 FTE) and included $182,787 General Fund; HB 2539 directed that ODVA contract for a study regarding the delivery, use of, and barriers to access to health care and medical services by women veterans, including $87,750 General Fund for study and distribution costs; and HB 2838 established a task force on incarcerated veterans, appropriating $21,068 General Fund for reimbursement of task force member expenses and costs.

In summary, the 2015-17 legislatively adopted budget funds ongoing Veterans' Services programs at the following levels:

- Claims and Appeals services: $4,229,291 General Fund, 23.21 FTE
- Conservatorship: $636,700 General Fund: $873,803 Other Funds, 8.45 FTE
- County Veterans' Service Officers: $4,699,480 General Fund ($500,000 of which is intended to be one-time in nature)
- Emergency Assistance funding: $100,000 General Fund
- National Service Organizations: $113,940 General Fund
- Suicide Prevention Hotline: $350,000 General Fund

Oregon Veterans' Home Program

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	502,814	2,618,940	2,618,940
Lottery Funds	--	--	2,093,963	--
Other Funds	24,848,929	33,923,796	65,677,701	65,906,751
Total Funds	**$24,848,929**	**$34,426,610**	**$70,390,604**	**$68,525,691**
Positions	2	4	4	5
FTE	2.00	3.13	4.00	5.00

Program Description
The Oregon Veterans' Home in The Dalles provides nursing and memory care to Oregon veterans and their spouses, and to parents who have lost a child to war-time service. The Home opened in November 1997 and has a bed capacity of 151 residents. Funding for construction and equipping of the facility was from a 65% federal grant matched to a 35% state obligation contributed by Wasco County. The Home has a capacity for 151 residents, had health and safety improvements in 2011-13, and will undergo updating in the 2015-17 biennium.

A second Veteran's Home, in Lebanon (Linn County) opened in the autumn of 2014. The Edward C. Allworth home has capacity for 154 residents who need long-term care. Skilled nursing, including inpatient rehabilititive care, is provided using a small house model, providing a home-like setting with "neighborhoods" that include landscaped courtyards and a community center. As of August 2015, the second facility was at approximately 50% capacity, but is projected to be fully subscribed by 2017.

The facilities provide care at lower-than-market rates to veterans and their families because veterans' benefits can be utilized toward the cost of care. General Fund in the Veterans' Home program is related to debt service on Article XI-Q bonds that were issued in 2013 and used to fund a shortfall in the local/state match to construct the Lebanon Veterans' Home due to construction changes mandated by the federal Veterans' Administration. Lottery Funds depicted in the 2015-17 Current Service Level of the column were predicated on the sale of Lottery Bonds in the 2013-15 biennium for construction of third facility, which did not occur. Home operation is funded entirely by Other Funds, consisting primarily of resident-related income, including federal Veterans' Administration payments, Medicare, Medicaid, insurance, and private payments. The program also receives monies from the sale of Veterans License Plates through the Department of Motor Vehicles and money from the chairtable checkoff income tax program. The ODVA Affairs contracts with Veterans Care Centers of Oregon, a non-profit organization, for the day-to-day operation of the facilities, utilizing the state's competitive procurement process. Each facility includes two ODVA staff people: a director, which handles admissions coordinates resident needs and community issues (Program Analyst 2), and an admissions assistant.

Legislatively Adopted Budget
The legislatively adopted budget of $68.5 million is a 99% increase over the 2013-15 legislatively approved budget, largely because of the opening of the second veterans' home. As mentioned above, $2.6 million General Fund is allocated for debt service on Article XI-Q bonds issued in the previous biennium to fill a gap in the state/local share of Lebanon home construction costs that were driven by federal design requirements. The Legislature approved Other Funds expenditure limitation of $9,050 to facilitate the reclassification of admissions liaison workers to supervisory status.

The Legislature approved $220,000 in Other Funds expenditure limitation and 1 position (1.00 FTE) to make permanent an administratively created position ("Aging Veterans' Services Director"). The position provides subject matter expertise and contract oversight of ODVA's contract for services at its veterans' homes, ensuring high standards and levels of care. In addition, the position will coordinate efforts between ODVA and other state and local partners to share best practices, expertise, and preventative strategies in an effort to reduce the need for safety-net services for this population.

Capital Construction

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	14,694,877	--	--	1,510,547
Federal Funds	26,702,288	--	--	2,805,303
Total Funds	**$41,397,165**	**--**	**--**	**$4,315,850**

Legislatively Adopted Budget

Approval of $1.5 million in Other Funds and $2.8 million in Federal Funds expenditure limitation was included in HB 5006, the capitol construction bill, for major renovations to the state veterans' home located in The Dalles. Legislative approval to expend the funds facilitates the project's inclusion on the federal construction grant list. The federal construction grant requires a 35% state and local match (the Other Funds portion of this limitation), which will come from reserves of the Veterans' Home Program. The funds will allow for new flooring, paint, wallpaper, and ceiling tile throughout the facility; furniture replacement; remodel of the nurse stations; upgrades of all resident rooms; remodeling of the production kitchen and nutrition centers; and remodel of the rehabilitation and therapy area, including replacement of equipment. A storage building will also be added. Authority to expend these funds is authorized through June 30, 2020.

Lottery Bond authorization for proceeds in the amount of $10.5 million for a third veterans' home in Roseburg was carried over in the lottery bond bill (HB 5030). Detailed design work on the facility is not expected to begin until existing facilities are at capacity and data supports sustainable operations.

CONSUMER AND BUSINESS SERVICES

PROGRAM AREA

BOARD OF ACCOUNTANCY

Analyst: To

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	1,833,249	2,304,122	2,165,759	2,454,268
Total Funds	**$1,833,249**	**$2,304,122**	**$2,165,759**	**$2,454,268**
Positions	7	8	7	8
FTE	7.00	8.00	7.00	8.00

Overview

The Board of Accountancy is a seven-member citizen board that licenses and regulates public accountants. The Board administers examinations 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.

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 the sale of public information and assessment of civil penalties. The Board projects $2,959,453 of total available revenues for the 2015-17 biennium, which includes a beginning balance of $1.2 million Other Funds. At the end of the 2015-17 biennium, the Board is expected to have an ending balance of $487,980 Other Funds, which represents about 4.7 months of operating expense. The Board receives most of its revenue during annual renewals in June, and thus needs a higher balance to cover cash flow needs. In addition, included in the ending balance is the savings bank for the Board to cover unanticipated contested case expenses.

SB 581 (2015) increases the Individual Active Certified Public Accountants and Public Accountant licensure two-year renewal from $160 to $255. This $95 increase impacts about 6,000 active individual licensees. The bill also increases the two-year renewal fee for the approximately 1,000 firms registered by the Board from $175 to $265. These fee increases are projected to raise $403,500 in Other Funds revenues for the 2015-17 biennium, and will help the Board sustain daily operations and maintain an adequate cash flow and ending balance. The bill received input and approval from the Oregon Society of Certified Public Accountants and the Oregon Association of Independent Accountants.

Budget Environment

Examination applications and membership have stabilized, and Board operating costs are more predictable than they have been in the past. After peaking at above 9,300 during the 2009-11 biennium, the number of licensees, has leveled off and is holding steady at approximately 8,000 licensees. The Board expects the base of licensees to remain relatively consistent in the near future. 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. Changes in federal and state regulations have increased the Board's ability to discipline based on the licensee's performance of public accounting services within a state, rather than restricting the Board's authority to only those holding a state license.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $2,454,268 represents a 6.5% increase from the 2013-15 legislatively approved budget and a 13.3% increase from the 2015-17 current service level budget. The legislatively adopted budget includes an expenditure limitation of $205,714 Other Funds for the establishment of a Financial

Investigator position to allow the Board to address the increase in both the number and complexity of complaints from the public against licensees, due to both the public's sharpened awareness of potential accounting misconduct, and new rules and federal oversight in the accounting industry. The budget also includes $100,000 Other Funds to provide the Board with contract investigators and Department of Justice resources to address the complaint backlog.

BOARD OF CHIROPRACTIC EXAMINERS

Analyst: Dauenhauer

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	1,345,507	1,600,901	1,540,715	1,889,260
Total Funds	**$1,345,507**	**$1,600,901**	**$1,540,715**	**$1,889,260**
Positions	5	6	5	6
FTE	4.50	4.88	4.50	5.10

Overview
The mission of the Board of Chiropractic Examiners is to serve the public, regulate the practice of chiropractic care, promote quality, and ensure competent ethical health care. 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 chiropractic physicians and two public members.

Revenue Sources and Relationships
The Board of Chiropractic Examiners derives the vast majority (roughly 95%) of its revenues from the licensure of Chiropractic Doctors and Chiropractic Assistants. Civil penalties, recovery of legal costs, and miscellaneous fees account for the remainder. The budget reflects planned fee increases for Doctors of Chiropractic for the following licensure: application, initial license, senior license, regular active renewal, inactive renewal, and late renewal. The revenue projections in the legislatively approved budget include $323,164 Other Funds which is the anticipated additional revenue generated from these fee increases.

Budget Environment
The Board of Chiropractic Examiners continues to face difficulties associated with legal and investigative costs. Addressing complaints, including sexual misconduct and billing fraud, often require significant investigative resources and may result in weighty and often unanticipated legal costs due to contested cases. The increased frequency of these complaints and the aggressiveness by which the Board pursues resolution will place continuing strain on the agency's budget. During the 2013-15 biennium, the Board had to come to the Legislature on one occasion to obtain additional expenditure limitation for additional personal services costs and legal fees.

Legislatively Adopted Budget
The total legislatively adopted budget for the Board of Chiropractic Examiners is 18% higher than the 2013-15 legislatively approved budget. The budget makes 1 Health Care Investigator 2 position (0.60 FTE) permanent; the position was previously approved for the 2013-15 biennium as an 18-month half-time position. The budget also attempts to account for escalating costs associated with utilizing the services of legal counsel in the Department of Justice in addition to professional services expenses from the Office of Administrative Hearings. Additional budgetary considerations were made for the new Executive Director's pay line exception differential as well as transaction fees resulting from the Board's online license renewal system.

CONSTRUCTION CONTRACTORS BOARD

Analyst: Dauenhauer

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	12,623,574	16,287,732	15,829,174	14,659,027
Total Funds	**$12,623,574**	**$16,287,732**	**$15,829,174**	**$14,659,027**
Positions	75	75	69	62
FTE	75.00	74.50	69.00	62.00

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. The nine-member board is appointed by the Governor and composed of representatives of different segments of the construction industry as well as the public and local government.

Revenue Sources and Relationships

CCB derives approximately 78% of its revenues from contractor licensing fees and 11% from fees associated with continuing education. The remainder of CCB revenue is derived 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; the remaining 80% of the funds are transferred to the General Fund. The projected ending balance of $2,212,333 will leave the Board with the equivalent of 3.6 months of operating expense reserves.

Budget Environment

During the 2013-15 biennium the CCB was directed to address budgetary concerns with expenditures that exceeded projected revenues. The Legislature requested the Department of Administrative Services to unschedule $646,000 Other Funds expenditure limitation from the CCB budget until the agency demonstrated an ending balance sufficient to three-months of operating expense reserves. The Legislature also approved a budget note requiring the agency to report on a work plan to improve operating efficiencies and regulations and to encourage growth by attracting new contractors to the industry and maintaining current contractors. As a result of legislative direction, the CCB underwent an extensive internal evaluation and made significant strides to reduce expenses, close budget gaps, intensify communications with both employees and the public, as well as build stronger relationships with stakeholders and other government resources. CCB eliminated 7 positions and made plans to implement future cost saving measures such as relocating to a smaller space to accumulate savings on rent. CCB also sought a more cooperative working relationship with the Building Codes Division of the Department of Consumer and Business Services (DCBS) to streamline similar or overlapping workloads between the two agencies and develop efficiencies related to enforcement as well as information technology services.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Construction Contractors Board is a 10% decrease from the prior biennium and reflects the agency's transformation from the previous biennium. Seven positions (7.00 FTE) were reduced from the budget resulting in a cost savings of $1,056,806 Other Funds. The agency is now in compliance with legislative direction and has a projected ending balance equivalent to 3.6 months of operating expense reserves.

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

Analyst: Stayner

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	174,809,386	216,088,555	221,417,741	243,170,782
Other Funds (NL)	199,295,655	199,565,185	199,655,595	197,626,507
Federal Funds	2,800,470	5,936,901	3,006,195	16,431,616
Total Funds	**$376,905,753**	**$421,590,641**	**$424,079,531**	**$457,228,905**
Positions	933	923	919	962
FTE	924.50	914.18	911.93	952.57

Overview

The Department of Consumer and Business Services (DCBS) provides a broad range of consumer protection, health insurance access, and commercial regulatory services for the state. DCBS is organized into five program areas plus central services and administration:

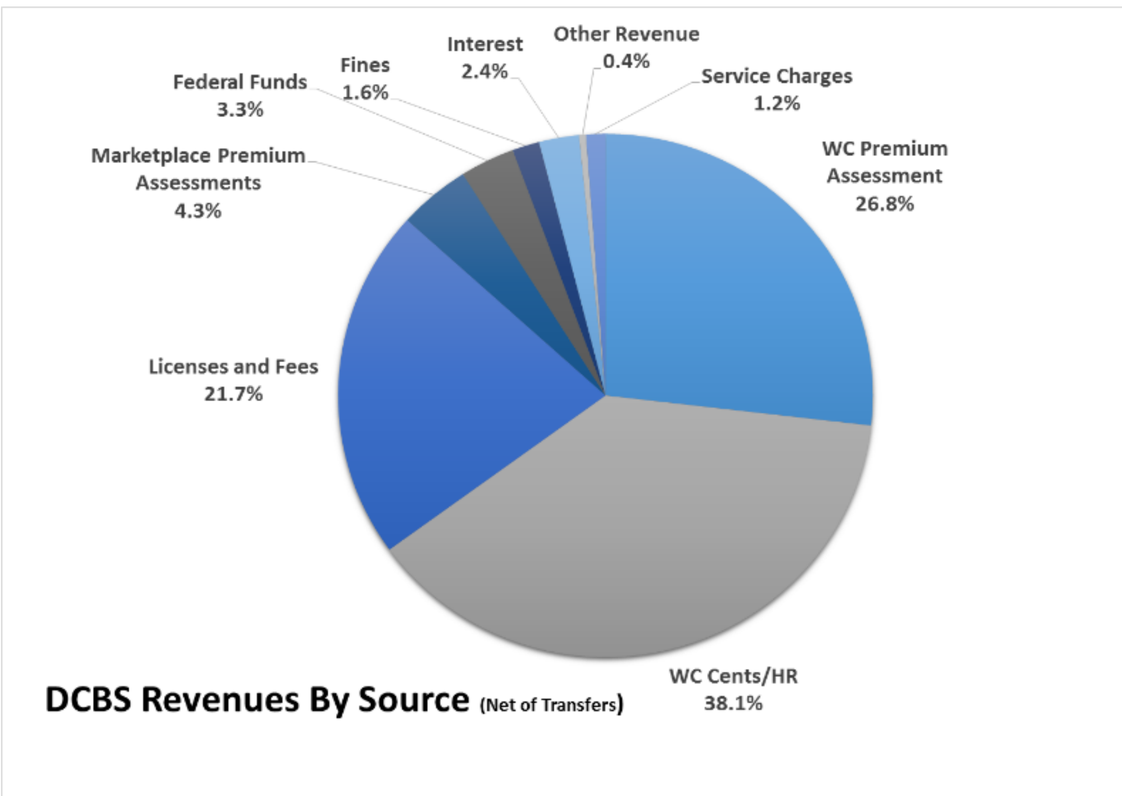
- Workers' Compensation System (WCS) – Includes the Workers' Compensation Board, the Workers' Compensation Division, and the Oregon Occupational Safety and Health Administration (OR-OSHA). Approximately 48% of the agency's full-time equivalent (FTE) staff is housed in these three programs. WCS administers the Workers' Benefit Fund supporting payments to injured workers in the event that their employer failed to provide coverage, benefit increases to permanently- and totally-disabled workers, benefits for the survivors of workers killed in workplace injuries, and funds return-to-work programs for injured workers. WCS 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 and the Workers' Benefit Fund are Nonlimited Other Funds.
- Insurance Division – Enforces the state's Insurance Code, including the review and approval of certain premium rates and 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 11% of the agency's FTE is housed in the Insurance Division.
- Financial and Corporate Securities Division – 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 8.3% of the agency's FTE is housed in this Division.
- Building Codes Division – Enforces the laws and develops codes related to the building of structures and dwellings, manufactured structures, RV parks and tourist facilities, plumbing, elevators, amusement rides, electrical safety, and boilers and pressure vessels. Approximately 13% of the agency's FTE is housed in the Buildings Codes Division.
- Oregon Health Insurance Marketplace Division – Operates the state-based health insurance exchange authorized by the federal Affordable Care Act. The division is newly established this biennium by SB 1 (2015) that dissolved Cover Oregon and transferred certain duties to the Department of Consumer and Business Services. The program provides public access to qualified health plans, premium subsidies, and tax credits for individuals enrolling in plans through the HealthCare.gov web portal; provides education and outreach to the public on the availability and affordability of health plans offered through the exchange; and works with consumers and insurance industry professionals both directly and through the health policy advisory council to address health insurance market needs and concerns.

Revenue Sources and Relationships

The agency is primarily funded by Other Funds. Over 500 dedicated fees, assessments, and charges support the operation of DCBS. Other Funds revenues in the 2015-17 legislatively adopted budget are projected to total $633.9 million, including $13.2 million transferred from the Oregon Health Authority for information technology contract costs related to Cover Oregon.

Approximately 22.8% of these revenues ($144.3 million) will be transferred to the General Fund. During the 2015-17 biennium, the agency is forecast to transfer $120.5 million of retaliatory insurance tax revenue and $23.8 million of revenues from licenses, fees, and fines to the General Fund, and $24.4 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).

The primary revenue source for the administration of the Workers' Compensation System is the Workers' Compensation Premium Insurance Tax. The tax is assessed against the earned premiums of insurers providing workers' compensation coverage, including the State Accident Insurance Fund, private companies, and self-insured employers and employer groups. The current rate is 6.2% for non-self-insured employers, 6.4% for self-insured employers and public self-insured employer groups, and 7.2% for private self-insured employer groups. The revenue derived from the difference in the premium assessment rate for self-insured employers from the base rate of 6.2% is dedicated to funding the adjustment reserve accounts for self-insured employers and employer groups.



Workers' Benefit Fund revenue is primarily derived from a cents-per-hour assessment on all wages paid in Oregon. The 2016 rate is 3.3 cents per hour split evenly between employers and employees. A portion (1/16th of one cent) of the 3.3 cents-per-hour assessment is transferred in to the Workers' Compensation Division to support a special payment to Oregon Health and Sciences University, Oregon Institute of Occupational Health Sciences for research on occupational illness and disease.

Business Licenses and Fees support regulatory programs such as Building Codes, Insurance Division, and the Division of Finance and Corporate Securities. Interest earnings, fines, assessments, and other revenues support various Department programs some of which are transferred to other agencies.

Biennial revenues associated with the Oregon Health Insurance Marketplace assume a beginning balance transfer of $8.24 million upon dissolution of Cover Oregon, premium assessment revenue of $21.2 million, and a transfer of $13.2 million from the Oregon Health Authority.

The Oregon OSHA division receives $11.4 million Federal Funds to support the federal OSHA program in Oregon. The Insurance Division anticipates federal grant funding for the Senior Health Insurance Benefits Assistance program ($1.3 million) and to support the review and analysis of health insurance premium rates ($3 million). Federal Funds revenue is also received by the Building Codes program to provide consumer assistance to individuals with complaints about manufactured homes.

Budget Environment

The economy and general economic activity are the primary factors that impact the revenues and operations of the agency. The Oregon Health Insurance Marketplace falls within this paradigm and also expands the agency's budgetary and operational exposure to federal regulatory changes. Revenues and workload for the agency's programs are generally cyclical, with the exception of certain financial regulatory issues that increase due to downticks in the economy, such as payday lenders, foreclosures, and bank solvency.

Demographic issues, including an aging population and a diversifying language base, will continue to factor in to operations and services provided throughout the agency. Language is a significant issue in ensuring the efficacy of outreach and education programs.

Federal regulation, funding, and support are possible issues in the Marketplace, Insurance, and Workers' Compensation System programs. Oregon currently has access to the federal insurance exchange platform at no charge, but federal rule making could result in the state having to pay a fee to use the platform. Oregon OSHA, the Senior Health Insurance Benefit Assistance program, and the Health Insurance Rate Review program all receive federal grant funding.

DCBS projects fairly flat revenue forecasts from the 2013-15 biennium, but includes moderate growth in operating reserves due to low budgetary growth and internal cost reductions.

Legislatively Adopted Budget

The total funds budget for DCBS is $457,228,905 and includes 962 positions (952.57 FTE). The budget includes $197.6 million in Nonlimited Other Funds for Workers' Compensation and Insurance programs. This budget is an 8.45% increase from the 2013-15 legislatively approved budget.

The budget includes funding for the establishment of the Oregon Health Insurance Marketplace. Biennial revenues associated with the Marketplace assume a beginning balance transfer of $8.24 million upon dissolution of Cover Oregon, premium assessment revenue of $21.2 million, and a transfer of $13.2 million from the Oregon Health Authority for information technology professional service contract obligations. Budgeted expenditures for the Marketplace, including dedicated positions established in the Central Services program and agency indirect costs, total $33,676,551 Other Funds. The marketplace adds 34 positions (31.00 FTE). The Marketplace budget provides for an estimated ending fund balance of $8,960,802. Based on the estimated ongoing expenses of the program this amount equates to approximately 12.7 months of operating reserves.

Excluding the Marketplace portion of the budget, the Other Funds budget for DCBS is just under 2.5% less than the 2013-15 legislatively approved budget as a result of the reduction of $13.14 million Other Funds expenditure authority for federal fund revenues that were expended as Other Funds in prior biennia. A corresponding establishment of Federal Funds expenditure authority for those revenues is included in the 2015-17 biennium.

The budget provides increased personnel capacity for workload increases in the Workers' Compensation, Oregon OSHA, Insurance, and Building Codes divisions, adding 9.00 FTE in total for these functions. In addition, the funding type was corrected for 11 positions, moving the funding from Nonlimited to Limited Other Funds.

Workers' Compensation System

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	84,843,785	107,998,370	110,883,760	100,118,516
Other Funds (NL)	3,200,270	3,361,198	3,361,198	3,361,198
Federal Funds	--	--	--	11,395,000
Total Funds	**$88,044,055**	**$111,359,568**	**$114,244,958**	**$114,874,714**
Positions	472	460	460	464
FTE	467.04	459.42	457.00	460.64

<u>Program Overview</u>

The Workers' Compensation System is an umbrella program that covers five sub-programs working in a cooperative environment to ensure the prevention of worker injuries, ensure provision of compensation insurance for injured workers, provide programs and benefits to return injured workers to work as soon as possible, and to resolve disputes regarding workers' compensation coverage and benefits in a timely and fair manner:

- Workers' Compensation Division – ($39,131,893 Other Funds, $3,361,198 Nonlimited Other Funds, 185 Positions, 183.38 FTE) Administers and enforces the provisions of the workers' compensation insurance coverage law and provides some education and consultative services. The Division has six program areas: Administration, Operations, Compliance, Medical, Benefit Services, and Workers' Compensation Assessments. The Ombudsman for Injured Workers and the Small Business Ombudsman also report to the Division Director.
- Oregon Occupational Safety and Health Administration (OR-OSHA) – ($37,872,489 Other Funds, $11,395,000 Federal Funds, 196 positions, 194.26 FTE) Administers the Oregon Safe Employment Act and the federal occupational safety and health program. OR-OSHA provides a two-layer approach to occupational safety by providing consultative and instructional programs backed up with enforcement action. Individual consultation is provided to businesses as well as providing general training and information though conferences and training literature. OR-OSHA investigates workplace fatalities, major accidents, and safety complaints in addition to regular inspections of worksites for safety and health violations.
- Workers' Compensation Board – ($23,114,134 Other Funds, 83 positions, 83.00 FTE) Independent adjudicatory body overseen by a five-member board appointed by the governor and confirmed by the Senate. Board members serve a four-year term. Most disputes are heard initially by administrative law judges, decisions of which are subject to appeal to the Board. WCB is responsible for adjudicating contested Workers' Compensation cases and OR-OSHA citations, notices, and orders, and for reviewing administrative orders on appeal. The Board also conducts hearings and reviews of appeals of Oregon Department of Justice decisions regarding applications for compensation under the Crime Victim Assistance Program and resolves disputes between injured workers and workers' compensation carriers arising from workers' civil actions against allegedly liable third parties. Offices are located in Portland, Salem, Eugene, and Medford. The Board also conducts hearings in eight other locations around the state. The Workers' Compensation Board program includes three Divisions: Administrative Services, Hearings, and Board Review.
- Ombudsman for Injured Workers – (7 positions, 7.00 FTE, included in the Workers' Compensation Division) Receives, investigates, and assists in resolving workers' compensation complaints.
- Small Business Ombudsman – (2 positions, 2.00 FTE included in the Workers' Compensation Division) Assists small businesses in obtaining workers' compensation coverage, intervenes in premium determination problems, and provides educational and outreach services programs to small businesses.

Revenue Sources and Relationships

The primary revenue source for the administration of the Workers' Compensation System is the Workers' Compensation Premium Insurance Tax. The tax is assessed against the earned premiums of insurers providing workers' compensation coverage, including the State Accident Insurance Fund, private companies, and self-insured employers and employer groups. The current rate is 6.2% for non-self-insured employers, 6.4% for self-insured employers and public self-insured employer groups, and 7.2% for private self-insured employer groups. The revenue derived from the difference in the premium assessment for self-insured employers from the base assessment rate of 6.2% is dedicated to funding adjustment reserve accounts for self-insured employers and employer groups.

The Workers' Compensation program also receives $2.4 million in interest income, as well as $3 million in other revenue, of which $2.9 million is from OR-OSHA fines and forfeitures. The program does transfer $250,000 Other Funds to the Bureau of Labor and Industries to support workers' compensation-related investigations by that agency. In addition, the OR-OSHA division receives $11.4 million of Federal Funds to support the federal OSHA program in Oregon.

A portion ($1/16^{th}$ of one cent) of the 3.3 cents-per-hour assessment to support the Workers' Benefit Fund (see DCBS Nonlimited accounts below) supports a special payment in the amount of $3.36 million Nonlimited Other Funds to Oregon Health and Sciences University, Oregon Institute of Occupational Health Sciences for research on occupational illness and disease.

Roughly $21.9 million in program revenues are transferred to the Central Services Division to support the administrative functions of the agency.

Budget Environment

Employment and economic activity dominates the budget environment for the Workers' Compensation System. During the economic downturn beginning in 2008, DCBS encountered a revenue shortfall and decreased workload, primarily in the Workers' Compensation Division. During this time, the program held positions vacant, reduced staff, and implemented general spending reductions. Staffing in the workers' compensation and workplace safety programs were reduced by 20 positons from peak pre-recession levels. Recently, the Oregon economy has seen moderate recovery and a decrease in unemployment, providing increases in program revenue and workload.

The aging of the working population presents challenges to the Workers' Compensation system. Although older workers tend to be more experienced and incur lower injury rates, there is a greater potential for cumulative traumatic claims and lower return-to-work rates.

Technological changes place pressure on the program to implement new methodologies or upgrade existing information technology systems to keep up with changes in the operations of insurers and expectations of the public and business communities to access information and services electronically.

Legislatively Adopted Budget

The 2015-17 legislatively adopted total funds budget of $114,874,714 for the Workers' Compensation System is $3.5 million (or 3.2%) higher than the legislatively approved budget for the 2013-15 biennium. Changes include:

- Workers' Compensation Division – The budget includes the establishment of a full-time compliance specialist position (0.88 FTE) to process disability disputes at a cost of $131,312 Other Funds. In 2010, the agency processed 2,978 disputes with 16 FTE allocated to the review program. DCBS projects a 10% increase in workload in dispute review in the current biennium. This position restores one of 6 compliance specialist positions that were reduced in the program's 2011-13 budget.

- Oregon OSHA – The budget includes the establishment of 3 positions (2 occupational safety specialists and 1 industrial hygienist), (2.76 FTE,) at a cost of $498,444 Other Funds to increase the capacity of the OR-OSHA program to perform enforcement inspections and safety consultations. The program had a reduction of 14 occupational safety specialists and one industrial hygienist in the 2011-13 budget due to reduced revenues related to the economic downturn. This reduction resulted in a decrease in the average annual enforcement inspection rate by 980 inspections. The OR-OSHA budget also includes a transfer of $250,000 to the Bureau of Labor and Industries to support investigations of alleged discrimination of injured workers.

  In the past several biennia, DCBS has been recognizing and expending federal revenues in the OR-OSHA program as Other Funds. The legislatively adopted budget reduces the Other Funds revenue from federal sources and the related Other Funds expenditure limitation in the amount of $11,395,000 and reestablishes that limitation as Federal Funds. This change enables the tracking of federal revenue to specific expenditure of Federal Funds, but results in no net change to the program's total funds budget.

Workers' Compensation Nonlimited Accounts

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Self-Insured Employers: Other Funds (NL)	5,551,997	1,478,048	1,478,048	1,478,048
Workers' Benefit Fund: Other Funds (NL)	189,908,690	193,225,539	193,315,949	191,286,861
Total Funds	**$195,460,687**	**$194,703,587**	**$194,793,997**	**$192,764,909**
Positions	0	11	11	0
FTE	0.00	10.04	10.04	0.00

Program Overview

The Workers' Compensation Nonlimited Accounts program is for the purpose of segregating the Nonlimited expenditures from the Workers' Benefit Fund and the Self-Insured Employer and Self-Insured Employer Group Adjustment Reserve Accounts from the limited budget of the workers' compensation system. These expenditures are dominated by payments to beneficiaries as opposed to the administrative expenditures of the program.

Revenue Sources and Relationships

- Workers' Benefit Fund – Workers' Benefit Fund revenue is primarily derived from a cents-per-hour assessment on all wages paid in Oregon. The 2016 rate is 3.3 cents-per-hour split evenly between employers and employees. A portion (1/16th of one cent) of the 3.3 cents-per-hour assessment supports a special payment in the amount of $3.36 million Nonlimited Other Funds to the Oregon Health and Sciences University, Oregon Institute of Occupational Health Sciences for research on occupational illness and disease. Secondary revenue is from recovered claims costs from non-complying employers, fines, interest income, and other revenues. Assessments are set at a rate to cover existing and projected claims. The fund supports a variety of programs that provide assistance to employers and injured workers.
- Self-Insured Employer and Employer Group Adjustment Reserve – The current base premium tax rate for workers' compensation insurance policies is 6.2%. Self-insured employers and self-insured employer groups are charged an additional premium of 0.2% and 1.0%, respectively. These funds are used to pay the claims of injured workers when they cannot obtain payment due to employer insolvency.

Budget Environment

SB 1558 (2014) changed the minimum balance requirement of the Workers' Benefit Fund from 12 months of projected expenditures to no less than six months of projected expenditures. The estimated fund balance of just under $97 million represents 11.3 months of projected expenditures. DCBS estimates that the fund has over $900 million in unfunded liabilities for ongoing claims costs.

SB 1558 also included provisions that intend to improve the financial stability of self-insured employer groups. The measure allowed current groups to end their group certification and sever their members' collective claims liabilities. Unfunded claims will be paid by the Workers' Benefit Fund once the group's security deposit, common claims fund, and self-insured group adjustment reserve has been exhausted.

Legislatively Adopted Budget
The 2015-17 legislatively adopted total funds budget of $192,764,909 for the Workers' Compensation Nonlimited accounts is $1.94 million (or 1%) lower than the legislatively approved budget for the 2013-15 biennium. The budget moves the positions and funding for 11 positions (10.04 FTE) from Nonlimited Other Funds in the Workers' Benefit Fund to Limited Other Funds in the Central Services Program. These positions are used for accounting and accounts receivable functions for certain premium assessments for Workers' Compensation Insurance, Insurance, and Health Insurance Marketplace programs. Costs of the positions are allocated to each program on a pro-rata basis and funding is transferred to the Central Services operating fund within the Consumer and Business Services Fund.

Insurance

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	19,285,662	23,409,301	24,168,505	23,189,582
Federal Funds	2,800,470	5,936,901	3,006,195	4,591,986
Total Funds	**$22,086,132**	**$29,346,202**	**$27,174,700**	**$27,781,568**
Positions	106	101	102	103
FTE	104.08	99.96	99.39	101.39

Program Overview
The Oregon Insurance Division (OID) serves as the regulatory and consumer protection agency of the state for insurance products. The Division licenses insurance companies, agents (producers), adjusters, and consultants to ensure compliance with Oregon insurance laws and to ensure competency in the insurance products sold by producers in the state. The Division evaluates the financial soundness of insurance companies, the availability and cost of insurance, and the equitable treatment of the insured and claimants. The Division provides independent customer advocacy and education, assists consumers in resolving complaints against agents and companies, enforces the Insurance Code, and collects and audits taxes of insurance companies.

In addition to the administration of the program, the Division operates the following sub-programs:

- The Financial and Producer Regulation program ensures the financial viability of, collects the applicable taxes of, and regulates the entry of insurers in Oregon. FPR also establishes licensing criteria and monitors compliance of licensed producers.
- The Market Regulation program produces market conduct examinations and market analyses to determine insurer compliance with insurance laws and the performance of duties to policy holders. The program houses a consumer advocacy program, which investigates and resolves complaints against insurers and producers.
- The Product Regulation program reviews all of the forms and rates for certain insurance lines and monitors insurer's compliance with health insurance reforms.
- The Senior Health Insurance Benefits Assistance (SHIBA) program provides free counseling to people with Medicare and those who assist them. Trained volunteers help senior citizens select a Medicare prescription drug plan, find out if they are receiving all benefits, compare supplemental health insurance policies, review bills, and file an appeal or complaint. This program is funded by a federal grant.

Revenue Sources and Relationships

There are three primary revenue streams for the Insurance Division: insurance premium taxes, licensing fees, and the fire insurance premium tax. In addition to these, the program receives revenues from fines and fees on non-compliant insurers and producers, fees for testing and examinations, interest income, and federal grants.

The Insurance Division collects retaliatory taxes from out-of-state insurance companies. This tax typically represents the difference between the regulatory burden in the insurer's domiciled state and the regulatory burden in Oregon where the policy is written. This is done to equalize the regulatory cost of a foreign insurance company writing policies in Oregon with the regulatory cost of writing policies in the insurer's domiciled state. Retaliatory taxes, fines, and interest earnings are transferred to the General Fund. The projected transfer for the 2015-17 biennium is just over $121.5 million.

The fire insurance premium tax is collected by the Insurance Division and transferred to the Department of State Police to fund the State Fire Marshal program. The projected transfer for 2015-17 is $24 million.

Federal funding includes grants for the Senior Health Insurance Benefits Assistance program ($1.3 million) and to support the review and analysis of health insurance premium rates ($3 million).

Roughly $4.6 million in program revenues are transferred to the Central Services Division to support the administrative functions of the agency.

Budget Environment

The budget and workload of the division is closely tied to the number of Oregon domiciled insurers, the number of insurers writing policies in Oregon, and the number of producers (agents). For all of the insurers doing business in Oregon, the OID must review and approve premium rates, forms, and market conduct. In addition to these requirements, OID oversees and monitors the financial condition of Oregon domiciled companies. Legislative changes at both the federal and state level can have significant impacts on these functions and other consumer protection functions of the division.

OID consumer protection and outreach functions are also impacted by the increasing sophistication and diversification of insurance products. Changes in demographics, such as increases in non-English speakers and aging populations, pose potential challenges to program operations and resource needs.

Legislatively Adopted Budget

The 2015-17 legislatively adopted total funds budget of $27,781,568 for the Insurance Division is $1.56 million (or 5.3%) lower than the legislatively approved budget for the 2013-15 biennium.

Two adjustments were included in the legislatively adopted budget to conform to Emergency Board actions that were taken during the interim, but were not captured in the initial budget development of the agency. The first of these provided $121,672 Other Funds expenditure limitation for the upward reclassification of 2 positions. The reclassifications, approved by the May 2014 Emergency Board, were made after the budgetary snapshot of existing positions used to produce the base funding level for positions in the current biennium occurred and, therefore, the costs were not included in the 2015-17 budget. The second item is the addition of $923,206 Federal Funds and 2 limited duration positons (1.00 FTE) for the portion of a Cycle IV rate-review grant received during the 2013-15 biennium that is anticipated to be expended in 2015-17. The 2013-15 biennium expenditure limitation was authorized by the September 2015 Emergency Board.

A technical adjustment is included in the legislatively adopted budget to correct an error in the development of the current service level budget of the division. The current service level budget for OID phases in the remaining Federal Funds expenditure limitation related to the Federal Cycle II and Cycle III rate-review grant funding that was not originally anticipated to be expended in the 2013-15 biennium. Subsequent to the development of the current service level, the agency determined that an extension for the Cycle II funds was not required; the funds now known to be expended in the 2013-15 biennium. As a result, the associated expenditure limitation was not needed in the 2015-17 biennium. This adjustment decreased the budget by $637,089 Federal Funds.

An additional reduction of $2.63 million Federal Funds is included in the budget to phase-out expended federal grant funding that was included in the 2013-15 legislatively approved budget.

The legislatively adopted budget includes $199,079 Other Funds to fund a compliance specialist position (1.00 FTE). The May 2014 meeting of the Emergency Board approved a plan to reclassify two existing positons to deal with the workloads of the Consumer Advocacy and Market Regulation programs and to establish a new, limited duration compliance specialist position in the Rates and Forms program. The limited duration position was approved by the Emergency Board with the direction that the agency should ask for the position to be established as a permanent position during the budget process if the workload of the program warranted its continuance. This action establishes that position.

In the past several biennia, DCBS has been recognizing and expending federal revenues in the Insurance Division for the Senior Health Insurance Benefits Assistance program as Other Funds. This legislatively adopted budget reduces the Other Funds revenue from federal sources and the related Other Funds expenditure limitation in the amount of $1,299,674 and reestablishes that limitation as Federal Funds. This change enables the tracking of federal revenue to specific expenditure of Federal Funds, but results in no net change to the total funds budget of the program.

Finance and Corporate Securities

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	15,405,653	18,157,898	18,602,728	18,602,728
Other Funds (NL)	36,963	650,000	650,000	650,000
Total Funds	**$15,442,616**	**$18,807,898**	**$19,252,728**	**$19,252,728**
Positions	79	79	79	79
FTE	79.00	78.63	79.00	79.00

<u>Program Overview</u>

The Division of Finance and Corporate Securities (DFCS) enforces laws and regulations related to the operation of financial service companies, financial products, and financial product dealers in Oregon. These include banks, credit unions, mortgage bankers, trust companies, security dealers, and a varied mix of consumer finance companies. DFCS also registers and regulates debt collectors and regulates, but does not require registration of, franchises.

In addition to program administration, DFCS operates the following five programs:

- Banks, Trusts, and Credit Unions – Provides charters for banks, trusts, and credit unions in Oregon and regulates and examines those state-chartered entities in coordination with federal regulators.
- Securities – Registers such offerings made in Oregon and licenses business and individuals selling securities or providing investment advice. The program maintains a consumer protection role by receiving consumer complaints regarding securities and securities dealers.
- Mortgage Lending – Licenses and examines mortgage bankers, manufactured structure dealers, brokers, and loan originators. The program maintains a consumer protection role by providing consumer education regarding mortgage lending and foreclosure counseling as well as receiving consumer complaints.
- Non-depository – Licenses, registers, examines, and investigates consumer finance companies, payday and title lenders, pawnbrokers, check cashing businesses, collection agencies, debt management service providers, money transmitters, prearranged funeral plans, and endowment care cemeteries.

- Enforcement – Provides division-wide investigation of violations and initiates administrative, civil, and criminal actions against violators.

Revenue Sources and Relationships
The Finance and Corporate Securities Division is funded almost entirely with Other Funds from assessments on financial institutions, licensing and registration fees, examination fees, filing fees, and investment income. The administration of the program is funded through licensing fees charged to securities dealers and entities and fees charged for the registration of securities. Excess revenues from these fees are transferred to the General Fund. The program anticipates transferring $22.8 million to the General Fund in the 2015-17 biennium.

A small amount of Nonlimited Other Funds revenue is recognized by the program for the purpose of providing restitution to purchasers of prearranged funeral services who have suffered losses due to services not being provided as contracted. The revenue to the fund is generated by a $5 per-contract fee paid by service providers.

Roughly $3.6 million in program revenues are transferred to the Central Services Division to support the administrative functions of the agency.

Budget Environment
The workload of the Finance and Corporate Securities Division is directly tied to the economy. Declining economic conditions generally increase the workload of the program related to the regulation and the financial condition of financial entities. During the previous economic downturn, the program experienced an increase in the number of registered debt collectors and pawnbrokers and a shift in focus from mortgage lenders to mortgage servicers and foreclosures. As the economy continues to stabilize and slowly improve, the internal workload of the program may shift, but is not expected to significantly increase. Budgeted revenues for the 2015-17 biennium remain unchanged from the prior biennium.

There continues to be a risk of additional budgetary constraints due to changes in federal regulatory requirements. The program assumed responsibility for the examination and regulation of about 100 investment advisers previously regulated by the U.S. Securities and Exchange Commission in the 2013-15 biennium due to the implementation of the Dodd-Frank Act.

Legislatively Adopted Budget
The 2015-17 legislatively adopted total funds budget of $19,252,728 for the Insurance Division is $444,830 (or 2.4%) higher than the legislatively approved budget for the 2013-15 biennium. The change is due to statewide inflationary adjustments.

Building Codes

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	25,152,909	31,531,145	32,436,351	32,873,444
Other Funds (NL)	573,068	592,444	592,444	592,444
Federal Funds	--	--	--	227,605
Total Funds	**$25,725,977**	**$32,123,589**	**$33,028,795**	**$33,693,493**
Positions	119	121	119	123
FTE	118.88	118.63	119.00	123.00

Program Overview
The Building Codes Division (BCD) is responsible for the enforcement of laws and the development of codes related to building of structures and dwellings, manufactured structures, RV parks and tourist facilities, plumbing, elevators, amusement rides, electrical safety, and boilers and pressure vessels. With assistance from seven boards

representing specialty areas, it develops, adopts, and interprets state wide building codes for residential and commercial construction; oversees the fabrication, installation, and repair of boilers and pressure vessels; issues licenses and construction and operating permits; investigates license and code violations; and provides continuing education for licensees. The Division conducts inspections of recreational vehicles, manufactured homes, prefabricated structures and components, and operating elevators.

The Division tests and certifies construction inspectors and tests and licenses plumbers and electricians. BCD provides code inspection services in those areas of the state where cities and counties choose not to provide local services or do not have adequate resources to meet state requirements.

Revenue Sources and Relationships

The revenues for BCD programs are primarily Other Funds from surcharges on permit fees, building permits, licensing, civil penalties, and interest income. BCD receives Nonlimited Other Funds revenue from the registration of ownership documents filed by owners of manufactured structures. The fee that is paid by the person or entity recording the change in ownership to the local tax assessor is forwarded to the division and then a portion is returned to the county assessor for the cost of processing the transaction.

Federal Funds revenue is received by the program to provide consumer assistance to individuals with complaints about manufactured homes.

Roughly $5.5 million in program revenues are transferred to the Central Services Division to support the administrative functions of the agency.

Budget Environment

The gradual improvement in the economy has included a resurgence in construction activity in the state. This trend is expected to continue through the 2015-17 biennium. With the passage of SB 582 (2013,) BCD is now the service provider for Harney County, Grant County, the Umatilla Indian Tribe, and parts of Curry and Union Counties. Additionally, Oregon is experiencing a growth in manufactured dwelling production, prefab construction, permit volumes, and construction employment, which are all driving the increased demand for services.

Legislatively Adopted Budget

The 2015-17 legislatively adopted total funds budget of $33,693,493 for the Division is $1.6 million (or 4.9%) higher than the legislatively approved budget for the 2013-15 biennium. In addition to statewide inflationary costs, the legislatively adopted budget makes permanent 4 limited duration positions (4.00 FTE) and associated Services and Supplies at a cost of $664,698 Other Funds. These positions were originally established as limited duration by the May 2014 Emergency Board with the recommendation that DCBS include them in its 2015-17 budget.

In the past several biennia, DCBS has been recognizing and expending federal revenues as Other Funds in BCD to provide consumer assistance to individuals with complaints about manufactured homes. The legislatively adopted budget reduces the Other Funds revenue from federal sources and the related Other Funds expenditure limitation in the amount of $227,605 and reestablishes that limitation as Federal Funds. This change enables the tracking of federal revenue to specific expenditure of Federal Funds, but results in no net change to the total funds budget of the program.

Oregon Health Insurance Marketplace

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	--	--	--	30,525,202
Total Funds	**--**	**--**	**--**	**$30,525,202**
Positions	0	0	0	24
FTE	0.00	0.00	0.00	24.00

<u>Program Overview</u>

The Oregon Health Insurance Marketplace is a newly established program at the Department of Consumer and Business Services. The program was authorized by SB 1 (2015) and is a result of the dissolution of Cover Oregon and the subsequent transfer of the portion of the Cover Oregon operations related to the evaluation, presentation, and enrollment of consumers in qualified health plans as required under the Affordable Care Act. In administering the state health insurance exchange, SB 1 requires DCBS to do the following: facilitate community-based assistance with enrollment by awarding grants to entities certified as navigators/in-person assisters and application counselors; operate a call center to facilitate enrollment; and plan, develop and implement a Small Business Health Options Program (SHOP).

The Oregon Health Insurance Marketplace provides access to affordable, high-quality health insurance coverage. The program certifies and oversees qualified health plans that are presented on the federally administered HealthCare.gov web site. The Marketplace provides enrollment assistance to Oregon consumers, and outreach and marketing functions to raise awareness and increase participation for consumers. The program includes 11 administrative and operational positions (11.00 FTE) that provide program management, federal policy coordination, community partner and business coordination, project management, plan analysis, and 13 consumer services positions (13.00 FTE) staffing the program's call center.

The federal Affordable Care Act required the establishment of state health insurance exchanges. The 2011 Legislative Assembly established Cover Oregon as a public purpose corporation to establish and operate the state-based exchange as authorized by the federal legislation. The initial planning, implementation, and administrative costs for Cover Oregon were funded by federal grants. After this initial phase, the state-based exchange was intended to be self-sustaining through the imposition and collection of assessments on the premiums of insurance carriers that offer health benefit plans through the exchange.

Cover Oregon undertook a major information technology project to establish an electronic platform by which consumers could shop for certified health plans, determine subsidies and tax credit eligibility, and enroll in either private or state sponsored health care plans. The exchange system did not function as required and was abandoned in favor of using the federal electronic platform for the selection of qualified health plans and calculation of subsidies and credits.

The Oregon Health Authority (OHA) had paid Cover Oregon for costs related to administering the state medical assistance program (Oregon Health Plan). That portion of the system and archival information had to be transitioned to other systems which either required the continuation of certain contracts or the purchase and development of alternative technologies. Assuming that current IT contracts continue through the 2017-19 biennium, OHA will transfer funding to DCBS for those costs. Both costs and revenue transfer amounts could vary depending on results of current litigation, as well as the length of time needed to replace the Oracle software with a new eligibility system for Medicaid.

The Oregon Health Insurance Marketplace Advisory Committee is administratively attached to the Marketplace program and provides guidance to the program on outreach, consumer response, and plan effectiveness and affordability. The committee consists of 13 members appointed by the Governor and confirmed by the Senate. The directors of both OHA and DCBS are ex-officio members.

Revenue Sources and Relationships

Biennial revenues associated with the Oregon Health Insurance Marketplace assume a beginning balance transfer of $8.24 million upon dissolution of Cover Oregon, premium assessment revenue of $21.2 million, and a transfer of $13.2 million from OHA for information technology professional service contract obligations.

The ongoing functions of the Marketplace are assumed to be funded from an assessment charged against each policy premium. This assessment is expressed as a per-member, per-month charge paid by the insurance carrier to DCBS for each person covered by a qualified plan sold through the exchange. Insurance carriers who enroll participants in qualified plans outside of the exchange do not pay an assessment on those members, but the subsidies and tax credits only apply to those plans sold through the exchange. DCBS does not collect and distribute agent commissions for agents enrolling participants in plans through the exchange, the insurance carrier pays them directly. The assessment rate is established annually and is intended to cover operating costs of the program and an appropriate operating reserve. The current assessment rates are $9.66 for medical plans and $0.97 for dental plans.

The transfer of funding from OHA related to the administration of technology contracts for the support of systems to administer the state medical assistance program (Oregon Health Plan) is not expected to continue past the 2015-17 biennium. These systems are primarily archival databases that are anticipated to be moved to alternate platforms, the funding for which is contained in the OHA budget.

Budget Environment

The Oregon Health Insurance Marketplace continues to use the federal healthcare exchange platform (healthcare.gov) for participant enrollment at no charge. DCBS expects that this relationship will continue through the 2016 enrollment period, but is likely to end with the federal government charging for access to the platform sometime in 2017. Federal rulemaking on this issue is anticipated in November 2015.
The revenues of the program are entirely dependent on the number of enrollees in plans sold through the exchange. Increases in program costs or a reduction in the number of enrollees presents significant ongoing risks to the program's solvency. Marginal costs of expanding enrollment could result in large increases to the per-member, per-month assessments that could lead to declining enrollment.

Legislatively Adopted Budget

The legislatively adopted budget for the Oregon Health Insurance Marketplace program is $30,525,202 Other Funds and includes 24 positions (24.00 FTE). In total, the budget for the Marketplace adds 34 positions (31.00 FTE). Of this total, 24 positions (24.00 FTE) are in the program itself, with the remaining positions being included in the Central Services program budget. The budget provides for an estimated ending fund balance of $8,960,802, which based on the estimated ongoing expenditures of the program, equates to approximately 12.7 months of operating reserves.

The Marketplace program contains two budgetary units; Marketplace administrative operations and Call Center operations. The budget provides Other Funds expenditure limitation for 13 limited duration positions (13.00 FTE) in the Call Center and 11 permanent positions (11.00 FTE) in the Marketplace administration function. All of the Call Center positions and the majority of Marketplace administration functions are filled by incumbent employees retained from Cover Oregon. The budget includes a revenue transfer of $13,222,705 from OHA for the payment of roughly 90% of the budgeted information technology professional services contract obligations assumed by DCBS from Cover Oregon. Exclusive of the OHA portion of IT professional services contracts, the biennial budget of the Marketplace program totals just over $20 million with roughly $3.54 million in one-time costs including $1 million for tax credit estimate errors, $900,000 for the relocation of IT equipment, and $805,042 for lease termination costs for office space that was not anticipated to be needed at the time the budget was approved.

The budget for the Marketplace program includes the transfer of $1,951,350 Other Funds to the Central Services program for the direct costs of the Health Insurance Marketplace. The Central Services program establishes 4 permanent positions (4.00 FTE) providing ongoing fiscal and administrative support to the Health Insurance

Exchange. In addition, 5 limited duration Information Specialist positions (2.50 FTE) and 1 limited duration Security Analyst position (0.50 FTE) are budgeted in the Central Services program to facilitate the transition of IT systems during the first year of the biennium.

Although not included in the Marketplace program budget, indirect costs of the agency, estimated at approximately $1.2 million, will be charged against the Health Insurance Marketplace Fund due to the redistribution of the agency-wide administrative costs being allocated among all of the agency's operating programs.

The ongoing budget is funded by the per-member, per-month assessment on the policy premiums of plans sold through the exchange. That cost is dependent on the budgeted expenditures of the program and on the number of plan participants enrolled through the exchange. Ideally, a conservative budget that produced ever-increasing enrollees would drive down the per-member, per-month costs. There are currently about 107,500 participants in plans enrolled through the exchange. Increased expenditures or a decline in the number of participants would drive up the cost of the assessments. It is not yet known what level of expenditure will be required to maintain or increase the number of participants in the exchange. The budget includes Other Funds expenditure limitation of $2,307,672 for marketing, publicity, or promotion during the biennium. In order to establish a base line of data on the efficacy and appropriateness of the expenditures directly related to enrollment, the Legislature included the following budget note with the agency's budget: "The budget for the Department of Consumer and Business services includes funding for marketing and outreach efforts. DCBS is instructed to complete a plan and report on each of the publicity and publication campaigns either upcoming or implemented for the Health Insurance Marketplace Program. The plan and report must be completed and submitted to the Joint Committee on Ways and Means prior to the beginning of the 2016 legislative session. This plan and report must include at a minimum: A narrative description of each campaign; the total amount of biennial expenditures of each campaign; the goals and objectives of each campaign; the expected results of each campaign activity; and identification of the quantitative measures that directly demonstrate the effectiveness of the campaign with respect to the goals of the campaign. It is the intent of the Legislature that the information provided by the plan and report is to be used to formulate potential Key Performance Measures related to the expenditure of funds for the publication, promotion, and outreach efforts undertaken by the agency."

Central Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	30,121,377	34,991,841	35,326,397	37,861,310
Other Funds (NL)	24,667	257,956	257,956	257,956
Federal Funds	--	--	--	217,025
Total Funds	**$30,146,044**	**$35,249,797**	**$35,584,353**	**$38,336,291**
Positions	157	148	148	169
FTE	155.50	147.50	147.50	164.54

Program Overview

The Central Services program aggregates and operates the common administrative functions of each of the operating divisions of the agency and provides for overall agency leadership and policy. The program operates in three divisions overseen by the Director's Office: Communications, Employee Services, and Central Services. Central Services is comprised of the financial services, information technology, and facility operations sub-programs.

- The Director's Office provides overall agency leadership, policy direction, general supervision of all programs, and liaison with other levels of government and the general public.
- Communication Services provides outreach and information on rules, policies, and data, including interactive Internet forms for both English and non-English speaking Oregonians.

- Employee Services provides human resources support, facilities services, mail services, telecommunications, safety services, risk management, and training to the agency.
- Fiscal and Business Services provides centralized purchasing and accounting services, collection services, payroll, purchasing, printing, ordering, and contract management services.
- The Information Management Division provides information technology strategy and standards and collects, stores, processes, analyzes, and reports agency information.
- Facilities Operation provides maintenance, telecommunications, mail, and purchasing services.

Revenue Sources and Relationships
The Central Services Division is primarily funded with Other Funds from revenue transfers of just over $37 million from the Department's dedicated funds. In addition, $1.2 million Other Funds is transferred from the Health Insurance Marketplace Fund to cover indirect costs of the Marketplace program.

Federal funds of $217,025 from the U.S. Bureau of Labor Statistics and matching funds from Workers' Compensation Premium Assessments fund an annual survey of work-related and fatal injuries.

Budget Environment
The workload and budget environment of the Central Services Division is directly impacted by the budget environments of the operating divisions. These include changes in the economy, consumer behavior, federal regulations, insurance and health care needs, and information technology changes.

Legislatively Adopted Budget
The 2015-17 legislatively adopted total funds budget of $ 38,336,291 for the Central Services Division is $3.1 million (or 8.7%) higher than the legislatively approved budget for the 2013-15 biennium. In addition to statewide inflationary costs, the legislatively adopted budget for the program includes $1,951,350 Other Funds for the direct cost of positions established in the Central Services Division dedicated to the operation of the Oregon Health Insurance Marketplace. These include 4 permanent positions (4.00 FTE) providing ongoing fiscal and administrative support to the Marketplace program. In addition, 5 limited duration Information Specialist positions (2.50 FTE) and 1 limited duration Security Analyst position (0.50 FTE) are budgeted in the Central Services program to facilitate the transition of IT systems during the first year of the biennium.

Included in the program budget, indirect costs attributed to the Oregon Health Insurance Marketplace Division of $1.2 million will be charged against the Health Insurance Marketplace Fund.

In the past several biennia, DCBS has been recognizing and expending federal revenues in the Central Services program as Other Funds. The 2015-17 legislatively adopted budget reduces the Other Funds revenue from federal sources and the related Other Funds expenditure limitation totaling $217,025 in the agency's budget and reestablishes that limitation as Federal Funds. This change enables the tracking of federal revenue to specific expenditure of Federal Funds, but results in no net change to the total funds budget of the program.

BOARD OF LICENSED PROFESSIONAL COUNSELORS AND THERAPISTS

Analyst: To

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	877,340	1,128,319	1,225,769	1,505,938
Total Funds	**$877,340**	**$1,128,319**	**$1,225,769**	**$1,505,938**
Positions	4	4	4	6
FTE	3.50	3.50	3.50	4.50

Overview

The mission of the Board of Licensed Professional Counselors and Therapists is to protect the health and well-being of Oregon citizens by setting a strong, ethical standard of practice through the regulation of licensed professional 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 also registers interns who are completing work experience requirements for licensure. The Board investigates complaints against counselors and therapists; sets standards to establish, examine, and pass on the qualifications of applicants to practice professional counseling, or marriage and family therapy in Oregon; adopts a code of ethics for licensees; sets academic and training standards; studies developing trends and issues in counseling, and marriage and family therapy; and establishes Board policies and positions on counseling issues. The eight-member board is appointed by the Governor and composed of three licensed professional counselors, two licensed marriage and family therapists, one faculty from a related program, and two public members.

Revenue Sources and Relationships

The Board is funded with revenue generated from application and license fees. Other miscellaneous sources include fines and the sale of mailing lists and copies of public records. The 2015-17 legislatively adopted budget includes an increase in the license application fee from $125 to $175, and an increase in the initial license fee from $100 to $125. These fee increases are projected to raise Other Funds revenues in the amount of $90,966. The last fee increase for the Board was in 2002. The Board is expected to have an ending balance of $272,742 Other Funds, which represents just about 4.3 months of operating expense.

Budget Environment

The Board has identified three main activities: licensing; consumer protection; and administration. Over the last four years, initial licenses and license renewals have increased. The Board expects this trend to continue for two main reasons: (1) retiring licensees choosing to keep their licenses in case they want to return to practice; and (2) although the licensure program is voluntary, insurance companies do not reimburse unlicensed clinicians for their services. As more clients depend on insurance, more counselors and therapists choose to seek licensure. With continued growth the Board expects an increase in legal costs due to an increase in complaints and contested cases. In addition, the Board of Licensed Professional Counselors and Therapists and the Board of Psychologist Examiners are currently operating under an intergovernmental agreement to share resources, mainly an Executive Director and an Operations and Policy Analyst position. The two boards are expected to work towards a proposal for merging the staff of the two boards by the 2017-19 biennium.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $1,505,938 Other Funds is an increase of $377,619 Other Funds (33.5%) above the 2013-15 legislatively approved budget. The budget is an increase of $280,169 Other Funds (22.9%) above the 2015-17 current service level. The legislatively adopted budget includes:

- $113,139 Other Funds increase in expenditure limitation providing the Board with limitation necessary for conducting background checks as part of the license application process. All criminal background fees are passed through to the Department of State Police.
- $84,833 Other Funds increase in expenditure limitation to fund 1 limited duration half-time Office Specialist 2 position (0.50 FTE) to handle the increase in license application and renewal workload. This position is established as a limited duration position as the Board works with the Board of Psychologist Examiners towards a proposal for merging the staff of the boards by the 2017-19 biennium.

BOARD OF DENTISTRY

Analyst: Terpening

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	2,314,426	2,656,916	2,759,205	2,985,971
Total Funds	**$2,314,426**	**$2,656,916**	**$2,759,205**	**$2,985,971**
Positions	7	7	7	8
FTE	7.00	7.00	7.00	8.00

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 ten-member board is appointed by the Governor and composed of six dentists, two dental hygienists, and two public members.

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. In the 2015 legislative session, the Legislature approved a fee increase, effective July 1, 2015, that is anticipated to generate $586,260 Other Funds revenue. The biennial licensure fees for dentists and dental hygienists are increased by $75. For dentists, the increase is from $315 to $390 and for dental hygienists the increase is from $155 to $230. With the fee increase, the Board is anticipated to have an ending balance of approximately $693,568, or 5.5 months of operating expenses.

Budget Environment

The projected regulatory workload and number of licensees is anticipated to remain relatively flat in the upcoming biennium. However, the volume and complexity of investigations has increased, with the average time spent on investigations rising from 3 months to 10 months. While the Board reports that it is able to utilize collaborative relationships with professional associations and schools of dentistry to resolve some of these issues, the Board has increasingly become reliant on contract investigators to help manage the additional workload.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget increases the agency’s budget by 12.4% over the 2013-15 legislatively approved budget. The budget includes expenditure limitation increases for out-of-state travel associated with national organization meetings. Previously, national organizations would reimburse the Board for travel expenses, which would then be recorded as a reduction of expense. In order to comply with governmental accounting, these transactions need to be separate revenue and expense items, which require additional limitation.

The budget also includes the addition of a permanent, full-time Dental Health Care Investigator position (1.00 FTE). This position is budgeted at step nine due to the qualifications and experience, including a dental degree, required of the position. Additionally, the budget includes a pay-line exception differential for the existing Chief Dental Investigator position in order to address salary compression with the new investigator position. The addition of the dental investigator position will allow the Board to phase out the use of contract investigators by 2017-19 and reduce the average time of investigations to approximately 3.5 months.

BUREAU OF LABOR AND INDUSTRIES

Analyst: Deister

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	11,007,503	11,837,518	12,045,974	12,563,620
Other Funds	8,151,754	10,550,519	10,843,736	10,831,529
Other Funds (NL)	1,191,801	1,200,000	1,236,000	1,236,000
Federal Funds	1,253,026	1,683,613	1,483,701	1,476,462
Total Funds	**$21,604,084**	**$25,271,650**	**$25,609,411**	**$26,107,611**
Positions	102	101	98	104
FTE	100.52	98.38	96.67	101.42

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; licensing and regulation of farm and forest labor contractors; and enforcement of newly-enacted sick time requirements.
- Apprenticeship and Training – Regulation of apprenticeship programs that promote the development of a highly skilled workforce.

Revenue Sources and Relationships

General Fund comprises the majority, at 48.1%, of the Bureau's support. 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 $4,580,000 in the 2015-17 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 $300,000 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 $1,236,000 during the 2015-17 biennium. The Fund is also used for administrative expenses, however. The $10.8 million of total Other Funds Limited expenditures in the current service level includes $1.9 million of Wage Security Fund revenue spent on agency administration.

The Prevailing Wage Rate program is forecast to receive $3.1 million in assessments on public works construction contracts; Technical Assistance fees related to publications, seminars, and presentations on employment law 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 million. The Wage and Hour Division's enforcement of farm and forest labor contract law is expected to yield $199,600 in licensing fees.

The Apprenticeship and Training Division receives a transfer of funds from the Oregon Department of Transportation of up to $2.1 million for supportive services and outreach efforts aimed at preparing and increasing the number of women and minorities in heavy highway construction jobs.

The agency also receives Federal Funds under three federal programs. BOLI contracts with the Equal Employment Opportunity Commission (EEOC) and receives $965,000 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 Disabilities 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 is projecting receipt of $480,000 Federal Funds under the HUD contract; however, SB 380 gives BOLI discretion on which cases to pursue in court (versus a previous requirement to prosecute certain cases) through the period of October 1, 2017, and may have implications for the contract amount received from HUD. Finally, BOLI will receive $120,000 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.

Budget Environment

Workload is primarily driven by the number of complaints received in the programs the Bureau administers. These include claims relating to wages and hours worked, terms and conditions of employment, and civil rights and fair housing law violations. Prevailing wage rate investigations and Wage Security Fund claims fluctuate with changes in Oregon's economy. Apprenticeship registration generally reflects trends in the labor market. Program activity in 2014 compared with 2012 is as follows:

Division/Activity	2014	2012	Difference	% Change
Wage and Hour – Inquiries*	30,000	n/a	n/a	n/a
Wage and Hour – Wage Claims Filed	1,650	1,800	-150	-8.3%
Wage and Hour – Investigations	243	267	-24	-9.0%
Civil Rights – Inquiries	38,699	38,666	33	--
Civil Rights – Cases Filed	1,700	2,000	-300	-15.0%
Apprenticeship – New Registration	2,851	2,022	829	+40.9%
Tech. Assistance for Employers – Inquiries	15,750	17,500	-1750	-10.0%
Tech. Assistance for Employers – Trainings	167	133	34	25.5%

*2014 is the first year in which the Wage and Hour Division began tracking the number of inquiries.

Performance data for 2014 indicate that BOLI has met or exceeded targets for timely processing of complaints and investigations, responses to inquiries, and the issuance of Prevailing Wage Rate determinations, with the exception of timely Prevailing Wage Rate investigation completions. The number of apprentices receiving journey level certificates also did not meet the established target, but this was due more to a lack of employment opportunities following the recession, rather than failed performance on the part of BOLI.

Legislatively Adopted Budget

The total legislatively adopted budget for the Bureau is 3.3% above the 2013-15 legislatively approved budget level, and 1.9% above the current service level. The number of approved positions increased by 4 from the prior biennium. The budget includes standard adjustments to state government service charges.

BOLI requested enhancements for 2015-17 in two areas: additional training and development specialists for the Technical Assistance for Employers program, and permanent administrative support for the Apprenticeship and Training Division for the BOLI-ODOT Heavy Highway Supportive Services program, funded with a transfer of funds to BOLI from the Oregon Department of Transportation. The Legislature approved an increase of one training and development specialist for the Technical Assistance to Employers program, and approved the agency's request related to permanent administrative support for the BOLI-ODOT Heavy Highway Supportive Services program.

The approval of SB 454 requires most employers having ten or more employees to implement a sick time policy allowing an employee to earn, accrue, donate, or use up to 40 hours of paid sick time per year. Most employers who employ fewer than ten employees are required to implement an unpaid sick time policy. Employers located in Portland are required to comply with the same provisions, except they would be required to provide up to 40 hours of paid sick time if they have six or more employees. The bill is anticipated to generate additional inquiries and claims related to unpaid sick leave, as well as temporary work to respond to the initial spike in employer inquiries and requests for training about the new law. BOLI's budget includes $402,879 General Fund for implementation of this legislation, and 3 positions (2.25 FTE), 2 of which (1.50 FTE) are permanent.

Commissioner's Office and Program Support Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	3,120,822	3,650,462	3,822,217	4,079,820
Other Funds	2,406,139	2,939,840	3,085,509	3,038,585
Federal Funds	151,355	224,344	233,713	231,017
Total Funds	**$5,678,316**	**$6,814,646**	**$7,141,439**	**$7,349,422**
Positions	25	25	25	27
FTE	24.50	24.25	24.17	25.92

Program Description

The Commissioner's Office and Program Support Services Unit provides overall policy direction and management for the Bureau. The program units are:

- Commissioner's Office / Legal Policy – Combines administration, strategic planning, legal policy, public information, and intergovernmental relations into one activity area.
- Business Services – Provides centralized fiscal services including accounting, purchasing, payroll, budget development, and contract administration. Information services to implement and maintain computer information systems and user support functions also reside here.
- Administrative Prosecution Unit – Provides adjudication (e.g., convenes administrative law proceedings) and alternative dispute resolution of contested cases for wage and hour claims, prevailing wage violations, farm, forest and construction labor contractor violations, child labor violations, and civil rights complaints.
- Technical Assistance for Employers Unit – Provides employers with online information and with handbooks, a telephone information line, and customized workshops and seminars regarding employment law, lawful employment practices, wage and hour laws, and civil rights requirements.
- Advisory bodies – Advise the Labor Commissioner on policy issues in their respective subject matters. Includes the State Apprenticeship and Training Council, the Prevailing Wage Rate Advisory Committee, the Oregon Council on Civil Rights, and the Expression of Milk in Workplace Advisory Committee.

Revenue Sources and Relationships

The Commissioner's Office/Program Support Services Unit receives 55.5% of its support from General Fund resources. Other Funds revenues include $1.2 million of fees collected by the Technical Assistance for Employers Unit from participating employers for seminars and on-site presentations on Civil Rights and Wage and Hour laws and lawful employment practices, and from the sale of handbooks and posters. Additional Other Funds are received from miscellaneous fees, and from portions of the Wage Security Fund revenue and Prevailing Wage Rate fees that are allocated to the Commissioner's Office to support central administrative costs and the costs of conducting administrative law hearings. Federal Funds are from an Equal Employment Opportunity Commission (EEOC) contract and are used to cover costs associated with administrative law proceedings for contested cases.

Budget Environment

The 2015 Legislative Assembly considered a number of laws that would have increased the minimum wage, required mandatory sick leave, prohibited consideration of conviction history in certain hiring determinations, and raised issues of pay equity and wage transparency. At the same time, BOLI and the Labor Commissioner were in the news due to a couple of high-profile civil rights cases. It is possible that both circumstances could result in additional inquiries by employers or complaints by workers or those refused service or accommodation potentially due to them.

