# 2017-19

# Legislatively Adopted Budget

# Detailed Analysis

Legislative Fiscal Office
October 2017

**State of Oregon**
**Legislative Fiscal Office**

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

Following is the **2017-19 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 2017-19 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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# PROGRAM AREA

## CHIEF EDUCATION OFFICE

Analyst: Wilson

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 20,421,275 | 13,360,803 | 9,982,404 | 3,652,812 |
| **Total Funds** | **20,421,275** | **$13,360,803** | **$9,982,404** | **$3,652,812** |
| Positions | 15 | 20 | 19 | 14 |
| FTE | 15.00 | 18.25 | 18.50 | 6.40 |

The largest component of the 2013-15 budget was funding for the Engineering Technology Industry Council (ETIC), transferred from the Chancellor's Office to what was then the OEIB. The ETIC funds were transferred to the Public Universities and the Employment Department starting in 2015-17. The 2017-19 legislatively adopted budget also includes a special purpose appropriation to the Emergency Board of $3,972,118 General Fund for the second year of expenditures for the Chief Education Office which is not included in the Chief Education Office totals.

<u>Overview</u>

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 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 Chief Education Officer is now appointed by the Governor and has direction and control over the education agency/program heads (Oregon Department of Education, Early Learning, Youth Development, Higher Education Coordinating Commission, and Teacher Standards and Practices Commission) in matters related to the design and organization of multi-agency planning. The current Chief Education Officer also acts in the capacity of the Governor's Education Policy Advisor. 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.

<u>Revenue Sources and Relationships</u>

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

<u>Budget Environment</u>

SB 215 (2015) extended the sunset date for the Chief Education Office (CEdO) until the end of the 2017-19 biennium. The 2017 Legislature approved a budget for CEdO for only the first year of the 2017-19 biennium and established a special purpose appropriation to the Emergency Board in the amount of $3,972,118 General Fund for the second year of the 2017-19 biennium. Ongoing discussions of the overall education governance structure and roles continue. The Legislature in February 2018 can use the results of these discussions in determining the proper role of CEdO, as well as to identify the long-term home of the Statewide Longitudinal Data System.

The Chief Education Office continues to take the lead in the development of the Statewide Longitudinal Data System (SLDS) 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 SLDS, when fully operational, 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. The identity of a student's information in the SLDS will not be stored in the SLDS's data that will be available to the researcher or user. The project is scheduled to become operational with K-12 and post-secondary data at the end of calendar year 2017, and will continue to add additional information (e.g., early learning) after it becomes operational. There will be an ongoing staff and funding need to maintain the system and its data.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $3.7 million General Fund is $9.7 million less than the 2015-17 legislatively approved budget, primarily because one-time development funding for the SLDS was removed from the budget and the $3.7 million represents only the funding for the agency's first year. A better comparison would be comparing the legislatively adopted budget with the 2017-19 current service level (CSL) of just under $10 million General Fund. This was the starting point for the Legislature's development of the budget. From this amount, a number of reductions were made including the elimination of five positions (5.75 FTE):

- Interagency Policy Research Director and on Research Analyst – other research staff was retained, but will be under the direction of the Education Innovation Officer and the Chief Education Officer.
- SLDS Solutions Architect – whose responsibilities will need to be assumed by the remaining four positions assigned to the SLDS.
- Board Administrator – no longer required with the elimination of the former Oregon Education Investment Board, or OEIB.
- Executive Support Specialist – responsibilities will be absorbed by other support staff still funded.
- Operations Director – eliminated for 18 months of biennium and many of this position's responsibilities will be provided through contract with the Oregon Department of Education's finance and other administrative staff.

Total savings from the elimination of these positions and their related services and supplies costs total just over $1.4 million General Fund. Other savings include a reduction of $408,838 General Fund from the amount available for Regional Area Compacts (RACs) and resources for bringing together various education groups across the state. This still leaves over $540,000 for these purposes. CEdO will also move to a smaller office space saving a net $176,849 General Fund.

With these reductions, the two-year total budget was just under $8 million General Fund. A further reduction of $3,972,118 was then made essentially transferring the resources for the second year of the biennium to a special purpose appropriation to the Emergency Board.

As with most other agencies, there were further adjustments made based on Department of Administrative Services assessments, Attorney General costs, further vacancy savings, and other adjustments totaling $369,306 General Fund. It should be noted that additional funding for the SLDS will be required during the 2018 session. These funds were originally appropriated in 2015-17, but not spent.

# DEPARTMENT OF EDUCATION

Analyst: Wilson

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 450,315,281 | 580,091,439 | 639,530,189 | 820,951,302 |
| Lottery Funds | 42,371,073 | 1,434,927 | 651,225 | 651,225 |
| Other Funds | 113,581,297 | 277,236,218 | 194,841,138 | 441,326,984 |
| Other Funds (NL) | 107,265,246 | 140,283,701 | 112,916,253 | 118,964,721 |
| Federal Funds | 880,475,218 | 1,038,273,686 | 1,058,609,260 | 1,053,144,232 |
| Federal Funds (NL) | 372,416,650 | 409,007,727 | 388,007,727 | 388,007,727 |
| **Total Funds** | **$1,966,424,765** | **$2,446,327,698** | **$2,394,555,792** | **$2,823,046,191** |
| Positions | 544 | 555 | 530 | 551 |
| FTE | 505.71 | 520.90 | 510.80 | 537.54 |

The figures above do not include the State School Fund resources which are part of the overall budget for the Department of Education (ODE), 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 State Superintendent position was eliminated and the Governor became 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 that moved the administration of programs under the Early Learning Council (HB 3234) and the Youth Development Council (HB 3231) to ODE. The Councils remain the policy boards for these programs. The mission of ODE is to foster equity and excellence for every learner through collaboration with educators, partners, and communities.

ODE provides support to the State Board and the Deputy Superintendent in carrying out their responsibilities, as well as for the early learning programs and youth development related programs. 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.

The 2017-19 legislatively adopted budget for General Fund and Lottery Funds of $821.6 million is $240.1 million, or 41.3%, greater than the 2015-17 legislatively approved budget. Much of this growth is due to the $170 million General Fund investment relating to Ballot Measure 98 which established the High School Graduation and College and Career Readiness Act. The total funds budget of $2.86 billion is 17% greater than the 2015-17 amount. More detail on these and other changes in the ODE budget are included in the sections below.

## Operations

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 52,025,741 | 66,753,209 | 70,977,959 | 76,243,663 |
| Other Funds | 16,642,000 | 31,396,601 | 34,521,855 | 39,635,069 |
| Other Funds (NL) | 2,315,618 | 2,704,452 | 2,704,452 | 2,704,452 |
| Federal Funds | 68,593,047 | 90,263,055 | 89,695,667 | 79,142,600 |
| **Total Funds** | **$139,386,406** | **$191,117,317** | **$197,899,933** | **$197,725,784** |
| Positions | 456 | 468 | 446 | 469 |
| FTE | 425.70 | 440.65 | 433.03 | 461.77 |

The Other Funds expenditure limitation for the bond proceeds from Article XI-P bond for grants to school districts for construction and improvements to school facilities is part of the Debt Service and Bonding section below.

Program Description

Department Operations includes the responsibilities and activities of the State Board and the Deputy 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, internal audit function, and communications.
- Office of Teaching, Learning and Assessment – Includes the primary K-12 related staff and administrative functions and is charged with integrating curriculum, instruction, assessment, and student support services. Included in this largest office in the Department are the following sections: District and School Effectiveness; Standards and Instructional Support; Secondary/Post-Secondary Transitions; Federal Systems; Data, Operations and Grant Management; and Assessment.
- Office of Accountability, Research, and Information Services – Includes the various information services support including systems administration, network support, and applications development. The Accountability section includes reporting and psychometrics, and the maintenance of data collections. Research staff coordinate data analysis and research across ODE, as well as coordinating with researchers in other education-related agencies.
- Office of Student Services – Includes programs relating to special education, child nutrition programs, long-term care/hospital and youth corrections/juvenile detention programs, transportation, and the Oregon School for the Deaf.
- Office of Equity, Diversity and Inclusion – Responsibility 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 – 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 – Administers programs such as the Title XX Youth Investment program, Juvenile Crime Prevention program, Community Schools, Gang Involved Youth Program, and a few youth related grant programs.
- Office of Finance and Administration – Provides fiscal and administrative services, such as accounting, budgeting, payroll, employee services, 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). Also

included in this Office is the unit charged with administering the Oregon School Capital Improvement Matching (OSCIM) program.

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, OSCIM program, and the new English Language Learners initiative.

Major federal revenue sources include the Individuals with Disabilities Education Act (IDEA), the National School Lunch Program, assessment funds, Child Care related funds, Title XX funds, and programs (e.g., Title I programs) associated with the Every Student Succeeds Act or ESSA (formerly No Child Left Behind).

Budget Environment

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 38% in 2017-19. 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.

The agency has undergone a few reorganizations in the past few years. These include the incorporation of two new major program areas – early learning and youth development. The staff for the traditional K-12 functions have also been reorganized, in part because of changing agency leadership. The Legislature continues to review the overall governance and structure of state staff and agencies across the education continuum. There has also been a continuing change in the individual programs administered by agency staff. Over the past three biennia, several K-12 grant-in-aid programs have started and then been terminated after one or two biennia as the priorities of the executive and legislative branches have changed. This has also contributed to the “ongoing” reorganization of the agency and its staff.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $76.2 million General Fund ($197.7 million total funds) reflects an increase of $9.5 million (or 14.2%) from the 2015-17 legislatively approved budget, and a $6.6 million (or 3.5%) increase in total funds over the same period. Major factors causing the changes in the budget for ODE Operations include:

- Voters passed Ballot Measure 98 in November 2016 which established the High School Graduation and College and Career Readiness Fund. Monies from the fund are to be used by school districts in three focus areas – Career and Technical Education (CTE), college-level education opportunities or accelerated learning, and drop-out prevention. Eight positions (7.02 FTE) and $1.8 million General Fund were approved to perform the activities required for ODE. These staff will coordinate to ensure accountability and program outcomes, provide technical assistance and other support to districts, assist in the development and approve district plans on how the grant funds are to be used as required by the ballot measure, provide research and data analysis to districts and policy makers, and pay for the financial and other administrative functions for the program. There is $170 million General Fund in the Grant-in-Aid budget unit for the actual 2017-19 grants to districts.
- In the Early Learning Division, 18 positions (18.00 FTE) were established to meet recent federal regulations regarding child care quality monitoring and training. The federal regulations increase requirements for provider training, extend health and safety inspections to license-exempt family providers (e.g., Employment Related Day Care – ERDC), require more training for formerly unregulated providers, and institute new background checks from the Federal Bureau of Investigation (FBI) for providers including those who had not been subject to previous background check requirements. Fees charged to the providers or their employees

will partially cover the costs of the background checks and a total of $2.9 million Other Funds are included to account for the costs paid by this fee revenue. Another $4 million of federal Child Care Development Block grant funds are repurposed from payments to the Department of Human Services used for the ERDC program to pay for the 18 positions and other related costs.

- Other Early Learning Division changes include shifting funding on seven permanent positions to 100% General Fund which had been partially funded with federal Race-to-the-Top grant funds in previous biennia. Also established was a new position for work on early learning information systems. Total cost of these actions was an increase of $1.4 million General Fund and a decrease of $1.2 million Federal Funds expenditure limitation.
- Resources were added for additional staffing and other costs relating to new programs and initiatives. These include: (1) $200,000 General Fund for ODE's responsibility for the development of a new Tribal History and Sovereignty curriculum; (2) $1.2 million General Fund for four positions (3.83 FTE) for staffing the new Chronic Absenteeism initiative; and (3) $200,000 General Fund for a contract to assess the need and what current systems are available to assist districts in providing early indication of students who are at risk of dropping out.
- There was additional funding for assessments including $1.2 million General Fund for the development of a new English Language Proficiency Assessment (ELPA) and $800,000 General Fund to begin development of an assessment based on Next Generation Science Standards that have been adopted by the State Board of Education. Also related to assessments was a $3.8 million backfill with General Fund resources to replace one-time federal funding from carry-forward resources used in the 2015-17 budget.
- Savings were made to reduce the General Fund in the Operations budget. These include decreasing the overall budget for assessments by $1 million in anticipation of renegotiating the contract with the firm who administers the various assessments, reducing services and supplies by $1.2 million, and reducing the personal services budget by $1 million anticipating positions will be left vacant longer before rehiring. Fourteen positions identified by the agency as long-term vacancies or positions that could be eliminated were abolished across the agency. In addition, two information technology positions were transferred to the State Chief Information Officer as part of a state-wide government policy change. Another $1.5 million General Fund ($3.1 million total funds) was reduced from the ODE Operations budget as part of the statewide adjustments that applied to most state agencies.
- Policy bills relating to school facilities environmental conditions (SB 1062), school nursing (SB 111), vision screening (SB 187), and statewide social studies standards added a total of $575,511 General Fund and four positions (2.96 FTE) to the ODE budget.

## Oregon School for the Deaf

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 11375,088 | 11,913,277 | 12,412,966 | 12,131,628 |
| Other Funds | 3,270,348 | 5,880,569 | 3,975,434 | 6,025,702 |
| Federal Funds | 237,499 | 624,186 | 514,272 | 258,004 |
| **Total Funds** | **$14,882,935** | **$18,418,032** | **$16,902,672** | **$18,415,334** |
| Positions | 84 | 85 | 82 | 82 |
| FTE | 76.01 | 78.25 | 75.77 | 75.77 |

Program Description

The Oregon School for the Deaf (OSD) is a residential/day program located on 52 acres in Salem that serves students who are hearing-impaired. OSD provides academic and career education, living skills development, athletics, and leadership training. OSD serves roughly 120 students per year with approximately 48% in the day program and the remaining residing on the campus during the school year. As of December 2016, 46% of the students were in high school, 23% in middle school, 12% in elementary school, and the remaining 19% 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, property rental income, and other sources. Federal revenues are generally special education related funding.

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 identified deferred maintenance projects that need to be addressed. Projects completed so far include roof replacement/repair on some of the buildings, upgrading an elevator, refinishing the gym floor, and installation of a new HVAC system to replace the current boiler system. 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. A total of $4.4 million of Article XI-Q bonds were authorized for issuance during 2017-19 for OSD.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $12.1 million General Fund is just over $218,000 (or 1.8%) greater than the 2015-17 legislatively approved budget. The total funds budget of $18.4 million is $2,698 less than the 2015-17 amount. There are a few changes to the 2015-17 current service level budget. Other Funds expenditure limitation was increased by $250,268 to backfill the loss of federal funding. Other Funds limitation was also increased by $300,000 to reflect greater revenues from school districts and ESDs when staff from OSD perform Individual Educational Plans for students. These contracts have been growing from year to year. To account for the spending for deferred maintenance projects started in 2015-17 and not completed, $1.5 million in Other Funds limitation is added. These projects are in addition to the projects that will be financed from bonding approved for 2017-19. Two Facility Energy Technician positions no longer required after the modernization of the HVAC system are reclassified to custodial positions, saving a net $95,894 General Fund. OSD's budget was reduced by $185,444 General Fund as part of the administrative reductions common to most state agencies for changes in assessments and delays in hiring.

## K-12 Grant-in-Aid and Youth Corrections Education Program

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 219,712,124 | 262,195,671 | 273,247,093 | 453,220,802 |
| Other Funds | 78,375,972 | 97,726,391 | 99,169,257 | 273,506,378 |
| Federal Funds | 674,712,742 | 813,908,591 | 843,227,762 | 851,958,120 |
| Federal Funds (NL) | 372,416,650 | 388,007,727 | 388,007,727 | 388,007,727 |
| **Total Funds** | **$1,345,217,488** | **$1,561,838,380** | **$1,603,651,839** | **$1,966,693,027** |
| Positions | 4 | 2 | 2 | -- |
| FTE | 4.00 | 2.00 | 2.00 | -- |

Program Description
The majority of the Department's Grant-in-Aid programs are for the purchase of 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 (NQTL) and several "strategic" investments directed at key program areas. This budget unit also includes the funding of the grants to school districts under Ballot Measure 98 which established the High School Graduation and College and Career Readiness Act.

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 through the Youth Corrections Education Program. The Department contracts with local education agencies (e.g., educational service districts) to provide services to students. In the past, the Youth Corrections Education Program was a separate budget unit, but, beginning with the 2017-19 legislatively adopted budget, it was folded into the K-12 Grant-in-Aid when all remaining positions in the program were eliminated. Until 2017-19, the program had a small number of state employees; but 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. Now all of the program's funding is used to purchase services.

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 or NQTL (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 programs (e.g., Title I) connected to the Every Student Succeeds Act or ESSA (formerly the No Child Left Behind Act), special education through the federal Individual with Disabilities Education Act (IDEA), 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.

Funding for the Youth Corrections Education Program also 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 school revenue distribution formula. Federal Funds are from the Title I Neglected and Delinquent Program and IDEA.

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. The Department generally contracts with Education Service Districts (ESDs) 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 given the cost factors are similar to those facing the general education systems including teacher compensation and benefits (e.g., PERS). With the amount provided in the legislatively adopted budget for 2017-19, it is estimated that funding will meet roughly 81% of the recommended service level as determined by ODE staff.

Over the past few biennia, several new “strategic investments” were created, as well as the Network for Quality Teaching and Learning (NQTL). These programs provided targeted investments or grants to school districts and other entities. These were outside the school funding formula (State School Fund) and were generally awarded as competitive grants. Many of the programs only lasted one biennium as executive and legislative branch priorities changed. Programs related to reading and literacy, student mentoring, and STEM lab schools were discontinued in 2015. At the same time, new programs were created (or significantly expanded) specifically in the areas of Career and Technical Education (CTE) and Science, Technology, Engineering and Mathematics (STEM), and programs designed to close the achievement gaps for specific populations including African Americans and Native Americans.

Professional development and educator effectiveness (funded through the NQTL and General Fund) followed a similar pattern as many programs established in 2013 were not continued in 2015 or were replaced with other programs. Under SB 182 (2017), the NQTL is destined for elimination in 2019-21 to be replaced with a system where specific programs will be developed through local networks of districts and a statewide council.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $1.97 billion total funds is $405 million (or 25.9%) greater than the 2015-17 legislatively approved budget, while the General Fund budget of $453.2 million is $191 million (or 72.8%) greater over the same period. A detailed listing by major program is outlined on the table found on the next page. Most of this increase is due to the passage of Ballot Measure 98 described below which accounted for $170 million in General Fund growth.

Voters passed Ballot Measure (BM) 98 in November 2016 which established the High School Graduation and College and Career Readiness Fund. Monies from the fund are to be used by school districts in three focus areas – Career and Technical Education (CTE), college-level education opportunities or accelerated learning, and drop-out prevention. At least 85% of the funding dedicated for this purpose must be used for grades 9 to 12. The smallest districts (receiving less than $100,000 in BM 98 funds annually) can spend in one or more of the focus areas, slightly larger districts (receiving between $100,000 and $300,000 annually) must spend in at least two of the focus areas, and the remaining districts must spend in all three of the focus areas. Funding is distributed to districts based on the extended (weighted) Average Daily Membership of students in grade 9-12. For the 2017-19 biennium, the Legislature provided $170 million General Fund for this purpose. This represents roughly 60% of the amount established in the Ballot Measure, but it was thought that districts required time to phase-in these programs. Because of accounting practices and the language establishing this Fund, another $170 million Other Funds expenditure limitation was approved for the payments to the school districts. Eight positions ($1.8 million General Fund) were added to the Operations budget for staffing related to this program.

The remaining Grant-in-Aid programs are divided into six general areas. Changes to programs in these areas are described below in more detail.

1) Student Success Grants: In addition to the BM 98 related program described above, four new programs were also established in this area for ODE.

- A chronic absenteeism initiative (SB 183) was established with funding of $6.2 million General Fund to provide grants to groups of partner school districts addressing chronic absenteeism issues and funding to support up to 20 coaches to assist the districts with the highest rates of chronic absenteeism.
- To offset school district costs in meeting requirements relating to Dyslexia, $1.9 million NQTL funding (Other Funds) is provided.
- SB 187 authorizes reimbursement of providers performing vision screenings on students and this budget includes $1 million General Fund and just less than $1 million in Other Funds expenditure limitation for this purpose.
- $1 million General Fund is provided to continue pilot projects related to Trauma Informed practices which had been part of the Chief Education Office budget.

Two reading programs – Start Making a Reader Today and the Reach Out to Read program – are reduced by 50% from the current service level to funding levels of $261,687 and $51,850 General Fund, respectively. The Supporting Accelerated Learning Opportunities, which assists in paying for Advanced Placement and International Baccalaureate tests, was reduced by 9% to $2.6 million General Fund, while Accelerated Learning and Regional Promise grants were maintained at the current service level. These programs support district efforts around BM 98. The General Fund for the Physical Education (PE) grants was increased to $953,411 to offset the loss of a portion of the Tobacco Master Settlement Agreement (TMSA) funding. Funding to pay for a physical education position was carved out of the overall funding for these PE grants leaving a total of $4.4 million total funds. Over $19.4 million total funds is available for contracts to pay for the educational services at state and county Youth Corrections facilities.

2) STEM and CTE Related Programs: CTE Revitalization grants were increased by almost 11%, in part because of its importance in supporting BM 98 programs and because the CTE Summer programs were folded into the Revitalization grants. Due to General Fund resources, various STEM and CTE programs were reduced by up to 11%, including Regional Network grants, Career Pathway grants, Innovation grants, and Student Leadership Centers. The CTE Mentoring program was eliminated, as was the Course Equivalent pilot program.

3) Nutritional Programs: Almost all of the resources in this area is federal funding representing $388 million of the total $394.6 million. General Fund for the Farm-to-School program is $4.5 million, a slight increase over 2015-17 levels, while the General Fund resources for the other programs are down by over $300,000 to reflect actual spending patterns in past biennia.

4) Educator Effectiveness and Professional Development: Funding for this area is $75.4 million total funds of which $47.9 million represents various federal grants for this purpose. The remaining $27.5 million is NQTL funds of which $13.5 million is for School District Collaboration grants, $11.5 million is for Mentoring grants, and $2.5 million is for Leadership Training and Effective Teacher Preparation. Assessment Literacy, a 2015-17 program, was not funded in this budget.

5) Closing the Achievement Gap: Funding for the African American Education Plan, a new program in 2015-17, grew by over 100% to $6 million General Fund, while the Tribal Attendance program was continued at the current service level of $1.6 million General Fund. The English Language Learners program was continued at $10.4 million Other Funds expenditure limitation, as a carve-out from the SSF. NQTL funding was used for the School and District Turnaround grants and the Low Performing Schools program at $2 million and $2.5 million, respectively. This area includes almost $330 million in federal funding tied to the recently passed Every Student Succeeds Act or ESSA.

6) Special Education Programs: Funding for the Early Invention/Early Childhood Special Education (EI/ECSE) program is increased by $6 million General Fund and $1.7 million Federal Funds over the current service level. Funding for this program has not kept pace with caseload and cost increases. Even with this increased investment in this program, it is estimated that funding will meet roughly 81% of the recommended service level as determined by ODE staff. Besides the EI/ECSE program, the various Special Education programs are generally maintained at CSL or 2015-17 levels.

| | Millions of Dollars | | | | |
|---|---|---|---|---|---|
| | 2015-17 Leg. Approved | | | 2017-19 Leg. Adopted | |
| | General Fund | Total Funds | | General Fund | Total Funds |
| **K-12 GRANT-IN-AID PROGRAMS** | | | | | |
| **Student Success Grants** | | | | | |
| Start Making A Reader Today (SMART) | $ 0.50 | $ 0.50 | | $ 0.26 | $ 0.26 |
| Reach Out to Read Program | $ 0.10 | $ 0.10 | | $ 0.05 | $ 0.05 |
| Supporting Accelerated Learning Opportunities | $ 2.80 | $ 2.80 | | $ 2.64 | $ 2.64 |
| Accelerated Learning | $ 0.25 | $ 0.25 | | $ 0.26 | $ 0.26 |
| Regional Promise Grants | $ 3.00 | $ 3.00 | | $ 3.11 | $ 3.11 |
| PE Grants | $ 0.38 | $ 4.50 | | $ 0.95 | $ 4.36 |
| Ballot Measure 98 Grants | $ - | $ - | | $ 170.00 | $ 340.00 |
| Chronic Absenteeism (SB 183) | $ - | $ - | | $ 6.24 | $ 6.24 |
| Trauma Informed (SB 183) | $ - | $ - | | $ - | $ 1.00 |
| Student Transitional Supports | $ 1.40 | $ 1.40 | | $ - | $ - |
| Charter Schools | $ - | $ - | | $ - | $ 7.00 |
| Dyslexia | $ - | $ - | | $ - | $ 1.90 |
| Youth Corrections Programs | $ - | $ 18.72 | | $ - | $ 19.42 |
| Vision Screenings (SB 187) | $ - | $ - | | $ 1.00 | $ 1.92 |
| Other FF/OF Student Success Grants | | $ 58.51 | | $ - | $ 61.32 |
| **Total Student Success Grants** | **8.44** | **89.79** | | **184.52** | **449.49** |
| **STEM and CTE Related Programs** | | | | | |
| STEM/CTE Regional Network Grants | $ 5.00 | $ 5.00 | | $ 4.67 | $ 4.67 |
| CTE Revitalization Grants | $ 9.00 | $ 9.00 | | $ 10.33 | $ 10.33 |
| STEM/CTE Career Pathway Fund | $ 8.75 | $ 8.75 | | $ 8.17 | $ 8.17 |
| STEM/CTE Innovation Grants | $ 4.75 | $ 4.75 | | $ 4.43 | $ 4.43 |
| CTE Summer Programs | $ 1.75 | $ 1.75 | | $ - | $ - |
| CTE Mentoring Development | $ 1.10 | $ 1.10 | | $ - | $ - |
| Student Leadership Centers | $ 0.75 | $ 0.75 | | $ 0.70 | $ 0.70 |
| For Inspiration & Recognition of Science & Tech (FIRST) | $ 0.50 | $ 0.50 | | $ 0.47 | $ 0.47 |
| Course Equivalent | $ 0.12 | $ 0.12 | | $ (0.00) | $ (0.00) |
| CTE Vocational Education Grant: Perkins Grant | $ - | $ 31.12 | | $ - | $ 32.19 |
| World of Speed (One Time Grant) | $ 0.10 | $ 0.10 | | $ - | $ - |
| Other STEM and CTE Related Programs | $ 0.26 | $ 0.26 | | $ - | $ - |
| **Total STEM and CTE Related Programs** | **32.08** | **63.20** | | **28.77** | **60.96** |
| **Nutritional Programs** | | | | | |
| Federal Reimbursement Programs | $ - | $ 388.01 | | $ - | $ 388.01 |
| After School Meal/Snack Program | $ 0.46 | $ 0.46 | | $ 0.48 | $ 0.48 |
| Breakfast & Summer Lunch Programs | $ 1.99 | $ 4.38 | | $ 1.61 | $ 1.61 |
| Farm to School Programs | $ 4.47 | $ 4.47 | | $ 4.50 | $ 4.50 |
| **Nutritional Programs** | **6.92** | **397.32** | | **6.59** | **394.60** |
| **Educator Effectiveness & Professional Development** | | | | | |
| School District Collaboration Grant - NQTL | $ 1.00 | $ 16.00 | | $ - | $ 13.50 |
| Mentoring Grants - NQTL | $ - | $ 10.00 | | $ - | $ 11.50 |
| Leadership Training/Effective Teacher Prep | $ 2.00 | $ 2.00 | | - | $ 2.50 |
| Effective Teacher Prep | $ 1.50 | $ 1.50 | | - | $ - |
| Assessment Literacy/Strengthen Prof Develop | $ 2.00 | $ 2.00 | | $ - | $ - |
| Other Educator Effectiveness & Professional Development | $ 0.20 | $ 46.34 | | $ - | $ 47.85 |
| **Total Educator Effectiveness & Professional Development** | **6.70** | **77.84** | - | **-** | **75.35** |
| **Closing the Achievement Gap** | | | | | |
| African American Education Plan | $ 2.76 | $ 2.76 | | $ 6.00 | $ 6.00 |
| Tribal Attendance | $ 1.50 | $ 1.50 | | $ 1.55 | $ 1.55 |
| Native American Curriculum | $ - | $ - | | $ 1.80 | $ 1.80 |
| English Language Learners | $ - | $ 10.06 | | $ - | $ 10.43 |
| Low Income Title I, Part A | $ - | $ 289.30 | | $ - | $ 300.00 |
| Title I - School Improvement Grants | $ - | $ 9.64 | | $ - | $ 10.00 |
| Migrant Education: Title I, Part C | $ - | $ 20.76 | | $ - | $ 21.53 |
| English Language Acquisition: Title III | $ - | $ 21.96 | | $ - | $ 22.77 |
| School & District Turnaround Grants - NQTL | $ 0.55 | $ 5.70 | | $ - | $ 2.00 |
| Low Performing Schools - NQTL | $ - | $ - | | $ - | $ 2.50 |
| Title IV-B 21st Century Community Learning Centers | $ - | $ 17.45 | | $ - | $ 18.10 |
| Other Closing the Achievement Gap Programs | $ 0.20 | $ 0.20 | | $ - | $ - |
| **Total Closing the Achievement Gap** | **5.01** | **379.33** | - | **9.35** | **396.68** |
| **Special Education Programs** | | | | | |
| Early Intervention/Early Childhood Special Ed | $ 155.78 | $ 183.90 | | $ 175.01 | $ 207.26 |
| Regional Programs | $ 26.69 | $ 58.24 | | $ 27.68 | $ 60.40 |
| Hospital Programs | $ 1.32 | $ 9.11 | | $ 1.37 | $ 9.52 |
| Long Term Care and Treatment | $ 18.26 | $ 43.00 | | $ 18.94 | $ 44.81 |
| Blind & Visually Impaired | $ 1.00 | $ 5.85 | | $ 1.00 | $ 6.04 |
| Individuals with Disabilities Act (IDEA) | $ - | $ 254.26 | | $ - | $ 261.60 |
| **Total Special Education Programs** | **203.05** | **554.36** | - | **224.00** | **589.62** |
| **TOTAL K-12 GRANT-IN-AID PROGRAMS** | **262.20** | **1,561.84** | | **453.22** | **1,966.69** |

## Early Learning Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 160,275,978 | 224,679,514 | 250,484,088 | 247,940,701 |
| Other Funds | 9,330,655 | 11,167,664 | 11,580,868 | 11,580,868 |
| Federal Funds | 135,919,006 | 130,400,115 | 121,979,998 | 121,035,508 |
| **Total Funds** | **$305,525,639** | **$366,247,293** | **$384,044,954** | **$380,557,077** |

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. Approximately 50% of children enter kindergarten without the early literacy and math skills that align with Oregon's indicators of kindergarten entry. The governing and advisory entity for this new Division is the Early Learning Council, and the Division is led by the Early Learning Systems Director. The Division is part of ODE, but 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/Families, and Relief Nurseries). The Division and ODE rely on a network of Early Learning Hubs to be a local coordinator of early learning programs. New programs since the establishment of the Division in ODE include a new "mixed delivery" preschool program (Preschool Promise) and the Kindergarten Readiness and Innovation grants.

Revenue Sources and Relationships

The Early Learning Division receives Medicaid funding from the Oregon Health Authority for The Healthy Families 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 (Other Funds) are used for Relief Nurseries. Federal child care funding through the Child Care Development Block Grant 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. In the past, the Race to the Top grant funded a variety of activities in the Division including staff and agency infrastructure. This funding is no longer available.

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. Families up to 100% of the federal poverty level (FPL) are eligible for Head Start and OPK. In addition, homeless children and foster families are automatically eligible. Head Start programs are to consider eligibility for families up to 130% of FPL if they have determined that they have successfully recruited and enrolled all eligible families at 100% or below of FPL. Approximately 62% of eligible children (up to 100% of FPL) are served when including the Preschool Promise program.

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 manner similar to the Coordinated Care Organizations for the Oregon Health Plan. There are 16 approved Hubs covering the entire state. Hubs are primarily planning and coordinating entities and receive funding for their infrastructure. Most program funding does not generally flow through the Hubs, but increased funding starting in 2015-17 allowed the Hubs to direct some of their funding to "purchase" services based on local priorities. Hub funding is distributed based on the percentage of at risk children in each Hub service area after a $200,000 base funding for each Hub is provided.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the Early Learning Division's related Grant-in-Aid programs is $247.9 million General Fund and $380.6 million total funds. This represents increases of $23.3 million General Fund (10.4%) and $14.3 million total funds (3.9%). The smaller increase in total funds reflects the $9.4 million decrease in federal funding from the Child Care Development Block Grant and the end of funding for the federal Race-to-the-Top federal grant. The Oregon Pre-Kindergarten (OPK) program is by far the largest General Fund program with over 61.4% of the General Fund allocated to the program. The significant 2015-17 growth of other newer programs (e.g., Healthy Families Oregon, Preschool Promise, and Early Learning Hubs) has reduced the prominence of OPK from the 80% it represented in 2013-15 and the 65.4% for 2015-17. The following table displays the funding for various Early Learning Grant-in-Aid programs.

| | *Millions of Dollars* | | | | |
|---|---|---|---|---|---|
| | **2015-17 Leg. Approved** | | | **2017-19 Leg. Adopted** | |
| | **General Fund** | **Total Funds** | | **General Fund** | **Total Funds** |
| **EARLY LEARNING GRANT-IN-AID** | | | | | |
| Oregon Prekindergarten/Early Head Start | $ 146.90 | $ 146.90 | | $ 152.33 | $ 152.33 |
| Healthy Families | $ 24.00 | $ 28.08 | | $ 24.84 | $ 29.50 |
| Office of Child Care Programs | $ 2.28 | $ 134.66 | | $ 2.08 | $ 125.17 |
| Relief Nurseries | $ 8.60 | $ 10.60 | | $ 8.92 | $ 10.99 |
| Kindergarten Partnership & Innovation Grants | $ 9.12 | $ 9.12 | | $ 9.07 | $ 9.07 |
| Early Learning HUBs | $ 16.24 | $ 19.35 | | $ 14.97 | $ 17.77 |
| Early Learning Service Providers Capacity Building | $ - | $ - | | $ - | $ - |
| Preschool Promise | $ 17.54 | $ 17.54 | | $ 35.73 | $ 35.73 |
| **TOTAL EARLY LEARNING** | **224.68** | **366.25** | | **247.94** | **380.56** |

Generally, Early Learning Grant-in-Aid programs saw limited growth between 2015-17 and 2017-19. The exception to this was the Preschool Promise program which doubled in funding as the one-year program in 2015-17 was expanded to a full two-year program in 2017-19. Other changes to the various Early Learning Grant-in-Aid programs include:

- The budget reflects the ending of the federal Race-to-the-Top grants and other programs with a decrease or phase-out of $9.3 million of Federal Funds expenditure limitation from the budget.
- A net reduction of $224,604 General Fund was taken from one-time special payments for the Preschool Promise program and is transferred to the Operations budget unit to fund staffing costs related to the Preschool Promise program.
- A net $944,490 Federal Funds expenditure limitation reduction was made for Child Care Development Block payments to the Department of Human Service's (DHS) Employment Related Day Care (ERDC) program to assist in paying for 18 new positions in Operations for the additional workload anticipated by the increased number and scope of background checks required under recently adopted federal regulations. Also factored into this, is the transfer of the funding (and in some cases the associated responsibilities) for the Teen Parent child care program, the Alcohol and Drug Special Populations program, and the MSFW Special Populations program from ODE to DHS. The transfer also includes factoring $3.1 million of ending balance resources for the Block Grant so the ERDC program is funded just above current service level.
- Funding for various grant programs is reduced by a total of $2.3 million General Fund. The Kindergarten Partnership and Innovation grants are reduced by 4.1% to $9.1 million General Fund; and funding for Early Learning Hubs is funded at $15 million General Fund, or a decrease of 11.1% from the current service level. Miscellaneous grants with General Fund resources, within the Office of Child Care, are reduced by 12%. The OPK, Healthy Families, Relief Nurseries, and Preschool Promise programs are funded at the current service level.

### Youth Development Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 6,926,350 | 12,108,744 | 12,556,768 | 13,151,091 |
| Other Funds | 6,152,322 | 6,057,289 | 6,281,409 | 6,281,409 |
| Federal Funds | 1,012,924 | 3,077,687 | 3,191,561 | 750,000 |
| **Total Funds** | **$14,091,596** | **$21,243,720** | **$22,029,738** | **$20,182,500** |

Program Description

The Youth Development Division was established in 2013 to provide a focus point for youth-related programs; and to insure services provided to youth through 24 years of age are provided in a manner that is integrated, measurable, and accountable to support academic success and reduce criminal involvement. 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. Division staff are included as part of the Operations budget unit.

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. There is also $750,000 General Fund included in this budget for 2017-19 which represents Gang Prevention grants that had been in the Operations budget unit.

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 five general grant streams as part of this programing – Youth and Community grants, Youth and Innovations grants, Gang Prevention grants, Community Schools, and Juvenile Crime Prevention grants.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the Youth Development Division's Grant-in-Aid programs is $13.2 million General Fund and $20.2 million total funds. This represents changes from 2015-17 funding levels of 4.7% and -5%, respectively. The drop in total funds is generally driven by a reduction in Federal Funds expenditure limitation of $2.4 million relating to lost federal funding and a correction for excess limitation. Funds for the various programs in this budget unit are detailed in the following table.

| | *Millions of Dollars* | | | |
|---|---|---|---|---|
| | 2015-17 Leg. Approved | | 2017-19 Leg. Adopted | |
| | General Fund | Total Funds | General Fund | Total Funds |
| **YOUTH DEVELOPMENT GRANT-IN-AID** | | | | |
| Juvenile Crime Prevention | $ 5.83 | $ 8.90 | $ 5.88 | $ 6.63 |
| Gang Prevention & Intervention Grants | $ - | $ - | $ 0.75 | $ 0.75 |
| Youth & Community | $ 2.89 | $ 8.89 | $ 3.25 | $ 9.47 |
| Youth & Innovation | $ 3.30 | $ 3.30 | $ 3.17 | $ 3.17 |
| Community Schools | $ 0.10 | $ 0.15 | $ 0.10 | $ 0.16 |
| **TOTAL YOUTH DEVELOPMENT** | **12.11** | **21.24** | **13.15** | **20.18** |

Changes in this budget unit include:

- The overall General Fund for the various grant funds were reduced by a net $155,677 from the current service level. The agency will see reductions in the Juvenile Crime Prevention grants of $158,980 and in the Youth and Innovation grants of $246,766. Offsetting a portion of these reductions is an increase of $250,069 in the Youth and Community grants.
- The General Fund Gang Prevention grants ($750,000 General Fund) was transferred from the Operations budget unit to this budget unit.
- Federal Fund expenditure limitation was reduced by $2.4 million reflecting lost revenues and corrections for excess limitation.

### Debt Service and Bonding

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | -- | 19,851,315 | 18,263,417 |
| Lottery Funds | 42,371,073 | 1,434,927 | 651,225 | 651,225 |
| Other Funds | -- | 125,000,000 | 39,312,315 | 104,297,558 |
| **Total Funds** | **$42,371,073** | **$126,434,927** | **$59,814,855** | **$123,212,200** |

<u>Program Description</u>

This budget area includes all debt service and expenditure limitation related to bonds issued by the state on behalf of the agency and school districts. The General Fund represents the debt service required to pay off the Article XI-P general obligation bonds issued through the Oregon Capital Improvement Matching Program (OCIMP). This program provides matching grants to school districts for capital costs including construction, improvement, remodeling, equipment purchase, maintenance, and repair of facilities. Districts must match the state grants with funds from local voter approved bonds and grants are capped at $8 million. Almost all the Other Funds expenditure limitation represents the bond proceeds and are paid out to districts as grants or special payments. This is a two-year limitation. In 2015-17, $125 million in XI-P bonds were issued and $100 million is authorized for the 2017-19 biennium. Staffing for this program is through the Office of School Facilities and is part of the Operations budget unit above.

The Lottery Funds is the debt services for 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). Funds provided to districts from the bond proceeds were intended for the acquisition, construction, remodeling, maintenance, or repair of school facilities. Schools also could use the proceeds for certain operational expenses, such as textbooks, computers, and instructional training. Most of these bonds have been paid off over the last two or three biennia and will be fully paid in the next biennium.

<u>Revenue Sources and Relationships</u>

Lottery Funds in this budget unit are interest earnings generated from the Education Stability Fund. In the past, 75% of these earnings were directed to this purpose; but as the Lottery Bonds have been paid off, fewer resources have been required for debt service. The other interest earnings are directed to the Oregon Opportunity Grant program at the Higher Education Coordinating Commission (HECC).

<u>Legislatively Adopted Budget</u>

The 2017-19 legislatively adopted General Fund budget of $18.3 million represents the payments required for the Article XI-P bonds for the OCIMP program ($1.78 million) and $489,517 for Article XI-Q bonds for the School for the Deaf (see below). Lottery Funds expenditure limitation is for repaying Lottery Bonds issued in 1997 and 1999. The budget has been adjusted to reflect the latest projections of interest earnings and biennial payment obligations.

The Other Funds expenditure limitation of $104.3 million includes the $100 million for XI-P bonds revenues under the OCIMP program. The remaining $4.3 million Other Funds represents the proceeds of Article XI-Q bonds issued for deferred maintenance and other projects at the Oregon School for the Deaf. These include roof repair and replacement, and improvements to improve accessibility under the American with Disabilities Act (ADA). An additional $39.3 million in Other Funds expenditure limitation needs to be added during the 2018 session for bond proceeds from bonds issued in 2015-17, but not paid out to districts until 2017-19.

### Common School Fund Distributions

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds (NL) | 104,949,628 | 110,211,801 | 110,211,801 | 116,260,269 |
| **Total Funds** | **$104,949,628** | **$110,211,801** | **$110,211,801** | **$116,260,269** |

Program Description

This program reflects the transfer of Common School Fund (CSF) distributions from the Department of State Lands (DSL) to the Oregon Department of Education for distribution to K-12 school districts. Previously, DSL 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. The distribution to districts is a two-step process – first a distribution on a county level based on the number of persons between the ages of four to twenty; and then among the districts in each county, based on the number of county resident students attending school districts in that county.

Budget Environment

The State Land Board has adopted a policy that the amount of the distribution shall be equal to 4% of the average balance of the preceding 3 years of the Common School Fund if the 3-year rolling average growth is less than 11%. The Land Board can change this policy by a vote – in 2013-15 and 2015-17 the distribution was set at 5%.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $116.3 million Other Funds (Nonlimited) is based on a 4% distribution and reflects a 5.5% increase over the previous biennium based on the most recent estimate by the Department of State Lands. There is no assumption that the distribution will be at a higher rate at this time as was the case in the two proceeding biennia.

## State School Fund

Analyst: Wilson

### Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 6,322,625,891 | 6,925,296,093 | 7,543,537,881 | 7,653,853,380 |
| Lottery Funds | 327,374,109 | 447,703,907 | 469,087,606 | 464,758,594 |
| Other Funds | 400,826 | 3,260,692 | 3,260,692 | 85,248,393 |
| **Total Funds** | **$6,650,400,826** | **$7,376,260,692** | **$8,015,886,179** | **$8,203,860,367** |

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 school districts 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 Oregon 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 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 educational services 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 and ESDs are calculated by 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 revenue resources. This formula was designed to equalize allocations to schools. Districts may also have local option levies which the state may provide “equalization” assistance with if the district qualifies. The SSF also provides funding for the transportation related grant for districts which is based on a district’s eligible transportation costs and their relative costs compared with other districts. If the district’s costs are ranked in the top 10% of all districts, 90% of the eligible costs are covered; for the next 10% of schools, 80% of costs are covered; and for all other districts, 70% of the costs are covered. While the SSF and related formula distribution provides the largest share of resources for school districts and ESDs, ODE distributes approximately $1.8 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.

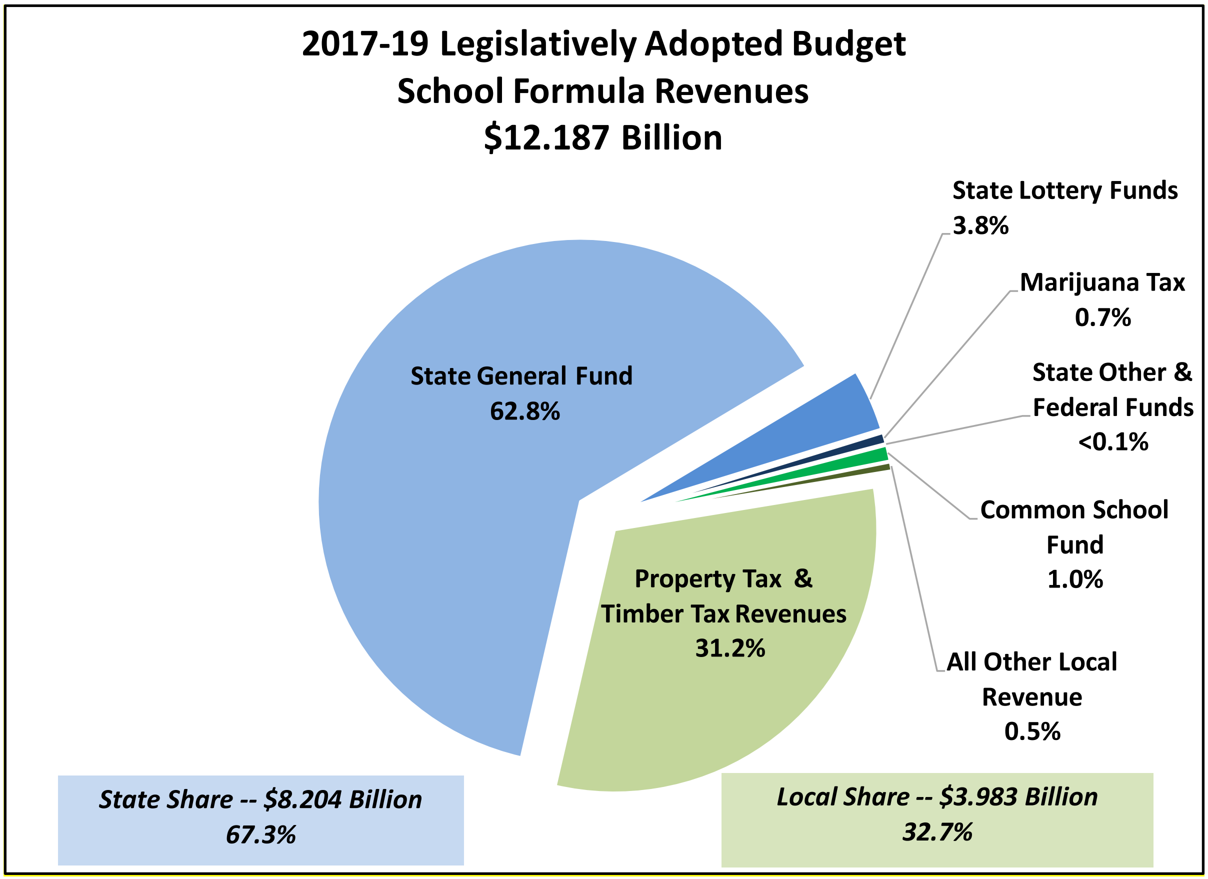
Revenue Sources and Relationships

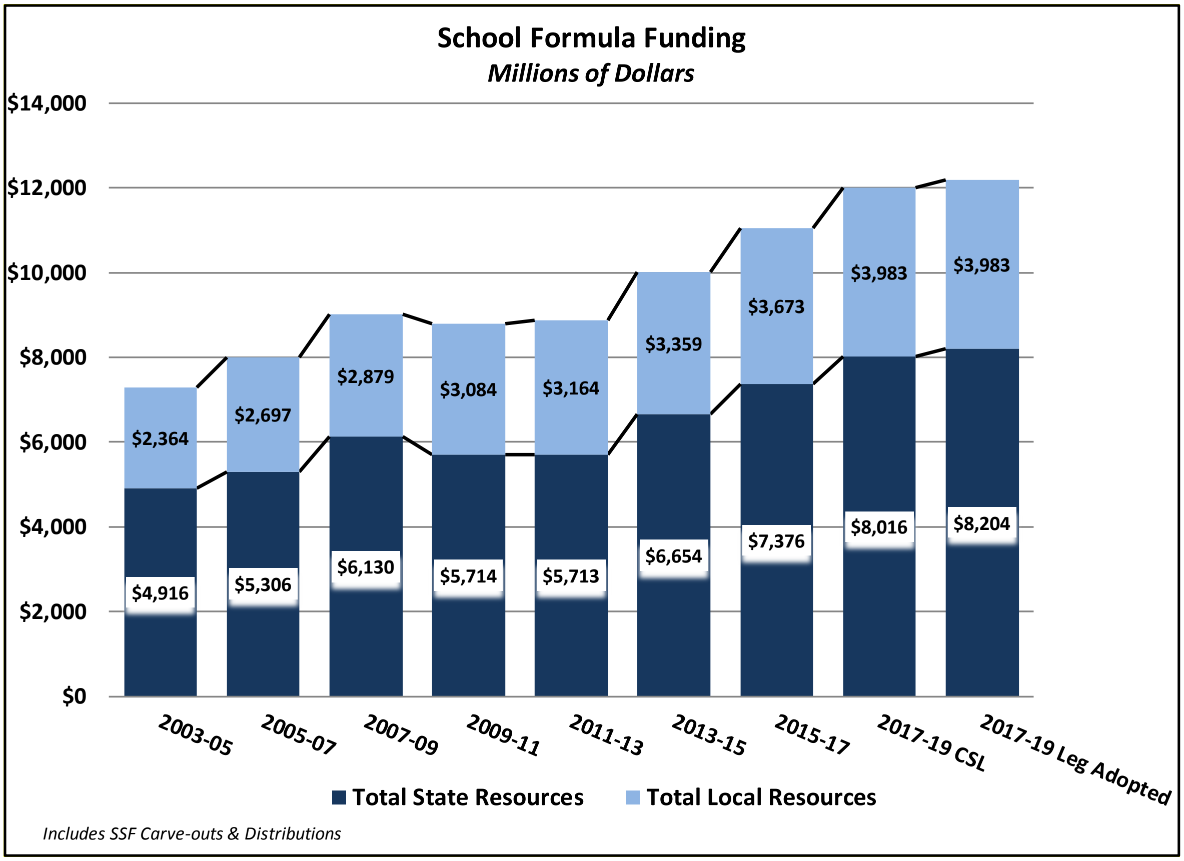
In 1990, voters approved Ballot Measure 5 that altered the state-local finance structure. Measure 5 phased in property tax limits that substantially reduced local property taxes for schools, and the state increased its share of funding and passed a new school equalization formula. By the end of the five-year tax limit phase-in, the state primarily funded the school system and significantly limited local control over school funding levels. For 2017-19, the estimated SSF or state share of the distribution amount through the equalization formula for school districts and ESDs represents 67.3% with various local revenues representing the remaining 32.7%. Prior to Measure 5, the state share was more in the 30% range.

The major fund sources for the SSF budget is 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. Beginning in 2017-19, this Other Funds amount includes dedicated Marijuana Tax resources, just less than

$81 million for 2017-19. In biennia where General Fund and other resources are scarce, there are two other resources that may be accessed. The Education Stability Fund, which originates as Lottery Funds, was accessed for the SSF during the 2007-09, 2009-11, and 2011-13 biennia. The Oregon Rainy Day Fund (General Fund) was used for the SSF in 2009-11. Neither budget stabilization fund has been used since 2009-11.

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, Common School Fund distributions, 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 2017-19 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 575,000 students in grades K-12. The estimated growth of the total weighted Average Daily Membership (ADM) is 0.42% per year during the 2017-19 biennium. Overall, weighted ADM is estimated at 710,000 for the 2017-18 school year.

In 2001, the Quality Education Commission (QEC) was established to: 1) determine the amount 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 for K-12; 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 (QEM)estimates, the 2017-19 legislatively adopted budget's SSF amount is still $1.77 billion short of funding Oregon's educational goals as outlined in the most recent QEM report (August 2016).

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the SSF is $8.204 billion total funds ($7.65 billion General Fund, $464.8 million Lottery Funds, and $85.2 million Other Funds) which makes up the state portion of the amount distributed to school districts and ESDs through the school funding formula. Marijuana Tax revenue accounts for $81 million of the Other Funds resources. This 2017-19 SSF budget represents a $827.6 million (or 11%) increase in total funds over the 2015-17 budgeted amount. Funding will be split evenly between the two school years of the biennium. An estimated $3.9 million of the SSF is assumed to be the amount needed to cover payments under the Local Option Equalization Grants. There is no legislative expectation that additional funds will 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 both the 2013-15 and 2015-17 biennia. 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 2017 legislative session including: (1) continuing the carve-out for a funding stream for the Network on Quality Teaching and Learning ($39 million), but reducing the statutory funding escalator from equal to the overall growth in the SSF to the inflation rate used in determining the current service level (CSL) for state agency budgets; (2) continuing the carve-outs for school nutrition programs ($2.5 million) and for English Language Learners ($12.5 million); and (3) further reducing the amount designated for School Facilities grants from $9 million per biennium to $7 million, and allocating the $2 million difference for the Healthy School Facilities Fund for grants to test for lead in water (effective starting in the 2019-21 biennium).

**2017-19 State School Fund & Local Revenues Distribution**

***Millions of Dollars***

| | | | | | |
|---|---|---|---|---|---|
| **State School Fund General Fund and Lottery Funds (includes state timber tax & dedicated Marijuana tax)** | | | | | **8,200.0** |
| **Less Selected Set-Asides & Carve-outs & Reserve Accounts** | | | | | **(108.1)** |
| 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 | | | | (26.0) | |
| 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) | | | | (3.9) | |
| Pediatric Nursing Facilities | | | | (5.2) | |
| English Language Learners (ELL) | | | | (12.5) | |
| Nutrition Related | | | | (2.5) | |
| Office of Educational Facilities (SB 447) | | | | (6.0) | |
| Reserve Account (distributed to districts later in biennium) | | | | (40.0) | |
| **Estimated Local Formula Revenues** | | | | | **3,983.2** |
| Property Taxes | | | | 3,803.1 | |
| Common School Fund | | | | 116.6 | |
| County School Fund | | | | 23.8 | |
| State Managed Timber | | | | 39.8 | |
| **Total Amount to be Distributed to School Districts and ESDs** | | | | | **12,075.1** |
| School District Share (95.50%) | | | | 11,506.1 | |
| Education Service Districts (4.5%) | | | | 569.0 | |
| **School District Distribution** | | | | | |
| Total Amount Available | 11,506.1 | | | | |
| Less Existing High Cost Disability Grants | (70.0) | | | | |
| Less Facilities Grants | (12.5) | | | | |
| Less School District Share of Network for Quality Teaching | (17.2) | | *Grows at rate equal to SSF growth for 17-19* | | |
| **Formula Revenue for Distribution to School Districts** | | **11,406,403,773** | **11,406.4** | | |
| **Education Service District Distribution** | | | | | |
| Total Amount Available | 569.0 | | | | |
| Less 10th Grade Assessment | (1.0) | | | | |
| Less ESD share of Network for Quality Teaching | (17.2) | | *Grows at rate equal to SSF growth for 17-19* | | |
| **Formula Revenue for Distribution to ESDs** | | **550,782,311** | **550.8** | | |

## HIGHER EDUCATION COORDINATING COMMISSION

Analyst: Wilson

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 1,428,225,965 | 1,793,234,610 | 1,898,574,206 | 1,954,059,623 |
| Lottery Funds | 45,638,739 | 62,406,155 | 76,713,302 | 96,567,082 |
| Other Funds | 370,177,018 | 624,663,207 | 66,567,490 | 508,486,844 |
| Other Funds (NL) | 42,546,031 | 579,299,901 | 209,147,256 | 213,046,781 |
| Federal Funds | 107,788,824 | 111,932,844 | 114,694,286 | 114,075,784 |
| Federal Funds (NL) | 18,968,832 | 19,598,833 | 23,556,205 | 23,556,205 |
| **Total Funds** | **$2,013,345,409** | **$3,191,135,550** | **$2,389,252,745** | **$2,909,792,319** |
| Positions | 113 | 143 | 126 | 124 |
| FTE | 104.02 | 124.30 | 118.52 | 116.15 |

Includes OHSU resources in the Department of Administrative Services budget.

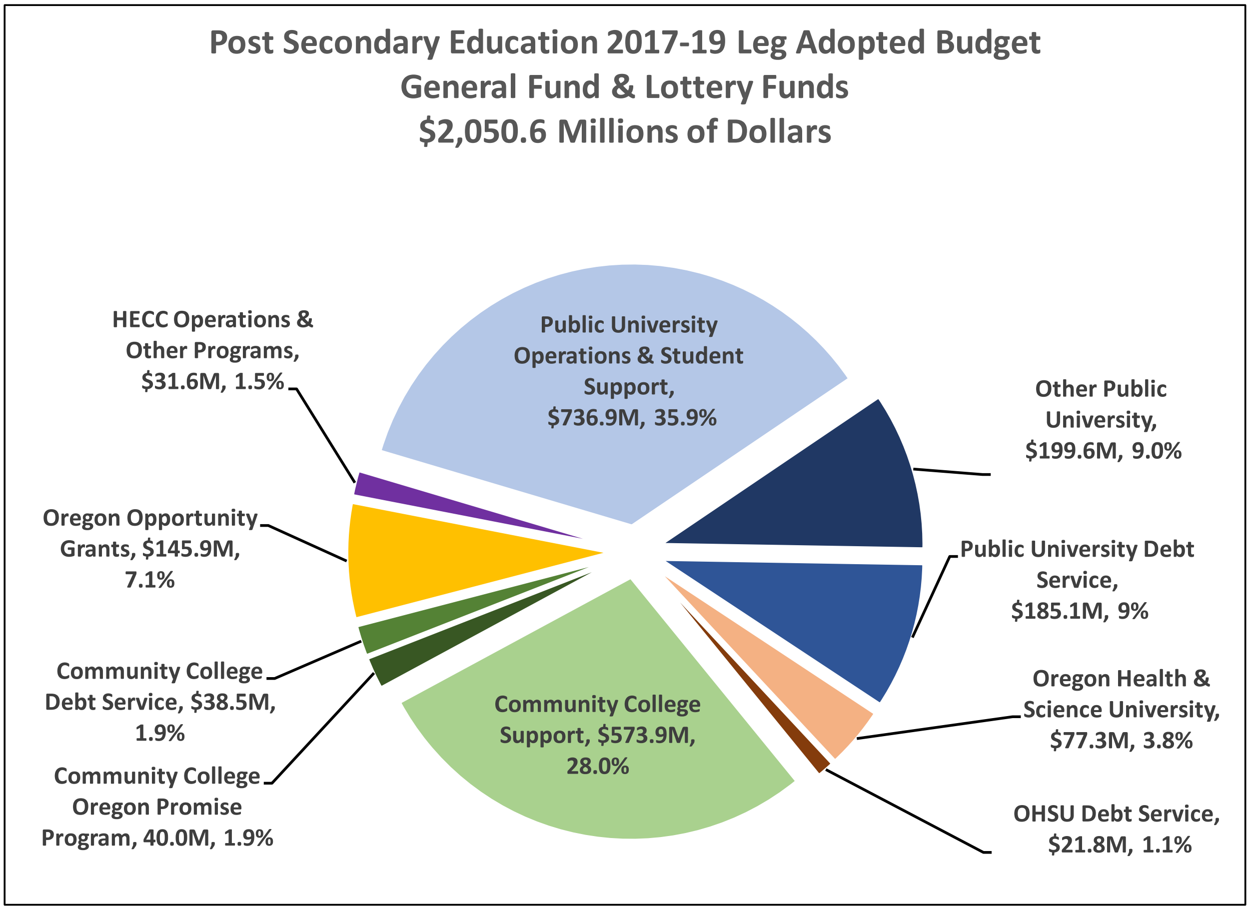
Overview

The Higher Education Coordinating Commission (HECC) is a 14-member commission (nine voting and five non-voting members) 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 several 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 also been transferred to HECC.

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 (e.g., community colleges and public universities), the Commission has a role in determining how the funding is distributed between the institutions. This is not the case for OHSU. In addition, a portion of the budgets for OHSU's state 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 and HECC. Below is a table that divides the 2017-19 legislatively adopted budget into its major components as well as a chart showing the distribution of General Fund and Lottery Funds resources.

| | *Millions of Dollars* | | | | | | |
|---|---|---|---|---|---|---|---|
| | **General Fund** | **Lottery Funds** | **Other Funds** | **Federal Funds** | **Other Funds NL** | **Federal Funds NL** | **Total Funds** |
| State Support to Community Colleges | 640.7 | 11.7 | 103.5 | - | - | - | 755.9 |
| State Support to Public Universities | 1,057.5 | 64.1 | 331.7 | - | 212.8 | 4.6 | 1,670.8 |
| State Support to the Oregon Health Sciences University | 99.1 | - | 38.8 | - | - | - | 137.9 |
| Oregon Opportunity Grant Program | 125.2 | 20.7 | 0.2 | - | - | - | 146.1 |
| HECC Staff, Operations and Other Programs | 31.6 | - | 34.3 | 114.1 | 0.2 | 19.0 | 199.1 |
| **Totals** | **1,954.1** | **96.5** | **508.5** | **114.1** | **213.0** | **23.6** | **2,909.8** |




Legislatively Adopted Budget

The 2017-19 combined General Fund and Lottery Funds legislatively adopted budget of $2.051 billion is $195 million, or 10.5%, greater than the 2015-17 legislatively approved budget. The growth is due to several factors including a 10.4% increase in the general support for public universities, 23.3% increase in the amount the state pays in debt service on behalf of public universities, a full two-year roll-out of the Oregon Promise program (an additional $30 million General Fund), and the initial investment in the Outdoor School program authorized by Ballot Measure 99 ($24 million Lottery Funds). Comparing total funds changes are more difficult given the effect that changes in capital construction expenditure limitation has on the budget. Detailed information on the budget can be found in the various budget units of the overall HECC budget found below.

### Staffing, Operations, and Other Programs

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 22,259,231 | 36,407,725 | 31,389,124 | 31,611,113 |
| Other Funds | 29,329,484 | 31,615,691 | 27,530,024 | 34,277,137 |
| Other Funds (NL) | 200,00 | 206,000 | 206,000 | 206,000 |
| Federal Funds | 107,788,824 | 111,932,844 | 114,694,286 | 114,075,784 |
| Federal Funds (NL) | 18,968,831 | 18,968,830 | 18,968,831 | 18,968,831 |
| **Total Funds** | **$178,546,370** | **$199,131,091** | **$192,788,265** | **$199,138,865** |
| Positions | 113 | 143 | 126 | 124 |
| FTE | 104.02 | 124.30 | 118.52 | 116.15 |

Program Description

This budget unit includes all 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, financial and other administrative staff, and research capacity and other post-secondary staff responsibilities formerly 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, General Education Development (GED) testing, and workforce development services.
- Office of Workforce Investments – 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. The workforce initiative passed by the 2013 Legislative Assembly is included in this budget ($8.1 million General Fund) which funds Work Ready Communities, Back to Work Oregon, the Supporting Sector Strategies program, and other programs. The staff for this area are co-located with Employment Department staff.
- 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. This area of the budget includes the grant funds paid out to students from the smaller financial assistance programs, and the Access to Student Assistance Programs in Reach of Everyone (ASPIRE) which trains volunteers to serve as mentors to middle and high school students with information regarding college and career choices, preparation, and financial aid for post-secondary education.

The 2017-19 legislatively adopted budgets for these various programs are detailed below.

**HECC Staffing, Operations and Other Programs**

***Millions of Dollars***

| | *2017-19 Leg Adopted Budget* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | General Fund | Other Funds | Federal Funds | Other Funds NL | Federal Funds-NL | Total | Positions | FTE |
| Director's Office | 2.25 | 0.13 | 0.18 | | | 2.56 | 8 | 8.00 |
| Central Operations | 6.84 | 8.39 | 3.42 | | | 18.65 | 31 | 30.50 |
| Research and Data | 2.33 | 0.19 | 0.36 | | | 2.88 | 9 | 8.48 |
| Office of Community College & Workforces Development | 2.49 | 2.04 | 2.37 | | | 6.90 | 15 | 13.94 |
| University Coordination | 2.55 | | | | | 2.55 | 8 | 8.24 |
| Office of Student Access and Completion | 1.66 | 1.84 | 0.41 | | | 3.91 | 16 | 14.25 |
| ASPIRE | 1.76 | 0.29 | | | | 2.05 | 9 | 6.50 |
| Miscellaneous Student Assistance | 0.98 | 15.07 | | | | 16.05 | | |
| Office of Degree Authorization/Private Career School | | 2.50 | | 0.21 | | 2.71 | 10 | 8.24 |
| Workforce Development Staff | 2.59 | 0.07 | 6.67 | | - | 9.33 | 15 | 15.00 |
| Workforce Investments | 8.14 | 1.12 | 99.47 | | 18.97 | 127.70 | | |
| Youth Conservation Corp | | 2.62 | 1.21 | | | 3.83 | 3 | 3.00 |

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 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 agency also has a contract with the U.S. Department of Veterans' Affairs for specific programs for veterans. Federal Funds associated with the workforce programs include WIA Title IB, WIA Title II, National Emergency Grants (NEG), and United States Forest Service funding for Oregon Youth Employment Initiatives (OYEI). HECC must apply to the federal government for any NEG funds, and expenditures of these funds are Nonlimited in the state budget.

Budget Environment

There are 205 schools regulated by the Private Career Schools (PCS) program and 24 schools regulated by the Office of Degree Authorization (ODA). The number of these schools depend, in part, on the economy; as the unemployment rate decreases so does the enrollment in many of these programs. The number of schools and programs also are affected by the degree of federal regulation. Over the past few years, there was greater oversight by the U.S. Department of Education, specifically on the burden of student debt and the ability of students finding gainful employment. This had an impact on these schools and programs. There are ongoing questions and discussion in the current federal administration on the level of federal oversight and regulation.

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 has yet to be completed for this replacement project even though the need for the system and ongoing discussions have been underway for at least three years. The agency now is indicating that the business case will be completed in time to request system development funding in the 2019-21 budget cycle

The ASPIRE program has resources for 2017-19 to operate approximately 170 sites by the second year of the biennium, compared to 168 for the 2015-16 academic year and 157 for the 2016-17 academic year. The number of sites have varied significantly from one year to another based on the availability of federal and state funding and the number of inactive sites that are dropped by the program. Federal funding for the FAFSA Plus program *(*Free Application for Federal Student Aid) is no longer available, but the agency will maintain relationships with as many of the 228 sites it worked with since the program was very successful in increasing the number of Oregon students filling out the FAFSA.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $31.6 million General Fund and $199.1 million total funds represents a $4.8 million decrease (13.2%) and almost no change from the 2015-17 approved budget, respectively. The primary reasons for the decrease in General Fund between the two budget periods is the elimination of one-time appropriations made for 2015-17, and reductions in workforce programs and administrative related reductions made during the 2017 legislative session. Major changes in the 2017-19 budget include:

- One-time appropriations for 2015-17 eliminated in this budget include information system development and other costs included for the Oregon Opportunity Grant and the FAMIS system. Several positions or portions of positions tied to specific task forces and work groups that competed their responsibilities were also not carried forward for the 2017-19 budget. Finally, there were one-time resources for grants to specific groups or for specific projects phased-out of the budget.

- The former Talent Council functions were transferred from the Employment Department to HECC. As a result, $1 million General Fund was appropriated to HECC including just under $250,000 for staff and related costs (1 position, 1.05 FTE) and $250,000 for contracts for strategic talent plans and other contracts. The remaining $500,000 General Fund is for grants to organizations that contribute to the goals of the former Talent Council.
- Various policy bills added over $1.3 million General Fund (2 positons, 0.96 FTE) to this budget. These bills include: (1) HB 2998 ($220,490) which deals with efforts to increase the transfer of credits between community colleges and public universities; (2) HB 2729 ($1 million) for open educational resources at post-secondary educational institutions, and (3) SB 231 ($134,000) for a Task Force on Student Mental Health Support.
- Almost $850,000 General Fund was reduced from various workforce programs representing 10% of the General Fund in these programs. This reduction will be taken in Industry Sector Strategies, Local Competitiveness Strategies, and Back to Work Oregon (on-the-job training which is partially federally matched). No direction was given to which specific program should be reduced.
- Administrative reductions include anticipated vacancy savings of $200,000 General Fund, elimination of five positions (4.33 FTE) across the agency providing over $746,000 in General Fund savings, $209,841 General Fund savings by anticipated hiring slow-downs, and over $327,000 General Fund in reductions to various internal state government assessments and charges that are common to almost all state agencies. Total funds reductions for these items are almost $2.4 million.

**State Support to Public Universities (Combined Totals)**

| | **2013-15 Actual** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---:|---:|---:|---:|
| General Fund | 783,772,154 | 943,190,004 | 1,018,009,031 | 1,057,495,453 |
| Lottery Funds | 33,571,489 | 40,127,710 | 44,233,875 | 64,121,610 |
| Other Funds | -- | 322,671,360 | -- | 331,725,000 |
| Other Funds (NL) | -- | 545,735,949 | 208,941,256 | 212,840,781 |
| Federal Funds (NL) | -- | 630,001 | 4,587,374 | 4,587,374 |
| **Total Funds** | **$772,343,643** | **$1,852,355,024** | **$1,275,771,536** | **$1,670,770,218** |

Program Description

For decades, the Oregon University System (OUS) was the state agency for the state's public universities and colleges, with the State Board of Higher Education as the single governing board. OUS provided central administration, support services, and public services for Oregon's seven institutions – 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. The result of these two bills was that OUS was redefined as a non-state agency for purposes of certain state statutes and constitutional provisions, and the seven institutions were reclassified as public universities. Now each of the seven public universities has a separate governing board with specified governance duties and rights including setting tuition and hiring the university president. Some academic oversight functions were transferred to HECC.

Revenue Sources and Relationships

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 be made to HECC, since a public university was no longer considered to be a state agency. These changes had the effect of moving non-state funded expenditures and position counts off the state budget.

State support to the seven public universities is provided through a number of programs or functions. These are shown in the table below with funding for 2015-17 legislatively approved budget and the 2017-19 legislatively adopted budget. Lottery Funds are only used for the new Outdoor School program at the Extension Service, for the Sports Lottery program, and for debt service. The Other Funds Nonlimited for Debt Service represents payments by the public universities from their own sources for Article XI-F and “legacy” bonds. The Other Funds Nonlimited for Capital Construction represents the limitation required when state bonds are refinanced. Both items do not represent further state spending commitments and can skew the overall numbers of state support from one biennium to another.

**State Support for Public Universities**
***Millions of Dollars***

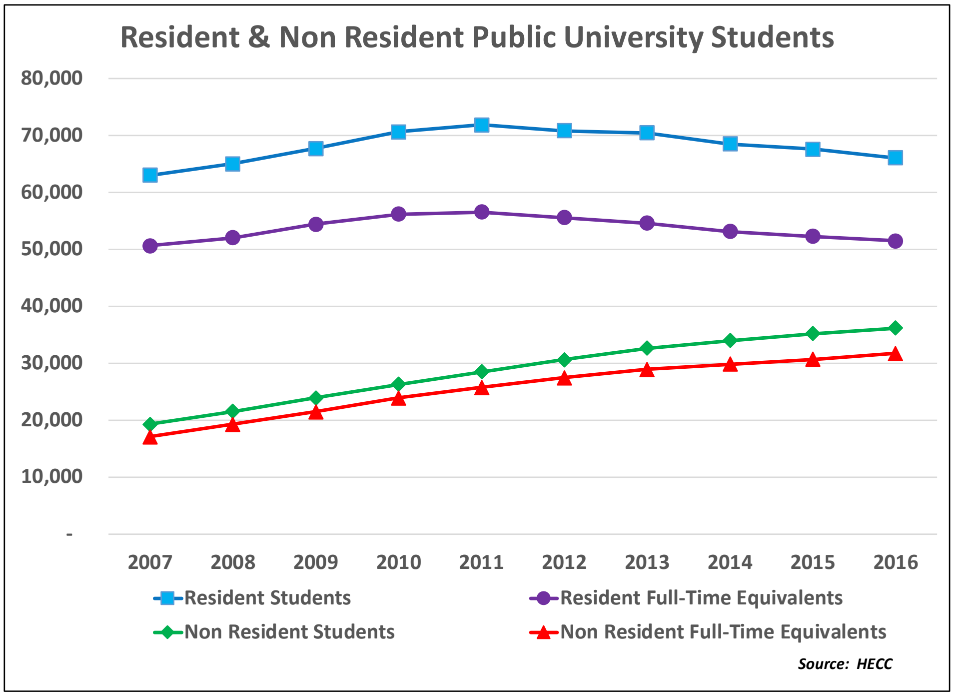
| | *2015-17 Leg Approved Budget* | | | | | | *2017-19 Leg Adopted Budget* | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | General Fund | Lottery Funds | Other Funds | Other Funds NL | Federal Funds-NL | Total | General Fund | Lottery Funds | Other Funds | Other Funds NL | Federal Funds-NL | Total |
| Public University Support Fund | 667.3 | | | | | 667.3 | 736.9 | | | | | 736.9 |
| State Programs | 39.1 | | | | | 39.1 | 43.0 | | | | | 43.0 |
| Agriculture Experiment Station | 63.1 | | | | | 63.1 | 66.5 | | | | | 66.5 |
| Extension Service | 45.6 | | | | | 45.6 | 47.7 | 24.0 | | | | 71.7 |
| Forest Research Lab | 9.8 | | | | | 9.8 | 10.2 | | | | | 10.2 |
| Sports Lottery | | 8.2 | | | | 8.2 | | 8.2 | | | | 8.2 |
| Debt Service | 118.2 | 31.9 | 1.3 | 275.2 | 0.6 | 427.2 | 153.2 | 31.9 | 0.9 | 212.8 | 4.6 | 403.4 |
| Capital Construction | - | - | 321.4 | 270.5 | - | 591.9 | - | - | 330.8 | - | - | 330.8 |
| Total | 943.1 | 40.1 | 322.7 | 545.7 | 0.6 | 1,852.4 | 1,057.5 | 64.1 | 331.7 | 212.8 | 4.6 | 1,670.8 |

State General Fund support for the public universities for 2017-19 biennium totals $1.057 billion and Lottery Funds total another $64.1 million. This is an increase of $138.3 million, or 14.1%, over the 2015-17 legislatively approved budget.

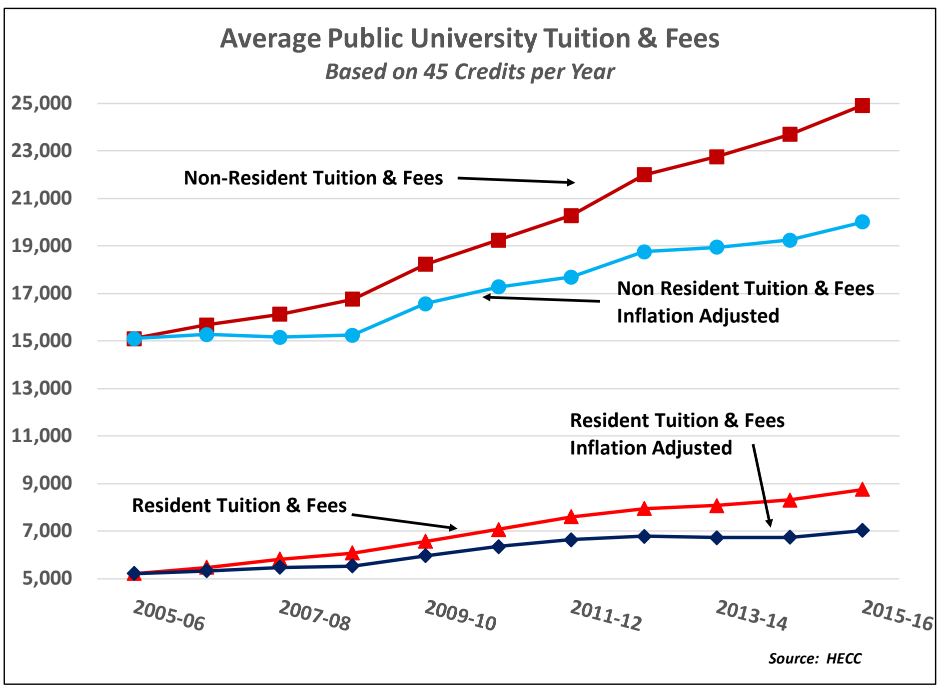
## Public University Support Fund: $736.9 Million General Fund

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

Based on data provided by the public universities to HECC, total enrollment grew from 82,249 (67,703 full-time equivalent students or FTE) in the fall of 2007 peaking in the fall of 2013 at 103,074 (83,483 FTE). Since 2013, enrollment has fallen back to 102,217 (83,160 FTE) in the fall of 2016. These counts are taken in the fourth week of the Fall quarter of the academic year. During this same period, the public universities have become more dependent on non-resident students. In 2007, the percentage of non-resident students represented 23.4% of total enrollment (25.2% FTE), and by 2016 the percentage of non-resident students had grown to 35.4% (38.1% FTE).




This growth in the number of non-resident students exists even with significantly higher tuition and fees which has increased at a faster rate as shown in the figure below. For both resident and non-resident students, the rate of increase in tuition and fees has outpaced general inflation.



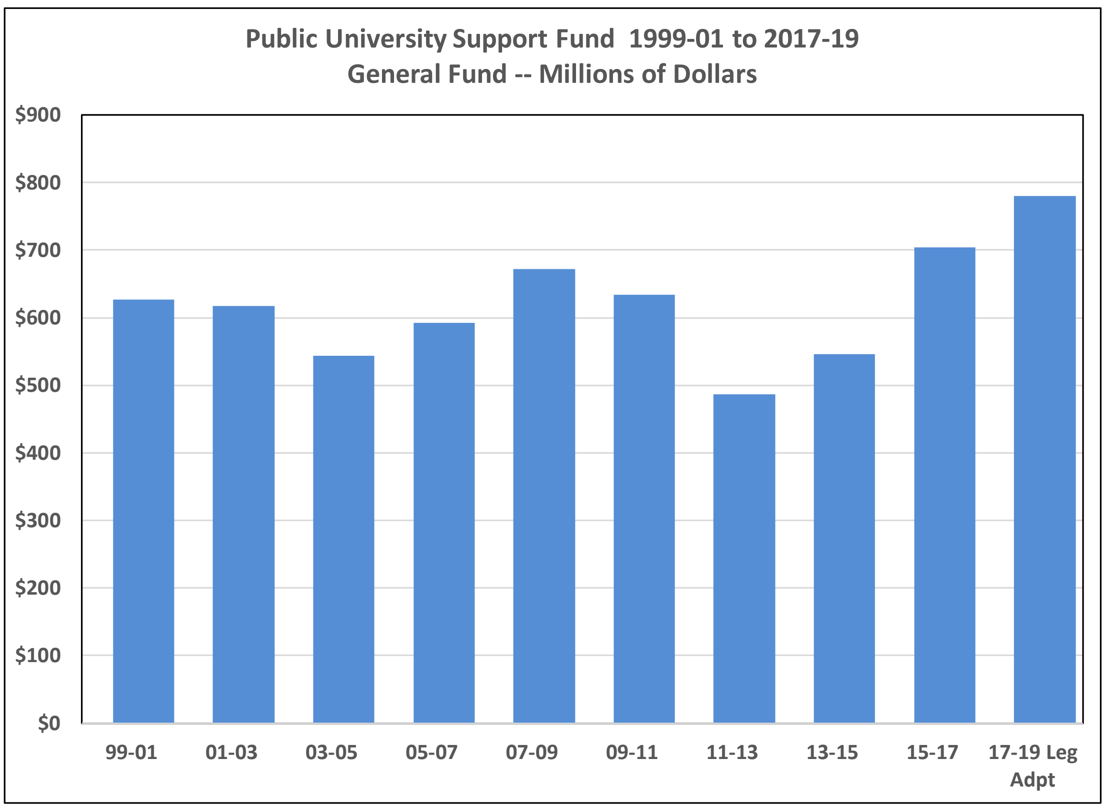

At the same time, public universities were experiencing higher enrollments, state funding levels did not keep pace with the growing number of students. This meant public universities begun to rely more on tuition and fees to keep pace with total costs. For data collected by the former Oregon University System (OUS), assistance from the state fell as a share of total revenues from 47% in 2001 to 19% in 2013 as tuition's share grew from 45% to over 70% over the same period. This data is no longer regularly collected at the state level after the elimination of OUS so more recent data is not readily available.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the Public University Support Fund, which includes the instruction, research, some public service expenditures, and operating costs of the seven institutions that comprise the state's public universities, totals $736.9 million, which is a $69.6 million, or 10.4%, increase from 2015-17 budget levels (6.3% over the current service level for 2017-19). This increase was tied to a budget note which instructed those public universities who had projected resident undergraduate tuition increases of more than 5% based on a lower state funding amount to specific tuition increases for the first year of the 2017-19 biennium. The same budget note includes language that it was the Legislature's expectation that the resident undergraduate tuition would grow by no more than 5% in the 2018-19 academic year.

Funding for the Career Advising and Mentorship pilot project of $570,000 General Fund was eliminated. This pilot program was established in 2015 by SB 860 and was limited to Western Oregon University and Oregon State University. The funding was primarily used for a position to work closely with students, alumni, and others to set up career mentoring by alumni.

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. This graph is not inflation adjusted.




## State Programs: $43 Million General Fund

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 primarily providing instructional support for institutions and students. Many of these programs have an industry-specific focus, and match state support with funds from the private sector and other sources. This budget unit also includes one-time appropriations for specific programs or functions where the funding flows through the public universities. An example of this for 2017-19 is the remodel of the Cascades Graduation and

Research Center. Funding for these programs was shifted from the Public University Support Fund budget unit that had historically been named Education and General Services. As shown in the graph above, 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 2017-19 legislatively adopted budget level of $43 million General Fund represents a $3.7 million, or 9.6%, increase over 2015-17. The increase is due to the addition of $3.2 million in one-time projects – Renewable Research Center, Molluscan Brood Stock Program, Ocean Acidification Research, EOU Information Technology facility improvements, Cascades Graduate and Research Center remodel, and the Willamette Falls Locks Commission.

**Public Universities State Programs**

| Program | | 2017-19 Legislatively Adopted Budget |
|---|---|---|
| Engineering Technology Sustaining Funds | $ | 25,596,618 |
| Dispute Resolution | $ | 2,634,011 |
| Oregon Solutions | $ | 2,363,195 |
| OSU Fermentation Science | $ | 1,297,665 |
| Signature Research | $ | 1,089,319 |
| Labor Education Research Center | $ | 710,328 |
| OSU Ocean Vessels Research | $ | 648,833 |
| Population Research Center | $ | 455,705 |
| Institute or Natural Resources | $ | 417,797 |
| Clinical Legal Education | $ | 364,381 |
| Oregon Climate Change Research Institute | $ | 327,490 |
| TallWood Design Institute | $ | 3,558,605 |
| PSU Profiling Study | $ | 262,162 |
| Renewable Research Center (OIT) | $ | 500,000 |
| Molluscan Brood Stock Program (OSU) | $ | 570,000 |
| Ocean Acidification Research (OSU) | $ | 280,000 |
| Information Technology Facility Improvements (EOU) | $ | 1,200,000 |
| Remodel of Cascades Graduate and Research Center | $ | 490,000 |
| Willamette Falls Locks Commission | $ | 190,000 |
| **Total** | **$** | **42,956,110** |

**Statewide Public Service Programs: $124.4 Million General Fund, $24 Million Lottery Funds**

Oregon State University (OSU), 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. Generally, counties provide office space and operating expenses, including support staff. Programs also use the services of many volunteers. Starting in 2017-19, the Extension Service is responsible for the Outdoor School program for 5th

and 6th graders across the state. This program was approved by voters in 2016 as Ballot Measure 99 and has a dedicated source of Lottery Funds.

- 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 at Oregon State University by $5.9 million General Fund to a total of $124.4 million, which is 5% above 2015-17 budget levels. The Legislature also approved $24 million in Lottery Funds for the Outdoor School as part of the Extension Service. This amount represents approximately 56% of the funding authorized in the Ballot Measure. This amount will allow the program to be phased-in over its first two years. It is anticipated that there will be at least $44 million available for the program starting in 2019-21 as the program becomes fully operational.

**Statewide Public Service Programs**
***Millions of Dollars***

| | *2015-17 Leg Approved Budget* | | | *2017-19 Leg Adopted Budget* | | |
|---|---|---|---|---|---|---|
| | General Fund | Lottery Funds | Total | General Fund | Lottery Funds | Total |
| Agriculture Experiment Station | 63.1 | | 63.1 | 66.5 | | 66.5 |
| Extension Service | 45.6 | | 45.6 | 47.7 | 24.0 | 71.7 |
| Forest Research Lab | 9.8 | - | 9.8 | 10.2 | - | 10.2 |
| **Total** | **118.5** | **-** | **118.5** | **124.4** | **24.0** | **148.4** |

## Sports Lottery: $8.2 million Lottery Funds

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 because 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 the program, 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 in some biennia (including 2017-19) preempting the dedicated 1% amount and allocated less Lottery Funds than would have been generated without legislative action to limit funding.

Legislatively Adopted Budget

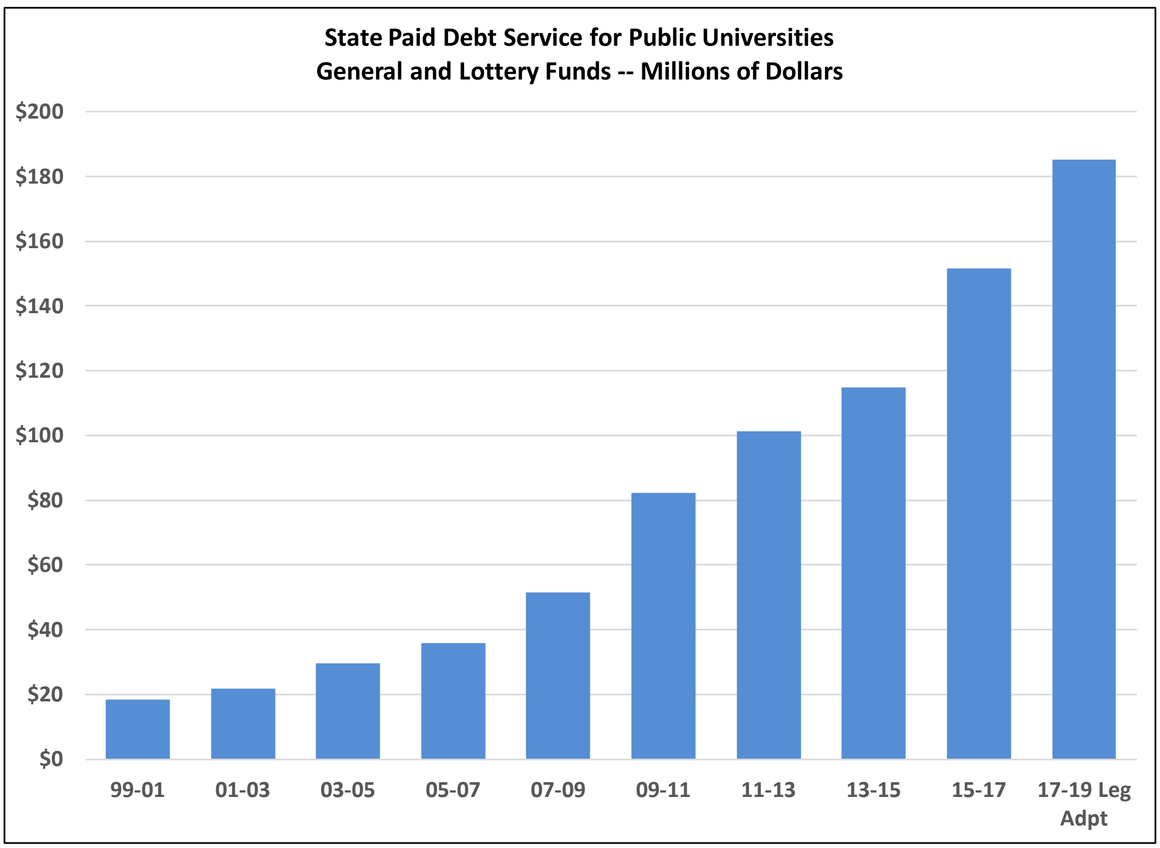
Sports Lottery funding was limited by law to $8.24 million total for the 2017-19 biennium, which is the same amount allocated for 2015-17. Just as in 2013-15 and 2015-17, allocations to Oregon State University and the University of Oregon were capped. For 2017-19, that amount is $1.03 million each. If 1% of Lottery proceeds had been allocated to the Sports Lottery program in 2017-19, $12.3 million Lottery Funds would have been available to Public Universities through the Sports Lottery program.

## Public University Debt Service: $153.2 Million General Fund, $31.9 Million Lottery Funds

The Debt Service budget area now includes both state funded debt service expenditures for capital construction projects financed by state bonds (Article XI-G and Q bonds and Lottery Bonds) as well as debt service paid by public universities for self-supported bonds (Article XI-F bonds). General Fund appropriations are made to pay the debt service on Article XI-G and Q bonds, traditionally used to finance instructional and public service facilities. Capital repairs have been financed in the past using lottery backed bonds. Revenues from self-supporting programs are the sources of debt service for repayment of Article XI-F 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 OUS became a non-state agency, these debt service payments were not included in the state budget as OUS was not limited by Other Funds expenditure limitations. With the termination of OUS, a state agency had to include these payments in its budget because these are state General Obligation bonds. 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 Other Funds Nonlimited 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 $185.1 million in 2017-19, which is $33.5 million, or 22.1%, over 2015-17 levels. This increase follows another significant increase between 2013-15 and 2015-17 of over 32%. Since 2009-11, the combined General and Lottery Funds for public university debt service paid by the state has increased over 125%. The following graph shows historical levels of state paid debt service.




Other Funds Nonlimited debt service payments on previously issued self-support bonds is estimated at $213.7 million in 2017-19 and payment for federal Build America Bonds is estimated at $4.6 million.

## Capital Construction: $330.8 Million Other Funds

The Capital Construction budget unit used to account for expenditure of proceeds of state General Obligation bonds sold for the benefit of the state's public universities. After the Oregon University System (OUS) 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 termination of OUS, a state agency had to include these payments in its budget, therefore the funding was added to the HECC Capital Construction budget unit for public universities. HECC will 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). Article XI-G bonds require an equal match from the public university, Article XI-Q bonds require no match, and Article XI-F bonds are supported by institution revenues. Issuance costs for these bonds are included in the HECC Operations budget unit.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget includes $330.8 Other Funds Capital Construction six-year expenditure limitation for HECC for distribution of General Obligation bond proceeds to public universities. This represents a slight increase from the $321.4 million in the 2015-17 budget. The $330.8 million is spread across multiple projects for all seven public universities as outlined in the table below. No Lottery Bonds were authorized for public universities in 2017-19.