BOLI requested additional training and development specialist positions for its Technical Assistance to Employers program, based on the cost-effectiveness of educating employers about the law versus investigations and prosecutions for wrong-doing.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget adds 2 positions to the Technical Assistance for Employers program. The first position is 1.00 FTE and supported by additional fees generated from seminar and handbook revenue (totaling $166,244 Other Funds), and will enable the Division to conduct more trainings while continuing to respond timely to questions and inquiries. The second position is a limited duration 0.75 FTE position to handle anticipated workload for requests for information and trainings in response to the passage of SB 454, the sick leave law; that position is supported by a one-time appropriation of $145,081 General Fund.

Civil Rights

	2011-13 Actual	2013-15 Legislatively Approved	2013-15 Current Service Level	2013-15 Legislatively Adopted
General Fund	2,842,023	3,013,550	2,866,852	2,973,909
Other Funds	961,522	1,167,767	1,077,180	1,074,963
Federal Funds	1,027,215	1,376,612	1,161,847	1,157,304
Total Funds	**$4,830,760**	**$5,557,972**	**$5,105,879**	**$5,206,176**
Positions	30	30	29	30
FTE	29.50	29.50	28.50	29.25

Program Description
The Civil Rights Division enforces 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, for reporting illegal activity ("whistleblower" protection), and for violations of family leave laws. The Division processes employment discrimination complaints for the Oregon Occupational Safety and Health Administration (OR-OSHA) and Workers' Compensation Division (Department of Consumer and Business Services). The Division operates under a work-share agreement with the federal Equal Employment Opportunity Commission for cases that fall under both state and federal law, including civil rights laws; the Americans with Disabilities Act; and the Age Discrimination in Employment Act. These dual-filed cases represent about half of the Division's caseload.

Revenue Sources and Relationships
The Civil Rights Division expects to receive Other Funds of $1 million from OR-OSHA and the Workers' Benefit Fund. The Workers' Benefit Fund in DCBS provides the majority of these funds ($764,941) to investigate allegations of discrimination against injured workers. The $250,000 from OR-OSHA is used to investigate complaints of retaliation against employees for opposing unsafe or unhealthy working conditions. Approximately $130,000 in Other Funds miscellaneous revenues will be generated from providing public record copies. The EEOC work-share reimbursement provides $965,000 Federal Funds to the Division budget. This reimbursement covers about half the actual costs. Since the federal budget fluctuates, the number of cases authorized for reimbursement varies per year, regardless of the number of actual cases handled. When Federal Funds are reduced, the costs of shared cases are shifted onto the General Fund.

The HUD contract provides $480,000 Federal Funds to the Division budget as a partial reimbursement for costs of pursuing housing discrimination cases. In September 2014, the Department of Justice (DOJ), as the agency's attorney, began charging BOLI for prosecution of housing discrimination cases that either complainants or respondents elect to remove from the administrative hearings process in favor of a court proceeding. The Commissioner has been obligated to pursue these cases on behalf of the complainant, and the Federal Funds received from HUD have not been sufficient to cover BOLI's costs. SB 380 gives BOLI discretion at key points in the enforcement process to determine whether or not to issue formal charges, and whether or not to pursue a claim in court on behalf of a complainant alleging an unlawful practice. This discretion could save the agency money in incurred DOJ costs, but at the same time, it could also have implications for the contract amount received from HUD. Absent a legislative extension, the provisions of SB 380 expire October 1, 2017.

Budget Environment

The Civil Rights Division responds to an average of 35,000 inquiries about civil rights protections each year, and investigates approximately 1,700 complaints each year.

Most of the Division's cases (90%) relate to discrimination in employment, with the rest relating to housing, public accommodations, and career schools. The four principal areas of complaints for the remaining 10% of complaints relate to sex discrimination (29% of complaints), disability (31%), injured worker (17%), and race/color (16%). The Division is experiencing an increase in investigations of housing complaints. Since 1992, the federal government had been investigating Oregon complaints based on federal fair housing laws. Beginning in 2007, however, BOLI resumed investigating these complaints in Oregon.

To effectively respond to the number of complaints within existing resources, BOLI has begun to triage complaints into various designations:

- "A" complaints are those persuasively alleging an egregious violation and/or significant harm, with indications that substantial evidence is likely. These complaints receive investigation, with the goal of swift adjudication.
- "B" complaints clearly allege violations resulting in at least some harm, but are less clear about whether the violations can be proven. These cases take up the majority of the investigators' time.
- "C" complaints are expected to be dismissed quickly, as they have a low probability that the complainant can provide substantial evidence in support of the allegation. These cases usually result in an interview with the complainant and a review of any documents submitted in support to ensure that relevant factors were not overlooked. The cases may be upgraded, but, if after review, no additional evidence is presented, the cases are usually dismissed.

The Civil Rights Division largely met its goals in all but a few months of 2014 for timely response to complaints.

Legislatively Adopted Budget

The $2.97 million of General Fund in the legislatively adopted budget is a 1.32% decrease over the 2013-15 legislatively approved budget level, but is 3.73% above the current service level. The total funds budget is 1.96% above the current service level.

The budget added 1 position (0.75 FTE) to accommodate anticipated increases in complaints regarding violations of the provisions of SB 454, the sick leave law (2015). A total of $125,005 General Fund was appropriated for this position and attendant services and supplies.

The budget for the Division also includes standard state government service charge adjustments that were approved in most agency budgets, amounting to $24,708 total funds.

Wage and Hour

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	2,309,271	2,529,940	2,562,436	2,727,247
Other Funds	3,087,422	4,004,547	4,220,368	4,154,522
Other Funds (NL)	1,191,801	1,200,000	1,236,000	1,236,000
Total Funds	**$6,588,494**	**$7,734,487**	**$8,018,804**	**$8,117,769**
Positions	29	29	29	31
FTE	29.00	28.50	29.00	30.25

Program Description

The Wage and Hour Division receives claims and complaints from workers involving wages and working conditions, including the minimum wage and overtime, and protects children in the workplace. The Division also enforces regulations pertaining to private employment agencies, conducts surveys, publishes prevailing wage rates for public works projects, and licenses and regulates farm, forest, and construction labor contractors.

Revenue Sources and Relationships

The Wage and Hour Division expects to receive about $3.1 million from assessments on public construction contracts for the Prevailing Wage Rate (PWR) program, and $199,600 in licensing fees for farm/forest labor contractor licenses. The Wage Security Fund is dedicated to the payment of final wages for employees whose employers cease operations and default on final paychecks. The agency is projected to receive $4,580,000 for the Fund in the 2015-17 biennium from a portion (equal to 0.03% of taxable wages) of the unemployment insurance taxes paid by employers in the last calendar quarter of the prior biennium. The Division will also receive $300,000 in interest and recoveries for the Wage Security Fund. Out of the total in Wage Security Fund revenues, the Division is projected to spend $1,236,000 for actual wage claims as Nonlimited Other Funds. Approximately $1.9 million of Wage Security Fund revenues are spent on administration as Other Funds, with the remainder retained by the Fund.

Budget Environment

The Wage and Hour Division reports that an average of 1,600 wage claims are filed each year. Approximately 375 of these claims are related to final unpaid wages, with claims being made against the Wage Security Fund. The number of complaints fluctuates with the economy. The remaining wage claims are split between minimum wage/overtime claims and other wage collection disputes. The Division also investigates non-wage claims involving working conditions and child labor violations, and investigates an average of 150 complaints related to non-payment of prevailing wage. The Division's investigations are primarily complaint-driven.

Legislatively Adopted Budget

The $2.7 million of General Fund in the legislatively adopted budget is a 7.8% increase from the prior biennium level, and is 6.4% above the current service level. The total funds budget is 1.2% above the current service level. The budget adds 2 positions (1.25 FTE).

The budget adds 1 position (0.50 FTE) to staff an information line relating to complaints and questions about rights and working conditions of live entertainers, pursuant to the passage of HB 3059. The budget includes $69,453 General Fund to support the position. The passage of SB 454, implementing paid sick leave requirements for most employers resulted in the appropriation of $132,793 General Fund to support 1 position (phased in at 0.75 FTE) to handle anticipated additional workload associated with the new requirement.

The budget for the Division also includes standard adjustments for state government service charge reductions, amounting to a reduction of $103,281 total funds.

Apprenticeship and Training

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	2,735,432	2,652,600	2,794,469	2,782,644
Other Funds	1,696,712	2,438,365	2,460,679	2,563,459
Federal Funds	74,457	82,657	88,141	88,141
Total Funds	**$4,506,601**	**$5,173,622**	**$5,343,289**	**$5,434,244**
Positions	18	17	15	16
FTE	17.50	16.13	15.00	16.00

Program Description

The Apprenticeship and Training Division promotes the development of a highly skilled workforce through partnerships with government, labor, business, and education, and provides apprenticeship opportunities for individuals. The 8-member Oregon State Apprenticeship and Training Council is chaired by the Labor Commissioner. The Council provides policy direction and approves local apprenticeship committees and their occupational standards. The Division conducts regular compliance reviews of the local committees to ensure that apprentices are being treated fairly and are receiving the best possible training. The Division is also responsible for maintaining a statewide registration of education and training programs for veterans, and works in partnership with educators, employers, and students. This includes cooperative efforts with school-to-work programs to ensure that adult apprenticeship standards are connected to core competencies identified at the high school level.

Revenue Sources and Relationships

Until the 2009-11 biennium, the Apprenticeship and Training Division was almost exclusively funded with General Fund. Since 2009-11, BOLI has had an interagency agreement with the Oregon Department of Transportation to manage a program to help diversify the heavy highway construction workforce by expanding outreach, training, and support services to women, minorities, and young adults. This program is funded by $2.6 million per biennium of federal transportation dollars. BOLI receives and spends these monies as Other Funds. This partnership will continue in the 2015-17 biennium. The Division also anticipates receiving a federal contract worth $120,000 from the Veterans' Administration in the 2015-17 biennium for on-the-job training of qualified veterans.

Budget Environment

Apprenticeship program registrations fluctuate with the economy. The Division registered 2,851 new apprentices during the 2014 fiscal year (the last year for which data are available), a 176% increase from the low of 1,032 new apprentice registrations during the depths of the recession, in 2010. Similarly, apprenticeship completions are dependent on jobs being available to provide the needed hours of on-the-job-training. A total of 860 apprentices completed training in 2014, well below the agency's target of 1,280 completions; but because of the cyclical nature of the job market and the timetable for completion, the low registrations in 2010 had a bearing on the total number completions as well.

The Division works with educators and employers to develop youth apprenticeship programs. The Division also conducts compliance reviews for the Oregon State Apprenticeship and Training Council, to ensure that programs are acting in accordance with their standards and that all apprentices are being treated equally. BOLI completed compliance reviews on 30 of the 146 active apprenticeship programs during the 2014 fiscal year. During that period, minorities represented 16% of apprenticeship program participants, and females represented 6.5%. In both categories, diversity of apprentices is increasing.

Legislatively Adopted Budget

The $2.7 million of General Fund in the legislatively adopted budget is a 4.9% increase from the prior biennium level, and is 0.4% below the current service level. The total funds budget is 1.7% above the current service level.

The budget for the Division made permanent a support staff position initially approved in February 2014 for the BOLI-ODOT Heavy Highway supported services program, at a cost of $102,780 Other Funds and 1 position (1.00 FTE). This position is supported by revenue transferred to BOLI from the Oregon Department of Transportation. The budget also includes standard adjustments that were approved in most agency budgets for state government service charge reductions, totaling $11,825 General Fund.

MEDICAL BOARD

Analyst: Stayner

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	8,989,112	10,729,843	11,191,833	11,269,353
Total Funds	**$8,989,112**	**$10,729,843**	**$11,191,833**	**$11,269,353**
Positions	40	39	38	39
FTE	38.79	38.33	37.79	38.79

Overview

The Oregon Medical Board (OMB) is a twelve-member board with members appointed by the Governor and confirmed by the Senate. Membership is composed of seven medical doctors, two doctors of osteopathy, one podiatrist, and two public members. 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.

Revenue Sources and Relationships

OMB is a single-program agency that receives 98% of its revenue from licensure and registration fees. Other miscellaneous revenue includes the sale of lists and directories, and fines or forfeitures imposed as disciplinary measures. Included with the licensure and registration fee revenue are amounts statutorily required to be collected by OMB that are subsequently passed-through to other entities. These are $10 for each in-state physician licensed by the Board (with the revenue transferred to the Oregon Health and Sciences University to maintain a circulating library for the use of medical professionals and students), $25 per year for each person licensed by the Board who is authorized to prescribe or dispense controlled substances (with the revenue transferred to the Oregon Health Authority to support a prescription monitoring program), and a fee imposed on each license or renewal issued by the Board that supports the actual cost of obtaining and reporting information on demographics and employment of certain health care licensees by the Oregon Health Policy Board. Revenue in 2015-17 is projected to be $11.2 million net of pass-through revenue transfers which is a 7.3% increase from the revenue assumed in the 2013-15 legislatively approved budget.

Budget Environment

OMB is charged with regulating an industry that is highly visible and integrated with, and critical to, the welfare of the public in Oregon. Continual changes in the medical profession, technology, and society generally require the Board to respond dynamically to ensure the safety of the public while providing for the integration of new and innovative delivery of health care methodologies and technologies. Within the medical profession, these adaptations, including the expansion of both individual and organizational scope of practice, result in more complex and time-consuming investigation of complaints as well as additional Board and staff time to comprehensively understand the industry and technology-driven changes. Changing demographics, including an aging and racially diversifying population, requires the Board to examine existing, and adopt new, rules and procedures to ensure the profession is addressing and adapting to these changes.

Legislatively Adopted Budget

The 2015-17 budget for the Oregon Medical Board totals $11,269,353 Other Funds supporting 38.79 FTE in 39 positions. The budget is a 5% increase from the 2013-15 legislatively approved budget. The adopted budget is projected to leave an ending fund balance of $5.1 million Other Funds, roughly equal to eleven months of operating expenses. The budget provides additional expenditure limitation for an increase in leased office space, the establishment of an investigative staff position, and the reclassification of 6 positions. The Board's lease expired at the end of June 2014 and the Board negotiated a new lease agreement through the Department of Administrative Services' Enterprise Asset Management Division that included an additional 1,600 square feet of space and $237,330 of leasehold improvements completed by the landlord at a lower annual per square foot price for the total space of $22.20, a reduction of $1.34 per square foot. The additional space resulted in an increased biennial cost of $71,040, but the agency realized a savings of $25,109 on its original 9,369 square foot space for a net additional biennial cost of $45,932. The investigative staff position will serve as an administrative assistant to the Medical Director, Chief Investigator, and Assistant Chief Investigator with the objective of improving investigative information provided to the Board to take disciplinary or other appropriate action. OMB reclassified 6 positions from Office Specialist 2 to Administrative Specialist 1. The agency, in coordination with the Department of Administrative Services has determined that this classification better reflects the level of decision-making responsibility required of these employees.

BOARD OF MEDICAL IMAGING

Analyst: Terpening

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	649,139	856,351	883,136	926,705
Total Funds	**$649,139**	**$856,351**	**$883,136**	**$926,705**
Positions	4	3	3	3
FTE	3.25	3.00	3.00	3.00

Overview
The mission of the Board of Medical Imaging 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 Board licenses nuclear medicine technologists, sonographers, MRI technologists, 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 5,600 permanent medical imaging and limited x-ray machine operator licensees and 170 active temporary licensees. Licensing fees are prorated based on birth month and are on a biennial renewal basis. The Board's projected ending cash balance of $201,013 equals approximately 5.2 months of operating costs.

Budget Environment
The agency has identified four main activities: licensing; regulatory compliance; education; and governance and administration. As a result of the three additional licensure types, including sonography, which was previously unregulated or licensed in any state, and the statutory authority to conduct background checks, the Board anticipates continued increase in the number of complaints received and subsequent investigations. The Board has implemented fingerprint background checks on all new applicants for any license or permit offered by the Board. This is in addition to the Law Enforcement Data Systems (LEDS) background checks that are also done at time of renewal.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $926,705 represents an 8.2% increase from the 2013-15 legislatively approved budget level. The legislatively adopted budget includes the pass-through limitation necessary for the Board to conduct fingerprint criminal background checks with the Department of State Police. The budget also includes a reduction to the expenditure limitation to reflect the Board's prorated cost savings by sharing an Accountant 2 position, established under the Mortuary and Cemetery Board, for the purpose of providing budget and accounting services, in lieu of using the Department of Administrative Services Shared Client Services. The Board's estimated share of the position is anticipated to be $31,423, or 20%.

MORTUARY AND CEMETERY BOARD

Analyst: Terpening

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	1,170,556	1,446,342	1,540,845	2,062,770
Total Funds	**$1,170,556**	**$1,446,342**	**$1,540,845**	**$2,062,770**
Positions	6	6	6	7
FTE	5.71	5.71	5.71	7.00

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 is composed of two funeral service practitioners, one embalmer, three cemetery representatives, one crematory operator, and four public members.

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. Revenue in 2015-17 is expected to increase, as licenses are projected to increase slightly from 2013-15 levels, and the projected ending cash balance of $900,849 equals approximately 13 months of operating costs.

Budget Environment

The agency regulates individuals and facilities engaged in the care, preparation, processing, transportation, and final disposition of human remains through three main activities: licensing individual death care professionals and the facilities in which they work; performing inspections, complaint investigations, and background investigations on applicants and principals of licensed facilities; and administering the funeral service practitioner and embalmer exams twice a year. The Board has over 2,500 active licensees on a two-year renewal cycle.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $2,062,770 represents a 42.6% increase from the 2013-15 legislatively approved budget level. The legislatively adopted budget includes an increase in FTE of an existing vacant Office Specialist permanent position from 0.71 FTE to 1.00 FTE and the reclassification of the position to an Administrative Specialist. This position will conduct the administrative functions required for the operation of the Indigent Disposition Fund which was transferred from the Oregon Health Authority to the Board in HB 3243 (2015). The Indigent Disposition Fund includes monies from the filing fee paid by funeral practitioners for each initial filing of a death record in Oregon. The filing fee is $20, $14 of which funds the Board and $6 goes to the indigent disposition fund which reimburses funeral practitioners for the disposition of indigent remains. The legislatively adopted budget includes $378,000 of additional Other Funds expenditure limitation in order to pass-through the monies collected and distributed through the fund. The budget also includes the establishment of a permanent full-time Accountant position (1.00 FTE) to provide the budget and accounting functions for all of the Health-Related Licensing Boards (HRLB). Previously, HRLB utilized the Department of Administrative Services (DAS) Shared Client Services for these functions. While the position authority and direct supervision will be retained with the Board, the cost of the position will be distributed among the other HRLB, in proportion to their previous usage rate when utilizing DAS Shared Client Services, and will be paid through a Professional Services contract with the Board.

BOARD OF NATUROPATHIC EXAMINERS

Analyst: Terpening

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	554,932	653,339	712,433	706,025
Total Funds	**$554,932**	**$653,339**	**$712,433**	**$706,025**
Positions	3	3	3	3
FTE	2.50	2.50	2.50	2.50

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 seven-member board is appointed by the Governor and is composed of five naturopaths and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from application, license, and certification fees and currently has over 1,000 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's 2015-17 projected ending cash balance of $216,503 equals approximately 7.3 months of operating costs.

Budget Environment

The Board anticipates continued growth in the number of applications and licensees. Revenue in 2015-17 is anticipated to increase due to the growing popularity of naturopathic medicine for primary health care, insurance companies providing benefits for naturopathic care, and increased enrollment of students at naturopathic accredited colleges.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $706,025 represents an 8.1% increase from the 2013-15 legislatively approved budget level. The budget includes a reduction to the expenditure limitation to reflect the Board's prorated cost savings by sharing an Accountant 2 position, established under the Mortuary and Cemetery Board, for the purpose of providing budget and accounting services, in lieu of using the Department of Administrative Services Shared Client Services. The Board's estimated share of the position is anticipated to be $18,244, or 12%.

BOARD OF NURSING

Analyst: Stayner

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	12,452,336	14,493,701	14,803,516	15,265,753
Total Funds	**$12,452,336**	**$14,493,701**	**$14,803,516**	**$15,265,753**
Positions	48	48	48	48
FTE	47.38	47.80	47.80	47.80

Overview

The Oregon State Board of Nursing (OSBN) licenses and regulates the practice of 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 agency is directed by a nine-member board appointed by the Governor and composed of four Registered Nurses, two Licensed Practical Nurses, one Nurse Practitioner, and two public members. 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.

OSBN is a single-program agency comprised of four operational divisions. 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 Program.

OSBN collects statutorily required fees that are subsequently passed-through to other entities. These include: $25 per year for each person licensed by the board who is authorized to prescribe or dispense controlled substances; the revenue transferred to the Oregon Health Authority to support a prescription monitoring program, and a fee imposed on each license or renewal issued by the board that supports the actual cost of obtaining and reporting information on demographics and employment of certain health care licensees by the Oregon Health Policy Board. With the passage of SB 72 (2015) an additional pass-through fee of $9 will be collected by the board for each new license or renewal, the proceeds of which are transferred to the Oregon Center for Nursing.

Budget Environment

The agency's budget is influenced by the number of licensees, the number and complexity of complaint investigations, background checks, and the number of participants in the Health Professionals' Service Program (HPSP). OSBN licenses roughly 57,000 nurses, with 3800 of these being advanced practice nurses, and about 19,000 nursing assistants. The number of active licenses issued by the board has grown steadily by just over 2%

annually over the last 25 years. Law Enforcement Data System checks are performed on all initial and renewal applications totaling about 38,000 per year. In addition, fingerprint checks are done on all new applications.

In 2014, OSBN dealt with 1,943 complaints, 753 of which were conduct related. As the growth in the total number of licensees continues and the complexities of the medical profession increase, it is anticipated that the number and complexity of complaint investigations will increase accordingly. This issue is further exacerbated by the aging out of a number of current nurse professionals; those positions being filled by younger, inexperienced nurses that tend to generate larger number of complaints.

The Health Professionals' Service Program currently enrolls 102 of the OSBN licensees. 92 of these are due to referral by the board due to a disciplinary action, the remaining 10 are self-referred. The total estimated biennial cost of the HPSP for all participating licensing boards is $2,529,384. The current OSBN biennial budget for the HPSP is $1,643,453 or roughly 65% of the cost of the entire program and about 10.8% of the OSBN budget.

Legislatively Adopted Budget

The 2015-17 budget for the Oregon Board of Nursing totals $15,265,753 Other Funds supporting 47.80 FTE in 48 positions. The budget is a 5.33% increase from the 2013-15 legislatively approved budget and is projected to leave an ending fund balance of $4.2 million Other Funds, an amount roughly equal to seven months of operating expenses. The board's budget includes $74,095 Other Funds for IT equipment upgrades and $500,000 Other Funds for a pass-through fee collected by the board and distributed to a non-profit advancing the profession of nursing and conducting research on the nursing workforce as required by the passage of SB 72. The budget includes revenue from fees established by administrative rule and ratified by the legislature with passage of SB 5545 for prescriptive privileges for Certified Registered Nurse Anesthetists and for an increase in late license renewal fees.

OCCUPATIONAL THERAPY LICENSING BOARD

Analyst: Terpening

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	289,761	380,132	396,582	454,683
Total Funds	**$289,761**	**$380,132**	**$396,582**	**$454,683**
Positions	1	2	2	2
FTE	1.25	1.25	1.25	1.50

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 two licensed occupational therapists, a licensed occupational therapy assistant, 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 2,200 licensees renewed on a biennial basis. Over the past two biennia, 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 and, as a result, reduced licensing fees by $10 per year for Occupational Therapists and Occupational Therapist Assistants prior to the 2011 legislative session.

The Board's projected ending cash balance for the 2015-17 biennium is anticipated to be $174,413, equaling approximately 9.2 months of operating costs. The Board needs to maintain around nine months of operating reserves due to its licensing renewal cycle, which occurs once a biennium. As a result, the Board may need to evaluate the need for a fee increase in the 2017 legislative session.

Budget Environment
The agency has identified four main activities: licensing; continuing education monitoring; complaint investigation; and administration. The agency anticipates continued growth in the total number of licensees, but a slight decrease in licensing revenue due to the renewal fee reductions. Complaint investigation workload appears relatively stable, averaging approximately eight complaints per biennium.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $454,683 represents a 19.6% increase from the 2013-15 legislatively approved budget level. The legislatively adopted budget includes an increase to the FTE of an existing Office Specialist 2 position from 0.25 FTE to 0.50 FTE and the reclassification of the position to an Administrative Specialist 2. This reclassification will allow the position to conduct more complex duties, including rule-making and assisting with complaint investigation. The increase in FTE will also allow the Board to keep up with its increasing administrative workload.

The budget also includes a reduction to the expenditure limitation to reflect the Board's prorated cost savings by sharing an Accountant 2 position, established under the Mortuary and Cemetery Board, for the purpose of providing budget and accounting services, in lieu of using the Department of Administrative Services Shared Client Services. The Board's estimated share of the position is anticipated to be $10,982, or 7%.

BOARD OF PHARMACY

Analyst: To

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	4,684,935	5,957,609	6,164,443	6,856,245
Total Funds	**$4,684,935**	**$5,957,609**	**$6,164,443**	**$6,856,245**
Positions	18	19	19	20
FTE	17.75	19.00	19.00	20.00

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 from pharmacists, pharmacy technicians, pharmacy interns, as well as the licensing of various drug outlets. The remaining revenue sources include fines, interest earnings, and other revenue. The 2015-17 legislatively adopted budget includes an Other Funds revenue reduction of $806,548 reflecting a transition to biennial licensure at reduced rates. This biennial licensure will allow the Board to reduce its large ending balance while achieving workload efficiencies by adjusting renewing activities to alternate years. At the end of 2015-17, the Board is expected to have an ending balance of $2.7 million Other Funds, which represents approximately 9.6 months of operating expense.

Budget Environment

Federal regulations as well as rapid changes in both technology and the health care industry continue to force change for the Board. The Board is required to interface and interact with many state and federal regulatory agencies, including the United States Food and Drug Administration (USDA), the United States Drug Enforcement Administration (USDEA), and state health regulatory boards whose licensees have authority to prescribe, dispense, administer, or possess drugs and devices. As the state's population increases in age and number, the use of pharmaceutical products continues to increase. In addition, the pharmaceutical profession has assumed increased responsibilities in areas of direct patient care (e.g., medication therapy management under Medicare, immunizations, and clinical laboratory health screen testing). As the pharmaceutical industry continues to expand, the agency's workload continues to grow, driven by both an increase in numbers of licensees, and an increase in the complexity of consumer requests for information and complaints, resulting in a greater number of investigations.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $6,856,245 represents a 15.1% increase from the 2013-15 legislatively approved budget and a 11.2% increase from the 2015-17 current service level budget. The budget includes: $363,604 to fund a pay line exception approved by the Department of Administrative Services, and a new full-time Program Analyst 1 position in the Licensing Division to provide increased oversight and training to the licensing team, as recommended in a 2012 Operational Review; and $316,756 ($275,000 of which is a one-time cost) for the replacement of the Board's System Automation (SA) License 2000 software.

BOARD OF PSYCHOLOGIST EXAMINERS

Analyst: To

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	939,957	1,038,215	1,135,985	1,284,790
Total Funds	**$939,957**	**$1,038,215**	**$1,135,985**	**$1,284,790**
Positions	4	4	4	6
FTE	3.50	3.50	3.50	4.50

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 is composed of six psychologists and three public members.

Revenue Sources and Relationships

The Board is funded by revenue generated from licensing, application, and examination fees. Other miscellaneous sources include civil penalties and publication sales. The budget includes a one-time 66% reduction in renewal fees for all licensees thereby decreasing projected revenues by $541,613 to address a cash balance surplus.

The Board is expected to have an ending balance of $129,086 Other Funds, which represents about 2.4 months of operating expense.

Budget Environment

The Board has identified three main activities: 1) consumer protection; 2) licensing, examination, and continuing education; and 3) board support and administration. The Board expects continued growth in licensees, and therefore a corresponding increase in licensing and enforcement workload, as well as increasing legal costs due to appeals of disciplinary actions and potential lawsuits. In addition, the Board of Licensed Professional Counselors and Therapists and the Board of Psychologist Examiners are currently operating under an intergovernmental agreement to share resources, mainly an Executive Director and an Operations and Policy Analyst position. The two boards are expected to work towards a proposal for merging the staff of the two boards by the 2017-19 biennium.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $1,284,790 Other Funds is a $246,575 Other Funds increase (23.7%) from the 2013-15 legislatively approved budget. The budget is a $148,805 Other Funds increase (13.1%) from the 2015-17 current service level. The legislatively adopted budget includes funding for 1 half-time Investigator 2 position to allow the Board to pursue and prevent unlicensed and untrained individuals from providing mental health services to unsuspecting patients, and 1 half-time Office Specialist 2 position to allow the agency to address the associated increase in customer service and administration workload. These positions are established as limited duration positions as the Board works with the Board of Licensed Professional Counselors and Therapists towards a proposal for merging the staff of the boards by the 2017-19 biennium.

PUBLIC UTILITY COMMISSION

Analyst: Neburka

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	35,001,412	40,901,178	44,333,835	44,128,339
Other Funds (NL)	75,277,984	82,271,765	66,279,866	66,279,866
Federal Funds	3,118,132	2,783,200	698,049	698,049
Total Funds	**$113,397,528**	**$125,956,143**	**$111,311,750**	**$111,106,254**
Positions	131	130	128	128
FTE	127.51	127.25	125.47	125.97

Overview

The Public Utility Commission's mission is to ensure consumers are provided with access to safe and reliable utility services at equitable and reasonable rates through regulatory activities and the promotion of competitive markets. The Commission regulates customer rates and services of investor-owned electric, natural gas, and telephone utilities, as well as certain water companies, allowing regulated companies an opportunity to earn an adequate return on their investment.

The three-member Public Utility Commission (PUC) is appointed by the Governor and subject to Senate confirmation. The Commission does not regulate people's utility districts, cooperatives, or municipally-owned utilities except in matters of safety. Additionally, the Commission has no authority to regulate the rates or services of cellular and cable TV providers. The Commission is governed by federal and state law, the interpretation of which is informed by an extensive history of judicial decisions.

PUC provides administrative and budget support to the Oregon Board of Maritime Pilots, an independent occupational licensing and regulatory agency for state maritime pilots, whose mission is to protect public health, safety, and welfare by ensuring only the best-qualified persons are licensed to pilot vessels in Oregon's four pilot-required areas, including Yaquina Bay, Coos Bay, the Columbia River, and the Willamette River.

There are approximately 3.19 million customers of utilities regulated by the Commission. The companies that fall under some form of Commission price, service quality, or safety regulation include:

- Three investor-owned electric utilities: Portland General Electric, PacifiCorp, and Idaho Power Company (serving over 1.4 million customers).
- Three natural gas utilities: Northwest Natural, Avista Utilities, and Cascade Natural Gas (serving over 770,000 customers).
- 31 incumbent telecommunications utilities, including: Centurylink, Frontier Communications, CenturyTel of Oregon and Eastern Oregon, and United Telephone Company (serving over 980,000 customers).
- 80 water utilities.

The Commission's responsibilities include:

- Setting utility rates charged to Oregon homes and businesses.
- Resolving customer complaints about utility service.
- Ensuring Oregon's electricity and natural gas systems operate safely and reliably.
- Ensuring Oregon's private energy utilities meet their customers' needs at the lowest possible cost, and electric utilities meet the state's Renewable Portfolio Standards (RPS) and address the need to reduce greenhouse gas emissions.
- Managing a program to provide affordable phone service in high-cost areas of the state.
- Administering Oregon's telephone assistance programs that serve low-income and disabled citizens.

- Advocating for Oregon's customer interests in regional and federal forums on energy and telecommunications.
- Setting and enforcing rules for fair, effective competition in Oregon's electricity, natural gas, and telecommunications industries.

Revenue Sources and Relationships
Other Funds are derived primarily from fees assessed on regulated utilities. SB 329 increased this fee from 0.25% to 0.30% of a utility's gross operating revenues. Subject utilities and their fees and revenues include:
- Natural gas, water, and wastewater utilities are assessed up to 0.30% on gross operating revenues. This rate is expected to generate $6 million from natural gas and $94,000 from water /wastewater utilities in the 2015-17 biennium.
- Telecommunications providers are assessed up to 0.30% on gross intrastate retail sales excluding wholesale revenues, which is expected to generate approximately $2.9 million in the 2015-17 biennium. 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 (8.5%) which is estimated to generate $66.3 million during the 2015-17 biennium. Revenue from this assessment is declining along with the decrease in "landline" telephones.
  - RSPF is supported by a surcharge not to exceed $0.35 per month to retail subscribers who have access to relay services. The current surcharge rate is nine cents per line per month and is expected to generate $10.4 million in the 2015-17 biennium. The Commission evaluates the rate annually to determine whether it needs to be raised or lowered to ensure adequate funding.
- Electric utilities are assessed a gross revenue fee of no more than 0.30%, which is expected to generate approximately $22.4 million in the 2015-17 biennium. 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., nongovernmental entity (Energy Trust of Oregon), school districts, and the Housing and Community Services Department).

Federal Funds received from the U.S. Department of Transportation's Gas Pipeline Safety Program support enforcement of federal pipeline safety regulations. The state is required to provide matching funds at the current rate of 45%.

PUC receives no General Fund support.

Budget Environment
The Commission assesses annual fees on regulated electric, natural gas, water utilities, and telecommunications providers that fund the majority of the Commission's operating expenditures. As customers continue to transition from landline to wireless services, the telecommunications industry's projected gross revenues will decrease between 2015 and 2017 resulting in a revenue loss of 5.75% per year. Commission revenue from the energy industry will increase by an estimated 3.92% per year. Given that the Commission receives more revenue from the energy industry than it does from the telecommunication industry, the growth in electricity industry revenue will continue to offset the loss of telecommunications industry revenue.

Additionally, the telecommunications industry is going through a period of rapid change marked by technological advances, consolidation, and new business models. While the Commission partnered with the Department of Justice (DOJ) Consumer Fraud Division in 2005 to handle wireless consumer complaints and continues to advocate on behalf of consumers with unregulated services, the widespread practice of bundling regulated (landlines) and unregulated services (wireless, cable TV, and internet) has complicated the regulatory landscape and increased the number of non-jurisdictional complaints and consumer inquiries.

A consumer inquiry results in an investigation, but can involve an issue not regulated by the Commission. For example, the Consumer Division undertakes numerous inquiries from consumers regarding problems with their VoIP telephone service, cable, and satellite TV and internet service—services over which it has no regulatory authority. While overall Consumer Division activity and the number of complaints is down across all utilities from a peak in 2005, the last several years have seen substantial growth in the number of inquiries related to cellular and telecommunication services. In 2013, cellular and communications inquiries accounted for nearly 30% of all contacts for the Consumer Division. These trends not only increase costs in the agency, but also raise questions regarding the Commission's authority and continuing relevance in the absence of regulatory reform.

Utility Regulation Program

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	13,921,249	16,515,748	18,468,724	18,371,843
Other Funds (NL)	75,277,894	79,271,765	66,279,866	66,279,866
Federal Funds	3,118,132	2,783,200	698,049	698,049
Total Funds	**$92,317,365**	**$98,570,713**	**$85,446,639**	**$85,349,758**
Positions	78	75	77	77
FTE	76.25	74.25	76.21	76.21

Program Description

The Utility Regulation Program provides research, analysis, and technical support to assist the Commission in carrying out its mission; implements state policy regarding utility industry restructuring and competition; and oversees the contract with the Energy Trust of Oregon which administers a portion of the public purpose charge. The program includes analysis and recommendations regarding requested utility rate changes. Emergency preparedness and utility safety and security protocols are developed and monitored to ensure safety and reliability. The program also includes the Oregon Universal Service Fund (OUSF), which subsidizes the rates charged by any eligible carrier providing basic telephone service in high cost areas; payments to providers are reflected as Nonlimited Other Funds. The Consumer Services Section responds to questions from consumers about the utility industry and assists in resolving consumer complaints.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget provides total funds expenditures of $85.3 million for the Utility Regulation Program. Budgeted expenditures have decreased by 13.4% from the 2013-15 legislatively approved budget due to the elimination of $1.6 million Federal Funds special payments associated with a federal broadband grant under the American Recovery and Reinvestment Act (ARRA) that ended during the 2013-15 biennium; and with lower projected revenues in the Oregon Universal Service Fund.

Residential Service Protection Fund

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	10,497,290	10,899,479	11,426,934	11,417,014
Total Funds	**$10,497,290**	**$10,899,479**	**$11,426,934**	**$11,417,014**
Positions	9	8	8	8
FTE	8.50	7.50	8.00	8.00

Program Description

The Residential Service Protection Fund (RSPF) provides accessible and affordable telecommunications services for disabled persons, including the hearing- and speech-impaired, and low-income individuals through the following programs.

- The Oregon Telephone Assistance Program (OTAP) subsidizes local telephone service rates to about 92,000 eligible low-income Oregonians by providing a $12.75 monthly reduction for basic telephone service ($3.50 paid by Oregon, the remainder provided by the federal government). All recipients of the federal Supplemental Nutritional Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), Medicaid, National School Lunch Program, Free Lunch Program Only (NSLP), Low-Income Home Energy Assistance Program (LIHEAP), and Federal Public Housing Assistance (Section 8) program are eligible for OTAP.
- The Telecommunication Devices Access Program provides special communication devices to deaf, hearing and/or speech impaired people, or those with other disabilities that prevent them from using telephones.
- Oregon Telecommunications Relay Service provides a 24-hour-a-day relay service as required by the Americans with Disabilities Act to link hearing-, speech-, and mobility-impaired individuals with non-impaired individuals.
- Emergency Medical Certificates (EMCs) are granted by physicians and available to utility customers when a loss of utility service could pose a danger to the life of the customer. While an EMC does not guarantee service will not be disconnected, it requires the utility company to enter into extended payment arrangements with the customer to avoid disconnection.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $11.4 million is 4.8% more than the 2013-15 legislatively approved budget, and allows the Division to operate at the current level of service.

Policy and Administration Program

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	10,239,655	12,682,971	13,784,462	13,569,332
Total Funds	**$10,239,655**	**$12,682,971**	**$13,784,462**	**$13,569,332**
Positions	43	45	41	41
FTE	41.76	44.00	39.76	39.76

Program Description

The Policy and Administration Program includes:

- Commissioners and Commission Services, which includes the Commission Chair, who serves as the agency's administrative head, two Commissioners, and their direct staff support.
- Administrative Hearings Division, which conducts rulemaking and contested case hearings involving major industry changes, rate proposals, and consumer complaints.
- Central Services Division, which provides budget, accounting, information technology, human resources, and support services to the agency.
- Public Affairs, which provides and coordinates all media and communications functions.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $13.6 million is 7% more than the 2013-15 legislatively approved budget, and allows the Division to operate at the current level of service.

Board of Maritime Pilots

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	343,218	802,980	653,715	770,150
Total Funds	**$343,218**	**$802,980**	**$653,715**	**$770,150**
Positions	1	2	2	2
FTE	1.00	1.50	1.50	2.00

Program Description

The Oregon Board of Maritime Pilots (OBMP) is an independent occupational licensing and regulatory agency for state maritime pilots, whose mission is to protect public health, safety, and welfare by ensuring only the best-qualified persons are licensed to pilot vessels in Oregon's four pilot-required areas: Yaquina Bay, Coos Bay, the Columbia River, and the Willamette River. A maritime (or marine) pilot is a local navigational and ship-handling expert who directs the course and speed of vessels based upon knowledge of wind, weather, tides, currents, and local geography.

The Board qualifies pilot applicants and selects pilot trainees and apprentices. It also sets licensing and training standards for newly appointed pilots. Anytime a maritime incident, involving a pilot, occurs within Oregon's four pilot-required areas, it is investigated by the Board to determine its cause and the consequences. The Board also sets pilot rates, which by law can be set no less than every two years, and is one of only two authorities (PUC being the other) in the state that administers rate setting. Rate hearings are conducted by an Administrative Law Judge from the Commission.

While the Board is a part of PUC for budget and administrative purposes, it retains authority for all policy decisions regarding the regulation of pilots. The nine-member Board is appointed by the Governor and is composed of three pilot-members, three industry-members (including one member from the ports) and three public members. Only a public member may serve as chair. The Board is supported by a staff of two.

Revenue Sources and Relationships

The Board is a self-supporting entity funded by two sources: pilotage fees and (pilot) license fees. Revenues for 2015-17 are estimated at $329,600 from a pilotage fee of up to $100 (currently charged at $50 per transit) to be assessed on either outgoing or incoming vessels requiring pilotage service at the four pilot-required areas. This fee will be applied to an estimated 3,010 vessels per year. Revenue resulting from annual license fees paid by each of the licensed pilots is anticipated to be $354,950 for the biennium. The license fee is tied to the consumer price index by statute, and rises by the cumulative cost-of-living increase for the previous two years at the start of each biennium. The annual license fee will be $2,995 per year for 2014 and 2015.

Budget Environment

The Board of Maritime Pilots was transferred from the Department of Transportation to PUC by the 2007 Legislative Assembly in order to better accommodate its rate setting responsibilities. Policy decisions regarding the regulation of pilots are decided by the nine member board. PUC has administrative oversight over the Board and assists in areas such as budgeting, human resources, and accounting.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Board of Maritime Pilots is $770,150, 4.1% less than the 2013-15 legislatively approved budget. This decrease is the net result of reducing $200,000 in Other Fund expenditure limitation for a "Sleep Fatigue and Alertness Study" that was conducted during the 2013-15 biennium, and increasing expenditure limitation to raise the OBMP's Executive Director from 0.50 FTE to 1.00 FTE. The Executive Director position was first authorized by the Legislature in 2013 (SB 851) as a half-time position. It was created so that the Board could more effectively respond to the demands of multiple high-profile pressures facing Oregon's vessel pilotage system, such as the need to conduct federally mandated studies, in-depth reviews of licensee medical files, and investigations into maritime incidents. It was apparent that the Board also needed to conduct more up-to-date and intensive licensee recruitment and training efforts. An Executive Director working at full-time (1.00 FTE) will enable the Board to institutionalize plans, processes, and programs that ensure continuing compliance with new standards, document conditions that exist in the field, and assess current and emerging risks to Oregon Pilotage grounds.

REAL ESTATE AGENCY

Analyst: Deister

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	6,198,690	7,277,657	7,628,558	6,897,314
Total Funds	**$6,198,690**	**$7,277,657**	**$7,628,558**	**$6,897,314**
Positions	31	30	30	29
FTE	30.25	29.75	29.75	29.00

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; the sale of publications; and other services. The agency anticipates relative stability in the number of licensees for the biennium. All civil penalties assessed by the agency are transferred to the General Fund in accordance with statute. Fees have not been raised since the mid-1990s, and while the fees for the 2015-17 biennium will remain the same as in 2013-15, the agency and its stakeholders plan to examine what is charged, who pays, and what services are delivered, with the goal of proposing an updated and more sustainable fee schedule to the 2017 Legislative Assembly. The number of licensees is expected to grow, but at a very gradual rate. The agency's 2015-17 revenue projection is conservative at $5,991,770 Other Funds.

The agency has been spending more than actual revenue received during the past two biennia, decreasing the ending balance and driving the need for a fee schedule update. The agency is expected to have an ending balance equivalent to 1.5 months of operating expenditures.

Budget Environment

The number of licensees has been increasing since 2012, but the increase has been gradual. Interest rates are beginning to rise, albeit also gradually, but there is pent-up demand for home sales and construction as the economy recovers and those who were "under water" regarding their value to mortgage ratio are lifted out of negative equity.

The Real Estate Agency encompasses several divisions, each of which provide specific services to the public and/or licensees. The divisions include the following:

- The Commissioner's Office which provides policy direction to the various divisions of the agency.
- The Real Estate Board, which advises the Governor and commissioner on industry matters, reviews rulemaking proposals, and oversees testing and examinations of real estate applicants.
- The Education Division, which collects information about the educational needs of licensees, with the goal of helping to develop continuing education topics and licensing examinations that prepare licensees and protect the public, and certification of pre-license courses and instructors.

- Business and Licensing Services, which handles agency administrative needs for personnel, budget, and finance, as well as assistance to licensees in maintaining their license information electronically; license applications, renewals, and background checks.
- The Land Development Division, which administers and reviews subdivision, condominium, timeshare, and campground registrations, telemarketing organization licensing, on-site inspections, and real-estate telemarketing organization licensing.
- The Regulation Division, which processes and investigates complaints and conducts audits of trust and other industry financial accounts.

Not all divisions of the agency charge fees sufficient to recover the costs of review and services provided to licensees, and some may require an inordinate amount of time or expertise on behalf of a specific sub-population of customers. With the assistance of licensee stakeholders and workgroups, the agency plans a comprehensive review of services and fees during the course of the 2015-17 biennium to determine changes to the services for which fees are charged and the appropriate amounts of those fees; proposed fee changes are anticipated to be presented as part of the agency's 2017-19 budget request.

<u>Legislatively Adopted Budget</u>
The 2015-17 legislatively adopted budget of $6,897,314 represents a 5.2% decrease from the 2013-15 legislatively approved budget, and a 9.6% decrease from the 2013-15 current service level. The legislatively adopted budget reclassified an administrative position to reflect increased technical assistance being provided to licensees, eliminated a vacant Information Systems Specialist 3 position (0.75 FTE), and reduced services and supplies expenditures in order to maintain an adequate ending balance for agency operations and contingencies. The legislatively adopted budget includes standard adjustments resulting from general government assessments and a change to Attorney General rates.

BOARD OF LICENSED SOCIAL WORKERS

Analyst: Walker

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	1,244,783	1,395,325	1,484,362	1,471,646
Total Funds	**$1,244,783**	**$1,395,325**	**$1,484,362**	**$1,471,646**
Positions	6	6	5	6
FTE	5.50	6.00	6.00	6.00

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 clinical social workers. The Board oversees a voluntary licensing program for individuals who want to use the title "licensed clinical social worker." 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 2015-17, $1.5 million, is projected to be 10.5% greater than 2013-15 due to a fee increase on licenses related to the expansion of the Board's licensing authority. The Legislative Assembly acknowledged the Board will increase fees administratively, by 10%, during the 2015 fiscal year.

The 2015-17 projected ending balance of $176,136 equals approximately three months of operating costs.

Budget Environment

The agency has identified two main activities: public protection (30%) and licensing (70%). Passage of SB 177 in 2009 added two new categories of licensing: Registered Bachelors of Social Work and Licensed Masters of Social Work. This increased both the licensing and the compliance workload of the Board. The bill also added criminal background check requirements for licensees. The Board has continued to experience increased expenses due to a boost in investigations as a result of an expansion of the licensee base.

Legislatively Adopted Budget

The legislatively adopted budget is an increase of $76,321 Other Funds (5.5%) over the 2013-15 legislatively approved budget.

BOARD OF EXAMINERS FOR SPEECH-LANGUAGE PATHOLOGY AND AUDIOLOGY

Analyst: Terpening

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	372,427	544,232	571,124	661,269
Total Funds	**$372,427**	**$544,232**	**$571,124**	**$661,269**
Positions	2	2	2	3
FTE	1.40	2.00	2.00	2.50

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 approximately 2,200 active licensees renewed on a biennial basis. Other miscellaneous sources include late fees, interest income, and the sale of mailing lists and copies of public records. The last fee increase for the Board was approved by the 2013 Legislative Assembly. The Board's projected ending cash balance of $189,236 equals approximately 6.8 months of operating costs.

Budget Environment

The agency has identified three main activities: licensing; investigation; and administration. The budget is approximately 70% personal services. The Board has seen a significant increase in the number of complaints, investigations, and disciplinary cases in the past two biennia due in part to a 12.5% increase in the number of active licenses over that time period.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $661,269 represents a 21.5% increase from the 2013-15 legislatively approved budget level. The legislatively adopted budget includes the establishment of a limited duration part-time Investigator 2 position (0.50 FTE) to address the increased investigative caseload. The budget does not include requested increases for potential Attorney General costs anticipated as a result of having the investigator position. The Board may return to the Legislature in 2016 for additional expenditure limitation if more Attorney General costs are realized.

The budget also includes a reduction to the expenditure limitation to reflect the Board's prorated cost savings by sharing an Accountant 2 position, established under the Mortuary and Cemetery Board, for the purpose of providing budget and accounting services, in lieu of using the Department of Administrative Services Shared Client Services. The Board's estimated share of the position is anticipated to be $12,565, or 8%.

BOARD OF TAX PRACTITIONERS

Analyst: Dauenhauer

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	1,045,923	1,183,845	1,242,678	1,235,571
Total Funds	**$1,045,923**	**$1,183,845**	**$1,242,678**	**$1,235,571**
Positions	4	4	4	4
FTE	4.00	4.00	4.00	4.00

Overview
The Board of Tax Practitioners protects consumers by ensuring Oregon tax practitioners are competent and ethical in their professional activities. The Board licenses and oversees tax preparers, tax consultants, and tax businesses. The Board develops initial competency examinations and monitors required continuing education programs for tax preparers, as well as investigates complaints and takes disciplinary action when appropriate. The seven-member board is appointed by the Governor and is composed of six licensed tax consultants and one public member.

Revenue Sources and Relationships
The Board of Tax Practitioner's revenues are principally derived from annual licensing and business registration fees. Fees are also charged for the administration of licensing examinations. A small amount of revenue is derived from fines. The budget includes a revenue reduction in the amount of $95,480 Other Funds. This reduction reflects the $10 temporary licensing fee decrease that was implemented by the Board in August 2013. The projected ending balance of $275,259 will leave the Board with revenues equivalent to 5.4 months of operating expense reserves.

Budget Environment
The demand for tax practitioner testing, licensure, and complaint investigations are expected to remain stagnant during the 2015-17 biennium. The agency has maintained the same staffing level of 4 total positions since 2008 and no additional budgetary assumptions beyond standard inflation have been made.

The Board is currently working with NIC-USA and DAS-ETS Application Development to create an on-line registration system. If the agency deems that additional expenditure limitation is needed for the licensing system project, a request will be made to the Legislature in the interim and the agency can present the project budget and other foundational documents necessary for additional expenditure authorization.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget is 4.4% above the 2013-15 legislatively approved budget. The budget maintains the agency's current service level and includes expenditure limitation adjustments for standard, statewide inflationary and personal services cost increases. The budget includes revenue reductions to account for a temporary licensing fee decrease.

VETERINARY MEDICAL EXAMINING BOARD

Analyst: Terpening

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	579,583	756,229	800,298	895,606
Total Funds	**$579,583**	**$756,229**	**$800,298**	**$895,606**
Positions	3	3	3	4
FTE	2.75	2.75	2.75	3.50

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 has over 4,000 veterinary and certified veterinary technician licenses on a biennial renewal basis. The Board's cash flow necessitated a fee increase in order to maintain an adequate ending cash balance. The initial veterinary license and annual renewal fees had not been increased since 1993 and the Certified Veterinary Technician fees had not been changed since inception in 1975. The 2013 Legislative Assembly approved a fee increase that allowed the Board to cover ongoing operating costs and maintain an adequate ending cash balance. The Board's 2015-17 projected ending cash balance of $426,733 equals approximately 11 months of operating costs.

Budget Environment
The agency has identified two main activities: licensing and investigations. The number of licensees has grown approximately 8% from the previous biennium. In addition, the number of complaints reviewed by the Board has increased over the last two biennia. 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 of the Board.

HB 2474 (2015) requires veterinary facilities in Oregon to register with the Board and allows the Board to conduct inspections of registered facilities for compliance with Board-adopted rules. The Board is gathering data to determine the number of facilities currently operating, and anticipates adopting through rule a $150 annual registration fee intended to cover the cost of a registration and inspection program. The Board anticipates collecting the registration fees and providing facilities with a self-certification for compliance with minimum facility standards until the Board establishes permanent rules for the program. Once rules are established, and initial fee revenues provide sufficient cash flow, the Board will hire an investigator position to ensure compliance.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $895,606 represents an 18.4% increase from the 2013-15 legislatively approved budget level. The legislatively adopted budget includes the establishment of a permanent full-time Investigator position (0.75 FTE). This position is anticipated to begin January 1, 2016, once there is sufficient cash

flow from initial facility registrations to fund the program. This position will conduct initial and random yearly annual inspections of registered veterinary facilities.

The budget also includes a reduction to the expenditure limitation to reflect the Board's prorated cost savings by sharing an Accountant 2 position, established under the Mortuary and Cemetery Board, for the purpose of providing budget and accounting services, in lieu of using the Department of Administrative Services Shared Client Services. The Board's estimated share of the position is anticipated to be $26,144, or 17%.

NATURAL RESOURCES

PROGRAM AREA

DEPARTMENT OF AGRICULTURE

Analyst: Siebert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	12,134,881	19,445,889	20,362,282	23,396,301
Lottery Funds	7,199,518	6,473,272	6,518,078	6,289,958
Other Funds	50,402,029	55,589,067	57,832,722	60,578,804
Federal Funds	11,285,459	15,320,730	14,994,510	15,563,845
Total Funds	**$81,021,887**	**$96,828,958**	**$99,707,592**	**$105,828,908**
Positions	471	480	475	527
FTE	343.64	352.92	348.97	378.84

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. In addition, more than $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.
- Food Safety/Consumer Protection 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.
- 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.
- Market Access Policy Area – Consists of the Market Access, Development, and Certification 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

Around 25% of the Department's expenditures are financed by the General Fund and Lottery Funds. The General Fund provides a significant amount 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 around 60% 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, pesticide regulation, and laboratory services.

Budget Environment

Population growth in Oregon has led to increased competition for available natural resources, including water and land. The Department's level of involvement with coordination and development of water use, land use, and conservation plans with other agencies and affected parties has been steadily increasing. Conservation issues are becoming more complex, requiring more planning and inter-agency cooperation. For Food Safety, population growth brings a corresponding increase in the number and complexity of food establishments. In addition, over 600 food product sampling and testing inspections are done under contract for the Food and Drug Administration (FDA) each year. Oregon agricultural producers currently sell 80% of their products outside of the state and 40% outside the country. Assistance for farmers, ranchers, and specialty food producers in finding new domestic and global markets for their products is a priority for the Department. Building markets is accomplished through market research, attendance at trade shows, direct negotiations with international buyers, and promotional activities aimed at specific Oregon products. The Commodity Inspection Division validates and promotes Oregon agricultural products through inspection and certification services and communications with producers, wholesalers, and retailers and its activity level is driven solely by the demand for its services.

Legislatively Adopted Budget

The adopted budget for the Department of Agriculture totals $105.8 million. The budget includes $23.4 million General Fund, $6.3 million Lottery Funds, $60.6 million Other Funds, and $15.6 million Federal Funds. The budget includes 527 positions (378.84 FTE), which is a 47 position increase. The majority of this increase in positions is caused by a change in budget practice for the Shipping Point Inspections program which established 31 new positions (27 of which are seasonal part-time) using existing funding that had previously been used to pay for temporary employees. The total funds budget is 9.3% higher than the 2013-15 legislatively approved budget level.

The General Fund budget is 20% higher than 2013-15 levels due to investments in a number of programs. These General Fund increases include:

- $1,714,578 for investments in the Department's laboratory to replace old equipment, purchase a new lab tracking system that is compliant with federal standards, and add 5 new permanent positions.
- $804,100 to increase staffing in the Agriculture Water Quality program by 3 positions. The budget also included a budget note directing the Department to work with the Oregon Watershed Enhancement Board (OWEB) on making $1,000,000 of OWEB grant monies available for grants to improve water quality affected or potentially affected by agricultural operations.
- $642,463 of increased state support for administrative activities that replaced Other Funds to lessen the burden on fee payers. This represents the share of administration that should be paid by Ballot Measure 76 Lottery Funds which support a number of agency programs, but which has never paid a proportionate share of the costs of the Administrative Services Division.
- $295,084 in the Animal Health program to add 1 new part-time veterinarian and move funding for the State Veterinarian position from roughly 50% General Fund and 50% Other Funds to 100% General Fund.
- Added $130,000 to the Wolf Compensation and Grant Assistance program. This program provides grants to support the reduction of wolf-livestock interactions and compensate for wolf-related livestock losses.
- $100,000 to be distributed on a one-time basis to the Oregon Invasive Species Council.
- $100,000 to shift some base funding for the Threatened and Endangered Plant program from Other Funds grants to General Fund. This state support will provide the program flexibility when addressing concerns involving Threatened and Endangered Plants.

Other Funds are 9% higher than 2013-15 levels due to program enhancements funded through fee increases. In addition, some fees were raised to maintain existing program levels, rather than increase program activities.

These included an additional $1.7 million Other Funds to support enhancements to the Pesticides program, $436,000 to the Nursery Program due to a fee increase to support existing program activities, $270,000 to replace two railroad test cars in the Weights and Measures program, and $190,000 in the new Industrial Hemp program for inspection and regulatory costs paid through fees. The Legislature also approved two fund shifts that removed $570, 971 General Fund from the Plant Health Program and $343,340 from the Pesticide Analytical Response Center and replaced the funding with Other Funds.

Federal Funds increased less than 2% over 2013-15 budget levels, due mainly to the one-time addition of $569,618 to continue 3 limited duration positions (3.00 FTE) for on-going activities related to a U.S. Food and Drug Agency grant for implementation of the Manufactured Food Regulatory Program Standards.

COLUMBIA RIVER GORGE COMMISSION

Analyst: Rocco

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	779,799	891,000	919,132	903,983
Other Funds	--	5,000	5,152	5,000
Total Funds	**$779,799**	**$896,000**	**$924,284**	**$908,983**

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 to the mouth of the Deschutes River. The Columbia River Gorge encompasses parts of 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 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 expenditure limitation is included in the Commission's legislatively adopted budgets to allow the agency to spend any moneys received from donations. The agency, however, generally receives no money from donations and when it does the funds are spent under the State of Washington budget authority.

<u>Budget Environment</u>

The proximity of the entire Gorge area to the Portland/Vancouver population base affects planning efforts with pressures for new development, changing composition of urban areas, availability of affordable housing, uses of resource lands, and increased visitation to tourism and recreation sites. As the regional planning agency, the Commission must work with stakeholders to ensure these pressures are dealt with in a manner consistent with the requirements of the National Scenic Area Act. The broad mission of the Commission results in many interpretations by the various individuals and groups that recreate and live in the Columbia River Gorge. This has led to controversy regardless of which side of an issue the Commission chooses.

According to the Commission, base funding levels for Commission activities represent the most limiting factor affecting fulfillment of key strategies and mandated responsibilities. Oregon and Washington frequently fund at a different level. This significantly impacts the Commission because any reduction in one state's funding of the joint expenses program will reduce the other state's contribution by the same amount. While Washington budgets biennially, they allot annually. Unspent funds do not carry over from one fiscal year to another. The public increasingly expects to obtain rapid and efficient responses for information.

The Commission is in the unique position of having its budget determined by two states. Oregon and Washington often experience revenue shortfalls due to economic downturns at different stages in each state's two-year budget cycle due to the differences in major revenue sources (Oregon personal income tax and Washington sales tax). While the Commission's General Fund budget for the 2013-15 biennium was up by 14% from the previous biennium, State of Washington budget pressures limited the amount of increase possible for the 2015-17 biennium. As of mid-2014, joint program services were being provided by four full-time and two part-time staff, for a total of 5.25 FTE, all of which are considered to be employees of the State of Washington. This represents a substantial reduction from historic high staffing levels. An administrative assessment conducted at the request of the Commission to look at ways to restore the agency's planning capacity concluded that a minimum staffing level of 25.00 FTE would be needed to fulfill the Commission's mandatory and ancillary responsibilities under the Act and Compact.

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 generate 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. During Washington's 2011 legislative session, an effort was made to move the operational activities of the Commission into the Department of Ecology.

The Commission has recently undertaken two significant projects to monitor and meet the needs of the region. First, the Commission has continued efforts to develop a comprehensive monitoring system to track Gorge resources; this initiative is known as the Vital Signs Indicators. Second, the Commission is working with Oregon and Washington partners to conduct a National Scenic Area Collaborative Assessment aimed at determining the willingness of organizations to work together to address Gorge concerns.

<u>Legislatively Adopted Budget</u>

The Commission's legislatively adopted budget is comprised of two basic programs – Joint Expenses and Commissioner Expenses. The Joint Expenses program represents all operational activities of the Commission except for the expenses of each state's appointed commissioners. Expenditures for joint program activities are required by law to be equally shared by Oregon and Washington, but due to differing budget practices in Oregon and Washington, the states have recently matched the combined General Fund budgets for Joint Expenses and Commissioner Expenses.

The 2015-17 legislatively adopted budget for the Commission totals $903,983 General Fund and $5,000 Other Funds. The General Fund appropriation represents a 1.5% increase from the 2013-15 legislatively approved level, but is a 1.6% reduction from the initial estimate of the current service level, or the amount to continue all 2013-15 programs through the 2015-17 biennium. The adopted budget included standard reductions for legislatively adopted changes to certain central assessments and a reduction to bring the Oregon adopted budget in line with the budget authorized by the State of Washington.

In order to restore staffing levels from prior biennium reductions and to respond to the recommendations included in the Commission's administrative assessment conducted during the 2013-15 biennium, the agency's request budget included three policy option packages totaling $798,028 which would have added 4.00 FTE and additional funding for contracted services. Due to revenue and budget constraints, these packages were not included in either the Oregon or Washington adopted budgets.

DEPARTMENT OF ENERGY

Analyst: Neburka

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Lottery Funds	2,164,181	2,166,050	3,282,990	2,980,496
Other Funds	84,439,571	50,489,645	38,256,836	34,288,279
Other Funds (NL)	52,438,426	176,018,807	140,840,333	140,853,963
Federal Funds	31,841,586	2,977,118	3,129,106	3,128,423
Federal Funds (NL)	--	40,000	104,000	104,000
Total Funds	**$170,883,764**	**$231,691,620**	**$185,613,265**	**$181,355,161**
Positions	130	114	110	105
FTE	118.60	112.81	108.92	104.50

Overview

The mission of the Oregon Department of Energy (ODOE) is to lead Oregon to a safe, clean, and sustainable energy future. The Department works to ensure that Oregon has an adequate supply of reliable and affordable energy and is safe from nuclear contamination by helping Oregonians save energy, developing clean energy resources, promoting renewable energy, and cleaning up nuclear waste. ODOE 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 currently receives no General Fund support for its activities.

DOE staffs the following statutory boards:

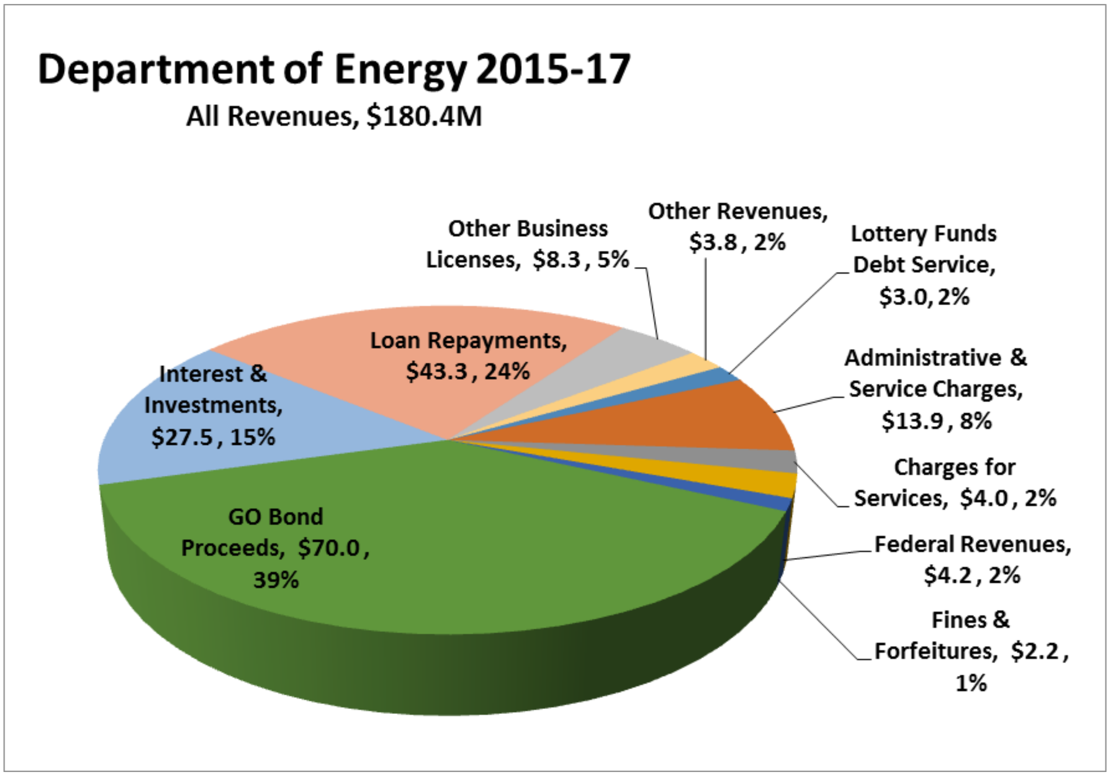
- The Energy Facility Siting Council, a seven-member citizen board appointed by the Governor, that decides whether large energy facilities may be built in Oregon; regulates the construction, operation, and decommissioning of energy facilities; and oversees the disposal of low-level radioactive wastes.
- 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 climate change.

The Department also heads or lends expertise to a number of workgroups and advisory committees, including the following:

- Northwest Power and Conservation Council is responsible for adopting a regional energy conservation and electric power plan and a program to protect, mitigate, and enhance fish and wildlife on the Columbia River and its tributaries. The Council is set up as a regional agency with two members each appointed by the states of Idaho, Montana, Oregon, and Washington for three-year terms. Bonneville Power Administration reimburses the Department for the costs associated with the two appointed members.
- Small Scale Local Energy Project Advisory Committee reviews applications made under the Small Scale Energy Loan Program (also known as SELP). The program promotes energy conservation and renewable energy resource development and offers low-interest loans for projects that save energy; produce energy from renewable resources such as water, wind, geothermal, solar, biomass, waste materials, or waste heat; use recycled materials to create products; or use alternative fuels. It can loan to individuals, businesses, schools, cities, counties, special districts, state and federal agencies, public corporations, cooperatives, tribes, and non-profits. Projects must be primarily in Oregon.

- The Department convenes rulemaking advisory committees on an as needed basis to assist in creating and updating proposed agency administrative rules.

Revenue Sources and Relationships
While most programs and services provided by the Department of Energy are fee-supported, by far the largest source of revenue for the Department consists of proceeds from General Obligation bonds, used to capitalize the nonlimited Small-Scale Energy Loan program. Other large sources (loan repayments, and interest and investments) are also associated with the SELP program. Lottery Funds pay for debt service, and federal funds support nuclear safety programs and clean energy activities through the federal State Energy Program.



Fees and charges for services support the agency's energy incentive and tax credit programs, energy facilities siting program, radioactive waste transportation, specific projects or organizations, such as the Jordan Cove Energy Project and the Northwest Power and Conservation Council, and the State Heating Oil Weatherization Program. Fee and service charge revenues for these programs and others total $11.3 million for 2015-17. Administrative activities in the nonlimited SELP program are supported with an additional $1.7 million of fee revenue generated by SELP program activities. The Legislature approved an increase in the fee supporting the Biomass Produce or Collector Tax credit for 2015-17. The increase is anticipated to raise an additional $270,000 that will fully cover program costs.

Policy development, planning, technical analysis, and agency support services are funded with an energy supplier assessment (ESA) levied annually on energy suppliers in Oregon. This assessment is capped in statute at 0.375% of an energy supplier's gross operating revenues on energy sales in the state, and is expected to generate $13.1 million in the 2015-17 biennium at a rate of about 0.11%. A budget note directs the agency to limit ESA-supported expenditures to $13.1 million during the upcoming biennium, and to use that figure in preparing its 2017-19 budget request.

Budget Environment
In recent years the agency has grown to share responsibility for implementing complex and high profile policy priorities such as development and implementation of a 10-year energy plan; the renewable energy portfolio standard to which Oregon's public and investor-owned utilities are expected to adhere; and the redesign of

incentives available to businesses implementing renewable or energy efficiency measures. In addition, the number and complexity of energy facility siting requests that must be reviewed and permitted by ODOE – including wind farms, biomass projects, natural gas power plants, and new transmission infrastructure – have resulted in increased pressure on and additional staffing resources for the Department.

The agency also has been subject to closer scrutiny of its collection and use of energy supplier assessment funds by the stakeholders who pay the assessment. HB 2807 (2013) capped the ESA rate at 0.375% of an energy supplier's gross operating revenue from Oregon sales, and created a requirement that ODOE work with stakeholders to review the agency's ESA-funded programs and services during the agency's budget development process.