**Public University Capital Construction Projects for 2017-19**

| Project | Institution | Article XI-G bonds | Article XI-Q bonds | Article XI-F bonds |
|---|---|---|---|---|
| Capital Improvement and Renewal | All | | 50,000,000 | |
| Loso Hall Renovation Phase 1 | EOU | | 5,500,000 | |
| Track and Field Facilities Restoration | EOU | | | 750,000 |
| Center for Excellence in Engineering & Technology/Cornett Hall Phase 2 | OIT | 2,000,000 | 38,000,000 | |
| Student Recreation Center | OIT | | | 5,000,000 |
| Oregon Manufacturing Innovation Center R&D Facility | OIT | | 3,875,000 | |
| Cordley Hall Renovation Phase 1 | OSU | | 15,000,000 | |
| Fairbanks Hall Renovation | OSU | | 11,000,000 | |
| Gilkey Hall Renovation | OSU | 2,000,000 | 1,000,000 | |
| Cascades Expansion - Site Reclamation | OSU | | 9,000,000 | |
| Quality Foods and Beverages Center | OSU | 9,000,000 | | |
| Graduate School of Education Facility | PSU | 36,000,000 | 9,000,000 | 6,000,000 |
| Residence Hall at 12th & Market | PSU | | | 53,500,000 |
| Land Acquisition for University Center Building | PSU | | | 5,000,000 |
| Central Hall Capital Improvements | SOU | | 6,000,000 | |
| Campus for Accelerating Scientific Impact Phase 1 | UO | 50,000,000 | | |
| Information Technology Center Renovation Phase 3 | WOU | 500,000 | 5,000,000 | |
| Oregon Military Building Renovation Phase 2 | WOU | 500,000 | 7,200,000 | - |
| **Totals** | | **$100,000,000** | **$ 160,575,000** | **$ 70,250,000** |

### State Support to Community Colleges (Combined Totals)

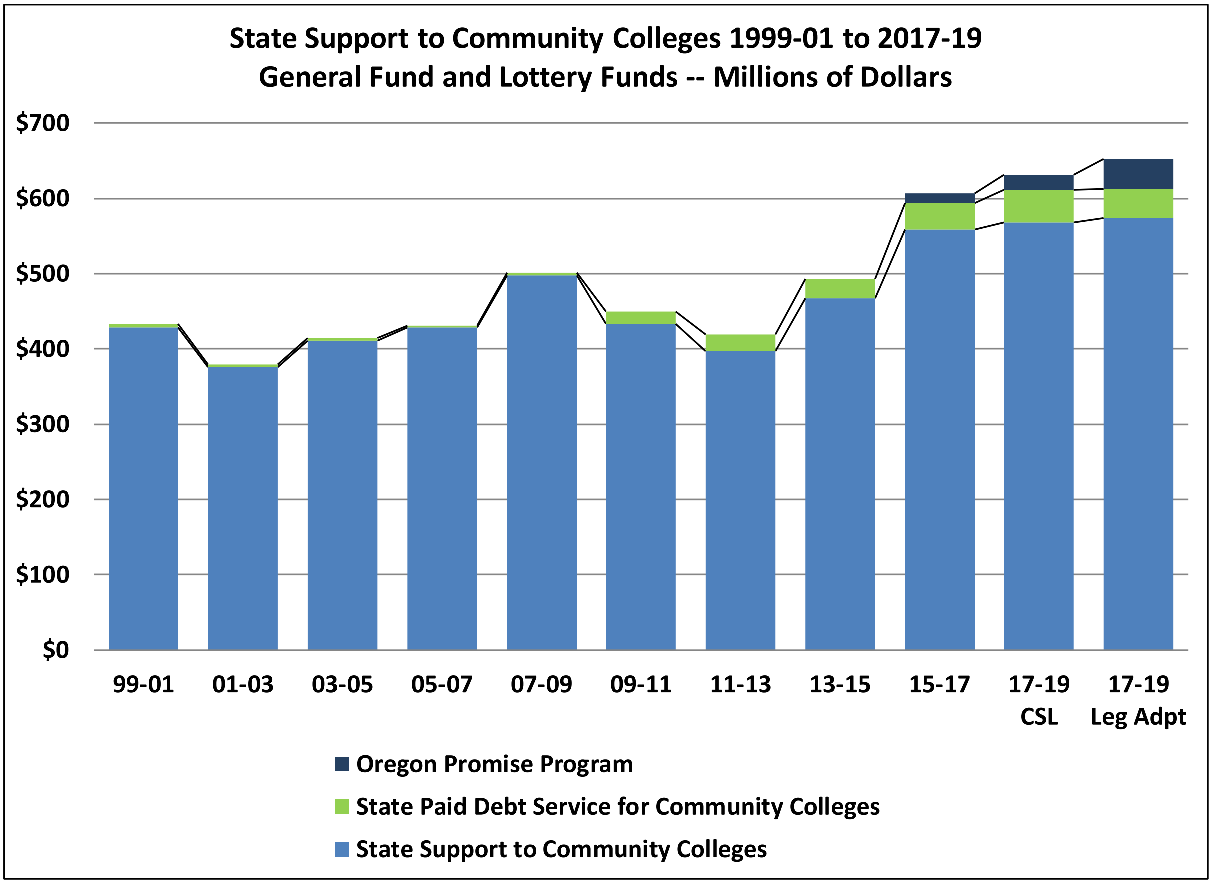
| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 483,425,453 | 601,771,949 | 621,634,342 | 640,683,334 |
| Lottery Funds | 9,521,027 | 10,462,066 | 11,733,159 | 11,699,204 |
| Other Funds | 109,013,959 | 30,438,637 | 45,810 | 103,493,051 |
| Other Funds NL | 42,346,031 | 33,357,952 | -- | -- |
| Federal Funds NL | 1 | 1 | -- | -- |
| **Total Funds** | **$644,306,471** | **$676,030,605** | **$633,413,311** | **$755,875,589** |

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 benefit community colleges and their students. This budget area includes the Oregon Promise program which is available only to community colleges students, but administered through the Office of Student Access and Completion (OSAC). The table below shows the programs included in this budget area (it does not show Other Funds Nonlimited relating to refinancing of bonds, but includes that number in totals).

| State Support for Community Colleges<br>*Millions of Dollars* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *2015-17 Leg Approved Budget* | | | | *2017-19 Leg Adopted Budget* | | | |
| | General Fund | Lottery Funds | Other Funds | Total | General Fund | Lottery Funds | Other Funds | Total |
| Community College Support Fund | 550.0 | | 0.1 | 550.1 | 570.3 | | | 570.3 |
| Skills Centers | 0.6 | | | 0.6 | 0.6 | | | 0.6 |
| Underserved Students | 3.0 | | | 3.0 | 3.1 | | | 3.1 |
| Career Pathways | 1.2 | | | 1.2 | | | | - |
| Counselors and OR Promise Student Assistance | 3.2 | | | 3.2 | | | | - |
| One-time Support for Umpqua Community Coll. | 6.1 | | | 6.1 | | | | - |
| Oregon Promise Program | 13.1 | | | 13.1 | 40.0 | | | 40.0 |
| Debt Service | 24.6 | 10.5 | | 35.1 | 26.8 | 11.7 | 0.6 | 39.1 |
| Capital Construction | - | - | 30.4 | 63.8 | - | - | 102.9 | 102.9 |
| **Totals** | **601.8** | **10.5** | **30.5** | **676.0** | **640.7** | **11.7** | **103.5** | **755.9** |

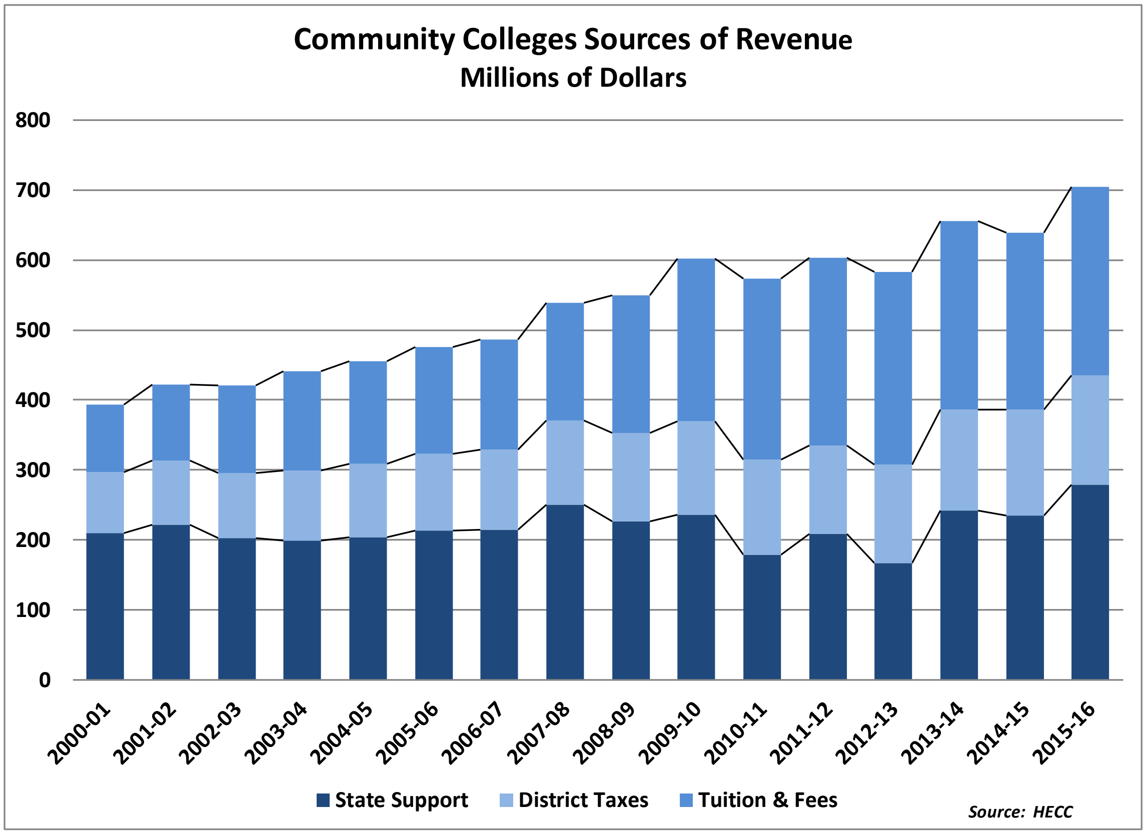
The chart below shows the amount of General Fund and Lottery Funds resources over time for this program area including the more recent Oregon Promise Program.




<u>Revenue Sources and Relationships</u>

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 $348.7 million of property tax collections are projected (by the Legislative Revenue Office in September 2017) for community colleges for operations in 2017-19, up from an estimated $322.1 million in the 2015-17 biennium. The other major source of resources is tuition and fee revenues.

The mix of core funding for community colleges between state support, property taxes, and tuition and fees has changed over the past 15 or more years. The chart below shows the source of revenues for the period 2000-01 through 2015-16 and demonstrates that community colleges are depending less on state support and more on tuition and fees. The state support share has decreased from 53% in 2000-01, to 29% in 2012-13. It increased back to 40% in 2015-16. Tuition and fees have become more and more important, growing from 25% in 2000-01 to 47% in 2012-13 – falling back to 38% for 2015-16. The amount from property taxes during this period has remained stable ranging from 22% to 24%.



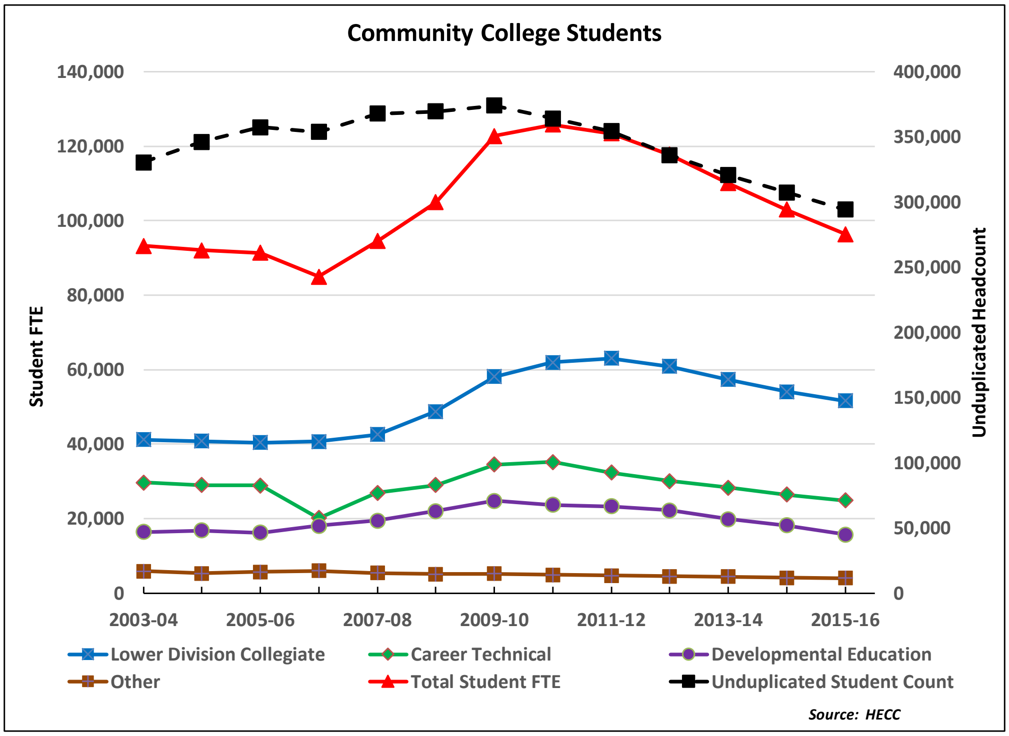

## Community College Support Fund and Other Programs: $573.9 Million General Fund

This budget area consists of payments to community colleges for the general education and student support functions of community colleges. By far, the largest program is the Community College Support Fund which accounts for $570.3 million General Fund for 2017-19. Other programs included in this budget area for 2017-19 are: (1) payments ($565,243 General Fund) to the two Skills Centers in the Portland Metro area; and (2) $3.1 million General Fund for increasing the number of underserved, low-income, and first-generation community college students.

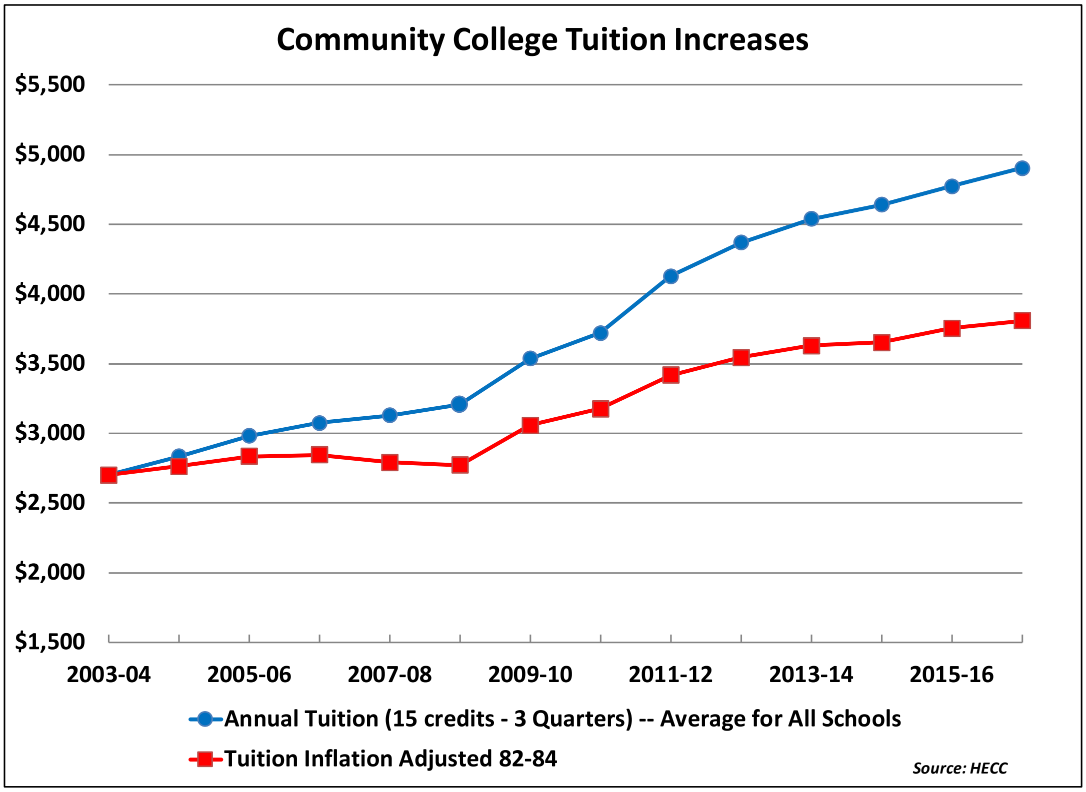
The Community College Support Fund has been distributed primarily on an adjusted enrollment basis. A small portion is distributed to support contracted out-of-district reimbursements, distance learning, and corrections programs. In addition, up to 1.5% of the total funds available has been set aside 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.

Budget Environment

As demonstrated in the graph below, between the 2006-07 and 2011-12 academic years, full-time student equivalent (FTE) attendance at the community colleges increased by 48%, primarily due to students taking lower division collegiate courses like 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 that this growth was largely due to the unemployed and underemployed returning to school to attain new skills and post-secondary degrees and certificates; however, this data shows growth is largely due to students (new and old) 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 economy improved and the number of jobs 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, partially due to the decreasing amount of state funding during the recession as indicated by the chart above on revenue sources. The chart below, based on data maintained by HECC, shows that combined tuition and fees have climbed steadily since the 2003-04 school year, increasing by 82% (or over 6% 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 63%.




HECC has the authority to adopt rules for distributing appropriations for post-secondary education including the Community College Support Fund. The funding is generally distributed on student FTE and the availability of local resources, primarily property taxes. There has been discussion in the past 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. This type of distribution has been implemented to some degree for the Public University Support Fund. While discussions continue around this issue, there are no immediate plans to implement such a change for distribution of the Community College Support Fund in 2017-19.

Legislatively Adopted Budget

The $573.9 million General Fund appropriated for 2017-19 represents a $9.9 million, or 1.8%, increase over the 2015-17 legislatively adopted budget. The 2015-17 budget did include one-time appropriations including over $6 million for Umpqua Community College. Just looking at the General Fund amount distributed through the Community College Support Fund, the increase was from $550 million in 2015-17 to $570.3 million for 2017-19, a $20.3 million, or a 3.7%, increase. This increase is substantially less than the 10.4% increase in the amount distributed through the Public University Support Fund.

Other changes from 2015-17 to this budget area include: (1) a decrease in funding for the two Skills Centers from $605,640 to $565,243 General Fund; and (2) an increase in funding for "underserved students" of just over $100,000 General Fund to $3.1 million. Funding was eliminated for two items designed in part to assist Oregon Promise students – additional resources for counselors ($1.5 million General Fund in 2015-17) and $1.7 million provided to community colleges for programs specific for assisting Oregon Promise students. Also eliminated was $1.2 million General Fund for a Career Pathways program.

## Oregon Promise Program: $40 Million General Fund

In 2015, the Legislature established the Oregon Promise program (SB 81). The program was implemented in the second year of the 2015-17 biennium and provided grants to offset tuition 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 (specific exceptions to this requirement exist) ; (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) being enrolled in a degree or certificate program, or a program leading to a transfer to another post-secondary institution.

There was initially $9.6 million General Fund available for this program in the second year of the 2015-17 biennium. Instead of capping enrollment, the Legislature provided an additional $3.6 million General Fund early in the 2017 legislative session for the 2015-17 budget. Not all the $3.6 million was used for the program and some of this amount will be reverted to the General Fund. For the 2016-17 school year, over 6,800 students participated in the program, which exceeded initial expectations. HECC cites findings that the program is influencing college-going decisions especially for first-generation students. Community colleges saw an increase in enrollment of recent high school graduates. There appears to be an increase in the amount of Federal PELL grant aid for community college students, an original goal of the program.

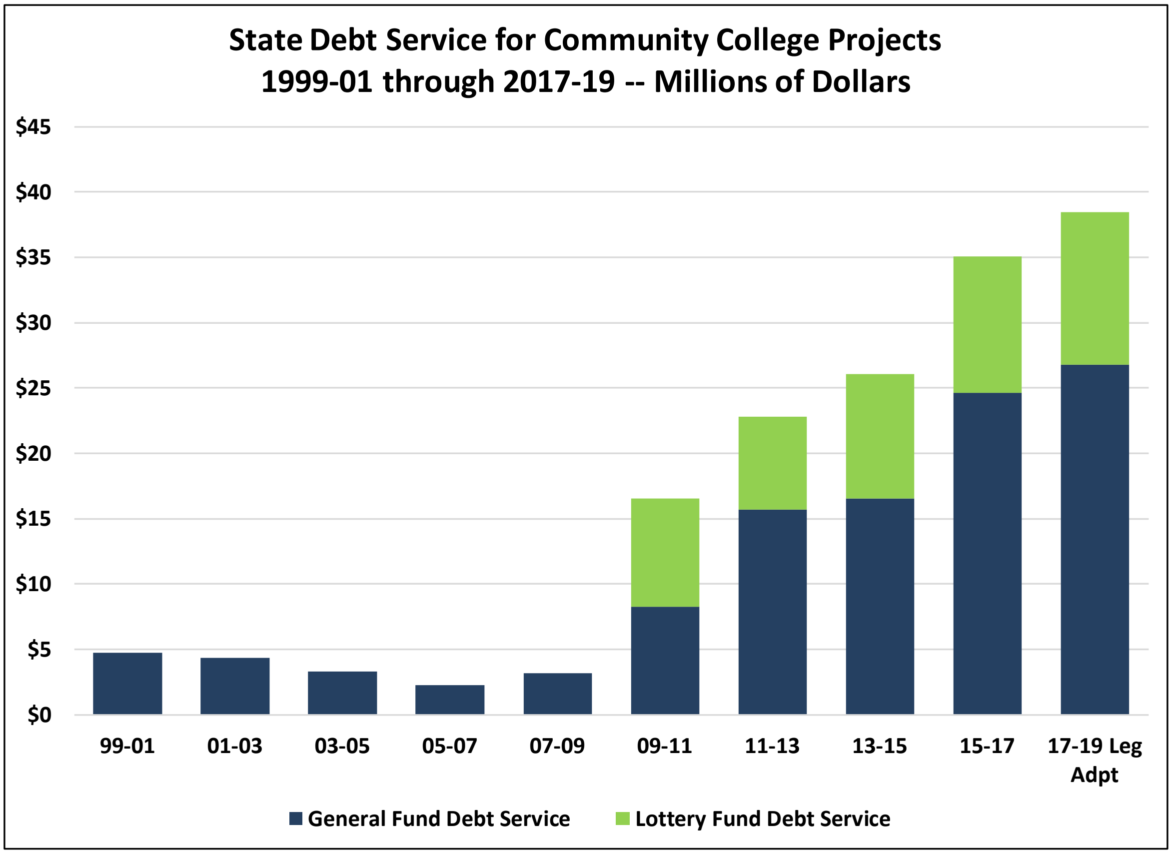
Since this program is so new, not only in Oregon but nation-wide, projecting participation and costs is difficult. At this point, only two or three academic quarters of experience have taken place. From that information, 83% of the participants are enrolled full-time (12 credit hours per quarter or more) for the roughly 6,800 participants. From the first quarter (Fall of 2016) of the 2016-17 academic year, almost 90% of the students were enrolled in the second quarter (Winter of 2017). Based on preliminary information, it appears roughly 66% of the first year's participants will continue into the second year. Final numbers and the reasons for the lower continued participation numbers will be available later this fall.

Legislatively Adopted Budget

The 2017-19 budget for the Oregon Promise program is just under $40 million General Fund, a $26.8 million increase in the total appropriation for 2015-17. This growth is the combination of rolling up the program to a full 24 months, additional class cohorts as the program continues, and the greater than anticipated number of participants in the program. The $40 million appropriation is less than the $48 million projected to fully fund the program based on the estimated number of students participating and the estimated tuition rates. As a result, the 2017 Legislature passed HB 1032 which provided flexibility to HECC to limit the program to stay within available resources. The Commission will limit eligibility for new applicants based on the expected family contribution (EFC) calculated from information on the Free Application for Federal Student Aid, or FAFSA. Those students who participated in the program during the 2016-17 school year will not be subject to this limit. From preliminary information, there were 15,840 applicants for the Fall 2017 quarter and over 8,600 were found to be eligible. Of those over 7,000 not found eligible, almost 2,200 were not eligible due to the new EFC limits.

**Community College Debt Service: $26.8 Million General Fund, $11.7 Million Lottery Funds**

The state issues Article XI-G and Lottery bonds on behalf of community colleges for specific projects. Community colleges must provide a match equal to at least half of the state's share of the project for the Article XI-G bonds. There is no match required for the Lottery bonds. As shown by the chart below, since 2007-09, the amount paid by the state has grown significantly. In that biennium, $53.7 million of XI-G bonds and almost $44 million in Lottery bonds were approved by the Legislature, up significantly from previous biennia. Usually, the sale of the bonds is late in the biennium so debt service starts in the next biennium for that set of bonds.




For the 2017-19 biennium, the HECC budget includes $26.8 million General Fund and $11.7 million Lottery Funds for the scheduled payments on community college related bonds. This is an increase of $2.1 million General Fund and $1.2 million Lottery Funds from 2015-17. This much smaller increase than in the previous three biennia is due to only two new state-bond projects approved for community colleges in 2015-17.

## Community College Capital Construction: $103.5 Million Other Funds

The state finances support for the construction, acquisition, deferred maintenance, and major renovation of community college properties. The projects are 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 have also been 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. The issuance costs associated with these projects are part of the HECC Operations budget.

The table below shows the authorized capital construction amounts for projects at each community college for the most recent three biennia. 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, the expectation was that a community college would not have more than one approved outstanding project awaiting Article XI-G financing. For 2013-15 and 2017-19, most community colleges received project authority. In 2015-17, only two new projects were authorized (Portland and Linn-Benton), the other projects were extensions or reauthorizations of previous projects in earlier biennia.

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

| Community College | 2013-15 XI-G | 2013-15 Lottery | 2015-17 XI-G | 2015-17 Lottery | 2017-19 XI-G | 2017-19 Lottery |
|---|---|---|---|---|---|---|
| Blue Mountain | 3,331,350 | - | - | - | 5,000,000 | - |
| Central Oregon | 3,630,000 | 1,630,000 | - | - | - | - |
| Chemeketa | 8,000,000 | - | - | - | 6,000,000 | - |
| Clackamas | 8,000,000 | - | - | - | 16,000,000 | - |
| Clatsop | 7,990,000 | - | - | - | 7,996,994 | - |
| Columbia Gorge[1] | 7,320,000 | - | - | - | 7,320,000 | - |
| Klamath[1] | 7,850,000 | - | 7,580,000 | - | - | - |
| Lane | 8,000,000 | - | - | - | 8,000,000 | - |
| Linn-Benton | 8,000,000 | - | - | 1,500,000 | 7,500,000 | - |
| Mt. Hood[1] | 8,000,000 | - | - | - | 8,000,000 | - |
| Oregon Coast | - | - | - | - | 8,000,000 | - |
| Portland | 8,000,000 | - | 5,000,000 | - | 8,000,000 | - |
| Rogue[1] | 8,000,000 | - | 8,000,000 | - | 6,000,000 | - |
| Southwestern[1] | 8,000,000 | - | 8,000,000 | - | 2,749,997 | - |
| Tillamook Bay | 2,000,000 | - | - | - | - | - |
| Treasure Valley[1] | 2,830,250 | - | - | | 2,830,250 | - |
| Umpqua[1] | 8,000,000 | - | - | - | 8,000,000 | - |
| **Total** | **106,951,600** | **1,630,000** | **28,580,000** | **1,500,000** | **101,397,241** | **-** |

1 Capital construction expenditure limitation is established for a six-year period. The project limitations established in 2013-15 will expire June 30, 2019. However, 2013-15 capital construction limitation for community college projects was established in the Department of Colleges and Workforce Development (CCWD). During the 2015 session, CCWD became the Office of Community Colleges within the Higher Education Coordinating Commission (HECC). This required project limitation authorized under CCWD to be transferred to HECC. Expenditure limitation for the projects noted were not transferred to HECC and the corresponding expenditure limitation was re-established in 2015-17 for Klamath CC, Rogue CC and Southwestern CC and in 2017-19 for Columbia Gorge CC, Treasure Valley CC, and Umpqua CC. 2013-15 expenditure limitation for Mt. Hood CC's project was not re-established and limitation for a new project was authorized in 2017-19.

## State Support to Oregon Health and Science University

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 72,562,387 | 80,856,311 | 102,324,188 | 99,052,202 |
| Other Funds | 231,675,116 | 238,724,306 | 38,828,443 | 38,828,443 |
| **Total Funds** | **$304,237,503** | **$319,580,617** | **$141,152,631** | **$137,880,645** |

Includes funding in Department of Administrative Services budget.

### 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. OHSU has operated as a public corporation since 1995 and 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, and debt service for the Oregon Opportunity Program and 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 include Tobacco Master Settlement Agreement funds for debt service on these bonds. The final payment is scheduled to be made in 2024. For 2013-15 and 2015-17, Other Funds expenditure limitation is included for the bond proceeds for the Knight Cancer Center facilities. Other Funds limitation also includes 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 million in the 2015-17 legislatively adopted budget (this amount does not include $3.5 million General Fund for debt service that was also approved for OHSU). The amount for 2017-19 generally reflects the current service level except for the two financial assistance programs discussed below.

OHSU has administered two financial assistance programs for students – Scholars for a Healthy Oregon (SHOI) and the Primary Health Care Loan Forgiveness program. SHOI 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 and who agree to serve in medically underserved communities. The Loan Forgiveness program offers forgivable loans to medical, physician assistant, or nurse practitioner students enrolled in an approved Oregon rural training track program in exchange for one year of service to an approved rural facility. HB 3396 (2015) established the Health Care Provider Incentive Fund to consolidate Oregon's health care provider incentives and budgeted them through the Oregon Health Authority (OHA). OHSU will stay active in the administration of the programs. The transfer will take place half way through the 2017-19 biennium, so half of the budget resources will be in OHSU's budget and the other half will be in the OHA budget.

Direct state funding makes up a 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 2016, the state's direct funding (including Oregon Opportunity debt service) was less than 2% of the $2.7 billion operating budget.

Legislatively Adopted Budget

The budget for OHSU's education and other programs are part of the budget for HECC, while the debt service for the Knight Cancer Challenge and Oregon Opportunity program is part of the budget of the Department of Administrative Services (DAS). The General Fund debt service for the legacy debt is in the HECC budget while the Other Funds debt service for the legacy debt is in the DAS budget. The funding by program for both 2015-17 and 2017-19 are in the table below.

| State Support for Oregon Health Sciences University<br>*Millions of Dollars* | | | | | | |
|---|---|---|---|---|---|---|
| | *2015-17 Leg Approved Budget* | | | *2017-19 Leg Adopted Budget* | | |
| | General Fund | Other Funds | Total | General Fund | Other Funds | Total |
| ***HECC Budget*** | | | | | | |
| School of Medicine | 24.8 | | 24.8 | 25.8 | | 25.8 |
| School of Nursing | 21.4 | | 21.4 | 22.3 | | 22.3 |
| School of Dentistry | 10.0 | | 10.0 | 10.4 | | 10.4 |
| Office of Rural Health/Area Health Ed Centers | 4.4 | | 4.4 | 4.6 | | 4.6 |
| Child Development & Rehabilitation Center | 8.0 | | 8.0 | 8.3 | | 8.3 |
| Oregon Poison Center | 2.5 | | 2.5 | 2.7 | | 2.7 |
| Scholars for a Healthy Oregon | 5.2 | | 5.2 | 2.7 | | 2.7 |
| Primary Health Care Loan Forgiveness Program | 1.0 | | 1.0 | 0.5 | | 0.5 |
| Legacy Debt | * | | - | 0.6 | | 0.6 |
| ***DAS Budget*** | | | - | | | |
| Knight Cancer Challenge Debt Service | 3.5 | | 3.5 | 21.2 | | 21.2 |
| Oregon Opportunity Program Debt Service | | 30.9 | 30.9 | | 30.9 | 30.9 |
| Limitation for Knight Cancer Related Bonds | | 200.1 | | | | |
| Legacy Debt | - | 7.8 | 7.8 | - | 7.9 | 7.9 |
| **Totals** | **80.8** | **238.8** | **319.6** | **99.1** | **38.8** | **137.9** |

The combined 2017-19 legislatively adopted budget for the OHSU programs and other functions is $99.1 million General Fund which is $18.2 million, or 22.5%, higher than the General Fund in 2015-17. Almost all of this growth ($17.7 million) is attributable to the increase in the debt service for the Knight Cancer Challenge program. The timing of the sale of the bonds for this program/facility is the reason for the increase. Ongoing debt service need for this program in future biennia will be like the level for 2017-19. The educational and other programs in the HECC budget are generally at the current service level except for the Scholars for a Healthy Oregon and Primary Health Care Loan Forgiveness Program. The funding levels for these two programs reflect the transfer of their budgets to the Oregon Health Authority half way through the 2017-19 biennium.

## Oregon Opportunity Grant Program

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 111,206,740 | 131,008,621 | 125,217,521 | 125,217,521 |
| Lottery Funds | 2,546,223 | 11,816,379 | 20,746,268 | 20,746,268 |
| Other Funds | 158,459 | 1,213,213 | 163,213 | 163,213 |
| **Total Funds** | **$113,911,422** | **$144,038,213** | **$146,127,002** | **$146,127,002** |

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 (still OSAC). For the 2015-17 biennium, OSAC data shows that just less than 50% of the students receiving grants were community college students, just less than 43% were public four-year institution students, and the remaining 7% were at independent schools.

Revenue Sources and Relationships

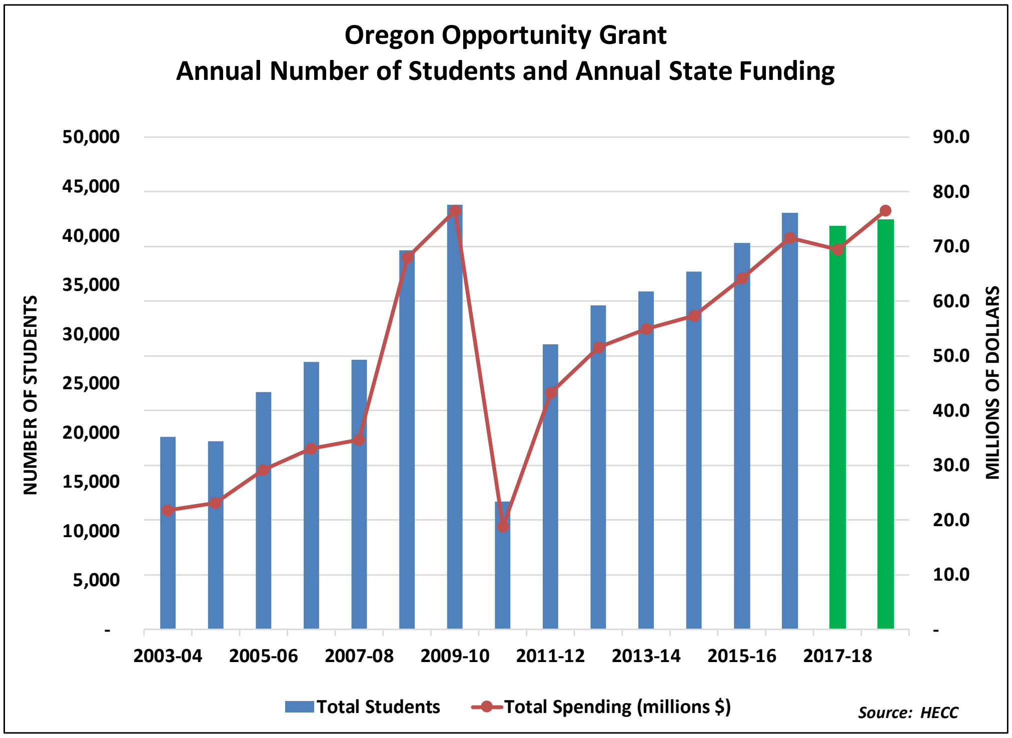
In the past, the OOG program received Lottery Funds based upon one-quarter of the earnings of the Education Stability Fund. The 2015 Legislative Assembly changed this so that the OOG receives one-quarter of the earnings plus all of what is not required for debt service on bonds issued by the state for school districts years ago. These school related bonds will be paid off in the next few biennia. 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 Temporary Assistance to Needy Families (TANF) recipients for education related purposes, but that remain unused.

Lottery Funds for this program may be a volatile revenue source since it depends on investment earnings, as well as the chance that the Fund itself may be used to stabilize education funding when state revenues are short. For 2015-17, the original estimated investment earnings were optimistic which was a contributing factor to the need to appropriate $3,125,000 for the program early in the 2017 legislative session. The $11.8 million in Lottery Funds expenditure limitation includes some empty limitation since only $5.3 million in Lottery Funds were expended for 2015-17. For 2017-19, the estimated amount of Lottery Funds available for the program is $20.7 million, an amount significantly higher than what was actually available for 2015-17.

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. HB 2407 (2015) made several changes to the OOG program in terms of eligibility and timing of awards. This bill maintained the principles of the shared responsibility model, but provided that, if there are insufficient funds, the awarding of grants should be prioritized to first serve those applicants with the greatest financial need. Grants were 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. Also changed was the timing of the grant application and award deadlines so that grants are awarded in an extended window of time than before.

The chart below shows the total spending annually as well as the total number of students served. Both the number of students assisted and the total annual funding has generally increased since the end of the recession. The impact of the recession also is represented by the significant increase in number of students from 2007-08 to 2009-10. The reduction in 2010-11 represents higher spending in the first year of that biennium to keep pace with the demand. Much less funding remained for the second year of that biennium. The figures for the two years in the 2017-19 biennium are preliminary estimates at this time based on available funding. Average grant size across all school types have also increased – in 2007-09 it was $1,560 and for the 2016-17 school year it is $1,695. This growth in the average grant significantly lags tuition growth. The program also only serves a portion of the estimated eligible applicants – for 2014-15 only 27% of the eligible applicants were served.




<u>Legislatively Adopted Budget</u>

The 2017-19 legislatively adopted budget of $146.1 million total funds is an increase of $2.1 million (or 1.5%) over the 2015-17 legislatively approved budget. Since the Lottery Funds includes empty limitation, the estimated amount spent of the grant program for 2015-17 was $135.9 million total funds. Based on these numbers and if all the resources currently estimated for 2017-19 are available, the increase between the two biennia is $10.2 million total funds, or 7.5%. Based on the 2017-19 budgeted amount, an estimated average of 41,300 recipients should receive grants each year and the average grant amount is estimated at $1,695 for the 2017-18 school year. If Lottery Fund resources remain somewhat uncertain, HECC may explore not spending all the budgeted resources so it can build reserves for the future.

## TEACHER STANDARDS AND PRACTICES COMMISSION

Analyst: Wilson

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | 200,000 | -- | 1,700,000 |
| Other Funds | 4,943,382 | 6,874,833 | 6,654,885 | 8,961,470 |
| Federal Funds | 10,893 | -- | -- | -- |
| **Total Funds** | **$4,954,275** | **$7,074,833** | **$6,654,885** | **$10,661,470** |
| Positions | 19 | 27 | 21 | 27 |
| FTE | 19.00 | 24.88 | 20.50 | 25.71 |

<u>Overview</u>
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.

<u>Revenue Sources and Relationships</u>
The agency is primarily supported by Other Funds from licensing and other fees paid by the regulated educators with the term of a license ranging from three to five years. License fees make up the 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. Basic licenses are for a three or five-year duration depending on the type of license. The fee for a new or renewed instate basic teaching license was increased from $100 to $140. Federal Funds in 2013-15 are from ALDER grants which various education agencies use to link data in the various agencies; these funds are no longer available.

<u>Budget Environment</u>
The Commission is recovering from a period of falling revenues due the decrease in the number of teachers applying and renewing their licenses. The Commission eliminated positions, left positions vacant, reduced other spending, and used its ending balance resources. Consequences of these actions were backlogs in: (1) investigations; (2) processing of licenses; and (3) responding to emails and phone calls. Backlogs continue today, but have improved as staff resources were increased for 2015-17.

The Commission is implementing a new on-line licensing system replacing a very labor intensive "low tech" system. Licensees will be able to submit information and pay fees electronically. This should increase productivity over time as both staff and licensees become familiar with the new system. The cost of developing and maintaining this system is paid through a processing fee of $10 paid to a contractor which is "outside" of the state budget.

A Secretary of State audit released in January 2016 found several weaknesses in the services and functions of the agency including long waiting periods and delays in responding to inquiries, processing of licenses, and investigations. For example, applications submitted in early July of 2015 were not processed until early November of 2015, almost two months after the school year began. Backlogs in the investigations of complaints of the TSPC licensees have also been substantial, often taking over a year to fully investigate. High caseloads for each investigator were identified as one reason for this backlog. At the end of 2015, the caseload per investigator was 65, while the corresponding Washington investigators carried caseloads of under 30. The audit's findings placed partial blame for these problems on staffing shortages, employee turnover, a "complicated paper-based" licensing system, lack of accountability throughout the agency, and an inadequate web site. The Commission has or is in the process of implementing these recommendations.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $10.7 million total funds is an increase of $3.9 million (or 59%) from the 2015-17 legislatively approved budget. Much of this growth is attributed to the passage of HB 2763 (2017) which provided $1.7 million General Fund and $1.7 million Other Funds to the budget to financially assist those educators who are working toward the National Board Certification. Without the resources associated with this bill, the total funds growth would have been $549,568, or 8.2%. This budget factors in reductions of $90,000 Other Funds based on 2015-17 spending patterns, as well as $214,668 Other Funds in assessment reductions, Attorney General rates, vacancy savings, and other cuts common to most state agencies. Empty Other Funds limitation of $201,000 is also eliminated.

The Commission's budget continues two limited duration positions (Public Service Representative 4) for another biennium to assist the permanent staff in responding to the greater number of emails and phone calls, as well as reducing the backlogs in licensing and addressing applicants' questions. The volume of contacts will hopefully decrease as the on-line licensing system is fully implemented and the new licensing restructuring is completed. Similarly, a limited duration Investigator 2 position is continued for 2017-19 to continue to address the workload in the Investigations unit. A limited duration Office Assistance 2 position is also continued for one year at half-time (0.25 FTE) to complete the electronic scanning of case files which the Commission is statutorily required to maintain for 25 years.

TSPC has faced information technology challenges in the past few years, many outlined in the audit mentioned above. A permanent Information Services Specialist 6 position was authorized to assist in integrating existing software and databases with the new on-line licensing system, improve the website, create an on-line Higher Education Program Approval system replacing a paper-based system, and complete an investigations case management system. This position should be evaluated after two biennia to determine if it is still required at this level after these projects are completed.

As noted above, HB 2763 passed which authorized the Commission to reimburse an estimated 150 teachers for costs incurred to seek and obtain National Board Certification. One Administrative Specialist 2 position (1.00 FTE) is authorized to administer the payments and other functions of the program. General Fund resources of $1.7 million was appropriated to the National Board Certification Fund with $142,814 allocated for the position and other costs of the program with the remaining $1.6 million for assistance to eligible educators. Other Funds expenditure limitation was also authorized to account for expenditures made from this Fund.

# HUMAN SERVICES

# PROGRAM AREA

## COMMISSION FOR THE BLIND

Analyst: To

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 1,582,598 | 3,693,316 | 3,602,734 | 3,426,922 |
| Other Funds | 1,667,196 | 1,183,547 | 1,020,372 | 1,475,033 |
| Federal Funds | 12,683,970 | 15,836,905 | 14,802,388 | 16,372,609 |
| **Total Funds** | **$15,933,764** | **$20,713,768** | **$19,425,494** | **$21,274,564** |
| Positions | 50 | 56 | 56 | 68 |
| FTE | 46.21 | 52.21 | 52.21 | 62.53 |

Overview
The Commission for the Blind's mission is to empower Oregonians who are blind to fully engage in life. 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 2017-19 legislatively adopted budget is $21.3 million total funds and 68 positions (62.53 FTE). The agency is organized into the following five program areas:

- Rehabilitation Services ($9.6 million, 22.22 FTE) is the agency's largest program with the goal of assisting Oregonians who are blind or visually impaired to develop skills to obtain or maintain employment. The program includes vocational rehabilitation counseling and planning, training and education, job placement assistance, 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 assists Oregon businesses in hiring, retaining, and promoting qualified employees who are blind.
- Orientation and Career Center ($3.2 million, 12.60 FTE) is a highly-specialized teaching center that provides career exploration counseling and comprehensive pre-vocational training on skills such as cane travel, adaptive technology, and Braille. Training facilities and staff are primarily located in Portland with satellite labs located in Salem, Eugene, Redmond, and Medford. The program also performs job site modification evaluations and recommendations.
- Business Enterprises ($3.1 million, 5.00 FTE) provides business management opportunities, vocational training, and licensing support to business managers who are blind to manage food service and vending machine businesses located in public buildings throughout the state of Oregon. 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 that was amended in 2017 under HB 3253.
- Independent Living Services ($1.8 million, 7.50 FTE) provides training and resources to help Oregonians adjust to vision loss and enable them to live independently in their homes and communities in lieu of moving into assisted living or care facilities. Specialized rehabilitation teachers provide in home services such as performing assessments; providing referrals to health providers and other assistance programs; as well as training for techniques of daily living including orientation and mobility, meal prep, adaptive devices, and Braille.
- Administration Services ($3.6 million, 15.21 FTE) coordinates the mission and goals of the agency and manages the Human Resources, Budget, Accounting, Operations, and Information Systems. The Workforce Innovation and Opportunity Act of 2014 (WIOA) requires states to enhance coordination and partnerships across state agencies and local entities in order receive federal funding. As part of this reform, beginning with the 2017-19 biennium, the Administration Services unit will house support staff for the Rehabilitation Services Unit as well as perform data collection, auditing, and other accountability functions for the

Workforce/Employer Engagement Team charged with improving collaboration across agencies, workforce boards, employers, and educational institutions to integrate and improve efficiency in service delivery and better align federal investments in job training.

Revenue Sources and Relationships

The Commission is funded with $3.4 million General Fund (16%), $4.5 million Other Funds (7%), and $16.4 million Federal Funds (77%).

The largest revenue source for the Commission comes from federal grants from the U. S. Department of Education and the U.S. Department of Health and Human Services (HHS) to administer Vocational Rehabilitation, Supported Employment, Independent Living, and Older Blind programs. These federal grants require a state contribution in the form of matching grants.

The majority of funding comes 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 and dedicates half of the federal Supported Employment 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. Vocational Rehabilitation basic support funds are the primary source of funding and have a match rate of approximately $4.70 Federal Funds (78.7%) for every $1 of state or state-matching funds (21.3%). In previous biennia, the Oregon Department of Human Services (DHS) received 87.5% of Section 110 Vocational Rehabilitation basic support grant funding with the Commission receiving the remaining 12.5%. The 2017-19 legislatively adopted budget reflects an update in the Memorandum of Understanding between DHS and the Commission to adjust the percentage of Section 110 Vocational Rehabilitation basic support grant funding for the Commission for the Blind from 12.5% to 15.6% to align Oregon with the national average ratio. With this new rate, Section 110 Vocational Rehabilitation basic support grant funding is expected to provide $15.2 million federal funds for the Commission during the 2017-19 biennium. Other grants include Supported Employment, Independent Living, and the Older Blind program, which total $1.2 million federal funds. Effective October 2018, the Independent Living grant for those under age 55 will move from a direct grant to an agreement with DHS to comply with rules changes that allow only one grantee per state. Independent Living (Part B) and Older Blind program grants are funded with 90% federal funds and 10% state matching funds.

The Business Enterprises (BE) program contracts with public agencies and sets up cafeteria, snack bar, and vending machine management businesses in public buildings. The program 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. As of September 2017, 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 the set-aside and nominal General Fund.

General Fund and a limited amount of Other Funds are used to meet matching Federal Funds requirements. There is also a 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, including both the Department of Human Services and the Blind Commission. The 2017-19 budget meets the federal matching funds and maintenance of effort requirements.

At present, Other Funds revenue sources for the 2017-19 biennium include: cooperative agreements with school districts and non-profit rehabilitation providers; a transfer from the Department of Education; and business enterprise vendor assessments. The agency also maintains an interest-bearing Blind Bequest and Donation Fund. The fund has an estimated 2017-19 beginning balance of approximately $331,415. In the past, the Commission used only the interest earnings to fund programs. However, beginning in 2003-05, the Commission has been directed to use donation funding to match federal funds in order to offset the loss of General Fund support. The 2017-19 legislatively approved budget reflects a General Fund investment and modest utilization of donation funds to allow the agency to maximize federal matching funds and meet maintenance of effort requirements, thereby preventing program reductions.

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 will be 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.

The Vocational Rehabilitation caseload for federal fiscal year 2015 was 785, which was up 15% from the 2010 caseload of 684. The Older Blind program served an additional 800 clients in 2015. Per counselor caseload is currently about 75 cases. In 2015, 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 $3,224, individuals who experienced vision loss and returned to work had combined earnings totaling $1.33 million. As taxpayers, individuals on average pay back the state contribution of their rehabilitation program in 11.5 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 $19,992 for foster home care to $101,346 for nursing home care per individual per year. In 2015, the average caseload cost is $777. 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 approximately $13 million.

Some geographical areas of the state are underserved in the Older Blind program, most notably in rural and remote areas in Central and Eastern Oregon. The agency has made considerable efforts to minimize wait time for services, however, wait times range from 2-7 weeks on average. The increased use of technology in the workplace, as well as significant advances in technology designed to help visually impaired persons, continue to increase the demand for both technology training and adaptive devices statewide.

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 are determined to 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 2017-19 legislatively adopted budget is projected to provide sufficient resources and staff for the Commission to remain outside the Order of Selection.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $21.3 million total funds, 68 positions (62.53 FTE) reflects an increase in Federal Funds and Other Funds, and a decrease in General Fund. The increase in federal revenues is a result of an update in the Memorandum of Understanding between the Department of Human Services (DHS) and the Commission for the Blind. This agreement adjusts the percentage of Section 110 Vocational Rehabilitation basic support grant for the Commission for the Blind from 12.5% to 15.6% to align Oregon with the national average ratio and to comply with new requirements under the WIOA. The agency will leverage the $2.5 million increase in federal revenue to:

- Fund the migration of its automated case management system to a new vendor. This system is used to capture federally required data reporting, and to facilitate case development and tracking of information of individuals who are participating in agency vocational rehabilitation, independent living, and business enterprise services. This migration is necessary because while changes to the WIOA requires increased reporting and performance accountability, the vendor currently providing the Commission with this system software has announced that it will close the software side of its business by December 2017. The budget for this migration is estimated to be $550,681 total funds ($156,291 General Fund and $394,390 Federal Funds).
- Invest in its vocational rehabilitation program by: (1) leveraging federal funding to increase the number of third-party cooperative agreements with educational institutions; and (2) establishing ten new counselors and instructor positions to expand capacity to offer technology training, job site assessment, and workplace accommodations. The budget for this reorganization is estimated to be $2,314,363 total funds ($159,791 General Fund, $331,970 Other Funds, and $2,142,184 Federal Funds] and 10 positions (9.32 FTE).

In addition to the above changes resulting from federal funding realignment, the Commission's budget also includes the following fund shifts and positions reclassification:

- The shifting of fund match for two positions, a Vocational Rehabilitation Counselor and a Business Enterprise Program Analyst, from General Fund to Donations and Business Enterprise Set-Aside Other Funds (-$134,158 General Fund and + $134,158 Other Funds).
- The reclassification of two positions that serve the Summer Work Experience Program from temporary consultants to Seasonal Staff to comply with the state's Chief Human Resources Office classification guidelines. This is a funding neutral change shifting funds from special payments to personal services and related services and supplies (2 positions and 2.00 FTE).

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

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 1,933,379,158 | 2,158,369,827 | 3,190,659,426 | 2,185,935,679 |
| Lottery Funds | 10,591,632 | 11,348,753 | 12,456,604 | 12,457,116 |
| Other Funds | 3,885,646,674 | 6,138,031,417 | 5,733,331,142 | 6,653,688,309 |
| Other Funds (NL) | 1,521,434,616 | 273,000,902 | 40,000,000 | 40,000,000 |
| Federal Funds | 9,259,417,064 | 11,448,264,704 | 11,613,394,315 | 10,913,483,621 |
| Federal Funds (NL) | 101,837,124 | 106,853,023 | 106,448,361 | 106,448,361 |
| **Total Funds** | **$16,712,306,268** | **$20,135,868,626** | **$20,696,289,848** | **$19,912,013,086** |
| Positions | 4,548 | 4,454 | 4,780 | 4,646 |
| FTE | 4,112.29 | 4,394.82 | 4,741.84 | 4,591.03 |

For comparison purposes, the 2017-19 Current Service Level column values for OHA and DHS are from the 2017-19 Governor's Budget; this includes adjustments resulting from the Fall 2016 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.

The agency'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 health care purchaser for the state, purchasing health care for about 1.3 million Medicaid clients, state employees, and local educators.

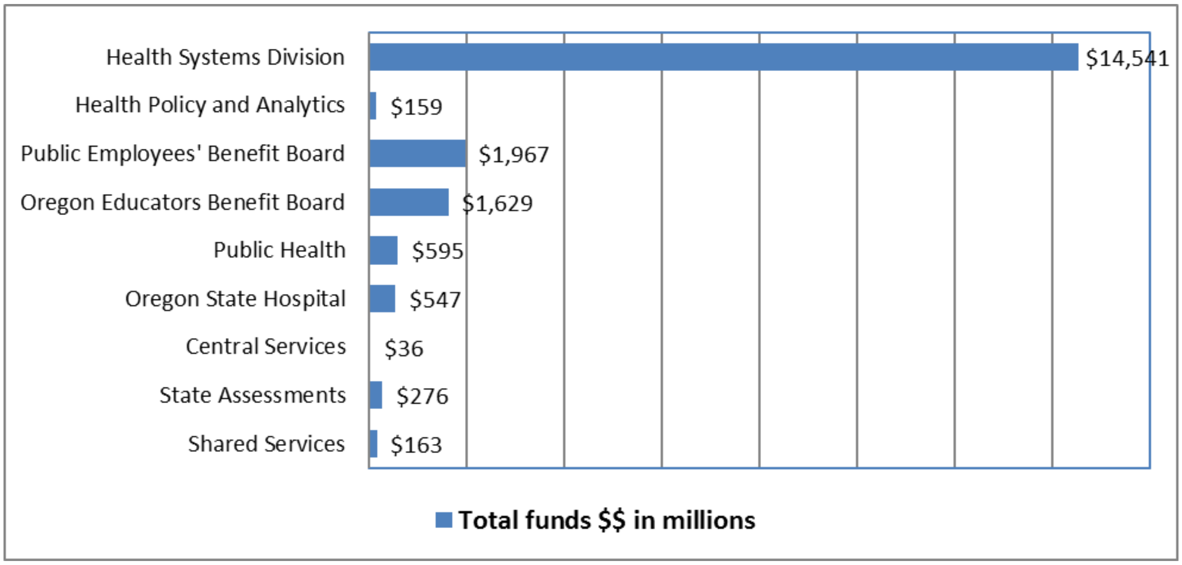
OHA is the largest agency within the Human Services program area, making up about 64% of total program area expenditures. Overall, OHA's 2017-19 legislatively adopted budget comprises 10.5% of the state's combined $20.9 billion General Fund and Lottery Funds budget, and almost 27% of the state's total funds budget.

The agency was reorganized part way through the 2015-17 biennium, to better align with the agency's external partners under health care transformation. The budget is organized into the following ten program areas:

- Health Systems Division includes both Medicaid and Non-Medicaid programs. The Medicaid programs consist primarily of the Oregon Health Plan (OHP), while the Non-Medicaid programs incorporate community mental health and addictions programs.
- Health Policy and Analytics includes offices providing 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.
- 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.
- Public Health includes community health, environmental public health, family health, and disease prevention and epidemiology.

- Oregon State Hospital provides psychiatric care for adults from all 36 counties at the Salem and Junction City campuses.
- 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 Construction expenditures supported the Oregon State Hospital facility replacement project in past biennia.

The chart below shows how OHA's $19.91 billion total funds legislatively adopted budget for 2017-19 is allocated among these program areas.




<u>Revenue Sources and Relationships</u>

For the 2017-19 biennium, the General Fund supports 11% of the OHA budget. Most of the General Fund is used as match or to meet state maintenance of effort requirements to receive federal funds. The budget includes $12.5 million of statutorily dedicated Lottery Funds for gambling addiction prevention and treatment services.

Other Funds revenues support 33% of OHA expenditures. These come from a wide variety of sources including tobacco taxes, tobacco master settlement proceeds, health care provider and insurer assessments, grants, beer and wine taxes, fees, estate collections, self-insurance payments, health care premiums, third party recoveries, pharmaceutical rebates, 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. HB 2391 (2017) revised the structure of the hospital assessment program, increasing the assessment rate paid by diagnostic related group (DRG) hospitals; establishing an assessment for Type A and Type B rural hospitals, which are not currently part of the assessment program; exempting the Oregon Health and Science University (OHSU) from the assessment program; and creating a new insurer premium assessment. As an alternative to the hospital assessment, OHSU and OHA will establish a separate intergovernmental transfer funding program collapsing several Medicaid payments into the new program. In 2017-19, these changes are expected to generate $599 million in additional Other Funds revenue to support OHP, which in turn generates $1.8 billion in federal funding. This brings the total OHP funding from provider assessments and the new OHSU program to $1.25 billion in the 2017-19 biennium.

This budget includes some Nonlimited expenditures; such expenditures can be increased administratively if revenue is available. Nonlimited Other Funds of $40 million are rebates from manufacturers of infant formula and are used in the Women, Infants and Children (WIC) program.

Federal Funds support 55% of OHA expenditures in the legislatively adopted budget for the 2017-19 biennium, and total $11.02 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 primarily for the WIC 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 55% of OHA's total expenditures. Federal revenue is tied to a significant body of law and federal administrative rules. Some OHA programs, such as OHP, are governed by waivers of certain federal regulations. The waivers must be approved by federal agencies, with the need for reapprovals 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 and that information management systems can produce 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 reauthorized at the federal level in 2015 for two more years, but at this point no additional funding has been authorized after FY 2017, ending September 30, 2017. It is unclear what will happen with funding levels and the match rate. 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 OHP to a little over one million. Under the current federal administration, the future shape of the Medicaid program could be different than the program we have now. While the current uncertainty is much larger than usual, the OHA budget must adjust to changing federal program and revenues on an ongoing 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 $13.7 billion of its $19.9 billion total funds budget for direct payments to 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 had consumed a larger share of the total state budget. However, under Oregon's 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 82% 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 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 2017-19 legislatively adopted budget for OHA is $2.19 billion General Fund, $19.91 billion total funds, and 4,646 positions (4,591.03 FTE). This represents a 1.3% increase in General Fund and a decrease of 1.1% in total funds since 2015-17. Although total funds are expected to be flat over the coming two years, the total funds budget has grown by 65% since 2011-13, as the Medicaid expansion under the Affordable Care Act (ACA) was phased in starting in 2014.

General Fund increased by only $27.6 million over the 2015-17 level. This small increase was made possible by the increases in Other Funds revenues available to fund the Oregon Health Plan, as well as decreased caseload forecasts. Other Funds revenues used to replace General Fund include an increase in provider assessments, marijuana tax revenues, and one-time Tobacco Master Settlement revenues. Total funds decreased $223.9 million from the 2015-17 level. This is largely driven by forecasted changes in the Medicaid caseload and by the stabilization of the ACA expansion caseload in 2017-19 at a lower level than in 2015-17.

Health care costs in the Public Employees' Benefits Board and Oregon Educators Benefits Board continue to be capped at an increase of 3.4% per person per year during the 2017-19 biennium. Cost increases are limited to an even lower rate of growth in OHP. The budget maintains the existing level of health care benefits in OHP. Inflationary increases for both Coordinated Care Organizations (CCOs) and fee-for-service are reduced. The recommended budget makes investments in community mental health and in public health, and maintains both the Salem and Junction City campuses of the Oregon State Hospital at current capacity. The budget also incorporates savings that result from program changes.

The budget includes significant administrative reductions, for a savings of $19.1 million General Fund, $38.9 million total funds, and the elimination of 27 vacant positions. The agency expects to make these adjustments through lower spending for services and supplies and by holding positions vacant. The General Fund reduction represents almost 9% of the agency's General Fund administrative budget.

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

### Health Systems Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 1,301,108,019 | 1,428,770,413 | 2,392,476,511 | 1,422,175,819 |
| Lottery Funds | 10,591,632 | 11,348,753 | 12,456,604 | 12,225,546 |
| Other Funds | 1,852,069,149 | 2,272,722,979 | 1,764,924,880 | 2,633,695,924 |
| Other Funds (NL) | 34,874,798 | 103,500,000 | -- | -- |
| Federal Funds | 8,853,496,358 | 10,939,627,504 | 11,106,290,230 | 10,473,456,412 |
| **Total Funds** | **$12,052,139,956** | **$14,755,969,649** | **$15,276,148,225** | **$14,541,553,701** |
| Positions | 677 | 623 | 798 | 776 |
| FTE | 622.99 | 610.47 | 790.10 | 764.56 |

Program Description

The Health Systems Division (HSD) ensures the systematic transformation of health care in Oregon by delivering integrated physical, behavioral, and oral health care services, strengthening the coordinated care model, and improving health outcomes throughout the state. The HSD budget is comprised of the following budget units: 1) Medicaid, 2) Non-Medicaid, and 3) Program Support and Administration. HSD Medicaid delivers health services to over about one million low-income adults, people with disabilities, children, and pregnant women, primarily through the Oregon Health Plan (OHP). The Non-Medicaid budget supports critical elements in Oregon's community behavioral health system that serve as the safety net for all Oregonians regardless of health care coverage. This includes funds for community mental health and addictions programs for low-income people who do not qualify for Medicaid or to provide services to OHP members that are not allowed by Medicaid. These programs provide a system of comprehensive health services to qualifying low-income Oregonians and their families to improve their health status and promote independence.

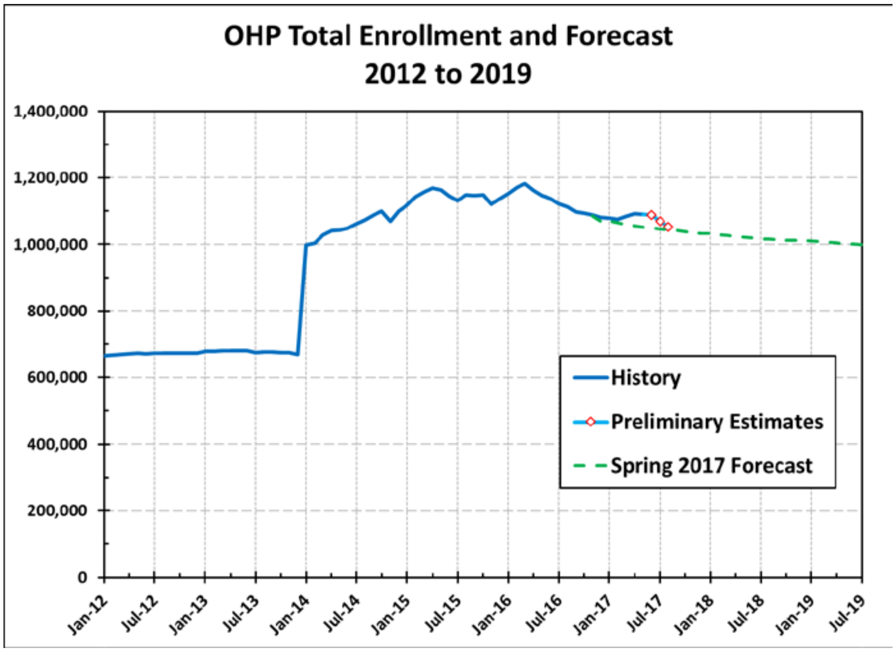
## Medicaid Programs

Medicaid programs deliver health services to about one million people, primarily through OHP which includes both Medicaid and the Children's Health Insurance Program (CHIP). In addition to physical health care, OHP provides mental health and addiction services. Medicaid programs consist of both OHP and Non-OHP. The 2017-19 legislatively adopted budget for Medicaid programs is $1.04 billion General Fund, $2.47 billion Other Funds, $10.16 billion Federal Funds, for a total of $13.69 billion. Special payments, primarily to provide medical assistance to clients, represent 100% of this 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 a new Medicaid health care delivery system through Coordinated Care Organizations (CCOs). A CCO is a network of all types of health care providers who have agreed to work together in local communities to serve OHP members. 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.

Starting in 2012, Oregon committed to limiting health care annual cost growth to 3.4% per member. As a result of the Oregon Medicaid demonstration (often referred to as the Oregon Health Plan waiver) that ended June 2017, Oregon received federal Designated State Health Programs (DSHP) match for programs that had not previously received traditional Medicaid matching funds. Oregon's new waiver for 2017 through 2022 continues the commitment to hold costs down, but does not include any additional federal funds through DSHP.

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 received coverage through OHP during the 2015-17 biennium. This is forecast to fall to about 340,000 on average during the 2017-19 biennium, as the caseload stabilizes with the completion of outstanding redeterminations. Overall, OHP is expected to have an average caseload of just 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 utilization, 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 2017-19 legislatively adopted budget for OHP is $12.76 billion total funds ($532 million General Fund). OHP is currently providing medical care to about one million low income Oregonians. Services include physician, pharmaceutical, hospital, behavioral health, vision, dental, and other services. Medicaid services are matched at 64% federal funds with 36% state funds for much of the traditional OHP population. However, for the 340,000 members of OHP who are the result of the ACA expansion, federal funding is expected to pay 94% of costs on average for the 2017-19 biennium. 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 be approved by CMS.

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). Historically, CHIP has received an enhanced match rate of about 75% federal/25% state. The ACA further increased the match rate by 23 percentage points, resulting in a 2017-19 biennium rate of 97.47% federal. The current budget authorization for CHIP expires September 30, 2017, and Congress is in the process of extending it. At this time, it is uncertain what the funding or match rates will be.

The ***Non-Oregon Health Plan*** budget includes several types of expenditures, including 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 ($251 million), and expenditures for the Citizen Alien Waived Emergency Medical (CAWEM) program. CAWEM is a mandatory Medicaid program where people who would be ineligible for Medicaid solely because of citizenship or immigration status requirements, are eligible for limited medical assistance. 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. The entire Non-OHP legislatively adopted budget for 2017-19 is $913 million total funds ($504 million General Fund), with a caseload of about 70,000 in 2017.

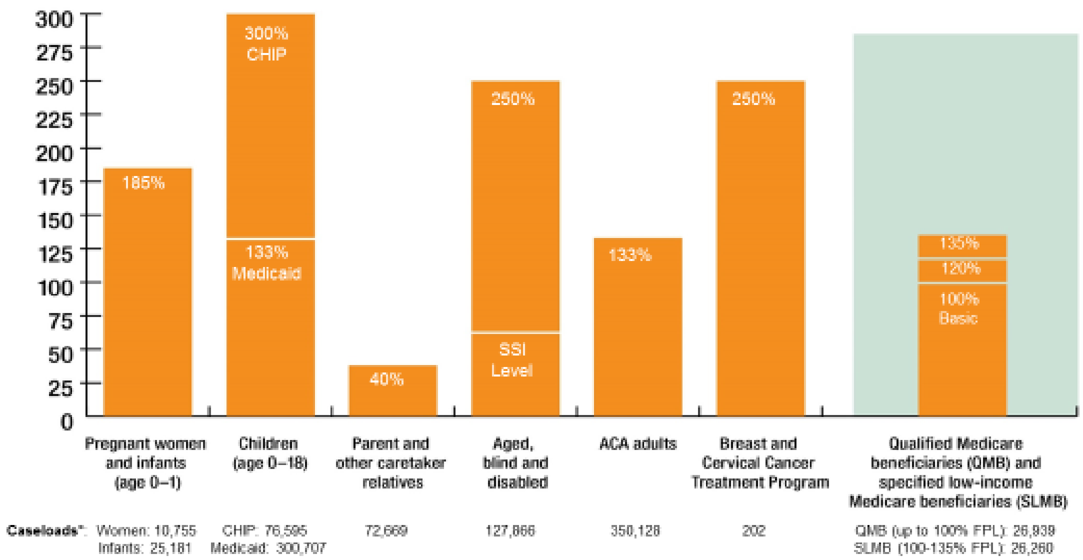
The Medicaid state plan and OHP waivers detail eligibility for the program, what services or benefits are offered, and how, in general terms, providers will be reimbursed. These three elements – eligibility, benefits, and reimbursement – are the main cost drivers of the OHP budget.

***Eligibility*** – The following is a list of those who are currently eligible for OHP. Following 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 2017. 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 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 funded with 94% federal funds for the 2017-19 biennium.
- 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.

## Approximate Federal Poverty Levels (FPL) for Medical Eligibility




*Caseload numbers are most recent data form DSSURS warehouse on August 15, 2017.

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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.

**2017 Federal Poverty Levels by Monthly Income and Household Size**

| Number in household | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|
| 100% FPL | $1,005 | $1,358 | $1,702 | $2,050 | $2,398 | $2,747 | $3,095 | $3,443 |
| **133% FPL** | **$1,337** | **$1,800** | **$2,263** | **$2,727** | **$3,190** | **$3,653** | **$4,116** | **$4,580** |
| 185% FPL | $1,859 | $2,504 | $3,148 | $3,793 | $4,437 | $5,081 | $5,726 | $6,370 |
| 200% FPL | $2,010 | $2,707 | $3,403 | $4,100 | $4,797 | $5,493 | $6,190 | $6,887 |
| 300% FPL | $3,015 | $4,060 | $5,105 | $6,150 | $7,195 | $8,240 | $9,285 | $10,330 |

***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 or copayments for 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, since July 2012, the OHP waiver agreements have stated that Oregon will not reduce benefits.

***Provider Reimbursement*** – OHP Medicaid payments are made to CCOs and, on a fee-for-service basis, to doctors, hospitals, pharmacies, dentists, and other contractors to provide medical services. As of August 2017, about 90% of those eligible are served through CCOs, which receive a global budget from OHA and assume the risk of providing necessary medical services for their members. The remaining 10% are served on a fee-for-service basis.

## Non-Medicaid Programs

The Non-Medicaid 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. Medicaid-eligible people receive behavioral health diagnoses and treatment under OHP as described above. This part of the budget is focused on providing services for people that have a slightly higher income level and do not qualify for OHP (services provided 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 early outreach and engagement, peer-based recovery, and housing services.

HSD administers contracts and agreements with community mental health programs, non-profit providers, and tribes to develop and administer community-based behavioral health services and supports. Services and supports are delivered in outpatient, residential, school, hospital, justice, and other community settings. These programs are designed to deliver evidence-based services in the least restrictive and most integrated setting possible, and to restore individuals and their families to the highest level of functioning possible. They employ peer support specialists, qualified mental health associates and professionals, psychiatrists, psychiatric nurse practitioners, qualified health services providers, psychologists, other independently licensed providers, certified alcohol and drug counselors, certified gambling addiction counselors, and personal care providers.

The 2017-19 legislatively adopted budget for Non-Medicaid programs is $257.2 million General Fund, $9.7 million Lottery Funds, $146.3 million Other Funds, and $63.7 million Federal Funds, for a total of $477 million. Special payments, primarily to providers, represent 100% of this budget.

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 the agency is currently working on a plan to integrate these services within the next year or two.

Non-Medicaid is comprised of two main components: community mental health services, including suicide prevention, intervention, and post-suicide response, and addiction services, including substance abuse treatment and problem gambling prevention and treatment.

***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 the Oregon State Hospital. For individuals and services not covered under OHP, HSD 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*** – Like community mental health services, alcohol and drug treatment services are also offered through counties, tribes, 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 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 Funds for gambling addiction prevention and treatment. Prevention programs related to alcohol and drug use are now funded in Public Health.

## Program Support and Administration

Finally, the budget includes funding for state policy and administrative staff for both Medicaid and Non-Medicaid programs. This function provides the support needed to ensure HSD has the administrative infrastructure and operational and technology resources necessary to fulfill its mission and perform HSD's statutory requirements. A key goal of the integrated HSD program is to ensure the systematic health care transformation in the coordinated care model occurs at the coordinated care organization level and that state operations are effective, efficient, and fiscally sustainable. This section oversees the regulatory and operational management of Oregon's health delivery system. The key functions are: 1) central administration, 2) health programs integration, 3) compliance and regulation, 4) provider services, 5) member services, and 6) business systems. The 2017-19 legislatively adopted budget for Program Support and Administration is $128.9 million General Fund, $2.5 million Lottery Funds, $16.8 million Other Funds, and $247.6 million Federal Funds, for a total of $395.8 million. This program includes 776 positions (764.56 FTE).

A key component of member services is the Processing Center, which 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 had 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 has now implemented a Medicaid system from Kentucky called the OregONEligiblity system, or ONE, which has reduced the workload for this unit. In addition, the backlog of redeterminations that the agency has been working on for more than a year was completed August 31, 2017.

<u>Revenue Sources and Relationships</u>
Federal Funds account for 72% of the HSD budget. Almost all funding is in the HSD Medicaid budget, although 0.6% of the Federal Funds are in Non-Medicaid and 2.4% are in Program Support and Administration.

HSD Medicaid receives more than 96% of its Federal Funds through Title XIX, and most of the rest through the CHIP program. Medicaid requires a state match and the match rate is recalculated each year by the federal government. The composite match rate used in the 2017-19 budget for Medicaid is 63.53% Medicaid funds and 36.47% state funds for most services for the traditional OHP population. (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. Historically, CHIP has received an enhanced match rate of about 75% federal/25% state. The ACA further increased the match rate by 23 percentage points, resulting in a 2017-19 biennium rate of 97.47% federal funds. CHIP federal funds are allotments and each state's allotment is limited by a calculation in federal law. Congress is currently in the process of reauthorizing this program, as the budget authorization ends September 30, 2017.

Federal funds in the HSD 2017-19 budget decreased $466 million, or 4.3%, compared to the 2015-17 legislatively approved budget. This is largely driven by forecasted changes in the Medicaid caseload and, in particular, by the stabilization of the ACA expansion caseload in 2017-19 at a lower level than in 2015-17.

Federal funds in the HSD Non-Medicaid budget include the federal Alcohol and Drug and Mental Health Services Block Grants providing about $63 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 TANF funds. Both the federal Alcohol and Drug and Mental Health Services Block Grants have MOE requirements. In addition, the agency received a grant from the Substance Abuse and Mental Health Services Administration (SAMHSA) for addictions treatment. The Access to Recovery grant provides $7 million from May 2015 through April 2018 ($2.1 million for the 2017-19 biennium). Emphasis is placed on recovery support services such as peer-delivered mentoring, coaching, recovery housing, transportation, child care, care coordination, and other supports.

Other Funds account for 18% of the HSD budget. A total of $2.47 billion, or 94%, of the Other Funds in HSD is in the HSD Medicaid budget, with the remaining $163.5 million in Non-Medicaid and Program Support and Administration.

Most of the state's match comes from the General Fund, as well as a variety of Other Funds. Other Funds revenue for HSD Medicaid includes a hospital Medicaid provider assessment, a new insurer assessment, tobacco tax ($318.1 million), Tobacco Master Settlement Agreement revenues ($154.8 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. A portion of the Tobacco Master Settlement Agreement revenues is one-time, resulting from a series of legal settlements.

Since 2003, health care provider assessments have been a significant source of Other Funds revenue. These assessments are used to support OHP. HB 2391 (2017) revised the structure of the hospital assessment program, increasing the assessment rate paid by diagnostic related group (DRG) hospitals; establishing an assessment for Type A and Type B rural hospitals, which are not currently part of the assessment program; exempting the Oregon Health and Science University (OHSU) from the assessment program; and creating a new insurer premium assessment. As an alternative to the hospital assessment, OHSU and OHA will establish a separate intergovernmental transfer funding program collapsing several Medicaid payments into the new program. In 2017-19, these changes are expected to generate $599 million in additional Other Funds revenue to support OHP, which in turn generates $1.8 billion in federal funds. This brings total OHP funding from provider assessments and the new OHSU program to $1.25 billion in the 2017-19 biennium. The additional 0.7% DRG hospital assessment sunsets on June 30, 2019, while the base level of the hospital assessment, including both DRG and Type A and B hospitals, sunsets September 30, 2021. All the insurer assessment sunsets on December 31, 2019.

Much of the Other Funds revenue within the Non-Medicaid budget is used to offset the need for General Fund, and include beer and wine tax revenue, Tobacco Master Settlement Agreement revenues ($13.8 million), tobacco tax ($60.9 million), and recreational marijuana revenues ($50.6 million). 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.

Budget Environment – Medicaid Programs

In March 2010, Congress passed federal health care reform legislation, the 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 matching funds to states covered 100% of the additional cost of those who were newly eligible through 2016, which will transition to 90% in 2020. 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 (2009) 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 the Public Employees' Benefit Board and the Oregon Educators Benefit Board.

Oregon, like 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, continuing with the passage of HB 3650 in 2011, which launched health system transformation efforts and created 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 (see chart below). CCOs serve about 90% of the Medicaid population as of August 2017 (this measure excludes CAWEM and certain other populations that cannot be enrolled in CCOs). CCOs are focused on a number of key components:

- Integration of physical health, behavioral health, and oral health
- Primary care and prevention
- 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

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 2012. A number of other components have been 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. As of October 1, 2015, all CCOs have integrated non-emergency medical transportation. Dental services were integrated into CCOs by July 2014. Since then, CCOs have evolved in how they provide dental services. While some CCOs continue to contract with Dental Care Organizations (DCOs) or former DCOs to provide dental care to their members, others have developed their own internal capacity to deliver dental services. For individuals who are exempt from CCO enrollment and do not voluntarily enroll, the agency contracts with seven DCOs to provide dental coverage statewide. The agency continues to work on the integration of mental health residential services, and is working toward implementing that in the next year or two.

| Oregon Coordinated Care Organizations | | |
|---|---|---|
| **CCO Name** | **Service Area (Counties)** | **Clients Enrolled *** |
| AllCare Health Plan | Curry, Josephine, Jackson, part of Douglas | 48,687 |
| Cascade Health Alliance | Most of Klamath | 17,094 |
| Columbia Pacific CCO | Clatsop, Columbia, Tillamook | 24,791 |
| Eastern Oregon CCO | Baker, Gilliam, Grant, Harney, Lake, Malheur, Morrow, Sherman, Umatilla, Union, Wallowa, Wheeler | 45,768 |
| FamilyCare, Inc. | Clackamas, Multnomah, Washington, part of Marion | 117,243 |
| Health Share of Oregon | Clackamas, Multnomah, Washington | 208,235 |
| Intercommunity Health Network CCO | Benton, Lincoln, Linn | 53,482 |
| Jackson Care Connect | Jackson | 30,173 |
| Pacific Source Community Solutions CCO - Central Oregon Region | Deschutes, Crook, Jefferson, part of Klamath | 58,850 |
| Pacific Source Community Solutions CCO - Columbia Gorge Region | Hood River, Wasco | |
| PrimaryHealth of Josephine County, LLC | Josephine, parts of Douglas and Jackson | 10,028 |
| Trillium Community Health Plan | Lane, parts of Benton, Coos, Douglas and Linn | 89,449 |
| Umpqua Health Alliance | Most of Douglas | 25,479 |
| Western Oregon Advanced Health, LLC | Coos, Curry | 19,533 |
| Willamette Valley Community Health, LLC | Marion, Polk, and parts of Clackamas and Yamhill | 96,570 |
| Yamhill County Care Organization | Yamhill, parts of Marion, Clackamas, Polk, Tillamook, and Washington | 24,563 |
| * As of August 2017 | Total: | 869,945 |

Oregon’s last five-year waiver with CMS ended in June 2017. A new five-year waiver was approved in January 2017 for the period July 2017 through June 2022. It did not include significant program changes, but does allow the state to continue current programs using CCOs and a prioritized list of services. The waiver continues to commit to an ongoing sustainable rate of cost growth of no more than 3.4% per member annually. It does change the state’s options for providing services to dual-eligible Medicare and Medicaid beneficiaries, by allowing the state to automatically enroll dual-eligibles into CCOs unless the client specifically opts out. Increased care coordination through the CCO model is expected to lower costs and improve outcomes for this population in comparison to the fee-for-service model. The new waiver does not provide any additional federal financial support, as was the case in the earlier waiver.

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. In 2016, which was the fourth year of the pay for performance program, the state held back 4.25% of the aggregate monthly payments to CCOs, resulting in a quality pool of almost $179 million. While all CCOs showed improvement on a majority of measures, only 7 out of 16 CCOs earned 100% of their quality pool dollars. OHA also reports to CMS on 16 additional state performance measures. The final report for 2016 data came out in June 2017. 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 23% since 2011.
- Hospital admissions for chronic obstructive pulmonary disease have decreased by 60%.

- Developmental screening in the first three years of life has increased almost 200%.
- Enrollment in patient-centered primary care homes has increased 72% since 2011, and is now at almost 89%.
- The number of adults who had appropriate screening and intervention for alcohol or other substance abuse has shown strong improvement.

Other measures highlight the need 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 2017-19 legislatively adopted budget were developed in the spring of 2017. These forecasts used actual data through September 2016 – two years and nine months prior to the end of the 2017-19 biennium. Clearly, this forecast is inherently risky and made even more so by the changes resulting from the expansion of Medicaid. Unlike commercial insurers, 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.

After the failure of the Oracle system for OHP eligibility, the state used a hybrid eligibility and enrollment process that was significantly manual. Although the new eligibility system, ONE, opened for use by the public in February 2016, the immense workload necessary to complete redeterminations of the expanded population resulted in a significant backlog of eligibility redeterminations. This backlog was completed the end of August 2017. While the caseload forecast has included the estimated impact and timing of the redetermination process, it has added an additional element of uncertainty to the forecast.

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 is currently strong, a recession can push caseloads up considerably.

***Medical Inflation and Utilization Trends*** – Under federal Medicaid law and state statutes, OHA is responsible for paying rates that are sufficient to ensure 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 few 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, and medical labor shortages. 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 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 to an annual rate of 3.4%.

***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 over 97% for CHIP. 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. Under the current federal administration, this is a much larger concern than in the past.

The ACA 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. That population is expected to fall to about 340,000 on average during the 2017-19 biennium, as the old redeterminations have been completed and the population is stabilizing. That brings the total number of low-income Oregonians receiving health insurance through the Oregon Health Plan to slightly over one million. This expansion was 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 2017-19 biennium is estimated to be $5.1 billion, while the state cost is expected to be roughly $308 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 ongoing concerns that CMS may eventually phase out the provider assessment option that has allowed Oregon to match billions of federal dollars.

<u>Budget Environment – Non-Medicaid Programs</u>

Mental illness can be successfully treated or managed if appropriate treatment regimens are available at the right time. Because mental health and mental illness 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 level rather than the institutional level. This trend continues today. (The section on the Oregon State Hospital includes some of the history of moving away from institutionalization, as well as a series of legal proceedings that has had an impact on Oregon's mental health system.)

In July 2016, OHA finalized the Oregon Performance Plan, which calls for expanding services and improving outcomes for adults with serious and persistent mental illness. The plan is the result of a collaborative process with the U. S. Department of Justice that started before an earlier 2012 agreement, with a focus on whether Oregon's community mental health services were sufficient to avoid unnecessary institutionalization of adults with mental illness. Under this three-year plan, the state is required to 1) improve the way adults with mental illness transition to integrated community-based treatment from higher levels of care, 2) increase access to crisis services and community-based supports to avoid incarceration or unnecessary hospitalization, and 3) expand services and supports that enable adults with mental illness to successfully live in the community, including strengthening housing and peer support services.

While the following do not directly affect the Non-Medicaid 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 were included in the budget for the Housing and Community Services Department during the 2015-17 biennium. Not all these resources were used in 2015-17, and further projects are expected to be funded during the 2017-19 biennium.

- During the 2015-17 biennium, Lottery bond proceeds of $3 million were approved to 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 would 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. However, the organization was unable to raise the required matching dollars for the project and the bonds were not issued. At this time, no bonding is authorized and it is uncertain when or if this project will move forward.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for HSD is $ 1.42 billion General Fund and $14.54 billion total funds. This is a 1.5% total funds decrease from the 2015-17 level. This decrease in total funds is largely driven by forecasted changes in the Medicaid caseload and, in particular, by the stabilization of the ACA expansion caseload in 2017-19 at a lower level than in 2015-17. General Fund decreased by $6.6 million between 2015-17 and 2017-19, as a result of Other Funds available to fund OHP in place of General Fund, as well as decreased caseload forecasts.

The current service level budget for HSD included General Fund increases of over $700 million, resulting from the need to backfill 2015-17 one-time funds, or fund shifts that change funding sources for programs between the two biennia. One-time revenues that needed to be replaced included $170 million of one-time hospital assessments carried over from the program that ended September 30, 2015, backfill of the final year of the federal DSHP funding of $136 million, and other revenue shortfalls. In addition, over $300 million General Fund was needed to cover the cost of changes in the federal match rate and the ACA expansion population as the federal match went down and the state picked up part of the cost. Many of these General Fund costs were ultimately covered using new Other Funds revenues, as described below.

The budget includes an increase in Other Funds revenues to support OHP resulting from a combination of changes, per HB 2391. The structure of the hospital assessment program is modified. First, the rate on net patient revenue paid by DRG hospitals with 50 beds or more, is increased from the current rate of 5.3% to 6 %. Second, an assessment program for rural Type A and Type B hospitals, which currently do not pay an assessment, is implemented. Under this program, qualifying rural hospitals will pay an assessment of 4% of net patient revenue. Third, OHSU is removed from the current hospital assessment model beginning January 1, 2018. As an alternative to the hospital assessment, OHSU and OHA will establish a separate intergovernmental transfer (IGT) funding program. Fourth, a new CCO/insurer assessment is implemented at a rate of 1.5% of premiums. Besides being used to help fund OHP, some of these resources will be used to establish a new reinsurance program through the Department of Consumer and Business Services. In total, these changes result in an estimated $599.4 million in additional Other Funds revenues available to support OHP in 2017-19, saving a like amount of General Fund. Certain components require CMS approval.

The budget includes savings from lower caseload forecasts in the Spring 2017 forecast compared to the Fall 2016 forecast. The Medicaid caseload is down over 36,000 people, resulting in a savings of $57.4 million General Fund and $230 million Federal Funds. The reductions in caseload are primarily in the ACA expansion population and in the Children's Medicaid program. The new 2017-19 biennial average caseload is 1,020,798, which is about 92,000 fewer people than in 2015-17. The forecast for civilly committed individuals in the caseload for Non-Medicaid has also gone down, saving a total of $14.5 million General Fund.

Several Other Fund revenue adjustments have resulted in less need for General Fund in the budget. A total of $108.2 million of unallocated hospital assessment revenues are included. The forecasted increases in hospital assessment for 2017-19, under the old program, were not included in the current service level. The expected drug rebate revenues have increased by $15 million. Additional Tobacco Master Settlement Agreement resources are used to fund OHP, including $3.6 million in lieu of tobacco cessation programs in Public Health, and $63.3 million of one-time revenues that have resulted from a series of legal settlements. Finally, the budget uses $50.2 million in estimated recreational marijuana revenue to replace existing General Fund in alcohol and drug programs and community mental health programs.

In the Non-Medicaid budget, there is an increase of $20.1 million in tobacco tax revenues available to fund mental health programs. This is the result of forecast increases in expected tobacco tax revenues, as well as funds that were not fully used in the 2015-17 biennium and are now available for 2017-19. The agency expects to invest most of these resources in programs that will help the state to meet the goals outlined in the U.S. Department of Justice Performance Plan. Priorities include $10-$15 million in additional funding for mobile crisis services and rental assistance with peer support. Other investment priorities include school-based access to behavioral health and the implementation of the Suicide Prevention and Intervention Plan. A total of $2.5 million will be used for veterans' behavioral health services.

The recommended budget includes several changes to programs that generate General Fund savings. OHA's ongoing efforts to reduce unintended pregnancies, through more widespread use of long-acting, reversible contraceptives, is expected to save $10.5 million. Enhanced program integrity efforts to combat Medicaid fraud and abuse is expected to save $15 million. Investments in program integrity include an increase of nearly $3 million General Fund, $10.1 million total funds and nine positions (8.00 FTE) to improve the Office of Program Integrity's ability to detect, prevent, and investigate errors, fraud, waste, and abuse in Medicaid and Non-Medicaid programs.

The inflationary increases for CCOs have been reduced by $27.2 million General Fund. This translates to a growth rate of approximately 2.58% per year for 18 months during the biennium, rather than the 3.4% that Oregon has committed to in the current waiver. This is a reduction to the budgeted inflation that could be achieved through some combination of reduced inflation for CCO program costs or administrative savings to reach the budget target of $27.2 million General Fund. A portion of the Fee-for-Service (FFS) inflation is eliminated, for a General Fund reduction of $10 million. In addition, another $5 million General Fund is removed from the FFS inflation adjustment related to moving OHP members out of FFS and into CCOs.

Other budget actions include the following:

- SB 558 modifies eligibility requirements for the Health Care of All Oregon Children program, to make all children who reside in Oregon eligible for medical assistance, regardless of immigration status, if family income is at or below 300% of the federal poverty guidelines. The change is effective January 1, 2018. Funding of $36.1 million General Fund is included in the HSD budget to cover these costs. No federal matching funds are available for this population. OHA estimates an additional 14,174 children will be found eligible for medical assistance during the 2017-19 biennium, over the 18-month period starting January 1, 2018, as a result of the eligibility change.
- HB 3391 provides $3.4 million General Fund to HSD primarily to provide postpartum services to pregnant women for 60 days after birth for delivery and non-delivery services, for individuals who would be eligible for Medicaid except for immigration status.
- Funding of $10 million General Fund will cover costs related to treating Hepatitis C - Stage 2 for members of OHP. Coverage is already included for Stages 3 and 4. It is estimated that roughly 3,200 OHP members have Hepatitis C at Stage 2, and if all these members pursue treatment, the 2017-19 estimated cost is about $21.6 million General Fund. Depending on actual program costs, the agency may need to request additional funding during the 2018 legislative session.
- An increase of $5.5 million General Fund will provide the one-time funds needed to move certain clients from FFS to CCOs, consistent with the state's renewed Medicaid waiver. Currently, individuals who are dually eligible for both Medicare and Medicaid are placed in FFS with the option of opting in to CCO services. Under the renewed waiver, these individuals will be placed in CCOs with the option of opting out at any time. This action results in a one-time cost related to the timing of funding for CCOs versus FFS costs as more dual-eligible individuals receive services through CCOs.

- A reduction of $3.1 million General Fund, $5.8 million total funds and 56 positions is included for the processing and call center. The current service level budget included the addition of staff in the processing and call center in order to increase permanent staff to the level needed in the longer run, rather than relying on temporary and limited duration staff as has been done over the last two years. After this reduction, the budget includes 123 additional staff for the processing and call center. The total staffing levels, including the current temporary and limited duration staff, is expected to go from about 600 currently to about 400 during the first few months of the biennium. OHA and the Department of Human Services (DHS) have begun working on a plan to move the processing and call center activities in OHA over to DHS, as all eligibility work is expected to be located in DHS in the future.
- Several investments in technology are included in the budget to improve Medicaid processing and enrollment systems. First, $0.3 million General Fund helps secure 90% federal financial participation to support the strategic planning process for the modularization of the Medicaid Management Information System (MMIS) as required by CMS. Second, $1.3 million General Fund and $11.5 million Federal Funds will be used for enhancements to the ONE system . Enhancements to ONE's functionality are necessary as the system continues to improve its eligibility services for Medicaid participants and to support anticipated changes for CMS requirements. Finally, $322,233 General Fund, $15.2 million total funds, and 62 positions (51.71 FTE) is included in the OHA budget to support the ongoing DHS effort to develop and implement an integrated eligibility system, called the ONE Integrated Eligibility and Medicaid Eligibility (ONE IE&ME). The bulk of the project expenses are included in the DHS budget.
- SB 111 provides $109,150 General Fund, $217,926 total funds, and one position to help establish Medicaid billing practices for school districts and education service districts in order to increase of the use of Medicaid billing in those systems.
- Administrative reductions total $6.2 million General Fund, $7.1 million total funds, and the elimination of three vacant positions.

### Health Policy and Analytics

| | **2013-15 Actual** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---:|---:|---:|---:|
| General Fund | 44,366,971 | 24,738,944 | 27,344,901 | 31,512,233 |
| Other Funds | 3,086,448 | 9,619,843 | 3,655,137 | 20,061,297 |
| Federal Funds | 91,491,370 | 123,584,268 | 100,881,847 | 107,441,227 |
| **Total Funds** | **$138,944,789** | **$157,943,055** | **$131,881,885** | **$159,014,757** |
| Positions | 119 | 137 | 144 | 145 |
| FTE | 114.07 | 131.49 | 138.15 | 138.90 |

<u>Program Description</u>

Health Policy and Analytics (HPA) 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. Programs within HPA include:

- Office of Health Policy – Supports the Oregon Health Policy Board, the Medicaid Advisory Council, OHA programs, and other stakeholders engaged in the design of Oregon's health system transformation. This office includes the State Medicaid Director. The office's services include policy analysis, development, and evaluation. The office also provides technical assistance on topics such as primary care workforce development, resource leveraging, and grant development for health system transformation projects.
- Office of Clinical Improvement Services – Supports the implementation of the coordinated care model in all provider and payer organizations, including OHA, by aligning and integrating clinical resources and policies. The chief medical officer oversees the Transformation Center, which promotes effective and innovative practices among Oregon's existing CCOs by establishing learning collaboratives, assigning innovator agents to help CCOs, providing technical assistance, and disseminating outcome and best practice information. The

chief medical officer also oversees the Patient Centered Primary Care Home program, the Health Evidence Review Commission, Behavioral Health Integration, Oral Health Integration, the Oregon Prescription Drug Program, and the Quality Council implementation of clinical services.

- 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, analyzes trends across all payers and claims data, and performs actuarial analysis to support rate development and benefit design.
- Office of Health Information Technology – Provides coordination across programs, departments, and agencies in developing policies and procedures accelerating state and federal health reform goals through implementation and integration of health information technologies; leverages health IT funding opportunities from federal grants, philanthropic organizations, and the private sector; and 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 program, a statewide Provider Directory, and a Clinical Quality Metrics Registry.
- Office of Business Supports – Responsible for all the division's operational functions. The office acts as a liaison to internal and external stakeholders related to operational functions.