The 2015-17 legislatively adopted budget for this agency is $181.4 million total funds, with 105 positions (104.50 FTE). Expenditures are 21.7% less than the 2013-15 legislatively approved budget. This sizeable decrease is due to estimated loan activity in the nonlimited SELP program, and reduced expenditure limitation for the following 2013-15 activities that will not continue in 2015-17:

- A one-time grant of lottery bond proceeds to Clean Energy Works Oregon (-$9.7 million).
- Expenditure limitation no longer needed for the Energy Efficiency and Sustainable Technology Act (EEAST) program (-$1.6 million).
- Expenditure limitation no longer needed for the Business Energy Tax Credit program (-$700,000).
- A one-time special payment into the Alternative Fuel Vehicle Revolving Fund (-$1.9 million).

Energy Planning and Innovation

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	4,895,775	6,994,146	6,591,104	5,724,232
Federal Funds	909,846	910,998	1,052,719	1,052,061
Total Funds	**$5,805,621**	**$7,905,144**	**$7,643,823**	**$6,776,293**
Positions	27	25	25	23
FTE	26.16	25.00	25.00	23.00

Program Description

The Energy Planning and Innovation (EPI) Division develops and recommends state policy and goals relating to energy conservation, alternative fuel and renewable energy resources for energy independence, economic development, and the reduction of greenhouse gas emissions. The Division provides research services and technical assistance, has a role in implementing Oregon's Renewable Portfolio Standard, operates the SEED (State Energy Efficiency Design) program and the Energy Efficient Schools program, and works to improve energy efficiency in buildings and vehicles. The Division is funded primarily from the Energy Supplier Assessment, but also with fee revenues from the SEED program.

Legislatively Adopted Budget

The 2015-17 legislatively approved budget is 14.3% less than the 2013-15 legislatively approved budget. Though a limited duration position working on alternative fuel vehicles is converted to an ongoing position ($166,059 and 1.00 FTE), revenue shortfalls reduce Other Funds expenditure limitation in the amount of $1 million and 3 full-time equivalent positions. A Program Analyst 3 in the State Energy Efficient Design (SEED) Program is eliminated because the university system is no longer required to use SEED services, and demand has dropped. A Program Analyst 3 assigned to the Cool Schools Program and supported with ESA funds is being eliminated. An Administrative Specialist 1 position assigned to support energy conservation services, which has been held vacant for most of the 2013-15 biennium in order to accumulate savings, is being eliminated. Finally, $400,000 in Special Payments expenditure limitation associated with the Community Renewable Energy Feasibility Fund is removed, as all grants in the program have been awarded.

Energy Development Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Lottery Funds	2,164,181	2,166,050	3,282,990	2,980,496
Other Funds	7,647,989	25,235,442	12,542,481	11,489,505
Other Funds (NL)	109,732,447	176,018,807	140,840,333	140,853,963
Federal Funds	29,732,111	458,749	353,709	353,709
Federal Funds (NL)	--	40,000	104,000	104,000
Total Funds	**$149,276,668**	**$203,919,048**	**$157,123,513**	**$155,781,673**
Positions	41	29	27	26
FTE	33.67	28.02	27.00	26.00

Program Description

The Energy Development Services Division administers financing and incentives for businesses, households, and the public sector to reduce the cost of energy for Oregonians through energy efficiency, renewable energy, and the use of alternative transportation. Major programs include:

- Energy Incentives Program – Provides transportation tax credits for Alternative Fuel Vehicle infrastructure projects; conservation tax credits for conservation projects; and renewable energy development grants. The funding for the grants is generated by an annual auction of tax credits held in conjunction with the Oregon Department of Revenue. Sale of the credits is capped at $3 million per biennium. These programs are set to sunset on January 1, 2018.
- Residential Energy Tax Credit – Designed to encourage consumers to invest in energy efficient and renewable-energy products for their homes. The total volume of applications for RETCs has decreased since changes made to the program in 2011. The program is set to sunset on January 1, 2018.
- Biomass Producer or Collector Tax Credits – Provides tax credits for agricultural producers or collectors of biomass for use as biofuels or to produce biofuel in Oregon. The program is set to sunset on January 1, 2018.
- State Home Oil Weatherization – Supports Oregon homeowners and property owners who heat primarily with oil, wood, propane, butane, or kerosene to make homes more efficient and reduce the cost of utility bills. The program is supported with an assessment on oil companies doing business in Oregon.
- Small-Scale Energy Loan Program – Designed to provide loan financing for energy-saving and renewable energy investments that support regional, local community, and tribal energy needs. Since the program began in 1980, it has made 870 loans totaling approximately $608 million. The loans are funded through the sale of tax-exempt, taxable, and private equity General Obligation bonds issued under Article XI-J of the Oregon Constitution. During the recession the Program experienced a few high-value loan defaults, which may result in a request for General Fund support in the 2017-19 biennium or thereafter. The Department has taken steps to strengthen its lending practices and attract high quality buyers to mitigate the likelihood of a call on the General Fund.
- Energy Efficiency Financing – Oversees the Energy Efficiency and Sustainable Technology Act (EEAST); the Cool Schools pilot program's financial activities; the grant to Clean Energy Works; and the Alternative Fuel Vehicle Revolving Fund Program.

The Business Energy Tax Credit program ended June 30, 2014. It was a tax credit program designed to encourage businesses to invest in energy conservation, renewable energy resources, renewable energy resource manufacturing facilities, recycling, and alternative fuel vehicles.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is 23.6% less than the 2013-15 legislatively approved budget. Other Funds expenditure limitation was reduced due to the end of the BETC program ($700,000) and moving 1 position into the Energy Planning and Innovation Division ($287,293). Additional reductions of $13.3 million Other Funds include the reduction of expenditure limitation associated with a one-time grant of lottery bond proceeds to

Clean Energy Works Oregon (-$9.7 million), and reduction of one-time funds for technology investments and for special payments into the Alternative Fuel Vehicle Revolving Fund program in the 2013-15 biennium.

Nuclear Safety and Emergency Preparedness

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	578,897	636,474	619,382	615,691
Federal Funds	1,152,722	1,537,161	1,651,547	1,651,522
Total Funds	**$1,731,619**	**$2,173,635**	**$2,270,929**	**$2,267,213**
Positions	6	6	6	6
FTE	6.00	6.00	6.00	6.00

Program Description

The Nuclear Safety and Energy Emergency Preparedness Division protects Oregonians from exposure to hazards by monitoring radioactive waste cleanup activities at the Hanford nuclear site, preparing and testing nuclear emergency preparedness plans, participating in emergency preparedness planning for Liquefied Natural Gas (LNG) terminals, and overseeing the transport of radioactive material through Oregon. Additionally, the Division manages the state's Petroleum Contingency Plan, which ensures that emergency and essential services receive priority access to fuel during emergency situations. The Division's main revenue source is Federal Funds from the U.S. Department of Energy, which are dedicated to oversight of the Hanford environmental cleanup and to Hanford-related emergency planning and response activities. Other revenue sources include federal grants for transportation-related emergency planning services, fees for transportation of radioactive waste, and charges for emergency planning services.

Legislatively Adopted Budget

The 2015-17 legislatively adopted total funds budget for the Nuclear Safety program is 4.3% greater than the 2013-15 legislatively approved budget, funding the program at the current level of service.

Energy Facility Siting

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	4,283,326	5,825,906	6,005,989	4,477,732
Federal Funds	6,277	--	--	--
Total Funds	**$4,289,603**	**$5,825,906**	**$6,005,989**	**$4,477,732**
Positions	12	14	11	12
FTE	11.08	14.00	11.00	12.00

Program Description

The Energy Facility Siting program works with energy facility developers and operating energy facilities to meet the state's energy needs by ensuring that large power plants, transmission lines, and natural gas pipelines are built to meet Oregon requirements. Siting is a long-term, multi-year endeavor involving multiple stakeholders, site visits, engineering studies, public hearings, and ongoing monitoring from planning, through to construction and operation of the facility. The program staffs the Energy Facility Siting Council (EFSC), coordinates the energy facility siting process, oversees compliance with existing site certificates, and coordinates federal energy siting projects for the state. The Division is funded with fees paid by applicant energy facilities (Other Funds).

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is 23.1% less than the 2013-15 legislatively approved budget. In part, this reduction reflects the Department's decision to close its Hermiston office, which no longer has the workload to justify local staffing. The office had 5 positions; two will be eliminated and three will be moved to the Salem office. General services and supplies will be reduced by the closure. In addition, the Legislature requested the Division review its business processes. The Division received feedback from its applicants that they preferred ODOE staff to review their applications over consultants. The Department has decided to have staff perform more of the work, and has reduced its expenditure limitation for professional services, used to purchase consultant services, by $1.2 million Other Funds. To continue strengthening financial controls and cost recovery, 1 limited duration Fiscal Analyst position is continued into 2015-17 and associated Other Funds expenditure limitation is increased by $172,577.

Administrative Services

	2011-13 Actual	**2013-15 Legislatively Approved**	**2015-17 Current Service Level**	**2015-17 Legislatively Adopted**
Other Funds	9,739,623	11,797,677	12,497,880	11,981,119
Federal Funds	40,630	70,210	71,131	71,131
Total Funds	**$9,780,253**	**$11,867,887**	**$12,569,011**	**$12,052,250**
Positions	44	40	36	38
FTE	41.69	39.79	35.50	37.50

Program Description

The Administrative Services program provides shared administrative services to the agency including the Director's Office, budgeting, accounting, contracting, information technology, human resources, auditing, communications, records management, and office reception.

Legislatively Adopted Budget

The 2015-17 legislatively adopted total funds budget is 1.6% more than the 2013-15 legislatively approved budget. The Legislature approved making permanent reductions taken during the 2013-15 biennium as a result of reduced Energy Supplier Assessment revenue. Other Funds expenditure limitation was reduced by $994,827 and 3 positions (2.42 FTE) were eliminated: the Deputy Director, an Executive Assistant position in the Director's Office, and an Accounting Technician in the Central Service Division. A technical adjustment moved 1 Operations and Policy Analyst 4 position (1.00 FTE) and associated expenditure limitation into the Administrative Services Division from the EPI division. This action better aligns staff in the agency's reporting structure, as the position primarily provides analytical and research services at the direction of the agency Director. A limited duration position (1.00 FTE) that serves as the Governor's Energy Policy Advisor was continued into 2015-17.

DEPARTMENT OF ENVIRONMENTAL QUALITY

Analyst: Siebert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	25,011,532	30,961,259	31,304,184	33,948,448
Lottery Funds	4,502,197	3,873,265	3,955,299	3,945,160
Other Funds	112,649,579	142,862,396	148,052,220	149,103,999
Other Funds (NL)	109,364,580	127,290,278	87,108,417	127,264,767
Federal Funds	28,811,248	28,010,107	28,654,759	28,970,775
Total Funds	**$280,339,136**	**$332,997,305**	**$299,074,879**	**$343,233,149**
Positions	732	720	724	739
FTE	714.92	704.87	712.24	722.57

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 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 DEQ budget is comprised of four major program units: Air Quality, Water Quality, Land Quality, and Agency Management.

- Air Quality – This program area is responsible for compliance with federal and state air quality standards. The program monitors air quality to protect 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 area'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 not attributable to a specific source point. Examples of nonpoint source pollution include stormwater and agricultural runoff.

- Land Quality – This program area 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 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 Nonlimited Federal Funds.

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 fees for certificates of vehicle emissions compliance, required as part of a vehicle's registration process in the Portland and Medford areas.

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 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 a program approved by the U. S. Environmental Protection Agency (EPA) 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 EPA once the agency's total budget is established.

Budget Environment

- Air Quality – The federal Clean Air Act requires compliance with federal air quality standards and prevention of air quality deterioration in areas that exceed federal standards. In addition to the negative health impacts on citizens, the penalties for failing to meet standards include increasingly costly control measures, limitations on the siting of new industry, and, ultimately, loss of Federal Highway Funds.

  In the past, nine areas in Oregon exceeded air quality standards and were officially declared nonattainment areas by the EPA: Portland, Salem, Eugene-Springfield area, Medford-Ashland area, Klamath Falls, Grants

Pass, La Grande, Oakridge, and Lakeview. Each of these failed to meet standards for one or more of three criteria pollutants – ozone, carbon monoxide, and/or particulate matter. DEQ submitted attainment and maintenance plans to EPA for Portland, Salem, Medford-Ashland, Grants Pass, Lakeview, and La Grande areas and all plans have been approved. The Lane Regional Air Protection Agency (LRAPA) is responsible for air quality assessment and protection activities in cities in Lane County like Eugene, Springfield, and Oakridge.

In 2006, EPA tightened the standard for fine particulate pollution, which comes primarily from woodstoves, open burning, diesel engines, and industry. Once again, Oregon was faced with violations of the air quality standards. Two Oregon communities, Klamath Falls and Oakridge, were officially declared nonattainment areas by EPA. DEQ and LRAPA worked with the communities to develop attainment plans that were submitted to EPA in December 2012. Lakeview is also violating the standard and DEQ is working with community leaders through EPA's "Particulate Matter Advance" program to improve air quality before it is officially designated as a nonattainment area under the new standard.

EPA is currently reviewing the national standard for ozone (smog) set in 2008.The current ozone standard is 75 parts per billion (ppb) and could be revised to a value between 60 and 70 ppb. Portland could violate the revised standard if set at 65 ppb, and Oregon could have widespread violations if the standard is set at or below 60 ppb.

- Water Quality – Under the federal Clean Water Act, either the state or federal government must operate programs to protect the quality of rivers, streams, lakes, and estuaries. DEQ must operate programs to carry out the mandatory requirements of the Clean Water Act that are acceptable to EPA in order to retain program delegation. The alternative would be EPA program assumption. Were EPA to operate the program, funding would possibly be limited to the amount EPA now allocates to the state and might only be sufficient to finance enforcement activities. In addition to the EPA required level of program activity, the Legislature has also required additional water quality programs to be maintained by the Department.

- Land Quality – Funding of the Orphan Site program continues to be unresolved. Orphan sites are contaminated sites where the owner is unknown, unable, or unwilling to pay for cleanup costs. Bonds are sold to conduct cleanup of Orphan Sites; however due to General Fund constraints, state-backed bonds are approved on an intermittent basis. Bonds were approved in 2011-13, but the funding only allowed for the maintenance of existing sites that had already received remediation actions. In the past, the agency has been able to use some Hazardous Substance Possession fees to pay debt service for Orphan Site bonds in place of General Fund.

- Agency Management – All funding for Agency Management is generated through its indirect rate charge. The Department estimates the indirect rate for the biennium as part of its budget development. The actual indirect rate is negotiated each fiscal year, six months in advance. The Department endeavors to maintain an indirect rate where the ratio of Agency Management costs to program personal services is constant. As a result, lower personal service expenditures in the programs reduce Agency Management revenues and expenditures are adjusted accordingly.

- Pollution Control Bond – The Clean Water State Revolving Loan Fund (CWSRF) program included a different mechanism to fund debt service. Debt service on CWSRF bonds is now paid with Other Funds using interest paid on past loans from the CWSRF. Interest paid on previous loans had been deposited back into the CWSRF and used to make new loans. Debt service on bond sales are now paid using interest proceeds. The CWSRF Program is now self-funding in the sense that all debt service can be paid out of proceeds from interest payments made by CWSRF loan recipients.

Legislatively Adopted Budget

The legislatively adopted budget for the Department of Environmental Quality is $34 million General Fund, $4 million Measure 76 Lottery Funds, $149 million Other Funds, and $29 million Federal Funds. The budget total also includes $127 million of Nonlimited Other Funds for Clean Water State Revolving Fund loan activities and debt service. The total funds budget is 3.2% higher than the 2013-15 legislatively approved budget level.

The General Fund budget is 9% higher than 2013-15 levels due largely to investments in the Water Quality program. General Fund additions for 2015-17 included $2.3 million in the Water Quality program to retain 5 positions and hire 2 new positions in the wastewater permitting program to address permit backlogs, shift 2 positions in the nonpoint source pollution program from Federal Funds to General Fund due to insufficient federal revenues, replace the existing wastewater permitting software, and add 3 new positions in the Water Quality Assessment program to meet federal expectations to use all readily available water quality data. In addition, $360,000 General Fund was added to the Air Quality program to support 3 lab positions utilizing monitoring equipment purchased with money appropriated during the 2014 legislative session. Another $280,000 was added to the Land Quality program to hire a position to coordinate activities and issues related to environmental cleanup of the Portland Harbor.

Limited Other Funds are $6.2 million (or 4.4%) higher than 2013-15 totals due almost entirely to increased Other Funds expenditures supported by fee increases. These include $1.9 million in the Solid Waste Disposal program from tipping fee increases and $620,000 in the wastewater permitting program tied to program fee increases that were coupled with increased General Fund support. Nonlimited Other Funds, which are attributed to the CWSRF program, are estimated to remain largely unchanged. The CWSRF makes loans to local governments for construction of eligible waste water treatment facilities and is funded primarily with Federal Funds. CWSRF expenditures are dependent on the number of loan applications received from eligible applicants.

Federal Funds are up slightly due to the addition of $680,000 for a contract with the Northwest International Air Quality Environmental Science and Technology Consortium for meteorological, emission, and modeling data using EPA funding earmarked for this use by the Air Quality agencies of Oregon, Washington, and Idaho. The three states take turns coordinating the contract. Idaho has coordinated the contract for the last eight years and it is now Oregon’s turn to coordinate this contract. In addition, $400,000 Federal Funds was added to accommodate a federal grant made to the Clean Diesel program to install clean diesel technology in vehicles operating at the Port of Portland.

DEPARTMENT OF FISH AND WILDLIFE

Analyst: Siebert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	6,777,283	17,665,411	19,474,146	30,081,289
Lottery Funds	5,824,398	4,921,716	4,502,746	4,752,746
Other Funds	183,659,786	185,369,107	183,822,368	174,604,641
Federal Funds	108,741,697	134,778,425	108,558,057	138,976,588
Total Funds	**$305,003,164**	**$342,734,659**	**$316,357,317**	**$348,415,264**
Positions	1,501	1,520	1,328	1,474
FTE	1,227.36	1,258.99	1,122.52	1,198.26

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:

- Fish Propagation program – Produces 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.
- 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.
- 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.
- Interjurisdictional Fisheries program – 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:

- 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 program is used to provide both wildlife habitat improvement and improved hunter access to private lands.
- 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.
- Wildlife Conservation program – Responsible for 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 and the aquatic invasive species program.

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 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.

<u>Revenue Sources and Relationships</u>

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 contributions, interest income, and the new voluntary wildlife conservation stamp.

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 receives Federal Funds through contracts with federal agencies and from the U.S. Department of Interior in the form of Pittman-Robertson Act funds (PR funds). The Habitat program's Federal Funds are derived from contracts with federal agencies, the Bonneville Power Administration through the BPA Wildlife Mitigation Program, and PR 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.

<u>Budget Environment</u>

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, landowner relationships and access for hunting, and livestock predation. The Department's Other Fund balances fluctuate over time as license and tag increases build balances early after adoption of increases, which are then depleted over time until a new fee increase is necessary. The Department's low operating balances coming into the 2015-17 biennium caused the Department to request a fee increase during the 2015 legislative session.

Past General Fund reductions in the Department of Fish and Wildlife have most often been accomplished through fund shifts. That is by 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. These shifts increased the burden to support programs with revenues from hunters and fishers and caused proposed 2015 fee increases to be coupled with a General Fund request to reduce the potential increase of licenses and tags.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget totals $347.3 million and includes $30.2 million General Fund, $4.8 million Measure 76 Lottery Funds, $175.7 million Other Funds, $136.7 million Federal Funds, and 1,474 positions (1,198.26 FTE). The total funds budget is 1.6% higher than the 2013-15 legislatively approved budget level, while FTE is 5% lower and there are 46 fewer positions than in 2013-15.

General Fund support is 70% higher than in 2013-15 due in large part to the addition of $6.6 million to reduce the agency's reliance on revenue from hunters and fishers and reduce proposed hunting and fishing license and tag increases. Reliance on fees from hunters and fishers was further reduced by the addition of $5.2 million General Fund to the Department of State Police budget, which replaced Other Funds support from ODFW for Fish and Game officers. Other General Fund increases included $2 million to continue Columbia River fish management changes enacted in 2013 that affected gill net fishing, $1 million to continue a scaled back Western Oregon Stream Restoration Program that had been proposed to be eliminated, $800,000 to fund research at the Oregon Hatchery Research Center, and roughly $800,000 for issues related to the Western Sage Grouse, which has been proposed for listing under the Endangered Species Act by the federal government.

Other Funds expenditures are 5.2% lower than 2013-15, even with the inclusion of revenue from increases to hunter and fisher licenses and tags approved in SB 247 (2015). Reductions to Other Funded programs and positions were one of the strategies used by the Department to lessen the proposed increases to hunting and fishing licenses and tags. Federal Funds increased by 3%, or $4.2 million, due largely to additional funding from the Pittman-Robertson Wildlife Restoration Act federal excise tax on the sales of firearms and ammunition. These funds are distributed to states by the federal government based on the number of hunting licenses sold.

DEPARTMENT OF FORESTRY

Analyst: Stayner

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	53,860,677	119,048,444	60,902,285	63,414,691
Lottery Funds	2,437,861	5,408,132	2,524,885	7,481,960
Other Funds	174,569,610	402,004,076	226,271,512	224,734,577
Other Funds (NL)	--	10,473,825	--	--
Federal Funds	24,526,686	31,108,167	32,103,731	34,758,694
Total Funds	**$255,394,834**	**$568,042,644**	**$321,802,413**	**$330,389,922**
Positions	1,181	1,200	1,199	1,197
FTE	863.16	871.72	874.06	875.54

Overview

The Oregon Department of Forestry (ODF) was established in 1911. ODF is directed by the State Forester who is appointed by the State Board of Forestry. The Board's seven members are nominated by the Governor and confirmed by the Senate. ODF has three operating programs: Fire Protection, State Forests, and Private Forests. These programs are supplemented and supported by centralized business services divisions including Agency Administration, Equipment Pool, and Facilities Management.

The Fire Protection division protects roughly 16 million acres of private and public forestland with a coordinated system of 12 fire districts comprised of 9 ODF operated districts and three private forest protection associations along with other associated federal, state, and local agencies. State Forests operations include forest development, management of Board of Forestry and Common School Trust lands, and the operation of the tree-seed orchard. State Forests manage over 800,000 acres of state forestland for a variety of public purposes including timber sales that provide revenue for the counties in which a sale takes place, the common school fund, and to fund the operation of the program. The Private Forests program is the primary administrator of the Oregon Forest Practices Act providing education, inspection, and enforcement of the lawful management of Oregon forestlands along with collaborative activities including monitoring and improving forest health, urban forestry, and family forestland assistance.

Budget Environment

Fire protection continues to dominate the budget environment for the Department. Other significant issues include forest health, climate change, environmental protection, forest management policies, and the general economic climate.

ODF has weathered back-to-back intensive firefighting seasons in 2013 and 2014. Large fire costs in the 2013-15 biennium have totaled over $240 million in addition to the base fire protection budget. The continued dry, warm winters have contributed to the build-up of combustible materials in the forests. The past two fire seasons have started earlier and lasted significantly longer than average. This trend is expected to continue in the 2015-17 biennium.

The cost of the 2013 and 2014 fire seasons resulted in claims against the state's catastrophic fire insurance policies in both years. The repeated losses, totaling $50 million for the insurers, cast doubt on the ability of ODF to obtain catastrophic fire insurance for the 2015 and 2016 fire seasons. A $25 million policy was obtained for the 2015 fire season, but at a premium cost of nearly $4 million, with a retention of $50 million. Should the 2015 fire season exceed the retention amount and a significant claim be made against the policy, it is doubtful that the state will be able to secure a policy in the future.

Forest health management will continue to be a significant issue in the upcoming biennium. Forest insect outbreaks can cause significant tree mortality and damage leading to economic losses and increased fire danger. The significant insect risk in Oregon is from bark beetle outbreaks. Diseases, including Sudden Oak Death and Swiss Needle Cast are expected to continue to spread in Oregon, although containment efforts and improved disease-resistant plantings are being implemented. Swiss Needle Cast, a foliage disease of Douglas-fir, is affecting a significant portion of state forestlands on the Tillamook State Forest. Symptoms of this disease are also becoming evident in the Elliott State Forest.

Endangered or threatened species continue to factor into the operations of ODF, including in the management plan for state forests, the administration of the Forest Practices Act, and the support of rangeland protection associations. Federally listed species have affected the management of state forests over the last decade. Listings for fish and bird species influence the ability to manage the resource to achieve revenue goals on state forest lands, particularly impacting the revenue on lands owned by the Department of State Lands for the benefit of the Common School Fund. Concern over the possible listing of the Greater Sage Grouse as an endangered species has prompted statewide investment in programs to improve sage grouse habitat. This issue is of ongoing concern and includes the establishment of a multi-agency approach to preserve the habitat and prevent the future listing of the birds.

Water quality issues are anticipated to be an ongoing issue during the biennium. A January 2015 finding by the National Oceanic and Atmospheric Administration (NOAA) and the U.S. Environmental Protection Agency (EPA) regarding the multiple state-agency plan for the non-point source water quality program resulted in the possible withholding of certain federal funding under the Coastal Zone Management Act. The possible reduced grant funding for the Department of Land Conservation and Development and the Oregon Department of Environmental Quality in the upcoming federal fiscal year beginning October 1, 2015, is due, in part, to concerns about the efficacy of the riparian rules developed by the Oregon Board of Forestry.

The economy continues to show signs of a slow recovery. This will primarily impact the operations of the Private Forests program as industrial forest operators ramp up timber harvests on private land. Timber harvests on state forests are already at or near the maximum sustainable rates based on the current management plans.

<u>Legislatively Adopted Budget</u>
The ODF 2015-17 legislatively adopted total funds budget is $330,389,922 and includes 1,197 positions (875.54 FTE). This amount is 41.8% lower than the 2013-15 budget primarily due to the phase-out of $63,214,841 General Fund and $180,647,505 Other Funds for emergency fire costs related to the 2013 and 2014 fire seasons. The General Fund budget for the agency totals $63,414,691, a 46.7% reduction from the 2013-15 legislatively approved budget.

The legislatively adopted budget includes the addition of 2 positions, and the partial funding of an existing position with General Fund ($368,000) to support Rangeland Fire Protection Association activities. This funding continues the implementation of the agency's strategic initiative on Rangeland Protection Association capacity. The program continues the coordination activities, finding grant and equipment acquisition opportunities, and general program management. One of the additional positions provides administrative support, helping the associations with their federal and state paperwork requirements, budgets, and completing reimbursements of insurance costs. In conjunction with these positions, the Legislature provided $1.2 million in grant funding for distribution to counties and rangeland fire protection associations. This grant funding is for eligible services, supplies, and equipment expenditures of Rangeland Fire Protection Associations and counties and is intended to address rangeland wildfire management and suppression on unprotected or under-protected lands. These efforts are to be implemented in a manner that is consistent with wildfire-related provisions of Oregon's plan for addressing the conservation of Greater Sage Grouse and rural community vitality. ODF will provide funding to the Oregon Watershed Enhancement Board (OWEB), who will oversee the grant program in conjunction with other ODF grant programs managed by OWEB.

The budget includes $400,000 General Fund for a grant to Clackamas County to establish a forestry product cooperative pilot project for products grown on non-forest land. This appropriation was included in HB 2984 (2015). The measure requires Clackamas County to report to the Legislature on the progress of studies and preparation for the cooperative project during the 2016 and 2017 legislative sessions and to interim economic development committees in both September 2015 and 2016.

Although not included in the budget for the Department of Forestry, the agency's budget bill included an appropriation of $6 million General Fund to the Emergency Board for allocation to the Department of Forestry for severity resources ($4 million) and anticipated catastrophic fire insurance premium costs ($2 million).

One-time funding of $1.4 million, including $838,438 General Fund and $558,960 Other Funds, is included in the budget for the implementation of two incremental enhancements to the Forestry Activity Electronic Reporting and Notification System (FERNS) and ongoing funding for maintenance and support of the system.

Additional significant Other Fund changes include a $2 million reduction due to the discontinuation of 9 vacant positions (8.66 FTE) in the State Forests Program and an increase of $821,154 in the Agency Administration program for budget restorations, technical position adjustments, and re-classification of certain information technology positions.

Lottery Funds in the amount of $2.885 million included in the 2013-15 budget for the east-side federal forest restoration program were phased out and replaced with $5 million in Lottery Funds for the expansion of the program statewide in the 2015-17 biennium.

The budget includes the re-establishment of $3 million Federal Funds expenditure limitation for purchase of land for the Gilchrist State Forest because the purchase was not completed during the 2013-15 biennium.

Agency Administration and Centralized Business Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	3,051,286	3,069,589	2,920,698	2,996,453
Lottery Funds	2,437,861	5,408,132	2,524,885	7,481,960
Other Funds	40,611,750	54,301,271	57,571,168	57,643,477
Other Funds (NL)	--	10,473,825	--	--
Federal Funds	1,345,987	2,176,660	2,127,644	1,908,250
Total Funds	**$47,446,884**	**$75,429,477**	**$65,144,395**	**$70,030,140**
Positions	120	125	125	130
FTE	121.40	125.21	126.40	134.75

Program Overview

The Agency Administration, Equipment Pool, and other centralized business programs support the operating divisions of the agency. These programs provide agency-wide services including leadership, planning, policy development, finance and accounting, payroll and human services, asset management, and debt service. The table above illustrates the combined budget for the following budgetary units:

- Agency Administration – (101 positions, 105.02 FTE) Includes the State Forester's office, Board of Forestry support, and traditional support functions such as finance, property management, personnel, information services, and public relations. 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 positions, 29.73 FTE) Operates a motor pool and a radio pool. The motor pool manages 5 fleets, 16 mechanic shops, and an aviation unit with 3 aircraft. The radio pool supports and maintains 3,500

pieces of major communication equipment such as repeaters, base stations, and mobile and portable radios. The radio pool provides the equipment, engineering, maintenance, and support for the Department's cooperators: 3 fire protection associations, the Department of Fish and Wildlife, and the Oregon Parks and Recreation Department.

- Facilities Maintenance and Management – Provides oversight and coordinates preventive maintenance, repairs, improvement, planning and construction, and management for the agency's structures and facilities 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 412 structures statewide. Examples include mountaintop lookout facilities, fuel facilities, remote forest fire guard stations, district and unit offices, seed 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, capital investment improvements in the agency's business information systems, and forest land acquisition. Additionally, there is debt service for lottery-backed bonds to purchase Gilchrist State Forest parcels.

<u>Revenue Sources and Relationships</u>
All of the centralized services programs are funded by a revenue transfer from, or fees charged to, the operating divisions. This revenue appears as Other Funds in these programs, but the underlying funding source is dependent on the funding structure of the operating program. Where the operating division is funded with General Fund, the transfer of the General Fund portion of the central service program cost is budgeted as an expenditure in the operating division and counted again when expended as Other Funds in the centralized services program. The only exception to this process is in the Debt Service program where General Fund or Lottery Funds are appropriated directly.

Agency Administration regularly performs a "widget study" for the purpose of allocating the costs of the program to the operating divisions of the agency. The widget study is the method that the agency uses to determine the distribution of costs due to administrative services functions amongst operating divisions of the agency. The study results in a percentage assigned to each operating program, the sum of which is 100% and accounts for nearly all of the Other Funds revenue for the administrative division. The current cost allocation is: Fire Protection 48.03%, Private Forests 15.92%, State Forests 31.05%, and Equipment Pool, 5%. The contribution paid by each of these programs is composed of the underlying fund sources of each. In the case of the Fire Protection Division, no administrative pro-rate is assessed to private land owners; the General Fund and public landowners are charged instead. ODF estimates that roughly 57.47% of the pro-rata revenue is from the General Fund. In addition to the agency-wide functions of Agency Administration that are funded with the pro-rate charge, Agency Administration has a limited amount of project-specific revenue from General Fund, Other Funds, and Federal Funds.

Expenditures for the Equipment Pool program are completely financed from fees charged to equipment pool users. As noted above, these are from multiple fund sources, depending on the funding structure of the users. The program also receives Other Funds from the Department of Fish and Wildlife and Oregon Parks and Recreation Department for participation in the radio pool.

Revenue to pay debt service comes from the General Fund (37.1%), Other Funds (27.5%), and Lottery Funds (35.4%). The associated Other Funds revenue is based on a square footage assessment to the Equipment Pool from the Radio and Motor Pool Funds; the State Forests program from the Forest Development and Common School Lands Funds; and the 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.

Federal Funds revenue in the Agency Administration program is nearly exclusively due to the administration of federal grants by the Partnership Development Section. This program manages roughly $38 to $40 million in federal grants awarded to the agency.

Budget Environment

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 areas such as the development of forest management plans in the State Forests Program, including the Northwest Oregon Forest Management Plan and the Elliot State Forest Management Plan. Due to a strong interest in the social, economic, and environmental aspects of forest management generally, public interest and involvement in all Department programs and activities is high and will likely increase.

A number of the agency's information technology platforms and programs are outdated or outmoded. In addition, the agency uses a large number of platforms for custom applications. Significant resources may be required to move these existing applications to standardized and web-accessible systems.

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 Statewide 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 1930's, 40's, and 50's. The Department's current building inventory includes 412 buildings with a current replacement value of $118 million. 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.

Legislatively Adopted Budget

The Agency Administration and Central Business Services 2015-17 total funds budget is $70,030,140 and includes 134.75 positions (130.00 FTE). This amount is 7.2% lower than the 2013-15 budget due primarily to the phase-out of roughly $10.5 million in Nonlimited Other Funds that were allocated to the agency for the refinancing of certain bond obligations during the 2013-15 biennium. The General Fund budget for the program totals $2,996,453, a 2.4% reduction from the 2013-15 legislatively approved budget due to debt service savings.

General Fund in the amount of $400,000 is included in the budget for a grant to Clackamas County for the purpose of establishing a forestry product cooperative pilot project for products grown on non-forest land. This appropriation was included in HB 2984 (2015). The measure requires Clackamas County to report to the Legislature on the progress of studies and preparation for the cooperative project during the 2016 and 2017 legislative sessions and to interim committees dealing with economic development in September 2015 and 2016. The remaining General Fund is exclusively for Debt Service

Other Funds in the amount of $821,154 is included in the Agency Administration program for budgetary restorations, technical position adjustments, and re-classification of certain information technology positions. A portion of this, $580,000, is to restore expenditure authority for service and supply expenses of the program. The underlying funding source for this restoration comes from a General Fund transfer of $269,117 from the Fire Protection and Private Forest Programs and the remaining $310,883 Other Funds is from all of the agency's operating programs. A portion of this funding will be used in the 2015-17 biennium for activities related to the initial planning and preparation of the implementation of an integrated enterprise purchasing and procurement system.

Lottery Funds in the amount of $2.885 million for the east-side federal forest restoration program were included in the 2013-15 biennium but were phased out and replaced with $5 million in Lottery Funds for the expansion of the program statewide in the 2015-17 biennium. The expanded funding is split between collaborative group support ($1.3 million), state/federal partnership ($3.375 million), and program management and administration ($325,000). Grants to collaborative groups will be managed by the Oregon Watershed Enhancement Board. Four new, limited duration positons are established in the program; a natural resource specialist and a procurement specialist position within the Salem headquarters and two natural resource specialists placed in ODF districts. In addition, 11 existing seasonal positions will be temporarily extended by eight months this biennium for a total of 7.64 FTE. The remaining Lottery Funds budget is dedicated to debt service.

Fire Protection

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	39,412,413	101,694,790	42,228,725	43,826,828
Other Funds	62,179,259	247,433,171	66,349,854	66,214,401
Federal Funds	13,922,512	15,823,821	16,371,391	16,247,353
Total Funds	**$115,514,184**	**$364,951,782**	**$124,949,970**	**$126,288,582**
Positions	684	693	693	694
FTE	392.13	394.73	394.49	395.28

Program Overview

Forest wildfire protection in Oregon is provided through a coordinated effort among local, state, and federal resources. The Oregon Department of Forestry (ODF) Fire Protection program protects 15.9 million acres of public and private forestland, about half of the state's total forest acreage. Of the total acreage protected, 12.1 million is privately owned, 1.3 million is state and local government land, and 2.5 million is federal, mostly Bureau of Land Management (BLM) western Oregon lands protected under contract. The total acreage has a current estimated value at risk of approximately $60 billion. The program provides 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. Nearly 60% of all agency positions and 45% of all FTE are assigned to this program.

Until 1965, landowners paid the entire cost of fire protection. Then, the Legislature established a cost-share model by limiting landowner costs depending on the use and geographic location of the property. The state was responsible for costs above the limitations. In 1973, the Legislature established the "pro-rata" share per acre concept whereby landowners are assessed for base-level fire protection on the basis of the number of acres they own within a specific fire protection district. In 1989, the law was modified to provide for a 50/50 landowner/General Fund split of the cost for base-level fire protection. For a few years in the mid 1990's, the General Fund share dropped to 45%. Since 1999, the ratio has been 50/50; however, private landowners do not pay for the portion of the agency administrative costs allocated to the Fire Protection program. These administrative costs are paid by the General Fund and assessments on public forestlands.

Revenue Sources and Relationships

The state provides protection from forest fires in three layers: base protection, severity resources, and large fire protection. Base protection funding ensures readiness and initial attack response at the local district level. That cost has been shared by private landowners and the state since 1991. ODF also draws on a special appropriation of General Fund and public and private landowner dollars through the Oregon Forest Land Protection Fund to provide retardant-dropping air tankers, water-dropping helicopters, and other resources that can be placed where the immediate or projected threat is highest. Firefighting costs for large fires are covered through a mix of General Fund, Federal Funds, public and private landowner funds, and a catastrophic wildfire insurance policy.

- Base Protection – ODF's base protection program is delivered through local Forest Protection Districts. The establishment of the forest protection districts is codified in ORS 477.225. Revenue to support the Fire Protection Division (including the fire protection districts) comes from a combination of General Fund, Federal Funds, and Other Funds via forest patrol assessments on private and public forest landowners. Statute outlines a pro-rata cost per acre formula segregated between timberland east and west of the crest of the Cascades and grazing lands. The funding mechanism for the landowner assessment is codified in ORS 477.230. Forest patrol assessments charged against subject landowners vary by district, as each district budget is developed independently. Non-public landowner's contributions are capped at 50% of the per-acre rate established for the fire protection district in which the lands lie; the shortfall is funded with the General Fund. The remaining Public landowners, including local, state, and federal entities, receive no General Fund match and pay the full cost of their per-acre fire protection assessment. In addition, the costs of the Agency Administration division that are allocated to the Fire Protection Division are not shared between the General Fund and the private landowner assessment; those costs are borne entirely by the General Fund and public landowner assessments. The General Fund also provides a biennial subsidy of $2 million to offset a portion of the cost of private landowner assessments for fire protection on low-productivity lands.

  Base protection revenues budgeted for the 2015-17 biennium are just over $107 million. Of this amount, public landowners through forest protection taxes ($11.1 million) and contracts ($16.7 million) account for $27.8 million (26%); General Fund accounts for $42.5 million (39.7%); private landowners through forest protection taxes account for $20.5 million (19.1%); and Federal Funds support $16.2 million (15.2%).

- Severity Resources – These resources, primarily aviation, are meant to span both the base protection and large fire protection layers. Each season, ODF contracts with a number of local and national resources to provide air and ground support with the aim of preventing small fires from growing into large, costly fires. These provide fast-attack resources during periods of multiple fire starts and heightened fire danger. When severity resources are utilized on large fires, those expenses are allocated to large fire costs and are not charged against the severity resources budget , therefore ODF contracts for severity resources typically exceed the amount of funding provided, but this ensures the availability of the resource during heavy fire seasons. The revenue that supports these expenditures comes from both the General Fund and Other Funds from the Oregon Forest Land Protection Fund (OFLPF). Additional revenue information is provided in the following section for the OFLPF. In the event of a qualified fire, the Federal Emergency Management Agency (FEMA) also provides funding for the pre-positioning of severity resources.

  The General Fund share of severity resource funding, $4 million, is appropriated to the Emergency Board and allocated to the Department of Forestry after each fire season. The Oregon Forest Land Protection Fund share of severity resource funding in the amount of $6 million is included in the agency's budget. The $2 million disparity between the funding sources is due to the $2 million General Fund that is included in the base protection budget for offsetting the cost of private landowner assessments on low-productivity lands as discussed in the base protection section above.

- Large Fire Protection – Large fire, or catastrophic fire, protection pays for emergency suppression costs. There is no state budget for large fires because these fires are unpredictable. Funding for emergency fire costs are provided by the General Fund, catastrophic fire insurance, and by the public and private landowner funded OFLPF. The fund is administered by ODF's Emergency Fire Cost Committee, a four-member committee composed of private landowners or their representatives appointed by the Board of Forestry. The OFLPF essentially serves as a reserve fund to provide for emergency fire cost funding in conjunction with the General Fund. Revenues to support the OFLPF are estimated to be $22.78 million in 2015-17. The taxes and assessments that generate revenue to the fund are assessed on all lands, public and private, that are in ODF protected districts and all commercial timber harvests. These include:

- Harvest tax of $0.625/thousand board feet (mbf) on merchantable forest products ($4.98 million, 21.9%); the tax is reduced when the reserve base amount of the OFLPF is projected to exceed $22.5 million and is suspended when the reserve base exceeds $30 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 grazing lands) ($1.86 million, 8.2%).
- Assessment of $3.75 per lot (out of the $18.75 minimum assessed for forest patrol) ($1.46 million, 6.4%).
- Surcharge of $47.50 for each improved tax lot ($14.25 million, 62.6%).
- Interest from State Treasurer investments of the fund ($0.23 million, 1.2%).

The OFLPF annual expenditures are capped at $13.5 million as defined in ORS 477.755. Authorized expenditures of the OFLPF include:

- Equalization of emergency fire suppression costs in fire districts
- Administrative expenses
- Up to 50% of emergency fire insurance premium costs
- The purchase of non-routine supplemental fire prevention, detection, or suppression resources
- Up to $3 million for severity resources
- Up to $10 million for fire suppression costs

The first $20 million in large fire suppression costs are shared between the General Fund and the OFLPF. Prior to the 2013-15 biennium, the OFLPF was utilized prior to using General Fund. Over the next three biennia, the cost-share scheme shifts an increasing portion of the initial costs to the General Fund, ultimately resulting in a dollar for dollar split of the first $20 million in annual costs between the General Fund and OFLPF. In 2013-15, the General Fund and OFLPF equally shared the first $2 million per year of large fire costs. The next $9 million was covered by OFLPF, and the following $9 million from the General Fund. In the 2015-17 biennium, the General Fund and OFLPF equally share up to the first $10 million per year with the next $5 million being OFLPF's responsibility and the subsequent $35 million, up to the $50 million retention amount required by the 2015 fire season catastrophic fire insurance policy, from the General Fund. In 2017-19, the General Fund and OFLPF share $20 million per year equally. Any amount in excess of the initial $20 million, up to the deductible/retention amount of the catastrophic fire insurance policy (if available) is the state's responsibility. Costs in excess of the deductible and the insurance proceeds also fall to the state, but statute does not specifically state that the costs are General Fund liabilities.

Federal Funds Programs – The budget includes $16.25 million in federal revenues to support the fire protection division. This amount is maintained to cover the estimated available federal funding received by ODF from various federal agencies, primarily the U.S. Forest Service through the Consolidated Payment Grant. The actual funding received varies each biennium as many of the programs include competitive grants and various short-duration grant opportunities. Some of the Federal Funds are one-time funding opportunities and others become annual programmatic grants. Ongoing federal grant funding includes:

- State Fire Assistance (SFA), U.S. Forest Service, ($3 million). Applied to a broad range of projects related to fire season readiness: training / RPA's / arson patrol / base level salaries / protection program development such as the FLAMES program and Detection Cameras.
- Western State Fire Managers Wildland Urban Interface Grant Program (WSFM WUI), U.S. Forest Service, ($3 million). Funds are directed toward fuels treatments and fire prevention efforts around communities.
- Joint Chiefs, U.S. Forest Service, ($550,000). Similar to WSFM grants but are applied across a landscape perspective neighboring federal lands.
- Community Assistance, U.S. Forest Service ($1.5 million). Funds are directed toward fuels treatments and fire prevention efforts around communities.
- Cohesive Wildfire Strategy, U.S. Forest Service ($400,000). Strategic fire suppression and prevention efforts in targeted areas of the state.
- Volunteer Fire Assistance (VFA), U.S. Forest Service ($1 million). Used for equipping, training, organizing, and fire prevention for state and local fire departments.

- Western Competitive Redesign Grant Western Wildfire Risk Assessment, U.S. Forest Service ($300,000). For the development of a web portal/viewer for professionals and the public to display wildland fire risk and assist in the development of Community Wildfire Protection Plans (CWPP).

Smoke Management/Fuels Program – This program receives its funding from registration and burning fees collected from public and private landowners (87%), contractual payments from other government agencies (12%), and landowner assessments (1%).

Budget Environment

Fire suppression efforts and costs are driven by factors that include forest fuel loads, forest health (insect and disease damage), and weather (drought and lightning storms) and cannot be predicted with certainty. The last decade of drought has significantly affected Oregon's forests.

The siting of dwellings and other improvements on forestlands continues to increase the challenges to fire managers. The increasing number of homes located in forests complicates protection priorities, results 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.

With diminished harvests on federal lands, private sector resources such as logging crews and equipment that could be used for contract firefighting have declined. Federal fire management policies vary significantly between different federal forest lands. Some of these policies are considered to be counterproductive to fire protection activities, including allowing the build-up of fuels and the closure or non-maintenance of access roads.

The increase in the occurrence and severity of wildfires across the nation continues to put stress on the availability of firefighting resources such as aviation equipment and trained fire crews. ODF consistently over-contracts for aviation resources to ensure the availability of these resources in a severe fire season. In the 2015 fire season, the shortage of trained fire crews required many states to utilize National Guard troops to assist in firefighting. The cost of these National Guard crews is substantially more expensive than contract crews due to the additional training and equipment necessary.

Catastrophic Fire Insurance for the 2015 Fire Season – Due to the extraordinary losses by insurers during the 2013 and 2014 fire seasons ($50 million), it was questionable whether the state would be able to renew a catastrophic insurance policy for the 2015 fire season and if so, at what terms. A 2015 fire season policy has been secured by ODF with $25 million in loss coverage and a deductible (retention) of $50 million at an annual premium cost of roughly $3.75 million. The Emergency Fire Cost Committee (EFCC) recommended the purchase of the policy to the State Forester with the premium to be split between the General Fund and the OFLPF, with a cap of $2 million on the OFLPF portion. The OFLPF is statutorily capped at $13.5 million each year. The $2 million premium payment and the $3 million severity resources commitment (included in the base budget of ODF) leave $8.5 million for the other purposes allowed by statute. Administrative costs of the EFCC have averaged a little under $500k per year, thus leaving a maximum available for emergency fire costs of roughly $8 million. Under the cost-share mechanism outlined above and in statute, the statutory limit on the OFLPF, and in consideration of the terms of the insurance, the General Fund and the OFLPF would share the first $10 million in emergency fire costs, the OFLPF would pay for the next $3 million ($13 million), and the General Fund would pick up the next $37 million ($50 million). The next $25 million (for a total of $75 million) in costs would be covered by insurance. Any costs above $75 million would be from the General Fund. It is likely that a portion of the OFLPF funding within the statutory expenditure cap budgeted for severity resources will be shifted to emergency fire costs as those resources are called into play on large fires, moving towards parity between General Fund and OFLPF for the first $20 million in large fire costs.

Legislatively Adopted Budget

The Fire Protection division 2015-17 total funds budget is $126,288,582 and includes 694 positions (395.28 FTE). This amount is 65.4% lower than the 2013-15 budget due primarily to the phase-out of $63,214,841 General Fund and $180,647,505 Other Funds for emergency fire costs related to the 2013 and 2014 fire seasons. The General Fund budget for the agency totals $43,826,828, a 56.9% reduction from the 2013-15 legislatively approved budget.

The legislatively adopted budget includes the addition of 2 positions and the partial funding of an existing position with General Fund ($368,000) to support Rangeland Fire Protection Association activities. In conjunction with these positions, the Legislature provided $1.2 million in grant funding for distribution to counties and rangeland fire protection associations for rangeland wildfire threat reduction. This funding is associated with the state's initiative to protect Sage Grouse habitat. ODF will provide the funding to OWEB, who will oversee the grant program in conjunction with other ODF grant programs managed by OWEB.

State Forests

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	65,575,231	90,437,663	92,178,688	90,151,257
Federal Funds	628,095	846,034	864,874	3,864,874
Total Funds	**$66,203,326**	**$91,283,697**	**$93,043,562**	**$94,016,131**
Positions	267	268	267	258
FTE	241.74	241.99	241.74	233.08

Program Overview

The State Forests program manages 823,593 acres of forestlands including state forests owned by the Oregon Department of Forestry and forestlands owned by the State Land Board for the benefit of the Common School Fund. ODF owns around 86% (706,355) of these acres, including five state forests (Tillamook, Clatsop, Santiam, Sun Pass, and Gilchrist) and small, scattered parcels. The state acquired these lands primarily in the 1940s from counties that had received the cut-over or burned lands from private owners in lieu of delinquent property taxes. The Board began purchasing the Gilchrist tract in 2009. Board of Forestry lands are managed to achieve the greatest permanent value to the state. This definition includes providing a full range of social, economic, and environmental benefits.

The remaining 14%, or 117,238 acres, are the Common School Lands, which are managed by ODF under contract with the State Land Board. These lands are located primarily in the Elliott State Forest. Common School Lands were granted to the state by the federal government to support public education. The lands were originally scattered throughout the state, but were exchanged for a single contiguous tract of 93,000 acres in 1930. The Common School Lands are managed to obtain the greatest benefit for the people of the state, consistent with the conservation of this resource under sound techniques of land management. This has been determined to mean that the State Land Board should manage the land to maximize long-term revenue to the Common School Fund, within the context of environmentally sound management.

The State Forests program co-operates the South Fork Forest Camp (SFFC) with the Oregon Department of Corrections. The camp is a satellite facility to the Columbia River Correctional Institution. The camp provides aid in the restoration and administration of state forests and provides work crews for emergency forest fires. The inmate population supports up to 15 ODF crews.

The J.E. Schroeder Tree Seed Orchard is operated by the State Forests program. The orchard, located near St. Paul, Oregon operates as a cooperative whereby partners in over twenty different orchards reimburse the Seed Orchard at the end of each fiscal year for all of its yearly operational and personnel costs. Then, each year, the cooperators equitably divide the resulting tree seed produced by their respective shares in the different orchards. The cooperators mostly consist of private sector entities but include the State Forests program, which is one of the largest cooperators. The Bureau of Land Management (BLM) is also a cooperator in one of the orchards.

Revenue Sources and Relationships

The State Forest program is funded primarily by Other Funds that are produced by the sale of forest products on Oregon Board of Forestry lands and secondarily by management fees for Common School Trust lands. Federal funds revenue included in the budget is generally in the form of grant funds, including funding for the purchase of certain lands in the Gilchrist State Forest.

Revenue from the sale of forest products produced and sold on Board of Forestry lands is divided according to a statutorily defined formula between the county in which the subject lands are situated and the State Forests program. Generally, this formula provides 36.25% of the revenue generated for the operation of the State Forests program, including the allocated costs of fire protection. The remaining 63.75% is distributed to the counties and local taxing districts where the forestland is located. The estimated total revenue in the 2015-17 biennium from forest product sales on ODF forestland is $178.7 million, of which $64.8 million is estimated to be the state's share. The table to the right presents the revenue transfers to counties in FY 2014 from timber harvests on Board of Forestry Lands.

FY 2014 County Share of Revenue from Harvests on BOF Lands	
County	Amount
Benton	$20,729
Clackamas	$0
Clatsop	$13,485,721
Columbia	$192,925
Coos	$0
Douglas	$160,488
Josephine	$0
Klamath	$1,438,752
Lane	$2,063,749
Lincoln	$480,378
Linn	$5,259,591
Marion	$209,973
Polk	$244,365
Tillamook	$12,733,134
Washington	$12,295,924
Total	$48,585,729
Council of Forest Trust Land Counties Annual Report for Fiscal Year 2014	

A management fee is charged to the State Land Board for the operation and management of the Common School Trust forestlands. In the past few years, this fee has eclipsed the revenue generated from these lands and they are being held by the Department of State Lands (DSL) at a loss. The anticipated revenue from management fees charged to DSL is $9.9 million in the 2015-17 biennium.

The Department of Parks and Recreation transfers roughly $1.4 million Other Funds to the State Forests program for trail and recreational opportunity enhancements from permit fees charged to users of All Terrain Vehicles (ATVs).

Budget Environment

The program manages State Forests to meet the statutory and constitutional fiduciary responsibilities through timber harvests while protecting and making available other forest values – social, recreational, educational, and environmental benefits. Under the current state forest management plan, timber harvests are close to or at the maximum sustainable level. Increased income from state forests can only come through a change to the management plan or an increase in funds received through timber sales.

The varied uses of the state forests put pressure on the budgetary resources of the program. Since the state forests are managed for more than just the ability to produce revenue, including social and environmental benefits, the sometimes competing uses put strains on the ability of the program to manage and fund all of the uses effectively. Environmental preservation and recreational uses continue to grow and are often in direct conflict with the revenue model of the program.

Swiss Needle Cast, a foliage disease of Douglas-fir, is significantly affecting a portion of state forestlands on the Tillamook State Forest. Symptoms of this disease are also becoming evident in the Elliott State Forest. Federally listed species have also affected the management of state forests over the last decade. Listings for fish and bird species influence the ability to manage the resource to achieve revenue goals on state forest lands.

Legislatively Adopted Budget

The State Forests program 2015-17 total funds budget is $94,016,131 and includes 258 positions (233.08 FTE). This amount is a 3% increase from the 2013-15 budget.

The 2015-17 budget includes the re-establishment of $3 million Federal Funds expenditure limitation for purchase of land for the Gilchrist State Forest due to the purchase not being completed in 2013-15.

Other Fund changes include a $2 million expenditure limitation reduction due to the discontinuation of 9 vacant positions (8.66 FTE). These positions were originally provided for activities related to the Common School Fund lands, but have remained unfilled in the prior biennium due to lack of workload.

Private Forests

	2011-13 Actual	**2013-15 Legislatively Approved**	**2015-17 Current Service Level**	**2015-17 Legislatively Adopted**
General Fund	11,396,978	14,284,065	15,752,862	16,591,410
Other Funds	6,203,370	9,831,971	10,171,802	10,725,442
Federal Funds	8,630,092	12,261,652	12,739,822	12,738,217
Total Funds	**$26,230,440**	**$36,377,688**	**$38,664,486**	**$40,055,069**
Positions	110	114	114	115
FTE	107.89	109.79	111.43	112.43

Program Overview

Oregon houses about 30 million acres of forestlands, second only to Alaska. Of these, 10.7 million, or about 35%, are privately owned. These private forestlands produce about 75% of the harvested timber in the state. The Private Forests program helps ensure the health, appropriate management, resiliency, and productivity of those forestlands. The four primary activities of the Private Forests program are:

- Enforcement of the Oregon Forest Practices Act.
- Monitoring and improving forest health 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.
- Family forestland assistance to family forestland owners, 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.
- Urban Forestry, providing technical information on tree risk assessment, care, planting, and selection; ordinances; inventories; and urban forest management.

Revenue Sources and Relationships

The Forest Practices sub-program, charged with the implementation and enforcement of the Oregon Forest Practices Act, is funded by a combination of 60% General Fund and 40% Other Funds from the 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. The following table shows the historical revenue dedicated to the administration of the Forest Practices Act from the FPHT.

Biennium	Volume (Billions of Board Feet)	Forest Practices Act Revenue
1997-99	7.6834	$5,099,180
1999-01	7.6009	$6,984,726
2001-03	7.1652	$6,944,788
2003-05	8.4321	$7,035,171
2005-07	8.429	$5,454,507
2007-09	6.8414	$6,142,754
2009-11	5.7955	$6,618,666
2011-13	7.3923	$7,002,281
2013-15	8.3386*	$9,521,181
2015-17	7.9694*	$9,719,107
***Includes actual plus forecasted amounts**		

General Fund is also used as a one-to-one match for federal funding, providing support for the Forest Health staff and Field Foresters, the annual insect and disease surveys, the delivery of forest pest data and maps, and technical assistance to forest landowners and policy decision makers. General Fund also provides for the Oregon Plan for Salmon and Watersheds Activity.

Federal Funds provide exclusive funding for family forest landowner financial and technical assistance, technical assistance for tree improvement, Forest Legacy program administration, and insect and disease monitoring and mitigation. Federal Funds are also used exclusively for the Urban Forestry sub-program.

Budget Environment

The Private Forests program is constantly responding to the changing demands of the forest products industry, environmental concerns, forest health and pest management issues, and social factors including the conversion of forestlands for non-forestry use.

The economy has generally been recovering in the past biennium and is expected to continue to expand slowly throughout the 2015-17 biennium. As the economy continues to recover 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 and reforestation auditing is also expected to increase.

Water quality issues are anticipated to be an ongoing issue during the biennium. During the 2011-13 biennium, additional funding was provided to the agency to expand the program's forest practices effectiveness monitoring program. The program resumed its riparian monitoring project since that time to directly test the efficacy of riparian protection standards for fish bearing streams. A January 2015 finding, by the National Oceanic and Atmospheric Administration (NOAA) and the U.S. Environmental Protection Agency (EPA), regarding the state's multi-agency plan for the non-point source water quality program, resulted in the possible withholding of certain federal funding under the Coastal Zone Management Act for the Department of Land Conservation and Development and the Oregon Department of Environmental Quality in the upcoming federal fiscal year beginning October 1, 2015 due, in part, to concerns about the efficacy of the riparian rules developed by the Board of Forestry.

A significant portion of Oregon's private forestlands, 4.7 million acres, are considered family forestlands. These lands are often under pressure to be converted to non-forest uses as property values exceed the value of timber production on these lands. The owners of these lands also require a disproportional amount of assistance in complying with the FPA than larger industrial forest owners due to a lack of experience, institutional knowledge, and access to financial resources.

Forest health management will continue to be a dominant issue in the upcoming biennium. Forest insect outbreaks can cause significant tree mortality and damage leading to economic losses and increased fire danger. The significant insect risk in Oregon is from bark beetle outbreaks. Diseases, including Sudden Oak Death and Swiss Needle Cast are expected to continue to spread in Oregon although containment efforts and improved disease resistant plantings are being implemented.

Legislatively Adopted Budget

The Private Forests division 2015-17 total funds budget is $40,055,069 and includes 115 positions (112.43 FTE). This amount is a 10.1% increase from the 2013-15 legislatively approved budget. The General Fund budget for the agency totals $16,591,410, a 16.2% increase from the 2013-15 budget.

One-time funding of $1.4 million, including $838,438 General Fund and $558,960 Other Funds, and the provision of a limited duration position are included in the budget for the implementation of two incremental enhancements to the Forestry Activity Electronic Reporting and Notification System (FERNS) and ongoing funding for maintenance and support of the system. The FERNS project was a result of recommendations made as part of an independent assessment of the agency's operation of the Forest Practices Act. The project has been undertaken in a phased, multi-release method from 2012 to present. Throughout the project's lifecycle, ODF has worked with and provided regular status reports to the Office of the State Chief Information Officer and the Legislative Fiscal Office. The enhancement addresses two primary shortcomings of the existing FERNS system: public subscriber access and enhanced reporting and workflow improvements. Tertiary benefits include the resolution of ongoing problems and user enhancement of the existing system. The majority of the work will be completed using contracted IT services. The limited duration position is for project management.

Additional General Fund of $89,029 is included in the program for the pro-rata portion of policy packages approved in the Agency Administration program.

DEPARTMENT OF GEOLOGY AND MINERAL INDUSTRIES

Analyst: Terpening

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	2,464,702	4,040,945	2,814,992	4,138,836
Other Funds	9,009,907	12,146,280	4,945,009	6,092,210
Federal Funds	3,894,652	4,429,263	2,354,365	5,356,535
Total Funds	**$15,369,261**	**$20,616,488**	**$10,114,366**	**$15,587,581**
Positions	53	50	39	42
FTE	48.59	49.20	38.16	41.16

Overview

The Department of Geology and Mineral Industries (DOGAMI) is the state's primary source of geoscientific information. DOGAMI has two program areas: The Geologic Survey and Services Program and the Mineral Land Regulation and Reclamation Program. Department headquarters are located in Portland, with the Mineral Land Reclamation unit located in Albany. Two small Geologic Survey offices are in Baker City and Newport. Employees of the Department are primarily geologists and other geotechnical experts.

The Geologic Survey and Services Program gathers geoscientific data and maps mineral resources and hazards. Geographic areas needing tsunami hazard mapping, landslide hazard studies, flooding 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, outreach, and library functions and the agency's administrative functions such as budgeting, accounting, and human resource services.

The Mineral Land Regulation and Reclamation Program is responsible for regulating the exploration, extraction, production, and reclamation of mineral and energy resources for the purposes of conservation and second beneficial uses of mined lands. The objectives are to conserve mineral resources and protect the environment while providing for the economic uses of the mined materials. The Mineral Land Regulation and Reclamation Program regulates oil, natural gas, geothermal exploration and extraction, and receives no General Fund or Lottery Funds support.

Revenue Sources and Relationships

The Geologic Survey and Services Program is funded by General Fund, Other Funds, and Federal Funds. Historically, 10% to 15% of DOGAMI's Federal Funds are from grants that require matching General Fund. The Federal and Other Funds that DOGAMI receives are largely from cooperative agreements and fee-for-services on reimbursable projects; however, the availability of projects and amount of potential revenue has been difficult for the Department to predict. Much of the revenue the Department receives from partners in the LIDAR consortium for collection of map data is passed through to the LIDAR services contractor for the data collection.

The Mineral Land Regulation and Reclamation Program is financed primarily from Other Funds derived from aggregate mine, oil and gas, and geothermal permit and production fees. A recent cash flow analysis by the Department indicated that the current fee structure is insufficient to support program expenses since the downturn in aggregate production that occurred in conjunction with the housing market decline. As a result, the 2015 Legislative Assembly approved increases for fees related to mining operations and established an exemption fee for small surface mining operations (HB 3563). The revenue derived from the fee increase is anticipated to provide a sufficient ending balance and sustain operations.

Budget Environment

Oregon is a state with a wide range of geologic hazards, varied geologic conditions, and diverse geologic resources. Population increases, along with greater interest in renewable energy sources and climate change, have contributed to an increase in demand for geoscientific information. Increased demand combined with previous biennia General Fund reductions has resulted in DOGAMI becoming more dependent upon obtaining funding partners to support projects, rather than pursuing projects that are of highest priority to the state.

The projects the Department pursues are primarily fee-for-service driven through the LIDAR program and many projects are seasonal in nature. The agency's practice has been to retain limited duration positions with subject matter expertise while in pursuit of projects and corresponding revenue, and then using General Fund to backfill for these positions until projects are realized. In the past, General Fund has been used to pay for administrative positions and to provide matching funds for project grants, while project positions are funded with Other and Federal Funds. However, projects that provide other sources of revenue are unpredictable, and when project revenue did not materialize as anticipated in 2013-15, the agency experienced a significant revenue shortfall. To exacerbate the problem, the Department's past practice has been to continue to provide additional deliverables or staff time to support the final presentation of projects for which there is not adequate reimbursement within the contract, resulting in significant cost overruns on nearly all projects.

In 2013-15, the agency had significant turnover in leadership and fiscal staff positions, which resulted in a loss of institutional knowledge and experience in tracking and forecasting outside funding sources. As a result, the 2015 Legislative Assembly approved an increase of $800,000 General Fund for the 2013-15 biennium to support current operations and backfill a shortfall in revenue from Other Funds and Federal Funds.

Legislatively Adopted Budget

The legislatively adopted budget for 2015-17 is $15.5 million total funds and is composed of $4.1 million General Fund, $6.1 million Other Funds, and $5.3 million Federal Funds. This is a 24.4% reduction in total funds from the 2013-15 legislatively approved budget. However, the 2013-15 legislatively approved budget was adjusted by the 2015 Legislative Assembly through the following: HB 5543 with a one-time General Fund appropriation of $670,000 to purchase fifteen seismometers located throughout Oregon (ownership of which was subsequently transferred to the University of Oregon) and an Other Funds expenditure limitation increase of $4,190,555 for increased LIDAR contracts; and HB 5512 which provided $800,000 General Fund to backfill a shortfall in revenue.

Including the one-time increase to the 2013-15 budget, the General Fund portion of the 2015-17 legislatively adopted budget is 2.4% higher than 2013-15. This is a result of investments to stabilize funding for positions with subject matter expertise in the geologic hazards programs that had previously been funded with Other and Federal Funds. Additionally, the budget includes one-time funding of $770,000 General Fund to provide the state match for a LIDAR project with the U.S. Geological Survey. This project is also the major cause for the 20.9% increase in Federal Fund expenditure limitation from 2013-15 to 2015-17.

The Other Funds portion of the 2015-17 legislatively adopted budget is 49.9% less than the 2013-15 budget. This reduction is largely due to the phase out of one-time LIDAR data collection and mapping projects and adding back a smaller amount of anticipated project funding. The budget includes $1.5 million Other Funds and $2.5 million Federal Funds expenditure limitation to continue LIDAR mapping.

With the agency's difficulty in tracking and forecasting revenue streams, the legislatively adopted budget includes the elimination of 3 positions related to the budget and accounting functions of the agency with the Department contracting with the Department of Administrative Services (DAS) to provide these functions through DAS Shared Client Services. The budget also includes closure of the Nature of the Northwest Center store located within the Department and eliminates a position, while also establishing a Grants Coordinator position that will facilitate and track the increasing complexity of project grants received from multiple sources and varying fund types.

The budget includes two budget notes requiring the Department to report back to the 2016 Legislature on a number of issues, including: reorganizing and updating the budget and accounting structures and procedures; reviewing the agency's business and organizational infrastructure, core operations, funding sources, and cash flows; and reviewing the application of indirect rates that fund some administrative functions. Additionally, the Office of the State Chief Information Officer will conduct an assessment of the agency's information technology operations and report back with the Department in 2016.

Finally, the budget creates a separate Other Funds expenditure limitation for the Mined Land Regulation and Reclamation (MLRR) program in order to more efficiently track the revenues and expenditures of the program and includes a fee increase (HB 3563). The fee increase is anticipated to generate approximately $600,000 of additional Other Funds revenue per biennium, assuming annual aggregate production rates maintain at 30,000,000 tons. The Department did not receive additional expenditure limitation in conjunction with the fee increase; rather the fee increase is anticipated to support continued operations, provide a sufficient ending balance, and prevent the MLRR program from being supported by the Geologic Survey and Services program.

DEPARTMENT OF LAND CONSERVATION AND DEVELOPMENT

Analyst: Stayner

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	10,382,331	12,462,786	12,244,349	13,152,774
Other Funds	874,713	960,315	484,999	484,999
Federal Funds	5,617,444	6,014,070	6,267,596	6,254,991
Total Funds	**$16,874,488**	**$19,437,171**	**$18,996,944**	**$19,892,764**
Positions	57	61	58	57
FTE	55.13	57.68	54.40	55.90

Overview

The Department of Land Conservation and Development (DLCD) is the administrative arm of the Land Conservation and Development Commission (LCDC). DLCD administers Oregon's statewide land use planning program and Oregon's federally approved coastal management program.

DLCD personnel assist LCDC in adopting state land use goals, enforcing compliance of local land use planning with the goals, coordinating state and local planning activities, 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. Periodic review of locally adopted plans and the provision of both direct technical assistance and planning grants to local jurisdictions are key elements of the program. Under that program, all cities and counties have adopted comprehensive plans that meet mandatory state standards.

In addition to a main office in Salem, the agency maintains field offices in Central Point, Springfield, La Grande, Portland, Newport, and Bend. DLCD is divided into two budgetary programs: Planning and Grants. All of the operational programs and administrative functions of the agency are contained in the Planning program, whereas the Grants program is only for the purpose of segregating grant funding available to local planning units from the operational budget of the agency. The Grants program utilizes General Fund to provide grants to cities and counties for planning activities including economic development opportunity analysis, land inventories, infrastructure, and development planning.