Revenue Sources and Relationships

HPA 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 Health Resources and Services Administration Primary Care grant and the Health Information Technology for Economic and Clinical Health (HITECH) grant. Significant funding has been awarded through HITECH since 2013-15 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 HITECH revenues totaled $52 million in 2015-17, and are expected to be $85 million during the 2017-19 biennium. About $64 million of the total is for electronic health record incentive payments. Medicaid administrative funds are expected to total about $22 million in 2017-19.

Other Funds primarily come from the Primary Care Provider Loan Repayment program and from fees related to the Common Credentialing program.

Budget Environment

Most of the programs in HPA were moved out of Central Services into this separate budget unit during the 2013-15 biennium.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for HPA is $159 million total funds, which is 0.7% more than the 2015-17 legislatively approved budget. Increases in Other Funds expenditure limitation from fees related to the Oregon Common Credentialing system is more than offset by a reduction in federal grant funding. The adopted General Fund budget of $31.5 million is 27.5% more than the 2015-17 level of $24.7 million. This is partially due to using General Fund to replace a portion of the federal funding from the State Innovation Models (SIM) grant which ended in May 2017. The increase also includes additional funding for rural provider incentive programs.

Budget adjustments include:

- Because the federal SIM grant ended in May 2017, $3.9 million in General Fund is added to the budget to replace Federal Funds in the Office of Health Policy and the Transformation Center.
- An increase in Other Funds expenditure limitation of $13.8 million to support the cost of administering the Oregon Common Credentialing program. These revenues come from fees approved as part of the budget.
- An increase in General Fund of $500,000, which will leverage $4.5 million Federal Funds, to support Medicaid providers to connect to health information exchange entities. In 2016, federal funding at a 90% match rate became available for this purpose.

- Additional General Fund resources of $3.2 million for rural provider incentive programs. This is funding that was inadvertently omitted from the current service level budget. This brings the total General Fund for provider incentive programs in HPA to $5.3 million. Another $8.5 is currently located in HSD for the insurance subsidy program. HB 3261 (2017) restructures the rural provider incentive programs, and the funding within the agency may also be restructured over time.
- Funding is added to this program for two different projects as part of substantive legislation. HB 2300 includes $143,888 General Fund and one position to support the work of the Mental Health Clinical Advisory Group to develop evidence-based algorithms for mental health treatment with mental health drugs. SB 944 requires OHA to contract with a non-profit organization qualified to operate a 24-hour call center dedicated to tracking and providing information about available placement settings for children and adolescents needing high acuity behavioral health services. The bill provides $400,000 General Fund for this contract.
- Administrative reductions total $1.6 million General Fund, $2.3 million total funds, and the elimination of two vacant positions.

## Public Employees' Benefit Board

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 1,649,353,228 | 1,872,814,604 | 1,899,933,830 | 1,966,713,889 |
| **Total Funds** | **$1,649,353,228** | **$1,872,814,604** | **$1,899,933,830** | **$1,966,713,889** |
| Positions | 20 | 19 | 20 | 19 |
| FTE | 19.50 | 18.50 | 19.50 | 18.50 |

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 139,000 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, 74% of PEBB members are enrolled in self-insured medical plans. The remaining 26% 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 19 staff (18.50 FTE), with actuarial services and third-party 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 prior to the 2013-15 biennium, but were switched to Other Funds Limited starting in 2013-15, in order to hold the Board more accountable for cost growth in the program. 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 accounted for as Other Funds.

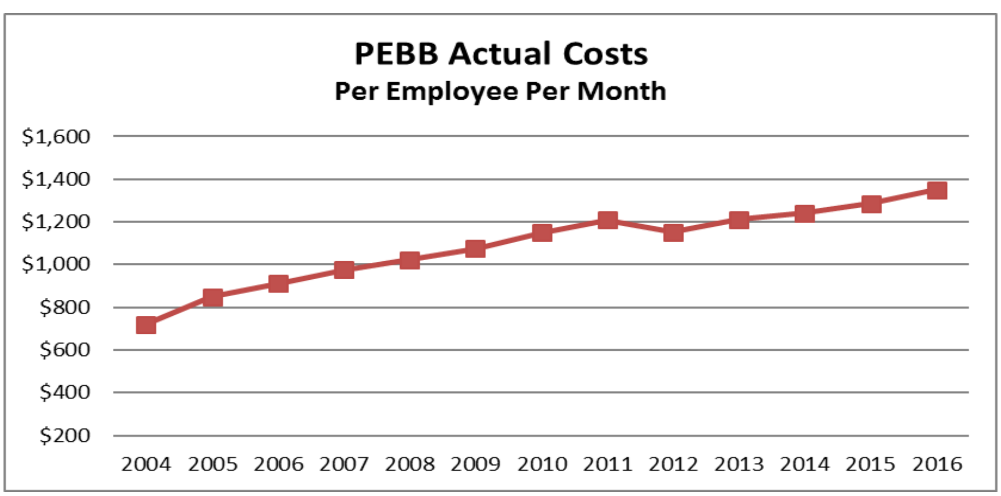
For fully-insured plans, the premiums PEBB collects are passed through to the appropriate insurance carrier who carries the risk on those plans. For self-insured plans, PEBB carries the risk and must maintain a Stabilization Fund which requires a sufficient balance to cover large claims risk. That fund balance is expected to be about $231 million by the end of 2017, or $61 million above the PEBB reserve target. Per SB 501 (2015), $120 million of the Stabilization Fund was transferred to the General Fund in the spring of 2017.

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. The assessment is currently at 0.48%. These administrative expenditures total $10 million for the 2017-19 biennium.

<u>Budget Environment</u>
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 people 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 PEBB have been active in implementing programs to help reduce these cost trends. The Oregon Health Policy Board has worked 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 designs 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. Contract adjustments for the 2018 plan year include several cost-saving measures such as an increase in the office visit co-pay, and a tiered hospital plan design that requires a higher out-of-pocket cost for non-emergency procedures at higher cost hospitals.

In general, these efforts appear to be paying off. Per-employee costs during the four-year period between 2011 and 2015 increased only 6.4%. However, it has been challenging to sustain these lower cost growth rates, particularly as a new generation of expensive pharmaceuticals have come onto the market. The annual cost increase between 2015 and 2016 was 5%. The Board's plan design changes for 2018 are intended to keep cost growth under the 3.4% per member per year budget growth rate.



Legislatively Adopted Budget
The 2017-19 legislatively adopted budget is $1.97 billion Other Funds, or 5% higher than the 2015-17 legislatively approved budget. Operations is funded for 19 positions (18.50 FTE), after the elimination of one vacant position. 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 insurer premium assessment that was passed during the 2017 legislative session (HB 2391) is expected to be passed through to PEBB, increasing costs by 1.5% to a total per member per year growth of 4.9%. The PEBB Board decided to pay that extra cost out of their reserves, since agencies were not budgeted for it. That cost is anticipated to be about $12 million during the 2017-19 biennium.

SB 1067 was the result of an initiative of the 2017 legislative session to find ways to reduce and control future government costs. Parts of the legislation affected PEBB and OEBB. The bill requires PEBB and OEBB to establish an executive committee to develop a plan for the merger of the boards and to begin to combine administrative functions and operations. It also limits hospital reimbursement rates for PEBB and OEBB to 200% of Medicare rates for in-network providers, and 185% of Medicare rates for out-of-network providers. Finally, it eliminates "double coverage" and "opt-out" incentive payments for PEBB and OEBB covered employees who have family members also employed by a PEBB or OEBB employer. Both the hospital and double coverage provisions are effective starting with the 2020 plan year for PEBB (starting January 1, 2020) and the 2019-20 plan year for OEBB (starting October 1, 2019). It is estimated that these changes would reduce costs in the 2019-21 biennium by about $178 million total funds for PEBB and OEBB combined.

### Oregon Educators Benefit Board

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 10,224,333 | 1,597,477,853 | 1,663,552,591 | 1,628,844,689 |
| Other Funds (NL) | 1,421,512,375 | -- | -- | -- |
| **Total Funds** | **$1,431,736,708** | **$1,597,477,853** | **$1,663,552,591** | **$1,628,844,689** |
| Positions | 24 | 22 | 20 | 19 |
| FTE | 23.00 | 22.00 | 20.00 | 19.00 |

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. Almost 153,000 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.

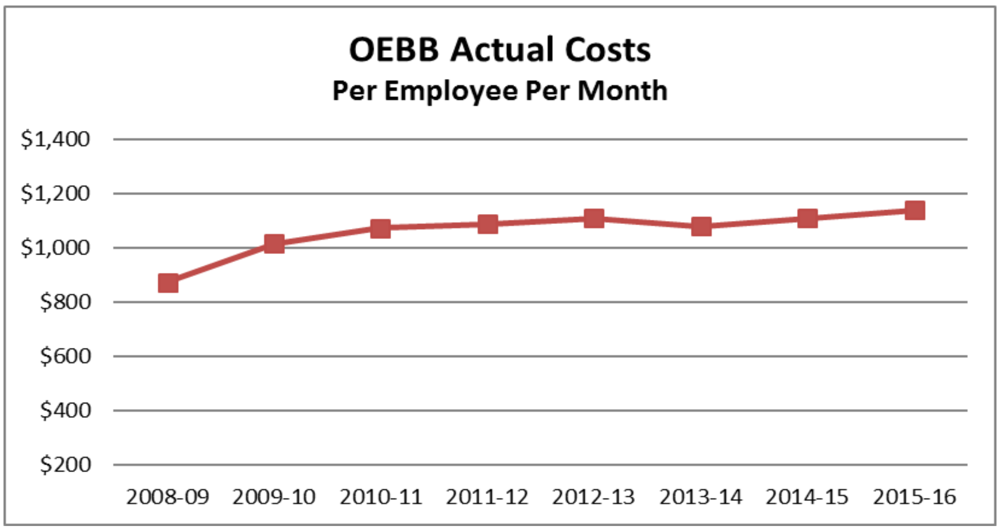
OEBB is administered by 19 staff (19.00 FTE), with actuarial services provided through contract.

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 resources come from the various education districts that participate in the program. Program expenditures were administered as Nonlimited Other Funds prior to the 2015-17 biennium, but were switched to Other Funds Limited in 2015-17, in order to hold the Board more accountable for cost growth in the program. 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 is 1.45%. Administrative expenditures total $11.3 million for the 2017-19 biennium.

Budget Environment

Both the Oregon Health Policy Board and OEBB have been active in implementing programs to help reduce cost trends and improve health. The Oregon Health Policy Board has worked 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. Regardless, OEBB has held medical premium increases below 3.4% every year since 2010-11. Per employee costs during the four-year period between 2012-13 and 2015-16 increased only 2.8%. 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.




In June 2016, OEBB released a Request for Proposals for medical, pharmacy, and vision benefits to evaluate options. Proposals were evaluated with a focus on "organized systems of care" and other priority areas including administrative functions, better health, better quality, financial sustainability, network access, and innovation. In January 2017, the OEBB Board selected plans based on the mix of member accessibility, choice, quality, and cost. These plans are available for the plan year beginning October 1, 2017.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is $1.63 billion Other Funds, or 2%, higher than the 2015-17 legislatively approved budget. Operations is funded for 19 positions (19.00 FTE). The budget 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.

SB 1067 was the result of an initiative of the 2017 legislative session to find ways to reduce and control future government costs. Parts of the legislation affected PEBB and OEBB. The bill requires PEBB and OEBB to establish an executive committee to develop a plan for the merger of the boards and to begin to combine administrative functions and operations. It also limits hospital reimbursement rates for PEBB and OEBB to 200% of Medicare rates for in-network providers, and 185% of Medicare rates for out-of-network providers. Finally, it eliminates "double coverage" and "opt-out" incentive payments for PEBB and OEBB covered employees who have family members also employed by a PEBB or OEBB employer. Both the hospital and double coverage provisions are effective starting with the 2020 plan year for PEBB (starting January 1, 2020) and the 2019-20 plan year for OEBB (starting October 1, 2019). It is estimated that these changes would reduce costs in the 2019-21 biennium by about $178 million total funds for PEBB and OEBB combined.

## Public Health

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 40,674,722 | 39,861,581 | 45,118,075 | 65,196,109 |
| Other Funds | 128,264,554 | 183,344,217 | 188,030,158 | 150,073,638 |
| Other Funds (NL) | 34,969,820 | 40,000,000 | 40,000,000 | 40,000,000 |
| Federal Funds | 209,960,884 | 266,121,447 | 271,772,432 | 236,650,545 |
| Federal Funds (NL) | 97,695,171 | 102,729,051 | 102,729,051 | 102,729,051 |
| **Total Funds** | **$511,565,151** | **$632,056,296** | **$647,649,716** | **$594,649,343** |
| Positions | 770 | 789 | 760 | 754 |
| FTE | 727.56 | 765.22 | 751.41 | 735.67 |

Program Description

Public Health administers a variety of programs addressing behavioral and social drivers of health by working to ensure physical and social environments promote health and make it easier for people to make healthy choices. 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, have the potential to reduce the need for costly health care services. Public health also 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, while others 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*** helps communities and residents achieve and sustain lifelong health, wellness, and safety. This includes prevention of chronic disease, child developmental delays, injuries and unsafe relationships, and physical and behavioral problems. The program also 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
- Preventing substance abuse, including opioids and other prescription drugs
- 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. 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 works to reduce unintended pregnancies through the Oregon Contraceptive Care (CCare) program, promote healthy birth outcomes, increase awareness of women's health issues, and conduct screening for breast and cervical cancer.

The center also supports the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), which 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.

The ***Center for Health Protection*** protects the health of individuals and communities through establishing, applying, and ensuring compliance with regulatory and health-based standards. This includes protection from environmental health hazards, developing patient safety efforts, and quality improvement activities for all health care providers. The center 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 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. In addition, the Health Licensing Office is part of the center and is the central licensing and regulatory office overseeing 16 health-related professional boards and programs. This office protects the health and safety of Oregonians by ensuring that only qualified applicants are authorized to practice their profession.

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. Most recently, the center has been involved in monitoring and addressing air quality issues in Portland.

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 center includes CAREAssist, which 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 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, as well as 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 $300 million are about half of Public Health's total funds legislatively adopted budget for 2017-19. Of this total, over 45% 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 and individuals – most of it in the form of WIC food vouchers.

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 law requires local public health authorities to submit annual plans for OHA review and approval. Most counties supplement state and federal funds with local resources for local public health activities.

Revenue Sources and Relationships

General Fund of $65.2 million is only 11% of the total 2017-19 legislatively adopted budget. The main programs funded with General Fund are state support to local public health departments, School-Based Health Centers, CCare, and the breast and cervical cancer screening program.

Total Other Funds of $190.1 million comprise 32% of the total 2017-19 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 2017-19, $49.3 million of Other Funds are budgeted in the CAREAssist program; 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 WIC program.

Total Federal Funds of $339.4 million represent 57% of the total 2017-19 budget. Almost 62% 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, through the CCare program. Federal grants include the Maternal and Child Health Title V 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 90 different federal grants. The Nonlimited Federal Funds of $102.7 million represent WIC food voucher expenditures.

Budget Environment

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, budgets for clinical care generally receive greater attention and support by policymakers; when public health programs work well, fewer people are aware of them.

Like many other health and human services programs, public health faces significant funding challenges. The Trust for America's Health (2016) ranks Oregon 31st in the nation in per capita state funding of public health, at $26.60. This compares to a median level for all states of $33.71. For comparison, Idaho ranks 7th at $94.10, California ranks 10th at $56.20, and Washington ranks 23rd at $38.20.

Public Health Modernization remains an imperative policy and budget issue for Oregon. HB 2348 (2013) 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 2015 Legislature (HB 3100) subsequently required OHA to adopt and update a statewide public health modernization assessment, including a formula for the distribution of funds to local public health authorities. The assessment, which was completed in 2016, addressed two issues: 1) the extent to which the existing system is able to meet the requirements of a modern public health system; and 2) the resources needed to fully implement public health modernization. Based on the findings from the assessment, OHA recommended the following priorities for 2017-19:

- Communicable diseases – detect and respond to traditional and emerging infectious disease.
- Environmental health – limit environmental risks to human health.
- Emergency preparedness – prepare for and respond to natural disasters and other catastrophic events.
- Health equity – ensure that every state and local public health authority has the capacity to engage communities that experience an excess burden of disease.
- Population health data – ensure that every state and local public health authority has access to timely, accurate, and meaningful data needed to understand the health of the community and drive decision-making.

To address the gaps in the public health assessment and to build a sustainable infrastructure to support public health modernization long-term, the assessment recommended an initial investment of $30 million General Fund in the 2017-19 biennium, with an ultimate biennial need of $210 million in additional funding to fully implement public health modernization.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is $594.6 million total funds, which is 5.9% less than the 2015-17 legislatively approved budget level. The adopted General Fund budget of $65.2 million is 63.6% above the 2015-17 level of $39.9 million. This increase of $25.3 million in General Fund is driven by the need to replace declining medical marijuana revenues, an investment in Public Health Modernization, and an investment to support the expansion of reproductive health services.

General Fund is increased by $12.1 million to replace declining medical marijuana revenues. These Other Funds revenues have declined as medical marijuana dispensaries, processors, and growers have moved to the Oregon Liquor Control Commission as a result of laws passed during the 2015, 2016, and 2017 legislative sessions. In the past, medical marijuana revenues have been used to replace General Fund in several ongoing core public health programs, including state support for local public health departments, the Safe Drinking Water Program, Emergency Medical Services, CCare, and others. With the shortfall in medical marijuana revenues, General Fund must be added to these programs to maintain current program levels. The budget continues to include a total of $7.1 million of medical marijuana revenues for state support of local public health departments.

The 2017-19 budget includes $5 million General Fund for Public Health Modernization to support the state Public Health program and local public health authorities in addressing public health system gaps and to help build a sustainable infrastructure to support public health modernization long-term. At this level of funding, the agency will not be able to implement programs statewide. Instead they will focus on communicable disease, a top priority, and on a few regions of local public health authorities working together to implement a modern communicable disease control system.

HB 3391 provides $6.7 million General Fund to Public Health to support the expansion of reproductive health services to individuals who would be eligible for Medicaid except for immigration status.

Other budget changes include the following:

- 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 $1 million is added for the same purpose for eligible individuals through the WIC program.
- Both CCare and the Breast and Cervical Cancer Screening Program are fully funded for the 2017-19 biennium. The CCare budget is reduced by $525,000 General Fund, and the budget for the Breast and Cervical Cancer Screening Program is reduced by $180,000 General Fund, to properly reflect the General Fund needed to support the programs' current caseloads and costs. These budgets have declined over time as more Oregonians have health insurance.
- General Fund is decreased by $2 million in the CAREAssist program. Additional drug rebate revenues are available to meet current funding needs in this program.
- Tobacco Master Settlement Agreement resources of $3.6 million are transferred to the Health Systems Division for the Oregon Health Plan. In 2015-17, these resources were added to the Public Health budget to help fund tobacco prevention and cessation programs. The 2017-19 budget still includes a total of $16.3 million in tobacco tax revenues that fund the Tobacco Prevention and Education Program.
- New fee increases are included for Newborn Screening, Health Facilities Plan Review, and Hospice and In-Home Care Licensing programs, in order to allow these programs to be maintained at current levels. In addition, fees that were increased or established during the interim were ratified to continue for the Oregon Environmental Laboratory Accreditation and the Toxic-Free Kids Act. New fees are established for the Immunization Alert program. The Hospice and In-Home Care Licensing fee increase was dependent on the passage of SB 53. These changes result in an increase in Other Funds expenditure limitation of $2.5 million, and a decrease in excess Federal Funds expenditure limitation of $1.2 million.

- SB 1057 made further changes to Oregon's recreational and medical marijuana programs. It results in a decrease in Other Funds expenditure limitation of $2.7 million and an increase of two positions (decrease of 7.00 FTE) for the Oregon Medical Marijuana Program. A total of 14 positions are eliminated halfway through the biennium. A significant part of the net decrease in Other Funds revenue reflects OHA's estimate of the number of growers, processors, and dispensaries migrating to the Oregon Liquor Control Commission, and the corresponding loss in medical marijuana fee revenue. SB 2198 establishes the Oregon Cannabis Commission within OHA and provides $250,000 General Fund and two positions to support the commission.
- HB 2402 provides $50,000 General Fund to establish a grant program allowing homeless individuals to obtain a certified copy of their birth records at a reduced rate or free of charge.
- Administrative reductions total $2.4 million General Fund, $7.7 million total funds, and the elimination of 17 vacant positions. Six of these positions were in the Oregon Medical Marijuana Program. Reductions of $19.5 million Other Funds and $27.5 million Federal Funds are also included to true up the budget to current revenue and expenditure expectations.

**Oregon State Hospital**

| | **2013-15 Actual** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---|---|---|---|
| General Fund | 388,702,108 | 452,013,672 | 531,068,904 | 451,041,430 |
| Other Funds | 14,555,054 | 23,951,824 | 25,611,323 | 64,382,972 |
| Federal Funds | 45,451,223 | 49,397,904 | 35,847,166 | 31,392,627 |
| **Total Funds** | **$448,708,385** | **$525,363,400** | **$592,527,393** | **$546,817,029** |
| Positions | 2,369 | 2,269 | 2,438 | 2,289 |
| FTE | 2,052.74 | 2,262.90 | 2,433.32 | 2,281.95 |

Program Description

The Oregon State Hospital (OSH) is an integral part of the statewide behavioral health system, providing the highest level of psychiatric care for adults with severe mental illness from all 36 counties at the Salem and Junction City campuses. The hospital's primary goal is to help people recover from their mental illness and return to life in their communities. The hospital works in partnership with the Health Systems Division, the Psychiatric Security Review Board (PSRB), regional hospitals, community mental health programs, advocacy groups, and other community partners. Most of the behavioral health services that are funded by OHA are included in the Health Systems Division budget, in both Medicaid programs and Non-Medicaid programs.

The hospital has gone through significant programmatic changes over the past several years. The old facilities in Salem were replaced with a modern psychiatric treatment and recovery hospital 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 four wards, or 100 beds, are currently open. With the opening of the Junction City facility, the OSH 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.

Patients receiving treatment in OSH fall into one of the following three commitment types:

- Civil Commitment – people who have been found by the court to be an imminent danger to themselves or others, or who are unable to provide for their own basic health and safety needs, due to their mental illness. A subset of this population includes those who have significant co-occurring medical issues, such as those with dementia, Alzheimer's, or traumatic brain injury.
- Guilty Except for Insanity (GEI) – people who have committed a crime, but who could not be convicted because their mental illness prevented them from understanding that the act was illegal or from following the law. Courts place people found GEI into the mental health system instead of the corrections system.

- Aid and Assist – people who have been arrested but have been found unable to participate in their legal proceedings due to a mental illness and are in need of mental health treatment enabling them to understand the criminal charges against them and "aid and assist" in their own defense. These patients are often referred to as the .370 population since they are referred to OSH by the court under ORS 161.370.

The hospital's role is to provide services and treatment to individuals that will prepare them to return to the community as soon as they are ready. Services include 24-hour nursing, psychiatric and other credentialed professional staff, treatment planning, pharmacy, laboratory, food and nutritional services, and vocational and educational services.

Management of the overall behavioral health system has a large impact on the success of OSH. In order to ensure that only people who need hospital-level care are admitted, a robust array of preventive, treatment, and crisis services must be available in the community. In addition, to ensure that people can be released from the hospital when they are ready, the community behavioral health system must have sufficient capacity to provide services and supports in a variety of integrated and independent settings to meet each individual's needs.

OHA also operates a state-delivered, 16-bed secure residential treatment facility in Pendleton known as the Pendleton Cottage. 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.

This budget also includes funding for capital improvements that may be necessary to maintain the two campuses of OSH. Since both campuses are newly constructed and do not require significant capital expenditures, the 2017-19 General Fund budget of $725,501 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.

<u>Revenue Sources and Relationships</u>
Funding for OSH is about 82% General Fund, 12% Other Funds, and 6% Federal Funds. Other Funds have nearly tripled between the 2015-17 and 2017-19 budgets, resulting in the need for less General Fund.

Much of the Other Funds revenue within the budget is used to offset the need for General Fund, and the sources for this revenue are varied. They include Medicare reimbursements, settlements with third-party insurers, sales income, and other miscellaneous sources. Other Funds revenue also includes patient resources such as Social Security benefits and private insurance, as well as individual payments.

Most of the federal funding comes from federal Disproportionate Share Hospital (DSH) revenues. It also includes Title XIX Medicaid, which supports institutional care for eligible patients age 65 or older, as well as patients in the Pendleton Cottage. Federal financing for care provided to most patients in mental health facilities larger than 16 beds is prohibited.

<u>Budget Environment</u>
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 level rather than the 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, OSH has gone from a peak population of over 5,000 persons in the 1950s to a current population of between 600 and 650 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. This reflects the closure of the Dammasch State Hospital in 1995 and the downsizing at OSH 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, and which maintains an appropriate continuum of 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.

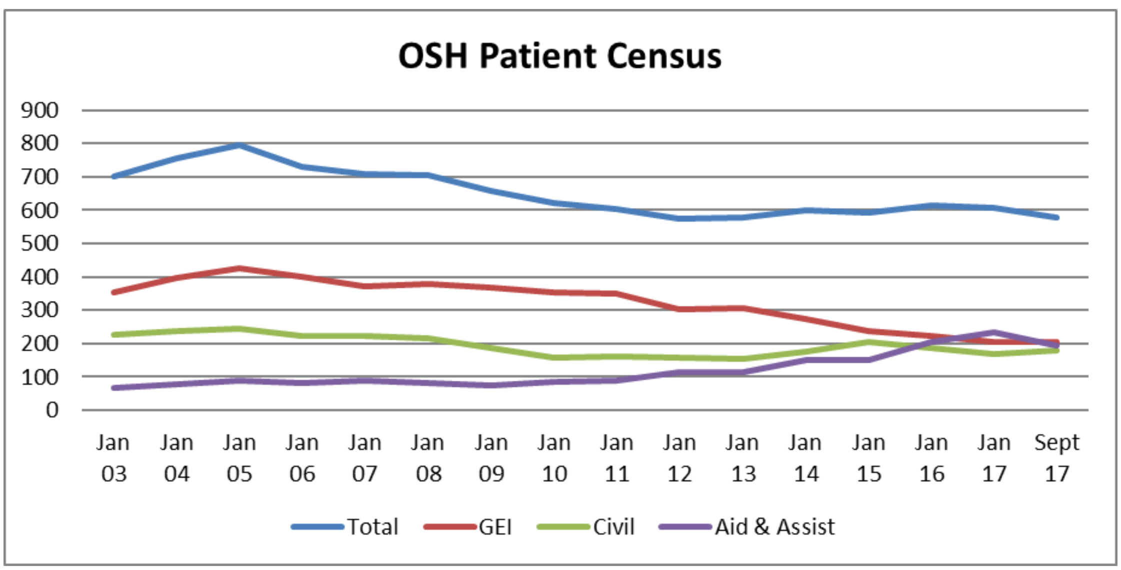
In response to the report, Governor Kulongoski and legislative leadership decided to build two new facilities – a 620 bed facility in Salem at the present OSH campus and a 360 bed unit near Junction City adjacent to a planned Department of Corrections facility. During the 2007-09 biennium, the agency 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, was slightly over $500 million.

The U. S. Department of Justice (USDOJ) has been actively involved in Oregon's mental health system. They conducted a review of OSH under the Civil Rights of Institutionalized Persons Act (CRIPA) and issued a highly critical report in January 2008, before the new facilities were built. Many of the issues found in that review 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 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). In 2012, the State of Oregon and USDOJ entered into a four-year agreement to address gaps in the state's delivery of community mental health. In July 2016, OHA finalized the Oregon Performance Plan, which calls for expanding services and improving outcomes for adults with serious and persistent mental illness. The plan is the result of a collaborative process with USDOJ that started before the 2012 agreement, with a focus on whether Oregon's community mental health services were sufficient to avoid unnecessary institutionalization of adults with mental illness. Under this three-year plan, the state is required to 1) improve the way adults with mental illness transition to integrated community-based treatment from higher levels of care, 2) increase access to crisis services and community-based supports to avoid incarceration or unnecessary hospitalization, and 3) expand services and supports that enable adults with mental illness to successfully live in the community, including strengthening housing and peer support services.

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 GEI, or forensics patients, have declined from about 400 at any given time in the 2004 to 2009 period down to 203 in September 2017 (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 number of Aid and Assist patients being admitted. This population has more than doubled, from about 85 at any given time in the 2005 to 2011 period up to 192 as of September 2017. This population was over 200 in January 2016, and up to 248 in October 2016. 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. Specific investments were made in the 2015-17 budget to provide more services for Aid and Assist patients in the community in order to prevent them from being admitted to the hospital. It is still unclear how much of an effect that is having. While the Aid and Assist population has decreased from its peak in October 2016, it has stabilized at 190-200 for the last six months rather than continuing to decline.

As a 24/7 institution, OSH is very different from the rest of the agency. Their primary cost driver is staff, most of whom are involved in direct patient care. In fact, about half of all agency positions are in the hospital. Over 70% of staff at the hospital are direct-care staff such as nurses, psychiatrists, psychologists, etc. Almost 85% of the budget is personal services, including salaries and benefits. Even a significant amount of the program's services and supplies expenditures are directly related to patient care, such as prescription drugs and food. One of the consequences of this budget structure is that the agency has very little flexibility to manage cost increases or budget reductions. Holding positions vacant, a common strategy in other parts of the agency, directly results in increased costs for overtime or contract nursing services.




<u>Legislatively Adopted Budget</u>

The 2017-19 legislatively adopted budget of $546.8 million total funds is $21.4 million, or 4.1%, more than the 2015-17 legislatively approved budget. The 2017-19 General Fund of $451 million is slightly less than the 2015-17 budget, as the hospital continues to generate increasing Other Funds revenue through Medicare billing.

Over the last two years, the hospital has made significant progress on improving billing and reimbursement processes. The number of beds formally certified by the Centers for Medicare and Medicaid Services (CMS) has increased from 115 to 569. Certification means the hospital can bill for patients covered by Medicare, Medicaid, and third party (commercial) insurance. These billings will support hospital costs that would otherwise have been supported with General Fund. The hospital needs to continue the compliance, billing, and accreditation activities related to sustaining the CMS certification and continued revenue generation, and will invest $10.4 million of the additional revenues for this purpose, including 32 additional positions (27.63 FTE). The remaining $30.1 million of additional revenue is used to reduce the General Fund need by the same amount.

The 2017-19 budget includes funding to maintain the same capacity in the hospital as late in the 2015-17 biennium. At the Junction City campus, two wards and the three cottages will continue to remain unoccupied. The closure of the cottages at the Salem campus will also remain in effect.

The hospital had originally intended to expand the coverage of the Collaborative Problem Solving program during the 2017-19 biennium, at a cost of about $4 million. That expansion was not funded in the budget, but $3.9 million does remain to continue this training program. In 2014, the hospital adopted Collaborative Problem Solving as its foundational treatment approach, and as an alternative to historic approaches of coercion and control. It has proven to reduce violence, injuries to both staff and patients, and episodes of patient seclusion and restraint. The hospital has been able to continue to roll out this program by adopting a “train the trainer” approach, as well as through repurposing positions as they have become vacant through cottage closures to provide more coaches.

SB 65 (2017) will once again consolidate all persons found guilty except for insanity of a felony and committed to OSH, under the jurisdiction of PSRB. This change will become effective July 1, 2018. Since 2011, the jurisdiction has been split between PSRB, which has jurisdiction over offenders who committed more serious crime, and OHA, which has jurisdiction over offenders of less serious crimes. This change resulted in a budget reduction in OSH of $401,413 General Fund and one FTE.

Administrative reductions total $3.4 million General Fund and $9.3 million total funds.

## Central Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 17,622,749 | 23,662,045 | 21,795,627 | 23,526,866 |
| Lottery Funds | -- | -- | -- | 31,570 |
| Other Funds | 2,479,917 | 2,371,726 | 3,356,867 | 2,557,616 |
| Federal Funds | 9,172,344 | 9,432,109 | 15,116,934 | 9,642,560 |
| **Total Funds** | **$29,275,010** | **$35,465,880** | **$40,269,428** | **$35,758,612** |
| Positions | 74 | 109 | 121 | 105 |
| FTE | 69.70 | 107.61 | 119.61 | 104.11 |

Program Description

Central Services provides the necessary leadership and business support to achieve the agency’s mission. It includes the following programs:

- Director’s Office – Responsible for the overall leadership, policy development, and administrative oversight for the agency. This includes coordination with the Governor’s Office, Legislature, state and federal agencies, tribes, partners and stakeholders, local governments, advocacy and client groups, and the private sector.
- Fiscal and Operations Division – Provides operational support and services to OHA. These include leadership and collaboration for strategic decisions of OHA programs through in-depth knowledge of OHA financial processes, federal programs and fiscal policy, business line funding streams, and state budget processes. The division also provides human resources services including recruitment and staffing, employee relations, organization and employee development, risk management, and human resource regulatory compliance.

- Office of Equity and Inclusion – Works on behalf of OHA and the broader health system in the state to ensure the elimination of avoidable health care gaps and to promote optimal health in Oregon for everyone. Initiatives address social conditions and historical inequities faced by racially, ethnically, culturally, and linguistically diverse populations of people.
- External Relations Division – Responsible for building strong relationships with the public, media, Legislature, and other agencies at the state and federal levels. The division also helps create a broader understanding of the ways in which OHA contributes to the health of Oregonians.

Revenue Sources and Relationships
The 2017-19 legislatively adopted budget is about 66% General Fund, less than 1% Lottery Funds, 7% Other Funds, and 27% Federal Funds. Central Services is funded based on a federally approved cost allocation plan where programs are charged for the services received, charged to their respective state and federal funding sources.

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
The Program Integrity Unit, which focuses on the Medicaid program, was moved to the Health Systems Division late in the 2015-17 biennium. This resulted in a reduction to the Central Services budget for the 2017-19 biennium of $1.2 million General Fund, $2.5 million total funds, and 12 positions.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $35.8 million total funds is just slightly higher than the 2015-17 budget of $35.5 million. The 2017-19 budget was reduced by the transfer of the Program Integrity Unit out of this budget, as well as administrative reductions. Budget changes include the following:
- An increase of $4.2 million General Fund and decrease of $3.6 million Federal funds, as cost allocation shifted more heavily toward General Fund. This is primarily the result of bringing the Oregon State Hospital into the agency's cost allocation model during the 2015-17 biennium.
- General Fund of $0.9 million for Regional Health Equity Coalitions, to replace federal funding provided through the State Innovation Models grant in previous biennia. These coalitions partner with community organizations, CCOs, and health systems to promote health equity, with a focus on underserved, mostly rural areas.
- Administrative reductions of $1.4 million General Fund, $2 million total funds, and one vacant position.

### State Assessments and Enterprise-wide Costs

| | **2013-15 Actual** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---|---|---|---|
| General Fund | 140,904,589 | 189,323,172 | 172,855,408 | 192,483,222 |
| Lottery Funds | -- | -- | -- | 200,000 |
| Other Funds | 23,627,923 | 31,440,948 | 31,726,635 | 24,626,483 |
| Other Funds (NL) | 30,077,623 | 129,500,902 | -- | -- |
| Federal Funds | 49,844,885 | 60,101,472 | 83,485,706 | 54,900,250 |
| Federal Funds (NL) | 4,141,953 | 4,123,972 | 3,719,310 | 3,719,310 |
| **Total Funds** | **$248,596,973** | **$414,490,466** | **$291,787,059** | **$275,929,265** |

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 SAEC budget includes most of the funding for OHA to pay for shared services provided by both OHA and DHS shared services offices. 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 2017-19 legislatively adopted budget is about 70% General Fund, less than 1% Lottery Funds, 9% Other Funds, and 21% Federal Funds. Debt service costs include $67.7 million General Fund and $3.7 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 2017-19 legislatively adopted budget of $275.9 million total funds is 33% lower than the 2015-17 legislatively approved budget for total funds. This is primarily the result of $129.5 million Other Funds Nonlimited that was added to the 2015-17 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 have been a small decrease of $9.1 million total funds between 2015-17 and 2017-19. General Fund is $192.5 million, which is 1.7% more than the 2015-17 budget level.

Budget adjustments include:
- General Fund is increased by $24.6 million with offsetting reductions of $6.1 million Other Funds expenditure limitation and $20 million Federal Funds expenditure limitation, primarily because of cost allocation changes that resulted from bringing the Oregon State Hospital into the agency's cost allocation model.
- Administrative reductions of $4 million General Fund and $6 million total funds.
- A reduction of $3.6 million General Fund and $9.1 million total funds as a result of reductions to the Department of Administrative Services budget.

### Shared Services

| | **2013-15 Actual** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---|---|---|---|
| Other Funds | 122,584,538 | 144,287,423 | 152,539,721 | 162,731,801 |
| **Total Funds** | **122,584,538** | **$144,287,423** | **$152,539,721** | **$162,731,801** |
| Positions | 495 | 486 | 479 | 539 |
| FTE | 482.73 | 476.63 | 469.75 | 528.34 |

Program Description
Shared Services includes costs associated with business functions that support both 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. The budget for Shared Services is reflected as Other Funds expenditure limitation. Funding for Shared Services, in both agencies, is based on cost allocation statistics which determine the distribution of expenditures to OHA or DHS and the revenue distribution by General Fund, Lottery Funds, 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.

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 expenditures are cost allocated to OHA and DHS based on a federally-approved cost allocation plan. The distribution of expenditures through the cost allocation process determines the revenues received as Other Funds 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, as General Fund, Lottery Funds, Other Funds, and Federal Funds.

Budget Environment

The shared services model began in 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. Reductions made in the shared administrative services operations reduce costs elsewhere in OHA and DHS.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $162.7 million Other Funds is 12.8% higher than the 2015-17 legislatively approved budget, and includes an increase of 53 positions (51.71 FTE). The increase is primarily the result of funding to support the ongoing DHS effort to develop and implement the integrated eligibility system, called ONE integrated Eligibility and Medicaid Eligibility (ONE IE&ME). Shared Services includes $13.6 million of Other Funds expenditure limitation for the project, as well as 58 positions (47.71 FTE); 41 of the positions are limited duration. The permanent positions are associated with a core need for legacy system integration, as well as system maintenance and operations. Most of the revenue to support these positions is budgeted within DHS.

Other budget adjustments include:

- Other Funds expenditure limitation of $2 million to fund the strategic planning process for the modularization of the Medicaid Management Information System (MMIS), as required by CMS. The HSD budget also includes a budget adjustment to fund project costs in that program.
- The transfer of information technology security staff to the Office of State Information Technology Services in the Department of Administrative Services pursuant to Executive Order 16-13 (Unifying Cyber Security in Oregon). This results in the reduction of four positions (3.50 FTE) and $1 million Other Funds expenditure limitation.
- Administrative reductions total $4 million Other Funds expenditure limitation and three vacant positions.

## Capital Construction

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 79,401,530 | -- | -- | -- |
| **Total Funds** | **$79,401,530** | **--** | **--** | **--** |

Program Description
The capital construction budget in 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 was 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, staffing costs, and the cost of the Behavioral Health Integration Project (BHIP) to develop electronic health records, was slightly over $500 million, including expenditures in the biennia from 2005-07 to 2015-17. While no more bonds were issued in 2015-17, there were some minor expenditures related to closing out the Junction City campus project.

Legislatively Adopted Budget
There is no new capital construction budget for either the 2015-17 or 2017-19 biennia. Since capital construction expenditure limitation is good for six years, the final expenditures in 2015-17 were made using the limitation that was authorized in 2013-15.

# DEPARTMENT OF HUMAN SERVICES

Analyst: Byerly

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 2,326,345,063 | 2,727,212,617 | 3,275,092,200 | 3,109,000,548 |
| Other Funds | 472,081,293 | 539,710,476 | 546,806,345 | 598,001,557 |
| Federal Funds | 3,844,676,602 | 4,805,209,969 | 5,279,895,699 | 5,463,087,605 |
| Federal Funds (NL) | 2,363,243,469 | 2,514,345,331 | 2,214,345,331 | 2,214,345,331 |
| **Total Funds** | **$9,006,346,427** | **$10,586,478,393** | **$11,316,139,575** | **$11,384,435,041** |
| Positions | 7,652 | 8,053 | 8,238 | 8,349 |
| FTE | 7,484.69 | 7,902.39 | 8,164.88 | 8,164.07 |

Overview

The Department of Human Services (DHS) supports children, families, seniors, people with physical disabilities, and individuals with intellectual and 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.

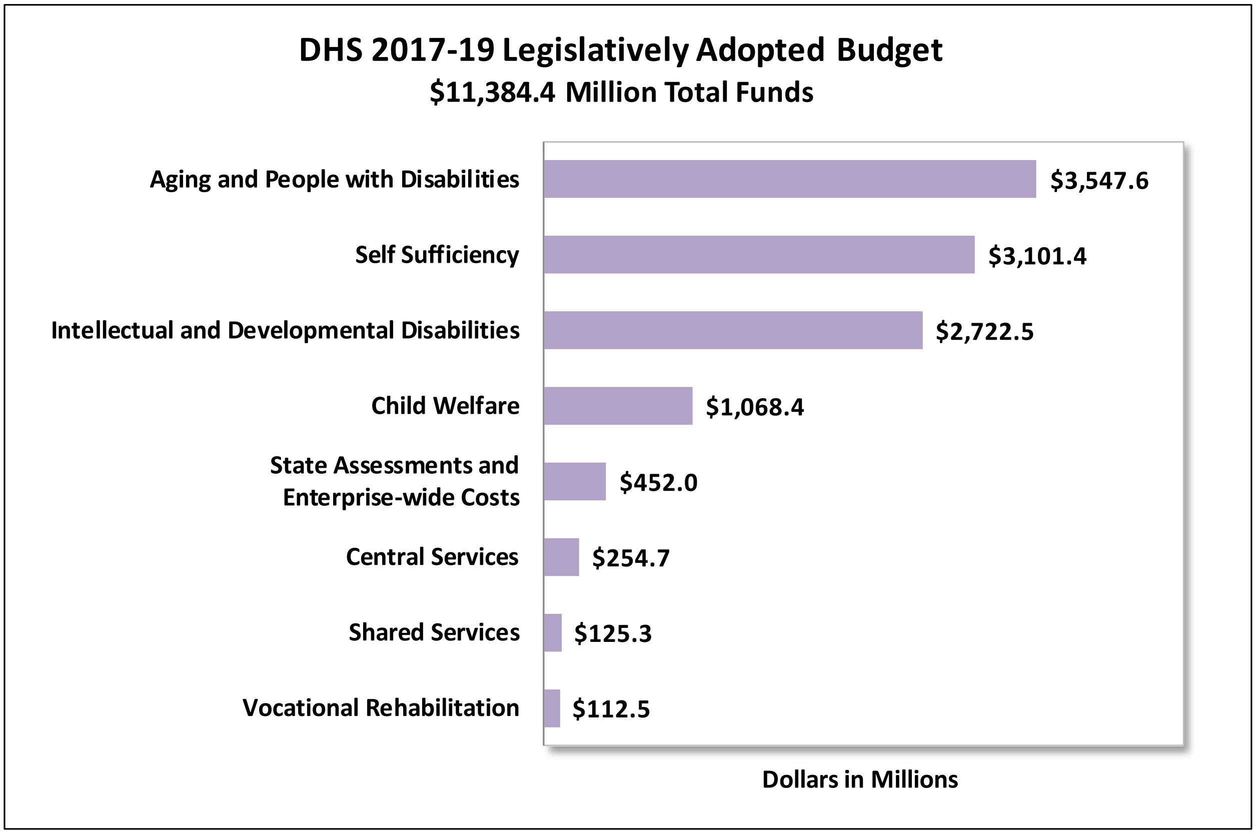
The agency's 2017-19 legislatively adopted budget reflects these ongoing efforts, including a reorganization of the Program Design Services (PDS) budget structure. That structure was created in 2014 to consolidate a subset of services to DHS clients and programs that span across the DHS' five major program areas. However, since then the agency determined some of these functions would be more effective embedded in the programs; reorganization details are described later in this narrative. The agency's budget display still retains the Central, Shared Services, and State Assessments and Enterprise-wide Costs structures. These capture DHS administrative and agency-wide support services and, for some shared functions, services provided to OHA.

On the program side, the agency operates through five distinct separate program areas:

- Self Sufficiency Programs (SSP) – 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 (CW) – 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 (VR) – 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 (APD) – 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 (IDD) – 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 2017-19 legislatively adopted budget level, DHS has the second largest budget of any state agency, after OHA. DHS makes up about 16% of the statewide General Fund and total funds budgets.

The following chart shows how the agency's 2017-19 legislatively adopted budget of $11,384.4 million total funds is allocated across programs and budget structures:




Revenue Sources and Relationships

For the 2017-19 biennium, General Fund supports 27.3% 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 1.5% higher than it was in the 2015-17 biennium and includes General Fund added to offset one-time non-General Fund revenues used in 2015-17, General Fund savings from one-time revenues assumed in the 2017-19 biennium, and ongoing or new General Fund investments.

Other Funds revenues support 5.3% of DHS expenditures. These come from a wide variety of sources including nursing home provider assessments, grants, the unitary tax assessment, estate collections, third party recoveries, fees, and charges for services. Federal Child Care and Development Fund (CCDF) 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 67.4% of DHS expenditures for the 2017-19 biennium. The largest single program Federal Funds source is the Supplemental Nutrition Assistance Program (SNAP, previously known as food stamps), which makes up 19.5% of DHS' total budget; these benefits are reflected in the budget as Federal Funds Nonlimited. 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).

Three major methodologies are used to project revenues: 1) the category of expenditures based on estimated average daily populations and cost per case is primarily used for federal entitlement grants; 2) grant cycles and where they fall within the biennium are considered for block grants; assumptions based on the results of prior grant averaging and the anticipated effect of the federal budget process are both used to project the amount of funds to be received; and 3) the historical receipt trends method is used for Other Funds sources such as collections of overpayments and fees unless the agency has additional information, such as anticipated special projects, which would increase revenue and change projections for a specific time period.

Assumptions about the agency's federal funding streams for 2017-19 are based on federal fiscal year 2017 budget levels and federal programs as presently authorized. Presidential and congressional budget proposals for the next fiscal year would affect Medicaid, TANF, and SNAP; potential changes range from direct program cuts to structural reforms. Even without these changes, federal budget controls are still in place and may impact funding. A critical factor affecting federal revenue is the Federal Medicaid Assistance Percentage (FMAP), which is the federal reimbursement rate used by multiple programs and calculated using state per capita income. Because of strong state economic growth, Oregon's FMAP is expected to drop by more than one percentage-point in federal fiscal year 2019 and will affect (lower) the 2017-19 currently budgeted average rate of 63.53%; this translates into likely needing more General Fund support for mandated programs.

<u>Budget Environment</u>
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 were 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 FMAP changes and for ever-evolving 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; this level, or $97.7 million in MOE per year, is currently required.

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, historically 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 forecasts 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 2017-19 legislatively adopted budget is based on the spring 2017 caseload forecast, which was released in May 2017. Typically, after each caseload forecast, DHS re-projects its budget using the updated caseload numbers and associated costs. Then, depending on the outcome of that repricing, the agency may develop a rebalance plan to adjust expenditures across the agency. This allows DHS flexibility to manage its budget on an ongoing basis, often without needing to request more funding or spending authority from the Legislature. The rebalance plan and associated changes to legal appropriations are approved by the Emergency Board during the interim or as part of a budget bill during a legislative session. In recent biennia, rebalance actions have typically occurred during the short session, in December of even numbered years, and in late spring during the long legislative session.

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 76% 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 17% of the budget pays for DHS employees who directly serve clients in communities across Oregon. 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. 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, 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.

<u>Legislatively Adopted Budget</u>

The 2017-19 legislatively adopted budget for the Department is $3.1 billion General Fund and $11.4 billion total funds. This is 14% General Fund and 7.5% total funds more than the 2015-17 legislatively approved budget of $2.7 billion General Fund and $10.6 billion total funds. The 8,0349 positions (8,164.07 FTE) authorized for 2017-19 reflect a 3.7% increase (296 positions) from the 2015-17 biennium.

About 20% of the net growth in General Fund is attributable to targeted spending, with the remainder tied primarily to mandated caseloads and maintaining existing services, while managing under federal changes or funding constraints. Actions taken across programs to reduce General Fund spending include cutting services and supplies spending, managing to a 3% increase in the vacancy rate (hiring slowdown), eliminating long-term vacant positions, and making select program reductions. The hiring and position management activities associated with the hiring slowdown will likely impact DHS' ability to maintain staffing at the levels discussed during session.

The adopted budget continues core programs, adjusts for caseload changes, modifies some services, and adds new or expanded funding for some programs; key elements include:

- Maintains Self Sufficiency programs, but does reduce funding for Employment Related Day Care; the program is still expected to support about 8,700 cases.
- In Child Welfare, adds $30 million General Fund to pay for rate increases for foster parents and behavioral rehabilitation service providers, legal representation for caseworkers, professional development, Consultant Educator Trainer positions, and supervisor training. A $750,000 special purpose appropriation for foster parent supports is also funded.
- Within the Aging and People with Disabilities program, Oregon Project Independence is held harmless. Phase out of the live-in program, a stronger assessment, and updated task timings are expected to reduce General Fund need by $27 million. Rate increases for nursing facilities and cost of living increases for most community based care providers are also funded.
- To help increase wages of direct support professionals, the Intellectual and Developmental Disabilities budget contains a 5% provider rate increase. About $6.5 million in General Fund savings is captured through eliminating regional programs, capping bedhold payments at 21 days, and reducing the family support program. A $12 million General Fund reduction target is also included, which is expected to be met through use of a more robust assessment tool and other actions. The Fairview Trust is left untouched.
- The budget contains $203.3 million total funds and 113 positions (74.33 FTE) for the continued development and implementation of the ONE Integrated Eligibility and Medicaid Eligibility system project.

A major structural change to the budget for 2017-19 is a reorganization of the Program Design Services (PDS) unit, which fully redistributes its components to other budget structures or programs and eliminates this division. PDS was established during the 2013-15 biennium through consolidating certain staff from each program into a single agency-wide budget structure. The following offices were set up in the new structure: Licensing and Regulatory Oversight, Information Technology Business Supports, Business Intelligence and Program Integrity. Over time, the agency determined some of these functions would be more effective if embedded in the programs; the resulting reorganization is expected to improve client safety and responsiveness to provider oversight issues. Positions (and their commensurate funding) were transferred from the offices into budget structures/programs as outlined in the table below:

| FROM: | Licensing and Regulatory Oversight | | Information Technology Business Supports | | Business Intelligence | | Program Integrity | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | POS | FTE | POS | FTE | POS | FTE | POS | FTE | POS | FTE |
| | (113) | (113.00) | (37) | (37.00) | (26) | (26.00) | (39) | (39.00) | (215) | (215.00) |
| **TO:** | | | | | | | | | | |
| **Aging and People with Disabilities** | 87 | 87.00 | 9 | 9.00 | - | - | - | - | 96 | 96.00 |
| **Intellectual and Devel. Disabilities** | 17 | 17.00 | 12 | 12.00 | | | | | 29 | 29.00 |
| **Child Welfare** | 9 | 9.00 | | | | | | | 9 | 9.00 |
| **Central Services** | | | 15 | 15.00 | 26 | 26.00 | 39 | 39.00 | 80 | 80.00 |
| **Shared Services** | | | 1 | 1.00 | | | | | 1 | 1.00 |
| | | | | | | | | **Total** | 215 | 215.00 |

The reorganization keeps centralized efforts for Business Intelligence and Program Integrity, but moves them to the Central Services budget structure. Central Services will also house some of the resources from Information Technology Business Supports (ITBS); now called the Office of Technology and Information Supports. This unit consists of business analysts and other staff supporting the agency's enterprise level, cross-program systems, or projects such as ONE Integrated Eligibility and Medicaid Eligibility. The other business analyst positions from ITBS were supporting systems specific to the APD and IDD programs and were transferred to those areas. The program-related Licensing and Regulatory Oversight positions and associated expenditures are moved to the corresponding program: APD, IDD, or CW.

Budget bills establishing the DHS budget for 2017-19 included five budget notes; budget notes are non-binding directives setting out legislative intent for a specific budget component or expected actions associated with the agency's execution of its budget. The budget note topic, bill number, and reporting requirements are as follows:

- Calculating and directing TANF savings based on caseload forecasts; HB 5006 (2017); report to budget committee as part of rebalance action(s).
- Convening a workgroup to review legal and process aspects of substantiated abuse findings related to IDD group homes; HB 5006 (2017); report to interim policy committee no later than February 1, 2018.
- Centralizing eligibility processing at DHS; HB 5006 (2017); report to budget committee by June 30, 2018.
- Providing interim reports on workforce-related efforts in child welfare, curbing costs and managing the IDD budget, and improving position management practices; SB 5526 (2017); report at each interim meeting of the appropriate budget committee.
- Transitioning alcohol and drug child care services into DHS from the Early Learning Division; SB 5526 (2017); report to budget committee in November 2017.

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 State Assessments and Enterprise-wide Costs.

## Self Sufficiency Programs

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 393,382,439 | 354,947,995 | 452,804,156 | 346,281,476 |
| Other Funds | 116,839,979 | 99,873,152 | 100,256,112 | 100,233,063 |
| Federal Funds | 370,115,841 | 424,356,808 | 424,361,022 | 440,547,163 |
| Federal Funds (NL) | 2,363,243,469 | 2,514,345,331 | 2,214,345,331 | 2,214,345,331 |
| **Total Funds** | **$3,243,581,728** | **$3,393,523,286** | **$3,191,766,621** | **$3,101,407,033** |
| Positions | 2,018 | 2,044 | 2,040 | 2,049 |
| FTE | 1,985.99 | 2,035.49 | 2,039.63 | 2,048.63 |

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 benefits that help low-income families, single adults, and childless couples buy the food they need to stay healthy. In July 2017, 664,401 people – about 1 in 6 Oregonians – received SNAP benefits worth over $82 million for the month. The benefit costs are included in the Self Sufficiency budget as Federal Funds Nonlimited; 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 July 2017, a total of 21,773 families (single and two parent combined) received TANF cash assistance. Income qualification and benefit amounts are based on family size and expenses. TANF also provides Job Opportunity and Basic Skills (JOBS) services, which include education, training, job placement, and support services. Other program services include limited TANF transition payments; 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 July 2017, 8,734 families received ERDC subsidies for 16,460 children in day care.
- 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 2017-19 biennium, General Fund supports 11.2% of this budget, Other Funds, 3.2%, and Federal Funds, 85.6%. The adopted budget includes limited one-time resources of $20 million in TANF carryover funds, however, no TANF contingency funds are assumed in the budget. The federal TANF program continues to be subject to reauthorization or extension with proposals for eliminating contingency fund provisions under discussion. In addition, identifying more sources of or increasing state spending on Maintenance of Effort (MOE) would likely be required to access any available TANF contingency funds.

The major source of Other Funds is $97 million in federal Child Care Development Fund (CCDF) dollars transferred from the Department of Education for ERDC. The budget also includes child support recoveries and client trust account funds from client resources, such as federal Supplemental Security Income (SSI) 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 $2.2 billion for the 2017-19 biennium. SNAP caseloads are still above pre-recession levels, but are expected to continue to decline over the biennium. Federal dollars also help pay for program administrative costs.

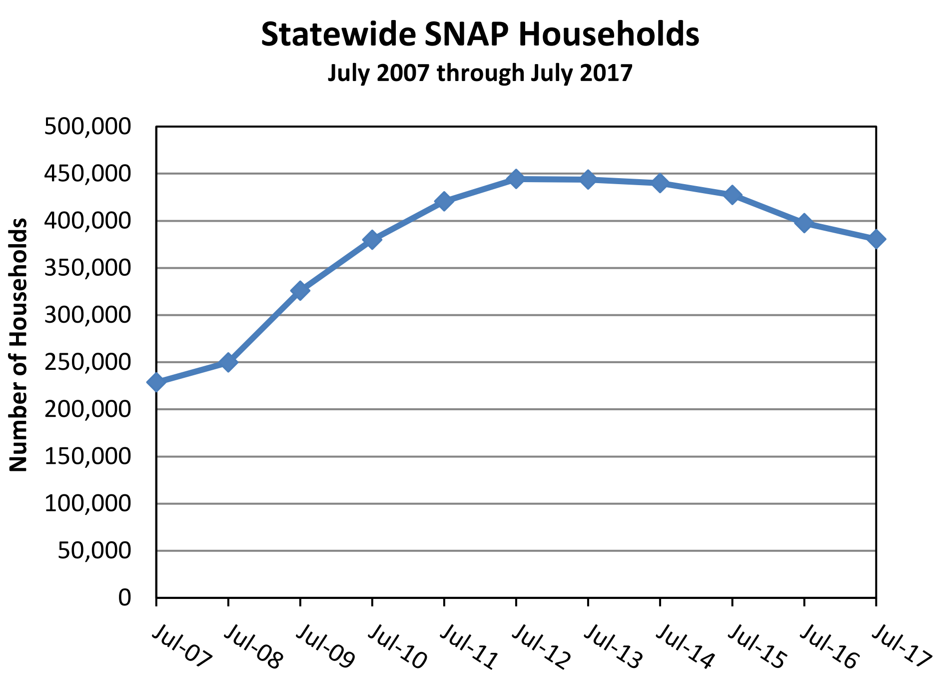
Other Federal Funds come from capped or formula-based block grants, payments for partial reimbursement of eligible state costs, and miscellaneous grants for specific amounts and purposes. Oregon receives $166.8 million a year from the base federal TANF block grant, which pays for cash assistance, JOBS 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.

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.

SNAP benefits make up over half of the SSP budget. The benefits are Federal Funds Nonlimited 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 228,524 households in July 2007 to 380,581 households in July 2017, which is a net increase of 66.5% over the decade. While SNAP caseloads have declined since they peaked in 2012 and are expected to continue dropping in 2017-19; they are forecasted to return close 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 added funding to implement the restructured program. 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. Via HB 3535 (2015) the Legislature redesigned TANF and subsequently reinvested those dollars into the program. Along with providing additional staff, the changes included raising income limits for clients exiting TANF, reducing ERDC co-pay for three months while exiting TANF, providing transition payments to families who are exiting TANF, eliminating deprivation as an eligibility requirement, expanding the caretaker relative definition, expanding contracts for pre/post TANF services, and increasing flexibility in issuing support services to prevent TANF entry.

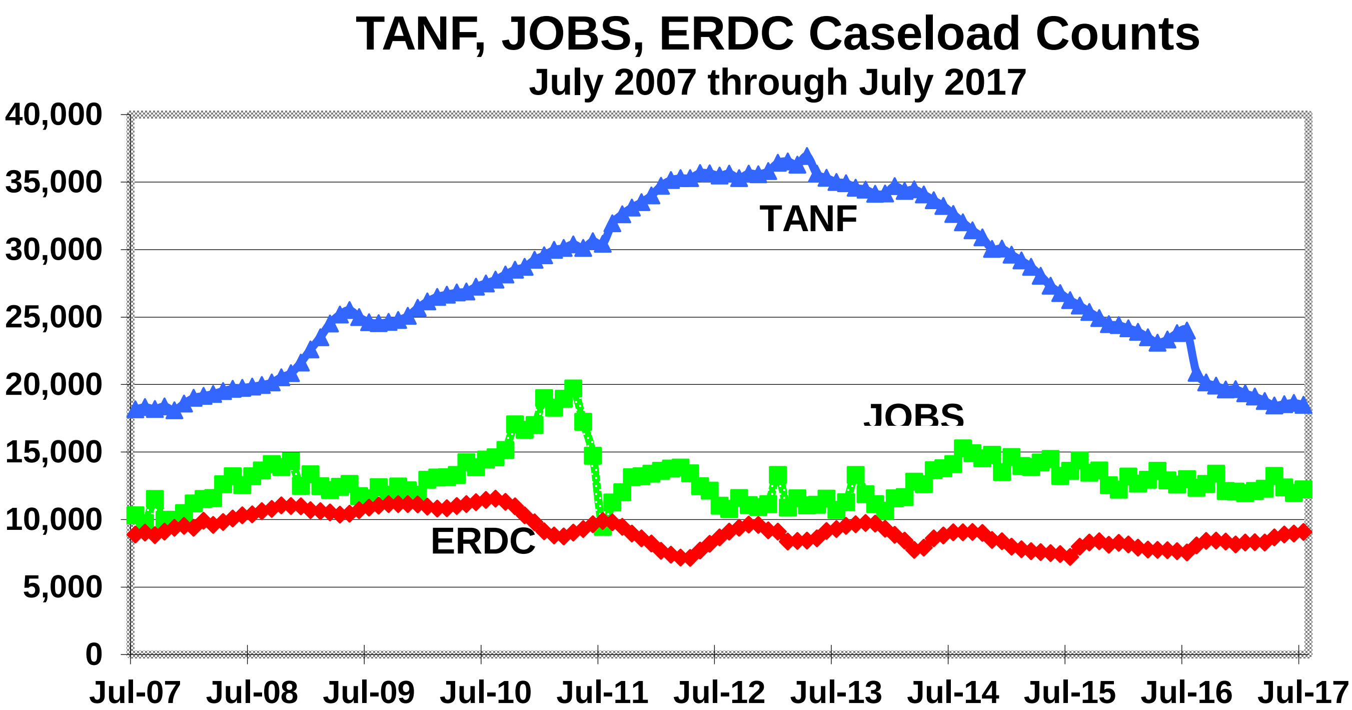
In 2017-19, caseloads are expected to decline further, however due to statewide budget constraints, $60 million General Fund freed up due to lower caseloads could not be retained in the program. Some stakeholders would prefer TANF savings be retained within the program to help improve services to families and client outcomes. To help address this concern, a budget note in HB 5006 (2017) directs DHS, after each biannual caseload forecast, to calculate any savings resulting from TANF caseload decreases and propose options for directing any savings to either increase the TANF grant amount or invest in the JOBS program.

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 DHS, the 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.

Many adults must meet certain additional work or activity requirements to receive TANF services. The Job Opportunity and Basic Skills (JOBS) program provides employment and skill-building services to help TANF clients gain skills necessary to join the workforce and retain employment.

After finding employment success and exiting TANF, families can access ERDC, which helps low-income, working families arrange and pay for quality child care. Federal guidelines emphasize providing these families with the same opportunity for reliable, quality child care as other families with higher incomes. Providers are required to meet a set of health and safety standards, and pass required background checks before they can become DHS providers and receive payment.

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




For the 2017-19 biennium, TANF caseloads are projected to average 18,109 a month, a decrease of 19.3% from the monthly average of 22,426 families in 2015-17. Caseloads in both the JOBS and ERDC programs fluctuate but generally align with historical spending patterns. For 2017-19, JOBS participation is expected to average about 12,000 clients per month and the ERDC program, which has a caseload constrained by budget, is projected to support about 8,700 cases each month.

Legislatively Adopted Budget

SSP's 2017-19 legislatively adopted budget is $346.3 million General Fund and $3,101.4 million total funds, with 2,049 positions (2,048.63 FTE). The total funds budget is 8.6% below the 2015-17 legislatively approved budget; this due to lowering SNAP benefit payments by $300 million; as the caseload continues to decline the budget for projected payments needs to be rightsized. This Federal Funds Nonlimited expenditure limitation makes up more than 70% of SSP's total budget.

The General Fund budget is 2.4% or $8.7 million below the prior biennium; the change is the net effect of current service level growth ($97.9 million) plus a one-time Oregon Hunger Response Fund investment ($1.3 million) offset by TANF caseload savings ($60 million); ERDC reductions ($15.1 million); vacancy savings, standard statewide reductions, and technical adjustments ($3.6 million); one-time backfill applying TANF carryforward ($20 million); and one-time backfill using CCDF carryforward ($9.2 million). Regarding current service level growth, $21.7 million General Fund of the total was due to the full phase-in of TANF redesign and other program changes approved in the 2015 legislative session that were funded for only a portion of the 2015-17 biennium. Another $34 million is tied to replacing one-time TANF contingency and carryforward funds with General Fund.

The legislatively adopted budget maintains most core programs, including the TANF One and Two-Parent programs and related services. Suspensions to TANF requirements under HB 2469 (2007), which represent $22.2 million in 2017-19 General Fund cost avoidance, have been in place since 2009-11 are still in force; these restrictions do not affect TANF redesign program elements approved in 2015. The agency will review the TANF statutes to see if modifications streamlining or better aligning with current practice should be developed for the 2019 legislative session and alleviate what has been an ongoing need to suspend program requirements.

For the ERDC program, the full investment of $45 million General Fund added in 2015-17 was not able to be sustained into 2017-19 due to statewide budget constraints; 2017-19 General Fund support for the program is $11.3 million lower than the original 2015-17 General Fund ERDC budget of $71.1 million. From the total funds view, the 2017-19 caseload capacity of about 8,700 is 500 more than the actual caseload count in 2015-17.

The lower than expected 2015-17 utilization is because the original budget did not account for challenges in implementing program changes required under federal law, such as protecting eligibility for 12 months and new requirements for providers. These factors, which affected how efficiently the caseload could be managed up to the cap and prompted some providers to leave the program, resulted in DHS underspending but also helped create a $9.2 million Other Funds (CCDF) carryforward balance for use in 2017-19. The additional federal requirements have also restricted how much CCDF is generally available for ERDC, since the Department of Education has had to retain more of the grant to meet those requirement; between 2011-13 and 2017-19 the portion going to DHS for ERDC has decreased by $13.2 million, or 11.9%.

Other budget actions include transferring child care programs for teen parents and for parents receiving alcohol and drug treatment from the Department of Education to DHS; the latter program also has a related budget note in SB 5526 (2017). DHS is required to report in November 2017 on its findings regarding the transition of Alcohol and Drug Program child care services, including the adequacy of agency resources to support the program, additional funding needed to account for any resource gaps, a description of the services to be provided, and the number of families expected to be served.

The Oregon Hunger Response Fund received a one-time General Fund infusion of $1.3 million, which is a 26.2% increase from the 2015-17 funding level. This additional support will help the Oregon Food Bank, through its 20 regional food banks, acquire and distribute a higher volume of food to over 950 local agencies.

### Child Welfare

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 369,480,684 | 469,452,233 | 547,157,159 | 551,626,007 |
| Other Funds | 20,757,218 | 23,165,610 | 24,490,532 | 28,127,216 |
| Federal Funds | 464,455,198 | 469,761,812 | 470,197,291 | 488,649,642 |
| **Total Funds** | **$854,693,100** | **$962,379,655** | **$1,041,844,982** | **$1,068,402,865** |
| Positions | 2,480 | 2,590 | 2,726 | 2,745 |
| FTE | 2,403.45 | 2,544.65 | 2,682.65 | 2,686.79 |

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 (DR), caseworkers conduct a safety assessment, the family participates in a needs and strengths assessment, and alternative services may be offered; however, with passage of SB 942 (2017) the DR program was suspended. The bill requires every Child Protective Services (CPS) investigation to conclude with a disposition of founded, unfounded, or unable to determine; this disposition requirement does not fit with the Department's DR model.

- 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 2017-19 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 to exceed $300 million for 2017-19. Overall, federal reimbursement for the programs varies with federal match rate changes, the number of children served, and eligibility of the services provided. For 2017-19, Oregon's base Federal Medical Assistance Percentage (FMAP) is estimated at 63.5%; at this rate, Oregon pays 36.5% 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.

About $15 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 and Youth programs.

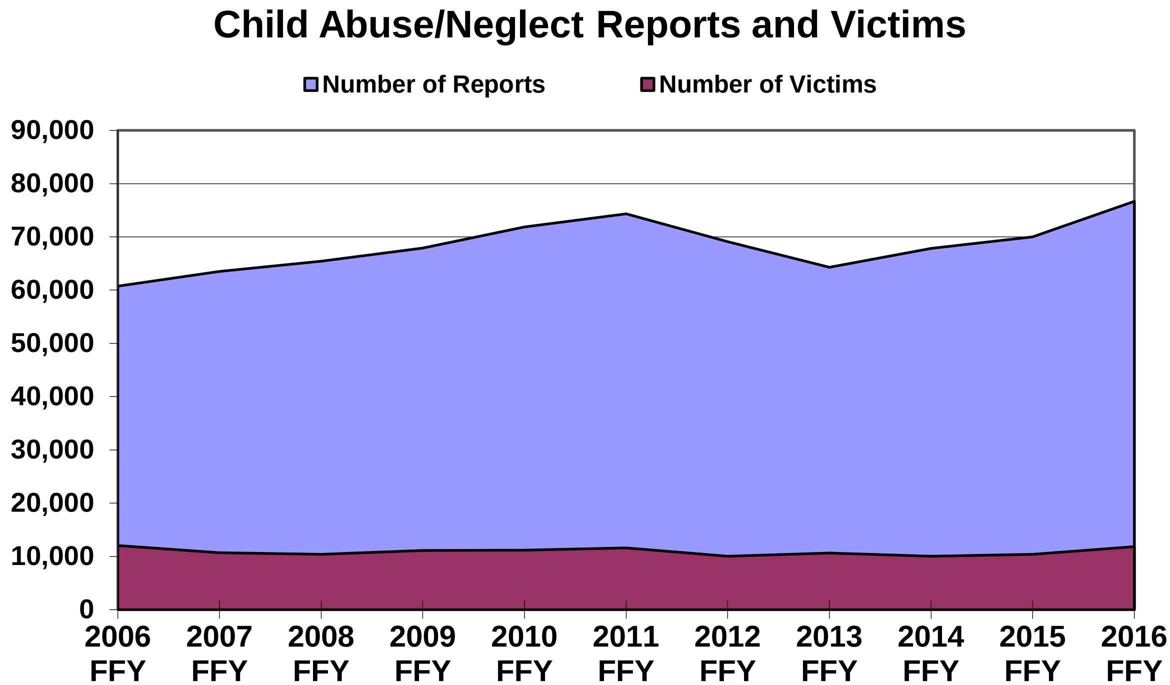
The Title XX Social Services Block Grant (SSBG) is estimated at about $42 million for the biennium; these flexible dollars are used for field staff, residential treatment beds, and administrative services. Proposals at the federal level regarding repeal of the SSBG are concerning, as the grant fills 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) 2016, CW received 76,668 reports of suspected child abuse or neglect; 38,086 of these reports were referred for further investigation. The victims associated with these reports number 11,843, which represents about 1.4% of the estimated 884,027 Oregon children aged 0 to 18. A little less than half (46.3%) of the victims are age 6 or younger.

As the following graph shows, the number of abuse and neglect reports has steadily increased since 2006; the volume grew by 26.2% over the decade. About 77% 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 2017-19 is forecast to be 21,177, slightly below the average 21,195 caseload in 2013-15. Within the projected caseload, 7,500 children, or 34.7% of the caseload, are expected to be in out-of-home placements.

In FFY 2016, 11,191 children spent at least one day in some kind of foster care, a slight decrease from the 11,238 children in the prior year. Family foster care is the primary setting. There were 3,881 certified foster family homes in 2016 and over 43% of the children placed in family foster care were placed with relatives. The agency reports that 58.2% 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 2016, 748 adoptions were finalized, which is 8.1% lower than the 814 adoptions finalized in 2015; the count of finalized adoptions has not exceeded the 1,000 mark since 2009. An additional 282 children entered into a guardianship arrangement, down 14% from the 328 placements completed in 2015; most children go to guardianship with relatives. In almost all cases, adoptive parents or guardians receive assistance payments. These payments help families cover a child's needs that the family would have difficulty providing without financial assistance; they are not intended to fully cover the cost of raising a child.

Legislatively Adopted Budget

At $551.6 million General Fund and $1,068.4 million total funds, the 2017-19 legislatively adopted budget for Child Welfare is 17.5% General Fund and 11% total funds higher than the prior biennium's budget. The position count of 2,745 (2,626.79 FTE) reflects a 6% increase over 2015-17.

The budget contains an increase of $6.9 million General Fund to pay the Department of Justice for representing Child Welfare caseworkers in court and provide full access to legal representation, legal counsel, legal advice, litigation support, and training. Other investments targeted at helping improve program performance include 50 new Consultant, Educator, Trainer (CET) positions (44.00 FTE) totaling $6.5 million General Fund ($9.3 million total funds) to provide training, role playing, and hands on support of child welfare frontline workers. In addition, $1 million General Fund was approved for workforce professional development and $2 million General Fund for supervisor training. An additional 78 positions (68.64 FTE) were approved under the workload model to help address core workload and capacity issues.

The budget also helps foster parents by increasing the base foster care rate by an average of 14% and establishing a $750,000 General Fund appropriation to the Emergency Board for foster parent supports. An update to the rate model for the Behavioral Rehabilitation Services (BRS) program is also funded; the update includes an increase in rates for BRS providers (a net average increase of 21%) to address inflationary cost increases in the program. Under a budget note, the Department will report regularly on the Child Welfare program and progress in meeting expectations around child safety, provider oversight, policy alignment, program performance, and system accountability.

Related to SB 102 (2017), the budget contains $3.3 million General Fund to meet federal "applicable child" requirements by transferring these funds into the new account established by the bill. The bulk of these funds, based on savings reported for federal fiscal years 2015 and 2016, will be used to establish a child care stipend to assist working foster parents; payments will be made with $3.3 million in Other Funds expenditure limitation added for this specific purpose.

Another piece of 2017 legislation, SB 243, adds certified foster homes and developmental disabilities residential facilities in statutes concerning welfare of children in care. Related to this change, DHS expects to see an increase in training needs, notification requirements, and legal activity as providers and other system participants adapt to the different standard of abuse definition. To cover these costs, the DHS budget includes $448,606 total funds and one limited duration position (0.50 FTE).

Other adjustments include those tied to caseload and cost per case changes from the spring 2017 forecast; position transfers, primarily the transfer in of nine positions (9.00 FTE) from PDS (licensing and regulation); and make some technical adjustments to clean up positions and correct budget entries.

Standard statewide and agency-wide adjustments that decrease spending tied to inflation, services and supplies, vacancy rate assumptions, and an updated FMAP, are also reflected in the budget. For this program area, only, to mitigate against the 3% vacancy savings (hiring slowdown) and assist the agency in filling its most critical vacancies, $2.3 million General Fund was added.

### Vocational Rehabilitation

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 21,017,719 | 24,308,416 | 32,421,185 | 29,086,009 |
| Other Funds | 1,064,885 | 2,327,882 | 2,344,754 | 2,331,562 |
| Federal Funds | 76,308,198 | 84,146,036 | 77,699,255 | 81,129,815 |
| **Total Funds** | **$98,390,802** | **$110,782,334** | **$112,465,194** | **$112,547,386** |
| Positions | 234 | 261 | 250 | 259 |
| FTE | 229.08 | 259.17 | 249.25 | 258.25 |

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 16,483 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 out stationed 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 2017-19 biennium, General Fund supports 25.8% of this budget; Other Funds, 2.1%; and Federal Funds, 72.1%. Section 110 of the Rehabilitation Act of 1973 (Basic 110 Grant) provides federal support for vocational rehabilitative services, which is distributed upon state population and per capita income. The federal grant requires General Fund or Other Funds match, at a 21.3% state/78.7% federal rate.

In 2017-19, DHS will receive 84.4% of Oregon's allocation of Section 110 Federal Funds and the Commission for the Blind will receive the remaining 15.6%; this split reflects an increase from prior biennia in the percentage – up from 12.5% – going to the Commission. As changed, the Commission's percentage in line with the national average for states having standalone agencies providing vocational rehabilitation services to people who are blind. Since this formula grant is essentially capped, the purchasing power of the federal revenue component is decreasing and putting more pressure on state funds in both agencies.

Budget Environment

Almost all clients receiving 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 people eligible. For the past two decades, federal funding for vocational rehabilitation 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 currently expect to need a wait list in 2017-19, if one is needed, this action positions the agency for reinstituting a wait list in a manner that minimizes both client and program impacts.

Budget growth since 2013-15 is primarily due to an increase in level of effort and engagement with IDD clients in the Employment First program. While not directly budgeted within this program, VR works closely with the DHS Intellectual and Developmental Disabilities (IDD) program on helping these clients find community-based employment rather than participate in sheltered work settings.

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 $112.5 million total funds, the legislatively adopted budget for VR is 1.6% above the 2015-17 approved budget level. However, embedded in the modest total funds increase is a 19.7% increase in General Fund (from $24.3 to $29.1 million) primarily due to a change in the level of General Fund needed to leverage federal reallotment dollars while maintaining MOE; the 2017-19 budget assumes $4.9 million in those one-time federal dollars, down from the $8.5 million budgeted in 2015-17. Federal funding is projected to decrease by a net $3 million between biennia primarily because of this fund shift; although these funds are one-time in nature the agency has been successful in repeatedly drawing down these funds in recent biennia.

The budget includes a technical adjustment to correct a keying error in current service level; $2.1 million General Fund and 11 positions (11.00 FTE) move from IDD back to VR, as part of December 2016 rebalance actions. The positions are associated with a 2015 policy package that added resources to improve employment outcomes for people with intellectual and developmental disabilities.

Along with the vacancy factor and inflation adjustments noted in the agency-wide narrative, the budget contains a decrease tied to the budgeted rate for attorney services provided by the Department of Justice and the elimination of two long-term vacant positions.

### Aging and People with Disabilities

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 733,874,670 | 879,498,369 | 1,066,550,927 | 1,028,740,708 |
| Other Funds | 165,026,262 | 206,960,674 | 223,197,395 | 228,832,647 |
| Federal Funds | 1,568,835,684 | 2,006,183,952 | 2,299,155,462 | 2,289,999,875 |
| **Total Funds** | **$2,467,736,616** | **$3,092,642,995** | **$3,588,903,784** | **$3,547,573,230** |
| Positions | 1,167 | 1,246 | 1,368 | 1,464 |
| FTE | 1,151.76 | 1,235.28 | 1,357.43 | 1,397.51 |

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. Since July 2013, 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, community-based settings, and nursing facilities. In-home services are provided by home care workers who are employees of the client with oversight by the Home Care Commission and by 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 Service Priority Level (SPL) categories; SPL 1 clients are those most unable to perform activities of daily living and more likely to need services offered in nursing facilities, while those at lower priority levels (higher SPL numbers) 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 12% of the Medicaid long-term care cases. In-home cases represent about 55% of the caseload and community-based facility cases, 33%.

***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 SPL 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 an ongoing 2013-15 pilot project, 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.

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% of the APD budget, which is consistent with recent biennia. Most of the program’s General Fund is used to match federal Title XIX Medicaid and other federal funds.

Other Funds revenue is 6.5% 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 is currently authorized through June 30, 2020.

Federal Funds make up 64.6% 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.

However, most Medicaid administrative functions are paid only on a 50% state/50% federal share. Federal OAA funding also supports program services. For the state’s funding commitment, the program uses OPI funding as well as local Area Agencies on Aging resources to meet the required match and OAA maintenance of effort requirements. 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

For 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. DHS’ 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 to other settings: 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 8.6% during the 2017-19 biennium, reaching over 763,150 by July 1, 2019. As of July 2017, APD was serving 34,200 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). The agency's spring 2017 caseload forecast projects long-term caseloads overall will increase by more than 2,500 clients, or about 7.3% between biennia.

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.

More recently, as part of legislative budget discussions during both the 2015 and 2017 legislative sessions and concerns about caseload and cost growth, DHS was directed to develop program sustainability options. Some of that work resulted in program changes built into the 2017-19 legislatively adopted budget.

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.

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 Home and Community-Based Services (HCBS) rules that all states must follow to participate in and receive funding for the Medicaid program. The rules strengthen the requirements for personal autonomy, community integration, and choice in home and community-based services. 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 require state plans to be approved by March 2019 and implemented by March 2022. 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 may be a topic for discussion during the 2019 legislative session.

<u>Legislatively Adopted Budget</u>
At $1,028.7 million General Fund and $3,547.6 million total funds, the legislatively adopted budget for APD is 17% General Fund and 14.7% total funds greater than the 2015-17 legislatively approved budget.

Caseload growth continues to be significant for the in-home program, which is forecast to increase by 12% between biennia. This is driven by an aging and longer living population, along with increased access to services under the K Plan and policy changes making in-home care a more attractive service option. To help curb costs, the budget captures $27 million General Fund ($83.3 million total funds) in expected savings due to eliminating the live-in program, strengthening the eligibility assessment tool, and implementing a new algorithm for calculating service hours.

In addition to accounting for overall caseload growth and cost per case changes based on the spring 2017 forecast, the budget includes associated increases to workload models for field staff; a total of 105 positions (53.00 FTE) are added in APD field offices with a corresponding increase in payments for services provided by local AAA offices. An adjustment to the workload model used to develop these staffing levels shifts position start dates out further into the 2017-19 biennium; this action saves funding short term, but will drive higher roll-up costs in 2019-21.

Other notable components of the budget include:

- Rate increases specifically for Assisted Living, Residential Care, Memory Care, and In-home agency providers at $17.1 million General Fund ($56.2 million total funds).
- Budget changes for the nursing facilities program cover caseload increases and set the nursing facility rate per the statutory methodology. The daily rate for year one is set at $301.70 (7.3% increase), with the year two rate estimated to be $320.40.
- To finish the project and move to training/operations activities for the Centralized Abuse Management (CAM) system, the budget contains $1.7 million General Fund (plus $2 million from remaining bond proceeds) and two full-time, permanent positions (1.50 FTE); an operations and policy analyst and one trainer.
- Twelve positions from the workload model are repurposed to create 6 positions (5.28 FTE) to catch up and keep up with facility surveys and corrective action work.
- Funding to implement HB 2661 (2017), which requires persons providing long-term care referrals to register with, and pay a fee to, DHS. Two permanent part-time positions (0.50 FTE), $57,401 General Fund, and $56,250 Other Funds expenditure limitation was authorized.
- HB 3359 (2017) establishes several requirements related to safety, quality, and staffing of residential care facilities, long-term care facilities, and adult foster homes. The bill provided $1.3 million Other Funds expenditure limitation, $1.3 million Federal Funds expenditure limitation, and 10 positions (8.80 FTE) for APD to implement the bill. The associated Other Funds revenues are from licensing fees and civil penalties that accrue to the Quality Care Fund.

Approved funding includes $27.1 General Fund to maintain Oregon Project Independence at existing levels and $3.4 million General Fund supports an ongoing caregiver training initiative. Since it began in 2013-15, the training program has provided training to more than 11,800 individuals; participants include family caregivers, public safety workers, volunteers and employees of various care facilities.

The budget also accounts for the following reductions or projected cost savings:

- Eliminating the live-in program effective October 1, 2017. The program has been phasing out over the last biennium due to high costs resulting from federal overtime rule changes. This action reduces the budget by $4.5 million General Fund ($14.8 million total funds).
- Capturing an estimated 4% caseload reduction expected to occur from strengthening the assessment used to determine an individual's level of service need. This action reduces the budget by $10 million General Fund ($31 million total funds).
- Reducing hours of care authorized once updated timings are implemented based on a recent time study indicating that task times need to be both increased and decreased, but will ultimately result in a net reduction of hours. This assumption is expected to result in budget savings of $12.5 million General Fund ($40.5 million total funds).
- Eliminating the discontinued Home Care Choice program, which reduces the budget by close to $1 million General Fund ($16.4 million total funds) and five positions (5.00 FTE).

Along with the higher vacancy factor and other standard reductions noted in the agency-wide narrative, the budget includes the 2017-19 biennium impacts of various interim actions primarily tied to program or position transfers and technical adjustments. Tied to the PDS reorganization, this includes $10.2 million General Fund ($28 million total funds) for the transfer of 83 (83.00 FTE) licensing and regulatory positions, initiated as part of the agency's December 2016 rebalance.

### Intellectual and Developmental Disabilities

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 583,418,110 | 743,386,397 | 893,719,977 | 885,640,676 |
| Other Funds | 33,998,166 | 31,386,168 | 29,099,174 | 27,952,491 |
| Federal Funds | 1,179,879,554 | 1,554,052,436 | 1,760,061,101 | 1,808,925,375 |
| **Total Funds** | **$1,797,295,830** | **$2,328,825,001** | **$2,682,880,252** | **$2,722,518,542** |
| Positions | 760 | 887 | 887 | 903 |
| FTE | 744.59 | 841.73 | 885.50 | 902.00 |

Program Description

The Intellectual and Developmental Disability (IDD) program serves nearly 26,000 people, 8,000 children and 18,000 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 IDD 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 IDD 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 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.

<u>Revenue Sources and Relationships</u>
General Fund makes up 32.5% of the IDD budget. Most of the General Fund is used to match federal Title XIX Medicaid and other federal funds. Other Funds revenue is 1% of the overall budget. The Other Funds come primarily from clients' contributions towards their care.

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 2017-19 biennium, the average Medicaid match rate is estimated at 63.5%; at this rate, Oregon will pay 36.5% of eligible program costs. For K Plan services, the state draws an additional 6% in federal match.

<u>Budget Environment</u>
A major budget driver for IDD programs is caseload growth; for 2017-19 demand is projected to increase 11.5% from the 2015-17 level, growing from an average biennial caseload of 25,315 to 28,218. Within that overall caseload count, the number of individuals receiving services beyond case management enrollment (minimum service for all clients) is anticipated to increases by 11.3%, or more than 2,100 clients.

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.

Lawsuits or other legal actions have historically impacted this caseload; for example, the class action settlement agreement for a 2012 lawsuit (*Lane v. Brown*) that alleged Oregon unnecessarily segregates individuals with IDD in sheltered workshops, in violation of the rights of these individuals under federal law. In 2013, under executive orders 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 settlement agreement largely institutes the changes already underway, which include "closing the front door," or ending new entries to sheltered workshops, as well as providing career development plans to people who have worked in workshops, certifying service providers, coordinating more closely with the schools, and increasing services designed to achieve integrated employment. Over the last two biennia, $13 million General Fund ($27 million total funds) has been directly added to the budget for these efforts; other budget resources have also been leveraged in support.

Historically, the IDD 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 parental income disregard, that continue to influence the budget.

Similar to many other agency programs, IDD 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 2017-19 legislatively adopted budget for this program area is $885.6 million General Fund and $2,722.5 million total funds; the General Fund portion is 19.1% higher than the 2015-17 legislatively approved budget while the total fund amount increases by 16.9% between biennia. The position count of 903 (902.00 FTE) reflects a net increase of 16 positions and 60.27 FTE; the position increase is driven mostly by the PDS reorganization while the disproportionate FTE increase is associated with full 24-month authorization of positions approved for SACU in 2015-17 that started up mid-biennium.

Caseload and cost per case changes based on the spring 2017 forecast are covered in the budget and include adjustments (increases) to workload models for the CDDPs and brokerages to help address that growth. The legislatively adopted budget funds this component at $5.8 million General Fund ($10.7 million total funds); which is not as high as stakeholders requested. However, when factoring in a current service increase, these entities will receive an increase of $21.3 million General Fund ($50.5 million total funds) over the 2015-17 level; CCDPs and Brokerages should still be able to add staff to help with workload demands.

The budget also includes $13.5 million General Fund and $45.5 million total funds to increase service rates for IDD providers by 5% effective October 1, 2017. A related piece of legislation, HB 2684 (2017), requires that rate increases to residential training homes and residential training facilities result in comparable wage increases for direct support professionals. The bill also requires providers to submit annual staffing data and pay higher licensing fees (from 20 to $50); the fee increase is estimated to generate an additional $171,000 in biennial Other Funds revenue, which DHS will use to pay for training for direct support professionals.

Toward helping bend the cost curve in IDD programs, the legislatively adopted budget contains the following program reduction actions:

- Eliminating regional programs, for savings of $4.1 million General Fund ($7.1 million total funds), that support crisis services. With the shift to the K Plan, clients are more likely to already be receiving services decreasing the need for crisis placements. The program may have to reprioritize internally to fill service gaps if this trend does not materialize.
- Reducing the family support program by half which saves $1.3 million General Fund; this change could affect approximately 500 children and their families.
- Capping bed hold payments at 21 days, instead of 45, for a reduction of $1 million General Fund.
- Decreasing the budget by $2.2 million ($4.7 million total funds) based on an effort to review inactive client records and remove clients from the caseload, if they no longer need services.
- Generally lowering costs by $12 million General Fund ($24 million total funds). While this is an unspecified reduction, the roll-out of a new assessment tool is expected to be one action that should help suppress program growth. Efforts to meet this reduction level and their associated cost savings will be covered under the IDD item in agency's interim reporting budget note.

Other budget changes increase General Fund by $3.3 million due to fewer individuals being projected to be eligible for Medicaid (lower participation rate); remove unfunded positions and expenditures related the Developmental Disability Council; correct employee representation codes in SACU; transfer positions in and out of IDD including $2.2 million General Fund ($4.5 million total funds) for the transfer of 18 positions (18.00 FTE) in from other areas, primarily licensing and regulatory positions from PDS; make other technical adjustments; and update the PERS rate for Stabilization and Crisis Unit (SACU) staff – these employees receive a higher rate due to police and fire level benefits authorized by HB 2618 (2015).

Standard statewide and agency-wide adjustments that decrease spending tied to inflation, services and supplies, vacancy rate assumptions, and an updated FMAP, are also reflected in the budget.

### Program Design Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 21,747,244 | 31,368,970 | 36,542,026 | -- |
| Other Funds | 1,450,107 | 8,007,985 | 1,675,112 | -- |
| Federal Funds | 30,656,467 | 77,765,397 | 29,498,112 | -- |
| **Total Funds** | **$53,853,818** | **$117,142,352** | **$67,715,250** | **--** |
| Positions | 252 | 270 | 215 | -- |
| FTE | 251.84 | 250.70 | 215.00 | -- |

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.

As noted in the agency overview section of this document, the program is dissolved beginning with the 2017-19 biennium.

Revenue Sources and Relationships

Historically, the budget has been supported about 50/50 by General Fund and Federal Funds, with variable Other Funds in the mix. That mix is dependent on the receiving program and services provided; federal funding is subject to a federally approved cost allocation plan. Revenue assumptions and relationships are expected to follow positions to the receiving program units.

Budget Environment

Functions within this structure focused on developing desired agency outcomes, measuring those outcomes, designing programs to achieve the outcomes, implementing the design through business and information technology processes, and systematically reviewing whether the processes are being implemented as designed and how well the outcomes are being achieved. Reintegrating functions back into programs or moving them to Central Services is expected to improve client safety and responsiveness to provider oversight issues, while maintaining central capacity for and control of certain information technology, business intelligence, and program integrity activities.

Legislatively Adopted Budget

For PDS, the 2017-19 budget equals zero. Standard agency-wide reductions and technical adjustments were applied to PDS as offices were dispersed to other budget structures.

### Central Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 15,930,319 | 18,154,354 | 19,944,568 | 35,763,372 |
| Other Funds | 589,523 | 715,144 | 744,172 | 45,938,895 |
| Federal Funds | 14,135,293 | 17,416,183 | 18,288,176 | 173,026,680 |
| **Total Funds** | **$30,655,135** | **$36,285,681** | **$38,976,916** | **$254,728,947** |
| Positions | 87 | 96 | 94 | 281 |
| FTE | 85.93 | 95.42 | 93.42 | 241.75 |

Program Description
The Central Services program unit 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. With the PDS dissolution, in 2017-19 the budget structure also houses Technology and Information Supports, Business Intelligence, and Program Integrity.

Revenue Sources and Relationships
The 2015-17 legislatively adopted budget is 14% General Fund, 16% Other Funds, and 68% 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 initially 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. (The addition of the offices from PDS are an example of this evolution.)

Legislatively Adopted Budget
For Central Services, the 2017-19 legislatively adopted budget is $35 million General Fund, $254.7 million total funds, and 281 positions (241.75 FTE). The total funds budget increases more than sixfold from the 2015-17 legislatively approved budget, in part due to the absorption of former PDS functions. Those transfers increased the budget by $16.1 million General Fund, $25.8 million total funds, and 80 positions (80.00 FTE).

More significantly, the budget increases because of approval for the continued development and implementation of an integrated eligibility system, now called the ONE Integrated Eligibility and Medicaid Eligibility (ONE IE&ME) project. This effort will integrate eligibility determinations for DHS programs; Non-MAGI Medicaid, Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), and Employment Related Day Care (ERDC) into the OregonONEligibility (ONE) system used by OHA.

While a 2017-19 funding request was always expected, the 2017-19 cost estimate for the project increased over the budget development timeframe; the current project estimate and approved amount for 2017-19 is $203,272,716 total funds. (The former estimate for 2017-19 spending was $132 million total funds). This overall budget amount includes: state staff costs of $42.3 million; $128.2 million for contracted information technology services; $21 million for software costs and hosting charges; $2.2 million for training; and $9.5 million for debt service. Cost allocation, contingencies, legacy system integration work, and payments to OHA for its project work are accounted for in these estimates.