The functions of the primary divisions of the agency are as follows:

- Director's Office – Provides overall supervision and direction to the management and staff of the agency. In addition, the Director's Office functions include policy development and management of collaborative initiatives with other agencies and entities.
- Administrative Services – Provides internal agency financial services, support services, information systems, facilities management, inventory, property control, and reception services.
- Planning Services – Provides technical assistance and policy consultation in transportation, natural hazards, natural resources, and Measure 49 claims. Specific services include the Transportation and Growth Management (TGM) Program and the Natural Hazards Program. The TGM Program, a joint effort with ODOT, focuses on helping communities manage urban growth, plan an efficient transportation network, and protect 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 the 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 – 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. The Division maintains a staff presence within the five Regional Solution Centers and administers General Fund grants to local governments.
- Ocean and Coastal Services – Manages the implementation of the federally-approved Oregon Ocean and Coastal Management Program and the Oregon Ocean Resources Management Program. The agency provides 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 Funds.

<u>Revenue Sources and Relationships</u>
General Fund comprises just over 66% of the budget for DLCD. Discounting the $1.527 million dedicated to local grants, General Fund supports 58.4% of the agency's operational budget.

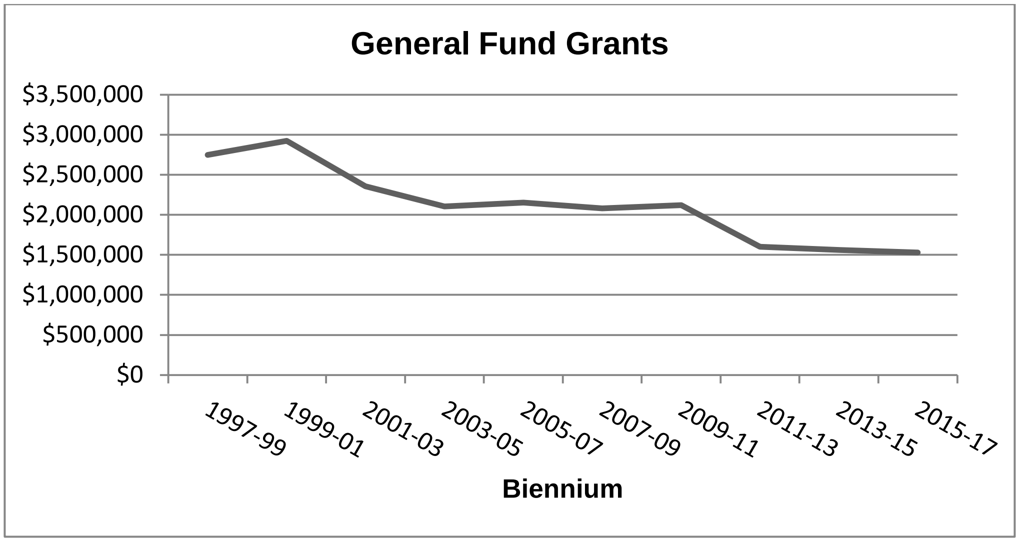
Federal Funds account for 31.4% of the total funds budget of the agency. DLCD receives federal grant funding from the National Oceanic and Atmospheric Administration (NOAA) for coastal zone management activities through the Coastal Zone Management Act of 1972 (CZMA) and subsequent reauthorizations. Section 306 of the CZMA provides funding for the administration of coastal zone management, broadly allowing the coverage of costs for land use planning and resource management within the coastal zone. Section 306A provides grant funding for small-scale construction, restoration, and acquisition projects. Section 309 funds coastal zone enhancements including development of plans and procedures for management and use of coastal lands. Section 310 provides funding for the provision of technical assistance to support the development and implementation of coastal management programs. Section 6217 of the Coastal Zone Act Reauthorization, administered jointly by NOAA and the U.S. Environmental Protection Agency funds a portion of the cost to develop and maintain the state's Coastal Nonpoint Pollution Control Program. These programs require state matching funds which are provided by in-kind expenditures by DLCD and other participating state agencies.

DLCD also receives Federal Funds from the Federal Emergency Management Agency for natural hazards planning, specifically for addressing risks by mapping, analysis and planning, and for floodplain management activities. DLCD is the state coordinating agency for the Nation Flood Insurance Program.

Other Funds make up the smallest portion of the DLCD budget, accounting for just over 2.4% of the total funds budget. Nearly all of the Other Funds revenue is from a $414,013 transfer of Federal Highway Administration funds from the Oregon Department of Transportation (ODOT). This funding has historically been used to fund a joint DLCD and ODOT program for supporting local governments working on transportation growth management issues. The funding has also been used in conjunction with other state funding in the prior two biennia for the Oregon Sustainable Transportation Initiative, but the state funding was discontinued in the 2015-17 biennium. The remaining Other Funds revenue is derived from miscellaneous receipts, including the sale of publications and duplicating services and is used to cover the cost of providing those services.

<u>Budget Environment</u>
The budget environment for DLCD continues to be dominated by the pace and complexity of local land use planning activities, which are impacted by population growth, demographic changes, natural environmental factors, economic development, and shifting economic drivers. General Fund continues to be the primary funding source for the agency, but as the state begins to stabilize and recover from the most recent recession, there is pressure to restore or expand General Fund supported functions.

General fund grants are administered throughout the operating divisions of the agency for various purposes including local and regional planning, technical assistance, and natural hazard identification and mitigation. Over the past ten biennia, the General Fund dedicated to grants has been declining. The following table illustrates this trend.



The legislatively adopted budget for 2015-17 includes $1,527,115 of General Fund for local assistance grants; the lowest amount in 20 years. The funding typically represents roughly one-third of the funding requested. Grant awards are made once a biennium based on the amount of funding available and as recommended by a grants advisory committee composed of local government representatives and other stakeholders.

Federal requirements have continued to expand in the areas of natural hazard planning and environmental protection. Although federal funding for programs administered by DLCD has remained fairly stable in recent biennia, a January 2015 finding by the National Oceanic and Atmospheric Administration and the U.S. Environmental Protection Agency regarding the multiple state-agency plan for the non-point source water quality program resulted in the possible withholding of certain Federal Funds under the Coastal Zone Management Act in the upcoming federal fiscal year beginning October 1, 2015. For DLCD, this could mean a reduction in Federal Funds of up to $824,195, including $321,000 for local grants. The state agencies involved with the plan, including the Department of Environmental Quality, Oregon Department of Forestry, Department of Agriculture, and DLCD are continuing to work with the federal government to resolve the issue and release the funding.

No significant substantive legislation was adopted during the 2015 legislative session that included a budgetary impact on DLCD. Funding was provided in a number of bills to various agencies, including DLCD, to address issues related to sage grouse habitat preservation.

Legislatively Adopted Budget

The Department of Land Conservation and Development’s 2015-17 total funds budget is $19,892,764 and includes 57 positions (55.90 FTE). This amount is 2.3% higher than the 2013-15 legislatively approved budget. The General Fund budget for the agency totals $13,152,774, a 5.5% increase from the 2013-15 legislatively approved budget.

The DLCD 2013-15 budget included a reduction in the amount of $194,000 General Fund for the Southern Oregon Regional Pilot Program (SORPP), which was established by an Executive Order. As requested by the grant-recipient counties, that same amount was restored as a one-time General Fund appropriation in the 2015-17 biennium in order to allow additional time for work to be completed.

General Fund in the amount of $498,997, of which $294,000 is for one-time expenditures, is included for the continuation of the agency’s Information Management Modernization Initiative that began in the prior biennium. The remaining portion will fund the conversion of a vacant half-time contract specialist position to a permanent full-time information specialist position to manage the newly developed or upgraded information management systems.

General Fund in the amount of $300,000 was provided to establish a “SageCon” coordinator, a limited duration Natural Resource Specialist 5 position, to lead staff participating in the SageCon Governance and Implementation Teams. The position will work closely with and take direction from the Governor’s Office to provide overall leadership and direction for state agencies working with stakeholder interests in the energy, agricultural, and conservation sectors related to sage grouse conservation.

LAND USE BOARD OF APPEALS

Analyst: Stayner

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,319,536	1,573,758	1,730,596	1,772,887
Other Funds	61,346	87,401	28,641	28,641
Total Funds	**$1,380,882**	**$1,661,159**	**$1,759,237**	**$1,801,528**
Positions	5	6	6	6
FTE	5.00	5.75	5.75	6.00

Overview

The Land Use Board of Appeals (LUBA) was created in 1979 to simplify the land use appeal process and has exclusive jurisdiction to review all local and state governmental land use decisions. LUBA hears appeals of land use decisions made by state agencies, special districts, and local governments. LUBA decisions may be appealed to the Court of Appeals and ultimately to the state Supreme Court via discretionary review. 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. The Board consists of three members appointed by the Governor and confirmed by the Oregon Senate. In addition to the appointed Board, the agency employs an administrative and support staff of three.

Revenue Sources and Relationships

Over 98.4% of LUBA's 2015-17 biennium budget revenue is General Fund. The remainder is Other Funds primarily from the production and sale of LUBA Reports. The price of the LUBA Reports is $175 per volume and it is estimated that four volumes will be produced and distributed to 50 subscribers in the 2015-17 biennium.

LUBA collects appeal filing fees and fees from intervening parties, which are transferred to the General Fund. The appeal filing fee of $200 and intervener fee of $100 are set in statute. LUBA estimates receiving $103,100 from these fees in 2015-17, which is consistent with handling about 188 appeals and 140 intervening parties annually. This amount represents a 28.6% increase over the 2013-15 biennium.

Budget Environment

The workload of LUBA is dictated by the number and complexities of appeals filed each year. These numbers are significantly influenced by general economic activity and population growth, and, to a lesser degree, by shifts in the structure of the state's economy. The Board is statutorily limited to three members, so this portion of the budget is relatively fixed. A large increase in the number or complexity of cases manifests itself in delays and backlogs that negatively impact the ability of the Board to meet the 77-day statutory deadline for the issuance of a final order. The Board has processed an average of roughly 210 appeals per year over the last 20 years. From 2008 to 2013, this number fell well below 150 appeals, but is expected to return to the long-term average as the economic recovery continues.

Legislatively Adopted Budget

The Land Use Board of Appeals 2015-17 total funds budget is $1,801,528 and includes 6 positions (6.00 FTE). This amount is 8.45% higher than the 2013-15 budget. The General Fund budget for the agency totals $1,772,887, a 12.65% increase from the 2013-15 legislatively approved budget and includes $44,900 to cover the costs of increasing the staff attorney position from three-quarter time (0.75 FTE) to full-time (1.00 FTE). This position was established during the previous biennium to help the Board maintain compliance with the 77-day statutory deadline for the issuance of final orders and to conduct needed legal research.

DEPARTMENT OF STATE LANDS

Analyst: Gilbert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	20155-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	681,266	--	--	328,228
Other Funds	24,318,252	34,393,584	27,261,518	35,792,955
Other Funds (NL)	27,703,187	11,634,249	10,234,249	10,234,249
Federal Funds	4,417,118	2,881,911	1,634,429	1,795,917
Total Funds	**$57,119,823**	**$48,909,744**	**$39,130,196**	**$48,151,349**
Positions	107	107	105	110
FTE	105.42	106.00	104.00	109.00

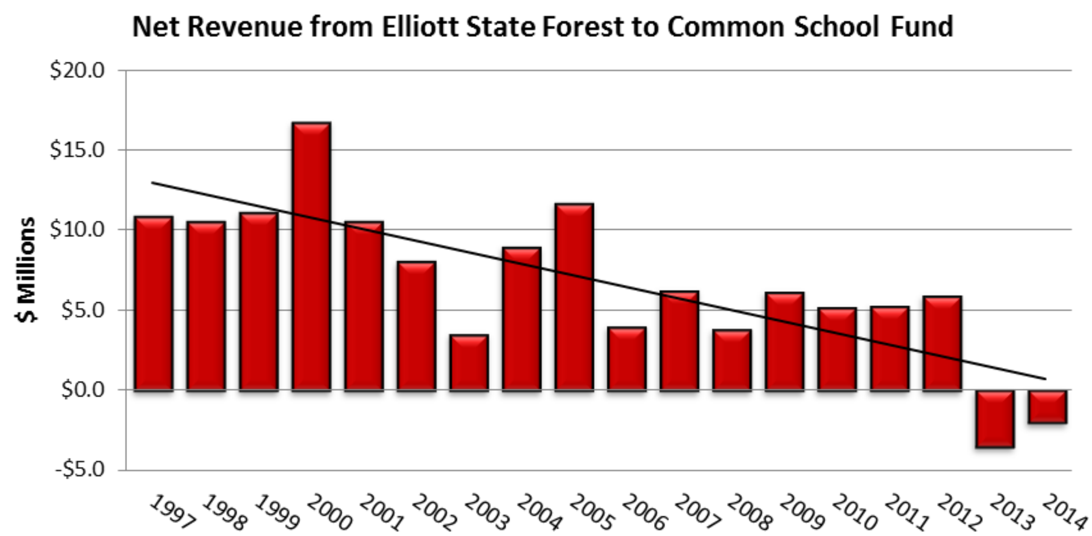
Overview
The Department of State Lands (DSL) is the administrative arm of the State Land Board. The Board, created under the Oregon Constitution, consists of the Governor, the Secretary of State, and the State Treasurer. The Board is responsible for managing the assets of the Common School Fund. These 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 adheres to 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 DSL. The agency also manages the South Slough National Estuarine Research Reserve.

For budget purposes, the Department is organized around four areas:
- Common School Fund – (94 positions, 92.50 FTE) Consists of Land Management, Aquatic Resource Management, Business Operations and Support Services, and the Director's Office.
- Oregon Wetlands Revolving Fund – (0.50 FTE) Established by the 1987 Legislative Assembly 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 National Estuarine Research Reserve – (16 positions, 16.00 FTE) A tidal inlet of the Coos estuary six miles southwest of Coos Bay. The area 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 total South Slough National Estuarine Research Reserve (SSNERR) acreage 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, education, and stewardship programs. Its laboratory work is co-located with the Oregon Institute of Marine Biology in Charleston, which is operated by the University of Oregon.
- Capital Improvements – (no positions or FTE) Manages property as assets of the Common School Fund. Expenditures in this program include land rehabilitation and conversion; small infrastructure design and construction projects; facilities rehabilitation; general maintenance and repair; weed control; and response to environmental hazards.

Revenue Sources and Relationships
Other Funds revenue for the Department is derived 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 and leasing revenue is projected to generate $10.3 million in 2015-17.

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 2015-17 biennium.

Common School Fund revenues also include receipts from timber harvests on Common School forest land. The Department of Forestry manages forest land for DSL and projects 27.1 million board feet in harvest in 2015-17 from all Common School forests. This is significantly less than usual, due to litigation by conservation groups closing off harvest where there is protected species habitat in the Elliott State Forest. As shown in the following display, starting in 2013-15, Elliott management costs have exceeded revenues. In 2015-17, the deficit is expected to be about $300,000.



In response, the Land Board is determining optional revenue generation strategies for the Elliott State Forest. Public input in 2014 narrowed the options to 1) a new Habitat Conservation Plan, 2) new management of the forest with continued Common School Fund ownership, and 3) transfer of ownership out of the Common School Fund such that the Land Board's trust responsibility and public values continue to be protected. At this writing, the Land Board is moving forward with further exploration of the third option. Additional public input is scheduled.

Common School Fund revenue distributions to the Department of Education are forecast to be $110.2 million in 2015-17, unless the Land Board, with legislative encouragement, decides to distribute at a higher rate. Because these funds are directly transferred to the Department of Education, they are not included as part of the DSL budget.

Federal Funds received by the Department from the U.S. Environmental Protection Agency (EPA); Office of Coastal Resource Management, National Oceanic Atmospheric Administration, Department of Commerce; and U.S. Fish and Wildlife Service support the wetlands program, permit streamlining efforts, and the SSNERR. Federal Fund receipts are estimated at $1.8 million for the 2015-17 biennium, about a 38% reduction from 2013-15 legislatively approved budget. In general, federal revenues are declining. If other federal funds become available during the biennium, DSL will need to request additional expenditure limitation. State match requirements range from 30% to 50% depending on the individual grants and is provided from in-kind contributions, private donations, and some Common School Fund expenditures.

<u>Budget Environment</u>
The Common School Fund (CSF) 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 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 resources 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 CSF's market value, with lower percentages used when fund growth was relatively sluggish. The current distribution method is 4% of the past three years' rolling average CSF balance. The Oregon 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. ORS 273.105 delegates this responsibility to the State Land Board.

The Portland Harbor Superfund site is the result of more than a century of industrial use along the Willamette River. The EPA listed the site (from the Columbia Slough to the Broadway Bridge) in December 2000. Clean-up costs are anticipated to be significant. The state's interest is in DSL's management of state-owned submerged and submersible lands in the area. Forensic work is needed to determine what entities leased sites from the state and, in the course of their use, released toxins into the river. Beginning in 2007, DSL has been contracting for site assessment and sediment evaluation. The EPA Record of Decision is expected in 2018. After that, cleanup is expected to begin in 2020. DSL is using forensic consultants to help the state defend its position in the cleanup cost allocation process. Funding or expenditure limitation has been approved from 2009 forward. Total costs through February 2015 are $13.2 million, of which $3.1 million was General Fund. The 2015-17 budget provides an additional $4.7 million limitation for this purpose. An insurance settlement is covering some ongoing charges for the work.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $48.2 million total funds is $758,395 (or 1.6%) less than the 2013-15 legislatively approved budget. The primary reason for the decrease is a mix of phasing out one-time expenditures and adding several policy option packages as described below. The 2015-17 budget is $9 million (or 23.1%) higher than 2015-17 current service level. The Legislature approved the following:

- $328,228 General Fund and 2 positions to implement SB 912, which creates a temporal distinction between "historically filled lands" and "new lands" for purposes of determining ownership and transfer of ownership of lands created upon submersible or submerged lands by artificial fill or deposit.
- $4.7 million Other Funds for continued legal and forensic expertise related to the Portland Harbor Superfund Site, including 1 limited duration position.
- $667,000 Other Funds expenditure limitation and a limited duration position for public outreach efforts around the Elliott State Forest alternative revenue considerations.
- Authorization to commence an agricultural conversion project on state grazing lands at a cost of $455,000 Other Funds.
- Authorization for a permanent position to address internal controls for Common School Fund financial reporting at $294,311 Other Funds.
- $2.2 million expenditure limitation for 2014 firefighting expense incurred by the Bureau of Land Management.
- $268,000 expenditure limitation for the 2014 agency reorganization and remodeling final expenses.
- Authority to reclassify a position at the South Slough National Estuarine Research Reserve at no cost.
- $204,682 expenditure limitation for infrastructure equipment such as servers, smart phones, satellite phones, and a replacement truck lease.
- $133,000 unscheduled federal expenditure limitation to accommodate an EPA wetlands grant, if it is approved in the fall of 2015 and an additional $28,488 for carryover EPA grants awarded in the 2013-15 biennium.

The budget also reflects reductions of $307,611 Other Funds expenditure limitation due to Department of Administrative Services' assessment changes and a decrease in the Attorney General hourly billing rate.

MARINE BOARD

Analyst: Walker

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	22,664,349	26,214,465	24,456,874	26,181,068
Federal Funds	5,351,936	7,450,387	6,694,524	7,464,524
Total Funds	**$28,016,285**	**$33,664,852**	**$31,421,398**	**$336,455,92**
Positions	40	40	40	38
FTE	39.5	39.50	39.50	38.00

Overview

The Oregon State Marine Board (OSMB) was established in 1959 and is responsible for registering and titling all recreational motorized boats and sailboats 12 feet and longer in the state; providing boater education, marine law enforcement, and facility access; and mitigating the effects of invasive species on native waters. The Board returns user fees (marine fuel tax and title and registration fees) to boaters in the form of boating safety and clean boating educational programs, marine law enforcement, and improved boating facilities. The Board consists of five members appointed by the Governor for four-year terms. The Board selects the agency's executive director.

Revenue Sources and Relationships

The agency receives no General Fund support or Lottery Fund allocations. All agency programs are funded by two major revenue sources. OSMB is funded with 76% Other Funds and 24% Federal Funds. Other Funds revenues in the 2015-17 biennium are projected to total $26.7 million while Federal Funds are projected to total $7.5 million.

The agency's primary Other Fund revenue sources are:

- Marine fuel taxes – Each year the Department of Administrative Services certifies the amount of motor vehicle fuel taxes imposed during the preceding fiscal year on fuel purchased and used to operate motor boats. Approximately 23.5% of the agency's revenue, or $8 million, an 11% decrease from 2013-15, comes from marine fuel taxes. The amount, less refunds for commercially used motor boats, is transferred to the Marine Board's Boating Safety, Law Enforcement, and Facility Account. The estimate is based on the results of the Oregon Motorboat Fuel Use Survey that is conducted every four years to determine the amount of fuel consumed for a variety of vessel sizes and types, which is used to determine the tax to be transferred from the Department of Transportation.
- Registration and title fees – 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. The 2015 Legislative Assembly adopted new fees based on a flat fee of $4.50/foot for a two year registration; one time title fees were adjusted to $50, which enabled the agency to restore funding levels for programs eroded by inflation, flat registration counts, and drought conditions. In addition, the Board adjusted various other fees to better reflect the actual cost of producing the documents. The last fee increases were authorized by the 2003 Legislative Assembly and became effective during the 2003-05 biennium.
- Invasive species fees – The fees for invasive species permits are $5 for motorboats, $5 for manually propelled boats over ten feet in length, and $20 for nonresidents and annual fees for operators of boat liveries. The aquatic invasive species fees were instituted during the 2009 legislative session and are deposited into a dedicated account.

The Legislature approved HB 2459 increasing various fees assessed by the Board to generate additional revenue sufficient to maintain the Boating Safety and Boating Facility programs. It is anticipated the fee increase will generate $4.7 million Other Funds revenue and $500,000 Federal Funds in the 2015-17 biennium.

OSMB has an Other Funds beginning balance of $5.3 million and an estimated ending balance of $5.8 million, which represents approximately five months of cash reserves.

The sources of the agency's Federal Funds are:

- U.S. Coast Guard's Recreation Boating Safety (RBS) grant program ($4.2 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 and is funded by the federal Sportfish Restoration and Boating Trust Fund.
- Boating Infrastructure Grant (BIG) program ($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.
- Clean Vessel Act (CVA) program ($2.3 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.

Matching funds for the various grants come from local government funds, local in-kind support, and OSMB registration and titling fees and marine fuel tax.

<u>Budget Environment</u>

Over the last 12 years, the average number of boats registered by OSMB was 184,647. The number of registered boats peaked in December of 2003 at 197,591. Current registration is estimated to be 166,000 boats, which would be its lowest point in the last 12 years. On average, registration has declined approximately 1% per year since 2000. As the economy continues to improve, OSMB anticipates fee revenue will slowly increase. It should be noted that a fee increase may result in fewer boats being registered; some owners may choose to not register their boats. OSMB estimates that with the approved fee increase, the total number of boats registered could decrease by as much as 5%.The agency notes that even though the number of registered boats has declined, there is an increased utilization of waterways by non-registered craft, such as canoes, kayaks, rafts, and inner tubes. The 2015 Legislative Assembly directed OSMB to return during the 2017 legislative session with a methodology for licensing non-motorized watercraft.

The decline in boat registration reduces registration and titling fee revenues and likely the amount of marine fuel tax received by the agency. The agency has administratively managed its budget to remain within available cash resources.

Charter and Outfitter/Guide registrations are historically stable. General economic conditions drive this population of fee payers, but for the most part the clientele are motivated beyond economic concerns which adds stability. Continued enforcement is anticipated to increase Outfitter/Guide numbers in 2015, but not substantially.

The interplay of motorized and non-motorized boating activities continues to be an issue that the agency must actively manage in terms of education, regulation, and law enforcement. The level of safety patrol and boating law enforcement will become more difficult as biennium-over-biennium funding of these activities by the agency will be relatively unchanged from the 2013-15 biennium.

The demand for technical and financial assistance to help maintain, repair, and replace aging boating facilities continues to rise. The Boating Access Improvement Plan (2011-17) lists $179 million in improvements identified by users and facility managers at 770 public boating access sites in Oregon. The fee increases approved in HB 2459 will allow OSMB to continue funding at a fairly consistent level from 2013-15.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $33.7 million is slight increase over the 2013-15 legislatively approved budget, less than 1%. Staffing levels have decreased in response to administrative efficiencies from 40 positions (39.50 FTE) to 38 positions (38.00 FTE).

The Other Funds budget of $26 million is essentially flat from the 2013-15 legislatively approved budget and $1.8 million, or 7.3%, higher than the current service level. Federal Funds total $7.4 million and have not increased substantially over the 2013-15 legislatively approved budget.

Administration and Education Program

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	5,240,762	6,358,903	6,539,252	6,363,051
Federal Funds	274,163	209,895	216,626	216,626
Total Funds	**$5,514,925**	**$6,568,798**	**$6,755,878**	**$6,579,677**
Positions	24	24	24	23
FTE	23.00	23.00	23.80	22.60

Program Description
The Administration and Education program 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, coordination of statewide water safety school programs, development and distribution of safe boating promotional materials, and the production of public information materials for distribution to the media.

Budget Environment
Balancing needs and expectations of water-based outdoor recreation activities in Oregon is a growing challenge. The number of registered boats continues to decline and evidence indicates a steady increase in the popularity of non-registered manually powered boats and organized rowing sports. Implementation of the Aquatic Invasive Species Program is enabling the Board to gather baseline use data on non-registered boats for the first time, but it will take several years to quantify trends. However, fatalities related to manually powered boat operation continue to increase, and conflict between motorized and non-motorized users has spiked in recent years. The economic downturn has eroded the number of 16-20' registered boats, and higher fuel prices have likely played a part in fewer use days by registered boaters. These changes require new ways of dealing with user conflict and managing limited and declining resources by service providers. While approximately 80% of fatalities involved persons not wearing life jackets, funds for statewide campaigns are now very limited. The agency continues to work closely with service providers to carry this important message to all boaters – registered or not – while trying to assess how best to serve this diverse group of customers.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $6.6 million is less than a 1% decrease from the 2013-15 legislatively approved budget and $176,201 total funds, or 2.6%, lower than the 2015-17 current service level. Staffing levels have decreased in response to administrative efficiencies from 24 positions (23.80 FTE) to 23 positions (22.60 FTE).

The budget was decreased by $239,412 Other Funds to reflect administrative efficiencies and a corresponding decrease in positions and FTE.

Law Enforcement Program

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	9,530,297	10,292,736	9,225,556	10,143,756
Federal Funds	3,357,447	3,991,969	3,941,983	3,941,983
Total Funds	**$13,080,393**	**$14,264,705**	**$13,167,539**	**$14,085,739**
Positions	4	4	5	5
FTE	4.50	5.10	4.80	4.80

Program Description

By statute, funding of law enforcement activities is the first priority for the Marine Board after administrative expenses are covered. The Law Enforcement program 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. Services are provided through contracts with 31 county sheriffs providing coverage and with the Department of State Police (OSP) providing additional statewide coverage, with emphasis in the five counties (Gilliam, Grant, Harney, Lake, and Wheeler) 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.

Revenue Sources and Relationships

Funding of the Law Enforcement program is from registration and title fees, marine fuel taxes, and the U.S. Coast Guard Recreation Boating Safety grants. U.S. Coast Guard funding has been reauthorized and will decrease slightly over the next several years.

Budget Environment

Funding for marine law enforcement is challenging the Marine Board's resources. The primary concern for future funding is the steady decline in boat registrations since 2003. The Marine Board anticipates that the rate of decline in title and registration transactions will flatten with the improving economy. Another critical trend is the budget pressure many county sheriff offices are facing, especially those counties reliant on timber funds. Many counties have been forced to decrease the funds they allocate to their marine law enforcement programs. Most counties were providing more than the minimum match, with some counties providing the same or more funding than the Marine Board to cover waterway needs in those counties.

The statewide marine patrol fleet is old with a number of boats more than 15 years old. Most counties are not in a position to replace patrol boats and have become more reliant on OSMB for funding replacement craft. Without an increase in funding for marine law enforcement, services will be reduced or reductions will need to be made in other programs.

Complaints and requests for rules relating to non-motorized boating are increasing and impacting law enforcement services. In recent years, more than half of Oregon boating fatalities were attributed to non-motorized boaters. While the continuation of RBS funding appears likely, the recent economic downturn and competing federal priorities make future grant reauthorizations less than certain. Federal aid contributes approximately $3.9 million to support the marine law enforcement program.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $14 million is $198,966 (or 1.4%) higher than the 2013-15 legislatively approved budget and $719,234 (or 5.5%) higher than the current service level budget and includes 5 positions (4.80 FTE), shifting parts of a manager position into the program from the Administrative and Education program to align better align budget with program responsibilities.

The budget was increased by $1.3 million Other Funds and $14,800 Federal Funds expenditure limitation for a one-time $918,200 Other Funds expenditure to restore funding for county sheriff law enforcement contracts and boat purchases to return to 2013 funding levels.

Facility Program

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2013-15 Legislatively Adopted
Other Funds	6,844,247	7,647,448	6,697,718	7,806,305
Federal Funds	1,527,677	3,248,523	2,805,915	3,305,915
Total Funds	**$8,371,924**	**$10,895,971**	**$9,503,633**	**$11,112,220**
Positions	9	9	9	9
FTE	9.00	9.00	9.00	9.00

Program Description
The Facilities program 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. Priority consideration will be given to the rehabilitation and expansion of existing sites, followed by the development of new sites. Grants rely on partnerships and the leveraging of other financial resources such as federal funds, private funds and donations, and other local and state funds. Priorities for funding are established in the Board's Six Year Boating Facilities Plan which currently has identified motorized, mixed, and non-motorized boating access projects statewide across each of Oregon's 36 counties. 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
The Facilities program revenue sources include registration and title fees, marine fuel taxes, and the federal Clean Vessel Act (CVA). The Marine Board expects to receive federal grants from the CVA totaling slightly over $2.3 million in 2015-17. These grants are awarded competitively on a 75% federal to 25% state matching basis. The Marine Board also expects to receive federal grants from the new BIG program totaling approximately $1 million, which are also authorized on a 75-25 match ratio. The timing of the construction season and permit timelines drives the expenditure of grant funds.

Budget Environment
This is one of the few discretionary areas where the Board can make reductions without adversely impacting mandated services in its business, education, and law enforcement/safety programs. The Marine Board leverages a sizeable amount of state dollars with outside sources from federal agencies, local governments, and others. A significant issue for continued funding to maintain and improve public boating facilities and public access to Oregon's waterways is reauthorization of federal aid. The CVA, the BIG, and the Sportfish Restoration Program are all subject to federal reauthorization.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $11.1 million is $216,249 (or 2%) higher than the 2013-15 legislatively approved budget and $1.1 million (or 16.6%) higher than the current service level budget and maintains staffing levels at 9 positions (9.00 FTE).

The budget was increased by $1.1 million Other Funds and $500,000 Federal Funds expenditure limitation for an increase in boating facility grants.

Aquatic and Invasive Species Program

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	1,446,616	1,915,378	1,994,348	1,994,348
Total Funds	**$1,446,616**	**$1,915,378**	**$1,994,348**	**$1,994,348**
Positions	3	3	1	1
FTE	1.60	1.60	1.60	1.60

Program Description

The Aquatic Invasive Species (AIS) program purpose is to mitigate the effects of invasive species on native waters through inspecting and decontaminating watercraft. The program was established during the 2009-11 biennium and became operative on January 1, 2010. The program is operated in coordination with the Oregon Department of Fish and Wildlife (ODFW), Department of Agriculture (ODA), and OSP. Boat inspections are conducted through mobile check stations operated by ODFW, ODA, or OSMB.

County Sheriff deputies and OSP troopers are contracted with by OSMB and ODFW for enforcement. Enforcement activities for the program are tracked using a statewide online reporting database.

ODFW, as the state agency charged to manage fish and wildlife resources, has the primary responsibility to implement the boat inspection stations. ODFW has inspection teams stationed at various locations across the state that conduct roadside inspections and boat ramp inspections. Each team is outfitted with a decontamination trailer. The program works closely with the Oregon Invasive Species Council, neighboring state's AIS programs, as well as the U.S. Fish and Wildlife Service to assist in the development of rapid response planning, containment, and decontamination.

Revenue Sources and Relationships

The Aquatic Invasive Species program is estimated to generate $1.9 million in revenue from permit fees charged to boaters who register their boats for use on the public waterways of the state. This includes both in-state and out-of-state users. The fees for the permits are $5 for motorboats, $5 for manually propelled boats over ten feet in length, and $20 for nonresidents and annual fees for operators of boat liveries. The collection of fees on manually propelled boats provides information to the agency on non-motorized usage of Oregon's waterways. OSMB collects all revenue for the program. The expense of ODFW and OSP are paid by OSMB after being billed by the participating agencies.

Budget Environment

The program prevention focus is on quagga and zebra mussels, aquatic weeds such as Eurasian water milfoil, hydrilla, New Zealand mud snails, and other key aquatic invasive species that are spread by recreational water-based activities (boating, fishing, floating, etc.). In 2014, a total of 7,441 *voluntary* watercraft inspections occurred primarily at boat ramps and some roadside inspection stations of which 80% were Oregon boats and the remaining 20% were from Washington (7%), California (6%), Idaho (4%), and various other states (3%). A total of 279 decontaminations were completed for New Zealand mudsnail and Eurasian water milfoil, among other discoveries. There were no decontaminations associated with quagga or zebra mussels. This new program would benefit from a comprehensive review of its statutory framework and implementation strategy.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $1.9 million is essentially the same funding level as the 2013-15 legislatively approved budget and decreases staffing levels from 3 positions to 1 position (1.60 FTE).

PARKS AND RECREATION DEPARTMENT

Analyst: Gilbert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	980,000	1,015,299	--
Lottery Funds	75,351,082	86,964,694	88,459,511	81,406,896
Other Funds	93,035,795	112,681,149	110,934,206	108,236,201
Other Funds (NL)	4,624,178	--	--	--
Federal Funds	8,445,700	11,858,367	9,193,806	12,306,810
Total Funds	**$181,456,755**	**$212,484,210**	**$209,602,822**	**$201,949,907**
Positions	876	862	865	847
FTE	603.63	592.15	593.39	576.26

Overview

The State Parks and Recreation Department (OPRD) is under the direction of a seven-member Commission. The Department operates the state's system of more than 250 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; and state park land use and outdoor recreation planning. 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.

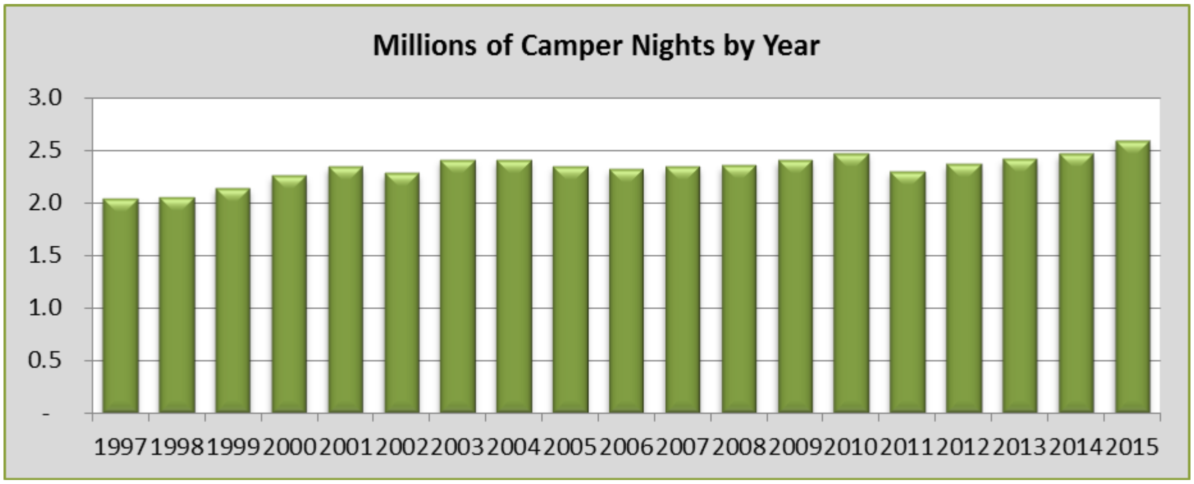
The Department manages park lands covering 109,551 acres. These include 58 campgrounds, 255 day-use areas (some include campgrounds), about 1,000 miles of recreation trails, 362 miles of ocean shore, and other special sites such as boating and fishing docks, group meeting halls, interpretive centers, museums, and 2 historic inns.

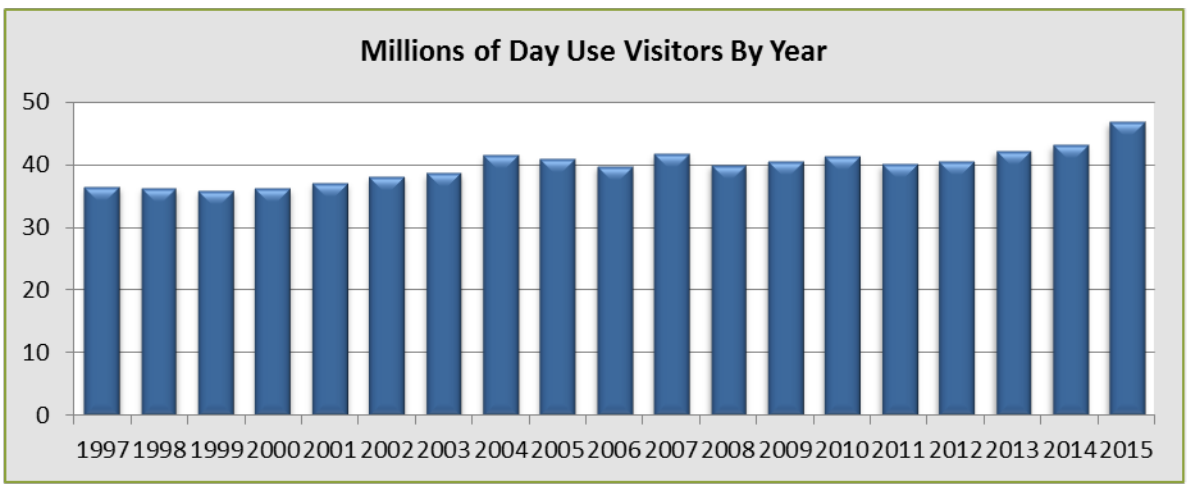
The Department operates through the following programs:

- Directors Office – (12 positions, 12.00 FTE) 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, agency programs review, internal audits, and coordinates rulemaking in its efforts to improve agency performance.
- Central Services – (73 positions, 71.10 FTE) Provides budget and fiscal resources management, staff recruitment and training, safety and risk management, information technology services including managing the park reservation system, and centralized business services such as fleet and managing procurements.
- Park Development – (13 positions 13.00 FTE) Responsible for engineering design, survey, and construction oversight for statewide park development projects focused on reducing the backlog of repairs and deferred maintenance. This budget also includes funding for the purchase of new real property.
- Direct Services – (720 positions, 451.16 FTE) Supports park operations; park planning and recreation programs, along with property and resource management; and engineering services for operations. The program is responsible for operation of the state park system on a daily basis. It also provides labor, materials, and products for state parks through partnerships with state, county, and local corrections and youth crew programs.
- Community Support and Grants – (29 positions, 29.00 FTE) 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, Natural Heritage (Section 6) grants, and the Recreational Vehicle Grant

Program. The Heritage program administers federal and state programs for historic and archeological resource planning and preservation, and provides the services required of the State Historic Preservation Office.

The following displays show annual camping stays and day use visits. The numbers are as of June 30 of each year. A camper night is one camper spending one night; thus, a family of four staying for one night equals four camper nights.





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 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 election in 2010 amended the original measure to dedicate at least 12% of OPRD’s share to local grant programs and requires that costs to administer the local grants be borne by the remaining 88% of the Lottery revenue. It also requires that the local grant amount be increased to 25% if the net proceeds deposited into the fund increase more than 50% above the amount deposited in the 2009-11 biennium. The net lottery fund would need to be over $123 million to trigger the larger local grant percentage.

The following display shows funding amounts for 2009-11, through projected revenue for 2015-17. In 2009-11, the local grant amount is less than 12% of the net lottery available because the measure passed and was effective mid-biennium.

Parks Dedicated Lottery funding

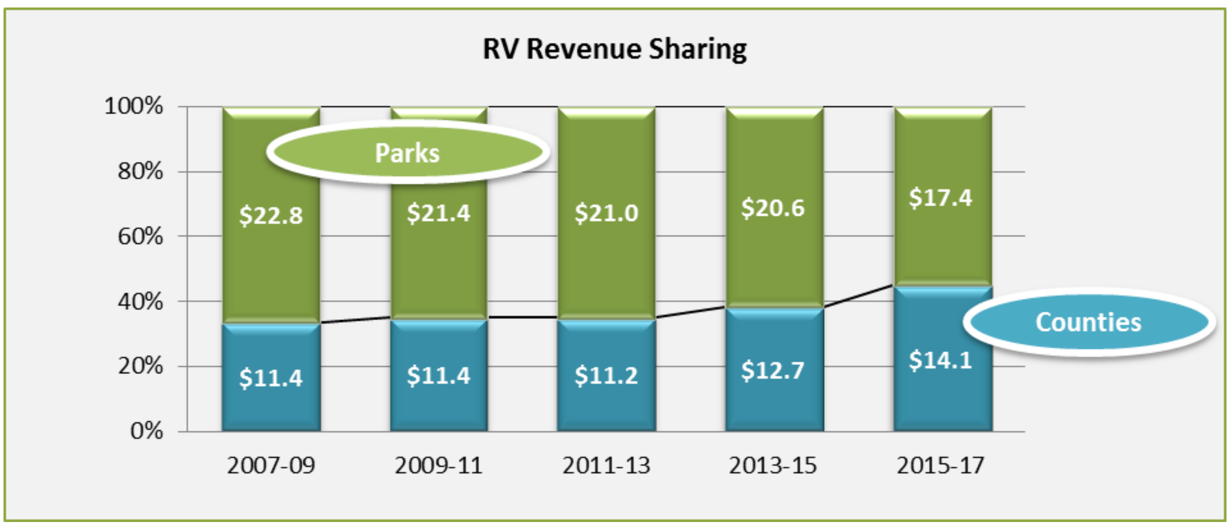
	2009-11	2011-13	2013-15 *	2015-17 *
$ Millions	$81.5	$81.0	$79.3	$84.7
Percent Change from 2009	0	-0.6%	-2.7%	3.9%
12% for local grants	$6.5	$9.7	$9.5	$10.2

* June, 2015 forecast

The 2015-17 legislatively adopted budget assumes $84.7 million Lottery Funds revenue will be generated for the State Parks and Recreation Department sub-account, as of the June 2015 forecast. Of that amount, $10.2 million is required to be appropriated by the Legislature to local park grant programs. This is the first Lottery Funds increase since the 2009-11 legislatively approved amounts. The remaining amount, $74.5 million, is projected to be available for the Department's operating programs.

Park user fees represent 22% of total revenues and 45% of Other Funds revenues. User fees are expected to generate $44 million in 2015-17. Due to the infusion of Lottery Fund resources in 1999, park user fees remained at 1996 market levels until the 2009 and 2013 Legislative Assemblies approved increases to bring fees closer to market rates and address declines in Lottery Fund resources.

Recreational vehicle (RV) registration fees are currently shared 45% counties and 55% state.



The current revenue split was effective July 1, 2015, due to the Legislature modifying the distribution in SB 1514 during the 2014 legislative session. Prior to that legislation, the counties were receiving 35%, and there was a sunset that would have reduced their share to 30% on June 30, 2015. SB 1514 eliminated the sunset and increased the counties' share. For 2015-17, the RV revenue is expected to total $31.5 million, $17.4 million for the state parks system and $14.2 million for transfer to counties, including $1.5 million for county opportunity grants. The current estimate of RV registration fees reflects a decrease of approximately $1.7 million from 2013-15.

The Legislature also created a "salmon" license plate that has a premium surcharge above the standard license plate fees. OPRD anticipates receiving $468,848 in the 2015-17 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 $4.4 million from the Oregon Department of Transportation State Highway Fund for roadways and rest area maintenance, $400,000 from the Marine Board for boater facility maintenance and rehabilitation, and $9.9 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 $12.3 million in Federal Funds. This figure includes $2.7 million in carryover revenues that were not able to be used by grant recipients in the 2013-15 biennium.

Budget Environment

As the agency's Lottery Funds increased, the Department's staffing increased by 154 positions (127.44 FTE) since the 1997-99 biennium, a gain of 22%. Due to early significant increases in Lottery Funds, the Legislature found opportunities to shift programs to the Department as a 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. Effective January 1, 2015, the State Fair became a public corporation managed by the Oregon State Fair Council.

Since 2010, there have been no re-appropriations of ATV funds. ATV funds are also used for payments to the Department of State Police for troopers and to the Department of Forestry for ATV trails operations and maintenance, and ATV balances were tapped for funding invasive species work at the Oregon Department of Agriculture.

The passage of Measure 76 in November 2010 requires an estimated $10.2 million to be allocated by the Legislature for local park grants. In 2015-17, related agency grant administration costs of $479,020 Lottery Funds in the adopted budget cannot be expensed against the local park grant allocation and are therefore not available for state park operations. Lottery Funds from other programs will be shifted into the local grant program to cover administrative costs.

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 vary widely on how much new parkland is needed. On average since 1997, there are 27.3 acres of state park land per 1,000 population. The addition of new parks and recreation sites exert upward pressure on ongoing operational and maintenance costs. Lottery Funds have made these acquisitions and new developments possible. Managing the increase in operating costs over time, however, is a major issue. Changing demographics may result in promoting different forms of recreational activity other than camping. The 2015-17 budget includes $2.5 million Lottery Funds and $980,000 Federal Funds for acquisition.

In the 1999-2001 biennium, dedicated Lottery Funds from Measure 66 (1998) provided 35% of available revenue and Other Funds provided 63%. 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; fee rates were able to be held flat since the last increase in 1996. As Lottery revenue growth has slowed, park user fee increases were needed to maintain services; increases were approved by the 2009 Legislative Assembly and the 2013 Legislative Assembly to maintain current service levels, provide adequate operating ending balances, and allow continued upkeep and upgrade of the system. In 2015-17, Lottery Funds are 43% and Other Funds are 50% of available revenues.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is $10.5 million (or 5%) less than the 2013-15 legislatively approved budget and $7.7 million (or 3.7%) less than the 2015-17 current service budget level, and includes 847 positions (576.26 FTE). The budget reflects adjustments to align revenues and expenditures through the June 2015 Lottery Fund revenue forecast. The Legislature approved the following:

- $2.5 million in lottery bond revenue to fund the Oregon Main Street Revitalization grant program, in accordance with HB 3526. The three-year program is to award grants to acquire, rehabilitate, and construct buildings in designated downtown areas statewide and to facilitate community revitalization. No additional funding is provided for OPRD's administrative support of the new grant program.
- $7.5 million in lottery bond proceeds to pass through to the Willamette Falls Riverwalk effort. This is in addition to $5 million in lottery funds passed through in 2013-15 for site cleanup and preparation.
- $1.5 million in lottery bond proceeds to pass through to the City of Portland Parks and Recreation for work at the entrance to Forest Park.
- Cost of issuance for the first three items is included in the bond sales and the resulting debt service is to be paid from non-Measure 76 lottery funds.
- $230,000 Other Funds expenditure limitation for a position to lead in developing the Salmonberry Trail. Revenue is supplied by OPRD user fees, and funding from the Department of Forestry, Tillamook County, Washington County Visitors Association, and Cycle Oregon.
- $135,237 total funds expenditure limitation for retention of 5 positions (1.41 FTE) that had been associated with the State Fair, to be used for park operations.
- $2.7 million carryforward Federal Funds expenditure limitation for a variety of unexpended grant funding, including tsunami cleanup funds.
- A variety of Other Funds adjustments add $1.3 million for grant fund carryforward, a potential Marine Board grant, inventory replacement, a foundation donation increase, and expenditure limitation adjustments to ensure a prudent ending balance.
- A reduction of $15.7 million total funds to reflect transfer of the State Fair and Exposition Center to a public corporation managed by the Oregon State Fair Council.
- A reduction of $6.2 million Lottery Funds to account for the drop in the December 2014 forecast from the current service level forecast. This reduction is subsequently offset by an increase of $819,542 from the March 2015 lottery fund forecast and another $2.2 million from the June 2015 forecast, for net lottery funds reduction of $3.2 million.
- A reduction of $3.4 million Other Funds expenditure limitation to ensure adequate ending balance for operating reserves and salary requirements in 2015-17.

The budget includes ending balance capacity of $16.9 million Lottery Funds and $18.3 million Other Funds for local grant reimbursements, salary and benefit reserve, and other dedicated cash flow needs. Of the totals, the unobligated ending balance is $2.2 million Lottery and $670,000 Other Funds.

WATER RESOURCES DEPARTMENT

Analyst: Stayner

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	20,359,290	27,256,741	28,396,203	29,622,753
Lottery Funds	587,540	574,025	3,404,416	2,511,482
Other Funds	8,654,128	34,736,737	20,690,296	73,945,808
Other Funds (NL)	--	2,296,505	--	--
Federal Funds	780,727	1,275,264	1,302,403	1,302,403
Total Funds	**$30,381,685**	**$66,139,272**	**$53,793,318**	**$107,382,446**
Positions	146	157	157	164
FTE	144.46	154.55	154.83	162.58

Overview

The Water Resources Department (WRD) implements water policy for the state and issues and protects water rights. WRD is the administrative arm of the Water Resources Commission, a seven-member citizen board appointed by the Governor and confirmed by the Senate. WRD functions include enforcing the state's water laws, recording and enforcing water rights, developing water resources, inspecting wells and dams, and providing scientific and technical analysis of surface and groundwater resources. The agency is organized into six divisions: Administrative Services, Field Services, Technical Services, Water Rights Services, Water Development Loan Program, and the Director's Office. By law, all surface and groundwater in Oregon belongs to the public. The agency mission is to "serve the public by practicing and promoting wise long-term water management" through the restoration and protection of stream flows and watersheds and by directly addressing Oregon's water supply needs. Informally, WRD is known as the state's water quantity regulator as opposed to the water quality regulator, the Department of Environmental Quality.

The Department operates through the following six programs:

- Administrative Services – (12 positions, 11.50 FTE) Provides human resource, accounting, payroll, contracting, facilities management, risk management, training services, and budget preparation and execution. The program operates the Water Conservation, Reuse, and Storage Grant Program established by SB 1069 (2008) providing funding for feasibility studies. The program also operates the Water Supply Development Fund established by SB 839 (2013) to provide loans and grants for water resources development projects that evaluate and plan projects to provide access to new water supplies for instream and out-of-stream uses.
- Field Services – (56 positions, 56.00 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 21 watermaster districts into five regions for more efficient use of field personnel. Field staff include region managers, watermasters, technicians, and locally-funded assistant watermasters. 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 – (47 positions, 46.54 FTE) Manages 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 Right Services – (39 positions, 38.54 FTE) Evaluates both in-stream and out-of-stream water right applications, and administers programs such as water right certification, permit administration, water right transfers, stream flow restoration, water supply and conservation planning, 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 154 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.
- Director's Office – (9 positions, 9.00 FTE) Oversees 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. The Director's office also houses the Integrated Water Resource Strategy (IWRS) Coordinator position, providing policy direction and leadership for the agency's IWRS program.
- Water Development Loan Program – (1 position 1.00 FTE) 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.

<u>Revenue Sources and Relationships</u>

The legislatively adopted budget provided one-time expenditure limitation of $51,960,889 Other Funds for lottery revenue bond and general obligation bond proceeds including bond issuance costs. An additional $1,201,8695 Other Funds were also included for debt service on the general obligation bonds for the 2015-17 biennium. These amounts heavily skewed the total revenue picture for the Water Resources Department as these amounts are roughly equal to the ongoing operating budget of the agency and therefore effectively double the total revenue for the agency in the 2015-17 budget.

Exclusive of the additional Other Funds expenditure limitation provided by SB 5507, the Department's operating budget is primarily General Fund, representing 54.6% of the operating program revenue. General Fund is used throughout the agency. In some of the operating divisions that charge fees for certain transactions and services, General Fund is used to cover a portion of the cost to provide those services where the revenue generated from the fees have limitations imposed by statute, contract, or legislative policy on the percentage of the revenue that can be used to cover the actual cost of providing the services.

Other Funds revenue from fees and charges for services comprises 38.3% of the operating revenue for WRD, not including bond proceeds. Other Funds revenue sources include start card fees (well drilling), water right and transfer fees, exempt ground water use fees, geotechnical hole fees, hydroelectric fees, interest earnings, and payments from various county and state agencies for contracted services. The Department assumed $10.5 million of fee revenue for the 2015-17 biennium. The Legislature approved in HB 2259 (2013), a 13% increase in the 2009 fee schedule for well start cards, water rights, and transfer fees to 50% cost recovery representing an anticipated $2.1 million in Other Fund revenue each biennium. The 50% cost recovery fees will sunset in 2017 and fees will revert to levels established in 2009.

Lottery Funds are used to pay debt service on lottery revenue bonds authorized in 2009 by the Legislature associated with the Umatilla Basin critical ground water projects and for debt service on lottery revenue bonds authorized in SB 5533 (2013) that provided funding for the Water Supply Development Fund established by SB 839 (2013). Lottery Funds make up 4.63% of the agency's operating budget net of current biennium bond proceeds.

Federal Funds received through the Federal Emergency Management Agency (FEMA), Bureau of Reclamation, and other federal agencies represents about 2.4% of the budget.

Budget Environment

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. Climate change effects on Oregon's water supply is in an early stage of analysis requiring a close look at how it may affect water rights, crop production, and migration patterns.

Listings and potential listings under the Endangered Species Act and water quality issues increase the complexity of water allocation decisions.

Most of Oregon's river basins east of the Cascade Mountains have been adjudicated of pre-1909 water rights, tribal water rights, and other federal reserved water rights. Only a few of the river basins west of the Cascades have been adjudicated. The administrative phase of the Klamath Basin Adjudication has been completed and the case has been transferred to the Klamath County Circuit Court.

Legislatively Adopted Budget

WRD's 2015-17 legislatively adopted total funds budget is $107.4 million and 164 positions (162.58 FTE). This amount is 62.4% higher than the 2013-15 budget, but this increase is almost entirely attributable to the provisioning of just over $53 million Other Funds expenditure limitation for bond proceeds. The General Fund budget for the agency totals $29.6 million, an 8.7% increase from the 2013-15 legislatively approved budget.

The budget includes $345,982 General Fund for 2 limited duration positions (1.75 FTE) for expanded grant activities for place-based water resource planning and for feasibility studies for water conservation, reuse, and storage. These new positions are in conjunction with new and additional funding provided by lottery bond proceeds as noted below.

Support for the Integrated Water Resource Supply Development program, including the provision of 3 permanent positions and $615,399 General Fund is included in the budget along with the establishment of a chief groundwater technology scientist position funded evenly between the General Fund and the fee-based Water Rights Operating Fund. The budget also provides for a limited duration position to address water right processing backlogs and a permanent position to assist with water management and monitoring in the Klamath basin at a General Fund cost of $355,955.

SB 5507 provided Other Funds expenditure limitation for Lottery bond proceeds that were approved by the Legislature to fund various programs within the Water Resources Department. The budget for the agency includes $21,440,889 Other Funds expenditure limitation for lottery bond proceeds including $440,889 for bond issuance costs. No debt service expenditures are included in this biennium's budget since the bonds are not anticipated to be issued until the end of the biennium. The bond proceeds net of issuance costs are allocated as follows:

- $2,000,000 Other Funds expenditure limitation for the purpose of making grants and paying the cost of direct services for the qualifying costs of planning studies performed to evaluate the feasibility of developing a water conservation, reuse, or storage project, as described in ORS 541.566; and $47,477 Other Funds expenditure limitation for the payment of bond issuance costs from Lottery bond proceeds from the Water Conservation, Reuse, and Storage Investment Fund established under ORS 541.576.
- $750,000 Other Funds expenditure limitation for the expenditure of Lottery bond proceeds for facilitation of the preparation of place-based integrated water resources strategies as described by SB 266 (2015) from the Water Supply Fund.
- $11,000,000 Other Funds expenditure limitation for the purpose of making grants or entering into contracts to facilitate water supply projects in the Umatilla Basin and for the payment of professional services such as

third-party contract administration and quality control contracts related to the projects from the Water Supply Fund.

- $1,000,000 Other Funds expenditure limitation for the purpose of making one or more grants to individuals or entities to repair, replace, or remediate water wells in the Mosier Creek area from the Water Supply Fund.
- $280,433 Other Funds expenditure limitation for the payment of bond issuance costs for the three items above from the Water Supply Fund.
- $6,362,979 Other Funds expenditure limitation for making loans or grants from the Water Supply Development Account to support the development of water resource projects having economic, environmental, and social or cultural benefits. Of the total, $112,979 is for bond issuance costs. This amount is in addition to the $10 million that was provided for this program during the 2013 biennium, $8.96 million of which was carried forward to the current biennium.

In addition to the lottery bond proceeds, the Legislature also authorized the issuance of general Obligation bonds for the recapitalization of the Water Development Administration and Bond Sinking Fund. This fund is a loan program to facilitate the financing of large water development projects requiring the repayment of the bond proceeds by the borrowers of the funds. It is a constitutional bonding program under Article XI-I (1). The Water Resources Department budget includes Other Funds expenditure limitation of $31,721,865 including $1,721,865 in bond issuance and debt service costs. Bonds under this program will only be issued once a project is approved for funding.

OREGON WATERSHED ENHANCEMENT BOARD

Analyst: Siebert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Lottery Funds	62,582,581	58,227,336	6,755,388	62,250,303
Other Funds	899,683	1,852,224	1,552,060	3,545,968
Federal Funds	30,224,432	32,817,029	21,266,418	37,179,454
Total Funds	**$93,706,696**	**$92,896,589**	**$29,573,866**	**$102,975,725**
Positions	32	32	29	35
FTE	31.50	32.00	29.00	34.25

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 was replaced by Ballot Measure 76, which passed in November 2010, and reauthorized the dedication of 15% of net lottery proceeds to state parks (7.5%) and fish, wildlife, and habitat conservation (7.5%). The Ballot Measure 76 reauthorization changed the way the dedicated Lottery Funds could be spent. Under the old dedication, the 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 a qualifying expenditure. Now, state agencies are prohibited from directly receiving any of the 65% dedicated to grants.

OWEB is designated as the single state agency charged with administration of the salmon and watershed portion of the dedicated lottery revenues required under Ballot Measure 66 and 76. 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 a number of years of falling Lottery revenues, total revenues are projected to increase slightly in the 2015-17 biennium, while program costs continue to increase. Therefore, while Lottery revenues are forecasted to increase, the cost increases anticipated by the programs that rely on constitutionally dedicated Lottery Funds for support, such as employee compensation, mean only existing programs, or the current service level can be supported with the 35% of Ballot Measure 76 Lottery Funds allowable for operations expenditures.

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 first authorized by Congress in 2000 and are for salmon habitat restoration, stock enhancement, and research. The Legislature assumed $24 million from PCSRF would be available for expenditure in 2015-17. This amount includes one year of federal funding and carry-forward funds. OWEB is hopeful it will receive a second similar grant amount in the second half of the 2015-17 biennium, which would bring PCSRF funding up to historical levels. Other Funds are received from the Department of Transportation for one-half of the proceeds from the sale of salmon license plates, from various non-governmental sources in the form of donations and grants, and from other state agencies, such as the Department of Forestry, for grant programs administered by OWEB.

Budget Environment

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. In the 2009-11 approved budget, more that 45% of the dedicated Lottery Funds went directly to state agencies. This could not continue under Ballot Measure 76 conditions. Possible solutions included simply cutting agency programs that rely on dedicated Lottery Funds until the 35% state agency expenditure cap 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 moving eligible activities from the 35% Operations Fund to the 65% Grant Fund.

Legislatively Adopted Budget

The adopted budget for OWEB is divided into two program areas, Grants and Operations. The 2015-17 legislatively adopted budget for Operations included a total of $6.7 million in operations Lottery Funds, $50,000 Other Funds, $2.1 million Federal Funds, and 35 positions (an increase from 32 positions in 2013-15) to support administration of the grant program. The new positions include an additional grant program analyst, a conservation outcomes specialist, and a part-time forest health grants specialist supported with Other Funds from the Department of Forestry through the Federal Forests Collaborative Program. These are in addition to the 3 positions that were established as limited duration in 2013-15 and are continued in the 2015-17 adopted budget. In addition, the legislatively adopted budget eliminates funding for the Independent Multidisciplinary Science Team, reducing Lottery Funds by $237,826, and reducing Federal Funds from PSCRF by $237,608.

The 2015-17 legislatively adopted budget for the Grant program establishes a $55.6 million Lottery Funds grant fund for 2015-17, which is about 7%, or $3.7 million more than the adopted grant fund for the 2011-13 biennium. The Grant program budget also includes $3.5 million Other Funds and $34.9 million Federal Funds. All Other Funds from the sales of Salmon Plates were moved to the grants program where they will be used for grants. No Salmon Plate revenues are used to support administrative functions during the 2015-17 biennium. The vast majority of the federal grant monies are derived from the federal Pacific Coastal Salmon Recovery Fund.

The following table shows the legislatively adopted budget's 2015-17 expenditure limitation of all Measure 76 Lottery Funds. As previously discussed, state agencies' expenditures were eligible for any dedicated Measure 66 Lottery Funds in previous biennia, but under Measure 76 they are limited to the funding from the Operations Fund only.

2015-17 Measure 76 Lottery Fund Expenditures

	M-76 LF 35% Operations	**M-76 LF 65% Grants**
Department of Fish and Wildlife	$4,752,746	
OSP/ Fish and Wildlife Enforcement	$7,841,010	
Department of Agriculture	$6,289,958	
Department of Environmental Quality	$9,945,160	
Oregon Watershed Enhancement Board	$6,698,053	$55,552,250

TRANSPORTATION

PROGRAM AREA

DEPARTMENT OF AVIATION

Analyst: Neburka

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	5,461,765	6,562,654	6,114,823	11,979,625
Federal Funds	1,849,401	7,163,379	3,416,147	8,504,014
Total Funds	**$7,311,166**	**$13,726,033**	**$9,530,970**	**$20,483,639**
Positions	13	13	13	15
FTE	12.33	12.50	12.25	13.75

Overview

The Department of Aviation manages and coordinates the state's general aviation system, including recreational, business, and emergency response flying. The Department advocates for economic growth, infrastructure improvement, and safe operation of aviation in Oregon. The state manages a large scale pavement preservation program for the state's 66 paved public use airports. In addition to statewide aviation transportation plan management and land use coordination, the Department owns, manages, and operates 28 public use airports. 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.

The Department's strategic goals include: a) protect public-use airports; b) leverage technology to enhance general aviation programs; c) support communities through economic development; d) improve the safety and operating conditions of state-owned/operated airports; and e) protect and enhance aviation. Key areas of the responsibilities include:

- Develop and implement the Oregon Aviation Plan and related policies.
- Conduct continuous aviation system planning and provide technical assistance on airport planning and development.
- Administer the federal General Aviation Entitlement grant and pavement maintenance program.
- Register approximately 3,765 aircraft annually.
- Register approximately 4,125 pilots biennially.
- Conduct airport safety inspections on state-owned and other Oregon public airports; investigate proposed airport and heliport sites; provide technical safety advice on facilities siting and feasibility issues.
- Maintain 28 state-owned airports to federal and state safety standards including routine and preventive maintenance such as mowing, obstruction removal, pavement preservation, and navigational aid maintenance.

Revenue Sources and Relationships

The Department is supported entirely by Other and Federal Funds with total estimated revenue for the 2015-17 biennium of $22.3 million. This reflects a 66%, or $8.9 million, increase from budgeted 2013-15 revenue. The revenue increase is primarily the result of HB 2075, which raised aviation fuel taxes by 2 cents per gallon, for an estimated 2015-17 revenue increase of $5.25 million. The bill specified that the agency may retain 5% of the revenue to manage the funds and programs. Of the remaining:

- 50% is to be used to provide grants for aviation projects and match for FAA grants, prioritizing projects with a higher amount of contribution, and grants for emergency assistance.
- 25% is for creating and maintaining commercial air service linking rural communities with commercial hubs.
- 25% is for state airports to use for safety and infrastructure projects.

SB 269 increased pilot registration, aircraft registration, and airport registration fees for an additional $219,285 to provide adequate statutorily-required funding to Oregon Emergency Management, and to increase the amount available for the required 10% match to Federal Funds available for airport capital projects in 2015-17.

Fuel Tax – Jet fuel tax and aviation fuel tax make up two-thirds of the Other Funds revenue for the Department:

- Jet fuel tax, 85% of fuel tax revenue, was increased from $0.01 to $0.03 per gallon by HB 2075. The first $0.01 of the tax supports the Department's operating budget and pavement maintenance for all public owned and public use airports. The additional $0.02 increment supports the aviation projects and functions outlined in the bulleted list, above. The 2015-17 estimated net jet fuel revenue totals $8.6 million, an increase of 151% from 2013-15 budgeted jet fuel tax revenue.
- Aviation fuel (avgas) tax was increased from $0.09 to $0.11 per gallon by HB 2075. Of the first $0.09 of this tax, up to 55% supports the Department's operating budget and 45% is dedicated to pavement maintenance. The additional $0.02 increment supports the aviation projects and functions outlined above. The 2015-17 estimated net revenue totals $611,000, an increase of 14.6% from 2013-15 budgeted avgas revenue.

Fees – Pilot registrations, aircraft registrations, hangar and site leases, and charges for services represent one-third of the Other Funds revenue for the Department:

- The Department registers and collects fees from an estimated 4,125 pilots, deducts for administrative costs, and passes the dedicated funds to the Military Department's Oregon Emergency Management Search and Rescue program. SB 269 increased the initial registration fee from $12 to $24 annually and $48 for renewals which are for a two-year period. The 2015-17 estimated revenue totals $156,000.
- In 2015-17, the Department anticipates registering 7,570 aircraft. Fees are based on the class of the aircraft and range from $55 for ultralight to $750 for turbo/jet fixed wing. These fees were increased by SB 269; the revenues are used for the 10% federal grant match. The Department annually licenses 132 public airports for a fee ranging from $30 for remote access airstrips to $150 for commercial service airports. The 2015-17 estimated revenue for all aircraft and airport fees is around $716,000.
- The Department also generates revenues through hangar and site leases and charges for services.

Though the fee increases approved in SB 269 raise only a modest amount of revenue, they relieve pressure on local match requirements that had doubled with the Federal Aviation Administration Modernization and Reform Act of 2012, from 5% of project costs to 10% on federally-funded projects.

Federal Funds – Federal Funds make up 38% of the Department's total revenues:

- 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 (General Aviation Entitlement Program) provides $150,000 per year for three years awarded to eligible airports.
- Oregon has 55 eligible airports, 12 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. The Department has budgeted $8.4 million in Federal Funds for 2015-17.

<u>Budget Environment</u>

The Department of Aviation has emerged after a difficult period during the recent recession with a stable operational base and greatly improved financial circumstances. With the close of the 2011-13 biennium, the agency had stabilized its business processes and staffing, and continued to work on streamlining the organization. It strengthened its Statewide Capital Improvement Program (SCIP) which coordinates between the Federal Aviation Administration and Oregon's 55 federally funded airports. Legislatively, the Department saw a ban on seaplanes at Waldo Lake through Senate Bill 602 (2013); received statutory authorization to impose civil penalties for violations of ORS 837, Aircraft Operation; and entered a new area of aviation, Unmanned Aerial Systems (UAS) via House Bill 2710 (2013).

Congress' FAA Reauthorization Act of 2012 directed the FAA to establish 6 UAS test sites around the country. A consortium from Oregon (SOAR) partnered with Alaska and Hawaii and was selected as one of the test sites. The Oregon sites in Pendleton, Warm Springs, and Tillamook provide Oregon with the opportunity to become one of the premier UAS development sites for organizations to test, evaluate, and operate in a variety of coastal, mountainous, and high desert environments. At present, there are over 200 UAS businesses licensed in Oregon, despite the fact that both federal and state regulatory agencies have yet to codify rules for this emerging industry. HB 2710 requires the Department to register public use unmanned aerial systems in Oregon beginning on January 1, 2016, and to report to the Legislature on the status of federal UAS regulations by November, 2014.

In 2014, Crescent Lake Airport was closed as a result of failed pavement. This is the first impact of a lack of revenue to maintain and repair non-National Plan of Integrated Airport Systems (NPIAS) airports. Revenue increases contained in 2015 legislation (HB 2075, aviation fuel taxes; and SB 269, pilot and aircraft fees) will allow the agency to address much of the deferred maintenance that has accumulated over the past ten years, currently estimated at $6.4 million, including $630,000 in deferred maintenance for the roof, ventilation system, and exterior of the Department's Salem headquarters building.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $20.5 million total funds reflects an increase of $6.76 million total funds (or 49.2%) from the 2013-15 legislatively approved budget. The Legislature added 2 positions (1.50 FTE) to collect and administer the fuel tax increases approved in HB 2075.