The project's budget specific to the Technology and Information Supports unit in Central Services is $2 million General Fund, $193.3 total funds, and 113 positions (74.33 FTE). The staffing primarily supports business analytics and training activities; 88 positions (50.83 FTE) are limited duration.
The bulk of the overall project budget, at $146.3 million, or 72% of 2017-19 costs, is supported by Federal Funds; this is due to enhanced federal funding for the project. Some of that higher match expires on December 31, 2018, but the Medicaid portion at a 90% federal/10% state share does not have a set end date. The current project timeline and updated budget estimates account for these match rates. General Fund supports $11.5 million of project costs and debt service; the bulk of the state share will be covered by $45 million in proceeds from Article XI-Q bonds. In addition to ongoing legislative budget review, the Joint Legislative Committee on Information Management and Technology is monitoring the project and set out conditions (detailed steps) DHS must meet to continue to receive the committee's support for the project. The agency will also work closely with and regularly report project status to the Office of the State Chief Information Officer (OSCIO) and the Legislative Fiscal Office (LFO) throughout the project's lifecycle.

Along with the vacancy factor and inflation adjustments noted in the agency-wide narrative, the adopted budget also accounts for technical adjustments, position transfers, and changes in state government service charges.

### Shared Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 109,408,177 | 127,867,811 | 129,841,480 | 125,295,650 |
| **Total Funds** | **$109,408,177** | **$127,867,811** | **$129,841,480** | **$125,295,650** |
| Positions | 654 | 659 | 658 | 648 |
| FTE | 632.05 | 639.95 | 642.00 | 629.14 |

Program Description

With the transition of some former DHS programs to OHA, a new model was developed to provide administrative functions for the two agencies. A number of support activities, 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 2017-19 legislatively adopted budget of $125.3 million Other Funds is 2% below the 2015-17 legislatively approved budget. The change in staffing is a net decrease of 1.7% and 10 positions (12.86 FTE).

To help implement and optimize use of the Centralized Abuse Management (CAM) system, the budget adds 1 position (0.75 FTE) to provide training to system users. This increase and other position transfer actions are masked by position reductions, including decreasing capacity (phasing out positions) for the Oregon Enterprise Data Analytics program by 2.61 FTE ($1 million total funds), which leaves a total of nine positions between DHS and OHA. The effort, which was first approved in 2015, supports integration and analysis of client and customer service information across state agencies and programs. Nine long term vacant positions (9.00 FTE) are also eliminated, for savings for $1.1 million totals funds. This action primarily impacts financial and human resources functions.

The budget also accounts for technical adjustments/transfers and standard agency-wide reductions. Statewide reductions tied to DAS assessments or charges, inflation, travel, and legal expenditures are also captured in the funding plan.

**State Assessments and Enterprise-wide Costs**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 187,493,878 | 206,095,883 | 225,952,202 | 231,862,300 |
| Other Funds | 22,946,976 | 39,406,050 | 35,157,614 | 39,290,033 |
| Federal Funds | 140,290,367 | 171,527,345 | 200,635,280 | 180,809,055 |
| **Total Funds** | **$350,731,221** | **$417,029,278** | **$461,745,096** | **$451,961,388** |

Program Description

The State Assessments and Enterprise-wide Costs (SAEC) budget structure contains assessments and charges paid by all state agencies. These include various Department of Administrative Services' (DAS) 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 2017-19 legislatively adopted budget is 51.3% General Fund, 8.7% Other Funds, and 40% Federal Funds; the overall funding mix is dependent on the specific assessments or charges being budgeted and the agency's cost allocation model. This budget includes $30 million Other Funds for an interagency line of credit agreement with the Oregon State Treasury to manage cash flow issues through the biennium close-out period. This allows the agency to borrow funds from the state treasury to finance prepayments and account for a lag in receipt of certain revenues, such as 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 2017-19 legislatively adopted budget of $231.9 million General Fund and $452 million total funds is 12.5% General Fund and 8.4% total funds more than the 2015-17 legislatively approved budget. Over half of the $25.7 million General Fund increase between biennia is driven by the statewide pricelist (assessments) or charges for services set by other state agencies, primarily DAS. Included in this net adjustment are increases of $3.7 million General Fund ($5.8 total funds) to address higher costs related to Enterprise Technology Services received from DAS and $1.3 million General Fund to cover anticipated billings from the Secretary of State for performance audits. Federal rule changes no longer allow federal dollars to be used for this purposes, but they can still help pay for financial audits related to federally funded programs. Reductions in the DAS budget tied to assessments and charges represent a $6 million General Fund ($11.5 million total funds) decrease from the current service level.

The next largest component of the change between biennia is $9.5 million General Fund for debt service on Article XI-Q bond proceeds that are being used to help finance the ONE IE&ME project; this covers debt service on new bonds that will be sold as well as on the repurposed bond proceeds. The amount budgeted for 2017-19 debt service is $15.4 million General Fund, which includes debt obligations on certificates of participation or bonds issued in prior biennia.

Adjustments to the shared services funding line to account for Shared Services personal services actions, including vacancy savings and positions changes, are also included. A request to backfill $2.8 million Federal Funds with General Fund because of maximized capped federal grants was not approved. Statewide reductions tied to inflation, travel, and legal expenditures are also captured in the budget.

## LONG TERM CARE OMBUDSMAN

Analyst: Byerly

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 2,510,888 | 6,306,755 | 6,960,132 | 6,087,623 |
| Other Funds | 670,166 | 737,916 | 779,795 | 894,242 |
| **Total Funds** | **$3,181,054** | **$7,044,671** | **$7,739,927** | **$6,981,865** |
| Positions | 24 | 25 | 25 | 25 |
| FTE | 16.81 | 24.50 | 24.50 | 24.50 |

Overview

The Long Term Care Ombudsman (LTCO) program is a federally-mandated consumer protection program supporting a network of certified volunteers to investigate and resolve complaints for people who live in Oregon's nursing facilities, residential care facilities, assisted living facilities, and adult foster homes.

In 2013, the agency was expanded to include the Residential Facilities (RFO) program which addresses the needs of care facility residents who have a mental illness or developmental or 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 address challenges in ramping up new work approved during the 2014 legislative session, when the Oregon Public Guardian (OPG) program was established. The program helps people who do not have a relative or friend able to serve in a fiduciary capacity, lack the financial ability to pay someone to serve as a fiduciary, and are at serious and imminent risk of harm or death without a fiduciary. OPG activities range from making residential and medical decisions to handling financial issues.

An eleven-member Residential Ombudsman and Public Guardian Advisory Board is responsible for monitoring the agency, advising state leadership on programs, and nominating people for "the" LTCO position as it comes open; this position also functions as the agency head.

Revenue Sources and Relationships

Prior to the 2013-15 biennium, most of LTCO's General Fund was used to match federal Title XIX Medicaid and Older American Act (OAA) funds through the Department of Human Services' (DHS) budget because the federal Centers for Medicare and Medicaid Services (CMS) let Oregon claim federal Medicaid administrative funds for LTCO costs. When CMS disallowed this practice, it increased agency's dependency on General Fund from under 40% to about 85% of the total funds budget. After the expanded and new programs noted above, which do not have sources of federal or other matching funds, the budget has stabilized at about 90% General Fund.

This level of reliance 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 other revenues, budgeted as Other Funds, primarily consist of OAA funding passed-through DHS ($633,028) and civil penalties ($169,000) assessed on residential facilities and adult foster homes that serve persons with mental illness or intellectual or 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 2017-19, those potential clients are expected to exceed 52,000 people living in almost 4,500 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. Requests for services, visits to facilities, consultations with residents, facility administration and family members have all increased from 8 to 18% during the 2015-17 biennium. Phone calls received by the LTCO program have increased 68% over that same period. With respect to the 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 ability to provide public guardian services is constrained by the budget; the program's initial funding level anticipated serving 40-50 protected persons directly and assisting another 100 individuals through contracts. This capacity is estimated meet only about 5% of the statewide need for public guardian and conservator services.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $6.1 million General Fund is 3.5% below the 2015-17 legislatively approved budget of $6.3 million General Fund, while the total funds budget reflects about a 1% decrease. This is primarily due to a reduction taken in the OPG program; a related budget note calls for an assessment of the program. The budget also includes standard statewide adjustments (decreases of $272,509 General Fund and $2,593 Other Funds) in DAS assessments and charges for services, Attorney General rates, certain services and supplies, and additional vacancy savings expected from a hiring slowdown. More detail on the budget is included in the subsequent program narratives.

**Long Term Care Ombudsman**

| | **2013-15 Actual** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---|---|---|---|
| General Fund | 2,266,802 | 4,120,845 | 4,807,617 | 4,607,778 |
| Other Funds | 670,166 | 737,916 | 779,795 | 894,242 |
| **Total Funds** | **$2,936,968** | **$4,858,761** | **$6,587,412** | **$5,502,020** |
| Positions | 19 | 20 | 21 | 21 |
| FTE | 14.56 | 19.50 | 20.50 | 20.50 |

Program Description
The LTCO program was created in 1972 under authorization of the federal Older Americans Act and established as a state agency in 1985. Core services include the investigation and resolution of complaints made by and on behalf of more than 44,000 residents of over 2,200 licensed nursing homes, assisted living and residential care facilities, and adult foster homes. Over 180 volunteers advocate for these clients, monitor facilities, and respond to resident complaints or problems. Nine professional staff (9.00 FTE) provide technical support and training to the volunteers. LTCO also advocates for system change to promote and protect the rights and interests of long term care facility residents.

The number of certified volunteers providing ombudsman services is partially constrained by the number of LTCO staff available to support them. Usually, one Deputy Long Term Care Ombudsman position will be responsible for 25 to 35 volunteers, with a typical volunteer covering 2 to 5 facilities and providing advocacy to an average of 140+ residents; some volunteers have as many as 20 facilities. During the 2015-17 biennium, volunteers donated 57,869 hours of service on behalf of long term care residents. Complaints range from concerns about food portion size to issues with medication and discharge processes.

Current funding does not support the agency's goal of having a volunteer assigned to and regularly visiting every licensed facility in Oregon. Between 2014 and 2017, facility coverage, as assessed by key performance measures, has decreased; in fiscal year 2017, volunteers visited 99% of nursing homes (2014 = 100%), 91% of residential care and assisted living facilities (2014 = 96%), and 55% of adult foster homes (2014 = 80%). These decreases are primarily due to a continued increase in workload; the number of complaints received and handled by the LTCO over the same period increased by 9%.

The RFO program was created by SB 626 (2013) and is responsible for is assisting individuals with intellectual or developmental disabilities or mental health conditions with advocacy related to residential care issues. Supported residential facilities will include those licensed or certified by the Department of Human Services or the Oregon Health Authority. The program has 8 positions (7.50 FTE) to reach an estimated 8,400 residents of over 2,300 residential facilities. The volunteer component of the RFO program is still under development.

The other 4 positions (4.00 FTE) are responsible for executive/operational leadership and administrative support across the agency.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $4.6 million General Fund is 11.8% more than the 2015-17 legislatively approved budget of $4.1 million General Fund; total funds increased by 13.2% between biennia. The increase includes the base transfer of the agency's deputy director position from the OPG into the LTCO budget structure. This position, added in 2014 to help manage expanded programs, was initially placed in the OPG structure but aligns better with the agency administrative and oversight functions budgeted in this unit.

An increase of $117,040 Other Funds expenditure limitation supports spending revenue derived from civil penalties and fines assessed against residential facilities serving individuals with intellectual and developmental disabilities and/or a diagnosed mental health condition. The limitation provides the RFO program with more resources needed to continue developing the program for full implementation, including volunteer recruitment activities, training, and ongoing support.

The budget currently assumes ongoing federal SMP program funding, which supports part of a position supporting volunteers. If the grant is not renewed for the second year of the biennium, the agency may need to seek replacement funding from the Legislature. Other options include the elimination or restructuring of services.

As noted previously, the budget includes reductions tied to statewide adjustments. Some suppressed spending may be challenging for the agency to manage, especially related to travel and information technology. Capacity to cover travel costs is key for getting staff and volunteers to facilities and training, while technology needs and costs have been exacerbated by program expansion and a complete shift to external contracting after volunteer information technology resources were no longer available. Recent agency requests to increase both the travel and information technology budgets have not been successful due to statewide budget constraints.

## Oregon Public Guardian

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 244,086 | 2,185,910 | 2,152,515 | 1,479,845 |
| **Total Funds** | **$244,086** | **$2,185,910** | **$2,152,515** | **$1,479,845** |
| Positions | 5 | 5 | 4 | 4 |
| FTE | 2.25 | 5.00 | 4.00 | 4.00 |

Program Description

This program allows the state to serve as a statewide court-appointed guardian and/or conservator, trustee, and payee for incapacitated Oregonians who have no other resources to serve in such capacity. Individuals in need of OPG's services include persons with age-related neurocognitive issues, persons with serious and persistent mental health issues, and persons with intellectual or developmental disabilities who are at imminent risk of harm. Along with providing direct services, the program contracts with local agencies to provide services, produces training materials, and works with local programs and organizations to identify less restrictive alternatives to guardianship.

While the OPG program was approved in SB 1553 (2014) and effective July 1, 2014, the program got off to a slow start because it took several months to find and hire the program lead. This led to caseloads being lower than anticipated (appointed as guardian for 16 persons rather than 40) and a delay in obtaining contracts to help deliver services. In addition, legal expenses and the amount of time spent on diversion activities have been higher than expected. More recently, the program head resigned, which again leaves a leadership gap.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $1.5 million General Fund is 32.3% below the 2015-17 legislatively approved budget of $2.2 million General Fund, primarily due to the removal of $600,000 General Fund from the budget. This action was taken to address both statewide General Fund constraints and legislative concerns about program sustainability. Even at the reduced level, the budget retains all program staff; adjusts funding to cover data and legal costs; supports guardianship contract in one county/region; and pays for case management work in one other county/region. The budget does not include ongoing funding for protection and advocacy services; the final year of the current four-year contract is budgeted within the LTCO program.

While legislative support for the program continues, uncertainty about program service delivery options and associated funding levels make it difficult to provide the appropriate mix of legislative direction and funding without a more robust plan. Accordingly, $200,000 of the General Fund reduction was placed into a special purpose appropriation to the Emergency Board for potential allocation to the agency based on results of a program assessment required by budget note.

The assessment, which is due by the 2018 session, will evaluate required versus discretionary services; service delivery alternatives and their costs; caseload characteristics, priorities, and scalability; cost per case differences between public and private guardianship work; opportunities to leverage volunteer and pro bono resources to help support the program; metrics for measuring program success and effectiveness; and ways to ensure the fiscal sustainability of the program with limited resources. The report will be used by the Legislature to help determine next steps, set funding priorities, and develop key performance measures for the program.

Along with standard statewide adjustments, the OPG budget also reflects transfer of the deputy director position to the LTCO budget component.

# PSYCHIATRIC SECURITY REVIEW BOARD

Analyst: Ames

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 2,166,128 | 2,690,702 | 2,999,554 | 2,966,321 |
| Other Funds | 82,466 | 6,168 | 2,248 | 2,248 |
| **Total Funds** | **$2,248,594** | **$2,696,870** | **$3,001,802** | **$2,968,569** |
| Positions | 11 | 11 | 11 | 11 |
| FTE | 11.00 | 11.00 | 11.00 | 11.00 |

Overview

The Psychiatric Security Review Board (PSRB) has jurisdiction over adults in Oregon who are found guilty of crimes except for insanity (GEI), with certain exceptions, as well as juveniles found responsible except for insanity. The agency is also responsible for processing relief petitions and hearings for persons barred from possessing a firearm due to a mental health determination, supervising certain types of civil commitments, and conducting sex offender classification and relief hearings for GEI sex offenders.

SB 420 (2011) changed the jurisdiction of certain GEI offenders. PSRB maintained jurisdiction over offenders who committed more serious crimes, while the Oregon Health Authority took over jurisdiction of offenders at the Oregon State Hospital (OSH) who committed less serious crimes. SB 65 was passed by the 2017 Legislative Assembly and will once again consolidate all persons found guilty except for insanity of a felony and committed to OSH, under the jurisdiction of PSRB. This change will become effective July 1, 2018.

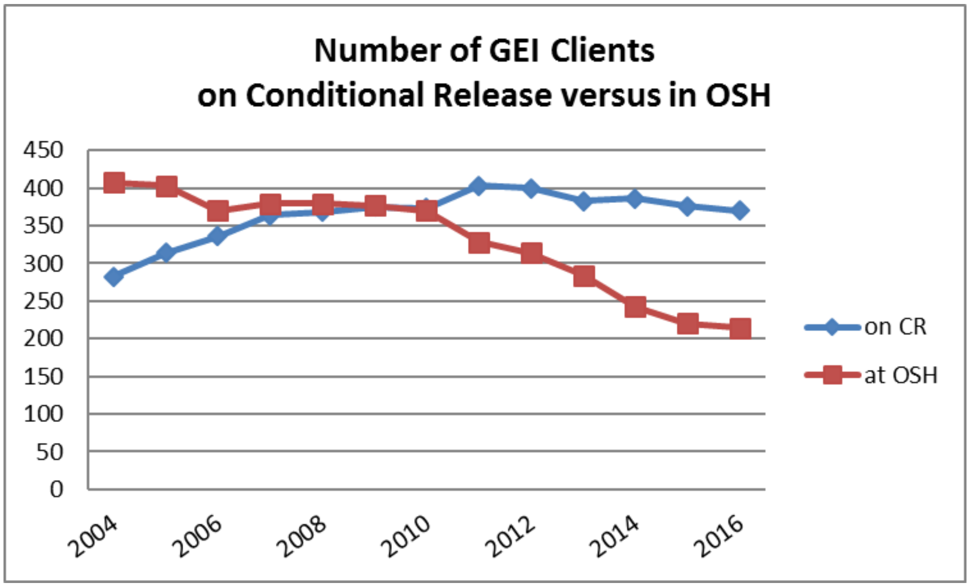
PSRB was originally created in 1978 to assume jurisdiction over persons in Oregon found to be "guilty except for insanity" of a crime, and the Board's functions have expanded several times since then. The ten-member board is appointed by the Governor and consists of a five-member adult panel and a five-member 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 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 the number of GEI patients at OSH has declined significantly, from over 400 in 2005 to 214 in 2016. 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. The agency expects to absorb the additional workload associated with SB 65.

Staffing for the agency was last increased in 2011 to address workload issues. The percentage of hearings scheduled within statutory timelines has increased significantly since then, from a low point of 57% in 2009 to 98% currently.

The PSRB budget includes only the funding necessary to support the Board and monitor the population placed under its jurisdiction. The resources to provide the treatment for most of these individuals is a part of the Oregon Health Authority budget, whether through OSH or community mental health programs. In addition, a small number of individuals receive services through the developmental/intellectual community programs with funding from the Department of Human Services. PSRB relies on adequate funding of these systems in order to place individuals in the community.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the Board is $2,968,569 total funds, which represents a 10.1% increase from the 2015-17 legislatively approved level. The budget includes 11 positions and funds all current programs.

# PUBLIC SAFETY

# PROGRAM AREA

## DEPARTMENT OF CORRECTIONS

Analyst: Neburka

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 1,480,524,545 | 1,611,218,502 | 1,720,378,672 | 1,681,063,918 |
| Other Funds | 34,008,579 | 55,961,188 | 41,597,467 | 81,738,081 |
| Other Funds (NL) | 5,558,579 | 27,167,985 | -- | -- |
| Federal Funds | 7,087,555 | 5,710,107 | 4,363,309 | 4,352,986 |
| Federal Funds (NL) | 1,206,842 | 1,119,495 | 1,038,513 | 1,038,513 |
| **Total Funds** | **$1,528,386,100** | **$1,701,177,277** | **$1,767,377,961** | **$1,768,193,498** |
| Positions | 4,487 | 4,590 | 4,636 | 4,605 |
| FTE | 4,435.84 | 4.517.74 | 4,603.39 | 4,572.07 |

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 – thirteen for men and one for women – that incarcerate adult and certain juvenile felons sentenced to prison for more than twelve months by the courts. The budget is based on the April 2017 prison forecast and other changes made by the Legislature during the 2017 session that affected 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.

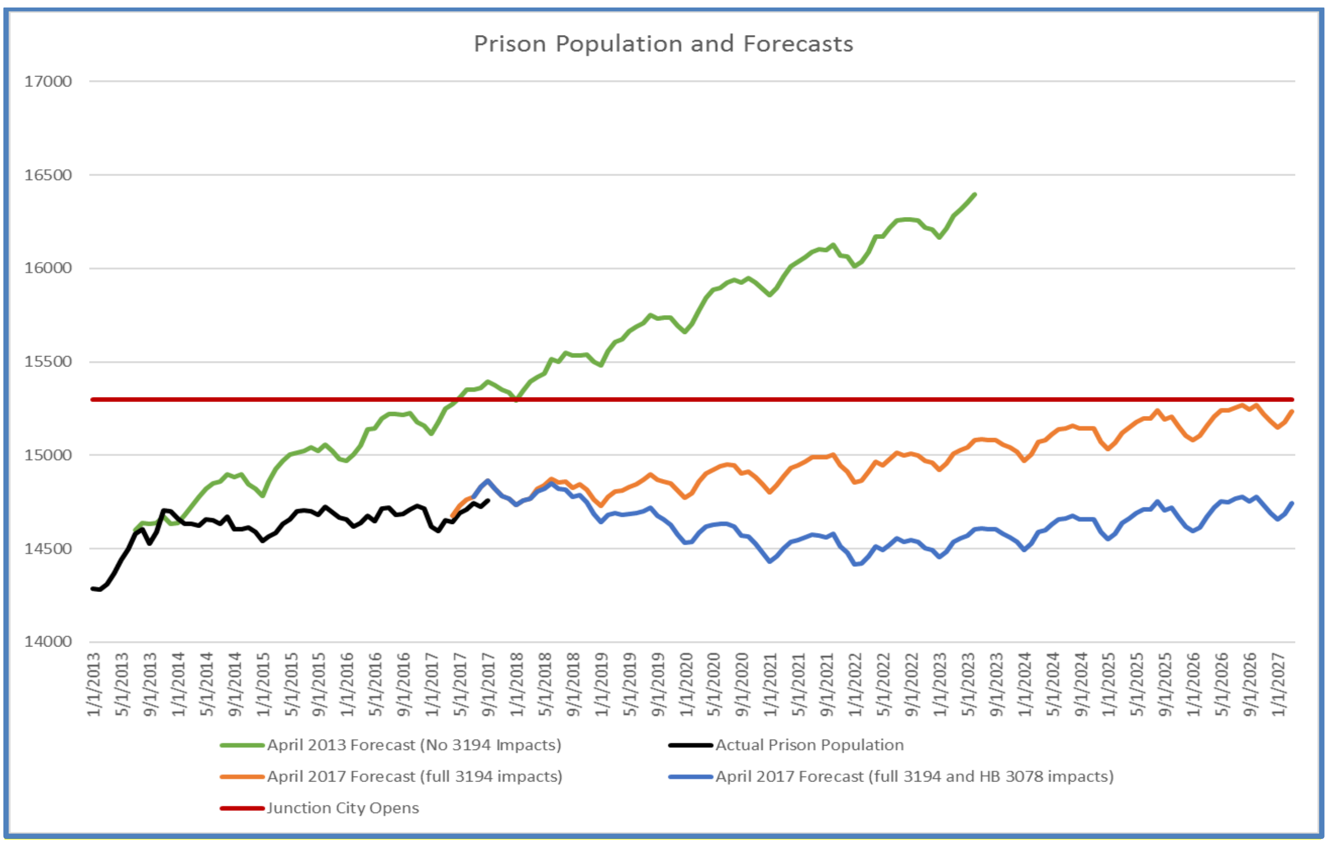
Budget Environment

In the ten years following passage of Ballot Measure 11 in 1994, Oregon's prison population grew by 80%. Between 1998 and 2008 the Department of Corrections built six prisons and expanded one, bringing more than 7,800 additional prison beds on line. Prison population forecasts prior to 2013 projected that additional prison capacity would have been required by the beginning of the 2017-19 biennium.


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 in 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. Subsequent legislation in 2017 (HB 3078) removed two crimes (identity theft and Theft 1) from Measure 57 sentencing, extended short term transitional leave from 90 to 120 days prior to inmate discharge, and modified the Family Sentencing Alternative Program, created in 2015 (HB 3503), to allow for participants who have a previous conviction for a person or sex crime.

The law changes in HB 3194 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 was expected to defer the need for new prison construction for a minimum of five years. Experience in the subsequent years shows a downturn in population compared to what it would have been without the passage of HB 3194. HB 3078 is estimated to further reduce prison usage by a total of 128 beds by July 2019, and by a total of 372 beds by the end of the forecast period (July 2026).

The following display shows the expected prison population without HB 3194 (green line), actual population from January 2013 to September 2017 (black line), expected population according to the April 2017 population forecast developed by the Oregon Office of Economic Analysis including HB 3194 effects (orange line), and the April 2017 forecast population with the anticipated effects of both HB 3194 and HB 3078 (blue line). The solid red line is the population level that would require the opening of a new prison on the Junction City site.




The Department of Corrections is not funded to operate all available prison beds. Based on the 2017-19 legislatively adopted budget, its institutions are over capacity, with a total of 880 emergency beds in use throughout the system. 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.

| Department of Corrections Facilities<br>Budgeted Beds During 2017-19 | | | | | |
|---|---|---|---|---|---|
| | | Total Budgeted Capacity: 14,712 | | E-Beds | |
| **Facility** | **Location** | **Minimum** | **Medium** | **6/30/2017** | **Total** |
| Columbia River | Portland | 553 | - | 40 | 593 |
| Deer Ridge Minimum | Madras | - | - | - | - |
| Deer Ridge Medium | Madras | 986 | - | - | 986 |
| 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 | 2,887 | 80 | 3,141 |
| South Fork | Tillamook | 204 | - | - | 204 |
| Two Rivers | Umatilla | 128 | 1,750 | 120 | 1,998 |
| Warner Creek | Lakeview | 406 | - | 90 | 496 |
| Eastern Oregon | Pendleton | - | 1,659 | 108 | 1,767 |
| Oregon State Correctional | Salem | - | 888 | 52 | 940 |
| Coffee Creek - Male Intake | Wilsonville | - | 432 | - | 432 |
| Oregon State Penitentiary | Salem | - | 2,124 | 98 | 2,222 |
| Coffee Creek - Female | Wilsonville | 540 | 713 | 122 | 1,375 |
| Women's Correctional | Salem | - | - | - | - |
| **Totals** | | **4,259** | **10,453** | **880** | **15,592** |

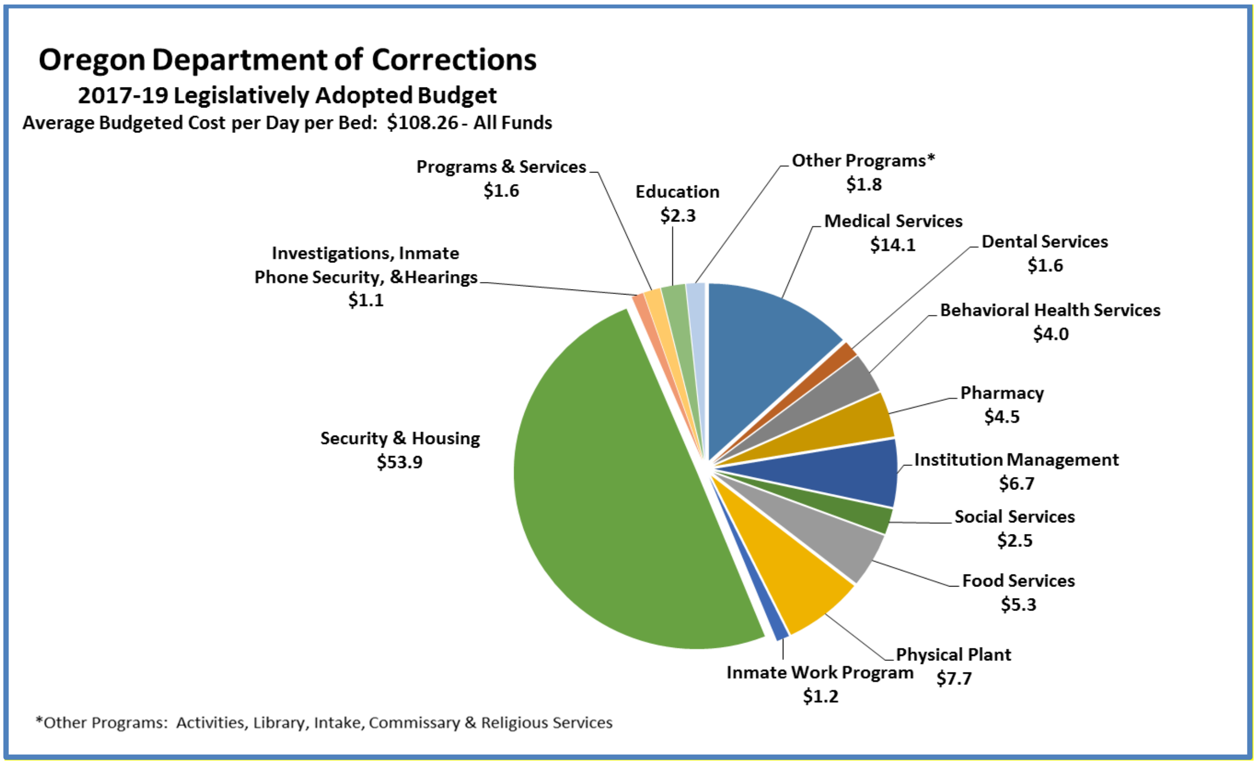
Notes:

- Deer Ridge Medium is operating as a Minimum. It has 209 General Population and 98 Special Purpose beds still available, for a Medium total capacity of 1,292. The Deer Ridge Minimum facility is mothballed and has 657 total beds across General Population and Special Purpose.
- Women's Correctional has a built capacity of 176 beds, and the institution is currently mothballed.
- 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, all 880 emergency beds (E-Beds) are in use. When the Deer Ridge shift & ramp up was implemented, E-beds in the Deer Ridge Minimum were permanently taken offline, reducing the total E-beds for the agency.
- 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)

Capacity issues are particularly acute at the Coffee Creek Correctional Facility in Wilsonville, the state's only prison for women where, since May 2016, the inmate population has topped the number set by the Department as the threshold limit beyond which additional capacity would be required. To date, the DOC has managed its female population with the use of emergency beds and early release beds at certain county jail facilities. The Family Sentencing Alternative pilot program created by HB 3503 (2015) did not divert as many female offenders from prison as was anticipated; program eligibility was expanded in 2017 (HB 3078), which may increase the program's utilization going forward. Although the Oregon State Penitentiary - Minimum facility is available for use, the Department does not have funding in its budget to open additional prison beds for women.

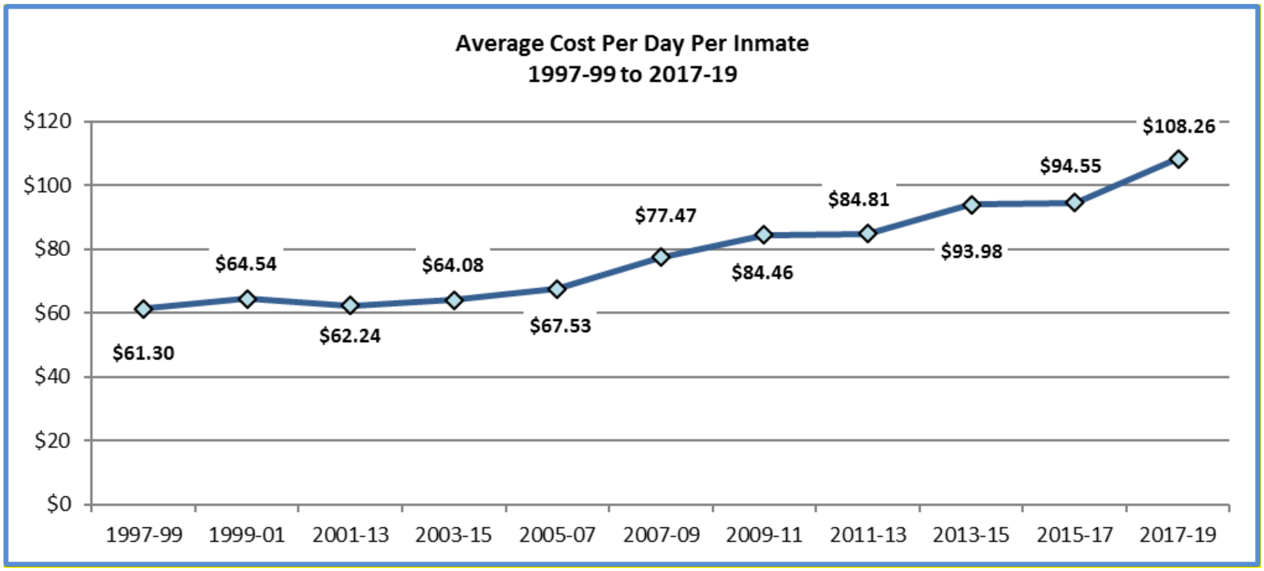
DOC states that it has reached the limit for double occupancy cells in its general population units. There are, however, special unit beds where double occupancy cells are not always feasible and some single cells exist for those with special needs. All facilities, except the Oregon State Penitentiary, 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 880 emergency beds will be used during the 2017-19 biennium. Short-term work camp beds may also be added as forest-related work needs arise.

The estimated cost per day calculation based on the 2017-19 legislatively adopted budget is $108.06, or a 14.29% increase from the 2015-17 legislatively adopted budget of $94.55. 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 $1.17 billion total funds.




The components of the cost-per-day are reflected in the display above. The chart does not include 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 $594.6 million total funds.

For context, the following display shows average cost per inmate per day from 1997-99 to the 2017-19 legislatively adopted budget.




Based on the April 2017 corrections forecast, DOC anticipates the felony probation and parole/post-prison supervision caseload to total 32,528 by the end of the 2017-19 biennium, resulting in a community corrections mandated caseload increase of $25.4 million over the 2015-17 legislatively approved budget.

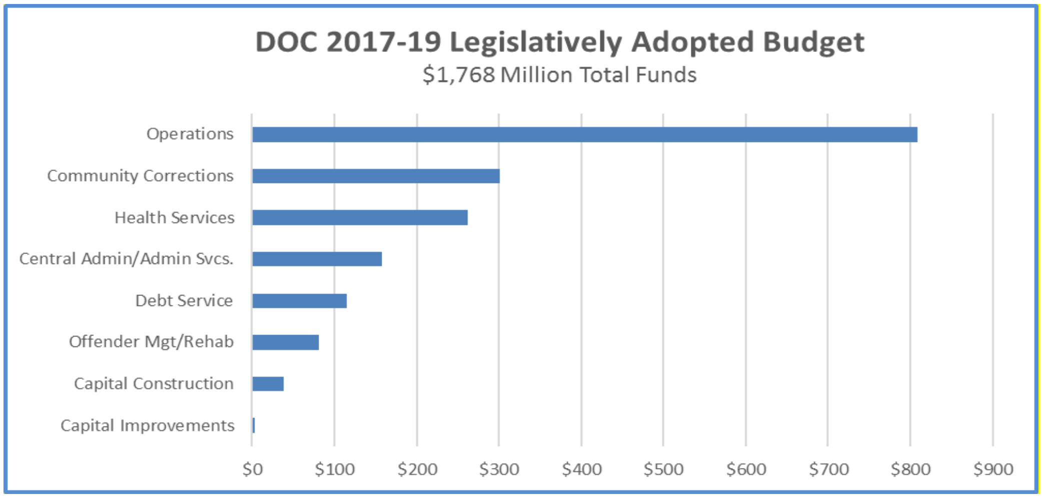
The Prison Rape Elimination Act (PREA) was authorized in 2003, but the U.S. Department of Justice did not release implementing rules until 2012. The Act applies to public and private institutions that house adult or juvenile offenders. Both DOC and the Oregon Youth Authority (OYA) have developed plans 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.

There is no specifically identified funding or dedicated staff for PREA implementation. 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 being liable for an actual PREA incident occurring, which would subject DOC to damage recovery costs. As of September 2017, all 14 DOC facilities have passed PREA audits.

Legislatively Adopted Budget

The following display shows the total funds budget by division for the Department.




The 2017-19 legislatively adopted budget of $1.768 billion total funds is 4.6%, or $78.1 million, greater than the 2015-17 legislatively approved budget. The budget includes the following:

- A reduction of $22.5 million total funds to remove funding for current service level mandated caseload growth in the prison population. Specifically, this reduction eliminates funding that would have gone toward operating a second 176-bed women's prison in Salem and operating an additional 50 prison beds for men at the Shutter Creek Correctional Institution in North Bend.
- $9.1 million General Fund and 33 positions to continue operation of 200 prison beds added by the Emergency Board in May 2016 at the Deer Ridge Correctional Institution in Madras.
- $6.9 million General Fund and 33 positions to continue capital, operational, and programming improvements to the Behavioral Health Unit in the Oregon State Penitentiary.
- Bond funding for deferred maintenance and information technology projects.
- Support for retrofitting or replacing prison transport vehicles.
- New positions at no additional cost due to redirecting existing Department resources.
- Resources to upgrade the Inmate Accounting System to support the implementation of SB 844.
- $10 million General Fund reduction in recognition of statewide limited General Fund availability. The reductions are taken in Operations ($8.9 million) and Health Services ($1.1 million). An additional $25.6 million total funds in statewide reductions was taken in all divisions to implement a statewide hiring slowdown, reductions in services and supplies accounts, reductions to state government service charges, and adjustments to debt service requirements.

These issues are discussed in more detail in subsequent sections.

## Operations

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 710,255,015 | 760,761,219 | 818,307,735 | 795,031,482 |
| Other Funds | 11,321,771 | 17,908,874 | 15,073,394 | 14,003,062 |
| **Total Funds** | **$721,576,786** | **$778,760,093** | **$833,381,129** | **$809,034,544** |
| Positions | 3,258 | 3,333 | 3,363 | 3,333 |
| FTE | 3,241.02 | 3,295.17 | 3,345.63 | 3,316.78 |

<u>Program Description</u>

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
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.

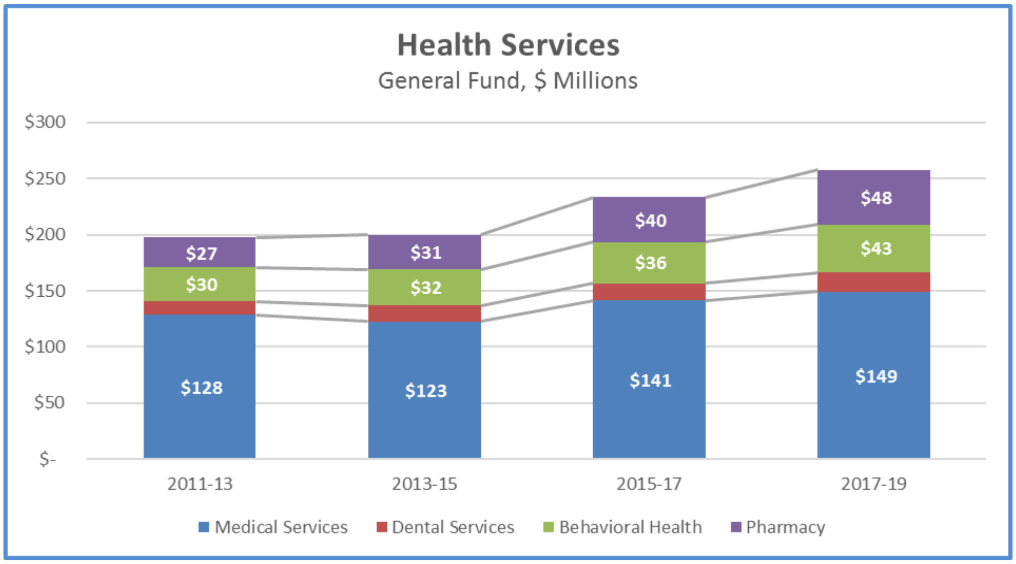
Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $809 million total funds is 6.6% higher than the 2015-17 legislatively approved budget. This budget includes the following:
- The addition of $5.3 million General Fund and 22 ongoing correctional officer positions to continue operating 200 permanent prison beds at the Deer Ridge Correctional Institution in Madras. These beds were first approved by the Emergency Board in May, 2016.
- $3.1 million General Fund and 19 positions (16.51 FTE) to continue improvements being made to the Behavioral Health Unit at the Oregon State Penitentiary in Salem. The added staff will provide additional treatment services and out-of-cell time to reduce isolation and improve the care of seriously mentally ill adults in DOC's custody.
- A reduction of $14.5 total funds to remove funding for mandated caseload growth in the prison population. Specifically, this reduction eliminates funding that would have gone toward operating a second 176-bed women's prison in Salem and an additional 50 prison beds for men at the Shutter Creek Correctional Institution in North Bend.
- An unspecified reduction of $8.7 million General Fund to be addressed through management actions and/or additional vacancy savings to reach a statewide budget balancing target.
- Statewide budget adjustments totaling $9.4 million all funds, including reductions to State Government Service and Attorney General charges, an across-the-board reduction to services and supplies budgets, and personnel savings due to a statewide hiring slowdown.

## Health Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 210,559,992 | 241,073,179 | 264,528,370 | 257,728,587 |
| Other Funds | 560,816 | 625,144 | 667,029 | 667,029 |
| Federal Funds | 6,356,405 | 4,437,428 | 3,353,513 | 3,353,513 |
| **Total Funds** | **$217,477,213** | **$246,135,751** | **$268,548,912** | **$261,749,129** |
| Positions | 559 | 583 | 571 | 571 |
| FTE | 539.63 | 554.90 | 560.07 | 558.60 |

Program Description
Health Services was organizationally part of the Operations Division, but has been designated as a separate budget unit due to its size. It includes the employees that provide health services at all 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 99% of the services are provided at a DOC facility, but the costs of the remaining 1% of services, which are provided outside of DOC facilities, is roughly 27% of the total Medical unit's spending based on 2015-17 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 continue to rise. The inmate population is aging and many inmates arrive at DOC without having had adequate health care. In addition, a disproportionately large number of offenders are infected with Hepatitis C. New drugs have become available that represent significant improvements over previous therapies; newer treatments appear to eliminate the virus in about 95% of those taking the antiviral medications and the risk of side effects is very low. Hepatitis C therapies are costly, however, with costs averaging between $50,000 and $70,000 per treatment for eligible inmates, depending on the pharmaceutical treatment for those who are in the latter stages of the disease. The 2017-19 current service level budget funds both the costlier drugs and higher usage by inmates.




Revenue Sources and Relationships

Other Funds revenue is generated from charges to inmates to offset the cost of dentures, durable medical equipment, 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 undocumented offenders. This SCAAP grant, however, funds a very small (and decreasing) percentage of the total cost of incarcerating undocumented offenders.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $261.7 million total funds is 6.3% greater than the 2015-17 legislatively approved budget. This budget includes the following:

- The addition of $2.5 million General Fund and six ongoing positions to continue providing health care for inmates in the 200 permanent prison beds at the Deer Ridge Correctional Institution in Madras. These beds were first approved by the Emergency Board in May, 2016.
- $3.7 million General Fund and 14 positions (12.05 FTE) to continue improvements being made to the Behavioral Health Unit at the Oregon State Penitentiary in Salem. The added staff will provide additional treatment services and out-of-cell time to reduce isolation and improve the care of seriously mentally ill adults in DOC’s custody.
- A reduction of $5.3 million General Fund and eighteen positions (15.52 FTE) to remove funding for mandated caseload growth in the prison population. Specifically, this reduction eliminates funding that would have gone toward providing health services in a second 176-bed women’s prison in Salem and for health services for a 50-bed increase at the Shutter Creek Correctional Institution in North Bend.
- An unspecified reduction of $1.1 million General Fund to be addressed through management actions and/or additional vacancy savings to reach a statewide budget balancing target.
- Statewide budget adjustments totaling $5.4 million General Fund, including reductions to State Government Service and Attorney General charges, an across-the-board reduction to services and supplies budgets, and personnel savings due to a statewide hiring slowdown.

## Community Corrections

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 237,852,203 | 269,579,963 | 295,250,275 | 294,044,375 |
| Other Funds | 6,071,047 | 6,758,529 | 7,009,979 | 6,995,550 |
| Federal Funds | 243,546 | 300,551 | -- | -- |
| **Total Funds** | **$244,166,796** | **$276,639,043** | **$302,260,254** | **$301,039,925** |
| Positions | 62 | 64 | 74 | 74 |
| FTE | 62.33 | 64.12 | 74.33 | 74.33 |

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 funding for reimbursing counties for the jail costs associated with the pre-trial and post-trial incarceration costs for Ballot Measure 73 offenders.

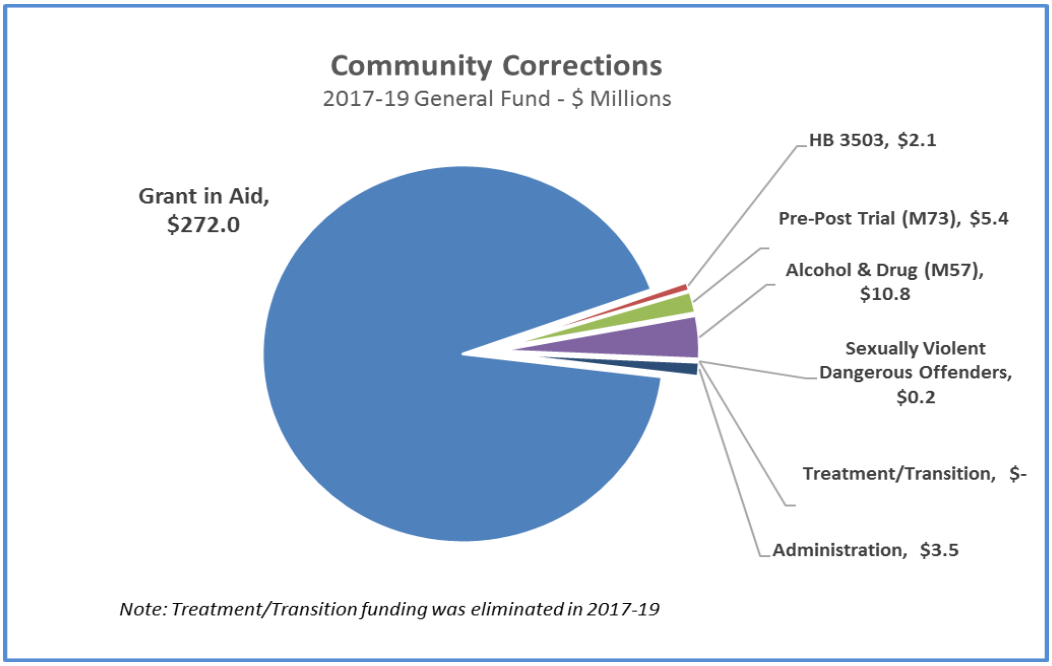
Revenue Sources and Relationships

For the 2017-19 biennium, General Fund resources for Grant in Aid to counties will be allocated based on a percentage distribution of the felony probation, parole/post-prison supervision, transitional leave, and Local Control populations in each county. Counties also contribute varying amounts to the community corrections system through county general fund, fee revenue, and/or state and federal grants.