DEPARTMENT OF TRANSPORTATION

Analyst: Neburka

Agency Totals

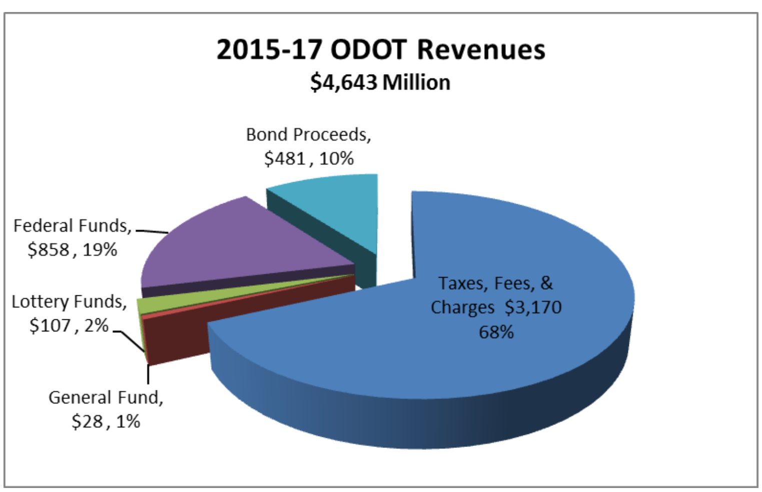
	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,970,000	12,740,000	17,289,285	27,827,995
Lottery Funds	72,614,922	93,953,970	114,855,747	107,484,140
Other Funds	2,793,642,941	3,853,134,402	3,099,642,389	3,275,943,658
Other Funds (NL)	242,708,238	1,448,098,943	18,158,214	18,158,214
Federal Funds	111,311,859	126,380,415	107,136,132	110,110,886
Federal Funds (NL)	21,621,529	21,621,529	21,621,529	21,621,529
Total Funds	**$3,243,869,489**	**$5,555,929,259**	**$3,378,703,296**	**$3,561,146,422**
Positions	4,629	4,556	4,550	4,510
FTE	4,511.65	4,467.47	4,452.98	4,400.89

Overview

The Oregon Department of Transportation (ODOT) develops, maintains, and manages Oregon's transportation system in a safe and efficient manner that enhances the state's economic competitiveness and livability. The Department operates programs related to Oregon's system of highways, roads, and bridges; bicycle and pedestrian facilities; passenger and freight railways; public transportation services; transportation safety; driver and vehicle licensing; and motor carrier regulation. The five-member Oregon Transportation Commission and the Department's director are all appointed by the Governor and confirmed by the Senate. Historically, ODOT has focused primarily on constructing and maintaining highways. More recently, however, with designated General, Federal, and Lottery Funds, it has broadened its focus to include alternatives to automobile transportation in congested areas and otherwise underserved areas.

Revenue Sources and Relationships

The bulk of ODOT's ongoing revenues come from constitutionally dedicated motor fuel taxes, weight-mile taxes, vehicle taxes, and driver fees. Bond revenues, Federal resources, Lottery Funds, and General Fund resources make up smaller shares of the budget. The forecasted revenue from all sources is $4.6 billion for 2015-17. Out of the total revenues for the biennium, $936 million is projected to transfer out to other state agencies and local governments, leaving $3.7 billion available for expenditure on state transportation and programs. The display reflects all expected 2015-17 revenues by source.



Current trends and long-term revenue projections indicate that Highway Fund revenue will not be sufficient to meet anticipated future expenditure levels, requiring reductions in programs by 2% to 3% per biennium to maintain a balanced budget. The agency has reduced FTE in the current and each of the last two biennia to bring ongoing expenditures into balance with long-term revenue projections.

Federal Highway funds are usually appropriated for a 6-year period. Recently, however, federal highway funding has been appropriated in shorter and shorter increments of time, making longer-term project commitments difficult. Federal Highway funds are received and reported as Other Funds. The total amount of Federal Funds in this category for the 2015-17 biennium is $722 million, up from $670.8 million in 2013-15.

The federal tax rates on gasoline and diesel were last raised in 1993, and Federal Highway Trust Fund revenues have declined significantly since 2007 as a result of the recent recession, increasing vehicle fuel efficiency, and reductions in driving due to high gas prices. Funding levels under the federal surface transportation programs have increased slightly. Federal Funds received and reported as federal revenue are grants or direct revenue for specific programs such as transit and rail projects.

During the 2013-15 biennium, the Department received $94 million in Lottery Funds to make bond installment payments for rail and transportation infrastructure projects that are ineligible for funding through constitutionally dedicated Highway Trust Funds. For the 2015-17 biennium, Lottery Fund bond debt service is increased to $107.5 million due to rolling up existing debt service obligations.

<u>Budget Environment</u>
Oregon's highway infrastructure—including bridges, pavement, and traffic control systems—continues to age, and therefore requires more maintenance and a growing share of ODOT's revenue. 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 bridge needs will grow exponentially over the next few decades due to the need to repair or replace bridges, especially the significant bridge building that occurred in the 1950s and 1960s.
- 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 in 1991. 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.

While growing slowly and including the impacts of OTIA and JTA, the increase in revenues is 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 place demands on the transportation system.

The challenge of providing public transportation options across Oregon within and between cities requires investments at levels currently unavailable for rail and bus services. Although some dedicated revenues are available for these public systems, federal revenues continue to be necessary for operations. For 2015-17, the Legislature approved $10.4 million in General Fund support for Amtrak *Cascades* rail service between Eugene and Portland, and $9.4 million General Fund for transit services for seniors and people with disabilities, part of a commitment to spending on senior services that originated in the 2013 special session.

With the increase in fuel efficiency and the use of hybrid and electric vehicles, the fuels tax is expected to be a declining source of revenue nationally and within Oregon. Current Corporate Average Fuel Economy (CAFÉ) standards require 54.5 miles-per-gallon for new cars and light trucks by model year 2025, with interim milestones. Anticipating coming mileage standards, the 2001 Legislative Assembly created a Road User Fee Task Force to explore alternative methods of taxation. The Department conducted pilot projects in 2006 and 2012, which determined that the per-mile fee is technically and financially feasible. Legislation in 2013 (SB 810) establishes a volunteer program effective in 2015 to further the concept.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $3,561.1 million is $1,259.5 million, or 26.1%, less than the 2013-15 legislatively approved budget, and includes 4,510 positions (4,400.89 FTE). The 2015-17 budget is 66.58 FTE, or 1.5%, down from the 2013-15 legislatively approved budget. Other Funds decreased 14.7%, while Federal Funds dropped 9.3%. All of the Lottery Funds and Nonlimited Federal Funds as well as $443.5 million in Other Funds are dedicated to debt service from bonded projects. The budget includes $7.9 million General Fund debt service for bond-funded State Radio Project expenditures.

The bulk of the reductions approved by the Legislature ($736.2 million) reflect current scheduling for construction projects in the Statewide Transportation Improvement Programs, reduce expenditure limitation for the cancelled Columbia River Crossing project, and reflect the completion of bridge projects from the Oregon Transportation Improvement Act (OTIA III).

Details of expenditures are in the following Division analyses.

Highway Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	1,865,766,317	2,630,981,116	2,015,116,678	2,040,568,172
Total Funds	**$1,865,766,317**	**$2,630,981,116**	**$2,015,116,678**	**$2,040,568,179**
Positions	2,652	2,608	2,614	2,532
FTE	2,571.88	2,554.89	2,551,38	2,469.38

Program Description
The Highway Division designs, builds, maintains, and preserves quality highways, bridges, and related highway system components. The state highway system is over 8,000 center line miles, 11% of Oregon's 74,000 miles of roads. The Highway Division's activities are guided by 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.

Highway projects are scheduled through the Statewide Transportation Improvement Program (STIP*)*, a project funding and scheduling document developed through a planning process that involves local and regional governments, transportation agencies, and the interested public. The STIP is updated every two years through a public hearing process. Other highway projects are funded through legislative actions. In 2001, the first iteration of the Oregon Transportation Improvement Act (OTIA) authorized bonding to fund modernization projects, pavement preservation, and bridge repair and replacement. In 2009, the Legislature authorized the Jobs and Transportation Act (JTA), which included a six cent gas tax increase and authorized $840 million in highway bonds to finance transportation projects around the state.

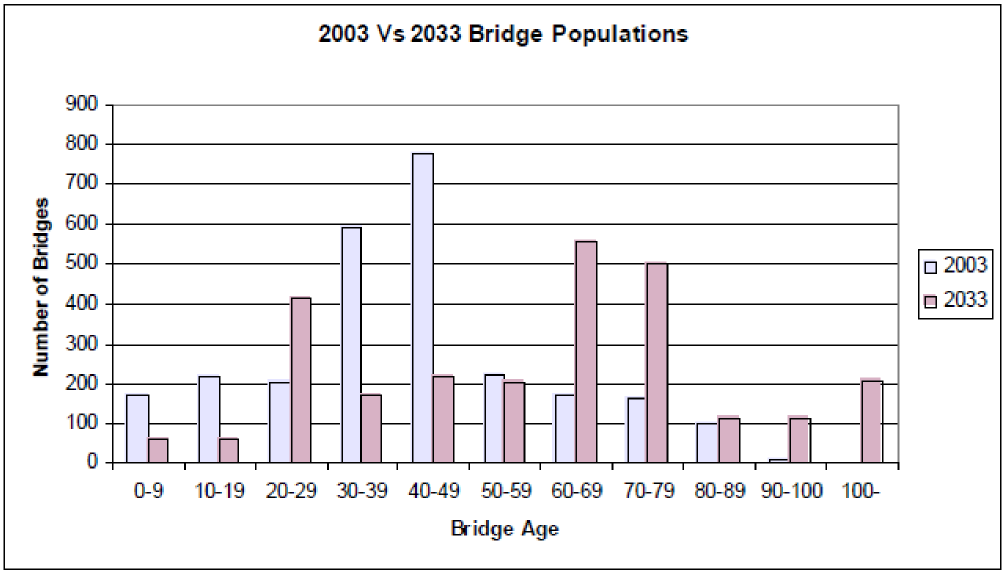
The Highway Division is administered through five regional offices and the headquarters office. The Division contracts out most engineering and design work, as well as construction. To ensure efficient project delivery, more than 300 Technical Services staff are deployed in the five Highway regions. Agency staff perform much of the agency's maintenance and part of its preservation work.

The categories of the Highway Division budget are:

- Highway Maintenance and Emergency Relief – (1,359 positions and 1,307.03 FTE) Maintains, repairs, and extends the service life of the state highway system. There are two types of general highway maintenance functions: reactive and proactive. Reactive service generally fixes existing problems and is incident driven. Proactive services save money later. These activities include inspection, upkeep, preservation, or restoration to prevent problems or damage to highways or other highway-related infrastructure and to reduce life cycle costs. Cost-benefit analysis determines which projects to undertake. Maintaining buildings and equipment used by ODOT employees is part of highway maintenance. This Division also provides emergency relief in responding to damage from natural disasters such as floods and earthquakes. Finally, the State Radio system is operated from this Division.
- Preservation – (115 positions and 114.50 FTE) Rehabilitates existing roadways and facilities to extend their service life. Preservation projects add useful life to the highway system without increasing capacity. The program aims to conduct 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. Funding is set to maintain an average statewide highway pavement condition rating of 78% fair or better. While conditions are currently above target, they are forecast to drop within a few years concurrent with expected declining funding levels.
- Bridge – (119 positions and 119.00 FTE) Preserves more than 2,700 bridges, tunnels, and large culverts on the state highway system. Bridge projects rebuild or extend the life of an existing bridge as identified through the Bridge Management System. Routine bridge inspections are performed every two years. The program goal is to protect public safety and preserve infrastructure by keeping bridges in the best condition possible. The Bridge program is also committed to maintaining a small number of high value, historic Oregon coastal bridges that were designed by Conde B. McCullough. The bridges are priceless assets and ODOT has chosen functional obsolescence and high maintenance costs as a fair trade-off for preserving them.

Bridges are designed to carry loads for a limited service life. Variations in materials, design, construction, and location all have an effect on the expected bridge life. In about 1975, improvements in design details and construction practices, combined with the wider use of pre-stressed concrete, increased the life expectancy of concrete bridges to 100 years or more. The majority of Oregon's state bridges were built prior to 1975. Concrete is the most prominent material, with the majority of bridges using a reinforced concrete design with an expected lifespan of 50 years. It would be unrealistic to say that the average expected life span of Oregon's bridges is 100 years. However, using a 100-year average lifespan, with approximately 2,700 bridges in the inventory, the replacement rate should be 27 bridges per year. For the years 1973 to 2033, only the OTIA decade (2003-13) meets or exceeds this rate. For the OTIA III debt service years after 2013, the replacement rate of seven bridges per year is less than 25% of a sustainable bridge replacement rate. While the OTIA III program resulted in more new bridge construction than at any other time since the Interstate Era, those bridges will have aged in the time it takes to pay off the bonds.

The chart below shows how the age of the bridge population will have shifted from 2003 to 2033. The bridges built in the major bridge building periods still dominate the population although in lesser numbers as they are slowly being replaced. At the current funding levels, even with the money delivered through the Oregon Transportation Investment Act, the average bridge age will be higher in 2033 than it was in 2003.



- Highway Safety and Operations – (158 positions and 156.58 FTE) Improves the safety and efficiency of the transportation system through operational improvements and enhanced system management, and reduces the number of fatal and serious injury crashes that occur on the state highway system. Priority programs include traffic management using control devices, illumination, and signal operations; intelligent transportation systems using technology-based tools including variable message signs, highway advisory radio, ramp meters, cameras, advanced signal management, weather and travel condition systems; incident management for rapid detection and quick highway incident clearance; landslide and rock fall mitigation; and transportation demand management to encourage the use of alternatives to driving alone (rideshare, vanpools, park and ride).
- Modernization – (168 positions and 167.50 FTE) 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; and widening bridges to add travel lanes. Modernization projects improve safety, relieve traffic congestion, and allow more efficient movement of people and goods across Oregon. To meet the need for highway modernization identified in the 2005 Oregon Transportation Plan, about $330.3 million per year would be needed in 2004 dollars.
- Special Programs – (579 positions and 570.77 FTE) Provides construction support and construction projects that do not fit general categories or that fall under special rules or programs. Specialized projects include management of Lifeline Routes, a secure network of streets, highways, and bridges to facilitate emergency services response in the event of an emergency; and Speed Zones. Other special programs include the Salmon and Watersheds program, providing culverts for fish passage under roadways; the Forest Highway program, for projects on roads that provide access to national forests; and Snowmobile Facilities, for projects that develop and maintain snowmobile facilities.
- Local Government – (34 positions and 34.00 FTE) ODOT shares state and federal revenues and reimbursements with local governments on a formula basis for surface transportation, local bridges, congestion mitigation, transportation enhancements, and planning. The agency administers and helps to fund local and discretionary transportation projects that account for about 25% of Oregon Statewide Transportation Improvement Plan funds and up to 30% of road projects delivered statewide.

The following table provides total funds expenditure detail for Highway Division programs.

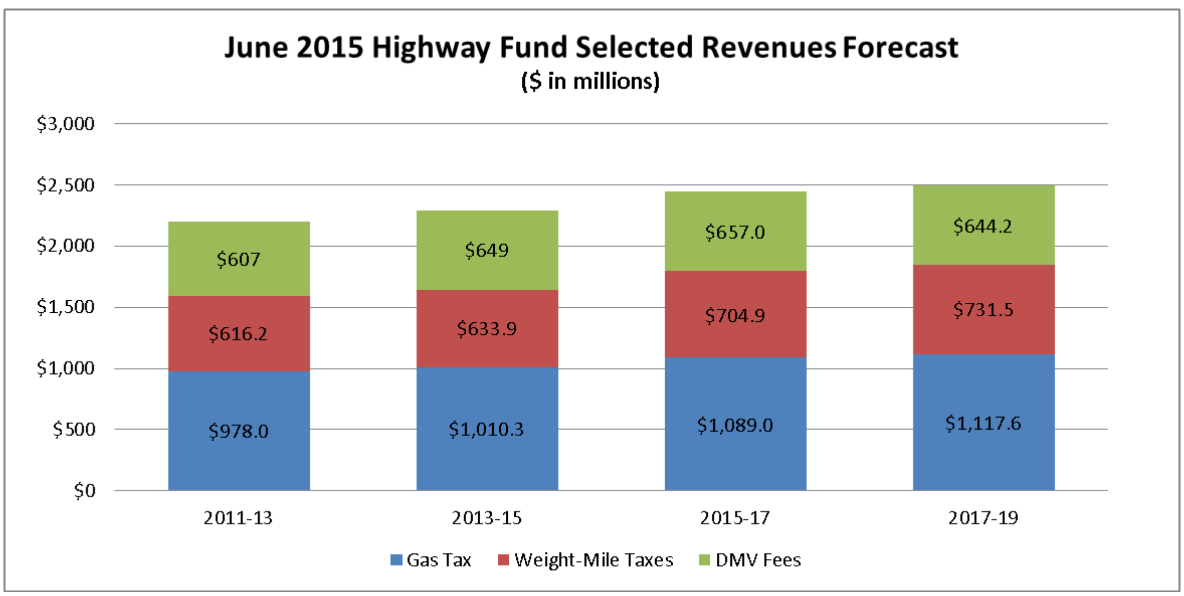
Highway Division Programs

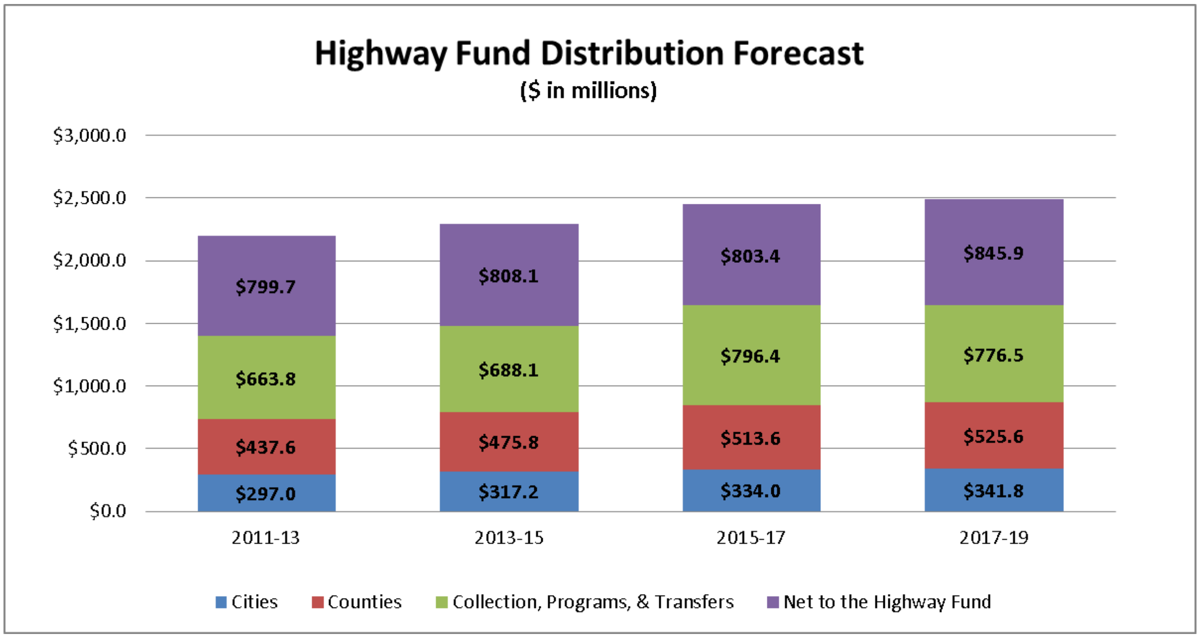
	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Maintenance	425,699,693	460,351,883	472,895,924	472,301,517
Preservation	216,372,476	250,039,239	218,533,991	265,978,839
Bridge	352,890,864	373,123,880	206,112,149	204,288,566
Highway Operations	120,546,093	124,060,465	134,999,805	134,672,311
Modernization	259,214,988	825,393,779	309,535,533	304,976,141
Special Programs	201,574,299	230,521,502	275,130,915	260,443,420
Local Government	289,467,904	367,490,368	397,908,361	397,907,378
Total Highway Division	**$ 1,865,766,317**	**$ 2,630,981,116**	**$ 2,015,116,678**	**$ 2,040,568,172**

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. 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 2015-17 legislatively adopted budget includes a total of $425 million bond financing to pay for identified projects. This figure includes $35 million in General Obligation (GO) Bonds approved by the Legislature for six priority highway safety projects throughout the state.

The following displays show the major Highway Fund revenue sources and the distribution of those revenues. (June, 2015 ODOT revenue forecast)





Budget Environment

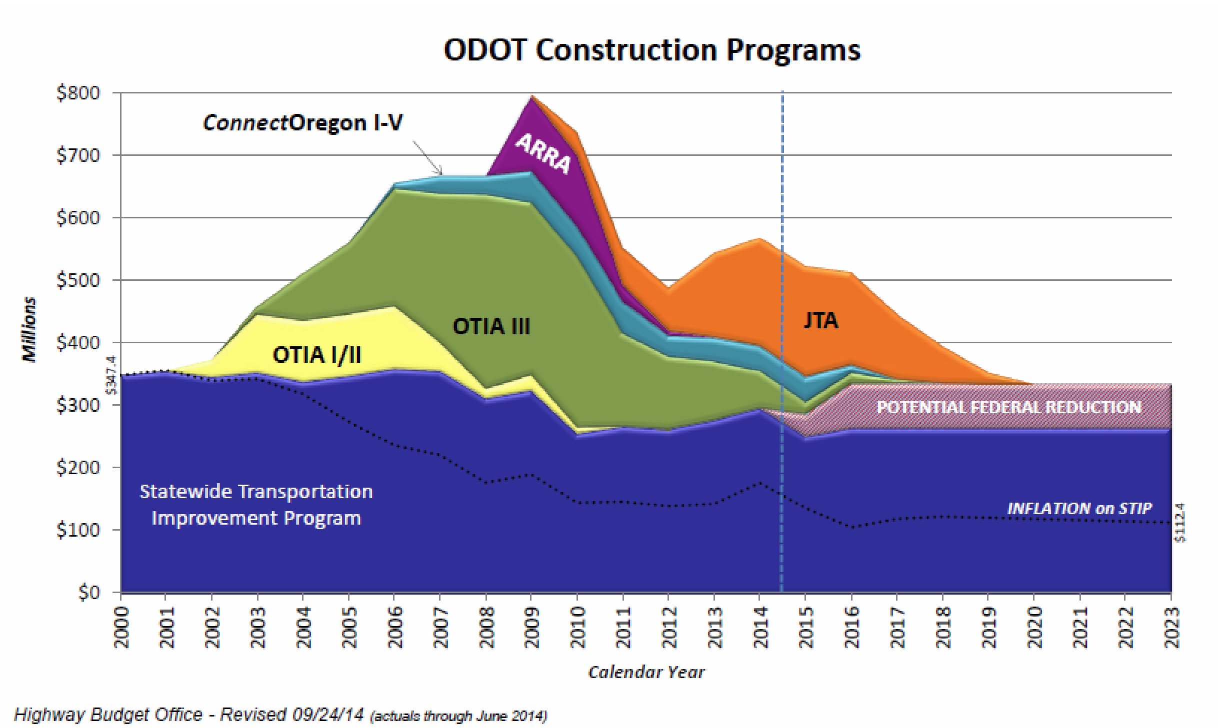
The highway infrastructure, including pavements, bridges, and traffic control systems, continues to age, and as it does, it requires more maintenance and a larger share of ODOT's revenue each year. With an aging infrastructure, it becomes more difficult to keep pace with growing costs through efficiency gains. A recent report on pavement and bridge conditions entitled *Rough Roads Ahead* details how Oregon is falling behind on the fundamentals of preserving and maintaining highways and bridges. The current budget forecast for the state highway system will not sustain the system in its current condition and performance.

The Statewide Transportation Improvement Program (STIP) is the state's ongoing transportation preservation and capital improvement program. It identifies transportation projects funded from federal, state, and local government transportation funds. It includes all federally-funded projects, projects of regional significance (projects with high public interest or air quality impacts) regardless of funding source, and projects in the National Parks, National Forests, and Indian Reservations. The STIP encompasses a four-year construction period based on a federal fiscal year. The currently approved program covers the period 2015–18. STIP projects are developed in accordance with state statutes as well as the goals, policies, and guidance set forth in the Oregon Transportation Plan, ODOT's overall policy document directing transportation investments.

Projects in the STIP are identified and prioritized using planning processes described in the 2012 federal transportation funding act, *Moving Ahead for Progress in the 21st Century* (MAP-21). Starting in the 2015-18 STIP, ODOT created two broad categories for project selection: *Fix-It* and *Enhance*. The Fix-It project selection process is similar to prior STIPs; these projects are developed mainly from management systems that help identify needs based on technical information for things such as pavement and bridges. The Enhance program merged a number of separate programs into a single funding stream to fund projects across modes. This new approach makes investment decisions based on the system as a whole, not for each mode or project type separately. It better reflects Oregon Transportation Plan policy, and better incorporates direction from the OTC, the Governor, and the Legislature, and from federal agencies and legislation.

Over the past decade the Highway Division has successfully delivered major construction programs – the Oregon Transportation Investment Act (OTIA) I, II and III enacted in 2001-03 and the Jobs and Transportation Act (JTA) enacted in 2009. OTIA III directed ODOT to bond for $1.3 billion in bridge investments and $300 million in Modernization investments; these projects are wrapping up and are estimated to be substantially completed during the 2015-17 biennium. JTA authorized ODOT to complete $960 million in projects specified in the bill. Many of these projects are under construction, and many have been completed and are open to traffic. These one-time revenue authorizations have allowed the Highway Division to replace and repair a number of bridges and modernize the transportation system on both the state and local levels, and have created highway construction jobs: generally, all state highway projects are built by private contractors and are awarded by ODOT through a competitive bidding process.

However, over the next 20 years, ODOT will be making debt service payments on these investments and will return to pre-2003 funding levels for the Statewide Transportation Improvement Program. The Division has embarked on a series of self-imposed reduction exercises in order to align operating expenses with revenues and to gain efficiencies. These reductions include eliminating more than 130 FTE in the Highway Division, more than 250 pieces of equipment, and some planned closures of facilities. Most of these actions are being accomplished by attrition, surplusing older fleet equipment and consolidating facilities where possible. While managing to decreasing revenues is both necessary and admirable, no amount of administrative efficiencies will generate funds adequate to the Highway program's ongoing needs. Particularly for system expansion, additional funding is required. The graph, below, shows the increased highway construction funding levels gained by state and federal funding programs since 2001.



Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $2,040.6 million Other Funds is $590.4 million, or 22.4%, less than the 2013-15 legislatively approved budget level, and includes 2,532 positions (2,469.38 FTE). The decrease is the result of highway projects being completed, and the cancellation of the Columbia River Crossing project. The budget includes $735,000 Other Funds expenditure limitation for new speed limit signage in eastern Oregon (HB 3402, increasing speed limits on certain rural highways), and reflects an agency reorganization that moved the Office of Innovative Partnerships and Programs and the Road User Charge (OREGO) program's operations from the Highway Division into Central Services ($10.3 million, 14.00 FTE).

Driver and Motor Vehicles Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	100,000	51,835	51,835
Other Funds	148,519,711	172,873,391	171,848,207	205,747,193
Federal Funds	2,384,665	3,487,151	3,598,632	3,598,632
Total Funds	**$150,904,376**	**$176,460,542**	**$175,498,674**	**$209,397,660**
Positions	857	848	849	890
FTE	834.25	825.09	828.25	857.16

Program Description

Driver and Motor Vehicles (DMV) licenses and registers nearly 1.8 million drivers and motor vehicles annually and enforces motor vehicle-related laws. There are 60 DMV offices statewide serving approximately 12,000 walk-in customers every business day. In addition, DMV personnel process approximately 8 million transactions and respond to over 1.7 million phone inquiries each year through 3 call centers, two of which are staffed by Department of Corrections inmates. Law enforcement agencies access about 141,000 records each day, and businesses and individuals make over 2.9 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 are expected to total $661 million in 2015-17.

Revenue in excess of amounts needed to cover DMV operating costs and debt costs is subject to city, county, and state distribution. Approximately 40% of the revenues collected are projected to be transferred to the State Highway Fund, cities, and counties. In addition, just over 5% or $34.5 million of the revenues collected are projected to be transferred to other state agencies. For example, Recreational Vehicle (RV) related fees of $32 million are transferred to the Oregon Parks and Recreation Department.

Budget Environment

Eligibility for an Oregon driver license or identification card has become more difficult as standards for proving identity and legal status 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 identity for driver licenses, permits, and identification cards issued by DMV.

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. Oregon is currently under an extension of the October 10, 2015 deadline to comply with the Act. It is not known whether or not the state will receive an additional extension.

DMVs 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, making the major applications difficult to support. 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. Against this old technology, there is considerable public demand for more online services and the ability to use debit or credit cards in field offices.

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 among states.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $209.4 million is $32.9 million, or 18.7%, higher than the 2013-15 legislatively approved budget level and includes 890 positions (857.16 FTE). The Legislature approved reductions for anticipated revenue shortfalls ($2.4 million), and approved funding for three program initiatives:

- $30.4 million Other Funds and 42 positions (29.91 FTE) to begin the DMV Service Transformation Project. Currently estimated at ten years and $90 million, this project will re-design business processes and modernize the information systems used by the DMV. Funding is approved for the acquisition of a Vehicles "core system" replacement and to begin hiring a combination of contracted and state software development employees and supporting technical staff to undertake the projects planned for the 2015-17 biennium.
- $6.3 million Other Funds expenditure limitation to begin accepting debit and credit cards at DMV offices statewide starting in the 2015-17 biennium.
- HB 2730 directs DMV to establish two new specialty license plates, and increases Other Funds expenditure limitation by $248,000 to implement the provisions of the measure.

A budget note directs DMV to convene a work group to oversee the near-term phase and the long-term strategy to modernize all aspects of DMV services.

Motor Carrier Transportation Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	53,657,359	60,403,548	59,473,741	60,007,623
Federal Funds	5,428,690	5,749,811	5,963,392	5,416,140
Total Funds	**$59,086,049**	**$66,153,359**	**$65,437,133**	**$65,423,763**
Positions	307	303	283	283
FTE	307.00	303.00	283.00	283.00

Program Description
The Motor Carrier Transportation Division (MCTD) administers and enforces laws and rules associated with 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 Green Light Program increases weigh station capacity by weighing trucks in motion on the highway and sending a green light signal to those with transponders if they do not need to stop at a weigh station. As of the end of 2013, the Green Light program weighed in-motion and pre-cleared trucks more than 17 million times. Also, the Division offers an online 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, about 90% of revenue collected, is transferred to the State Highway Fund, cities, and counties, and is used to cover debt service and central services. The 2015-17 biennium budget includes $5.4 million in Federal Funds for commercial vehicle safety enforcement efforts under the Motor Carrier Safety Assistance Program (MCSAP).

Budget Environment
After examining objective outcome-based performance measurement data in 2006, MCTD significantly modified its approach to safety enforcement. Data showed that truck driver actions—rather than truck mechanical defects—cause more than 95% of truck-at-fault crashes. Finding unsafe drivers and taking them off the road reduces crashes. The change in emphasis is credited with the dramatic improvement in accident reduction in the immediately following years. According to federal statistics, Oregon ranks first nationally in inspector proficiency in detecting and placing deficient drivers out of service. Fatal truck crashes in Oregon have decreased by 36.5% since 2007.

Online business was up in 2013 as Trucking Online handled 14.7% more transactions and 12.6% more records inquiries than the previous year. In the major categories of activity, there has been a steady increase in online weight-mile tax reports and payments. Now, nearly half of all such transactions are completed online. The annual renewal of truck registration or tax credentials is another major online activity. In 2013, companies based out of state put the paperwork aside to electronically renew 74% of all tax credentials needed for trucks that operated in Oregon in 2013. As a result, Oregon saved 330 reams of paper (a stack that would reach more than 60 feet high), plus more than $50,000 in postage and staff time to process and mail renewal-related materials.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $65.4 million total funds is $0.7 million, or 1.1%, less than the 2013-15 legislatively approved budget level and includes 283 positions (283.00 FTE). This budget includes an approved fund shift of $0.5 million and 3.17 FTE from Federal Funds to Other Funds to reflect the loss of the Motor Carrier Division's federal Motor Carrier Safety Assistance Program Basic and Incentive grant, which funded commercial vehicle safety.

Transportation Development Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	163,392,837	225,283,221	133,944,824	177,307,137
Federal Funds	161,788	177,478	183,105	72,804
Total Funds	**$163,554,625**	**$225,460,699**	**$134,127,929**	**$177,379,941**
Positions	237	233	235	229
FTE	227.48	224.43	225.85	219.85

Program Description
The Transportation Development Division operates through four program areas:

Research – Evaluates, develops, and tests new and innovative transportation products, materials, methods, and processes. The program emphasizes highway materials and construction, and manages federally-funded research projects primarily through university partners. The Technology Transfer (T2) Center within the Research program provides transportation-related information to local agencies throughout Oregon.

Transportation Data – Manages Oregon's road inventory, conducts crash analysis and traffic monitoring, and houses ODOT's Geographic Information Services. In partnership with the Highway Division, this program manages bridge inspections and asset management, and maintains data from construction plans, field inventories, and highway system designations. Most ODOT highway projects support federal mandates and are federally funded, requiring various annual reports, including the Highway Performance Monitoring System and all Roads GIS submittals (CFR 23-420), and the Certified Mileage Submittal (CFR 23-460), which provides for the agency's apportionment of Safety Funds. The agency's Crash Analysis Program reports on crash data for cars and for trucks and buses, meeting the requirements of the Federal Motor Carrier Safety Administration and the National Highway Traffic Safety Administration.

Planning – Guides and supports short- and long-range planning for Oregon's transportation system. The Department adheres to a formal long-term process that produces and periodically updates a long-range strategy reported in the federally-required Oregon Transportation Plan (OTP). This program area is also responsible for the Oregon Highway Plan, Oregon Freight Plan, ConnectOregon multimodal transportation project planning and administration, transportation facility plans, and planning for reduction of transportation-related greenhouse gas emissions. The goals, policies, and proposed actions are translated into specific projects and activities that constitute Oregon's integrated transportation system. Information sources are federal legislation on clean air, water, and energy, state benchmarks, and land use planning goals. The Division also participates with metropolitan planning organizations and cities to prepare Regional Transportation System Plans.

Active Transportation – Brings together funding sources, statewide multimodal transportation programs, and economic and financial analysis support services. Several federally-mandated programs—Transportation Alternatives, Scenic Byways, and Congestion Mitigation Air Quality Improvement—are co-located with state Bicycle and Pedestrian and Local Certification programs in order to better integrate these mandated elements into multimodal transportation projects. The Economic Analysis Unit provides Highway Fund and other revenue forecasts, the Highway Cost Allocation Study, and other transportation finance studies, and administers the Immediate Opportunity Fund. The Program and Funding Services Unit develops the Statewide Transportation Improvement Plan (STIP).

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.

Revenue Sources and Relationships

General planning activities are funded from federal planning grants that specifically apply to Statewide Planning and Research, Surface Transportation, and Highway Bridge Replacement and Rehabilitation programs. Revenue transfers from the highway program support highway planning, system studies, monitoring, and data gathering. The ongoing ConnectOregon program has provided $382 million in Lottery bond proceeds in the past five biennia and is continued in 2015-17 with an additional $45 million.

Budget Environment

Passage of HB 2001 in 2009 by the Legislature had a number of requirements that affect work that is accomplished, how it is completed, and the impact it has on other stakeholders. Ongoing planning work supports the responsibilities of the Oregon Transportation Commission and the Transportation Planning Rule, which requires the agency to identify a system of transportation facilities and services adequate to meet identified state transportation needs and to prepare a transportation system plan. Additionally, current federal legislation (*Moving Ahead for Progress in the 21st Century*, or MAP 21) places an emphasis on performance measures, and, in some cases, ties federal funding to the outcome of performance measures, especially in the areas of safety, congestion, bridges, and pavement.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $177.4 million is $48 million, or 21.3%, less than the 2015-17 legislatively approved budget and includes 229 positions (219.85 FTE). This budget reduces expenditure limitation by $37 million for completed ConnectOregon projects, $20 million for completed Transportation Systems Projects, and $37.8 million for completed non-highway flex fund projects and completed Jobs and Transportation Act (2009) planning efforts. There is an increase of $45 million Lottery bond proceeds to continue the Multi-modal Transportation Program initiated by the Legislature in the 2005-07 biennium (ConnectOregon VI).

Public Transit Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,970,000	12,640,000	9,270,000	9,400,000
Other Funds	24,078,452	31,871,065	30,453,304	30,349,036
Federal Funds	62,598,636	54,806,081	55,823,130	55,823,130
Total Funds	**$88,647,088**	**$99,317,146**	**$95,546,434**	**$95,572,166**
Positions	19	16	19	19
FTE	19.00	16.45	19.00	19.00

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 Public Transit administrator also manages the Rail Division. The Division operates five program areas:

- General Public Transit – Public transportation in Oregon communities consists of fixed route bus service, paratransit service for those who cannot use the fixed route system, and intercity bus or rail connections between communities. Portland's metropolitan area includes an extensive light rail and streetcar network as well. General public transit providers are the primary service delivery system and include transit districts, tribal governments, city, and county services, in coordination with private not for profit and for profit services. Smaller communities offer more limited options but some option for public transportation exists in every county and community in Oregon with over 2,500 residents. Many of these providers participate in Oregon's state and federal transit funding programs for transit operations and vehicle and facility replacements, and must ensure that their projects are implemented in accordance with various requirements.
- Intercity Passenger Program – Oregon's rural intercity public transit program provides service options for statewide travel, connecting towns and rural communities with major transportation hubs and urban centers. ODOT works with Greyhound and other intercity operators to create regional connections that use private investment to leverage federal funding. Intercity buses make scheduled connections with other intercity carriers to make traveling accessible, reliable, and convenient. The program continues to fill gaps in our statewide transit system by bringing new bus routes to rural communities and other parts of the state that have been underserved.
- Enhanced Mobility/Special Transportation Fund – The state-funded Special Transportation Fund and the similar federal Enhanced Mobility program provide more than 17 million annual trips on fixed routes or via "on demand" service for seniors and people with disabilities. The state program is used to leverage federal funds by providing match and to help offset unfunded mandates of Americans with Disabilities Act requirements for fixed route providers. Transit districts, counties, and tribes all across the state participate in this program.
- Transportation Options – Promotes alternatives to driving such as bicycling, walking, public transit, ridesharing (carpooling and vanpooling), teleworking, and compressed workweeks. The program helps ODOT achieve national and state goals for land use, air quality, congestion management, and energy conservation. The goal is to encourage travelers to choose alternative travel modes to reduce auto trips, congestion, and pollution, and to enhance livability, physical health, and activity levels.
- Public Transit Planning and Research – Supports public transportation-related planning at the statewide, regional, local, and corridor levels.

Revenue Sources and Relationships

The Division receives 58% of its funding from federal sources:

- Federal Highway Administration (Surface Transportation Program) – $5.6 million spent as Other Funds and available for any transit purpose, with no match requirement.
- Federal Transit Administration – $27.6 million for elderly and disabled transportation, 10.27% match from grantees; $2 million for planning, 20% match from grantees; $24.7 million for general public transit, 43.92%

match from grantees; $1.5 million for transportation options program, 20% match from grantees; and $32,762 for transit operations, no match.

State funds make up 32% of the Division's revenue. Public Transit is allocated funds from three main sources:

- Cigarette Tax – $6.4 million. Includes 3.45% ($0.02 per pack) apportionment of all moneys received by the Department of Revenue from certain cigarette tax revenues.
- DMV Photo ID – $4.1 million. Includes any excess fees collected from the distribution of ID cards by 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 – $6.6 million. 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 funds provide match for federal funds for Transportation Demand Management, Special Needs Transportation, and Transportation Planning programs.
- The Division receives about $223,000 per biennium from interest and the sales of surplus vehicles.

The Legislature approved a General Fund appropriation of $9.4 million for public transit services for seniors and people with disabilities. This funding was part of a commitment to spending on senior programs that originated in the 2013 special session.

Budget Environment

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 the 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. Transit services are particularly important in rural communities. The agency has emphasized strengthening transit connections for rural communities by providing incentive funding for vehicle purchases by providers of intercity passenger service.

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. The Division promotes the use of transportation modes other than single occupancy vehicle trips by enhancing existing services and facilities and increasing transportation options where possible, as improvements in transit options can lead to a reduction in travel delay and stress on the highway system.

Many Oregon transit providers find themselves without adequate state or local funding to match available federal resources. Additional pressures faced by transit providers include:

- Demand for more routes, amenities, and additional service on popular routes.
- The need to improve service quality, modernize aging facilities, add commuter bus and rail capacity, and modernize buses.
- Customer expectations for up-to-the-minute travel information via information technology.
- Continued pressure to transition to more cost effective, energy efficient, and lower environmental impact equipment and practices.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $95.6 million is $3.7 million, or 3.8%, less than the 2013-15 legislatively approved budget and includes 19 positions (19.00 FTE). The budget reduction is the net result of reduced expenditure limitation for $3.5 million Lottery Bond proceeds for the Salem-Keizer Transit Center in 2013-15 only; a reduction of $2 million General Fund for senior and disabled transit; and inflationary cost increases of $2.7 million.

Rail Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	10,408,710
Other Funds	31,5l99,927	39,142,829	17,498,339	41,255,874
Federal Funds	25,238,345	36,888,157	22,551,991	26,251,911
Total Funds	**$56,838,272**	**$76,030,986**	**$40,050,250**	**$77,916,495**
Positions	25	25	28	30
FTE	25.00	25.00	28.00	30.00

Program Description

The Rail Division ensures compliance with federal and state regulations related to passenger and freight rail. The Division operates in the following areas:

- Division Administration – 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. As of 2012, the Division Administrator also manages the Public Transit Division.

- Railroad Safety – Ensures compliance with federal and state safety regulations for track, locomotives, rail cars, hazardous material transport, and rail operating practices. In cooperation with the federal government, the program 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 light rail, streetcars, and trolleys. Staff participate in incident and accident investigations and make recommendations for improvement, if necessary. The section also inspects crossings of rail transit operations to ensure compliance with federal and state regulations.

- Crossing Safety – Enforces state laws and administrative rules as well as federal laws and regulations related to crossing safety. Statute directs regulatory authority over all public highway-rail grade crossings in the state. The Division authorizes construction, alteration, or elimination of highway-rail grade crossings within the state. The section manages safety improvement projects through administration of federal highway and state funds.

  Through projects such as construction of grade-separated crossings, signal upgrades, and elimination of crossings, incidents at Oregon highway-rail grade crossings have decreased, averaging 12.7 annually since 2006. In addition to its regulatory role, section staff work with railroad companies, public agencies, and the general public to address crossing safety concerns.

- Operations – 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

Programs operate with dedicated federal ($26.3 million) and state ($41.2 million) revenue. For the 2015-17 biennium budget, the Legislature appropriated $10.4 million General Fund in partial support of Amtrak *Cascades* passenger rail service.

Federal revenues include:

- Federal Railroad Administration (FRA) and Federal Transit Administration (FTA), $16.7 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, $4.2 million. Budgeted as Other Funds and used for crossing safety projects.

State revenues at the current service level include:

- Custom License Plate Fees, $6.6 million. Partially funds two daily passenger round trips between Eugene and Portland.
- Transportation Operating Fund (TOF) Non-Highway Fuels Tax, $3.2 million. Helps fund two round trips between Eugene and Portland.
- Rail Gross Revenue Fee, $5.8 million. Paid by Oregon railroads based on their previous year's gross revenue. Funds can only be spent on rail safety, crossing safety, and administrative expenses.
- 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.
- Other one-time only biennial revenues supporting passenger rail include $1 million carried forward in the Transportation Operating Fund; $3.7 million Federal Transit Authority grant funds carried forward, and $5.7 million Federal Highway Congestion Management Air Quality (CMAQ) funds.

Budget Environment

The lack of stable, adequate funding, for both passenger and freight rail, keeps Rail's future in Oregon uncertain. In 2007, the Legislature approved dedicating revenue from specialty license plates for use in the passenger rail program. In 2009, the Legislature increased the license fee from $50 to $100. To date, the specialty license plate fee revenue has fallen far short of covering expenses for passenger rail. One-time federal funding, $10.4 million in General Fund, and strategic reductions in program expenses makes up the difference for the 2015-17 biennium. Costs are driven by the amount of subsidy the state provides for each rail passenger and the addition of train sets to maintain two daily Eugene-Portland round trips.

The Division estimates the all-inclusive passenger rail subsidy in Oregon for 2015-17 at $120 per passenger. This amount includes payments to Amtrak, outside vendor maintenance and consultant payments, ODOT's passenger rail staff wages and benefits, and all associated services and supplies for the passenger rail program. All other states, including Washington, use only the Amtrak payments to calculate their subsidy amount. If ODOT used the same criteria, the passenger rail subsidy would be $69 per passenger. This subsidy is for Amtrak *Cascades* train passengers and does not include Amtrak's *Coast Starligh*t train or Thruway buses that augment the system.

Oregon's freight railroads are challenged to raise necessary capital to accommodate increases in rail traffic. The short line railroads have difficulty maintaining their systems to safely handle rail traffic. Growth in the transportation systems and the rail industry, combined with heightened interest in freight mobility, movement of hazardous materials by rail, and maintaining and improving 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.

Legislatively Adopted Budget

The Rail Division 2015-17 legislatively adopted budget of $77.9 million is $1.9 million, or 2.5%, more than the 2013-15 legislatively approved budget and includes 30 positions (30.00 FTE). The budget includes a $10.4 million General Fund appropriation in partial support of Amtrak *Cascades* passenger rail service and carryover of $7.9 million unspent funds for rail operating expense. Lottery bond proceeds in the amount of $10 million will pass through to a local entity for the Coos Bay Rail project. Debt service for these proceeds would begin in the 2017-19 biennium, at $1.9 million Lottery Funds per biennium.

Transportation Safety Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	11,497,310	14,381,132	17,718,810	17,627,613
Federal Funds	14,901,435	18,174,944	18,737,641	$18,669,948
Total Funds	**$26,398,745**	**$32,556,076**	**$36,456,451**	**$36,297,561**
Positions	25	25	28	28
FTE	25.00	25.00	28.00	28.00

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 approximately 400 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 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.
- Conduct studies and make recommendations to the Legislature concerning safety regulations and laws.

Revenue Sources and Relationships

Approximately 51% of the Safety program funds are Federal Funds from the Federal Highway Administration for work zone enforcement and the National Highway Transportation Safety Agency for issues related to DUII, safety belt use, field safety, traffic data, and safe routes to schools. The remaining 49% are other state funds, mostly from DMV for student driver training, motorcycle training, match for federal grant funds, and administration. The Division receives a transfer from the Highway Fund for regional safety staff. Funding is also provided from the Transportation Operating Fund for K-12 highway safety programs.

Budget Environment

Traffic safety is an increasing concern for this program. After decades of steady decline, preliminary figures for fatalities on Oregon roads in 2014 show a 12.5% increase over 2013. The first 11 months of data for vehicle miles traveled (VMT) in 2014 are up by 1.7% compared to the same time in 2013. The rebounding economy as well as lower gas prices helped put more vehicles on the road. Studies show a direct correlation between increased VMT and increased highway fatalities. Though Oregon's fatality rate (the number of people who are killed compared to the number of vehicle miles traveled) is below the national average, the state's goal is zero fatalities on Oregon's roads.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $36.3 million is $3.7 million, or 11.5%, more than the 2013-15 legislatively approved budget and includes 28 positions (28.00 FTE). The current service level of this program was increased by $2 million to implement the provisions of HB 2264 (2013), which required ODOT to increase subsidies for driver education classes for low-income teens.

Central Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	171,768,330	195,528,589	208,039,499	207,177,288
Federal Funds	6,380	269,486	278,321	278,321
Total Funds	**$171,774,710**	**$195,798,075**	**$208,317,820**	**$207,455,609**
Positions	507	498	494	499
FTE	502.04	493.61	489.50	494.50

Program Description
Central Services provides the core administrative functions that support each of the programs and the Department as a whole. This program includes two large divisions: ODOT Headquarters and Agency Support.

ODOT Headquarters, which includes the Director's Office (composed of the Assistant Director, Government Relations, Communications, and Business Management), the Deputy Director for Central Services, Budget Services, and the Office of Civil Rights. 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. Budget Services coordinates the agency's legislative budget development process, and the Office of Civil Rights manages federal and state programs that ensure fair and equitable access to ODOT's projects and programs. (55.00 FTE)

Agency Support provides the following services Department-wide:
- Financial Services – (75.00 FTE) Provides the Department with accounting and financial services including accounting, collections, budget, payroll, fuels tax revenue, debt, and financial analysis.
- Human Resources – (50.00 FTE) Provides professional advice and leadership on employee labor relations, classification, recruitment and retention, and training issues, and manages the Department's human resource systems and processes. Human Resources staff works closely with operating divisions to identify options to meet staffing needs and more efficient ways of doing business.
- Facilities Maintenance – (17.00 FTE) Operates and maintains ODOT-owned buildings primarily in the Salem and Portland areas. Crews conduct scheduled inspections and services, repair and replace building system components, and respond to routine and emergency maintenance needs.
- Information Systems – (222.50 FTE) Plans, develops, and supports business application systems and technology infrastructure, provides procurement and asset management for computing devices and software, and provides security, business continuity, and disaster recovery for the agency's information systems.
- Audit Services – (9.00 FTE) Runs the internal audit program ensuring that effective management controls are in place and functioning properly to help management achieve its objectives. The unit supports performance measures. External audit provides assurance on financial data submitted by external entities.
- Business Services – (18.00 FTE) Provides agency-wide records management and mail services; policy and procedure development and maintenance; and reprographic, photo and video, and graphic design services.

- Procurement Services – (44.00 FTE) The central procurement authority for ODOT, managing all procurement and contracting matters for the Department and for the Department of Aviation. Additionally, this program procures on behalf of local transportation agencies that use federal funds in support of the public transportation system in Oregon. Other services include training for ODOT staff; supplier outreach to Oregon's disadvantaged, minority- or woman-owned, and emerging small businesses; and contract administration and oversight.
- Oregon Innovative Partnerships Program – (7.00 FTE) Moved into Central Services in 2015-17, reporting to the Assistant Director of ODOT. This program identifies possible projects for long-term public-private partnership and solicits information and statements of interest from potential private sector partners.

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 computer use 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. The Transportation Operating Fund (TOF) was established by the 2001 Legislative Assembly (HB 3882) to pay the expenses of statutorily required or authorized activities that may not be funded with State Highway Fund monies. TOF revenues are unrefunded gas taxes paid for non-road use fuel, such as for lawnmowers.

Budget Environment

Workload in Central Services is driven by the workload factors affecting the Department as a whole. This includes demographic changes in Oregon's population and economy, implementation of federal appropriation legislation and of state legislative priorities, rapidly changing information technology, and efficient delivery of programs.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $207.5 million is $11.7 million, or 6%, more than the 2013-15 legislatively approved budget and includes 499 positions (494.50 FTE). The Legislature acknowledged an agency revenue shortfall in Central Services of $3 million and approved an agency re-organization that moved the Office of Innovative Partnerships and Programs and the Road User Charge (OREGO) program's operations from the Highway Division into Central Services ($10.3 million, 14.00 FTE), as well as a reduction of state government service charges of $8.6 million.

Nonlimited Loan Fund

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds (NL)	5,160,475	18,158,214	18,158,214	18,158,214
Total Funds	**$5,160,475**	**$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) is ODOT's only authorized use of the Nonlimited fund type. 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.

Revenue Sources and Relationships

The program operates with dedicated Highway Trust Funds and loan repayments.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is $18.2 million to reflect estimated loan disbursements anticipated during the biennium.

Debt Service

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	7,967,450	7,967,450
Lottery Funds	72,614,922	93,953,970	114,855,747	107,484,140
Other Funds	314,271,165	464,052,646	442,110,823	443,465,557
Other Funds (NL)	237,547,763	1,429,940,729	--	--
Federal Funds (NL)	21,621,529	21,621,529	21,621,529	21,621,529
Total Funds	**$646,055,379**	**$2,009,568,874**	**$586,555,549**	**$580,538,676**

Program Description

Debt financing for public improvements ensures that current users of a capital facility pay for its use. Oregon has long used this financial tool for road construction; the first Oregon highway bond was issued in Jackson County in 1913 in the amount of $1,000, equivalent to about $24,000 in 2015.

The officials shown in the photo to the right are E.E. Kelly, District Attorney; F.L. Touvelle, Jackson County Judge; and W.C. Leever, County Commissioner.

Debt service in this program repays highway construction bonds and the state's share of funding for the South Metro Commuter Rail project in Washington County, the Southeast Metro-Milwaukie Extension, Portland Street Car, Short-Line Railroad infrastructure assistance, Industrial Spur infrastructure, and ConnectOregon phases I – V. Debt service is paid from State Highway and Lottery Funds and is partially subsidized by federal funding. General Fund debt service pays for a portion of the debt for the State Radio Project.

Revenue Sources and Relationships

Other Funds are derived from the sale of bonds, which are retired using allocations of State Highway and Lottery Funds.

Budget Environment

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 2015-17 biennium, the Department expects to receive $21.6 million which will be used to offset debt service payments.

Legislatively Adopted Budget

At $580.5 million total funds, the 2015-17 legislatively adopted budget is $713.8 million, or 55.2%, less than the 2013-15 legislatively approved budget. The large reduction is due to the one-time Nonlimited Other Funds expenditure of $715.6 million for re-financing activities in 2013-15. This budget is $6 million (1%) less than the current service level, the net result of new debt service requirements for 2015-17 and the reduction of $43 million in anticipated debt service expenditure limitation for the Columbia River Crossing project, which was cancelled.

The Legislature approved the issuance of $45 million Lottery-backed bonds to continue the multi-modal ConnectOregon transportation program initiated in 2005 and approved by the Legislature in HB 2001. Timing for the sale of these bonds is planned so that debt service payments will not be required until the 2017-19 biennium.

The estimated cost for debt repayments for this new issue in 2017-19 is $8.3 million Lottery Funds. The budget also includes a reduction of $7.4 million Lottery Funds that resulted from a Lottery Bond refunding.

Capital Improvements

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	3,065,797	3,338,023	3,438,164	$5,438,164
Total Funds	**$3,065,797**	**$3,338,023**	**$3,438,164**	**$5,438,164**

Capital Construction

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	6,025,736	278,842	--	47,000,001
Federal Funds	591,920	$1,827,307	--	--
Total Funds	**$6,617,656**	**$2,106,149**	**$0**	**$47,000,001**

Program Description

The Capital Improvements and Capital Construction programs provide for new construction, remodeling, or improvements to facilities leased or owned by ODOT. The Department owns over 1,100 facilities throughout the state, and strives to replace, remodel, or repair these facilities on a regular schedule in order to maximize their value to the agency.

Revenue Sources and Relationships

Capital activities are funded primarily through transfer of State Highway Funds, although federal grants, bond proceeds, or other resources are made available occasionally.

Budget Environment

ODOT owns over 1,100 facilities throughout the state, and regularly maintains and repairs its facilities. Over time, as equipment and technologies improve and business processes changes, new facilities need to be acquired and/or constructed.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $47,000,001 for Capital Construction contains several items that make it incomparably larger than the 2013-15 legislatively approved budget of $2.1 million.

The Capital Improvements expenditure limitation of $5.4 million Other Funds will fund 35 planned facilities and equipment repairs throughout the state. Projects include new and/or replacement of roofs, boilers, sheds, vehicle wash stations, windows, wells, and generators.

The Legislature approved $35 million in highway bonds (Oregon Constitution, Article XI, Section 7) to fund the following highway safety projects:

- US 26, 116th - 136th Safety Improvements, $17,000,000. The intersection of 122nd and Powell had the highest number and severity of crashes of any intersection in the state in 2012. This corridor had eight sites in the top 10% of high crash locations in the state. The project will make safety improvements on Powell Boulevard including sidewalks, buffered bike lanes, and a center turn lane. Planning level cost estimates are $22 to $25 million for this entire segment. These funds would be concentrated on the highest crash segment (122nd -136th).
- State Highway 34 Safety Improvements, $3,000,000. Highway 34 has a long history of crashes. Several intersections are in the top 10% of statewide high crash locations. This segment also experiences a high

number of lane departure crashes which result in high speed head-on crashes or vehicles running off the road. The project will add rumble strips and a center median barrier along State Highway 34 between Peoria Road and the Corvallis Bypass, where feasible, to reduce the number and severity of crashes.

- OR 126 Eugene to Florence Safety Improvements, $7,000,000. Segments of OR 126 have very high concentrations of fatal and serious crashes (232% above the statewide average for similar roadways). The project would make safety improvements including: widening shoulders to six feet and installing shoulder rumble strips from Mile Post 27.27 to Mile Post 51.7 and adding a passing lane between Walker and Chickahominy Creek westbound.
- Interstate-5/Interstate-205 Cable Barrier, $2,500,000. Lane departure and crossover crashes have been increasing. On high-speed, high volume interstates, cable barrier has proven to be a very effective counter-measure. SB 921 gave ODOT direction to move forward with closing medians on the interstates. These funds would help complete cable barrier installation on I-5 in Southern Oregon and I-205.
- US 26 Warm Springs Downtown to Museum/Casino Plaza Connectivity, $1,500,000. Pedestrian facilities are needed along and across U.S. 26, for access/connectivity and improved safety for those walking and biking (including commuters) along and across a busy highway. These funds would construct a 10-foot-wide multiuse path running parallel to and across U.S. 26 between the Warm Springs downtown commercial area to the Museum/Plaza commercial area.
- Interstate-84 (Pendleton - La Grande) Blue Mountains Snow Zone Safety Improvements, $4,000,000. This section of I-84 experiences a two to three-times greater number of crashes than the statewide average for interstates, likely due to inclement winter weather conditions. The project will reduce accidents throughout the snow zone by having variable speed limits between Pendleton and La Grande in snow zone areas, thus allowing a reduction of speeds for all traffic in a consistent way.

Two capital construction projects were approved for 2015-17, funded with State Highway Funds:

- South Coast Maintenance Station, $4,500,000 Other Funds. The South Coast maintenance station is located in Coos Bay, in an area experiencing increased traffic. Funding is approved to fund the purchase of land, site development, and design for a new maintenance station to relocate the South Coast Maintenance Station and consolidate from three sites to one centralized location.
- Meacham Maintenance Station, $7,500,000 Other Funds. Meacham is the primary maintenance station located on the I-84 mountain passes. Funding is approved to design and construct a new facility to replace the existing outdated maintenance station. The project includes redevelopment of the current site to provide adequate sewage management and additional space for new buildings of sufficient size to handle the fleet needed to maintain mountain passes.

The 2015-17 legislatively adopted budget contains a $1 placeholder for Capital Construction to allow the Emergency Board to increase expenditure limitation for planning and implementation of a project to consolidate facilities or co-locate facilities with other jurisdictions, should any such opportunities arise.

The Legislature approved the extension of the project expiration dates and expenditure limitations for the following projects: Transportation Building Renovations (Other Funds), extended to June 30, 2017; Oregon Wireless Interoperability Network Phase 2 (Other Funds), extended to June 30, 2017; Salem Baggage Depot Renovations (Other Funds), extended to June 30, 2017; and Salem Baggage Depot Renovations (Federal Funds), extended to June 30, 2017.

ADMINISTRATION

PROGRAM AREA

DEPARTMENT OF ADMINISTRATIVE SERVICES

Analyst: Siebert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	9,008,749	12,030,189	7,084,159	9,577,939
Lottery Funds	6,649,695	8,135,841	14,459,411	10,553,686
Other Funds	884,902,596	946,777,833	840,868,413	898,482,207
Other Funds (NL)	165,097,339	209,238,802	126,229,653	272,104,653
Total Funds	**$1,065,658,379**	**$1,176,182,665**	**$988,641,636**	**$1,190,718,485**
Positions	815	810	785	827
FTE	801.67	793.90	783.71	813.17

Totals are different from those in Executive Branch documents due to separate treatment by the Legislative Fiscal Office of: a) Lottery Funds for County Fairs, Oregon Public Broadcasting, and Oregon Historical Society debt service; b) General Fund support for the State Fair, OPB, and OHS; and c) Other Funds expenditure limitation for OPB investments funded with the sale of Lottery Bonds.

Overview

The Department of Administrative Services (DAS) is the central administrative agency that supports other agencies of state government and coordinates statewide services and administrative policies. The Department has numerous divisions 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, 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 generally from statewide assessments and fees charged for services provided to state agencies. DAS establishes rates for direct services and bills agencies based on usage. Costs of indirect services, such as those provided by the Chief Operating Office, Chief Financial Office, Chief Information Office, and Chief Human Resource Office are recovered through a "statewide assessment" included in state agencies' budgets as part of the line item expense titled "State Government Service Charges."

Although assessment-supported services cannot be directly measured and tied 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.

Budget Environment

The Department provides services along two primary tracks: 1) governance and policy direction, such as budget, accounting practices, and human resource policies; and 2) infrastructure and business services, such as printing, mail, fleet, and custodial services. Handling the simultaneous leadership and service-provision roles is an ongoing challenge for the Department. Tension between DAS and state agencies has increased in recent biennia as General Fund constraints have reduced agency budgets, but not necessarily the need for DAS functions. State agencies are particularly sensitive to paying for policy oversight, which has less tangible value, and for services which they might prefer to forego, purchase elsewhere, or support on their own.

For the 2009-11 biennium, DAS received a budget note targeted at resolving the dichotomy between the agency's policy and service functions. The budget note directed the agency to convene a workgroup to review certain aspects of the agency, including: the potential benefits of separating the Department's policy functions from its service functions; validity of the current methodologies used to develop DAS assessments and service charges; and overall value and effectiveness of DAS functions and services.

Consequently, the Department chose Entrepreneurial Management (EM) as the primary tool it would use to improve services and provide clarity about its roles. An extensive EM reorganization took effect July 1, 2012 to implement this customer-focused entrepreneurial management model which changed the names of many divisions and generally split the Department into policy teams and service teams. This was done to allow the service side of the agency to focus on providing customer service while policy officers focus on over-arching issues that affect all state agencies. The 2015-17 legislatively adopted budget made a few adjustments to the previous reorganization, but the split between policy and service operations is continued.

Chief Operating Office

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	62,778	472,633	279,942	279,942
Other Funds	3,759,741	8,001,354	7,728,569	7,876,753
Total Funds	**$3,822,519**	**$8,473,987**	**$8,008,511**	**$8,126,695**
Positions	26	22	20	22
FTE	24.46	21.87	20.00	22.00

Program Description

The DAS Director is responsible for managing and coordinating the policies, programs, and services of the divisions within the Department. Currently, the DAS director also serves as the Chief Operating Officer for Oregon and is tasked with reviewing outdated systems, streamlining departments, and creating efficiencies and cost savings in state government. The Director is responsible for coordinating policy among state agencies and setting guidelines for developing and executing the Governor’s budget. The Chief Operating Office (COO) has four primary functions:

- Agency Administration – Provides management oversight and policy direction to DAS divisions.
- Office of Economic Analysis – Produces the Oregon Economic and Revenue Forecast and Criminal Justice Population Forecast. It also contracts for the Highway Cost Allocation Study.
- Performance Management – Works with agencies on the most efficient and effective use of public funds.
- Government Affairs and External Relations – Coordinates legislation and communications.

Revenue Sources and Relationships

General Fund supports prison population forecasting. Otherwise, the COO 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.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is 4% lower than the 2013-15 legislatively approved budget levels. This reduction is caused by continuing only 2 of 3 limited duration project manager positions from the 2013-15 biennium. In addition, an existing vacant Economist position was reclassified downward for a savings of $114,233 Other Funds.

Chief Financial Office

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	4,703,559	14,363,896	13,789,517	16,240,520
Total Funds	**$4,703,559**	**$14,363,896**	**$13,789,517**	**$16,240,520**
Positions	40	40	42	45
FTE	40.00	39.75	42.00	44.76

Program Description

The Chief Financial Office (CFO) 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 budget through the legislative process. The CFO also helps to coordinate statewide bonded debt programs, including issuance and repayment of Article XI-Q bonds, pension obligation bonds, and lottery revenue bonds. The Office is responsible for development and maintenance of the statewide budget systems. Under the Department's Performance Management reorganization, the CFO also 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.

Revenue Sources and Relationships

The Chief Financial Office is funded through assessment of state agencies based on an agency's total funds budget and Full-time Equivalent positions (FTE).

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Chief Financial Office is 13% higher than the 2013-15 legislatively approved budget. Other Fund adjustments include:

- Added $2 million to continue assessments of state-owned facilities begun in 2013-15 with reviews of DAS and Oregon Youth Authority facilities. The funds will be used to complete reviews of capital facilities operated by the Department of Corrections, Forestry Department, and the Department of Fish and Wildlife.
- Added $637,294 in HB 3199 which divides administrative responsibilities for the public university bond program between DAS and the Higher Education Coordinating Commission (HECC). DAS will manage the administration of the bond programs, including preparation of sale documents, consultation with bond counsel and the Treasurer's Office, and oversight of federal tax compliance. Other Funds limitation was added to pay for a position to carry out DAS's responsibilities under the bill.
- Added $220,533 to restore a position in the Statewide Audit and Budget Reporting Section that had been eliminated in previous biennia.
- Added $219,051 to establish a permanent position in the Capital Finance and Planning Section to assist with management of growing outstanding debt and responsibility of managing sales of bonds.
- Transferred out $1,595,563 Other Funds and 4 permanent full-time positions to Enterprise Goods and Services to recombine Procurement Staff.
- Transferred in $612,269 and 2 positions from Enterprise Technology Services to recombine ORBITS staff.
- Eliminated a vacant administrative support position for a savings of $144,088.

Chief Information Office

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	5,795,077	9,640,982	10,409,313	20,636,511
Total Funds	**$5,795,077**	**$9,640,982**	**$10,409,313**	**$20,636,511**
Positions	22	25	19	34
FTE	21.33	22.50	19.00	34.00

Program Description

The Chief Information Office (CIO) maintains certain policy and statewide information technology oversight functions. The CIO's Enterprise Security Office identifies the state's information security needs and is responsible for statewide information security policies and practices. IT Investment and Planning develops and implements state information technology strategies, rules, policies, standards, and processes. It provides support to the Chief Information Officer and information technology-related governance bodies. The Geospatial Enterprise Office provides statewide geographic information systems (GIS) coordination for Oregon government (state and local) to support enterprise-wide planning and decision-making.

Revenue Sources and Relationships
The Chief Information Office is funded primarily through assessment of state agencies based on FTE counts.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget for the Chief Information Office (CIO) more than doubled from 2013-15 legislatively approved budget levels due to significant initiatives around IT governance and fixing long-term expenditure limitation issues. Major Other Funds adjustments include:

- Added $3,423,178 and 12 positions to supplement current staffing in the office of the State CIO to facilitate the strategic and coordinated investment, acquisition, and deployment of information technology resources to meet the business needs of state agencies.
- Added $708,531 to continue a limited duration position for the Statewide Interoperability Executive Council and implement FirstNet, a broadband network designed to improve public safety data communications.
- Added a total of $4,650,000 Other Funds expenditure limitation as pass-through payments for contracts, including a Geospatial contract ($2.4 million); Quality Assurance (QA) contracts ($2 million), which under state policy will be held by CIO but paid by state agencies whose project is reviewed; and $250,000 on a one-time basis to complete the purchase of the new Project Portfolio Management (PPM) software.
- Added $1,003,803 Other Funds for the following: $372,203 for the maintenance costs of the new PPM software; $131,600 for on-going costs of the Tenable Security Solutions software purchased in the 2013-15 biennium; and $500,000 for use of the Geospatial software that will be paid through assessments.
- Transferred in $530,907 and 2 positions from Enterprise Technology Services to recombine Geospatial staff in one budget unit.

Chief Human Resource Office

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	3,767,752	10,226,838	9,029,185	10,261,526
Total Funds	**$3,767,752**	**$10,262,838**	**$9,029,185**	**$10,261,526**
Positions	29	26	26	36
FTE	28.42	26.00	26.00	30.47

Program Description
The Chief Human Resource Office (CHRO) oversees personnel-related policies to help agencies obtain and retain a skilled workforce. Through administrative rules and policies and collective bargaining agreements, CHRO defines and manages the state's human resources system based upon equal employment opportunity and a merit-based compensation system. It also provides executive recruitment services to state agencies.

Revenue Sources and Relationships
CHRO's principal revenue source is from assessment of state agencies. Legislative and Judicial Branch agencies and the Lottery Commission pay an assessment to use the centralized employee database.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget is almost unchanged from the 2013-15 legislatively approved budget due in large part to the inclusion of $1 million Other Funds and 6 limited duration positions to continue planning the replacement of the central Human Resource Information Systems (HRIS). DAS will use this funding to address some of the concerns surrounding the planning completed during 2013-15. Once the review is completed, DAS is expected to return to the 2016 Legislative Assembly with estimates of the total cost to purchase and install a new HRIS. Other additions included $394,116 to hire 2 positions to develop workforce strategies and to improve the management of human resource information to better identify HR trends and needs in state government. Two limited duration positions were continued to continue to work on The Oregon Management Project. The purpose

of this project is to redesign and reconfigure the state's workforce systems (compensation, classification, performance management). The Project is initially focusing on management positions.

Enterprise Technology Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	86,731,272	197,804,927	216,039,542	198,489,621
Total Funds	**$86,731,272**	**$197,804,927**	**$216,039,542**	**$198,489,621**
Positions	232	239	229	225
FTE	225.29	229.86	229.00	219.00

Program Description

Enterprise Technology Services (ETS) provides centralized computing and application services by leveraging new and existing IT assets to support numerous business operations across government. ETS is organized into six service delivery sections:

- Administration/Plans and Controls – Provide administrative support for the Division, including budgeting, strategic planning, and financial, human resources, and project management.
- Service Solutions – Translates business needs into solution options to be built in-house or brokered.
- Engineering – Designs and builds the products and services that are delivered and supported by ETS.
- Service Delivery – Operates the shared ETS environment which includes computing hardware, operating systems, storage and backup solutions, security, production control, help-desk and desktop support, and enterprise and contracted applications.
- Technology Availability Management – Monitors, maintains, and supports the shared ETS environment to ensure the systems are available and maintains the equipment, systems, and services offered.
- Application Delivery – Responsible for Enterprise Applications and Internal DAS applications.

Revenue Sources and Relationships

ETS 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 to ensure service charges cover the full cost of services being delivered. Many rates are dependent on usage, and rates are determined by the type of ETS service being used. Four major service areas are provided: computing (mainframe, midrange, and distributed systems), network, storage, and voice. During development of the 2015-17 rate structure for ETS, the Customer Utility Board for ETS proposed and adopted that assessments, based on agency budget size and total FTE, be used to fund 40% of ETS's budget request. This methodology was continued in the Governor's Budget. This move away from using a fee for service methodology to fund service provision drew concern from the Legislature to the point that a budget note was adopted directing DAS to return to the 2016 Legislative Assembly with recommendations on service lines provided, operational changes, and a revised funding methodology for ETS for the second year of the biennium. To help pay increased General Fund costs agencies might incur from these changes, a $6.5 million special purpose appropriation was made to the Emergency Board.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for Enterprise Technology Services is 0.4% higher than the 2013-15 legislatively approved budget due to offsetting increases and reductions. Other Funds adjustments include:

- Reduced $4,320,355 due to elimination of 19 vacant positions.
- Reduced $13.3 million related to services previously provided to the Oregon Lottery, as the Lottery has stopped using almost all ETS services.
- Reduced ETS assessments by $10.1 million Other Funds through elimination of the depreciation costs component included in the assessment funding model. Inclusion of this assessment, when added on top of 2013-15 actions to increase ETS funding for equipment replacement by $18.7 million for the 2015-17 biennium, effectively resulted in agencies being billed twice by DAS for replacement costs.

- Added $12.3 million and 12 positions (6.00 FTE) to implement recent Secretary of State and independent auditor findings, as well as to accommodate growth in agency usage of IT services. Based on the uncertainty involving which services ETS will offer in the future given the ongoing "IT Common Service Delivery" review currently underway and concerns over management of ETS which has led to numerous reviews and audits, the positions are approved as limited duration for 12 months only.
- Transferred out $530,907 and 2 positions to the CIO to recombine Geospatial program staff.
- Transferred out $619,269 and 2 positions to the CFO to recombine ORBITS staff.
- Transferred out $468,450 and 2 positions to Enterprise Goods and Services to recombine Publishing and Distribution staff.
- Added 9 full-time limited duration positions for 12 months at the request of the State CIO to assist in that office's review of ETS operations, management, and funding structures. The positions are funded through an equal reduction in service and supplies, thus requiring no budget increase.

Enterprise Asset Management

	2011-13 Actual	**2013-15 Legislatively Approved**	**2015-17 Current Service Level**	**2015-17 Legislatively Adopted**
Other Funds	58,899,549	95,664,529	98,760,419	99,531,186
Total Funds	**$58,899,549**	**$95,664,529**	**$98,760,419**	**$99,531,186**
Positions	197	198	195	193
FTE	196.21	196.21	194.50	192.50

<u>Program Description</u>

Enterprise Asset Management (EAM) provides services related to facilities management, lease negotiation and supervision, space planning, statewide fleet administration and parking services, building operations and maintenance, landscape maintenance for agencies occupying state-owned space, and the Surplus Property program. Major acquisition, construction, capital improvement, and maintenance projects are planned and managed by EAM.

DAS owns approximately 2.76 million square feet of property, primarily office space, which is about a fourth of the state's total occupied square footage. EAM also manages a portfolio of over 600 short-term and long-term leases for over 4.4 million square feet of space, mostly in the form of privately owned office space. These facilities are located all over the state. Growth in state agencies and demand for new or improved facilities has a direct impact on EAM activities.

The Statewide Fleet Administration program acquires and maintains vehicles for state agency use. 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.

<u>Revenue Sources and Relationships</u>

EAM is funded from several sources, but its two major sources are uniform rent, assessed on all tenant agencies, and parking fees. 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. EAM also receives funding from assessments on state agencies for the Capitol Mall 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.

The Fleet Administration and Motor Pool operations are supported entirely through service fees, principally fleet rental charges. In addition, the unit charges agencies that own vehicles for fueling, service, and repair.

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 agencies disposing of the surplus property. For federal surplus property, the service fees are charged to agencies acquiring the property based on the value of the federal surplus property acquired.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget is 4% higher than the 2013-15 legislatively approved budget. The primary cause of this increase was the addition of over $2 million Other Funds to purchase new fleet vehicles. In addition, $432,900 Other Funds was added to appropriately account for rent payments at Regional Community Solutions Centers around the state. Participating agencies will be billed for the rent costs. No Other Funds expenditure limitation was initially provided for this expense in the DAS budget, which reduced limitation available for Real Estate Services' other programs. In addition, a vacant Program Analyst position was eliminated for a savings of $186,001.

Enterprise Goods and Services

	2011-13 Actual	**2013-15 Legislatively Approved**	**2015-17 Current Service Level**	**2015-17 Legislatively Adopted**
Other Funds	33,617,740	84,561,579	90,423,636	91,061,851
Other Funds (NL)	23,803,236	98,555,668	101,513,146	101,513,146
Total Funds	**$57,420,976**	**$183,117,247**	**$191,936,782**	**$192,574,997**
Positions	227	224	219	232
FTE	225.50	222.50	219.00	231.04

Program Description
Enterprise Goods and Services (EGS) consists of several programs focused on providing cost effective central services to state agencies. The Risk Management program purchases insurance for the state and 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 leverage the buying power of state and local governments. The Publishing and Distribution program offers a full array of design, printing, finishing, metering, delivery, and mailing services. Financial Business Services (FBS) is responsible for the statewide payroll and financial systems, as well as the datamart that provides reporting data for both systems. FBS also provides shared payroll services for client agencies and DAS.

Revenue Sources and Relationships
The revenue source for the Risk Management program's operating expenses 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. The amount and types of property owned, the number of employees and their work, and the types of programs agencies operate all contribute to the need for risk management services and products, principally insurance.

The State Procurement Office operations are supported through charges for service and assessment, which is based on the number of agency positions. The Office also receives revenue through direct fees for services and purchasing, consulting, and training fees. Both Printing and Distribution and Financial Business Services are financed through charges for services.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for Enterprise Goods and Services is 5% higher than the 2013-15 legislatively approved budget. Other Fund adjustments include:

- Added $293,314 and 2 positions in Shared Financial Services to accommodate service provision for the Department of Geology and Mineral Industries which will start using services in the 2015-17 biennium.
- $198,647 and 2 positions were added to meet demand in Shuttle Delivery Services.
- $153,389 was added to hire a position to provide additional training, claims management, and analytical work for Risk Management. Agency outreach on ways to reduce risk will be the main focus of this position.
- $260,554 and 2 positions were added to meet demand in Shared Services programs and to reconcile retirement contributions to employee earnings, as required by PERS.
- Transferred in $1,595,563 Other Funds and 4 permanent full-time positions from CFO to recombine Procurement Staff.
- Transferred in $468,450 and 2 positions from ETS to recombine Publishing & Distribution staff.
- Reduced $139,324 due to elimination of a vacant position.

Enterprise Human Resource Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	2,186,580	6,365,341	6,593,593	7,112,418
Total Funds	**$2,186,580**	**$6,365,341**	**$6,593,593**	**$7,112,418**
Positions	21	22	22	25
FTE	20.04	21.21	21.21	24.64

Program Description

Enterprise Human Resource Services (EHRS) is a new program unit created as part of the DAS reorganization. This Entrepreneurial Management reorganization separated the human resource management services functions from the human resource policy functions.

Revenue Sources and Relationships

In the past, the cost of EHRS services has been subsidized by state agency assessments. The objective for service functions is to have charges for services cover the full cost of providing those services. For the 2015-17 biennium, the majority of EHRS costs will be covered by service charges, with the remainder being paid from assessments. EHRS will continue to work with its Customer Utility Board to move toward 100% cost recovery in future biennia.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is 13% higher than 2013-15 budget due to the addition of $602,249 Other Funds to establish 3 permanent full-time positions and add months to an existing Human Resource Analyst 2 position (.50 FTE) to meet workload demands.

Business Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	1,753,575	4,414,169	4,323,556	6,547,336
Total Funds	**$1,753,575**	**$4,414,169**	**$4,323,556**	**$6,547,336**
Positions	21	14	13	15
FTE	20.42	14.00	13.00	14.76

Program Description
The Business Services Division coordinates agency-wide programs and internal processes, oversees the Department's finances and budget, and staffs Customer Utility Boards which govern DAS's service enterprises.

Revenue Sources and Relationships
The Division's revenue comes from service charges to the Department's internal divisions and its external customers. The other DAS divisions receive their revenue from state agencies through assessments and charges.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget is $2,133,167 higher than 2013-15 approved levels due primarily to the addition of $2 million Other Funds expenditure limitation for the Mass Ingenuity Master Contract, which was first approved at the December 2014 meeting of the Emergency Board. Mass Ingenuity provides process improvement software including the NOW Management System being offered to state agencies. The expenditure increase is considered pass-through limitation, since state agencies will pay DAS for use of the contracted services. In addition, 2 positions were added to help support the operations of Customer Utility Boards and address increased budget workload.

Capital Improvements

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	3,202,002	5,992,008	4,403,176	4,403,176
Total Funds	**$3,202,002**	**$5,992,008**	**$4,403,176**	**$4,403,176**

Program Description
The Capital Improvements program pays for remodeling and renovation projects that cost less than $1 million.

Revenue Sources and Relationships
Capital improvement activities are funded out of the Capital Projects Fund, which was established 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.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget is a 26% decrease from the 2013-15 legislatively approved budget. The budget provides a sufficient level of resources to maintain buildings and facilities, includes projects deferred in prior budget periods, and does not require any debt financing.

Capital Construction

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	7,945,041	17,521,286	--	$35,927,261
Total Funds	**$7,945,041**	**$17,521,286**	**--**	**$$35,927,261**

Program Description
The Capital Construction Program includes major remodeling, renovation, and new construction or acquisition projects costing more than $1 million in the aggregate.

Revenue Sources and Relationships
Other Funds for capital construction comes from the Capital Projects Fund with is funded through a portion of Uniform Rent charges and from the sale of bonds.

Legislatively Adopted Budget

The 2015-17 legislatively adopted capital construction budget funds nine projects, which will be supported by Other Funds from the agency's Capital Projects Fund (no debt financing required). These include demolition of structures and hazardous material abatement on the North Campus of the Oregon State Hospital in Salem ($8,300,000), upgrades at the Employment Building ($2,217,398), installation of an emergency generator at the Public Health Laboratory ($2,926,140), replacement of the cooling tower at the Human Services Building ($1,701,702), three Executive Building renovation projects ($1,342,226), and planning for future projects ($350,000). In addition, the Legislature approved the sale of $17 million in self-financed Article XI-Q bonds for the purchase of an office building in Salem currently in use by a state agency.

Miscellaneous Distributions

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds (NL)	20,541,481	23,996,609	24,716,507	24,716,507
Total Funds	**$20,541,481**	**$23,996,609**	**$24,716,507**	**$24,716,507**

Program Description

This program primarily reflects the distribution of mass transit assessments collected from state agencies based on the number of employees working in certain mass transit and transportation districts. The assessment is then sent to those districts to reimburse them for the benefits they provide to state government.

Revenue Sources and Relationships

These Other Fund revenues come from state agency payments for mass transit taxes, which are collected by the state on behalf of some transit districts.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget supports anticipated mass transit assessment collections and distributions based on budgeted employment numbers.

Bonds

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	448,721,342	394,684,347	379,367,907	379,367,907
Other Funds (NL)	54,964,156	--	--	145,875,000
Total Funds	**$503,684,498**	**$394,684,347**	**$379,367,907**	**$525,242,907**

Program Description

This budget structure includes expenditures for debt service and debt management costs on Pension Obligation Bonds and debt service on Appropriation Bonds. Previously, these budget elements were captured in the Special Governmental Payments program unit. This budget structure also includes Other Funds Nonlimited authority to disburse general obligation bonds sold during the 2013-15 biennium for the benefit of public universities. Disbursement of future bond sales will be done by Higher Education Coordinating Commission (HECC), but DAS was given authority to disburse these proceeds during the 2013-15 biennium.

Revenue Sources and Relationships

Pension Obligation Bond debt service is supported by an assessment on the PERS employer payrolls. Tobacco Settlement revenues are used to pay the debt service on Appropriation Bonds; the debt service on these bonds was completed during the 2013-15 biennium. Revenue for disbursement of bond proceeds for the benefit of Public Universities comes from the sale of General Obligation and Lottery Bonds.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is set at a level to cover bond debt service and treasury fees based on existing repayment schedules and budget projections. As stated earlier, the Department was given Other Funds Nonlimited expenditure authority to disburse general obligation bonds sold during the 2013-15 biennium for the benefit of public universities. As the bond project duties related to issuance of Article XI-F and XI-G general obligation bonds transition from DAS to HECC per HB 3199 (2015), both agencies were given Nonlimited authority to disburse proceeds of bonds issued during 2013-15. The total amount of undisbursed proceeds as of June 30, 2015, from 2013-15 bond sales, is $196,523,642. The initial estimate of the amount of 2013-15 proceeds DAS will disburse in 2015-17, per agreements with public universities, is $145,875,000, with HECC to disburse $50,648,642. These amounts will likely change once the timing of final transition from DAS to HECC during the 2015-17 biennium is known.

Special Governmental Payments

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	8,938,954	8,760,736	6,804,217	9,297,997
Lottery Funds	6,649,695	11,135,841	14,459,411	10,553,686
Other Funds	32,743,327	36,533,616	--	21,056,140
Total Funds	**$48,331,976**	**$56,430,193**	**$21,263,628**	**$40,907,823**

Program Description

This is a catch-all category that reports payments that are not directly related to the mission of the Department of Administrative Services. These are frequently for one-time special projects or legislative priorities.

Revenue Sources and Relationships

Revenues in this program come a variety of sources and are usually specifically identified in the agency's budget bill or other legislation.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget adds one-time Other Funds expenditure limitation of $5.5 million for disbursements of lottery bond proceeds for projects approved during 2013-15 and could not be completely disbursed in that biennium. The projects are for the Beaverton Healthcare Collaborative ($1 million), the Umatilla Tribe ($3 million), and the City of Stayton ($1.5 million). The adopted budget includes the following new legislative priorities and special projects.

General Fund:

- $1,100,000 for disbursement to the National Urban Housing and Economic Community Development Corporation for implementation of an affordable homes, skills training, and jobs program for unemployed prior-offenders, at-risk youth, and veterans.
- $850,000 for disbursement to the Pine Valley Fire District for a new location and facility to house the Fire Department in the City of Halfway, Oregon.
- $400,000 for disbursement to the YWCA of Greater Portland, to administer the Family Preservation Program (FPP) at Coffee Creek Correctional Facility. The FPP works with the Department of Corrections to serve the best interests of the children of incarcerated parents by increasing therapeutic visitation between children and parents.
- $100,000 for disbursement to the City of Medford to pay for the completion of a feasibility study on development of a conference center in the Medford area.
- $90,000 for disbursement to the City of Gold Hill for engineering work needed to construct the Gold Hill Whitewater Park at Ti'lomikh Falls on the Rogue River. The Whitewater Park is being built into the new Gold Hill Parks Master Plan. The goal of the project is to turn Gold Hill into a whitewater destination.

Other Funds from Lottery Bond sales late in the 2015-17 biennium (no debt service for 2015-17):

- $750,000 for disbursement to Concordia University for the construction of the Faubion prekindergarten through grade eight school.
- $1,250,000 for disbursement to the Elgin Health District for a rural health care clinic.
- $1,000,000 for disbursement to Open Meadow for the construction of a new facility for the Open School in Portland.
- $1,000,000 for disbursement to the Boys and Girls Clubs of Portland Metropolitan Area for a new Boys & Girls Club in Rockwood.
- $500,000 for disbursement to the City of Grants Pass for the Riverside Park renovation project.
- $1,000,000 Other Funds for disbursement to the Mountain West Career Technical Institute for the Career Technical Education Center in Salem.
- $2,000,000 Other Funds for disbursement to Wheeler County for the construction of an underground fiber optic telecommunication line from Condon to Fossil.
- $1,500,000 Other Funds for disbursement to the Port of Umatilla for facilities development at the Eastern Oregon Trade and Event Center in Hermiston.
- $3,000,000 for disbursement to Trillium Family Services for improving and expanding the Children's Farm Home near Corvallis which houses the Secure Adolescent Inpatient Program.
- $1,600,000 for disbursement to the Port of Morrow for development of an Early Childhood Development Center at the Port's workforce training center.
- $1,500,000 for disbursement to the City of Tigard for the Hunziker Development Project.

Shared Services Fund

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	--	24,141,834	--	1
Total Funds	**--**	**$24,141,834**	**--**	**$1**

Program Description

In 2007, the Legislature established a new program, the Shared Services Fund, to provide state support to local taxing districts affected by participation in the Strategic Investment Program (SIP). Local taxing districts are now eligible to receive payments from the state that are calculated to equal 50% of the personal income tax revenue attributable to the earnings of persons hired or retained as result of a SIP property tax exemption. These income tax payments would otherwise have gone to the state General Fund.

Revenue Sources and Relationships

Other Fund revenues come from income tax receipts which are diverted into the Shared Services Fund before they are deposited by the Department of Revenue into the General Fund.

Legislatively Adopted Budget

The 2015 Legislative Assembly enacted a number of reforms to the Shared Services program with adoption of SB 129. SB 129 capped annual Shared Services program payments to any one county at $16 million and extended the program sunset to July 15, 2024, after which distributions are prohibited. The bill also directed the Department of Revenue to distribute payments directly to counties. Previously, these payments were transferred to the Shared Services Fund and expended by the Department of Administrative Services as Other Funds. The Assembly approved a $1 Other Funds placeholder during adoption of the DAS budget before SB 129 was passed in case Other Funds expenditure limitation was needed. With the changes in SB 129, Shared Services funding will cease to be included in the DAS budget in the future.

ADVOCACY COMMISSIONS OFFICE

Analyst: Dauenhauer

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	365,513	425,525	481,478	602,262
Other Funds	7,884	40,960	42,189	42,189
Total Funds	**373,397**	**466,485**	**523,667**	**$644,451**
Positions	2	2	2	3
FTE	2.00	2.00	2.00	2.50

Overview

The Oregon Advocacy Commissions Office (OACO) was established in 2005 to provide coordinated administrative support to four advocacy commissions: Commission on Asian Affairs and Pacific Islander Affairs, the Commission on Black Affairs, the Commission on Hispanic Affairs, and the Commission for Women. The commissions themselves serve as liaisons between the minority communities and government entities and work to establish economic, social, legal, and political equality in Oregon. The four commissions have 11 commission members each, for a combined total of 44 commissioners. The administrator of OACO is appointed by the chairpersons of the four commissions and the Commissioner of the Bureau of Labor and Industries.

Revenue Sources and Relationships

Agency operations are funded with General Fund and the only other revenue source is donation funds. 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.

Budget Environment

OACO supports the work of the individual Commissions by providing all administrative functions including coordinating meetings and speakers, taking minutes, preparing reports and media releases, partnering with stakeholder groups, providing information and referrals for members of the public and elected officials, managing distribution lists, maintaining Commission websites, and overseeing budget/financial support. OACO contracts with the Department of Administrative Services for budget and accounting support. The OACO also researches potential legislative concepts prior to session, works with the Governor’s Office and sponsoring legislators to write and submit bills, tracks bills of interest, reports weekly to the Commissions with customized reports on bills, helps the Chairs write testimony on bills, coordinates votes among the Commissions on bill support, and serves as the registered lobbyist for the four Commissions. During the 2015 legislative session, OACO was directed to absorb costs associated with staffing a task force on Immigration Consultant Fraud (HB 3525). This is the first time the agency has staffed a task force and the associated workload, as well as the impact to other agency operations, will be monitored to consider the impact of similar legislation in the future. Should the agency staff additional work groups or task forces in the future, the OACO may require further budgetary resources; however, such impacts will be determined as the associated legislation is introduced.

Legislatively Adopted Budget

The budget for the OACO is a 38.2% increase from the 2013-15 legislatively approved budget and includes the reclassification of an Executive Support Specialist (ESS) 1 to an ESS 2 to reflect the increasing level of support provided by the position. Additionally, the budget establishes one permanent half-time (0.50 FTE) Operations and Policy Analyst 3 position to increase and enhance policy research and analytic support. This research will be accomplished by building relationships with state agencies and universities, researching and tracking legislation of interest in areas of strategic focus, and working with the four Commissions, Governor’s Office, and legislators to draft legislative concepts.

EMPLOYMENT RELATIONS BOARD

Analyst: Borden

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,903,465	2,061,040	2,374,084	2,393,033
Other Funds	1,723,240	2,140,264	1,998,164	2,014,991
Total Funds	**$3,626,705**	**$4,201,304**	**$4,372,248**	**$4,408,024**
Positions	13	13	13	13
FTE	13.00	13.00	13.00	13.00

Overview

The Employment Relations Board's (ERB) mission is to resolve disputes concerning labor relations. ERB provides four main services to help employers, employees, and labor organizations resolve their disputes: labor mediation; contested case hearings; labor appeal cases; and union representation elections.

The Board for ERB, which acts as the state's "labor appeal court" for labor and management disputes within state and local government, is comprised of a three-member panel appointed by the Governor and approved by the Senate. The Board Chair, designated by the Governor, serves as the administrator of the agency. Only the Board Chair exercises administrative oversight over the agency.

ERB is responsible for administering the collective bargaining law that covers public employees of the State of Oregon and its cities, counties, school districts, and other local governmental units, such as special districts; State Personnel Relations Law, which creates appeal rights for non-union state employees who believe they were treated unfairly in the workplace; and private sector labor-management relations law, which addresses collective bargaining for private sector employers who are exempt from federal law under the National Labor Relations Act.

Revenue Sources and Relationships

ERB expects to have $2.3 million in available Other Funds revenue to support its legislatively adopted budget of $2 million. This includes a beginning balance of $544,736 and an ending balance of $268,594, which represents 3.2 months of reserves.

In concept, ERB receives General Fund revenue and charges fees to support labor relations functions conducted on behalf of local government while state government-related activities are supported by an Other Funds assessment on state agencies.

ERB is funded with 54% General Fund and 46% Other Funds after historically been essentially equally funded between General and Other Funds. The change in funding is due to SB 270 (2013), which exempted universities with an independent governing board from paying the ERB state agency assessment under ORS 240.167; however, ERB must still provide services to those universities because they are public employers, but with the cost now being a General Fund expense. The ERB budget fund shifts $226,391 from Other Funds (assessment on universities) to General Fund. ERB will receive a nominal amount of fee revenue from universities.

When funding is compared to caseloads, local government represents 70% of contested and mediation cases versus 30% for state agencies, based on an average of the last five years of filings beginning in 2011.

The ERB state agency assessment is based on the number of covered employees, including non-unionized employees from the Executive, Legislative, and Judicial branches as well as temporary employees. The employer rather than the employee pays the assessment. The projected state agency assessment revenue for 2015-17 is

$1.7 million, which is based on a $1.92 assessment per month. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay their assessment.

Out of approximately 40,500 state employees budgeted for the 2015-17 biennium, the agency assumes 36,000 will be covered employees and pay the assessment. This is down from 38,000 payers assumed in the 2013-15 biennium. The withdrawal of the OUS employees is partially offset by an additional 1,000 employees that the agency previously had not assessed, but should have been assessing.

The assessment is projected to increase significantly in the 2017-19 biennium. The projected increase is due to a significant draw-down of the agency's previously accumulated ending balance as expenses of the agency have increased.

ERB expects to receive $90,100 in Other Funds from its statutory fees. The Board can charge $1,000 total for the first two mediation sessions, $500 for the third session, $750 for the fourth session, and $1,000 for each additional session. Mediation fees are split equally between the public employers and the labor organizations. Fees were last increased during the 2011 legislative session.

The agency charges fees for the following services: unfair labor practice complaints and answers, grievance mediations, arbitrator panel, training, an hourly rate charged for mediation facilitation, and miscellaneous fees for facsimile filing, copies, etc. These fees are estimated to generate $147,309 for the 2015-17 biennium.

Budget Environment

ERB has emerged from an extended tumultuous period beginning in 2011, which included a 100% turnover in the Board, three successive Board chairs/administrators, and high employee turnover. The operation of the agency, the quality of its findings, and the timely disposition of its cases raised increasing concerns with its stakeholders and the Legislature.

Since the appointment of the current Board chair and Board, there has been a marked improvement in the agency's performance.

ERB has undertaken a number of administrative changes to improve its processes and procedures, including: establishing timelines for issuing orders; identifying specific types of contested cases for expedited processing; involving stakeholders in a review of the agency's processes and procedures; establishing a Rules Advisory Committee; completing an independent review of some recent Board orders; and involving stakeholders in a discussion of complaint or other actions that lack legal merit. The result has been an elimination of all case backlogs and a substantial improvement in the timelines for processing cases. The agency also reviewed and updated its key performance measures.

Lastly, toward the end of the 2013-15 biennium, the agency requested, and the Department of Administrative Services approved, compensation plan changes (increases) for the majority of the agency's positions.

The state's collective bargaining environment had generally been more contentious with diminished state and local government resources, which translated into more ERB cases, legal challenges, and appeals of Board decisions. Improved state and local revenues could help explain the fiscal year 2015 reduction in caseload, but the cause of fewer contested and represented cases has yet to be specifically identified.

Public sector caseloads for ERB are cyclical (i.e., vary by fiscal year) and are influenced by the negotiation of multi-year labor contacts. Until 2011, ERB had not handled a private sector case since 2002. Private sector cases are infrequent because all but the smallest of companies with union representation fall under the jurisdiction of the federal government's National Labor Relations Board.

The caseload for state government can be more complicated and time consuming than local government cases because they may involve single individuals seeking remedy under the state personnel law.

The following table details overall caseload statistics for the agency.

Case Filings (fiscal year)

Case Filings by Case-Type	Prior 5-Year Average	Prior 3-Year Average	2014	2015
Administrative Law Judge	112	118	111	78
Mediation	99	95	88	99
Elections	33	33	25	22
Total	244	246	224	199

The 2015 fiscal year case filings are below historic averages and well below the prior fiscal year. From just the prior fiscal year, there has been a drop of 25 case filings (-11%), with the largest reductions being 33 fewer administrative hearings (-30%) and three fewer elections (-12%). Only the number of mediation filings saw an increase of 11 cases (5%).

The issuance of board orders has fallen to 48 for 2015, which is below the five-year average of 65; however, the board issued 82 orders in 2013 and otherwise disposed of 23 cases in 2015 reflecting a major clean-up of its case backlog.

Historically, five cases are appealed to the Oregon Court of Appeals. Of these cases, the Court has affirmed or dismissed three cases and reversed or remanded two cases. Of the Court decided cases for the past two fiscal years, no ERB decision has been reversed or remanded.

The timely disposition of cases has many influences, including the volume of cases, case complexity, budget reductions (i.e., furloughs), employee turnover or vacancies, and new employee training, among others. The timely disposition of cases continues to see significant improvement across almost all case-types.

The following table details the timely disposition of case-types, with the exception of Board orders.

Timely Disposition (fiscal year)

Timely Disposition of Cases by Case-Type	Prior 5-Year Average	Prior 3-Year Average	2014	2015
Hearings – average number of days to process a case from hearing to final order	498	505	428	354
Recommended Order – average number of days for an Administrative Law Judge to issue recommended order after the record is closed	156	153	100	80
Board Order – average number of days from the submission of a case to the date of the final Board order	94	82	49	44
Mediation – average number of days following a request for mediation that a mediation was held	51	47	47	46
Elections – average number of days to resolve a petition for a union representation when hearings is required	297	316	222	201
Elections – average number of days to resolve a petition for a union representation when hearings is not required	58	61	54	58

From just the prior fiscal year, the number of days to process a case from a hearing to final order was reduced by 74 days (-17%). The number of days for an Administrative Law Judge (ALJ) to issue a recommended order was reduced by 20 days (-20%). The number of days for the Board to issue a Board order was reduced by five days (-10%). The number of days until a mediation session was held was reduced by one day (-2%), but this is a timeframe not entirely under the control of the agency. The average number of days for a union representation election with a hearing was reduced by 21 days (-9%). The only average increase was in the number of days for a union representation election without a hearing, which increased from 54 to 58 days (7%). These statistics are almost all below historic averages, with again the exception of union representation election without a hearing.

Legislatively Adopted Budget

The legislatively adopted budget for ERB consists of $2.4 million General Fund, $2 million Other Funds, and 13 positions (13.00 FTE). The budget is $206,720 (or 4.9%) more than the 2013-15 legislatively approved budget.

The budget is comprised of $3.6 million personal services (81%) and $838,637 services and supplies (19%).

The adopted budget eliminates all pay-line equity differentials of up to 15% paid to 8 of the agency's 13 employees. Instead, the compensation in terms of salary and wages was increased for 8 positions. This change, requested by the agency, was approved by the Department of Administrative Services.

The inability of parties to file cases electronically is a developing issue for the agency, which has limited information technology resources and capability. The single approved policy package enhancement was to fund an electronic filing/case management system. This package increases the budget by $45,320 total funds; $25,379 General Fund and $19,941 Other Funds. The Board will procure a vendor who will design, develop, maintain, and host an electronic case management system at no initial cost to the agency. The agency will be charged an estimated $45,320 annual licensing and hosting fee beginning July 2016. ERB will have to rely upon the Department of Administrative Services for project oversight, management, and procurement support. The project has no statutory deadline nor is any required by state or federal statutes.

The adopted budget included standard adjustments for state government service charge and other agency assessments ($9,544).

Administration

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,134,032	1,220,122	1,191,890	1,210,839
Other Funds	641,043	745,434	916,241	933,068
Total Funds	**$1,775,075**	**$1,965,556**	**$2,108,131**	**$2,243,907**
Positions	5	5	5	5
FTE	5.00	5.00	5.00	5.00

Program Description

The three-member Board acts as an "appeal court" for labor and management disputes within state and local governments. The Board is appointed by the Governor and is responsible for issuing final agency orders in declaratory rulings, contested case adjudications of unfair labor practice complaints, representation matters, and appeals from state personnel actions. Board orders may be appealed to the Oregon Court of Appeals.

The Board Chair acts as the agency's administrator. The Chair is assisted by an office/business administrator, and this program unit includes not only the activities of the Board mentioned above, but also the day-to-day administration of the agency, including budgeting, payroll, information technology, reporting, administrative rules, and supervision of staff. ERB contracts with the Department of Administrative Services – Shared Client Services to provide additional support services.

Budget Environment
The Board does not receive case filings, but instead acts on recommended orders written by Administrative Law Judges by either issuing a cover order for those cases without objection or issuing an order for those cases to which the parties have objected to the ALJ decision. In fiscal year 2015, the Board began the year with eight pending recommended orders to which were added 18 new recommended orders. The number of new recommended orders was well below the prior year of 51 filings and the 5-year average of 50 orders. The Board issued 48 final orders, 23 cases were closed, withdrawn, or otherwise disposed of, with three cases being carried over to 2016.

For fiscal year 2015, four board orders were appealed to the Oregon Court of Appeals, which is about 8% of board's 48 issued orders for that year. This is well below the 5-year average of 12%. The Court of Appeals decided one case in fiscal year 2015, which affirmed the Board's order. Parties, rather than ERB, argue their case in from of the Court of Appeals, similar to an appeal of a circuit court decision.

Legislatively Adopted Budget
The legislatively adopted budget for the Administration program consists of $1.2 million General Fund, $933,068 Other Funds, and 5 positions (5.00 FTE). The budget represents a $278,351 (or 14.2%) increase from the 2013-15 legislatively approved budget.

Mediation and Conciliation Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	343,010	332,565	501,633	526,586
Other Funds	417,279	580,773	490,811	490,811
Total Funds	**$760,289**	**$913,338**	**$992,444**	**$1,017,397**
Positions	4	4	4	4
FTE	3.50	3.50	3.50	3.50

Program Description
The Conciliation Services Office is comprised of the State Conciliator, two mediators, and a part-time (0.50 FTE) support position, and is responsible for the following:

- Providing mediation and conciliation services to resolve a variety of disputes, including those related to collective bargaining, contract grievances, unfair labor practice allegations, State Personnel Labor Relations Law appeals, and representation matters.
- Maintaining a list of qualified arbitrators and providing related services and information. This includes processing arbitrator applications; handling questions from arbitrators and parties; responding to concerns and complaints from and about panel members; a biannual review of panel member selection rates; suspension or removal of arbitrators; processing requests for arbitration panels; maintaining a library of arbitration awards; and publishing interest arbitration awards on ERB's website. The program also participates in and sponsors a biennial Arbitrator Panel Conference and sends out information to panel members on case law and legislative changes.
- Training in methods of alternative dispute resolution, collective bargaining, labor-management cooperation, and related issues.

Contract mediation services are mandatory. Training and other mediation services are not mandatory.

Budget Environment

In fiscal year 2015, ERB had 99 requests for mediation services. The average for the prior five fiscal years is 99 requests. For fiscal year 2015, it took 46 days following a request for the first mediation session to be held. The average for the prior five fiscal years is 51 days. It typically takes multiple mediation sessions to resolve a dispute.

In fiscal year 2015, the agency's mediation/conciliation service resolved approximately 94% of contract negotiation disputes for strike-permitted employees and 71% for non-strike-prohibited employees.

Legislatively Adopted Budget

The legislatively adopted budget consists of $526,586 General Fund, $490,811 Other Funds, and 4 positions (3.50 FTE). The budget represents a $104,059 (or 11.4%) increase from the 2013-15 legislatively approved budget.

Hearings (and former Elections Program)

	2011-13 Actual	**2013-15 Legislatively Approved**	**2015-17 Current Service Level**	**2015-17 Legislatively Adopted**
General Fund	426,423	508,353	680,561	655,608
Other Funds	664,918	814,057	591,112	591,112
Total Funds	**$1,091,341**	**$1,322,410**	**$1,271,673**	**$1,246,720**
Positions	4	4	4	4
FTE	4.50	4.50	4.50	4.50

Program Description

The Hearings Office is comprised of three Administrative Law Judges (ALJ), one part-time elections coordinator, and one support staff. The Administrative Law Judges adjudicate unfair labor practice complaints filed by state and local government or labor organizations, appeals filed by state management and unrepresented classified employees, as well as contested representation (election) matters. ALJ's have resumed traveling to the site of the dispute, if outside of Salem. Following the hearings, the Administrative Law Judges issue "proposed" decisions. All proposed decisions are forwarded to the Board for review and the issuance of a final order. The Board does not have to concur with the ALJ proposed decision. Parties, who disagree with the ALJ's proposed decision, have the right to object to the decision, which will then be argued before the Board. Parties can appeal the Employment Relations Board's final orders to the Oregon Court of Appeals. Decisions by ALJ's do not establish legal precedent; however, final Board orders do.

The part-time (0.50 FTE) elections coordinator 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. The agency reports that activity levels have declined slightly over the last biennium, perhaps due to prolonged labor contract periods and the merging or other changes in organization structure of some large labor organizations.

Budget Environment

In fiscal year 2015, ALJs began the year with 31 pending cases to which were added 78 new case filings. The number of new case filings was well below the prior year of 111 filings and the 5-year average of 112 cases. ALJ's issued 19 recommended orders, 74 cases were closed, withdrawn, or otherwise disposed of, with 31 cases being carried over to 2016.

The settlement or withdrawal rate of administrative hearings cases remains around its historic average of 38%.

In fiscal year 2015, Elections began the year with 17 pending cases to which were added 22 new case filings. The number of new case filings was below the prior year of 25 filings and the 5-year average of 33 cases. Elections closed 19 cases with 11 cases being carried over to 2016.

For fiscal year 2015, it took 201 days to resolve a petition for a union representation election when a hearing was required and 58 days when a hearing was not required. The average for the prior five fiscal years is 297 and 58 days, respectively.

Legislatively Adopted Budget

The legislatively adopted budget consists of $655,608 General Fund, $591,112 Other Funds, and 4 positions (4.50 FTE). The budget represents a $75,690 (or -5.7%) decrease from the 2013-15 legislatively approved budget. The decrease in the budget is due to the elimination of one-time costs for the program and the transfer of $24,953 for in-state travel to the Mediation program.

FAIRS – COUNTY AND STATE

Analyst: Siebert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	1,015,299
Lottery Funds	3,435,817	3,669,380	3,648,000	3,864,000
Total Funds	**$3,435,817**	**$3,669,380**	**$3,648,000**	**$4,879,299**

Overview

County Fairs are provided state support as a pass-through from the Department of Administrative Services (DAS). State funding is deposited into the County Fair Account. ORS 565.445 requires DAS to distribute the monies each January in equal shares to county fair boards. The state also provides support for the Oregon State Fair and Exposition Center through a General Fund grant to the Oregon State Fair Council, which assumed operational administration of the Oregon State Fairgrounds from the Parks and Recreation Department during the 2013-15 biennium. This operating subsidy is intended to be temporary as the Council works towards financial stability and operational self-sufficiency. Pass-through expenditures are technically included in the DAS budget, but are displayed separately in Legislative Fiscal Office publications.

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. SB 7 (2013) transferred operational control of the Oregon State Fair and Exposition Center from the Parks and Recreation Department to the non-governmental Oregon State Fair Council. As the Council is not a state agency, the budget does not reflect any Other Fund expenditure of State Fair revenues from rents and tickets, for example.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget increased the amount going to county fairs above the $3,648,000 Lottery Funds that represented 1% of the net proceeds of the lottery. The $216,000 in additional Lottery Funds will increase county fair payments by $6,000 per county. The adopted budget also included $1,015,299 General Fund support for the Oregon State Fair that is transferred from the Parks and Recreation Department's budget, which had previously operated the State Fair, to the Oregon State Fair Council, a non-governmental organization, which now operates the State Fairgrounds.

GOVERNMENT ETHICS COMMISSION

Analyst: Borden

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	1,518,135	2,110,362	1,956,828	2,720,429
Total Funds	**$1,518,135**	**$2,110,362**	**$1,956,828**	**$2,720,429**
Positions	8	8	8	9
FTE	8.00	7.88	8.00	8.88

Overview

The mission of the Government Ethics Commission is to impartially administer the regulatory provisions of Oregon government ethics, lobby regulation, and certain public meeting laws. The Commission and its staff educate public officials and lobbyists on the provisions of Government Ethics Law, Executive Session of the Public Meetings Law, and lobbying regulations, through either online or in-person training.

The Commission consists of nine volunteer members; eight members are appointed by the Governor upon recommendation by legislative leaders and one is appointed directly by the Governor. All members are confirmed by the Senate. Unlike most commissions, members are limited to one four-year term and may not be reappointed. The executive director is appointed by the Commission.

The Commission actions fall along a continuum from educational to formal sanction. The Commission's emphasis is on providing training, general advice, staff advice, or a more formal staff and/or Commission issued advisory opinion. A formal complaint requires a preliminary review by staff and may trigger an investigation, preliminary finding, or a contested case hearing. The Commission is required by law to meet specific timelines for the conduct of investigations. At any time during the process, a complaint can be dismissed or a settlement negotiated through a stipulated final order issued by the Commission. A formal finding by the Commission may include a letter of reprimand, a civil penalty, and/or a forfeiture. Contested cases are handled through the state's administrative hearings process. Contested case decisions may be appealed to the state Court of Appeals.

Revenue Sources and Relationships

The Commission's 2015-17 legislatively adopted budget includes $3.2 million in available Other Funds revenue to support its legislatively adopted budget of $2.7 million. This includes a beginning balance of $1.2 million and an estimated ending balance of $621,272, which represents 5.5 months of reserves.

The Commission was historically funded almost entirely by General Fund. Beginning with the 2009-11 biennium, the agency's funding was changed to an assessment model with operating costs equally shared between state agencies and local government entities. State agencies are assessed based upon their number of full-time equivalent positions. Local entities are assessed based upon a formula connected to the Municipal Audit charge collected by the Secretary of State. A portion of these assessment revenues originates as General Fund.

During the 2013-15 biennium, the Legislature approved a one-time special assessment of $800,000 for an electronic reporting system for lobbyists and public officials who must file annual Statements of Economic Interest. During the 2013-15 biennium, the agency spent an estimated $333,560 on the project with plans to spend another $200,000 during the 2015-17 biennium. The total project cost is estimated to be $583,560, which would leave a cash balance of $216,440. Of this amount, $127,000 will be used to fund two years of annual subscription fees for the new system. The remaining balance of $89,440 will be used to offset the agency's regular assessment.

For the 2015-17 biennium, the Legislature approved an assessment increase of $455,076 related to the reform of ethics law (see HB 2019). Of this amount, $200,000 is a one-time special assessment for an electronic case management system.

From imposing civil penalties, the Commission collects fines and forfeitures. These revenues are transferred to the General Fund and are not used to support agency operations. The Commission collected $25,988 in actual fines and forfeitures during 2011-13 and estimates collecting $30,000 in the 2015-17 biennium.

Budget Environment

There are an estimated 200,000 public officials subject to the Commission's jurisdiction, with the vast majority serving at the local government level.

The Commission received 112 complaints in calendar year 2014, with 86 (48%) outside its jurisdiction, 13 ethics (20%), 5 executive session (18%), and 8 lobby (9%) complaints and had no contested case hearings or appeals. These complaints were tracked by jurisdiction: state 4 (8%); cities 17 (33%); counties 8 (16%); education 8 (16%); special districts 4 (8%); and other 10 (20%).

An ethics investigation of the former Governor was challenging for the agency, but which was suspended due to the initiation of both a state and federal criminal investigation. The agency is currently responding to a federal subpoena request for records related to its ethics investigation.

The alleged ethical and criminal complaints against the former Governor prompted the Legislature to enact a series of ethics reforms. One measure in particular had a significant budgetary impact on the agency. The measure, HB 2019, expanded the membership of the Ethics Commission from seven to nine members, modified the appointment process for commissioners, reduced the number of days allowed for the preliminary review of an ethics investigation from 135 to 30 days, and directed that all advisory opinions and other statements be made available online by January 1, 2017 (i.e., case management system).

Attorney General (AG) charges can be a major variable in the Commission's budget, but beginning with the 2011-13 biennium, the agency has been part of a pilot program initiated by the Attorney General's office that changed its billings from a traditional variable to a flat (biennial) rate plan. In prior biennia, the Commission's Attorney General charges varied greatly depending upon whether the Commission faced any contested cases. Under the current assessment budget model, the Commission would look to its cash balance to cover extraordinary AG costs, such as those related to the investigation of the former Governor, and seek an increase in expenditure limitation, if needed. The Commission could request General Fund support, if its cash resources prove insufficient.

Legislatively Adopted Budget

The Commission's 2015-17 legislatively adopted budget is $2.7 million Other Funds and includes 9 positions (8.88 FTE). The budget is $610,067 (29%) more than the 2013-15 legislatively approved budget.

The budget is about $1.5 million (56%) personal services and $1.2 million (44%) services and supplies.

The budget includes $200,000 to complete its electronic reporting system and $127,000 for two years' worth of annual subscription fees for that system. Ethics reform legislation added one permanent full-time Compliance Specialist 3 position (0.88 FTE) at a cost of $152,309 with associated services and supplies of $27,317. There is a one-time expense of $10,000 for the construction of office space for this position. The measure also added $200,000 for a private vendor to develop a case management system and $47,450 for one annual subscription fee. Commissioner per diem cost was increased by $18,000 due to additional workload required under reform legislation. The budget included state government service charges and other agency assessment reductions of $18,475.

OFFICE OF THE GOVERNOR

Analyst: Hill

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	50,737,961	11,386,541	11,493,196	12,448,211
Lottery Funds	1,758,023	3,376,215	2,730,536	4,058,418
Other Funds	15,557,628	2,910,655	3,155,147	3,152,058
Federal Funds	2,744,411	--	--	--
Total Funds	**$70,798,023**	**$17,673,411**	**$17,378,879**	**$19,658,687**
Positions	76	57	54	63
FTE	70.47	56.50	53.50	61.67

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 Diversity and Inclusion Office, a citizen's input center, an Office of Intergovernmental and Regional Solutions, an Economic and Business Equity function, the Arrest and Return program, and provides clerical support for appointing members to boards and commissions. SB 909 (2011) created the Oregon Education Investment Board and the Early Learning Council. Both of these functions were located in the Governor's Office during the 2011-13 biennium, but were transferred out for the subsequent biennia.

Revenue Sources and Relationships

The Office of the Governor is supported mainly by General Fund. Lottery Funds are used for the Regional Solutions program. Other Funds includes revenue transfers from other agencies. These transfers finance the Diversity and Inclusion and Economic and Business Equity programs. The Diversity and Inclusion program is funded from the transfer of a Department of Administrative Services Human Resource Services Division assessment estimated at $975,000 for the biennium. The Economic and Business Equity 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 2011-13 were part of the temporary transfer of early childhood and youth development programs into the Governor's Office. Those programs have been transferred to the Department of Education.

Additional Other Funds are again provided this biennium through revenue transfers from a number of other state agencies to fund policy advisors and general support staff in the Office.

Budget Environment

The budget is driven by the number of staff and programs operated out of the Governor's Office. In the past, the Office has augmented its staff by borrowing staff from existing agencies, hiring staff and having other agencies pay their salaries by double filling positions, or hiring staff and having agencies reimburse the Office for the costs. The Legislature attempted to end this practice and place these "off-budget" positions and costs in the budget of the Office of the Governor during the 2007-09 biennium. The Legislature still has concerns with the number and funding of positions in the Governor's Office. Given the unexpected change in the Governorship just prior to the 2015 legislative session, the agency did not have time to properly prepare a budget request. A budget note directs the agency to return to the 2016 Legislative Assembly with a budget plan and a report showing the positions that are funded by other agencies, the total cost of those positions, and a proposal to reduce, eliminate, or realign those positions.

Legislatively Adopted Budget

The 2015-17 adopted budget for the Office of the Governor is $1,061,670 General Fund (9.3%) and $241,403 Other Funds (8.3%) more than the 2013-15 approved budget. Lottery Funds are $682,203 (20.2%) more than the 2013-15 approved budget level.

For the reasons noted above, the Legislature passed a current service level budget for the agency's main budget bill. The agency will come to the 2016 Legislative Assembly with a proposed budget for the remainder of the biennium. There were three other bills that affected the budget. They are:

- HB 2270 created the office of the State Resilience Officer within the agency. The bill included $304,653 General Fund and 2 positions (1.50 FTE). The Legislative Fiscal Office recommends moving this function to an appropriate Executive Branch agency in the future.
- SB 222 included $175,707 General Fund and 1 position (0.75 FTE) to staff the Task Force on Legal Representation in Childhood Dependency. The function and position are one-time for the 2015-17 biennium.
- SB 5507 included $500,000 General Fund and $1,332,517 Lottery Funds and 6 positions (5.92 FTE). The Lottery funds will support 5 Regional Solutions positions (4.92 FTE). Three of the positions were in the Office of the Governor on a limited duration basis during the 2013-15 biennium. The other 2 positions were in the Oregon Business Development Department on a limited duration basis during the 2013-15 biennium. The General Fund supports a federal programs coordination position (1.00 FTE) and the functions associated with the position.

OREGON HISTORICAL SOCIETY

Analyst: Siebert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	738,750	750,000	1,125,000
Lottery Funds	208,513	210,392	210,392	210,392
Other Funds	2,520,863	--	--	--
Total Funds	**$2,729,376**	**$949,142**	**$960,392**	**$1,335,392**

Overview

The Oregon Historical Society (OHS) was chartered by the state in 1898 to gather and preserve documents, manuscripts, publications, films, recordings, and artifacts. The organization also supports local historical societies, museums, and heritage efforts statewide. Agency facilities include the Oregon History Center's regional research library and museum and other sites. OHS offers education programs through the Society's mobile museum and school services. The agency produces the *Oregon Historical Quarterly* and books from its press. The Society also coordinates the Century Farms and Ranch Program, the Oregon Geographic Names Board, and liaison with more than 120 heritage organizations statewide.

Revenue Sources and Relationships

OHS is a nonprofit organization that is financed largely by membership fees, contributions, and publication sales. State 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.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget includes $210,392 Lottery Funds to cover debt service on $2.5 million in bonds authorized in the 2011-13 budget to pay off the mortgage on the Society's storage facility in Gresham. The adopted budget also contained $1,125,000 General Fund for OHS operations, which was an increase of $386,250 over the $738,750 General Fund appropriated in 2013-15 for operational support.

OREGON STATE LIBRARY

Analyst: Borden

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	2,868,303	3,314,923	$1,863,415	3,536,497
Other Funds	5,684,714	5,932,223	3,218,775	6,227,861
Federal Funds	4,514,751	4,887,539	2,543,056	5,061,853
Total Funds	**$13,067,768**	**$14,134,685**	**$7,625,246**	**$14,826,211**
Positions	43	41	41	42
FTE	41.26	39.26	19.63	40.26

Overview

The Oregon State Library (OSL) provides information services to state agencies, reading materials to blind and print-disabled individuals, and leadership, grants, and other assistance to improve local library service.

Currently, the Oregon State Library Board of Trustees consists of seven members appointed by the Governor who are responsible for setting policy for OSL and adopting long-range plans for library services statewide. The State Librarian is appointed by the Board of Trustees and oversees the day-to-day operations of the agency.

HB 3523 (2015) changed the governance structure of the agency by renaming the “Board of Trustees” to the “State Library Board” and expanding the Board’s membership. Additionally, the State Librarian positon was changed from a board appointee to a gubernatorial appointee beginning in 2017.

Revenue Sources and Relationships

OSL is funded with 24% General Fund, 42% Other Funds, and 34% Federal Funds.

OSL expects to have $6.2 million in Other Funds revenue to support its 2015-17 legislatively adopted budget, which includes a beginning balance of $3.4 million. Other Funds revenues are generated from four main sources as follows: an assessment on all state agencies, except the Oregon University System; donations; interest income; and miscellaneous receipts.

The state agency assessment is based two-thirds on the number of state agency full-time equivalents and one-third on the use of OSL by agencies during the prior biennium. The projected state agency assessment revenue for 2015-17 is $5,213,598. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay their assessment.

OSL’s Other Funds include donations and bequests, most of which are attributable to the Talking Book and Braille Library Services (TBABS) Donation Fund and the Talking Books Endowment Fund. The Funds have a projected beginning balance of $115,343 and $1,568,388, respectively. ORS 357.015(6) gives the Library Board of Trustees (State Library Board) 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 (Board) have adopted a policy of using Talking Books TBABS Donation Funds for TBABS program enhancements (not regular operating funding), however, recently interest earnings from the Endowment Fund and donations have been used for operating expenses at the direction of the Legislature. OSL plans to expend approximately $201,000 TBABS donation funds on operations and enhancements, leaving a projected combined ending balance for the Talking Books TBABS Donation and Endowment Funds of $1,984,708.

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 $5.1 million. The LSTA grant requires a 34% match rate as well as maintenance of effort (MOE) 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, although a federal waiver process does exist.

OSL has been able to meet LSTA match and MOE in part due to a new practice of including donation funding in its calculations. Reductions in state resources may make maintaining these federal requirements difficult with the result being the loss of some federal funds, unless a federal waiver is granted.

Miscellaneous receipts total $172,050, of which $150,000 is attributable to statewide database licensing.

Budget Environment

Oregon's state library, like practically every other state library across the county, is facing a myriad of challenges from having to justify its business model and funding level to keeping pace with technologic and demographic changes. State libraries are struggling to reconstitute themselves to remain viable in the digital age and in an environment of declining resources.

The Legislature has been acutely aware of such challenges. In 2011 it directed that a workgroup, comprised of OSL, the Secretary of State, and the Judicial Department, review ways to consolidate services and restructure OSL. The workgroup provided solid recommendations, but ultimately few were implemented. The 2013-15 Governor's budget, keying off this lack of progress, recommended that only one year of funding be provided the agency with the second year contingent upon a reorganization. The Legislature in 2013 adopted the Governor's recommendations after its frustration with the lack of progress. OSL worked with the Department of Administrative Services on an agency restructuring, or "transformation," plan to present to the Legislature, but that effort was not well received by the Legislature. OSL and its Board of Trustees proceeded with their own reorganization, but that effort produced little tangible results and was of concern to legislators. Finally, the Legislature itself introduced legislation to reorganize OSL. HB 3523 (2015) was signed into law on June 10, 2015 with an effective date of January 1, 2016. The measure incorporated many of the changes recommended in a 2012 workgroup report, but also changed the governance structure of the agency.

The program no longer provides staffing for the Legislature's library during sessions.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget totals $14.8 million and is $691,526 (4.9%) more than the 2013-15 legislatively approved budget and includes 42 positions (40.26 FTE). The adopted budget included standard adjustments for state government service charges and other agency assessments ($68,630). OSL's budget is comprised of $6.7 million (45%) personal services, $4.2 million (28%) services and supplies/capital outlay, and $4 million (27%) special payments primarily to local libraries.

Administration

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	186,656	116,957	64,428	120,776
Other Funds	914,661	893,827	489,005	1,188,033
Federal Funds	98,793	97,117	52,164	128,651
Total Funds	**$1,200,110**	**$1,107,901**	**$605,597**	**$1,437,460**
Positions	6	5	5	5
FTE	5.68	4.68	2.34	6.18

Program Description
The Administration program coordinates the mission and goals of the agency and manages the finance, budget, accounting, personnel, and volunteer functions of the agency. The agency recently began contracting with the Department of Administrative Services for its Human Resource (HR) needs, after the elimination of the agency's HR staff person. The program also supports the activities of the Library Board of Trustees (State Library Board).

Revenue Sources and Relationships
The Administration program is funded with 8% General Fund, 83% Other Funds (state agency assessment), and 9% Federal Funds.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget totals $1.4 million and is $329,559 (or 29.7%) more than the 2013-15 legislatively approved budget and includes 5 positions (6.18 FTE).

Library Development

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,650,160	1,897,555	1,095,525	2,093,101
Other Funds	44,224	136,055	65,649	140,286
Federal Funds	4,388,913	4,738,021	2,458,737	4,901,047
Total Funds	**$6,083,297**	**$6,771,631**	**3,619,911**	**$7,134,434**
Positions	7	6	7	8
FTE	6.50	6.00	3.25	7.50

Program Description
The Library Development program is responsible for assisting local public and private libraries and improving the overall quality of library services in the state through distribution of federal (Library Services and Technology Act) 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.

The LSTA grant must be distributed through a "State Library Administrative Agency," which for Oregon is the State Library. LSTA grant funds are used to fund various statewide services and competitive grants to libraries. LSTA funds must be spent based on OSL's LSTA Five Year plan submitted to the Institute of Museum and Library Services. OSL's plan includes: providing access for information resources and library services; use of technology to provide library services and expand access to libraries; develop culture in libraries; and develop information literacy skills; among others.

Ready to Read is a state grant program that makes grants available to any legally-established public library in Oregon and must be used to provide early literacy services/training for parents and caregivers and summer reading programs.

Revenue Sources and Relationships
The program is funded with 29% General Fund, 2% Other Funds, and 69% Federal Funds.

Federal funding is from the Institute of Museum and Library Services under the Library Services and Technology Act (LSTA) per a population-based formula. The budget for this program assumes Federal Funds pursuant to this grant in the amount of $4.9 million. 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. LSTA allows for a 4% administrative expense, which may be low compared to other federal grants.

State General Fund in this program helps fulfill the federal LSTA match and maintenance of effort requirements.

Budget Environment

The Library Development program serves some of the approximately 1,600 local public and private libraries, including school and academic libraries, in Oregon.

Ready to Read grants are based on a formula of the number of children up to 14 years of age in a given service area, plus a factor for the square miles in the county. Grants are on a per-library basis with the minimum of a $1,000 fiscal year grant for each library. The budget of $1.4 million General Fund is based on 715,600 children in 2016 and 718,373 children in 2017 in the 0-14 age group at $0.94 per child. Grants are distributed to 132 libraries in all 36 counties. Fifty-three libraries receive the $1,000 minimum grant (40%). Comparable funding in recent biennia has ranged from a low of $0.67 per child to a high of $1.00 per child, for the 2007-09 biennium.

About 250,143 children participated in Summer Reading Programs in fiscal year 2014, which is its highest point in the last five fiscal years, but represents only 36% of the eligible population.

OSL's Ready to Read Grant program is a component of the Oregon Early Reading Program Initiative (HB 3232 from 2013). OSL is working with local libraries to encourage participation and develop early learning activities and to use the state's Ready to Read funds in cooperation with other local early learning efforts. Expansion of the program to serve the 15-17 year old population is something that the agency is actively reconsidering, after being initially rejected during the 2013 and 2015 legislative sessions.

OSL uses approximately 70% of the LSTA grant to fund statewide projects, such as virtual reference services, access to full-text databases, rural courier services, services to the underserved, youth services, technology development consulting, and its own administrative expenses.

OSL uses the remaining 30% of LSTA funding for competitive grants. Recently funded grants were provided to some local libraries, but also public and private universities. These grants funded such things as oral histories, shared ILS system, outreach to Spanish-speaking population, supporting early childhood education, and the Oregon architecture mobile project, among others.

LSTA funding for the last 12 federal fiscal years (FFY), beginning in FFY 2004 thru FFY 2015, has totaled $26 million with the average grant being $2.2 million. Funding for FFY2004 was $2.1 million as was FFY2015. The overall federal appropriation was reduced due to federal budget cuts thereby reducing state allocations.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $7.2 million and is $362,803 (or 5.4%) more than the 2013-15 legislatively approved budget and includes 8 positions (7.50 FTE).

Talking Book and Braille Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,031,487	1,300,411	703,462	1,322,620
Other Funds	293,413	386,447	215,859	363,425
Total Funds	**$1,324,900**	**$1,686,858**	**$919,321**	**$1,686,045**
Positions	8	9	8	8
FTE	8.24	8.74	4.12	8.24

Program Description
In cooperation with the Library of Congress, which provides books, book players, and postage at no cost to Oregon, Talking Book and Braille Services (TBABS) is a statewide program that provides reading materials in audio-recorded or Braille formats to individuals with limited vision or other disabilities that prevent the use of traditional books and printed materials. OSL is responsible for maintaining the inventory and distribution of materials, as well as administering the program.

This federal-state cooperative partnership has been in place for 80 years and helps local public libraries meet their requirements under the Americans with Disabilities Act. The program participants are not means-tested nor pay a fee for this service.

The program also provides access to Braille and Audio Reading Download (BARD), which provides audio books via an internet download. It provides a daily audio newspaper service for three of Oregon's newspapers to blind and print-disabled Oregonians.

Revenue Sources and Relationships
The program is funded with 78% General Fund and 22% Other Funds (donations).

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 $123,728 and $1.9 million, respectively. ORS 357.015(6) gives the Library Board of Trustees (State Library Board) 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 (Board) have adopted a policy of using TBABS Donation Funds for TBABS program enhancements (not regular operating funding), however, interest earnings from the Endowment Fund and money from the donation fund continue to be used by the Legislature in order to fund agency operating expenses. OSL is spending $48,000 of donation funding it receives per year on core services and averages about $88,000 per year in new donations.

State General Fund and donation funds in this program help fulfill the federal LSTA match and maintenance of effort requirements.

Outside of the state budget for OSL, the agency estimates that it receives approximately $2.7 million per year in in-kind federal support for the TBABS program for the players, books, and postage it receives.

Budget Environment
The program has 5,208 registered patrons, which is down from the 2005 high of 7,156 Oregonians served. Advances in technology have moved the program from tape players to digital players and now to BARD for patrons with internet capability. Of the registered patrons, 28% are registered for BARD. However, accessibility issues for some patrons means that a complete transition to BARD will likely not occur.

While the switch to digital talking books in September of 2009 has stemmed the decline in registered users, the program still only services approximately 8% of the total number of Oregonians who are eligible to participate (64,000), which is down from the 2005 high of 14%. Over 76% of TBABS participants are 60 years or older and 42% are over 80 years old. The challenge for the program continues to be its registration penetration rate, and in particular, younger non-registrants.

Apart from TBABS, the availability, either commercially or through public libraries, of books on compact disk or downloadable audio files is able to fill the needs of a certain segment of this particular population.

OSL contracts with the State of Utah to provide braille print materials.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget totals $1.7 million and is $813 (or 0.05%) less than the 2013-15 legislatively approved budget and includes 8 positions (8.24 FTE).

Government Research and Electronic Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	4,432,416	4,515,894	2,448,262	4,536,117
Federal Funds	27,045	52,401	32,155	32,155
Total Funds	**$4,459,461**	**$4,568,295**	**$2,480,417**	**$4,568,272**
Positions	22	21	21	21
FTE	20.84	19.84	9.92	18.34

Program Description
Government Research and Electronic Services (GRES) provides research assistance to state government. Services include: the State Employee Information Center website; reference assistance from professional librarians; document delivery from the Library collection or other libraries via interlibrary loan; distribution of state agency publications to depository libraries; cataloging and archiving of state agency publications in print and electronic formats; electronic mailing list service; maintenance of the search box on the Oregon.gov website; and the State Library eClips daily news briefing service and other current awareness services. The program no longer provides staffing for the Legislature's library during sessions.

Since 1907, OSL has been responsible for the Oregon Documents Depository Program by providing permanent public access to Oregon state government publications. In 2006, OSL instituted the Oregon Documents Repository, which collects, preserves, and provides access to online publications of Oregon state government.

During the 2013-15 biennium, OSL closed its reference room and discontinued its partnership with the Willamette Valley Genealogical Society, which is now housed at the Salem Public Library.

Revenue Sources and Relationships
The program is funded with 99% Other Fund and 1% Federal Funds.

The source of Other Funds is a state agency assessment that is based two-thirds on the number of state agency full-time equivalents and one-third on the use of OSL by agencies during the prior biennium. The projected state agency assessment revenue for 2015-17 is $5.2 million. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay their assessment.

The program also receives a $32,155 in federal funding, which pays for approximately 10% of information technology staff time attributable to the LSTA grant.

Budget Environment
GRES-registered users have access to library databases, reference assistance, document delivery, and interlibrary loan services. There were 8,900 registered library users in the 2013-15 biennium. Over the course of the biennium, the State Employee Information Center recorded 39,057 logins for accessing library services.

OSL provides access for state employees to over 80 electronic resources. During a 24 month period, 239,729 full text records were viewed or downloaded. These include journal articles, book pages, business records, maps, news articles, and congressional/state regulatory and legislative materials.

GRES made 1,166,220 contacts reaching over 65% of state agencies, including 16,281 transactions for reference assistance, document delivery, and trainings, with the delivery of an average of 514 journal articles and physical library materials per month. However, only 10 agencies account for 84% of GRES usage, with one of those agencies (Oregon Health Authority) accounting for over half of the usage (42.2%).

In the 2013-15 biennium there were 1,457 eClips subscribers from 60 different agencies and 830 mailing lists with 718,482 total subscribers from 57 different agencies.

The challenge for the GRES program is what value-add does it provide to state agencies and at what cost and whether a centralized model of government research remains viable in the digital age.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget totals $4.6 million and is $23 (or .001%) less than the 2013-15 legislatively approved budget and includes 21 positions (18.34 FTE).

OREGON LIQUOR CONTROL COMMISSION

Analyst: Deister

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	137,037,933	153,815,309	156,820,358	178,713,603
Total Funds	**$137,037,933**	**$153,815,309**	**$156,820,358**	**$178,713,603**
Positions	236	234	230	261
FTE	231.00	226.21	225.50	251.16

Overview

The Oregon Liquor Control Commission (OLCC) regulates 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.

In November 2014, Oregon voters approved Ballot Measure 91, which legalized the sale and use of recreational marijuana in Oregon, and provided for a means of taxation and regulation of the product. The ballot measure named OLCC as the regulator and the 2015 Legislative Assembly passed measures to further define the regulation of both recreational and medical marijuana, with the passage of HB 3400, HB 2041, SB 460, and SB 844. OLCC will begin accepting license applications from growers, producers, wholesalers, and retailers on January 1, 2016, and the first licenses are expected to be issued in April 2016.

Revenue Sources and Relationships

The Commission is entirely supported by Other Funds revenues, from the regulation of liquor and recreational marijuana.

Revenue from marijuana will be taxed at the point of sale and collected by the Department of Revenue. For the 2015-17 biennium, revenue will first be dispersed to the Department of Revenue for their administrative costs and then to OLCC to reimburse the agency for legislatively authorized planning and implementation expenses incurred in the 2013-15 biennium (estimated at $500,000), plus regulatory expenses in 2015-17 until licensing fees generate enough revenue to support regulatory operations.

Revenue generated from the liquor side of the agency's responsibilities is comprised of liquor sales (96%); privilege taxes on malt beverages (beer) and wine (3%); and 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 ($37 million for 2015-17) are first allocated for payments to the Mental Health Alcoholism and Drug Services Account ($17.9 million), and then $629,000 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 used to pay contracted liquor agents and to finance Commission operations (including liquor purchases). Any excess balance 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 for liquor regulation directly affect the General Fund. Under 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.

The 2015-17 legislatively adopted budget is expected to result in gross "regular" liquor sales amounting to $1.11 billion, and $33.8 million in revenue from the continuation of a $0.50 per bottle surcharge first imposed in 2009. Per SB 501 (2015), all revenue resulting from the surcharge will be credited exclusively to the state General Fund. After liquor purchases, dispenser discounts, agency expenses, and compensation to liquor agents based on an average of 8.93% of assumed sales, the total amount of revenue estimated to be available to the General Fund is $266 million for the 2015-17 biennium. Other revenue distributions are assumed as follows: $82.9 million for cities, $58.1 million for city revenue sharing, and $41.5 million for counties.

Budget Environment

The passage of Ballot Measure 91 in November 2014 brought about an unprecedented shift in focus and a high level of uncertainty for OLCC. The agency had much to learn from two other states that had already legalized recreational marijuana (Colorado and Washington), and had to develop a way of regulating the production and sale so that those activities would not run afoul of federal guidelines. In a short period of time, OLCC had to recruit and hire policy and program managers and begin to craft a regulatory proposal that encompassed the spirit of the Ballot Measure while addressing implementation issues. Unknowns included the number of licensees, sales of the product, and the persistence of the black market, and, in fact, information on these items still consists largely of estimates. Implementation will require additional policy expertise, processes, administrative rules, inspectors, information technology, and central services support. It may take several biennia for patterns to emerge and consistency in the market place to develop. In the mean-time, the Legislature is likely to make further adjustments to laws and the OLCC will need to respond to legislative change and practical circumstances that could affect the ability to partner with other regulatory agencies, the number of inspectors required, the amount of revenue available, and many other items. The OLCC is directed to report quarterly to the Legislative Fiscal Office on the actual numbers of licensees, fee amounts, expenditures, and information technology implementation. Further, the agency has been directed to prepare its 2017-19 budget in such a way that revenues received from marijuana are clearly differentiated from those received from alcohol regulation and that illustrates how agency resources and personnel are devoted to the regulation of each substance.

On the liquor side of OLCC responsibilities, enforcing the state's liquor laws requires a variety of approaches to assist individual licensees, as well as the general community, in understanding the laws and regulations governing the proper and lawful operation of a licensed liquor establishment. Underage drinking, illegal alcohol, and sales to minors continue to be areas of focus for the agency. In addition, OLCC is one of a few agencies that contribute resources to the General Fund.

Licensee business models continue to change and OLCC strives to keep up. Examples include the growth of food carts (some of which have applied for licenses); beer and wine growlers in tasting rooms, eateries, and groceries; demand for direct shipment; and a growing craft distillery industry. Meanwhile, OLCC must continue to do its part to help minimize the negative impacts of alcohol on local communities.

OLCC has been striving to keep up with consumer demand for both product and convenience. Warehouse improvements approved as part of the 2015-17 budget will safeguard employees and inventory, as well as accommodate shipment of additional case volume. OLCC is also exploring alternate "market-based" selection of new liquor outlets in underserved areas, whereby proposals for new stores would be brought to the OLCC from prospective agents, rather than the Commission selecting where an outlet should be placed and soliciting prospective agents to run it.

Legislatively Adopted Budget

The 2015-17 legislatively approved budget assumes total expenditures of $178.7 million and pays agents' compensation at an average rate of 8.93% of sales; this is an increase from the average of 8.88% in the 2013-15 biennium. The budget is a 16.2% increase from the 2015-17 legislatively approved budget and a 14% increase from the 2015-17 current service level budget. The 2015-17 legislatively adopted budget assumed additional revenue from increased sales of distilled spirits.

Distilled Spirits

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	18,073,544	21,216,749	21,333,152	26,722,778
Total Funds	**$18,073,544**	**$21,216,749**	**$21,333,152**	**$26,772,778**
Positions	70	70	69	69
FTE	67.00	67.50	66.50	66.50

Program Description

Responsibilities of the Distilled Spirits program relate to liquor sales and distribution. As a "control state," Oregon has granted the Commission sole authority to sell distilled spirits by the bottle. OLCC's current average markup based on the current sales mix is approximately 104%, plus a $0.50 per bottle surcharge which generate funds to finance its expenses and to produce revenue for state and local government. There are two divisions within the Program:

- 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 250 approved 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.

Budget Environment

OLCC continues to experience a positive rate of revenue growth. OLCC realized approximately $1.06 billion for 2013-15 biennium, a figure that was up about $90 million from the previous biennium. The 2015-17 legislatively adopted budget assumes gross sales of $1.11 billion, which includes $33.7 million from continuation of the bottle surcharge.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Distilled Spirits program is 26% greater than the 2013-15 legislatively approved budget. This increase is primarily due to approval of a proposal to increase shipping capacity that will meet the projected demand for spirits for roughly the next decade. Additional conveyor systems will enable the warehouse to load trucks through multiple doors, making better use of existing staffing resources and creating capacity for peak sales periods and future demand. No additional positions or FTE are assumed in the 2015-17 biennium. Additional limitation to pay bank card fees associated with continuation of the per-bottle surcharge was approved in the amount of $314,626.

The agency will continue to report to the Legislative Fiscal Office on a quarterly basis on the need for additional expenditure limitation to pay bank card fees, so that the Emergency Board has ample opportunity to address this issue in the event that actual sales exceed projections.

Public Safety Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	15,566,078	17,495,092	17,662,572	17,923,472
Total Funds	**$15,566,078**	**$17,495,092**	**$17,662,572**	**$17,923,472**
Positions	98	93	93	93
FTE	96.00	91.00	91.00	91.00

Program Description
The Public Safety Services program 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 consists of three divisions:

- License Services – 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 five regional and eight field offices throughout the state. Staff in those offices conduct license investigations, respond to complaints, investigate liquor law violations, and work with licensees and local communities to ensure compliance with liquor laws and resolve problems created by licensed businesses or their patrons.
- Administrative Policy and Process Services – Responsible for reviewing investigative reports and related preparations for contested case hearings and for developing, reviewing, and amending administrative rules.

Budget Environment
With the regulation of recreational marijuana, the agency may propose organizational changes that achieve efficiencies and promote cross training to enhance staff expertise. This is especially likely for inspectors and licensing personnel in the public safety division. The agency has been instructed via budget note that any such changes should differentiate revenue yielded from alcohol activities versus marijuana–related licensees, and to clearly identify the monetary and personnel resources devoted to the regulation of each substance.

A top priority for the Public Safety Services program continues to be prevention of underage sales and consumption. The agency narrowly missed its target for licensees that refuse to sell to minor decoys in the 2013-14 fiscal year. The agency will try to improve licensee performance by continuing education and outreach where applicable, and by utilizing sanctions where appropriate. The agency will be devising administrative rules to ensure that marijuana is not sold to Oregonians under the age of 21, and may devise a companion public safety performance measure.

OLCC just missed its performance target in processing licensing applications for the 2014 fiscal year. The agency strives to achieve completion in 75 days, but the actual average was 76 days in 2014. Meanwhile, there was over 4% growth in the total number of licensees between 2013 and 2014, from 15,951 to 16,567, while the number of enforcement and compliance services personnel has remained constant at 65. The total number of service permit holders is up to 140,287 from around 136,240 in 2013. Development of a licensing system for marijuana licensees is underway, and the expenditure limitation for the project is budgeted in the "Marijuana Program" section.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget is a 2.4% increase from the 2013-15 legislatively approved budget, and includes additional expenditure limitation of $260,900 Other Funds to support training of OLCC inspection and enforcement service personnel so that they may receive Peace Officer certification from the Department of Public Safety Standards and Training.

Administration and Support Services

	2011-13 Actual	2013-15 Legislatively Approved*	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	16,805,885	17,762,183	18,645,824	18,772,275
Total Funds	**$16,805,885**	**$17,762,183**	**$18,645,824**	**$18,772,275**
Positions	68	67	68	69
FTE	68.00	66.63	68.00	68.75

*To facilitate an appropriate comparison, positions allocated to the Administration and Support Services program for the purpose of beginning implementation of Measure 91 in the 2013-15 biennium have been pulled out and displayed in the "Marijuana Regulation" table, 2013-15 Legislatively Approved column.

Program Description
The Administration and Support Services program consists of the following divisions:

- Administration – Includes human resources and is responsible for ensuring that the goals of the agency are implemented and that policy as articulated by the Commission is carried out.
- Management Consulting Services – Centrally coordinates and provides services, such as performance measurement, research and analysis, staff training, and coordinating input from stakeholders.
- Administrative Services – Handles activities such as purchasing, contracting, motor pool, facilities maintenance, and mail.
- Communications – Responsible for internal and external agency communications, including print and electronic materials.
- Financial Services – Develops and implements systems that provide fiscal accountability for Commission operations, produces and maintains fiscal records, and develops and monitors execution of the agency's budget.
- Information Services – Develops and supports electronic data systems for staff ranging from desk top PCs to distribution center inventory control applications. The division will be responsible for helping to manage the selection and implementation of new licensing and tracking systems related to marijuana regulation.
- Administrative Policy and Process – Develops and updates administrative rules and conducts hearings related to licensure and commission decisions.

Budget Environment
The passage of Ballot Measure 91 required OLCC administration and the commissioners to devote a large amount of attention and internal resources to developing a regulatory framework for marijuana, within limited timeframes. The agency researched practices, successes, and difficulties faced in the states of Washington and Colorado, which legalized recreational marijuana the year before it became legal in Oregon. In addition to ensuring an understanding of Ballot Measure 91, OLCC worked to understand federal concerns and areas of potential enforcement; collected input from growers, the medical marijuana community, and other stakeholders; and proposed clarifications and modifications for legislative action. The agency had to secure a budget to fund these early activities, as well as develop a plan for what resources might be needed for effective administration as the program rolled out along prescribed timelines. The vast majority of this work took place during from June 2014 to June 2015 and during that time there was turnover in the marijuana program management and a legislative policy committee whose eventual decisions required reconfiguring administrative roles and activities among agencies.

For the beginning of the 2015-17 biennium, OLCC will be heavily engaged in developing and implementing administrative rules, internal processes, and information systems to ensure that licensing activities can begin according to timelines set out by legislation. The administration and support program will also be involved in everything from staffing up the marijuana program to approving procurement contracts for new equipment, monitoring licensing activity and budget for the new program, and accounting for liquor funds that are borrowed and eventually repaid for program expenses in the previous and current biennium.

Meanwhile, the liquor-related work of the agency has been augmented in 2015-17 by key investments in infrastructure that will need to be monitored and managed. These investments include the new warehouse sortation system, IT investments in licensing and marijuana product tracking, and capital improvements to repair damaged and aging building systems.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget maintains FTE and core services for the Administration and Support Services program. It is likely that in the next biennium some of the administrative and financial services capacity that was added to support the addition of marijuana regulation (see "Marijuana Regulation", below) will be integrated into the Administration and Support Services program. One position (0.75) and associated expenditure limitation totaling $133,738 was approved to support the management of the beverage container redemption

program pursuant to HB 2803 (2015). Participation in the beverage container redemption center program is expanding to the point that it can no longer be absorbed by existing staff.

Store Operating Expenses

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	86,384,020	95,758,000	98,959,000	102,570,335
Total Funds	**$86,384,020**	**$95,758,000**	**$98,959,000**	**$102,570,335**

Program Description

This program includes an expenditure limitation for liquor revenues to pay contract agents who operate the state's 248 retail liquor outlets. 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.

Budget Environment

ORS 471.750(3) gives the Commission authority to determine the compensation of liquor agents. Agents' compensation comprises 57% of all OLCC expenditures and is by far the largest program in the agency's budget. Changes to the rate or amount of compensation approved could have major implications to OLCC expenditures, and, by extension, the amount of revenue distributed to the General Fund and the budgets of other state agencies. By limiting the amount available for agents' compensation and utilizing the Emergency Board to grant additional limitation when sales exceed initial projections, the state is afforded the certainty needed to maintain a balanced budget.

The rate of monthly compensation for agents was originally determined annually. In 1979, the Commission started calculating compensation monthly as a percentage of actual monthly sales. Biennial adjustments were made to this basic formula until 1980. From 1980 to 1985 the basic formula did not change, but the Legislature added annual cost of living increases to the formula. In 1985, the Legislature directed OLCC to allocate agents' compensation based on a re-designed compensation schedule. The store formula is reviewed and adjusted by the agency every six months. The goal is to provide basic support, while encouraging sound retail practices and rewarding sales performance. Agents' compensation increases when consumption or prices increase. OLCC requests an increase in the expenditure limitation from the Emergency Board if actual sales exceed forecasted amounts. The amount of actual compensation received by an agent is influenced by the following four factors: class of store, base commission, consumer sales, dispenser sales, and the amount of deferred compensation agents elect to have matched by OLCC. To the extent that any of the factors change, the actual monthly rate earned by an agent will change, to maintain the 8.93% system-wide average. The formula is complicated enough that questions regarding its application persist from agents and legislators.

Legislatively adopted budgets have included expenditure limitation to produce average rates of compensation based on the above formula and sales, as noted in the following table:

1995 to 1997	8.2%
1997 to 2003	8.54%
2003 to 2015	8.88%
2015 to	8.93%

During a special session of the Legislature in 2003, OLCC's request for additional expenditure limitation to maintain agents' compensation at an average of 8.54% was not entirely granted, resulting in an effective average rate of 8.48% of sales. A $1.9 million reduction to agents' compensation in 2009 was partially restored by imposition of a $0.50 per bottle surcharge; $1.4 million was restored to agents with surcharge revenue, resulting in an effective average rate of compensation of 8.82%, versus the legislatively adopted budget average rate of 8.88%.

Legislatively Adopted Budget

Expenditure limitation in the amount of $102,570,335 is authorized for the 2015-17 legislatively adopted budget, equivalent to an average rate of 8.93% of forecasted sales (agents are paid an average of 8.93% on the amount of sales due to the per bottle surcharge, as well as regular sales). The Legislature approved an increase in expenditure limitation of $612,000 for the Store Operating Expenses program as a means of eliminating a compensation formula differential that would have disadvantaged non-exclusive stores, causing them to earn a lower rate of compensation, even though in many cases such stores have a higher sales volume than their exclusive store counterparts. This change effectively increased the average compensation rate, from 8.88% to 8.93% and is intended to be permanent and ongoing in future biennia.

The $102.6 million in agent's compensation is a 7.1% increase from the 2013-15 legislatively approved budget, due to projected increases in sales and the change noted above. In the event that actual sales exceed the forecast, OLCC is expected to request additional expenditure limitation from the Emergency Board to maintain this level of compensation to contracted liquor agents, which will be facilitated by the quarterly reports that OLCC will continue to make to the Legislative Fiscal Office.

Marijuana Program Regulation*

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	--	1,339,610	$2,294,941	8,332,933
Total Funds	**--**	**$1,339,610**	**$2,294,941**	**$8,332,933**
Positions	--	7	7	30
FTE	--	1.47	7.00	24.91

*To facilitate an appropriate comparison of marijuana regulatory expenses, expenditures and positions/FTE which were approved in 2013-15 and budgeted in the "Administration and Support Services" program for that biennium are displayed here. Services and supplies costs estimated to be ongoing include biennialized Department of Justice expenses, consultant services, and software licensing costs.

Program Description

In November of 2014, Oregon voters approved Ballot Measure 91, which set up a means of regulating and taxing marijuana for recreational (non-medical) use. As previously noted, the ballot measure resulted in a major change to the responsibilities of the OLCC and required the agency to develop a regulatory framework in a short period of time. OLCC's duties for marijuana regulation will include the following, per HB 3400 and HB 2041:

- Adoption and enforcement of regulations relating to growers, wholesalers, processors, and retailers, all of whom are required to be over the age of 21.
- Developing a product tracking system which must be used by licensees when transferring marijuana-related products.
- Implementation of a permitting program for workers in retail marijuana establishments.
- Inspections, seizures, citation, and arrest authority for recreational marijuana facilities.
- Regulation of marijuana concentrates and extracts in products.
- Study of environmental practices related to marijuana cultivation.
- Working with the Oregon Health Authority to allow the medical marijuana program to utilize tracking technology.
- Assisting in the development of testing requirements and standards for product testing, and packaging and labeling of marijuana items.
- Working with the Department of Revenue to reconcile product movement with taxes paid.

Budget Environment

The budget environment related to regulation of marijuana is best described as "uncertain." Resources budgeted are predicated on an estimated number of licensees, the actual number of which may vary widely from estimates. The persistence of a pre-existing unregulated market, consumer demand, the initial volatility stemming from entrepreneurial enthusiasm, startups versus long-term successful marijuana-related businesses, and regulations both nationally and in neighboring states could all influence the number of licensees, and therefore the resources needed and available for effective regulation. It is anticipated that the budget will be adjusted pending actual experience as license applications are received and the work of approvals and inspections begins.

Legislatively Adopted Budget

The Legislatively Adopted Budget approved 30 positions (24.91 FTE) and $8.3 million for the 2015-17 biennium. Of this amount, $3.8 million is related to personal services and $1.8 million in services and supplies costs are not anticipated to recur in future biennia, including the purchase of information systems and development, vehicles, repayment of borrowed liquor funds from 2013-15, and certain costs relating to consulting and public relations.

Positions will be phased in based on when related systems and processes are in place to govern their activities. Seven of the positions established in the 2013-15 biennium are continued in 2015-17: a program manager, 3 Operations and Policy Analysts, a Public Affairs specialist, an administrative support position, and a Compliance Specialist. These 7 positions are augmented with the following:

- Eleven regulatory specialists (inspectors – four of which are limited duration) to be phased in as licensing infrastructure comes on line.
- A phased-in compliance specialist, responsible for handling appeals on license denials and violations (also limited duration).
- A Compliance Specialist to manage product labeling standards and testing lab certification.
- Four accounting staff, also phased in, and responsible for the following:
  - Insurance bonding requirements of those liable for tax payments (although OLCC is not responsible for collecting the tax, HB 3400 assigns bonding responsibilities to OLCC).
  - Auditing functions related to traceability system for agency compliance efforts.
  - Licensing fee payment and administration of the Marijuana Control and Regulation Fund.
  - Support to the Department of Revenue by providing traceability system information to ensure marijuana tax collection accuracy.
- Three administrative support personnel, responsible for licensing services, hearings and violations.
- A limited duration human resources analyst.
- A limited duration compliance specialist to manage appeals related to licensing denials and violations.
- A procurement and contract specialist for the additional services and supplies that will be required by the agency's increased number of employees.

The legislatively adopted budget for the program assumes 749 licensees, not including marijuana handlers. Should the actual number of licensees vary widely from this estimate, the budget will have to be adjusted in February 2016 or later during the 2015-17 biennium.

The Joint Committee on Measure 91 Implementation was clear in its intention that in future biennia, OLCC regulatory expenses are to be funded by fees charged to licensees. The following budget note provides direction to the OLCC in setting fees: "When setting fees for the recreational marijuana program, the Oregon Liquor Control Commission shall consider the following: fees charged should provide for sustainable operations in the 2017-19 biennium and beyond; fees charged should consider the relative size and scale of operation for all classes of licenses (growers, processors, wholesalers and retailers); and fees charged to licensees should not be lower than those charged by the Oregon Health Authority for equivalent medical marijuana license classes. The Oregon Liquor Control Commission shall report quarterly to the Legislative Fiscal Office on the number of license applications, the number of licenses approved, fee amounts received, marijuana program expenditures, and progress on implementing technology initiatives associated with the recreational marijuana program."

For the 2015-17 biennium, however, revenue from sales of the product, collected by the Department of Revenue, can be used to reimburse the Liquor Fund at an interest rate of 2%, before statutory distributions of revenue are made to other entities identified in HB 2041

Capital Improvements and Construction

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	208,406	213,408	219,810	4,391,810
Total Funds	**$208,406**	**$213,408**	**$219,810**	**$4,391,810**

Program Description
The Capital Improvement program reflects OLCC costs for major deferred maintenance and improvements to OLCC facilities. OLCC owns an office and distribution center complex in Milwaukie, which ships all bottled distilled liquor and houses most agency personnel. In 2007, OLCC purchased a warehouse adjacent to its distribution center and make improvements to both facilities.

Budget Environment
In the past, OLCC and the Legislature have focused on implementing capital improvements that facilitate the generation of additional revenue or avoid the potential for lost revenue due to facilities or equipment breakdown. These improvements have included a major replacement of the warehouse conveyor system, warehouse heating system, and parking lot upgrades. OLCC has now reached the limits of its shipping capacity under its current configuration, and approval for a more efficient conveyor/sortation system was approved for 2015-17 to meet consumer demand for distilled spirits (see narrative related to the "Distilled Spirits" program).

Facility Maintenance issues have become critical, and OLCC must make needed improvements to its administrative offices and warehouse facilities to protect employee health and safety, as well as safeguard tens of millions of dollars of inventory.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget is a 1,958% increase over the 2013-15 legislatively approved budget. The budget added $4.2 million in Other Funds expenditure limitation to address the most pressing facility needs, including the following: repair and replacement of several sections of roof over the OLCC warehouse and office buildings, as well as affected HVAC units; replacement of aging boilers and piping; wall and flooring repair necessitated by water damage; and replacing a portion of the fire alarm system.

The agency's ten-year facilities plan anticipates future requests for other sections of roof and HVAC repair and replacement, door and window repair and replacement, expansion joint repairs, seismic upgrades, security system improvements, overhead door replacement, lighting, wiring, asbestos removal, flooring repair and replacement, and parking lot maintenance.

OREGON PUBLIC BROADCASTING

Analyst: Siebert

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	492,500	500,000	750,000
Lottery Funds	1,558,359	546,157	2,013,018	2,013,018
Other Funds (NL)	2,862,769	--	--	--
Total Funds	**$4,421,128**	**$1,038,657**	**$2,513,018**	**$2,763,018**

Overview

Oregon Public Broadcasting (OPB) is an educational and public broadcasting network serving Oregon through noncommercial public television and radio stations. The 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 eliminated beginning with the 2003-05 biennium, but was partially restored for the 2009-11 budget period. The 2011-13 legislatively approved budget continued to cover debt service on lottery bonds but did not provide any funding for OPB operations.

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.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget continues to cover debt service on lottery bonds. In addition, the adopted budget also increased the operational support grant to $750,000 General Fund over the $492,500 appropriated during the 2013-15 biennium.

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Analyst: Borden

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	75,017,618	88,153,980	89,655,192	$95,161,904
Other Funds (NL)	7,779,837,107	9,277,875,000	8,476,114,000	9,723,458,062
Total Funds	**$7,854,854,725**	**$9,366,028,980**	**$8,565,769,192**	**$9,818,619,966**
Positions	369	369	364	380
FTE	363.99	367.23	364.00	380.00

Overview

The Public Employees Retirement System (PERS) administers the retirement system covering employees of state agencies; public universities, community colleges, public school districts; statutory judges; and participating cities, counties, and special districts in Oregon. The agency also administers a retiree health insurance program and a voluntary deferred compensation program for state agencies and some local governmental units. It is responsible for most fiduciary activities performed on behalf of system members. This includes receipt of contributions into the retirement trust and deferred compensation trust funds, retirement counseling, retirement benefit determination, and retirement benefit payment.

The Oregon Investment Council (OIC), with the assistance of the Investment Division of the State Treasury, oversees the investment of retirement system and deferred compensation trust fund assets that are mostly managed by private investment firms.

The five-member Public Employees Retirement Board has broad authority for operation of the system. Day-to-day operations are carried out by the Board-appointed executive director and agency staff. The agency executive director is also an ex-officio non-voting member of OIC.

Revenue Sources and Relationships

PERS revenue comes from net (of investment expenses) investment earnings, employer contributions, employee contributions, and insurance premium payments. There is also an administrative charge on the deferred compensation program and an administrative fee assessed on participants and employers for Social Security Administration activities, plus other miscellaneous revenues. The agency receives nominal miscellaneous revenue. In total, the agency expects to receive $18.4 billion in biennial revenues.

PERS assets total an estimated $68.7 billion, including all reserve accounts and pension obligation bond proceeds. Investment earnings are expected to generate $14.3 billion for the biennium. Employer contribution rates established by the PERS Board and based upon advice from its consulting actuary are expected to generate and additional $3.5 billion in revenue.

ORS 238.610 directs that the administrative operations expenses for the agency are to be paid from earnings on the Public Employees Retirement Fund or, in years when such earnings are insufficient, through a direct charge to participating public employers. Such expenses are estimated to total $95.2 million from earnings.

PERS estimates $488.1 million in insurance premiums revenue.

PERS may assess a charge to deferred compensation plan participants not to exceed 2% on amounts deferred, both contributions and investment earnings, to cover the cost of administering the program. The current annual participant fee is 0.08% (.0008) of participants assets held in the trust.

In order for PERS to the fund the administration of the Social Security program, PERS has set a rate of 50 cents per employee per year, or $15, whichever is higher. This will raise an estimated $398,000.

Budget Environment

PERS serves 914 employers, including 488 political subdivisions, 293 school districts, 114 state agencies and public universities, and 17 community colleges. Approximately 95% of Oregon's public sector employees are PERS members, which totals 162,185 active members. School districts are the largest PERS employer group (63,154), followed by local government (54,560) and then state government (44,471). PERS also has 41,213 inactive members, who have vested in PERS during previous qualifying employment but are no longer employed in a PERS-covered position. There are an additional 128,117 retirees/beneficiaries. In total, between retirees/beneficiaries and active/inactive members, PERS comprises 331,515 individuals. These figures are as of the last actuarial valuation completed on December 31, 2013 and which is done every other year.

Approximately 70,265 active and inactive members, or 35% of all members, are eligible to retire. The number of actual retirements has risen from 5,749 (2007) to 7,621 (2014) with retirements peaking at 9,546 (2013). A proposed lowering of the assumed earnings rate by the PERS Board, discussed below, could spur additional retirements in 2015.

PERS is a mature retirement system with only 1.27 active members per beneficiary, which may decline further as a significant portion of the active members are eligible to retire.

The PERS system funding level, as of December 31, 2014, was $68.9 billion in assets and $71.8 billion in liabilities for a funded status of 96%. Assets include employer side accounts, which are pre-paid deposits primarily from the proceeds of pension obligation bonds. The unfunded liability has essentially remained unchanged from calendar year 2013. A restatement of these figures due to the Moro Supreme Court decision, discussed below, adjusted assets to $61.4 billion and liabilities to $73.5 billion for an unfunded actuarial liability of $12.1 billion.

After a prolonged period of an 8% assumed earnings rate, the PERS Board changed the rate to 7.75% effective January 1, 2014. The PERS Board recently voted to further lower the assumed earnings rate to 7.5% on January 1, 2015. Such an action will increase future employer contribution rates beginning with the 2017-19 biennium. A budget note directs PERS to report to the Legislative Assembly in 2016, or to the Emergency Board at its next meeting, if the PERS Board adopts any change to the assumed earnings rate.

The following table details system-wide employer rates for general services employees (i.e., non-police and fire). These rates exclude the Individual Account Program or 6% employee contribution.

Statewide (excludes Individual Account Program)

Net Pension Rate for General Service	2011-13	2013-15	2015-17*	2017-19**
Tier One and Tier Two	10.84%	11.64%	12.85%	17.01%
Oregon Public Service Retirement Plan	8.4%	8.91%	7.00%	10.23%

*Pre-Oregon Supreme Court Moro ruling

**Post-Oregon Supreme Court Moro ruling advisory rates

The 2013-15 and the 2015-17 rates reflect the Legislature's decision in 2013 to modify retiree's cost-of-living (COLA) adjustment, eliminate the supplementary tax remedy payments for non-Oregon residents, and direct the PERS Board to take an unspecified, one-time administrative action to further reduce employer rates by up to 1.9%. The combined effects reduced the scheduled 2013-15 employer rate increase by a system-wide average of 4.28% and produced an estimated $790 million in system wide savings for participating employers and reduced the PERS' unfunded liability by $2.6 billion. Employer rates for 2015-17 were adopted by the PERS Board assuming the continued legality of the PERS reforms. However, after becoming law, reforms were challenged in court and an expedited review was conducted by the Oregon Supreme Court. In the spring of 2015, a court decision was issued that upheld the elimination of the tax remedy payments for non-residents. The COLA change was ruled unconstitutional, but only for benefits earned prior to the effective date of the reform. The court found that a reduced COLA could only be applied to benefits earned after reform legislation became effective. This introduces a blended COLA for some PERS members.

The Supreme Court's decision to overturn some of the reforms added about $5.1 billion to the system's unfunded actuarial liability, as of December 31, 2014. Similar to what was done following the Supreme Court's March 2005 ruling on the 2003 PERS reforms, the Supreme Court's reversal of PERS reforms would not increase the currently projected PERS employer costs for the 2015-17 biennium. Rather, the liability increase from restoring the COLA would be reflected when the PERS Board adopts employer contribution rates for the 2017-19 biennium. This follows the PERS Board normal employer rate setting cycle. A PERS Board administrative process ("rate collaring") will be triggered that will spread employer rate increases across multiple biennia. On an uncollared basis, system wide employer rates will increase an additional 4.5% as a result of the court's decision.

In addition to employer contribution rates, some employers also must fund debt service on pension obligation bond issuances (POB), which is a cost discrete from employer contributions with debt service being paid by each state agency/participating entity that chose to issue POBs. Employer side accounts, which hold a total of about $5.5 billion in employer-issued POB proceeds and other lump-sum payments, play a major role in pre-funding employer contributions. POB proceeds are invested alongside employer contributions by OIC.

The State of Oregon issued $2.1 billion in POBs in 2003. Debt service on those POBs will cost approximately $266 million for the 2015-17 biennium, an increase of $18.4 million (7.4%), from the prior biennium cost of $248.3 million. POB debt service will continue to increase 8.7% each biennium until the debt is paid off in 2027. While some local jurisdictions continue to issue POBs, no additional issuances are expected by state government, whose authority to issue such bonds is derived from the Oregon Constitution.

PERS works with Cost Effectiveness Measurement, Inc. (CEM) to compare its administration to peer retirement systems. In its most recent report, CEM noted that Oregon PERS' adjusted cost was $129.82 per year per active and retired member, which is above the peer average of $98.74. One of the reasons behind the added cost is the underlying complexity of PERS plans and benefit calculations compared to other comparatively simple peer plans.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $9.8 billion is $452.6 million (or 4.8%) more than the 2013-15 legislatively approved budget and includes 380 positions (380.00 FTE). The budget is composed of $66.5 million (0.7%) personal services, $127 million (1.29%) services and supplies/capital outlay, $9.6 billion (98%) special payments, and $1.3 million (0.01%) debt service. The budget includes standard adjustments for state government service charges and other agency assessments ($802,812).

Tiers One and Two Pension Plans

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds (NL)	6,854,601,568	8,132,220,000	7,339,085,328	8,262,947,862
Total Funds	**$6,854,601,568**	**$8,132,220,000**	**$7,339,085,328**	**$8,262,947,862**

Program Description

The Tiers One and Two Plans program includes account balance refunds and retirement benefit payments for two retirement plans that are closed due to PERS reform legislation passed during the 2003 legislative session. Tier One plan members are employees hired before January 1, 1996. Tier Two members are employees hired on or after January 1, 1996 and before August 28, 2003, and have a different level of benefits from Tier One members. Tier One and Two are employer funded retirement benefits. The Tier One and Two average replacement of a retirees' final average salary for those retirees with 30 years of service varies by retirement calculation option:

full formula (56% salary replacement), formula plus annuity (60% salary replacement), and money match (73% salary replacement), based on calendar year 2013 data.

Revenue Sources and Relationships

The Other Funds revenue is mainly from employer contributions to the retirement system ($827.1 million) and retirement trust fund investment earnings (about $10.8 billion). A nominal amount of revenue comes from employee contributions by employees, primarily judge members. Employer contribution rates are established by the Public Employees Retirement Board based upon advice from its consulting actuary.

Tier One accounts earn an assumed earnings rate, as set administratively by the PERS Board. Tier One member regular accounts were credited at the calendar year 2014 assumed earnings rate of 7.75%, which in previous years had been 8%. The PERS Board recently voted to reduce the assumed earnings rate to 7.50% beginning in calendar year 2015. For years when market earnings are less than the assumed earnings rate, a reserve balance is used to make up the difference. For example, reserve crediting was needed in calendar year 2014 as net earnings on the Oregon Public Employees Retirement Fund totaled only 7.2%.

Tier Two account earnings are based on actual market returns as produced by the Oregon Investment Council. Tier Two regular member accounts received earnings crediting of 7.25% in calendar year 2014.

The program unit's administrative costs are budgeted under various operational programs and are supported by revenue transfers from this program to those programs.

Budget Environment

Active and inactive membership totals 67,134 for Tier One for members (hired before January 1, 1996) and 65,319 for Tier Two members (hired on or after January 1, 1996 but before August 28, 2003).

There are 22,552 active and 9,552 inactive Tier One members and 15,138 active and 4,236 inactive Tier Two members eligible to retire as of December 2014.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $8.3 billion Nonlimited Other Funds is $130.8 million (or 1.6%), more than the 2013-15 legislatively approved budget and is set at a level expected to cover projected retirement system benefit payments. The budget was increased by $756.5 million based on an updated agency forecast of expenditures and by $167.4 million for benefit payments associated with the recent Moro Supreme Court decision.

Oregon Public Service Retirement Pension Plan

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds (NL)	11,141,211	15,814,000	16,844,601	28,926,864
Total Funds	**$11,141,211**	**$15,814,000**	**$16,844,601**	**$28,926,864**

Program Description

The 2003 Legislative Assembly established a new Oregon Public Service Retirement Plan (OPSRP) with a different benefit structure for employees hired after August 28, 2003. The OPSRP pension is an employer funded retirement benefit.

Revenue Sources and Relationships

Other Funds revenue is only from employer contributions and retirement trust fund investment earnings. Employer contribution rates are established by the Public Employees Retirement Board based upon advice from its consulting actuary. OPSRP revenue totals approximately $654.8 million for employer contributions and $480 million in retirement trust fund investment earnings. The OPSRP employer rate includes a component for unfunded actuarial liabilities associated with the pension plan as well as Tier One and Tier Two plans.

OPSRP accounts have no guaranteed return. Returns are based on market returns produced by the Oregon Investment Council. Member accounts earnings crediting, which occurs once each calendar years, was 7.09% for 2014.

The program unit's administrative costs are budgeted under various operational programs and are supported by revenue transfers from this program to those programs.

Budget Environment

There are 80,303 active and 8,194 inactive ORSRP members with 15,772 active and 3,015 inactive OPSRP members eligible to retire as of December 2014.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $28.9 million Nonlimited Other Funds is $13.1 million (or 82.9%), more than the 2013-15 legislatively approved budget and is set at a level expected to cover projected retirement system benefit payments. The budget was increased by $9.9 million based on an updated agency forecast of expenditures and by $2.2 million for benefit payments associated with the recent Moro Supreme Court decision.

Individual Account Program

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds (NL)	461,093,184	721,200,000	649,014,640	873,488,891
Total Funds	**$461,093,184**	**$721,200,000**	**$649,014,640**	**$873,488,891**

Program Description

The Individual Account Program (IAP) is the defined contribution component of the PERS retirement plan that was instituted as part of PERS reform legislation passed during the 2003 legislative session. The program includes member accounts for Tier One, Tier Two, and OPSRP benefit plans. The IAP was originally estimated to pay approximately 15-20% of retiree's final average salary (for a 30-year career) based upon the assumed earnings rate at the time the program was created (8%).

The IAP is funded with member contributions, which is 6% of a member's salary. Prior to the passage of system reforms in 2003, member contributions were made directly into Tiers One and Two member accounts. Reform legislation redirected subsequent Tier One and Tier Two member contributions into IAP accounts beginning January 1, 2004. IAP payouts can also be transferred to the Oregon Growth Savings plan accounts, or any other qualified plan, upon withdrawal or retirement.

At retirement, IAP dollars are paid in either a lump-sum payment or in equal installments over 5, 10, 15, or 20 years, or over the member's expected lifetime.

Revenue Sources and Relationships

The IAP requires PERS members to contribute an amount equal to 6% of eligible salary to an IAP account; however, most employers (+/- 70%) "pick-up" or pay the 6% employee contribution based upon collective bargaining contracts. While historically the "pick-up" was in lieu of a salary increase, some recently negotiated collective bargaining agreements for the 2015-17 biennium have the employee paying the 6% contribution in exchange for off-setting salary and wage increases. Other Funds revenue from employer contributions totals $1.04 billion with $1.8 billion in investment earnings.

An IAP account has no guaranteed return. Returns are based on market returns produced by the Oregon Investment Council. Member accounts earnings crediting, which occurs once each calendar year, was 7.05% for 2014.

The program unit's administrative costs are budgeted under various operational programs and are supported by revenue transfers from this program to those programs. The cost of a third-party administrator contract totals $4.6 million.

Budget Environment

There were 245,768 active IAP accounts, as of December 31, 2014 with an average IAP account balance of $24,821. That same year there were 15,118 withdrawals and the total value of all IAP accounts was $6 billion.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $873.5 million is $152.3 million (or 21.1%), more than the 2013-15 legislatively approved budget and is set at a level expected to cover projected retirement system benefit payments. This program is made up entirely of Nonlimited Other Funds expenditures. The budget was increased by $224.5 million based on an updated agency forecast of expenditures.

Retirement Health Insurance Programs

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds (NL)	449,860,818	408,661,000	471,169,431	558,094,445
Total Funds	**$449,860,818**	**$408,661,000**	**$471,169,431**	**$558,094,445**

Program Description

The PERS Health Insurance Program offers optional medical, dental, and long-term care insurance plans to eligible Tier One/Tier Two retired members, their spouses, and dependents. Upon retirement, these insurance options become a choice available to all PERS retired members. While primarily serving the Medicare-eligible population (age 65 and over), the PERS Health Insurance Program (PHIP) also offers insurance coverage options for those not yet Medicare eligible. Active members, their spouses, and dependents are not eligible for this program.

The PERS Retiree Health Insurance program (RHIP) is available for Tier One, Tier Two, and Oregon Public Service Retirement (OPSRP) retired members and their spouses and dependents that meet enrollment and eligibility requirements. Premiums are paid by PERS to the carriers that participate in the program, with funding from member benefits, premium subsidies, as discussed below, and member payments. Those payments are administered through the Standard Retiree Health Insurance Account (SRHIA).

Only Tier One and Tier Two retired members are eligible for the following subsidies, which are funded as part of participating employer's rates.

Retiree Health Insurance Premium Account (RHIPA): Provides an insurance premium subsidy for non-Medicare coverage. The subsidy is a percentage of the cost difference between the retired member coverage available through PHIP and the state employee coverage available under the Public Employees Benefits Board. Only retired members who have eight or more years of State of Oregon qualifying service and who retire from a state agency are eligible. The amount of the subsidy varies with years of state service, from 50% to 100% of the difference.

Retirement Health Insurance Account (RHIA): Provides a $60 health insurance premium subsidy for eligible retired members who had eight or more years of qualifying service with any PERS employer and who are eligible and enrolled in the federal Medicare program. Member health and dental insurance premiums are paid by the member through pension deductions, direct payments, and through electronic funds transfer. Premium payments are then remitted by PERS to the health insurance carriers.

Revenue Sources and Relationships

SRHIA revenues come from member paid insurance premiums with additional revenues provided from federal sources (Medicare and Medicaid) and investment earnings on those contributions.

The RHIPA and RHIA programs are funded from employer contributions and the return on investment of those contributions. These funds are held in the Public Employees Retirement Fund. RHIA rate is 0.59% and the RHIPA (state government only) rate is 0.27% of payroll for the 2015-17 biennium and includes each plan's actuarial unfunded liabilities.

The program unit's administrative costs are budgeted under various operational programs and are supported by revenue transfers from this program to those programs.

Budget Environment

In 2014, there were 59,076 SRHIA members in one of four medical plans, of which 56,387 were Medicare and 2,689 were non-Medicare. There were 35,985 members in one of two dental plans and 2,096 members in a long-term care plan. Statutory health insurance premium subsidies are provided to 44,364 RHIA members and 1,278 RHIPA members.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $558.1 million is $149.4 million (or 36.6%), more than the 2013-15 legislatively approved budget and is set at a level expected to cover projected retirement system benefit payments. This program is made up entirely of Nonlimited Other Funds expenditures. The budget was increased by $86.9 million based on an updated agency forecast of expenditures.

Central Administration Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	2,273,544	3,456,375	3,634,278	3,639,324
Total Funds	**$2,273,544**	**$3,456,375**	**$3,634,278**	**$3,639,324**
Positions	9	11	10	10
FTE	9.00	10.13	10.00	10.00

Program Description

Central Administration, in conjunction with the PERS Board, provides the direction, planning, and leadership for PERS. The division consists of the executive director, deputy director, Internal Audits, and Social Security Program.

Revenue Sources and Relationships

Revenue transfers from earnings on the invested funds support the program.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $3.6 million is $182,949 (or 5.3%), more than the 2013-15 legislatively approved budget and includes 10 positions (10.00 FTE). The budget includes a reduction of $44,386 for additional vacancy and services and supplies savings.

Benefits Payments Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	11,233,344	13,339,611	13,484,716	14,181,869
Total Funds	**$11,233,344**	**$13,339,611**	**$13,484,716**	**$14,181,869**
Positions	79	80	79	80
FTE	79.00	80.00	79.00	80.00

Program Description

The Benefit Payments Division (BPD) houses the Benefit Application and Intake and Processing section, as well as the Retirement Services and Specialty Services sections. BPD is responsible for processing all incoming benefit applications and related documents, as well as calculating and establishing service retirement, disability, and death benefits. Responsibilities also include determining eligibility for disability retirements, administering divorce decrees, and validating beneficiaries.

Revenue Sources and Relationships

Revenue transfers from earnings on the invested funds support the program.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $14.2 million is $842,258 (or 6.3%), more than the 2013-15 legislatively approved budget and includes 80 positions (80.00 FTE). The budget includes $139,706 for one permanent position (1.00 FTE) to handle increasing numbers of retirements and a reduction of $139,373 for additional vacancy and services and supplies savings. The budget was increased by $696,820 for implementing the Moro Supreme Court decision.

Financial and Administrative Services Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	17,476,710	18,920,783	22,670,629	21,615,658
Total Funds	**$17,476,710**	**$18,920,783**	**$22,670,629**	**$21,615,658**
Positions	63	61	61	62
FTE	58.78	60.84	61.00	62.00

Program Description

The Financial and Administrative Services Division (FASD) provides comprehensive financial and administrative services to the agency. This includes financial accounting, reporting, and tax services for all PERS' Trust and agency fund activities, including the Retirement Fund, Deferred Compensation funds, Benefit Equalization Fund, health insurance programs, and Social Security program. Other fiscal activities include preparation, maintenance, and reporting of the agency's biennial budget, coordination of actuarial services, fiscal analysis, accounts receivable, accounts payable, contracts, and procurement. FASD also contains the Facilities Services Section that manages office supplies, general building maintenance, shipping and receiving, and other various ancillary tasks. Human Resources, Retiree Health Insurance, and Deferred Compensation programs are also located within FASD.

The Oregon Savings Growth Plan is a federally authorized Internal Revenue Service 457(b) deferred compensation plan offering both a state government and a local government plan. The plan(s) is administered by PERS, but funds are deposited with, and invested by, a private third-party administrator. Therefore, the funds do not pass-through the state budget. In total, the OSGP has assets of $1.7 billion and 25,958 total participants. An average of these two amounts equals $65,810 per participant. The state government plan has assets of $1.5 billion and 22,243 participants and the local government plan has assets of $169.9 million and 3,715 participants.

Revenue Sources and Relationships
Revenue transfers from earnings on the invested funds support the program.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $21.6 million is $2.7 million (or 14.2%), more than the 2013-15 legislatively approved budget and includes 62 positions (62.00 FTE). The budget includes one permanent position (1.00 FTE) for daytime custodial maintenance of the building. There is not a net expenditure change associated with this package as this position was previously funded with services and supplies. The budget includes a reduction of $308,398 for additional vacancy and services and supplies savings.

Information Services Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	20,758,784	24,715,700	22,075,005	26,839,436
Total Funds	**$20,758,784**	**$24,715,700**	**$22,075,005**	**$26,839,436**
Positions	76	74	72	75
FTE	76.00	74.00	72.00	75.00

Program Description
The Information Services Division (ISD) provides technical support to all divisions of the agency. ISD ensures agency staff have the appropriate tools and automation necessary to perform their duties and provide customer service to members, employers, and other stakeholders. The division supervises the development and operation of PERS' complex IT systems and supports the many desktop computers used by staff. Help Desk support, installation and training, software development, application support, database management, network support, and quality assurance all fall under ISD's responsibilities. In addition, the Imaging and Information Management unit within the Business Information and Technology section maintains records from numerous sources.

Revenue Sources and Relationships
Revenue transfers from earnings on the invested funds support the program.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $26.8 million is $2.1 million (or 8.6%) more than the 2013-15 legislatively approved budget and includes 75 positions (75.00 FTE). The budget includes funding for three information technology related packages: Individual Account Program ($1.9 million and 3 limited duration positions [3.00 FTE]); detailed assessment of the current jClarety environment ($250,000); and Disaster Recovery and Business Continuity planning and infrastructure ($1.6 million). The budget also includes a reduction of $355,076 for additional vacancy and services and supplies savings and $906,708 for implementing the Moro Supreme Court decision.

The adopted budget further includes $509,960 for the estimated fiscal impacts of HB 3495 ($284,960) and SB 370 ($225,000).

Two budget information technology budget notes were approved for the agency directing reports back to the Legislature. The first budget note is in consideration of a future information technology upgrade and directs the agency to undertake a statutory review to identify recommendations for simplifying and reducing the costs of the statutory benefits structure and its administration. The second budget note directs the agency to conduct a detailed health check and risk assessment of the current state of its disaster recovery and business continuity environment, including the state of its current disaster recovery and business continuity plans and develop a plan to correct all identified deficiencies.

Customer Service Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	16,297,739	19,459,644	19,607,688	20,877,552
Total Funds	**$16,297,739**	**$19,459,644**	**$19,607,688**	**$20,877,552**
Positions	115	116	116	127
FTE	114.75	115.26	116.00	127.00

Program Description

The Customer Services Division (CSD) provides the window for member, employer, and public interaction with PERS. One of the larger PERS divisions, CSD answers member queries from the Online Member Services internet tool, an in-house phone team, and in person where it conducts group and individual counseling through various retirement planning sessions. CSD is also responsible for producing benefit estimates and member account statements. Additionally, CSD houses the Membership and Employer Relations section (MERS). MERS enrolls and manages member data and accounts and also handles employer reporting, training, outreach, and communication including the annual reconciliation process.

Revenue Sources and Relationships

Revenue transfers from earnings on the invested funds support the program.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $20.9 million is $1.4 million (or 7.3%), more than the 2013-15 legislatively approved budget and includes 127 positions (127.00 FTE). The budget includes funding for four call center staff that were previously limited duration positions (4.00 FTE and $504,377) and 7 permanent full-time staff to eliminate a backlog of member data verifications (7.00 FTE and $956,875). The budget includes a reduction of $221,848 for additional vacancy and services and supplies savings.

Policy, Planning, and Communications Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	5,690,924	6,959,017	6,892,126	6,717,315
Total Funds	**$5,690,924**	**$6,959,017**	**$6,892,126**	**$6,717,315**
Positions	27	27	26	26
FTE	26.46	27.00	26.00	26.00

Program Description

The Policy, Planning, and Communications Division provides services related to legislative policy, rulemaking, legal counsel coordination, legal services, agency determination review, and contested case activities including compliance with state and federal statutes, rules, and court decisions. This division also includes all strategic and operational planning for both short and long range goals, enterprise-wide project management, and process improvement initiatives. Communication of all events and activities are provided to internal staff, PERS members, and the local media through a variety of sources.

Revenue Sources and Relationships

Revenue transfers from earnings on the invested funds support the program.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $6.7 million is $241,702 (or -3.5%) less than the 2013-15 legislatively approved budget and includes 26 positions (26.00 FTE). The budget includes a reduction of $81,440 for additional vacancy and services and supplies savings.

Debt Service

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	3,140,326	1,302,850	1,290,750	1,290,750
Other Funds (NL)	1,286,573	--	--	--
Total Funds	**$4,426,899**	**$1,302,850**	**$1,290,750**	**$1,290,750**

Program Description

The Debt Service Program provides the funding to make payments on principal, interest, and financing costs associated with previously issued certificates of participation (COPs), which are tax exempt government securities. COPs were issued for purchase of land and construction of the agency headquarters in Tigard. COPs were also issued in 2003 for the acquisition of the *jClarety* pension system for the new OPSRP; this debt was paid off in May 2009. The remaining debt will be fully repaid by May 2017.

Revenue Sources and Relationships

Revenue transfers from earnings on the invested funds support the program.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $1.3 million is $12,100 (or -1%), less than the 2013-15 legislatively approved budget. The legislatively adopted budget funds all existing debt service requirements.

RACING COMMISSION

Analyst: Deister

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	4,923,397	5,905,502	6,028,486	6,193,966
Total Funds	**$4,923,397**	**$5,905,502**	**$6,028,486**	**$6,193,966**
Positions	15	15	15	14
FTE	13.27	13.27	13.27	12.27

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. Revenue for the 2015-17 biennium is projected to be flat, and is estimated at a combined total from all sources of $6,529,581. The state's share of total bets made at horse racing tracks and on simulcast horse races is 1%. Live racing-related revenues for 2015-17, together with licensing fees and fines are projected to amount to $2,351,180, down 8.7% from 2013-15 projections. In 2011, the agency began collecting a business license fee from totalizator companies, and raised fees for race meet participants for the first time since 1979. The amount of tax revenue from Advance Deposit Wagering (ADW) is projected to total $4,178,401, assuming that the nine existing ADW companies elect to continue to be located in Oregon.

The 1997 Legislative Assembly authorized the establishment of Multijurisdictional Advance Deposit Wagering Hubs 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. There is a cap on how much any one Hub will pay during a fiscal year. Passage of HB 2719 (2015) decreases the share of collected taxes that are distributed to the General Fund, from 33.3% to 25%; the balance is 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 fund the fair meets. The funds are also used to enhance race purses at the commercial meet, make safety improvements at race meet sites, and promote thoroughbred breeding in Oregon. Distributions from the Racing Development Fund are expected to amount to approximately $2.6 million for the biennium. The Commission also collects a license fee of $200 per operating day from the nine Hubs currently licensed in Oregon, constituting two-thirds of all fee revenue collected by the agency.

Budget Environment

Both live and simulcast 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 pari-mutuel wagering, and tribal casinos compete for some of the same money spent on live racing, offering modern day consumers additional gambling opportunities. In addition to demographic trends and competition for gambling dollars, the industry battles accusations of substance and animal abuse, specific instances of which are investigated by the commission and state veterinarian. Portland Meadows, the only remaining commercial meet in Oregon, waited until the end of June before announcing that it would conduct a race meet in 2015. Opening day is October 5th and live racing will be on Monday and Tuesday afternoons through February 16, 2016. Long-term prospects for the meet continue to be uncertain.

The Racing Commission has worked with licensees to encourage innovative ways to attract new enthusiasts to the sport. For example, in 2012, Portland Meadows experimented with a summer race meet. Efforts were made to promote the meet and attendance increased measurably. However, many of the newer patrons did not wager very much, so betting increased only marginally. In 2013, legislation was authorized to allow the Racing Commission to oversee the development of a new game called "Instant Racing," whereby participants watch film of historic races, with all identifying information removed, and bet on the outcome. However, as of March 2015, Portland Meadows suspended its instant racing operations when desired response was not achieved. A new version of the Instant Racing game is being tested and the hope is that the wagering public will embrace the changes.

Currently, there are nine Hubs licensed in Oregon. Revenue from these Hubs has saved live racing at the county fairs, covering the cost of a racing secretary at fair meets, a substantial share of the jockey insurance premium, and provided purse money. Hub revenue has also contributed to the purses at the Portland Meadows commercial race meet, paid for upgrades to race-related infrastructure at various race meets, marketing and promotion, support for a jockey incentive program, regulatory video, regulatory photo finish, safety improvements, and drug testing lab costs. Although the Commission has implemented a number of initiatives to make it easier for Hubs to do business in Oregon, as more states have established laws to govern ADW, Oregon Hubs have the option of relocating. The relocation of the ADW companies to other states would have a negative impact on the Commission's fiscal health.

<u>Legislatively Adopted Budget</u>

The 2015-17 legislatively adopted budget of $6,193,966 represents a 6% increase from the 2013-15 legislatively approved budget and a 3% increase from the 2015-17 current service level budget. This is primarily due to the passage of HB 2719 (2015), which increased the share of wagering receipts going to the Racing Development Fund, from 66 and 2/3% to 75%, and decreased the share going to the General Fund, from 33.3% to 25%.

The Budget eliminated an investigator position, as one of the agency's 3 investigator positions had been vacant for the duration of the 2013-15 biennium. A reduced number of race-days has allowed the agency to manage the investigatory workload with two investigator positions. An equivalent amount of expenditure limitation was transferred from personal services to services and supplies, to better reflect recent actual and anticipated future expenditures. The Commission has been notified of an increase in insurance premiums for jockeys, and expects continued additional billings from the Department of Justice for representing the agency on an ongoing personnel matter.

This budget leaves the Commission with an estimated ending balance of approximately $335,615, which is equivalent to about 2.5 months of operations. The majority of the agency's licensing revenue comes in during the first quarter of the fiscal year, so cash flow issues are not anticipated.

DEPARTMENT OF REVENUE

Analyst: Borden

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	146,312,349	166,486,971	182,285,108	186,702,371
Other Funds	28,771,284	64,202,113	44,411,510	130,931,438
Other Funds (NL)	261,337	--	--	--
Total Funds	**$175,344,970**	**$230,689,084**	**$226,696,618**	**$317,633,809**
Positions	1,050	1,074	1,065	1,082
FTE	990.52	1,016.66	1,011.34	1,012.41

Overview

The Department of Revenue (DOR) is the tax administration agency for state government. The agency is responsible for administering 30 separate tax programs, including personal income and corporate excise taxes, as well as a variety of other taxes and fees. DOR is also responsible for providing oversight of local property tax administration by counties, valuing most industrial and other large-scale properties, and administering several property relief programs. DOR provides debt collection services for more than 180 state agencies and local governments.

The director of the Department is appointed by the Governor, subject to Senate confirmation, to a four-year term of office.

Revenue Sources and Relationships

DOR has two categories of revenue: (1) General and Other Fund revenues collected and distributed according to statute and (2) General and Other Fund revenues required to operate the agency.

DOR's tax programs generate approximately $17.1 billion (96%) of the state's General Fund revenue through a combination of personal income, corporate income, and excise, estate, tobacco, gift, and other taxes. The agency collects an additional $1.4 billion in Other Funds taxes and fees that are transferred to state agencies and local government.

DOR's operating budget is funded with a combination of General and Other Funds; however a portion of the Other Funds revenue is special payments primarily to counties.

DOR's administrative Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, assessments, and collections. Also, the agency retains, by statute, 10% of County Assessment Function Funding Assessment account revenue. The remaining 90% is distributed to counties. A portion of each recording fee ($1) is dedicated to the development and support of a statewide digital base map to improve the administration of the property tax system. Other Funds revenue is also received from the payment of mapping contracts, deferred property taxes and interest, recreational marijuana tax revenue, and Article XI-Q bonds (for the Core Systems Replacement project).

There are long-standing and systemic revenue issues in the Property Tax Division that need to be resolved, including declining County Assessment Function Funding Assessment account revenue. The Legislature set-aside a $1.8 million General Fund special purpose appropriation in the event additional funding is needed.

Budget Environment

DOR faces a series of complex challenges over the next several biennia, which include successfully completing the modernization of its information technology applications and business processes, which will have staffing and organizational implications; improving accounts receivable debt collection and managing a likely increase in the volume of accounts receivable assigned to the agency; reducing unidentified and unpaid taxes ("tax gap"); implementing the point-of-sale emergency communications tax and the recreational marijuana tax; and the prevention of tax fraud. The agency has struggled in balancing the goal of collecting the debt owed the state with what has at times been overly aggressive collections tactics.

While 97% of tax compliance is done voluntarily through income tax withholding, quarterly estimated tax payments, and payments submitted with tax returns, DOR expends the majority of its efforts on the remaining 3% through auditing, collection, and other enforcement efforts.

Continued interest in restructuring and reforming the state's tax structure and reforming inequities in the property tax system will place additional demands on the agency.

There is a general cyclical or seasonal nature to the agency's operations centered on income and property tax filing deadlines. Most agency functions are centralized in Salem, but the agency does operate five district and three satellite offices across the state.

Counties have been able to adequately maintain their assessment and taxation programs without requiring further state assistance due to the federal funding of timber payments for some counties. If a county cannot commit adequate resources to its assessment and taxation program, that county may lose its share of County Assessment Function Funding Assessment grant funding. Additionally, ORS 308.062 requires DOR to take responsibility for a county's assessment and taxation function if a county fails to perform its statutory duties.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget of $317.6 million is $87 million (or 37.7%) more than the 2013-15 legislatively approved budget and includes 1,082 positions (1,012.41 FTE). The large increase in the agency's Other Funds budget reflects moving $63.6 million in existing payments to counties for County Assessment Function Funding Assessment grants and the Senior Citizens' Property Tax Deferral program into the budget. In prior biennia, these payments had been transfers of revenue outside of the budget process. This action was undertaken to increase the transparency of the agency's budget.

The budget is comprised of $155 million (67%) personal services, $68 million (30%) services and supplies/capital outlay, $5.8 million (2.5%) special payments, and $1.5 million (0.7%) debt service. The adopted budget included standard adjustments for state government service charges and other agency assessments ($673,989).

Executive Section

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	5,486,243	6,796,889	7,332,696	7,332,696
Other Funds	1,054,248	920,734	977,107	1,047,184
Total Funds	**$6,540,491**	**$7,717,623**	**$8,309,803**	**$8,379,880**
Positions	17	32	38	39
FTE	17.00	32.00	37.20	37.58

Program Description

The Executive Section is responsible for overall administration of the agency and for coordinating the agency's legislative, rulemaking, communications, human resources, facilities, and internal audit functions.

Revenue Sources and Relationships
Most of the Division's budget is supported by General Fund. Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, assessments, and collections.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $8.4 million is $662,257 (or 8.6%) more than the 2013-15 legislatively approved budget and includes 39 positions (37.58 FTE).

General Services Section (Agency Program Management Office)

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	13,641,678	10,613,170	12,339,730	12,339,730
Other Funds	2,557,947	3,434,312	3,643,588	3,704,214
Total Funds	**$16,199,625**	**$14,047,482**	**$15,983,318**	**$16,043,944**
Positions	11	2	13	14
FTE	11.00	2.00	13.00	13.25

Program Description
Historically, as the General Services Section, this program unit was used to budget for a portion of expected central agency costs for postage, legal expenses, and other expenditures that tend to vary from biennium to biennium between operating divisions. Beginning in 2011, the agency has reorganized this unit, called the Agency Program Management Office (APMO), to also include the agency's resources and budget for strategic planning activities. This program is now primarily focused on the implementation of the Core System Replacement project and the Property Valuation System, which are discussed in greater detail under the "Core Systems Replacement" program area.

The Division also contains the Research Section that provides economic analysis and statistical research to other program areas and produces the biennial Tax Expenditure Report in partnership with the Legislative Revenue Office and Department of Administrative Services' Office of Economic Analysis.

Revenue Sources and Relationships
Most of the Division's budget is supported by General Fund. Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, assessments, and collections. For internal budgetary purposes, the receipt and distribution of the various tax revenues are accounted for in this section.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $16 million is $2 million (or 14.2%) more than the 2013-15 legislatively approved budget and includes 14 positions (13.25 FTE). Services and supplies were increased by $15,384 for Attorney General costs.

Administrative Services Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	39,908,624	43,484,635	47,763,397	45,345,606
Other Funds	7,144,439	7,326,675	7,934,877	7,773,663
Total Funds	**$47,053,063**	**$50,811,310**	**$55,698,274**	**53,119,269**
Positions	297	261	245	246
FTE	253.56	217.17	205.66	205.85

Program Description
The Administrative Services Division provides support services to the agency's other divisions, including information technology, purchasing, accounting, and fiscal support, as well as the processing of incoming tax returns, data entry, and hardcopy file storage. This Division contains the agency-wide budget for Attorney General and information technology charges.

Revenue Sources and Relationships
Most of the Division's budget is supported by General Fund. Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, assessments, and collections.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $53.1 million is $2.3 million (4.5%) more than the 2013-15 legislatively approved budget and includes 246 positions (205.85 FTE). The budget includes a $537,171 General Fund reduction to eliminate duplicate data processing costs for the Core Systems Replacement project and a $750,000 General Fund reduction for additional vacancy and services and supplies savings.

Property Tax Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	13,043,600	12,195,227	12,619,830	12,245,989
Other Funds	5,647,006	9,065,051	9,286,909	40,354,202
Total Funds	**$18,690,606**	**$21,260,278**	**$21,906,739**	**$52,600,191**
Positions	105	97	95	87
FTE	10.233	95.26	93.26	76.76

Program Description
The Property Tax Division (PTD) monitors the state's property tax system to ensure 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. Statutorily, DOR is responsible for conducting appraisals on all industrial manufacturing plants valued at $1 million or more; appraising all utility, transmission, communication, and transportation properties; and administering several timber tax programs. The Division also handles certain property tax appeals primarily through the state's tax court.

PTD also manages the Senior Property Deferral Program, the Oregon Map Project (ORMAP), and the Cadastral Information Systems program.

Revenue Sources and Relationships
Most of the Division's budget is supported by General Fund. Since 1989, the Division has received Other Funds from the County Assessment Function Funding Assistance (CAFFA) account, which is supported by document recording fees and a portion of the interest from delinquent property taxes.

Each biennium, 90% of CAFFA monies are distributed to counties to pay for essential assessment and taxation functions. These include valuation, administration, appeals, tax collection and distribution, mapping, and information processing support. The remaining 10% of CAFFA funds are used by the PTD to pay for a portion of the Division's industrial and utility property appraisal responsibilities and the administration of the CAFFA program.

CAFFA is supported by two revenue streams: (a) document recording fees ($9.00) and (b) a portion of the interest from delinquent property taxes. These revenue streams originate with counties and are transferred to the state.

The most recent CAFFA revenue forecast for the 2015-17 biennium is projected to total $37 million (spring of 2015).

Funding for ORMAP comes from a $1 addition to document recording fees. Declining contract services revenue is creating a revenue shortfall in the Cadastral program.

Long-standing and systemic funding issues in the Property Tax Division need to be resolved. The Legislature set-aside a $1.8 million General Fund special purpose appropriation in the event additional funding is needed.

Budget Environment
There are approximately 850 industrial sites and 600 central assessment companies across the state.

ORMAP is responsible for development of a statewide property tax lot base map that is digital, continually maintained, and publicly accessible. The move from paper to a digit base map will improve the administration of Oregon's property tax system and will support an array of public and private geographic information systems applications with a target date of completion by October 2016, after at least one extension.

The Cadastral Information Systems program provides mapping services to a number of mostly small, eastside counties and performs statutorily required work, including boundary change approvals. The number of counties requiring mapping support from the Cadastral program has decreased over the past several years from 14 to nine, due to a variety of factors, including improved collaboration between counties and enhanced technologies. The number of dedicated staff has been reduced from 20 in 2003, to approximately 9 today. In addition, the majority of remaining resources are now focused on training and oversight of all 36 counties.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $52.6 million is $31.3 million (or 147.4%) more than the 2013-15 legislatively approved budget and includes 87 positions (76.76 FTE). The budget was reduced by $1.8 million for a revenue shortfall in County Assessment Function Funding Assessment account funding; provides $33.6 million for CAFFA payments to counties; and transfers $373,841 General Fund and $695,871 Other Funds and 8 positons (6.50 FTE) to the Senior Property Deferral Program.

Personal Tax and Compliance Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	51,662,084	63,917,584	67,372,046	67,083,250
Other Funds	830,404	1,491,333	1,478,630	1,478,630
Total Funds	**$52,492,488**	**$65,408,917**	**$68,850,676**	**$68,561,880**
Positions	393	431	430	430
FTE	384.82	423.32	422.81	422.81

Program Description
The Personal Tax and Compliance Division 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 provides help to taxpayers by telephone (Tax Services Unit), in person at field office locations, and through informational publications.

Revenue Sources and Relationships
Most of the Division's budget is supported by General Fund. Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, assessments, and collections.

Budget Environment
Voluntary payments of income tax withholdings, quarterly estimated tax payments, and payments submitted with tax returns account for 97% of personal income revenues. The remaining 3% are from audit and collection activities undertaken by the program. The number of personal income tax returns filed annually is about 1.9 million. Over 80% of returns are filed electronically. As more taxpayer data becomes available from federal and other sources, the Department has increased its efforts to pursue non-filers, and those that may have under- or not-reported income or over-reported deductions.

Personal income tax refund fraud attempts are increasing. In 2014, the Department stopped 4,779 fraudulent state refunds (out of 1.9 million returns overall), totaling $7.85 million. The Department paid $145,279 in fraudulent refunds where fraud determinations were made after refunds were processed and sent. DOR is in the process of implementing new tools to reduce fraudulent return processing such as third-party data analytics; an identity theft quiz; and real time matching of state income tax withholding claimed on personal income tax returns against that reported by employers.

Lastly, the program is continuing in its effort to write-off past-due accounts receivables.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $68.6 million is $3.2 million (or 4.8%) more than the 2013-15 legislatively approved budget and includes 430 positions (422.81 FTE). The adopted budget added $1.1 million General Fund to enhance fraud analytics and detection as part of the Core Systems Replacement project and a $1.4 million General Fund reduction for additional vacancy and services and supplies savings.

A budget noted directs DOR to conduct detailed reviews of its enterprise cash management practices, debt cancellation and write-off practices, and audit selection processes, and report to the Legislature in 2016. A second budget note directs DOR to report on its implementation of HB 2550 (2011), which allows the agency to enter into an agreement to recover non-tax debt owed the state or federal government.

Business Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	17,170,836	19,228,758	20,114,379	19,664,379
Other Funds	11,537,240	14,637,362	14,807,228	15,749,061
Total Funds	**$28,708,076**	**$33,866,120**	**$34,921,607**	**$35,413,440**
Positions	227	220	212	217
FTE	221.81	215.91	207.41	211.74

Program Description
The Business Division administers several tax programs, including corporate income and excise taxes; the employer withholding tax; the transit payroll and self-employment taxes; fiduciary, estate, cigarette, and other tobacco product taxes; and other agency accounts and special programs. Responsibilities include auditing tax returns and collecting delinquent taxes and other delinquent accounts. The Division provides debt collection services for state and local agencies and for state and municipal courts in all 36 counties. Beginning with the 2015 biennium, the Division became responsible for the collection and distribution of recreational marijuana tax revenue.

Revenue Sources and Relationships
Most of the Division's budget is supported by General Fund. Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, assessments, and collections. Direct revenues are received from

collection costs recovered through fees charged to the client agencies, the emergency communications tax, and recreational marijuana revenue tax receipts.

Budget Environment
Each year the program processes approximately 30,000 corporate tax returns, 1,200 inheritance returns, 28,000 trust returns, and 5,000 fiduciary returns. Cigarette taxes are collected through the purchase of tax stamps by over 30 licensed cigarette distributors. There is another 250 other tobacco product distributors that also file returns. There are approximately 250 to 300 taxpayers related to the emergency telecommunications tax and the agency expects a significant increase in the number of quarterly returns after implementing the new point-of-sale collection method. The program administers the Tri-Met and Lane County transit and self-employment taxes.

The implementation of a new administrative tax structure for recreational marijuana will be a challenge to the agency, and, in particular, for the agency's cash management activities.

Other Agency Accounts (OAA) offers two collection services: refund offsets only and full collection services. OAA collected $28 million from offsets only and nearly $74 million from full collection services during the 2013-15 biennium. As of June 30, 2015, OAA is collecting on 355,000 liabilities totaling over $2.3 billion for refund offset only and 259,000 liabilities totaling $356 million for full collection services, owed to 180 public sector agencies. Approximately 60% of liabilities are collected through an offset of a tax refund. Private collection firms are also utilized by other agencies for debt collection.

The amount of personal income tax accounts receivables being placed with private collection firms has almost doubled to over 26%. Monthly collection rates for in house activities are below 4% of the total accounts receivable balance and for private collection firms the monthly collection rate is less than 0.3% of the total subject to collection by these firms, which are illustrative of the challenges of collection. Two of the most powerful collection tools available to DOR are its ability to intercept federal and state income tax refunds to pay down various forms of debt owed the state, and the non-judicial garnishment authority given to the Department by the Legislature.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $35.4 million is $1.6 million (or 4.6%) more than the 2013-15 legislatively approved budget and includes 217 positions (211.74 FTE). The adopted budget includes one Tax Auditor 2 and one Administrative Specialist 2 to support the increased return processing and enforcement activities resulting from a change in the Emergency Telecommunication tax enacted during the 2014 legislative session and a $450,000 General Fund reduction for additional vacancy and services and supplies savings.

Multistate Tax Commission

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	--	276,646	$284,945	284,945
Other Funds (NL)	261,337	--	--	--
Total Funds	**$261,337**	**$276,646**	**$284,945**	**$284,945**

Program Description
Through DOR, Oregon is a compact member of the Multistate Tax Commission (MTC), which has 17dues-paying members (states). The Commission works on behalf of states to equitably administer tax laws that apply to multistate enterprises. It also promotes uniformity or compatibility in tax systems and taxpayer convenience.

Revenue Sources and Relationships
Revenue is from MTC audits. Account balances in excess of $150,000 are transferred to the General Fund on June 30 of each year.

Budget Environment
Dues to the Commission are proportional to the amount of tax revenue each state collects. The Commission expects to maintain its current level of services to members.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $284,945 is $8,299 (or 3%) more than the 2013-15 legislatively approved budget.

Elderly Rental Assistance and Nonprofit Housing

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	5,399,284	5,558,560	5,672,000	5,672,000
Total Funds	**$5,399,284**	**$5,558,560**	**$5,672,000**	**$5,672,000**

Program Description
This property tax relief program includes the Elderly Rental Assistance (ERA) and the Nonprofit Housing programs (NPH). ERA is a state funded rental assistance program. NPH is a state funded property tax exemption.

The ERA program provides direct rent relief to elderly, low-income renters by offsetting a portion of their rent attributable to property tax. 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.

Under the NPH program, counties grant a property tax exemption to qualifying nonprofit corporations that provide housing to individuals age 62 or older who are within certain income limits. Through this program, payments are also made to local governments in lieu of property taxes on certain tax-exempt housing for the elderly. The nonprofit entity passes the property tax exemption on to eligible tenants in the form of reduced rent. DOR reimburses local government and schools for the exemption amount in November of each year. NPH exemptions fluctuate on an annual basis due to county exemption practices and the need to pay for some prior year exemptions. As this is a pass-through program, DOR does not have data on the nonprofits receiving the exemption or their tenants and therefore the agency is not positioned to evaluate program performance or provide robust program oversight.

Revenue Sources and Relationships
A single General Fund appropriation is made for both programs. Statute allows DOR to prorate the available funding between the two programs.

Budget Environment
For the ERA program, DOR makes payments directly to approximately 1,963 renters in November of each year who receive on average of $401 annually. Since 2011, program participation has declined 19%. The decline has been because fewer individuals are meeting the program’s financial eligibility criteria, which is not indexed to inflation. ERA payments are expected to continue to decline, but that decline in payments to renters is being offset by an increase in NPH payments to local governments for tax-exempt housing for the elderly.

There are approximately 47 (2014) exempt NPH dwellings that DOR makes an average payment to the counties of $35,615 per dwelling in each property tax year.

Legislation was passed during the 2015 legislative session that will transfer the ERA program from DOR to the Housing and Community Services Department at the beginning of the 2017-19 biennium.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $5.7 million is $113,440 (or 2%) more than the 2013-15 legislatively approved budget. The 2015-17 legislatively adopted budget fully funds both programs, based on DOR's forecast. There are no positions budgeted under this program. The cost to administer the program, which is a program expense, is budgeted by DOR under the Property Tax and Personal Tax and Compliance Divisions.

Senior Citizens' and Disabled Citizens' Property Tax Deferral

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	373,841
Other Funds	**--**	**--**	**--**	**31,175,099**
Total Funds	**--**	**--**	**--**	**$31,548,940**
Positions	--	--	--	15
FTE	--	--	--	10.50

Program Description
Enacted in 1963, the Senior Citizens' Property Tax Deferral program (SCPTD) allows homeowners age 62 and over 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. For the Disabled Citizen's Property Tax Deferral, applicants must also meet income tests and be determined eligible to receive, or are receiving federal Social Security disability benefits. Under this program DOR makes annual property tax payments to counties on behalf of participants.

Revenue Sources and Relationships
Most of the Division's budget is supported by Other Funds with some General Fund. Other Funds are from the Senior and Disabled Property Tax Deferral account. The deferred taxes and interest are collected when the property is disqualified. These proceeds are used to pay counties for the property taxes of homeowners that still qualify under the program.

The program makes approximately $14 million in property tax payments each year and receives an estimated $19.8 million in repayments. The balance of the account will be approximately $13 million in November of 2015.

Due to past legislative action and a recovering housing market, the liquidity of the program has improved.

Budget Environment
The program is designed to help low-income seniors and disabled citizens remain in their homes by allowing them to defer their property taxes until the home is sold. Initially, the Legislature funded the program through General Fund appropriations. However, as homes were sold and revenue began flowing back into the program, surpluses were generated starting in the mid-1990s. The Legislature allocated these surpluses to other purposes over the last decade due to the surplus of funds.

Starting in 2007, the collapse of the housing market in Oregon sharply reduced the inflow of revenue as home sales slowed dramatically. At the same time, the number of new applicants increased as financially stressed individuals looked for ways to cut costs. During 2009-11, the program experienced a severe cash flow problem and had to delay payments to counties in the last fiscal year of the biennium. The Legislature passed legislation in 2011 and 2012 to make structural changes to the program in order to keep it solvent for the long-term, however, the program still required a short-term loan of $19 million from the Common School Fund for the 2011-13 biennium. Due to legislative action and a recovering housing market, the liquidity of the program has been stabilized and was able to repay the $19 million loan on time.

Legislatively Adopted Budget
In prior biennia, SCPTD operated by transferring revenue to counties rather than being subject to expenditure limitation. The 2015-17 legislatively adopted budget is $31.6 million and includes 15 positions (10.50 FTE). The adopted budget for the program includes $30 million in payments for deferred property taxes; the transfers of $373,841 General Fund and $695,871 Other Funds and 8 positons (6.50 FTE) from the Property Tax Division Program; and the increase of $479,228 Other Funds and 7 positons (4.00 FTE) for the administration of the program. Formerly, the cost to administer this program was budgeted under the Property Tax Division.

Core System(s) Replacement

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	3,137,432	--	3,935,414
Other Funds	--	26,528,818	5,477,044	28,909,440
Total Funds	**--**	**$29,666,250**	**$5,477,044**	**$32,844,854**
Positions	--	31	32	34
FTE	--	31.00	32.00	33.92

Program Description
The Core System(s) Replacement program is comprised of two information technology projects: (1) an integrated state-wide tax, revenue collection, and management applications (“Core Systems Replacement project”) and (b) a computer assisted mass appraisal software system (“Property Valuation System”).

Revenue Sources and Relationships
The program is funded with a combination of General and Other Funds. Other Funds come from two sources: Article XI-Q bond financing and the recreational marijuana tax. Other Fund revenue also includes an estimated $6.9 million in bond proceeds that were authorized and issued during the 2013-15 biennium, but remained unexpended.

General Fund supports payments to the Department of Administrative Services, State Data Center and for vendor contract maintenance, both of which are costs that are ineligible for Article XI-Q financing.

Budget Environment
CSR is implementing a commercial-off-the-shelf (COTS) product (GenTax) to provide integrated system support for state-wide tax, revenue collection, and management. The agency has adopted a “no customization” strategy, to the extent possible, and will use an iterative COTS implementation approach to configure the system. This means that DOR must adopt many GenTax business processes resulting in the reengineering of the agency’s business process and procedures in order to avoid customization. The GenTax system, however, is being highly configured to meet DOR requirements.

The estimated one-time cost currently totals $64.8 million and is to be funded with $9.3 million of General Fund, $54.4 million of Article XI-Q bonds, and $1.1 million of marijuana tax proceeds. Costs above these figures include General Fund Debt Service and a $7.3 million General Fund expenditure that occurred prior to the 2013-15 biennium for project planning.

During the 2013-15 biennium, phase-I of the project was completed and implemented on November 12, 2014 and included the corporate, cigarette, and tobacco tax programs. This phase was implemented within scope, on schedule, and within budget at a cost of $21.5 million.

During the 2015-17 biennium, phase-II of the project is scheduled to be implemented in the fall of 2015 and includes personal income tax, emergency telecommunications tax, self-employment transit tax, senior and disabled deferral program, and estate tax. The current “go-live” target date for this phase of the project is December 1, 2015. Phase-III, which will be implemented in the fall of 2016, includes the withholding taxes, transit payroll tax, Other Agency Accounts (i.e., collections), recreational marijuana tax, and various small programs. The budgeted cost of both phases is $32.1 million. Enhanced fraud detection services will also be implemented this biennium, but funded outside of the Core Systems Replacement (CSR) project ($1.1 million General Fund).

During the 2017-19 biennium, the final phase, phase-IV, is scheduled to be implemented in the fall of 2017, and will roll-out all remaining, mostly minor programs. The estimated cost of this phase is $10.9 million.

The positions budgeted for the Core Systems Replacement project are established as permanent full-time positions, which is somewhat unusual for a project with a temporary funding source. However, most if not all of these positions will be filled by existing agency staff being transferred to the program. This is thought to help with the installation of the vendor’s product as well as provide for a more seamless transition to product maintenance and support. The transferred positions will be backfilled with limited duration staff.

The Property Valuation System (PVS) project would put in place a COTS application for the appraisal of principal and secondary industrial sites, similar to the mass property tax appraisal applications used by county governments. The PVS application would modernize a mostly manual appraisal process.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $32.8 million is $3.2 million (or 10.7%) more than the 2013-15 legislatively approved budget and includes 34 positions (33.92 FTE).

The CSR General Fund budget includes: $3,935,414 General Fund for the agency’s payments to the Department of Administrative Services for State Data Center charges related to phase-I of the project ($1.3 million), vendor contract maintenance costs to support the ongoing maintenance of the vendor product after installation ($2.4 million), and non-bondable expenditures related to phase-II of the project ($240,000).

The CSR Other Funds budget of $28.9 million includes: personal services of $7 million, including 33 positons (33.00 FTE); $532,500 for facility costs; $12.6 million for vendor contract payments; $1.3 million for independent quality assurance; $592,900 for project management costs; $532,500 for change leadership; $279,000 for hardware and software; and $3 million for a contingency reserve.

In addition, CSR Other Funds includes another $1.1 million for vendor contract payments for recreational marijuana, but which is funded with marijuana tax.

The PVS Other Funds budget totals $1.88 million and includes: personal services of $175,260, including 1 position (0.92 FTE); $56,704 for capital outlay; $1.5 million for vendor contract payments; and $150,000 for an independent quality assurance vendor.

Capital Debt Service and Related Costs

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	1,554,716	9,071,030	12,709,466
Other Funds	--	521,182	521,182	455,000
Total Funds	**--**	**$2,075,898**	**9,592,212**	**$13,164,466**

Program Description
The Debt Service Program provides the funding to make payments on principal, interest, and financing costs associated with the issuance of Article XI-Q bonds, which are tax exempt government securities. This program segregates Debt Service and financing costs from the agency’s operating budget.

Revenue Sources and Relationships
The Department's debt service is funded with General Fund. Financing of issuance costs are paid as Other Funds from bond proceeds with agencies receiving net proceeds for project costs.

Budget Environment
The legislative decision was to fund the Core System Replacement project using debt financing rather than the benefits-based funding model originally proposed by the agency. Article XI-Q bonds for information technology projects are financed over a 7-year period.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $13.2 million is $11.1 million (or 534.2%) more than the 2013-15 legislatively approved budget. The legislatively adopted budget totals $12.7 million General Fund and $455,000 Other Funds. The budget includes a reduction of $521,182 Other Funds for cost of issuance related to the prior biennium, but includes new expenditure limitation for the cost of issuance of bonds for phase-II and PVS.

The adopted budget includes $3,684,413 in additional General Fund Debt Service added for the repayment of phase-II project cost for the Core Systems Replacement project and $375,000 Other Funds for the cost of issuance on the new bonds. The associated debt service roll-up costs for 2017-19 biennium totals $7 million General Fund.

The budget also includes General Fund debt service of $71,843 for the Property Valuation System and $80,000 Other Funds for bond issuance costs. The associated debt service roll-up costs for 2017-19 biennium totals $872,289 General Fund.

SECRETARY OF STATE

Analyst: Bender

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	12,500,138	8,663,845	9,109,410	9,422,659
Other Funds	36,900,243	50,265,885	49,566,983	54,607,321
Federal Funds	4,115,805	5,045,103	5,144,079	6,242,689
Total Funds	**$53,516,186**	**$63,974,833**	**$63,820,472**	**$70,272,669**
Positions	197	202	199	212
FTE	195.69	200.61	198.19	210.71

Overview

The Office of the Secretary of State (SOS) is one of three constitutional offices established at statehood. The Secretary is the auditor of public accounts, the chief elections officer, and the 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 serves with the Governor and State Treasurer on the State Land Board which manages state-owned lands.

The agency's major divisions include:

- Elections Division – 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.
- Audits Division – 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.
- Archives Division – 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.
- Corporation Division – Responsible for four major programs: Business Registry – the filing of business names, Uniform Commercial Code (UCC) – the filing of secured transactions, Notary Public – commissioning and regulating notaries, and Office of Small Business Assistance – helping small businesses resolve disputes with state agencies.. The agency also has an Administrative Services Division that provides administrative support and executive oversight. The Administrative Services Division includes the Executive Office which houses the Secretary and her immediate staff.

Revenue Sources and Relationships

The $9.4 million of General Fund in the 2015-17 biennium legislatively adopted budget finances 13.4% of total agency expenditures, down from 23.4% in the 2011-13 biennium. The decline reflects the replacement, in the 2013-15 budget, of General Fund support for the Archives Division with revenues from a new Other Funds assessment on state agencies. Remaining General Fund supports the Elections Division and the Administrative Services Division. The General Fund supports 51% of the Elections Division budget ($7.6 million General Fund), and 10% of central administrative expenses in the Administrative Services Division ($1.8 million General Fund).

The Audits, Archives, and Corporation Divisions receive no General Fund and are fully supported by Other Funds, however, portions of the Audits Division and Archives Division assessments to state agencies are financed by General Fund appropriations to those agencies. Prior to the 2013-15 biennium, the Archives Division was also supported by General Fund. In the 2011-13 biennium, the Division received $3.5 million of General Fund which covered 63% of its total expenditures. The 2013-15 biennium legislatively adopted budget, however, replaced General Fund support with a new state government service charge assessed to state 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), which are the primary funding source for the Audits Division. Agencies whose operations are predominately funded with dedicated trust funds (e.g., Department of Transportation), however, are billed for actual audit costs rather than an assessment. Audits Division assessments and billings are projected to total $25.2 million in 2015-17, and will support the Division's direct costs plus a portion of the agency's central administrative costs (the Executive Office, the Information Systems Division, and internal administrative functions). The Audits Division houses 72 full-time positions (approximately 34% of agency staff) and is fully funded from these revenues.

  The Archives Division is also supported by assessments and charges to state agencies. A new assessment, established in the 2013-15 biennium budget, replaced General Fund support for the Division. The assessment is based on full-time equivalent positions and will generate $4.7 million Other Funds in the 2015-17 biennium. This amount includes approximately $3.8 million for ongoing expenditures, $400,000 to establish an adequate ending fund balance (this action was not initially taken when the budget was transferred from General Fund in the 2013-15 biennium budget), plus $500,000 in one-time assessments for new shelving in the Archives Building. The Division also assesses agencies for the storage and retrieval of inactive, non-permanent records maintained by the Division, and for publication of administrative rules. Those assessments are projected to total $1.4 million in 2015-17. Charges for use of the State Records Center are also projected to total $1.4 million. The Archives Division houses 22 full-time positions (approximately 10% of agency staff).

- Licenses and fees are collected from business filings, secured transactions, and notaries public to support the General Fund and the Corporation Division. Revenues from these sources are projected to total $77.1 million in the 2015-17 biennium. The legislatively adopted budget transfers $61.6 million of Corporation Division revenue to the General Fund. The remaining $15.5 million is retained by the agency. The retained revenues plus the use of $3.8 million for the Division's beginning Other Funds fund balance fully support the Division's operations ($9.3 million Other Funds), and provide $10 million of Other Funds for the Administrative Services Division (approximately 54% of the Administrative Services Division total budget). The Corporation Division houses 35 positions (approximately 17% of agency staff), and is fully funded by these Division licenses and fees.

  In 2009, the Legislature passed HB 3405 which was subsequently referred by petition to the voters and approved as Measure 67. The measure doubled the fee to obtain a notary public commission, and increased the UCC filing fee by 50%. It 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 business registration fee. Significantly for the agency budget, however, was a provision in HB 3405 that allowed 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 the notary public commissions, UCC filing fees, and the initial $20 of the business registry fee it received. HB 3405 allows the agency to retain all of these proceeds.

- 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. Sales income is projected to total approximately $220,000 in the 2015-17 biennium.

- County payments for the Oregon Centralized Voter Registration (OCVR) system. Counties support a portion of OCVR operating costs. County payments in the 2015-17 biennium will total approximately $1 million.

- Internal transfers of Other Funds revenues are made to the Administrative Services Division by the Audits and Corporations Divisions for a proportionate share of administrative costs.

In past biennia, Federal Funds revenues were received under the Help America Vote Act (HAVA) and the Federal Voting Assistance Program (FVAP). No further support from the federal government is expected for either of these two programs. As was the case for the past several biennia, however, the HAVA and FVAP programs will spend Federal Funds revenues already received by the state, and almost all of the agency's Federal Funds expenditures will be for these programs. Furthermore, approximately $620,000 of Federal Funds revenue is projected from interest earnings on previously-received HAVA funds. The 2015-17 biennium began with approximately $7.4 million of program funds remaining. These fund balances, plus the interest earnings, will be sufficient to finance $6.2 million of Federal Funds program expenditures in the 2015-17 biennium budget; however, the $1.8 million that will remain at the end of the biennium will be insufficient to continue fully supporting the programs starting in 2017-19.

The agency is also budgeted to receive Federal Funds revenues from previously-awarded federal grants. The 2015-17 biennium budget includes $40,000 of Federal Funds in the Archives Division from these grants.

Budget Environment

The Secretary of State is a separately elected, constitutional office, and as such, has not been subject to the Governor's budget review. In 2005, the Legislature modified the statutes relating to the Governor's budget development and allotment system to include the Secretary of State and the State Treasurer in those processes. In 2007, however, the Legislature reversed this action and again excluded the two offices from the Governor's review process.

General Fund expenditures for the Secretary of State will fluctuate depending on the number and type of elections conducted. For primary and general elections, the counties are responsible for the costs of conducting the elections. When statewide special elections are held, the Secretary reimburses counties for those costs. Costs associated with the production and distribution of voters' pamphlets will also vary depending on the number of candidates, measures, and measure arguments filed. In the 2015 session the Legislature passed HB 2177, which directs the Secretary to use Oregon Department of Transportation electronic records to add eligible voters to voter registration rolls. The Legislature appropriated $384,000 General Fund for payments to counties to address costs associated with the consequent increase in the number of registered voters, plus an additional $384,000 General Fund to the Emergency Board to also be available for this purpose if needed.

Ongoing HAVA requirements will continue to influence the Secretary of State's budget for the foreseeable future. HAVA was passed in October 2002 and contains minimum federal standards for various aspects of election administration, which include developing a centralized voter registration system, replacement of punch card machines, privacy and independence in the voting process, access for people with disabilities, and voter outreach. Although the agency still holds approximately $7.4 million of Federal Funds from previous appropriations of HAVA funds, no further support from the federal government for HAVA activities is anticipated.

Legislatively Adopted Budget

The Secretary of State's total funds budget of $70.3 million is a $6.3 million (or 9.8%) increase over the 2013-15 legislatively approved budget, and is 10.1% above the current service level. The budget includes 212 positions (210.71 FTE), a 5% increase over the 2013-15 biennium level. General Fund support of $9.4 million represents an 8.8% increase over the prior biennium. Approximately $1 million of the increase in Other Funds (and in the total funds budget) reflects a re-categorization of county support payments for the Oregon Centralized Voter Registration system within the SOS budget. The increase is a technical adjustment to correctly include the county payments in the agency budget, and does not represent an actual increase in expenditures or revenues.

The budget supports a number of programs above the current service level, paid for with both General Fund and Other Funds. These budget enhancements include $1.8 million and 9 positions to enhance Information Systems Division services, $1.1 million for implementation of HB 2177 (Motor Voter) with an additional $384,000 special purpose appropriation to the Emergency Board for the bill, $624,000 for Oregon Business Registry enhancements, $500,000 for additional shelving in the Archives Building, $347,928 and two Auditor positions for the Audits

Division, and $229,952 and one additional position for the Office of Small Business Assistance. Finally, the budget transfers $6.2 million of Corporation Division revenues to the General Fund, in addition to revenues that are already transferred by statute. This increases total Corporation Division revenue transfers to the General Fund to a total of $61.6 million in 2015-17.

Administrative Services Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,794,821	1,998,063	2,071,613	1,800,242
Other Funds	13,001,846	15,602,557	13,971,497	16,614,384
Total Funds	**$14,796,667**	**$17,600,620**	**$16,043,110**	**$18,414,626**
Positions	51	55	53	62
FTE	50.69	54.61	52.69	61.37

Program Description

The Administrative Services Division provides policy direction for the agency and administrative support functions to support the Elections, Audits, Archives, and Corporation Divisions. Administrative Services is organized functionally into four areas: 1) the Executive Office, 2) the Business Services Division, 3) the Information Systems Division, and 4) the Human Resources Division.

The Executive Office includes the Secretary and the Secretary's immediate staff. The office provides policy direction and daily management of the agency. The executive staff is responsible for strategic planning, policy development, and legislative and press relations. In addition, the office staffs the State Land Board. The Business Services Division provides accounting, budgeting, cashiering, payroll, purchasing, contract administration, safety and risk management, fixed assets, and inventory control services for the agency. The Information Systems Division provides centralized information technology services including database administration, Internet development, and application development and maintenance for the agency. The Human Resources Division provides advice on human resources policies and procedures, maintains employee records, and provides recruitment and training services for the agency. A majority of the Division's budget supports Information Systems. The 62 positions funded in the 2015-17 legislatively adopted budget are apportioned to the four areas as follows: Executive Office – 6 positions; Business Services Division – 15 positions; Information Systems Division – 38 positions; Human Resources Division – 3 positions.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget is an $814,006 (or 4.6%) increase over the prior biennium level, and is 14.8% above the current service level (CSL). General Fund is reduced 9.9% below the prior biennium and is 13.1% below the current service level, however, the reduction is a result of a one-time fund shift and does not require a reduction in total expenditures. Nine full-time positions are established, resulting in a net position count increase of 7 (because 2 limited duration positions were phased out in the CSL). This increased the position count from 55 in the prior biennium to 62 (a 12.7% increase).

Adjustments to the Administrative Services Division budget include:

- New Information Technology Positions – ($533,529 General Fund, $1,253,371 Other Funds, and 9 full-time positions [8.68 FTE]) The budget adds new positions to the agency's Information Systems Division, to support IT infrastructure security and application development and enhancements. The positions include 7 permanent and two limited duration positions. Two General Fund-supported positions established to support Elections Division IT systems were approved on a limited duration basis, pending a planned review of development plans for the Oregon Election System for Tracking and Reporting (ORESTAR) system.
- Oregon Business Registry Enhancements – ($624,000 Other Funds) The budget also supports a one-time information technology project at a cost of $624,000 Other Funds, to continue the modernization of the

Business Entity Registration and Information (BERI) system and Oregon Central Business Registry initiated in the prior biennium budget. Funding for the project is supported with Corporation Division revenues. Modernization components include expanding online filing capability to additional registration filing types, including additional local government business licensing capabilities into BERI, and expanding the Oregon Central Business Registry to accommodate additional state agency business licenses.

- Fund Shift – (-$800,000 General Fund, +$800,000 Other Fund) $800,000 of personal services expenditures in the Administrative Services Division were shifted from General Fund to Other Funds. The shift is approved on a one-biennium basis only, and the fund source for the expenditures will be restored to General Fund in the development of the agency's 2017-19 biennium current service level budget. This action reduced the General Fund required to support the agency budget, but it does not require any reduction in expenditures. The agency will use $800,000 of accumulated Other Funds fund balances in lieu of General Fund.

Elections Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	7,195,378	6,665,782	7,037,797	7,622,417
Other Funds	4,976	128,032	131,974	1,145,922
Federal Funds	4,085,347	4,876,234	4,969,755	6,202,689
Total Funds	**$11,285,701**	**$11,670,048**	**$12,139,526**	**$14,971,028**
Positions	20	20	20	21
FTE	20.00	20.00	20.00	20.50

Program Description

The Elections Division 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.

Federal Funds in the Elections Division budget come from two sources. The federal Help America Vote Act (HAVA) requires states to implement a variety of election process reforms including replacement of punch card voting systems, purchasing voting equipment that is accessible to people with disabilities, and developing a centralized voter registration system. Oregon, along with other states, received funds under HAVA to support these activities. The Federal Voting Assistance Program (FVAP) grant funds are one-time Federal Funds available to provide voting assistance to uniformed service members, their families, and citizens living outside the U.S.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Elections Division is a 28.3% increase over the prior biennium level, and is 23.3% above the current service level. Approximately $1 million of the increase, however, represents bringing ongoing county-supported expenditures for the OCVR into the SOS budget. Although these expenditures have been made by the Elections Division in the past, they were not included in the Division's budget. Bringing the expenditures into the budget does not reflect any increases in expenditures. Excluding the additional expenditures that are included solely due to this action, the budget shows a 19.6% increase over the prior biennium, and a funding level 15% above CSL.

General Fund in the budget is increased 14.4% over the prior biennium level, and is 8.3% above the current service level. The General Fund budget funds the following program enhancements:

- HB 2177 (Motor Voter) Implementation – ($384,000 General Fund, $753,445 Federal Funds, and one limited duration position [0.50 FTE]) HB 2177, passed in the 2015 legislative session, allows Oregon Department of Transportation (ODOT) electronic records to be constituted as a completed voter registration card. The Secretary of State is directed to use the ODOT records to add persons who are qualified to vote, but not already registered, to the elector registration list, unless they decline registration within 21 calendar days of notification.

The budget adds $384,000 General Fund for payments to counties for costs associated with the impact of HB 2177 on voter registration rolls. It also establishes a $384,000 General Fund special purpose appropriation to the Emergency Board, for the Secretary of State, for payments to counties for additional costs incurred in implementing HB 2177. The Secretary may request allocation of these moneys after submitting a report to the Emergency Board on the impact of HB 2177 on voter registration rolls and county costs.

The budget also increases Federal Funds expenditure limitation by $753,445, and establishes one limited duration position (0.50 FTE) with the Secretary of State, for costs to the Elections Division to implement HB 2177. The position will serve as the project manager. These expenditures, which will be funded by federal Help America Vote Act funds, include Oregon Centralized Voter Registration software and hardware upgrades. An amount of $710,829 of the total Federal Funds expenditure limitation is approved on a one-time basis, and will be phased out in the development of the agency's 2017-19 current service level budget.

- ORESTAR Upgrades – ($285,000 General Fund) Funding will be used to upgrade the Oregon Election System for Tracking and Reporting (ORESTAR) system. ORESTAR is an in-house system maintained by the Secretary of State. The funding addresses the agency's short-term plan to implement ORESTAR improvements and maintenance needed for the 2016 primary and general elections.

  The agency requested an additional $1.9 million to implement a long-term ORESTAR plan for the 2018 elections and beyond, but this request was not funded. The long-term plan could include outsourcing all or part of the maintenance and support of the system. A specific plan, however, has not been developed. The Secretary may submit a detailed long-term plan for ORESTAR upgrades and an associated funding request to the 2016 Legislative Assembly.

The budget includes one additional enhancement to the Elections Division that has no General Fund component:

- Oregon Centralized Voter Registration Modernization and Other Funds Limitation Increase – ($488,710 Federal Funds and $1,013,990 Other Funds) The budget increases Federal Funds expenditure limitation by $488,710, including $383,710 to fix bugs in the Oregon Centralized Voter Registration (OCVR) system and $105,000 for testing of technology improvements to OCVR. Federal HAVA funds will finance these projects. The budget also increases Other Funds expenditure limitation by $1,013,990, the amount of OCVR program maintenance costs that the Division finances from county payments for use of the system. The increase in Other Funds expenditures is a technical adjustment to correctly include the ongoing county payments in the agency budget, and does not represent an actual expenditure increase.

HAVA requirements will continue to impact the Secretary of State's budget in the future. HAVA was passed in October 2002 and mandates minimum federal standards on various aspects of election administration, including maintenance of a centralized voter registration system, replacement of punch card machines, privacy and independence in the voting process, access for people with disabilities, and voter outreach. Although the agency still holds approximately $7.4 million of Federal Funds from prior-biennia appropriations of HAVA and FVAP funds, no additional funding from the federal government is anticipated for these programs.

As was the case in prior biennia, the HAVA and FVAP programs will spend Federal Funds revenues already received by the state, and interest earnings on those revenues. Almost all of the agency's Federal Funds expenditures will be for these programs. The $7.4 million of remaining Federal Funds plus $620,000 of interest earnings are sufficient to finance $6.2 million of program expenditures in the 2015-17 biennium budget; however, the $1.8 million that will remain at the end of the biennium will not be sufficient to fund the programs in the 2017-19 budget and beyond.

Audits Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	14,288,665	18,852,866	19,634,571	19,907,171
Total Funds	**$14,288,665**	**$18,852,866**	**$19,634,571**	**$19,907,171**
Positions	71	71	70	72
FTE	71.00	71.00	70.00	71.84

Program Description
The Audits Division 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, and information technology audits of state computer systems. The Division further monitors approximately 1,700 local government audits, and operates the Government Waste Hotline.

The Division's budget is entirely supported by Other Funds assessments and billings to state agencies and local governments. Revenue from these sources will total $25.2 million in the 2015-17 biennium, a 5.8% increase over the prior biennium level. The agency will transfer $5.9 million of these revenues to the Administrative Services Division to support central administrative functions, and retain $19.3 million to operate the Audits Division.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget for the Audits Division is a 5.6% increase over the prior biennium level, and is 1.4% above current service level. The budget increased Other Funds by $347,928, and added two full-time positions (1.84 FTE), to establish one additional Information Technology Audit team. The team will include one State Auditor 3 position and one State Auditor 2 position, with funding effective September 1, 2015.

Archives Division

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	3,509,939	--	--	--
Other Funds	2,057,747	7,450,661	7,126,702	7,610,470
Federal Funds	30,458	168,869	174,324	40,000
Total Funds	**$5,598,144**	**$7,619,530**	**$7,301,026**	**$7,650,470**
Positions	22	22	22	22
FTE	22.00	22.00	22.00	22.00

Program Description
The Archives Division 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.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget for the Archives Division is a 0.4% increase over the prior biennium level, and is 4.8% above the current service level. The budget continues the elimination of General Fund support implemented in the 2013-15 budget. The Division is fully supported by Other Funds primarily from assessments and charges for services, with some additional revenue from sales and federal grants.

The budget continues a new state government service charge established in the 2013-15 biennium to finance the operations of the Archives Division that were previously supported by the General Fund. This charge is apportioned to state agencies on the basis of their full-time equivalent employment counts. The new Archives Division assessment revenues are spent in the Secretary of State's budget as Other Funds. The assessment will generate a total of $4.7 million Other Funds in the 2015-17 biennium, of which approximately $3.8 million is for ongoing expenditures, and $400,000 is to establish an adequate ending balance (this action was not initially taken when the budget was transferred from General Fund in the 2013-15 biennium budget). The assessment revenue also funds one program enhancement: $500,000 of Other Funds assessment revenue is provided in one-time funding to replace approximately one-quarter of the original shelving in the Archives Building with compact shelving, to increase capacity to store the permanent records of the state. The funded shelving project is the second phase of a replacement project first supported in the 2013-15 budget, also at the $500,000 level. The decline in Federal Funds expenditures reflects the expiration of a Federal grant that had supported expansion of the Electronic Record Management System.

Corporation Division

	2011-13 Actual	**2013-15 Legislatively Approved**	**2015-17 Current Service Level**	**2015-17 Legislatively Adopted**
Other Funds	7,547,009	8,231,769	8,702,239	9,329,374
Total Funds	**$7,547,009**	**$8,231,769**	**$8,702,239**	**$9,329,374**
Positions	33	34	34	35
FTE	32.00	33.00	33.50	35.00

Program Description

The Corporation Division is responsible for four major programs: 1) Business Registry – the filing of business names; 2) Uniform Commercial Code – the filing of secured transactions; 3) Notary Public – commissioning and regulating notaries; and 4) the Office of Small Business Assistance – added in the 2013 legislative session, this office works with small businesses to resolve issues with state agencies.

Legislatively Adopted Budget

The 2015-17 legislatively adopted budget for the Corporation Division is a 13.3% increase over the prior biennium level, and represents a 7.2% increase over the current service level. The budget establishes a new position and expands an existing half-time position to full-time, representing a 4.5% increase in FTE over the current service level.

The Corporation Division receives no General Fund, and is entirely funded by fee revenues. The primary funding source is fees charged to register business entities in the state. The agency retains $20 of each business registration fee. The rest of the fee amount is transferred to the General Fund. Under current law, approximately 25% of total business registration fee revenues are currently retained by the agency and approximately 75% are transferred to the General Fund. The approved budget, however, includes a one-time additional transfer to the General Fund in the amount of $6.2 million for the 2015-17 biennium, which will bring the total transfer amount for the biennium to $61.6 million.

The remaining $15.5 million of revenues are retained by the agency. The retained revenues, plus the use of $3.8 million for the Division's beginning Other Funds fund balance, fully support the Division's operations ($9.3 million Other Funds). Furthermore, an additional $10 million of the revenues are transferred to support Other Funds expenditures in the Administrative Services Division budget. The budget will allow the agency to retain a $2.7 million Other Funds ending balance in the Corporation Division, sufficient to finance 3.4 months of operations.

The budget adds for the Division includes the following enhancements:

- Staffing – ($229,952 Other Funds, 1 position [1.50 FTE]) The budget adds a third full-time position (1.00 FTE) for the Office of Small Business Assistance, to address workload increases. The Office facilitates interactions between small businesses and state regulatory agencies, and works to resolve issues and complaints arising from these interactions. Expenditures are paid from business registry fee revenues that would otherwise be available for transfer to the General Fund. The budget also increases one existing position from half-time to full-time (plus 0.50 FTE) to address workload increases that have resulted from the relocation of the Division's Call Center. Operation of the Call Center was transferred from the Oregon State Correctional Institute to agency staff in 2014, after core systems were migrated to an internet-based technology. Call Center operations needed to be relocated at that point since inmate access to the internet is restricted by Department of Corrections policy.

- Fee and License Charges – ($432,000 Other Funds) Other Funds increases were approved to address new costs to the Division's operations. Businesses and individuals are increasingly using credit cards and paying Corporation Division fees online. Credit card merchant fees increased from approximately $720,000 in the 2011-13 biennium to approximately $960,000 in 2013-15. The budget adds $240,000 Other Funds for the impact of the cost increase. The budget also includes $192,000 Other Funds for a subscription to a vendor service to update the License Directory, Business Wizard, and Business Information Center applications. The agency did not spend $850,000 included in the 2013-15 budget to finance an in-house solution, and will purchase upgrade services on a subscription basis from the vendor instead.

STATE TREASURER

Analyst: Borden

Agency Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	1,658,284
Other Funds	33,698,125	47,996,510	49,103,524	61,114,368
Other Funds (NL)	3,542,141	--	--	--
Total Funds	**$37,240,266**	**$47,996,510**	**$49,103,524**	**62,772,652**
Positions	85	96	92	123
FTE	83.48	91.30	90.60	117.45

Overview

The Oregon State Treasurer (OST) 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. OST coordinates and approves state bond sales, manages the public funds collateralization program for all financial institutions holding public funds, and pays on bonds submitted by bondholders. Additionally, OST invests excess funds for participating local governments. OST is also responsible for administration of the Oregon 529 Savings plan(s).

OST is overseen by the State Treasurer, which is a statewide elected official whose authority is established by Article VI, Section 1 of the Oregon Constitution and by various state laws. The Treasurer is the investment officer for the Oregon Investment Council (OIC), which is responsible for establishing the state's investment policy. Statute designates the State Treasurer as the sole banking and cash management officer of the state. The Treasurer also serves on the State Land Board and chairs the State Debt Policy Advisory Commission, among other duties and responsibilities.

Although considered an Executive Branch agency, OST, as a separately elected, constitutional office, operates independent of the Governor and the rest of the Executive Branch. The Executive Branch makes no recommendation and exercises no budgetary control over the State Treasurer's budget. That responsibility falls solely to the Legislature.

OIC has even broader statutory authority. OIC is not subject to legislative budgetary control (i.e., expenditure limitation) and any expense incurred by OIC is netted against investment earnings.

Revenue Sources and Relationships

OST is funded with both General and Other Funds. General Fund loans support the development of the Oregon Retirement Savings Board and the Achieving a Better Life Experience Act (ABLE) program, an Oregon 529 Savings plan. Agency-wide Other Funds revenue totals $52.1 million. The agency's 2015-17 beginning cash balance is $15.3 million and its estimated ending cash balance is equal to $6.3 million, which equates to 2.5 months of operating reserves.

Most OST programs are supported by their own fees and charges. OST has broad authority to set its fees within statutory limits. The revenue is generated primarily from charges based on the value of managed portfolios, fees charged for the number and type of banking transactions it processes, the proportion of outstanding debt held by agencies, fees for new bond issuances, charges for bond and coupon redemptions, and on holdings of state funds in excess of FDIC insurance levels. Of note is that as the value of managed investment portfolios increase, so too does the agency's ability to generate fee revenue while remaining within its statutory limits.

The agency's central administrative functions are financed by a portion of each program's revenues that are internally assessed to support those functions.

<u>Budget Environment</u>

The OST budget is driven by the number and complexity of financial transactions, the complexity and diversity of investments, the number and kinds of bond transactions, and the participation levels in other programs such as the Public Funds Collateralization Program and the Oregon 529 Savings Network. The agency processes an estimated 37 million financial transactions biennially, including deposits, electronic fund transfers, and check issuances.

OST manages, under the direction of the OIC, approximately $90 billion in short, intermediate, and long-term assets, the largest of which is the $68.9 billion Oregon Public Employees Retirement Fund (OPERF). SB 270 (2013), which moved Oregon's public universities to independent status, has resulted in some university funds being withdrawn and managed by the institutions rather than OIC.

Long-term asset values have recovered from pre-2008 financial crisis levels. However, the OIC and OST investment staff expect lower long-term investment performance going forward. The expectation is for returns around 7.5% on an average annual basis. This has broad budgetary implications for state and local governments as investment returns fund approximately 73% of Public Employee Retirement System pension costs.

Beginning in 2011, OST and OIC hired seven vendors to conduct 18 studies of various aspects of the Investment Program at a cost of over $750,000. These studies range from a current state assessment to a target operating model. Most of the studies pertained primarily to the operational, rather than investment risk of the Investment Division. The studies identified significant and systemic deficiencies within the Investment Division. Remaining unaddressed for years, these deficiencies include misaligned roles and responsibilities, inadequate internal controls, insufficient risk management, weak investment compliance, insufficient management reporting, lack of a formal approval process for decision-making, segregation of duties issues, outdated policies and procedures, inadequate investment decision support systems, and overreliance on manual processes.

The Legislature, after some consideration, again rejected the State Treasurer's renewed proposal to establish the OIC as a public corporation, which would have placed OIC and the OST Investment Division outside of legislative control (SB 134/HB 2733). Instead, the Legislature significantly increased the staffing and resources devoted to the Investment Division as the first step in addressing the deficiencies within the OST's Investment Division.

In addition to, but apart from, the State Treasurer's budget, OIC has also expended trust funds to address operating deficiencies within OST's Investment Management Division. These expenditures include contracting with BlackRock Solutions for middle office services and enhancing the work performed by State Street Bank as custodian and provider of back office services.

The Legislature enacted HB 2960, which created the Oregon Retirement Savings Board. The Board is charged with establishing a defined contribution retirement plan for people whose employers do not offer a qualified retirement plan under federal law. Also, SB 777 became law, which permits the creation of tax-free, state-based savings accounts to pay for disability-related expenses. HB 3199 put in place a permanent framework that divides administrative responsibilities for the public university bond program between the Department of Administrative Services and the Higher Education Coordinating Commission thereby relieving OST of these responsibilities.

A measure (HB 2748) transferring responsibility for the Public Infrastructure Commission to the Department of Administrative Services failed to become law and there is no longer funding in OST's budget for these activities.

The Legislature expressed concern that HB 2140 (2013), which expanded local government participation in the intermediate term pool, had not been fully implemented. OST is assessing approaches to potential implementation, including local government demand in terms of participation and level of investment, options for program structure, cost and resource needs, and other related factors.

The Legislature continued another major information technology investment to upgrade and modernization the agency's cash management applications.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $62.8 million is $14.8 million (or 30.8%) more than the 2013-15 legislatively approved budget and includes 92 positions (89.89 FTE). The budget also includes employee compensation that provides merit, cost-of-living, and performance-based compensation. The adopted budget included standard adjustments for state government service charges and other agency assessments ($170,653).

Treasury Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
Other Funds	$30,187,753	43,055,075	44,072,940	55,789,369
Other Funds (NL)	3,542,141	--	--	--
Total Funds	**$33,729,894**	**$43,055,075**	**$44,072,940**	**$55,789,369**
Positions	83	93	90	116
FTE	81.48	88.88	88.60	112.20

Program Description
Treasury Services houses the following activities:
- Investment Management Program/Investment Operations/Investment Compliance/Incentive Compensation – Invests short, intermediate, and long-term state-held funds. Investment Officer compensation has a performance-based component, which ties a portion of Investment Officer maximum compensation to the performance of the investment portfolios that an Investment Officer manages.
- Cash Management Program/Oregon Short-Term Fund/Financial Institution Banking Fees – Processes monetary transactions for all state agencies and over 1,500 local government accounts and pays the cost of banking services provided the state.
- Debt Management Program – Coordinates and approves issuance of state agency and authority bonds. The program also issues Tax Anticipation Notes.
- Public Funds Collateralization Program – Assures that public funds held in more than 40 participating Oregon banks and credit unions are properly collateralized.
- Executive Services/Information Technology – Provides the general administrative functions of the agency, including information technology, information technology security, human resources, project management, procurement, and the State Treasurer's salary and staff. The agency procures budget and accounting services from the Department of Administration Services.

There are additional Investment Division costs borne by OIC that occur as revenue transfers rather than as expenses and therefore are not subject to legislative expenditure limitation. These costs include investment fees, commissions, and other expenses for private third-party investment managers and brokerage commissions, charged against OIC-supervised investment funds. For just the Oregon Public Employees Retirement Fund, these charges exceed $504.7 million, or $1 billion on a biennial basis, based on fiscal year 2014.

Revenue Sources and Relationships
Treasury Services program expenditures are financed with Other Funds, although portions of the banking and Debt Management program charges to state agencies are financed by General Fund appropriations to those agencies. Each OST 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 are internally assessed to support those

functions. The combined sum of these Other Funds revenues is projected to total $46.7 million in the 2015-17 biennium.

Investment Management fees are estimated to generate $25.6 million. OST may deduct monthly a maximum of 0.25 of a basis point (.0025%) of the most recent market value of assets under management for administration and portfolio management fees. The fee is calculated on a sliding scale as noted below:

Graduated Scale (Monthly Valuation)	Flat Fee	Basis Point Charge	Percent Charge
< $10 million	--	0.25	0.0025%
$10 to $100 million	$250	0.25	0.0025%
$100 to $500 million	$2,500	0.24	0.0024%
$500 to $1 billion	$12,100	0.22	0.0022%
>$1 billion	$23,100	0.12	0.0012%

OST estimates that it will receive $10.3 million in fees from the Oregon Short Term Fund (OSTF). OSTF invests excess cash for durations of less than one year. The value of the OSTF was $13.5 billion, as of June 30, 2015. This includes the assets of the Oregon Local Government Investment Pool (OLGIP), which is the vehicle for local governments and Oregon's nine federally recognized tribes to invest in the OSTF. The proceeds from Tax Anticipation Notes issued by OST and a portion of the Oregon Public Employees Retirement Fund are also invested in the OSTF. Statutorily, OST may deduct monthly 0.435 of a basis point of the most recent market value of assets under management directly from the OSTF for administration and portfolio management fee. The current monthly rate OST charges this Fund is 0.3 of a basis point (0.003%).

OST estimates that it will receive $140,090 in fees from the Oregon Intermediate Term Pool (OITP). OITP invests excess cash for durations of up to 10 years. HB 2140 (2013) allows local governments to invest in a commingled intermediate term pool that might look like the OITP, but would likely be administered separately from the OITP. Such an option was previously only available to state agencies. The value of the OITP was $285.1 million as of June 30, 2015. The Pool began on June 30, 2010. OST may deduct monthly 0.435 basis points of the most recent market value of assets under management directly from the OITP for administration and portfolio management fee. The current monthly rate OST charges the Pool is 0.435 of a basis point (0.00435%).

OST may pass along charges to each state agency for private banking services based on the number and type of transactions processed on their behalf. Local government investment pool participants are also charged for LGIP banking services in a similar manner. Banking fee revenues are estimated to be $5.2 million.

OST charges bank and credit union depositories for the reasonable expenses of the agency in connection with the services, duties, and activities of the Public Funds Collateralization Program. Charges are calculated quarterly as follows: each bank and credit union depository is charged a flat fee of $250 for their participation in the pool; and program expenses not covered by the $250 flat fee are allocated to bank and credit union depositories holding state funds in excess of FDIC insurance levels. Combined, these fees are estimated to total $886,835 for the biennium.

OST may charge state agencies and municipalities fees to offset the costs of providing bond issuance, tracking, and reporting services. If the fees are not sufficient to fully fund OST debt management operations, an assessment is made quarterly against each state agency with outstanding debt issuances. Debt Management revenues are estimated to total $4.1 million.

Budget Environment

The state's cash management system is a highly integrated suite of 19 cash management applications that operate as a conduit between financial institutions, state treasury accounts, the state's financial management applications (accounting system), state agencies, and local governments.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $55.8 million is $12.7 million (or 29.6%) more than the 2013-15 legislatively approved budget and includes 116 positions (112.2 FTE). The budget also includes employee compensation increases providing merit, cost-of-living, and performance-based compensation. Other budget changes include:

- $552,330 Other Funds for the Investment Management Program to add one permanent full-time position (1.00 FTE) as a Senior Private Equity Investment Officer.
- $5.2 million Other Funds for the Investment Management Program to add 17 permanent full-time positions (15.01 FTE). This package adds investment officer staff, research staff, information technology staff, administrative staff, and establishes an investment compliance office.
- $1.6 million Other Funds for the Investment Management Program to add 6 permanent full-time positions (5.59 FTE). This package adds additional investment officer staff, including a director of investment operations, a chief compliance officer, a data architect, a data steward, and a senior internal auditor.
- $922,171 Other Funds for the Information Security Management Program to establish an enterprise-wide Information Security Management Program and to add two positons (2.00 FTE).
- $4.5 million Other Funds for the Cash Management Business Systems Renewal Project.
- $832,438 Other Funds reduction to phase-out $1,115,640 for the Public Infrastructure Commission and the West Coast Infrastructure Exchange and add $283,202 for a contract for budget and accounting services with the Department of Administrative Services, Shared Client Services.

In addition to, but apart from, the OST's budget, OIC has also expended funds to address deficiencies at the OST's Investment Division. OIC is expending an estimated $15.2 million in one-time and ongoing costs for a state of the art investment operations platform providing securities trading, risk management, investment accounting, and market data services. The project is expected to be completed by the fall of 2015.

A budget note directs OST to report on its hiring of newly authorized positions and associated improvements to the areas of risk management; compliance; investment decision support systems; investment analysis; data security; management reporting; internal controls; segregation of duties issues; internal auditing; and the updating of policies and procedures.

Oregon 529 Savings Network

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	$664,743
Other Funds	3,510,372	4,941,435	5,030,584	5,324,999
Total Funds	**$3,510,372**	**$4,941,435**	**$5,030,584**	**$5,989,742**
Positions	2	3	2	5
FTE	2.00	2.42	2.00	3.75

Program Description
The Legislature enacted SB 777, which broadened the scope of Oregon's existing 529 savings plan. The measure formed a single Oregon 529 program by merging the existing Oregon 529 College Savings Network with a newly established Achieving a Better Life Experience Act (ABLE) program that permits the creation of tax-free, state-based savings accounts to pay for disability-related expenses.

Both of the Oregon plans are overseen by the five-member Oregon 529 Savings Board.

Revenue Sources and Relationships
The ABLE Program is supported by a General Fund appropriation; however, the General Fund appropriation is to be repaid with future administrative fees.

The 529 [College] Savings Network receives Other Funds from an annual assessment on plan assets equal to 5 basis points (0.05%) of total plan assets (and is calculated and remitted to the Network monthly by the Oregon College Savings Plan and MFS 529 Savings Plan, sold through financial advisors. The [College] Savings Network revenues are projected to total at least $5.4 million with interest earnings of $20,070.

Budget Environment

ABLE program expenses qualify as disability-related if they are for the benefit of an individual with a disability and are related to the disability (including education, housing, transportation, employment support, health, prevention, and wellness costs; assistive technology; personal support services; and other expenses). An ABLE account holder's balance is meant to supplement, but not supplant, benefits provided through private insurances, the Medicaid program, the supplemental security income program, the beneficiary's employment, and other sources.

The Oregon 529 [College] Savings Network administers two college savings programs designed to encourage people to save money for future education costs: a state plan and a plan offered through private investment advisors. Participants can choose from a variety of investment options. Earnings on the investments are exempt from income taxes if used for qualified educational expenses when withdrawn, and some contributions may be claimed as a deduction against income for state income tax purposes. Although administered by the Treasurer, participant enrollment, investment management, and participant support is provided by third party contractors.

The Oregon 529 [College] Savings Network has approximately 154,688 accounts, 149,964 unique beneficiaries, with a total value of $2.3 billion, of which $836.3 million (or 37%) is held for out-of-state participants. The state plan (direct-sold) had 80,064 accounts (total assets of $1.2 billion), and the plan sold through private financial advisors had 74,604, accounts (total assets of $1.1 billion), as of December 31, 2014. The participation rate of Oregon residents 25 years and younger is 8.6%, as of June 30, 2014.

Legislatively Adopted Budget

The legislatively adopted budget totals $6 million and includes $664,743 General Fund, $5.3 million Other Funds, and five positions (3.75 FTE). This is $1.1 million (or 21.2%) more than the 2013-15 legislatively approved budget. The budget also includes employee compensation providing merit and cost-of-living increases. Two enhancements above the current service level are included in the agency budget:

- $306,018 Other Funds for the 529 College Savings program to add one permanent full-time position whose duties include statewide outreach, outreach to financial advisors, and work on a marketing plan (1.00 FTE).
- $664,743 General Fund for the ABLE program to add two permanent, full-time positions (0.75 FTE).

Oregon Retirement Savings Board

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	993,541
Total Funds	**--**	**--**	**--**	**$993,541**
Positions	--	--	--	2
FTE	--	--	--	1.50

Program Description

The Oregon Retirement Savings Board (ORSB) is a new program created by HB 2960. The ORSB is charged with the establishment of a defined contribution retirement plan for people whose employers do not offer a qualified retirement plan under federal law. The ORSB plan may only be established if the plan does not qualify as an employee benefit plan under federal law.

Before establishing a plan, the ORSB must conduct market and legal analysis of the plan. The ORSB is required to establish rules for employees to be automatically enrolled and to opt out of the plan, to determine contribution and withdrawal processes, and to establish exemptions for employers that provide alternative plans.

Employee contributions will have some tax benefit under current law, depending on whether the ORSB establishes traditional or ROTH individual retirement accounts. Employee contributions from employer payroll withholdings will be transferred from employers to a specific plan provider with which the ORSB contracts to manage participants' individual accounts. The revenue impact (i.e., tax expenditure) is at this time undetermined.

Revenue Sources and Relationships

A General Fund appropriation is required to fund the Board's operating expenses until the Retirement Savings Plan Administrative Fund has sufficient revenue to support the Board. General Fund expenditures are to be repaid with future administrative fees. Fee revenue would come from a portion of administrative fees collected by the third-party plan administrator, approved by the Board, and charged to individual accounts. Administrative fee revenue is anticipated to begin during the 2017-19 biennium after the ORSB administratively establishes the fee levels.

Budget Environment

There are approximately 1.9 million employees in Oregon that are employed by 120,000 employers. Around 1.1 million employees (55%) have access to employer-sponsored retirement plans and 873,000 (45%) are without access to an employer-sponsored retirement plan.

Legislatively Adopted Budget

The legislatively adopted budget of $993,541 General Fund includes 2 positions (1.50 FTE) to establish the program. This includes one permanent full-time executive director (1.00 FTE) and one permanent part-time program analyst (0.50 FTE) to staff the Board and manage contracts at a cost of $296,457 for personal services and $27,084 for services and supplies. There is $420,000 General Fund for a market analysis and to obtain legal advice related to the applicability of the federal Employee Retirement Income Security Act and $250,000 General Fund for one-time expenses to reimburse agencies for providing outreach or technical assistance services, but there is no specification that compliance services provided by agencies are reimbursable.

LEGISLATIVE BRANCH

LEGISLATIVE BRANCH

Analyst: Hill

Branch Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	77,361,703	94,366,607	98,379,893	91,939,095
Other Funds	3,775,879	43,075,574	7,011,539	7,416,501
Other Funds (NL)	970,753	10,690,023	1,220,428	1,220,428
Total Funds	**$82,108,335**	**$148,132,204**	**$106,611,860**	**$100,576,024**
Positions	652	650	650	654
FTE	426.91	428.52	428.52	431.77

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.

The 2015-17 adopted budget for the Legislative Branch is $2,427,512 General Fund (or 2.6%) less than the 2013-15 legislatively approved budget. Total Funds are $47,556,180 (or 32.1%) less than the legislatively approved budget. The two main reasons for the Other Funds decrease is the elimination of $34.5 million of one-time Other Funds for the Capitol Master Plan and a bond refunding of $9.1 million Nonlimited Other Funds that was done by the Department of Administrative Services.

The main reason for the decrease in General Fund across the Branch is reductions to each of the agencies to account for anticipated reversions. The Legislative Branch is allowed to keep any unspent General Fund. It is anticipated that about $6 million will be carried forward into the 2015-17 biennium.

Legislative Assembly

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	33,225,889	42,069,611	42,987,670	39,090,875
Other Funds	61,617	278,847	285,390	225,352
Other Funds (NL)	84,354	93,5531	96,360	96,360
Total Funds	**$33,371,860**	**$42,442,011**	**$43,369,420**	**$39,412,587**
Positions	422	422	422	423
FTE	251.27	251.27	251.27	251.52

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.

Budget Environment

The primary responsibility of the Legislative Assembly is to produce a balanced budget that complies with state and federal laws, represents the priorities established by the Legislature, receives an affirmative vote by a majority of each chamber, and is signed into law by the Governor. The Legislature also considers thousands of policy issues each biennium and, ultimately, enacts laws on behalf of the citizens it represents.

The Legislature meets in a longer session every odd-numbered year and enacts a biennial budget. Voters approved a shorter annual session in November 2010 that meets during even-numbered years. During the interim, interim committees examine specific topics or program areas and a Joint Committee, the Emergency Board, is appointed to meet periodically to address certain fiscal issues that cannot be put off until the next regular session. The Emergency Board has limited authority, so there are fiscal circumstances that can require the full Legislature to meet in a special session to ensure the budget remains balanced.

The portion of the Legislative Assembly budget to cover the costs for members is divided to reflect session and interim activities as well as Senate and House costs. The remainder of the budget which covers the costs of leadership offices and the Office of the Secretary of the Senate and the Office of the Chief Clerk of the House is provided for the normal biennial period.

Legislatively Adopted Budget

The 2015-17 adopted budget for the Legislative Assembly is $2,978,736 General Fund (or 7.1%) less than the 2013-15 legislatively approved budget level. Total Funds are $3,029,424 (or 7.1%) less than the 2013-15 legislatively approved budget.

The Assembly budget includes adjustments for the following:

- An increase of $2,000 General Fund to each member's session budget, for a total of $180,000 General Fund.
- A net-zero change to the Secretary of the Senate budget to better reflect actual expenditures, increasing General Fund Personal Services by $103,535 and decreasing General Fund Services and Supplies by the same amount.
- A reduction of $2,000 General Fund to the Presiding Officer's change reserve account.
- An increase of $30,000 General Fund for caucus office transition funds.
- An increase of $29,255 General Fund and 1 permanent part-time position (0.25 FTE) for an additional page/doorkeeper for the House.
- A fund shift for the Member Lounge staff, resulting in an increase of $60,038 General Fund and a decrease of $60,038 Other Funds.
- A reduction of $24,611 General Fund that eliminates the Assembly Post Session Account.
- An increase of $5,000 General Fund to facilitate additional field hearings.
- A reduction of $4,100,000 General Fund for anticipated reversions.

Legislative Administration Committee

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	28,217,422	34,695,320	36,972,843	34,865,791
Other Funds	2,422,050	37,929,526	1,860,416	2,225,416
Other Funds (NL)	345,550	10,033,667	597,932	597,932
Total Funds	**$30,985,022**	**$82,658,513**	**$39,431,191**	**$37,689,139**
Positions	143	142	142	142
FTE	100.86	100.65	100.65	100.65

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 supports 92.5% of LAC's requested expenditures. There is 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 Non-Branch occupants of the Capitol 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.

Budget Environment

The most significant impact on the budget centers on the Oregon State Capitol Renovation project. There was $34.5 million approved for the design phase of the project during the 2013-15 biennium. That portion of the project came in under budget at about $29.1 million. The construction phase of the project was not approved during the 2015 legislative session.

Other significant factors affecting LAC costs are the continued demand for improved information systems; maintenance and repair of the Capitol, including security needs; and meeting the needs of legislative committees. The length of legislative sessions and the number of bill introductions, amendments, and committee hearings also affect the agency's workload and costs.

Legislatively Adopted Budget

The 2015-17 adopted budget for the Legislative Administration Committee is $170,471 General Fund (or 0.4%) more than the 2013-15 legislatively approved budget. Total Funds are $44,969,374 (or 54.4%) less than the 2013-15 approved budget. Most of the decrease can be attributed to bond proceeds for the first phase of the Capitol Master Plan that were not included in the 2015-17 budget. There was also a bond refunding that contributed about $9 million to the Nonlimited Other Funds.

The LAC budget includes adjustments for the following:

- A reduction of $200,000 General Fund to account for implementation of expanded policy support for the Branch after the 2016 legislative session.
- An increase of $105,890 General Fund for a Disaster Recovery Cold Site.
- An increase of $364,000 General Fund for three facilities projects. The projects include repair to the basement ceiling in the Capitol ($180,000), fire suppression and server room upgrades ($94,000), and panic button upgrades ($90,000).
- A reduction of $1,251,629 General Fund and an increase of $365,000 Other Funds for debt service adjustments.
- A reduction of $1,100,000 General Fund for anticipated reversions.

Legislative Counsel

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	8,039,603	10,427,834	10,888,581	10,841,717
Other Funds	1,290,567	1,681,068	1,515,091	1,515,091
Other Funds (NL)	540,846	562,803	526,136	526,136
Total Funds	**$9,871,019**	**$12,671,705**	**$12,929,808**	**$12,882,944**
Positions	57	55	55	57
FTE	45.28	45.60	45.60	47.60

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 84.2% of LC's expenditures. Other Funds are derived from sales of the *Oregon Revised Statutes*, *Oregon Laws*, bill drafting services, and other LC publications. 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.

Budget Environment

The number of bills and amendments drafted fluctuates from session to session, but overall the trends are fairly flat. The primary driver of drafting increases in the recent past has been agency requests. When workload increases, it creates additional pressure on LC staff, which ripples throughout the institution as these bills are drafted, introduced, amended, and finalized.

During legislative sessions, the agency hires temporary employees that serve primarily as copy editors for staff attorneys and to assist with workload issues. However, the agency has worked to reduce its reliance on temporary staff over the last several biennia and the budget now includes more full-time permanent positions.

Publication sales of *Oregon Revised Statutes* and *Oregon Laws* have declined in recent biennia due, in part, to the availability from free or low-cost Internet sources. Overall, Other Funds receipts have remained stable because of increased efficiencies in operations and increased sales of specialty publications. Specialty publications include the criminal code; family law code; landlord-tenant laws; labor, employment, and workers' compensation laws; and construction and building trade laws. If Other Funds receipts were to decline, additional General Fund support may be needed for *ORS* publication.

Legislatively Adopted Budget

The 2015-17 adopted budget for Legislative Counsel is $413,883 General Fund (or 4%) more than the 2013-15 legislatively approved budget. Total Funds are $211,239 (or 1.7%) more than the 2013-15 approved budget.

The LAC budget includes adjustments for the following:

- An increase of $366,665 General Fund for the establishment of 2 full-time editor positions (2.00 FTE) ($312,804), the reclassification of a position for the bill drafting project ($37,891), and the reclassification of the computer services coordinator position ($15,970).
- A reduction of $400,000 General Fund for anticipated reversions.

Legislative Fiscal Office

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	5,532,954	3,888,952	4,170,986	4,324,440
Other Funds	--	3,179,547	3,343,858	3,443,858
Total Funds	**$5,532,954**	**$7,068,499**	**$7,514,844**	**$7,768,298**
Positions	21	21	21	22
FTE	20.50	21.00	21.00	22.00

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 and the interim Joint Committee on Ways and Means 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 Office also 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 report 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 had been traditionally supported completely by General Fund. The 2013 Legislative Assembly approved Other Funds for the operations of the agency. The source of the revenue is a portion of the Central Government Service Charge (CGSC) assessment. In the past, all of the CGSC revenues were transferred to the General Fund. A portion of the CGSC formula is driven by costs associated with the Legislative Fiscal Office, so the Legislature decided to target the funds directly to the Office.

Budget Environment

As with other committee staffs, the work of LFO changes between legislative sessions and the interim. During sessions, budget analysis and the number of bill introductions and amendments is the primary driver of workload for the agency. LFO reviews all measures to determine if they have a fiscal impact and prepares fiscal impact statements.

During the interim, workload is driven by the number, length, and complexity of special sessions necessary to rebalance the statewide budget; the number and complexity of Emergency Board requests; and the number of other program and fiscal issues that require analysis. The Office also spends a significant amount of time educating and providing information to members, legislative staff, and other stakeholders about the budget process and current budget issues.

Legislatively Adopted Budget
The 2015-17 adopted budget for the Legislative Fiscal Office is $699,799 Total Funds (or 9.9%) more than the 2013-15 legislatively approved budget. As mentioned above, Other Funds now account for 44.3% of the agency's budget.

The LFO budget includes adjustments for the following:
- An increase of $260,000 General Fund, $100,000 Other Funds, and 1 permanent position (1.00 FTE) for a Principal Legislative Analyst that will focus on bonding and capital construction.
- A reduction of $100,000 General Fund for anticipated reversions.

Legislative Revenue Office

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	1,969,632	2,796,123	2,867,874	2,414,923
Total Funds	**$1,969,632**	**$2,796,123**	**$2,867,874**	**$2,414,923**
Positions	7	8	8	8
FTE	7.00	8.00	8.00	8.00

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.

Budget Environment
As with other committee staffs, the number of bill introductions and amendments create the workload for the agency during regular and special sessions. Increases in bills and amendments, along with tax-related voter initiatives and legislative referrals, require the staff to write more revenue impact statements. The number of revenue, school finance committee, task force, and workgroup meetings and related research and analysis projects determines the interim workload.

Legislatively Adopted Budget
The 2015-17 adopted budget for the Legislative Revenue Office is $381,200 General Fund (or 13.6%) less than the 2013-15 legislatively approved budget.

The LRO budget includes adjustments for the following:
- A technical adjustment that removes $200,000 General Fund related to one-time funding for a clean air fee/tax report that was funded in 2013-15 and was inadvertently left in the 2015-17 budget.
- A reduction of $250,000 General Fund for anticipated reversions.

Commission on Indian Services

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	376,203	488,767	491,939	401,349
Other Funds	1,645	6,586	6,784	6,784
Total Funds	**$377,848**	**$495,353**	**$498,723**	**$408,133**
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. State agencies are required to take into account Oregon's nine federally recognized tribal governments 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.

Budget Environment
Staff salaries and Commission member travel are the primary costs in this budget. The Commission holds regular quarterly meetings, as well as special meetings at the call of the Chair. It advises the legislative and executive branches on ways to improve communication and coordination with tribes in an effort to avoid unnecessary court disputes and highlight shared interests.

The Commission reports that governmental (federal, state, and local) and non-governmental entities are increasingly relying on the Commission for technical and coordination services and the volume of phone and mail transactions is increasing. It is also increasingly being asked to provide trainings for effective government-to-government relationships; conduct meetings with agencies and their tribal counterparts by program and issue area; answer questions from various state agencies on how to establish and maintain effective relationships with tribes; and discuss various points of law and strategies. Tribal initiated activities related to their various programs and significant events have also increased.

Legislatively Adopted Budget
The 2015-17 adopted budget for the Commission on Indian Services is $87,220 (or 17.6%) Total Funds less than the 2013-15 legislatively approved budget.

The Commission's budget includes a reduction of $90,000 General Fund for anticipated reversions.

EMERGENCY BOARD

EMERGENCY BOARD

Analyst: Rocco

Totals

	2011-13 Actual	2013-15 Legislatively Approved	2015-17 Current Service Level	2015-17 Legislatively Adopted
General Fund	--	--	--	$245,927,114
Total Funds	**--**	**--**	**--**	**$245,927,114**

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 provides detail on the recent history of the Emergency Fund and is followed by additional historical information.

Recent History of the Emergency Fund ($ in millions)

	2011-13 Adopted	2011-13 End of Biennium	2013-15 Adopted	2013-15 End of Biennium	2015-17 Adopted
General Purpose	25.0	-	30.0	-	30.0
Salary & Benefit Adjustment	0.0	-	99.4	-	130.7
Special Purpose Appropriations	47.7	-	25.7	-	85.2
Total Emergency Fund	**$72.7**	**-**	**$155.1**	**-**	**$245.9**
Remaining Balance		$50.4		$43.7	

The 2011 Legislative Assembly initially adopted a budget with a $25 million General Purpose appropriation, plus special purpose appropriations totaling $47.7 million. No provision was made for either salary and benefit cost increases or for state agency supplemental costs. During the 2012 legislative session, the Legislature used approximately $38 million of the special purpose appropriations for their original intended purposes or towards the overall statewide rebalance plan enacted during the session. The Legislature then added $74.6 million in new special purpose appropriations during the 2012 session for potential allotment mitigation, human services caseloads, and other unexpected costs. As of December 2012, the Emergency Fund had a balance of $50.4 million; this balance was disappropriated by the Legislature during the 2013 legislative session in order to make it immediately available for the 2013-15 budget.

The 2013 Legislative Assembly approved a general purpose Emergency Fund of $30 million plus special purpose appropriations totaling $125.1 million. Of the total approved for special purpose appropriations, $99.4 million was to cover the costs of compensation changes. During the 2014 legislative session, most of the special purpose appropriations were disappropriated from the Emergency Board and subsequently appropriated directly to agencies for the same purpose as had been originally identified. At the conclusion of the 2014 session, the Emergency Fund consisted of $15.7 million for original special purpose appropriations; four new special purpose appropriations totaling $29.5 million, of which $24 million was for caseload costs and other budget needs for the Oregon Health Authority and the Department of Human Services; and the original $30 million general purpose Emergency Fund. As of December 2014, the Emergency Fund had a balance of $43.7 million which was disappropriated and used in the 2015-17 budget plan.

Budget Environment
The size of the general purpose Emergency Fund has not expanded in the past several biennia proportionately with the growth in the General Fund budget. Unused special purpose appropriations have augmented the general purpose Emergency Fund.

For historical reference, the actual cost of implemented salary and benefit increases had significantly exceeded the amounts appropriated to the Emergency Board in each of the five biennia prior to 2005-07 during another period when the state was experiencing economic difficulties. With an improved revenue situation, the amount appropriated for the 2005-07 salary and benefit package fully funded agency General Fund costs. The allocation of $100 million of the $125 million 2007-09 salary and benefit special purpose appropriation covered 100% of the redistributed costs for Pension Obligation Bonds, 100% of the costs for a temporary change to the Public Employees Retirement System rates, and slightly more than 75% of the General Fund costs of the regular compensation increases awarded to all employees. No funds were included in the budget for increases provided by the Governor to management employees in a supplemental salary and benefit package, which cost approximately $15.8 million in the 2007-09 biennium. Due to a worsening of the state's economic situation, no special purpose appropriation was provided in either the 2009-11 or the 2011-13 legislatively adopted budgets for state employee negotiated salary increases or cost-of-living adjustments; however, $32 million was allocated to potentially be used for increases in the costs of health benefits for state employees for the 2010 and 2011 benefit years. No such provision was included in the 2011-13 budget. Both the 2013-15 and 2015-17 budgets included special purpose appropriations to cover the costs of compensation and benefit adjustments ($99.4 million and $130.7 million, respectively).

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget for the Emergency Board includes a $30 million general purpose appropriation, plus special purpose appropriations totaling $215.9 million as follows:
- $120 million for state employee compensation changes.
- $10.7 million for non-state employee compensation changes.
- $40 million for the Oregon Health Authority or the Department of Human Services for caseload costs, potential rate changes, or other unanticipated issues.
- $17.5 million for the Department of Education for the mixed delivery preschool program established in HB 3380.
- $6.9 million for the Higher Education Coordinating Commission for college readiness programs.
- $6.5 million for the Department of Administrative Services to cover potential changes in Enterprise Technology Services rates and assessments.
- $6 million for the Department of Forestry for fire protection expenses.
- $3 million for education needs.
- $2 million for the Department of Justice for Defense of Criminal Convictions caseload costs.
- $1.8 million for the Department of Revenue to address the shortfall in County Assistance Function Funding Account (CAFFA) funds.
- $1 million for the Judicial Department for Multnomah County Circuit Court workload-related costs for photo radar violations.
- $384,000 for the Office of the Secretary of State to cover county costs for expanded voter registration associated with HB 2177.
- $100,000 for the Department of Human Services for provider audits, compliance work, or reporting activities.

If the amounts in the special purpose appropriations are not allocated by the Emergency Board by December 1, 2016, the remaining amounts become available to the Board for any legal use.