The primary source of Other Funds revenue in the Community Corrections budget is the Criminal Fine Account ($4.3 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 $1.7 million, as well as Inmate Welfare Funds.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $301 million total funds is an 8.6% increase over the 2015-17 legislatively approved budget. To address statewide General Fund limitations, this budget includes a reduction of just under $1 million for discretionary treatment transition funding to community corrections programs throughout the state; and a reduction of just under $0.25 million for statewide budget adjustments.

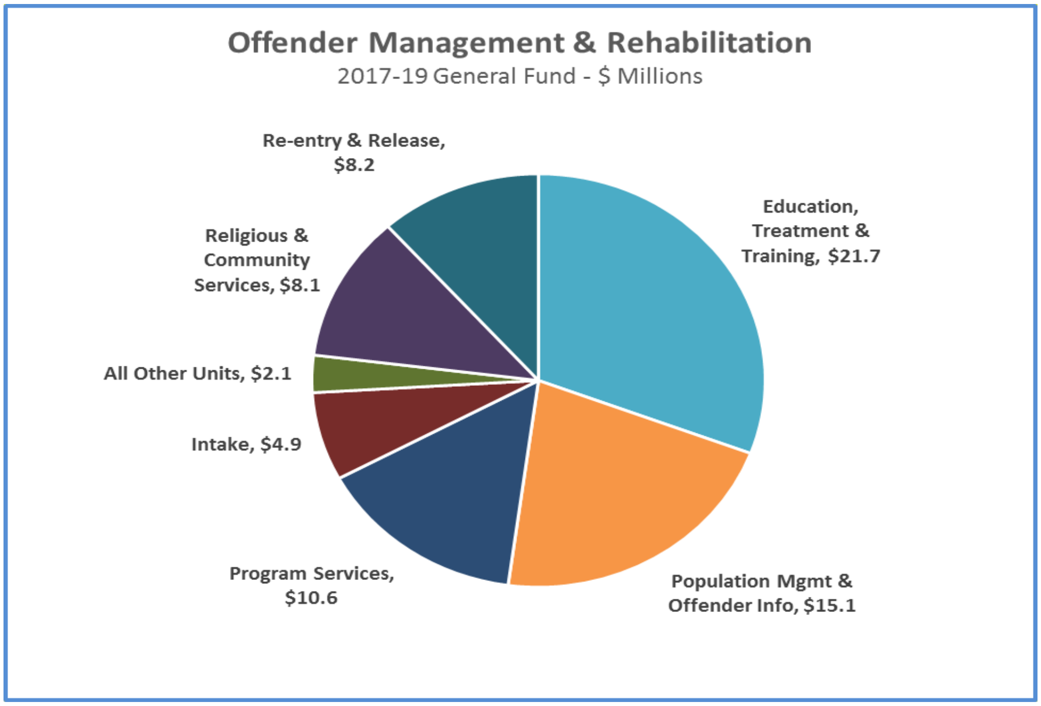



### Offender Management and Rehabilitation

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 60,166,185 | 64,840,887 | 72,526,998 | 70,739,936 |
| Other Funds | 8,347,787 | 9,510,156 | 9,556,753 | 11,056,558 |
| **Total Funds** | **$68,513,972** | **$74,351,043** | **$82,083,751** | **$81,796,494** |
| Positions | 193 | 199 | 203 | 207 |
| FTE | 190.61 | 196.01 | 201.61 | 205.61 |

Program Description

The Offender Management and Rehabilitation Services Division reduces 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 to prepare incarcerated offenders to transition back into the community when released, and to reduce recidivism. This Division also administers 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, restitution payments, and resources transferred in from the Department of Education and the Higher Education Coordinating Commission for education programs.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $81.8 million total funds is 4.8% higher than the 2015-17 legislatively approved budget. This budget includes the addition of $1.2 million General Fund and four ongoing positions to continue providing alcohol and drug treatment and educational programs for inmates in the 200 permanent prison beds at the Deer Ridge Correctional Institution in Madras. These beds were first approved by the Emergency Board in May, 2016. It includes a reduction of $1.5 million General Fund and two positions to remove funding for mandated caseload growth in the prison population, and further reduces $2.7 million for statewide budget reductions, including reductions to State Government Service and Attorney General charges, an across-the-board reduction to services and supplies budgets, and personnel savings due to a statewide hiring slowdown. DOC anticipated a reduction in Other Funds revenue due to pending restrictions on inmate telephone system revenue, but due to federal court action most of that anticipated revenue will remain for part of the 2017-19 biennium; $1.5 million in Other Fund limitation will allow the agency to spend a portion of that anticipated revenue, while also reserving some cash for the eventual elimination of site commission in future vendor contracts.

### Central Administration and Administrative Services Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 129,419,607 | 133,036,721 | 154,191,650 | 146,677,835 |
| Other Funds | 1,887,609 | 4,754,072 | 9,290,312 | 10,522,348 |
| Other Funds (NL) | 27,911 | 81,739 | -- | -- |
| Federal Funds | 487,604 | 972,128 | 1,009,796 | 999,473 |
| **Total Funds** | **$131,822,731** | **$138,844,660** | **$164,491,758** | **$158,199,656** |
| Positions | 415 | 348 | 425 | 420 |
| FTE | 402.25 | 345.04 | 421.75 | 416.75 |

Program Description

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

- Central Administration – Includes the Director's Office, Chief Financial Office, Office of Government Efficiencies, Internal Audits, Office of the Inspector General, and the Communications Office. All state government service charges are budgeted in this unit.
- Administrative Services – Includes agency wide services including Human Resources (labor management, recruitment, employee development, training, employee safety, and risk management); Information Technology Services (IT 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 (repair and maintenance program, management of leased facilities, and energy conservation).

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 is from a grant related to the Prison Rape Elimination Act.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $158.2 million total funds is a 12.8% increase from the 2015-17 legislatively approved budget. The increase is due to an agency reorganization of three divisions into two. This budget includes:

- $162,000 General Fund associated with the operation of 200 additional beds at the Deer Ridge Correctional Institution in Madras, approved by the Emergency Board in May, 2016.
- $288,000 Other Funds expenditure limitation and two positions in the Chief Financial Office.
- A reduction of $1.3 million General Fund associated with reducing the mandated caseload package that would have opened an additional women's prison and added beds for men at the Shutter Creek Correctional Institution.
- A reduction of $5.7 million total funds for statewide budget reductions, including reductions to State Government Service and Attorney General charges, an across-the-board reduction to services and supplies budgets, and personnel savings due to a statewide hiring slowdown.
- $775,000 total funds for IT systems upgrades to implement SB 844, which authorizes the DOC to collect certain amounts of an inmate's trust account to establish a transitional fund for the offender, and for the payment of court-ordered financial obligations.
- A transfer of $502,000 General Fund and two positions to the Department of Administrative Services' Chief Information Office to support a consolidated state-wide Information Technology Security office.

## Debt Service

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 129,626,843 | 124,139,216 | 112,749,173 | 114,017,232 |
| Other Funds | 858,549 | 2,178,831 | -- | -- |
| Other Funds (NL) | 5,530,668 | 27,086,246 | -- | -- |
| Federal Funds (NL) | 1,206,842 | 1,119,495 | 1,038,513 | 1,038,513 |
| **Total Funds** | **$137,222,902** | **$154,523,788** | **$113,787,616** | **$115,055,745** |

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 were 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. From the 2013-15 biennium forward, all debt financing has used Article XI-Q bonds.

Revenue Sources and Relationships
Other Funds in prior biennia 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, for which the federal government provides a subsidy for taxable bonds for eligible projects.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget for debt service of $115.1 million total funds is 27.2% less than the 2015-17 legislatively approved budget, primarily due to having spent down $27 million Other Funds in 2015-17. This budget reflects updated debt service requirements from refinancing completed in the 2015-17 biennium. Newly authorized capital construction bond issuance is scheduled in 2017, with $1.3 million additional debt expenditures anticipated to be incurred in the 2017-19 biennium. The 2017-19 debt service is 6.8% of the Department's total General Fund budget.

## Capital Improvements

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 2,644,700 | 2,723,694 | 2,824,471 | 2,824,471 |
| **Total Funds** | **$2,644,700** | **$2,723,694** | **$2,824,471** | **$2,824,471** |

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 2017-19 legislatively adopted budget of $2.8 million General Fund is 3.7% higher than the 2015-17 legislatively approved budget.

## Capital Construction

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 4,961,000 | 14,220,432 | -- | 38,493,534 |
| **Total Funds** | **$4,961,000** | **$14,220,432** | **--** | **$38,493,534** |

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. The agency inventory of capital improvement and renewal projects is currently (as of 2016) estimated to cost more than $162.1 million.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget includes a $26.3 million authorization for statewide deferred maintenance projects in several facilities, including roofs, HVAC, surveillance, and infrastructure improvements; and a $12.2 million authorization to upgrade and install technology infrastructure that will support a voice-over-internet protocol (VoIP) telephone system.

## CRIMINAL JUSTICE COMMISSION

Analyst: Neburka

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 23,421,910 | 55,132,449 | 57,382,338 | 64,926,239 |
| Other Funds | 862,857 | 864,042 | 512,529 | 511,392 |
| Federal Funds | 7,606,902 | 7,812,627 | 7,173,704 | 7,170,201 |
| **Total Funds** | **$31,891,669** | **$63,809,118** | **$65,068,571** | **$72,607,832** |
| Positions | 9 | 11 | 11 | 14 |
| FTE | 8.38 | 11.00 | 11.00 | 13.50 |

Overview

The Criminal Justice Commission (CJC) administers Oregon's felony sentencing guidelines; analyzes crime trends and sentencing policy data; estimates the fiscal and racial/ethnic impact of statewide public safety legislation and initiatives; administers the competitive specialty court grant program; staffs the Asset Forfeiture Oversight Committee and Public Safety Task Force; and guides the implementation of Oregon's Justice Reinvestment Initiative.

Revenue Sources and Relationships

General Fund is CJC's primary revenue source and funding for the commission's grant programs, which have grown significantly with the passage of sentencing reform legislation in 2013 (HB 3194). Other Fund revenue is derived from civil and criminal forfeiture proceeds. The Federal Funds in the budget are mostly provided by the Edward Byrne Memorial Justice Assistance Grant (JAG).

Budget Environment

The Commission's two largest programs comprise 92% of its budget. The Justice Reinvestment Initiative (JRI) makes up 66% of the budget and totals $48.2 million for 2017-19. The JRI Grant Program, passed in 2013 (HB 3194), is Oregon's approach to controlling prison growth and investing in the state's local criminal justice systems to reduce recidivism and increase public safety and offender accountability. The agency maintains an interactive website (www.oregon.gov/cjc/data/pages/main.aspx) where state and local data is displayed for specific crimes: changes by county year-over-year in for the number of prison intakes, including revocations; length of stay in months; total prison months; and short term transitional leave increases. HB 3078 (2017) further modifies public safety programs and sentences for crimes, and is expected to reduce the use of prison beds by 128 in 2017-19 and by a total of 372 by the end of the current prison population forecast period (2026).

The agency's Specialty Courts Grant Program totals $18.7 million for 2017-19 and accounts for 26% of the total budget. There are 72 specialty courts in Oregon; CJC's grant program currently funds 41 courts in 23 counties and 1 municipality. 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. More recently, CJC was directed to serve as a clearinghouse and information center for the collection, preparation, analysis, and dissemination of the best practices applicable to specialty courts.

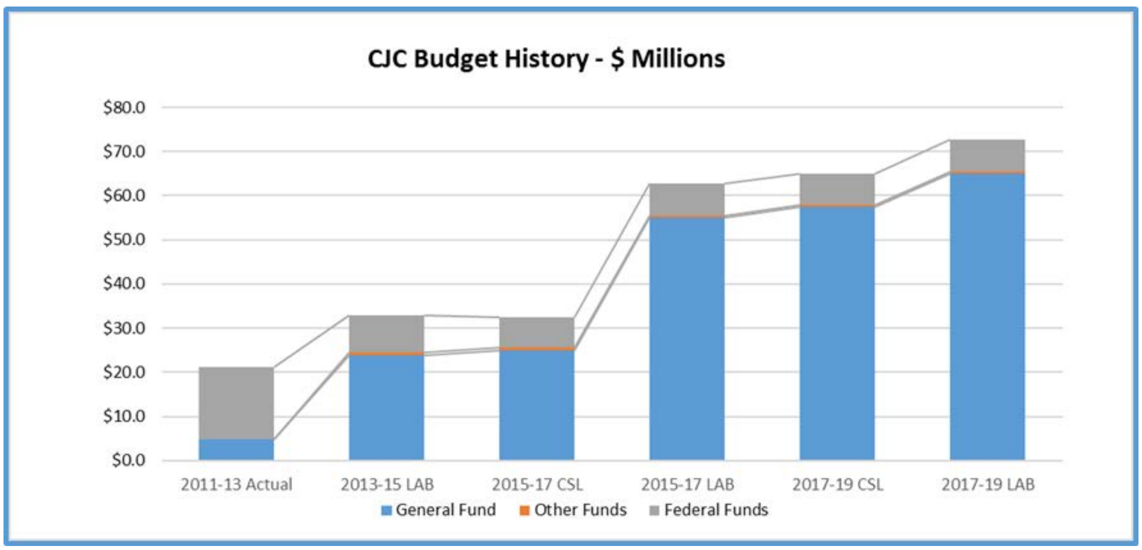
Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the commission of $72.6 million total funds is a 13.8% increase from the 2015-17 legislatively approved budget. This budget reflects an increase of $9.8 million General Fund, a reduction in Other Funds of $352,650, and a reduction in Federal Funds of $642,426. Positions increased by 3 (2.50 FTE) to a total of 14 (13.50 FTE).

Specific changes from the 2015-17 legislatively approved budget include:

- A General Fund increase of $7.5 million over the current service level:
  - $284,344 and one full-time limited duration position to implement SB 1041, which directs the CJC to study, track, and account for all public moneys appropriated for and spent on alcohol and drug treatment in Oregon.
  - $347,351 and two full-time positions (1.50 FTE) to implement the provisions of HB 2355 that require the CJC to compile, analyze, and report on traffic and pedestrian stop data.
  - $7 million for the Justice Reinvestment Initiative, specifically to be used for downward departure prison diversion programs provided by counties.
- $92,434 total funds reduction to reflect statewide budget reductions in personnel costs, services and supplies, 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 tied 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.



# DISTRICT ATTORNEYS AND THEIR DEPUTIES

Analyst: Borden

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 10,916,597 | 12,047,411 | 12,502,083 | 12,478,725 |
| **Total Funds** | **$10,916,597** | **$12,047,411** | **$12,502,083** | **$12,478,724** |
| Positions | 36 | 36 | 36 | 36 |
| FTE | 36.00 | 36.00 | 36.00 | 36.00 |

Overview

District Attorneys ("prosecuting attorneys" or DAs) are directed by section 17 of the Oregon Constitution. There are 36 DAs, one for each county, who are independently elected to four-year terms. A DA is the county chief law enforcement officer. DAs and their deputies prosecute state criminal offenses committed by juveniles and adults.

In addition to criminal prosecution, district attorney legal duties may 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 as county counsel in civil matters. DAs and their deputies are also active in local public safety coordinating councils, child abuse prevention teams, and community outreach activities. In cities of a population of more than 300,000, the DA is responsible for the prosecution of all city ordinance violations. The DA may provide legal advice to the county ("Justice") court and other county officers.

DAs are state (management service) employees and, by statute, the state is responsible for providing their salaries. There is a two tier, annual compensation plan for DAs. Ten DAs in counties with populations exceeding 100,000 receive $122,784 in state salary and wages; all others receive $104,316. In addition, the state funds other payroll expenses and charges that primarily cover tort liability and other insurance. Apart from state funding, some 26 counties have elected to provide supplemental compensation for their elected DA, ranging from an estimated $6,000 to $55,238 per year; the ten other counties provide no supplement.

DAs have offices ranging from just the elected official to offices with nearly 100 Deputy District Attorneys. Counties are responsible for providing funding for approximately 350 deputy district attorney positions; administrative support; facility space; and services and supplies. Counties also fund expert and other witness fees for grand jury proceedings; trials; probation violation hearings; pre-trial hearings; and other court actions; as well as stenographic assistance. The state budget has not contributed to the cost of the deputy district attorneys since 2007-09, nor to witness fees for trials and grand jury hearings in criminal proceedings since 1999-2001.

The state provides supplemental support to the DAs though the Department of Justice (DOJ), which includes: prosecutorial support; investigations; and administrative support to facilitate budget development and coordinate the non-profit association. DOJ may, depending upon the actions of the Governor, temporally assume the responsibilities of the DA function upon a vacancy and until a successor is appointed by the Governor or the next election. On a routine basis, DOJ's Criminal Justice Division supports local DAs 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. While a state responsibility, DOJ's Appellate and Trial Divisions may also defend the state in cases in which sentenced offenders challenge their convictions or sentences. Such expenses are funded by a General Fund appropriation to DOJ. DOJ also awards a variety of competitive and non-competitive state and federal grants for crime victim assistance to counties, including funding for a few juvenile and domestic violence prosecutor positions. DAs are continuing to work with DOJ in the development of the Child Support Enforcement Automated

System (CSEAS) information technology project. DAs in 23 counties have responsibility for approximately 38,000 (or 21.4%) of the 177,707 state child support caseload. For the remaining 13 counties, DAs have elected to contract with DOJ to provide child support services, including most recently Josephine County (as of July 1, 2017) and Benton County (as of October 2, 2017). Additionally, 19 DAs receive grants from the Department of Human Services (DHS) to appear in child dependency cases. These grants are scheduled to begin being phased out in July of 2018.

Revenue Sources and Relationships

State payments for the salaries of DAs are made entirely with General Fund; however, the state's portion of the total budgets for District Attorney Offices across the state is small. A county DA office survey was last conducted in 2000, and 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.

Budget Environment

There are several 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 fewer resources, DA offices must take a variety of actions to meet the increased demand, including: (1) prioritizing cases; (2) rely 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.

In 2017, after attempts in 2015 (SB 822) and 2016 (SB 1550), SB 505 became law, requiring DAs to electronically record grand jury proceedings, and to store and maintain copies of each recording. The Judicial Department was provided funding to purchase the recording equipment for DAs. The measure will be implemented in three counties beginning March 1, 2018, and the remaining counties by July 1, 2019. While DAs or counties received no initial appropriation of funds, the Legislature set aside an $8.5 million special purpose appropriation to the Emergency Board for additional expenses, if necessary, to implement this measure. There is uncertainty about whether SB 505 will reduce the number of grand jury hearings if local DAs opt instead for pre-trial hearings.

HB 3470 was enacted by the Legislature and extended the sunset provision authorizing the Department of Human Services (DHS) to appear as a party in a juvenile court proceedings without appearance of an Attorney General from June 30, 2018 to June 30, 2020. However, the Legislature also provided supplemental funding for a three-phase, state-wide implementation schedule whereby DOJ's Child Advocacy Section will begin to fully represent DHS Child Welfare caseworkers in court. This may lessen the need for DAs to attend juvenile court proceedings where their role has been to represent the interests of the state rather than DHS Child Welfare caseworkers.

In 2013, sentencing reform was enacted by the Legislature (HB 3194) and made changes to the criminal justice system in Oregon to reduce the General Fund cost of incarceration. The measure reduced penalties for some marijuana crimes, driving while suspended or revoked, Identity Theft, and Robbery III; expanded maximum transitional leave from 30 to 90 days; limited prison sanction durations for violating post-prison supervision conditions; and reduced supervision terms in jail or on probation for certain offenders. The averted costs were granted to counties by the Criminal Justice Commission to fund efforts and treatment to reduce recidivism and crime commission. DAs play a key role in these changes and largely determine whether avoided costs from sentencing reform materialize. A recent report indicates that actual avoided costs are falling short of estimates.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the District Attorneys and Their Deputies is essentially a current service level budget. The total budget of $12.5 million General Fund is 6.4% higher than the 2015-17 legislatively approved budget. The increase is attributable to the roll-up of management service personal service adjustments approved during the 2015-17 biennium and changes to state government service charges assessed against the agency's budget.

## DEPARTMENT OF JUSTICE

Analyst: Borden

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 63,337,324 | 78,490,126 | 94,688,945 | 84,653,042 |
| Other Funds | 246,176,176 | 309,294,564 | 293,923,290 | 321,296,607 |
| Other Funds (NL) | 3,469,160 | 5,170,012 | 5,077,143 | -- |
| Federal Funds | 110,148,006 | 168,304,853 | 122,484,387 | 179,004,039 |
| Federal Funds (NL) | 15,170,224 | 15,740,252 | 16,322,641 | -- |
| **Total Funds** | **$438,300,890** | **$576,999,807** | **$532,476,406** | **$584,953,688** |
| Positions | 1,279 | 1,329 | 1,323 | 1,374 |
| FTE | 1,261.22 | 1,300.27 | 1,303.01 | 1,348.42 |

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 2017-19 biennium, the General Fund accounts for 14% 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), law enforcement activities of the Criminal Justice Division, and debt service. 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 Fund agencies.

Other Funds resources support 55% of the budget and include charges to agencies for legal services, Tobacco Settlement Funds Account, legal settlements, license and other fees, charges, and fines. DOJ generates much of its Other Funds revenue from charges to state agencies for legal services. The rates cover direct and indirect costs of providing legal services to state agencies. The billable Attorney General rate for agencies will increase from $175 for the 2015-17 biennium to $182 for the 2017-19 biennium and is estimated to generate $175 million. The rate increase is 4% over the prior biennium. Although the agency has the statutory authority to determine the various hourly rates, the rate has historically been reviewed through the legislative budget process.

DOJ will transfer $46 million of surplus Protection and Education Account funds from major legal settlements to the General Fund. In addition, $62 million of Tobacco Master Settlement Agreement from disputed payment years 2004 through 2015 was deposited into the Tobacco Settlement Funds Account for allocation primarily to the Oregon Health Authority for the Oregon Health Plan.

Federal Funds make up 31% 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 budget for the Department of Justice is $585 million total fund, including $84.7 million General Fund, $321.3 million Other Funds, and $179 million Federal Funds. The total funds budget is $8 million (or 1.4%) more than the

2015-17 legislatively approved budget. NonLimited expenditure authority is removed from the budget and replaced with Limited expenditure authority. The budget includes 1,374 positions (1,348.42 FTE).

The budget makes three types of investments: a continuation of funding, funding enhancements, and new program funding. Continued funding is provided for: Titan Fusion Center ($884,995); Driving Under the Influence of Intoxicants ($558,883); traffic safety prosecutor ($401,772); homeland security ($288,007); urban area security initiative ($278,608); internet crimes against children ($755,187); Victims of Crime Act funding ($15.5 million); Umpqua Community College shooting incident ($1.2 million); backfill of a revenue reduction in Division of Child Support ($4 million); and funding of Phase-III of the Child Support Enforcement Automated System project ($52.4 million). The Defense of Criminal Convictions was fully funded to caseload forecast ($21.3 million).

Enhanced funding is provided for: juvenile dependency representation ($6.9 million); Medicaid Fraud ($607,957); legal services to agencies ($1.6 million); Tobacco Master Settlement Agreement enforcement ($343,788); legal conference/agency training ($307,366); and other investments in information technology, budget, and accounting staff ($4.5 million). General Fund enhancements include: $1 million for HB 3078 and victims of domestic and sexual violence; $500,000 for child abuse medical assessments; $175,000 for the Oregon Crime Victims Law Center; and $212,813 for the Sunshine Commission (public records). One new program was established under SB 243 to train DHS caseworkers and certifiers on the new legal standard of abuse ($123,932).

Reductions or fund shifts to the budget due either to budget savings or available revenue include: a one-time fund shift of General to Other Funds (punitive damage awards) in the Crime Victims Services Division; Tobacco Master Settlement Agreement defense funding no longer required ($3.2 million); elimination of unneeded expenditure limitation ($3.6 million); and elimination of vacant positions ($470,683).

HB 3470 was enacted by the Legislature and extended the sunset provision authorizing Department of Human Services (DHS) to appear as a party in a juvenile court proceeding without appearance of an Attorney General from June 30, 2018 to June 30, 2020. However, the Legislature also provided supplemental funding for a three-phase, state-wide implementation schedule whereby DOJ's Child Advocacy Section will begin to fully represent DHS Child Welfare caseworkers in court.

There were also statewide adjustments based on reductions in Department of Administrative Services assessments and charges for services, Attorney General rates, certain services and supplies, and additional vacancy savings expected as a result of a hiring slowdown.

DOJ was directed to report to the Legislature in 2018 with options for providing more effective and cost-efficient legal and other services to state agencies and on how the agency bills for legal and other services. DOJ is also to submit a report if the compensation adjustment for attorneys exceeds the standard compensation adjustment for management service employees in the Executive Branch of state government.

## Administration

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 300,000 | -- | -- | 212,831 |
| Other Funds | 27,220,171 | 33,776,771 | 31,602,031 | 35,068,880 |
| **Total Funds** | **$27,520,171** | **$33,776,771** | **$31,602,031** | **$35,281,711** |
| Positions | 111 | 111 | 110 | 113 |
| FTE | 109.54 | 109.26 | 108.04 | 109.68 |

Program Description

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.

Revenue Sources and Relationships

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 2017-19 legislatively adopted budget of $35.3 million is $1.5 million (or 4.5%) more than the 2015-17 legislatively approved budget and includes 113 positions (109.68 FTE). The budget includes the following:

- $2.7 million Other Funds for a one-time increase to provide additional information technology resources allowing the agency to meet mandated state and federal data security requirements.
- $1.4 million Other Funds to complete and roll out the legal document management system to all internal applicable divisions. The project is expected to be completed by December 31, 2018.
- $271,830 and one permanent full-time Fiscal Analyst 2 position (0.88 FTE); upwardly reclassifies a Principal Executive Management F to a Principal Executive Manager G, a Fiscal Analyst 1 to a Fiscal Analyst 2, and an Accounting Technician 2 to a Fiscal Analyst 2.
- $248,111 Other Funds with elimination of one vacant permanent full-time Internal Auditor position (-1.00 FTE) and associated services and supplies.
- $212,813 General Fund and two limited duration positions (0.44 FTE Assistant Attorney General and 0.44 FTE Legal Secretary) for the Oregon Sunshine Committee to review public records requests.
- $200,000 Other Funds for a contract for external auditing services.
- $147,753 Other Funds and one permanent full-time Accounting Technician 2 position (0.88 FTE) to address an increase in workload and provide support for vendor payments and internal control.

### Appellate Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | 280,533 | 317,395 | 317,395 |
| Other Funds | 16,370,668 | 19,232,046 | 22,959,650 | 20,357,767 |
| **Total Funds** | **$16,370,668** | **$19,512,579** | **$23,277,045** | **$20,675,162** |
| Positions | 58 | 57 | 66 | 57 |
| FTE | 57.37 | 56.37 | 63.96 | 56.37 |

Program Description

The Appellate Division represents the state in all cases appealed to state and federal appellate courts in which the state is a party or has a significant interest. Attorneys in this Division spend most 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 2017-19 legislatively adopted budget of $20.7 million is $1.2 million (or 6%) more than the 2015-17 legislatively approved budget and includes 57 positions (56.37 FTE).

### Civil Enforcement Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 1,945,518 | 4,031,003 | 3,926,836 | 525,217 |
| Other Funds | 67,439,889 | 83,544,842 | 79,027,358 | 83,725,451 |
| Other Funds (NL) | 227,363 | 759,191 | 503,122 | -- |
| Federal Funds | 3,163,708 | 3,646,758 | 3,991,025 | 4,335,805 |
| **Total Funds** | **72,776,478** | **$91,981,794** | **$87,448,341** | **$88,586,473** |
| Positions | 198 | 206 | 206 | 247 |
| FTE | 196.37 | 203.04 | 204.79 | 240.61 |

Program Description
The Civil Enforcement Division represents the state in civil cases and 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. The unit also enforces laws related to charitable trusts, charitable solicitations, and nonprofit gaming.

Revenue Sources and Relationships

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. 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 if the Medicaid program and other victims are first made whole. Fees charged to charitable and non-profit organizations for registration, filing financial reports, and gaming activities provide funding for the Charitable Activities section.

Budget Environment

Oregon's Medicaid Fraud unit's work is based on 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. The Financial Fraud/Consumer Protection section anticipates a continued flow of consumer complaints, including that of Internet fraud. Consumer hotline calls totaled 98,242 for 2014 and 2015, and the written and electronically submitted complaints totaled just under 16,532 for the same period. Restitution to consumers between July 2011 and June 2013 totaled approximately $5 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 655, are also monitored, including screening applicants for licenses and insuring compliance with rules.

HB 3470, enacted by the Legislature, extended the sunset provision authorizing the Department of Human Services (DHS) to appear as a party in a juvenile court proceeding without appearance of an Attorney General from June 30, 2018 to June 30, 2020. However, the Legislature also provided supplemental funding for a three-phase, state-wide implementation schedule whereby DOJ's Child Advocacy Section will begin to fully represent DHS Child Welfare caseworkers in court.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $88.6 million is $3.4 million (or 3.7%) less than the 2015-17 legislatively approved budget and includes 247 positions (240.61 FTE). The budget includes the following:

- $7 million Other Funds expenditure limitation and 35 permanent full-time positions (30.80 FTE) for the Civil Enforcement Division - Child Advocacy Section to represent Child Welfare caseworkers in court and provide full access to legal representation, legal counsel, legal advice, litigation support, and training. The revenue to support this package is from the Department of Human Services.
- $3.2 million General Fund decrease in Master Tobacco Settlement Agreement (MSA) funding because DOJ no longer requires funding for defending the state's enforcement actions to the arbitration panel.
- $800,000 in excess or unneeded Other Funds expenditure limitation was eliminated.
- $503,122 was converted from Other Funds Nonlimited to Other Funds limited.
- $343,788 Other Funds (MSA settlement proceeds) and two permanent full-time Compliance Specialist 1 positions (2.00 FTE) for MSA enforcement activities.
- $189,058 Other Funds for a long-standing filled position, which had position authority but no corresponding Other Funds limitation.
- $455,613 Federal Funds and $152,344 Other Funds and three permanent full-time positions (2.64 FTE) for enhanced Medicaid fraud control.
- $123,932 Other Funds and one permanent part-time Assistant Attorney General position (0.38 FTE) for SB 243 and to train caseworkers and certifiers on the new legal standard of abuse and to advise the Department of Human Services on the preparation and adoption of administrative rules, as well as child protective services investigations, confidentiality laws, and release of records.

**Criminal Justice Division**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 9,037,997 | 11,680,876 | 12,800,075 | 12,942,324 |
| Other Funds | 9,915,982 | 13,495,495 | 13,179,048 | 14,083,633 |
| Federal Funds | 9,222,196 | 3,794,836 | 3,342,294 | 1,289,876 |
| **Total Funds** | **$28,176,175** | **$28,971,207** | **$29,321,417** | **$28,315,833** |
| Positions | 58 | 60 | 51 | 59 |
| FTE | 54.65 | 56.21 | 51.00 | 59.00 |

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: the Oregon Internet Crimes Against Children (ICAC) unit; the Cooperative Disabilities Investigation Unit (CDIU); the federal, state, and local High Intensity Drug Trafficking Areas (HIDTA) initiative; 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; the Western States Information Network (WSIN) for Oregon which shares intelligence information among five western states; and 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 criminal activities, 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 supports the DUII program, and funds from the Department of Human Services provide for the Cooperative Disability Investigations Unit. The fiduciary responsibilities of the High Intensity Drug Trafficking Area federal grant program transferred from DOJ to the Department of Public Safety Standards and Training (DPSST) during the 2015-17 biennium; however, DOJ's Criminal Justice Division retained the Investigative Support Center Initiative (ISC). As part of this action, the budget shifts ISC funds from Federal to Other Funds. The Other Funds revenue source is from DPSST. The Fusion Center is also supported with Federal as Other Funds grants from the Military Department, Office of Emergency Management, providing funding for State Homeland Security Grant and the Urban Area Security Initiative.

Federal funding includes federal asset forfeiture and federal grants to support the Internet Crimes Against Children (ICAC) program. In prior biennia, the Division received federal funding for the Marijuana Eradication Program as well as federal grant funds passing through the Oregon Military Department to support the TITAN Fusion Center.

Budget Environment

During the 2015-17 biennium, the Division investigated or prosecuted 25 cases of murder, attempted murder, and solicitation to commit murder. From July 2014 to June 2016, the Division prosecuted 238 cases and conducted 305 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 2,281 cybertips, investigated 383 cases, and performed 191 computer forensic examinations between July 2014 and June 2015.

The Criminal Intelligence Unit and the Oregon TITAN Fusion Center offered case assistance covering a range of criminal activities, including amber alerts, illegal narcotics, hate crimes, homicides, public corruption, and terrorism related crimes. The Fusion Center had 31 reports of suspicious activity, created 312 intelligence profiles, issued 1,903 intelligence publications, and conducted 31 threat assessments.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $28.3 million is $655,374 (or 2.3%) less than the 2015-17 legislatively approved budget and includes 59 positions (59.00 FTE). The budget includes the following:

- $2.8 million in excess or unneeded Federal Funds expenditure limitation was eliminated.
- $884,995 General Fund and three permanent full-time positions (3.00 FTE) to support the Fusion Centers ability to facilitate state information sharing, analysis, and training deemed essential to law enforcement and public safety organizations.
- $755,187 Federal Funds and two permanent full-time Criminal Investigator positions (2.00 FTE) to work with the Internet Crimes Against Children (ICAC) Task Force. The Federal Funds revenue comes from the Federal ICAC grant.
- $558,883 Other Funds and one permanent full-time (1.00 FTE) Senior Assistant Attorney General position for the DUII Resource Prosecution Program. ODOT notified DOJ that the federal funding for this program was being renewed.
- $401,772 Other Funds and one full-time limited duration (1.00 FTE) Senior Assistant Attorney General for a traffic safety resource prosecutor position. The source of this grant is the U.S. Department of Transportation, National Traffic Safety Administration.
- $288,007 Other Funds continues one full-time limited duration Research Analyst 3 position (1.00 FTE) in the Fusion Center for State Homeland Security Grant. The funding for this position comes from the Military Department, Office of Emergency Management.
- $278,608 Other Funds for the Urban Area Security Initiative and continues one full-time limited duration position (1.00 FTE). The funding for this position comes from the Military Department, Office of Emergency Management.
- $222,572 Other Funds excess or unneeded limitation was reduced, along with one vacant Principal Executive Manager B position (1.00 FTE).

## Crime Victims' Services Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 9,957,398 | 12,431,685 | 13,022,016 | 9,510,022 |
| Other Funds | 26,491,636 | 26,677,435 | 29,029,692 | 34,011,600 |
| Federal Funds | 18,349,779 | 33,109,574 | 17,832,695 | 34,419,609 |
| **Total Funds** | **$54,798,813** | **$72,218,694** | **$59,884,403** | **$77,941,231** |
| Positions | 43 | 37 | 34 | 38 |
| FTE | 35.99 | 34.63 | 32.56 | 36.19 |

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 state 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 to serve 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 Other Funds. Crime victim programs also receive some General Fund, as well as funding from punitive damages and restitution, and federal grant funds. These federal grants are derived from penalty assessments levied against offenders in federal courts. The General Fund also provides resources for the Address Confidentiality Program and the Domestic and Sexual Violence Program.

Budget Environment

For the 2013-15 biennium, the program received averaged 437 compensation claims per month and processed an average of 834 payments per month. Compensation payments for the 2013-15 biennium totaled $6.9 million, down from a recent high of $8.7 million during the 2011-13 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 2,000 pieces of mail a month to approximately 1,927 participants.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $77.9 million is $5.7 million (or 7.9%) more than the 2015-17 legislatively approved budget and includes 38 positions (36.19 FTE). The budget includes the following:

- $15.5 million Federal Funds and four permanent, full-time positions (3.63 FTE) for Victims of Crime Act (VOCA) assistance grant funds for victims of domestic violence and sexual assault programs. The VOCA awards are sub-granted out to non-profit and prosecutor-based victim service providers, as well as child abuse intervention centers. The positions are to assist with the administration of VOCA funds and include a Compliance Specialist to conduct audits and three Program Analyst 3 positions. The positions will be 100% federally funded with no state match required.
- $5.1 million one-time General Fund to Other Funds limitation fund shift. A recent Oregon Supreme Court case affirmed a $25 million lower court judgment against a major tobacco company for a plaintiff's smoking-related death. The state's portion, approximately $11 million, was paid to the state as punitive damages award and deposited into the Criminal Injuries Compensation Account and is used to fund crime victims' assistance programs.
- $1.2 million Federal Funds for Umpqua Community College (UCC) shooting incident.
- $1 million General Fund to support the Crime Victims' Services Division and services for victims of domestic and sexual violence.

- $500,000 one-time increase in General Fund to support Community Assessment Centers by providing child abuse medical assessments.
- $175,000 one-time General Fund to support the Oregon Crime Victims Law Center.
- Self-funded package for the upward reclassification of four existing positions, three of which are working out-of-class. The reclassification will move the positions into the higher classification, but at the same initial rate of pay. Punitive Damages (Other Funds) revenue collection will pay for the reclassifications.

## General Counsel Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 42,794,564 | 51,587,861 | 53,330,208 | 53,664,878 |
| **Total Funds** | **$42,794,564** | **$51,587,861** | **$53,330,208** | **$53,664,878** |
| Positions | 140 | 143 | 140 | 147 |
| FTE | 139.50 | 140.13 | 140.00 | 146.28 |

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 staff attorneys without DOJ approval.

Revenue Sources and Relationships

Funds to support the General Counsel Division come from billings to state agencies.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $53.7 million is $2.1 million (or 4%) more than the 2015-17 legislatively approved budget and includes 147 positions (146.28 FTE). The budget includes the following:

- $1.6 million Other Funds and six permanent full-time positions (5.28 FTE) to address caseload in the business, health, and natural resource activity sections where agencies are requesting DOJ services.
- $307,366 Other Funds and one full-time limited duration (1.00 FTE) Operations and Policy Analyst 3 for a Client Legal Training Manager to organize the biennial Public Law Conference and other client legal trainings, as well as provide expenditure limitation for the Public Law Conference.

## Trial Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 27,201,557 | 31,590,838 | 33,603,100 | 31,926,533 |
| **Total Funds** | **$27,201,557** | **$31,590,838** | **$33,603,100** | **$31,926,533** |
| Positions | 96 | 107 | 109 | 106 |
| FTE | 95.36 | 104.75 | 107.74 | 104.87 |

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. The State prevailed in 81% of cases, settled 15% of cases, and received an unfavorable result in 4% of 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 (CLS) 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 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.

The agency asserts there has been a substantial increase in the costs of litigation discovery and the need for discovery support 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 does not fully comply with its discovery obligations.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $31.9 million is $335,695 (or 1.1%) more than the 2015-17 legislatively approved budget and includes 106 positions (104.87 FTE).

### Defense of Criminal Convictions

| | **2013-15 Actual** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---|---|---|---|
| General Fund | 18,335,075 | 20,300,219 | 28,621,399 | 21,323,865 |
| **Total Funds** | **$18,335,075** | **$20,300,219** | **$28,621,399** | **$21,323,865** |

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: (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 counsel; or (3) federal *habeas corpus* where the offender challenges violations of constitutional rights in the federal courts. Personnel and resources connected to this work are part of the Trial and Appellate Divisions which bill this unit for work on individual cases.

Budget Environment

Several 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 largely due to the number of offenders in the 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, it 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 have been met by DOJ and PDSC.
- 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 to the federal courts.
- The attorneys of the Appellate and Trial Divisions charge the DCC program for their work 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.
- When the U.S. Supreme Court issues significant rulings in the area of criminal law, there may be hundreds of state criminal convictions affected. Significant rulings may require new appeals or new trials.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $21.3 million is $1 million (or 5%) more than the 2015-17 legislatively approved budget.

### Child Support Division

| | 2013-15 Actual* | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 23,761,336 | 24,944,831 | 26,686,616 | 27,291,151 |
| Other Funds | 28,741,727 | 28,959,597 | 29,159,679 | 31,566,706 |
| Other Funds (NL) | 3,241,797 | 4,410,821 | 4,574,021 | -- |
| Federal Funds | 79,412,323 | 88,745,784 | 93,407,763 | 106,822,539 |
| Federal Funds (NL) | 15,170,224 | 15,740,252 | 16,322,641 | -- |
| **Total Funds** | **$150,327,407** | **$162,801,285** | **$170,150,720** | **$165,680,396** |
| Positions | 575 | 576 | 575 | 575 |
| FTE | 572.44 | 573.44 | 571.61 | 571.61 |

*2013-15 actuals include expenditures for the Child Support Enforcement Automated System project.

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, Josephine, 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 cover 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. A portion of 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. A portion of Other Funds are incentive funds received from the federal program.

Budget Environment
The Program serves roughly 204,000 families per year. 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, $5.48 in 2013, $5.41 in 2013, $5.18 in 2014, and an estimated $4.27 in 2015. The average number of cases handled per FTE during federal fiscal year 2009 was 306 cases, 327 cases in 2011, 353 cases in 2013, and 286 cases in 2015.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $165.7 million is $2.9 million (or 1.8%) more than the 2015-17 legislatively approved budget and includes 575 positions (571.61 FTE). The budget includes the following:

- $4.6 million Other Funds increase, $4.6 million Other Funds Nonlimited decrease, $16.3 million Federal Funds increase, and $16.3 million Federal Funds Nonlimited decease to convert Nonlimited expenditures to limited expenditures.
- $4.1 million total funds; $1.4 million General Fund; $2,.7 million Federal Funds limitation and restores 22 permanent positions (22.00 FTE). This is a one-time revenue shortfall restoration due to a decline in the amount of Temporary Assistance for Needy Families recoveries assignable to the state and collectible as Oregon Child Support Program revenue.

### Child Support Enforcement Automated System

| | **2013-15 Actual*** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---|---|---|---|
| Other Funds | -- | 20,101,109 | -- | 16,573,792 |
| Federal Funds | -- | 39,007,901 | -- | 32,163,210 |
| **Total Funds** | **--** | **$59,109,010** | **--** | **$48,710,002** |
| Positions | -- | 32 | -- | 32 |
| FTE | -- | 22.44 | -- | 23.81 |

*2013-15 actuals reported under Division of Child Support.

Program Description
This program segregates the Child Support Enforcement Automated System (CSEAS) project from the agency's operating budget. Since 2010, the Division of Child Support (CSD) has been working with federal oversight on a multi-year, federally prescribed process to replace its 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 Child Support System (pending legislative approval of the proposed project). Long term, the new system will allow the CSD to remain in compliance with federal requirements, compete for federal incentives, and keep up with increasing caseload demands. However, there is no federal mandate directing that a new system be put in place.

Revenue Sources and Relationships
Federal Funds provide 66% of eligible program costs under Title IV-D of the federal Social Security Act. Article XI-Q bonds provide state matching funds.

Budget Environment
The current CSEAS was originally designed and implemented in the 1980s. 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 the CSEAS System one of the oldest child support enforcement systems in the country. The CSD, through 700+ state and county staff, serves more than 227,000 families and their child support cases, and collects over $350 million in child support a year, passing most of the collections directly to families.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $48.7 million is $10.4 million (or 17.6%) less than the 2015-17 legislatively approved budget and includes 32 positions (23.81 FTE).

- $16.6 million Other Funds for project costs, which is to be financed with $16,267,633 of Article XI-Q bonds approved in SB 5505 and $306,159 in bond proceeds that were authorized and issued during the 2015-17 biennium but remained unexpended.
- $32.1 million in Federal Funds expenditure limitation.

## Debt Service and Related Costs

| | 2013-15 Actual* | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | 4,820,979 | 9,294,608 | 12,530,237 |
| Other Funds | -- | 328,570 | -- | 317,367 |
| **Total Funds** | **--** | **$5,149,549** | **$9,294,608** | **$12,847,604** |

*2013-15 actuals reported under Division of Child Support.

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 2017-19 legislatively adopted budget of $12.9 million is $7.7 million (or 149.5%) more than the 2015-17 legislatively approved budget. The General Fund budget is comprised of Debt Service payments for previously issued Article XI-Q bonds and new bonding authority approved in 2017, as follows:

- $3.4 million in additional General Fund Debt Service to support repayment of Article XI-Q General Obligation bond proceeds.
- $317,367 Other Funds for the cost of issuance of the bonds.

# MILITARY DEPARTMENT

Analyst: Neburka

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 21,821,936 | 25,558,014 | 26,930,695 | 25,608,114 |
| Other Funds | 102,454,814 | 125,943,093 | 101,022,153 | 120,386,657 |
| Other Funds (NL) | 75,953 | 60,624 | -- | -- |
| Federal Funds | 151,411,508 | 284,615,518 | 261,708,475 | 271,814,624 |
| **Total Funds** | **$275,764,211** | **$436,177,249** | **$389,661,323** | **$417,809,395** |
| Positions | 530 | 451 | 429 | 477 |
| FTE | 478.55 | 408.01 | 386.88 | 426.82 |

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, and 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. The Adjutant General also serves as the Governor's homeland security advisor and chief of staff of the 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 of facilities, and for Homeland Security.

The Department operates two National Guard Bureau-funded educational programs: the Youth Challenge program and the Science and Technology Academy Reinforcing Basic Aviation and Space Exploration (STARBASE) program. Youth Challenge provides students at risk of dropping out of high school an opportunity to complete educational credits for graduation or to take the General Education Development (GED) examination. The STARBASE program increases third through eighth grade students' awareness of the importance of math and science through learning about flight operations, weather reporting and forecasting, and electronics maintenance at Oregon's two military air bases.

Revenue Sources and Relationships

The Department's state budget receives nearly two-thirds of its funding ($271.8 million in 2017-19) from the federal government. These funds are used to finance each of the Department's four major program areas and are based on federal/state cooperative agreements and federal grants. Also included are Federal Funds for major construction projects.

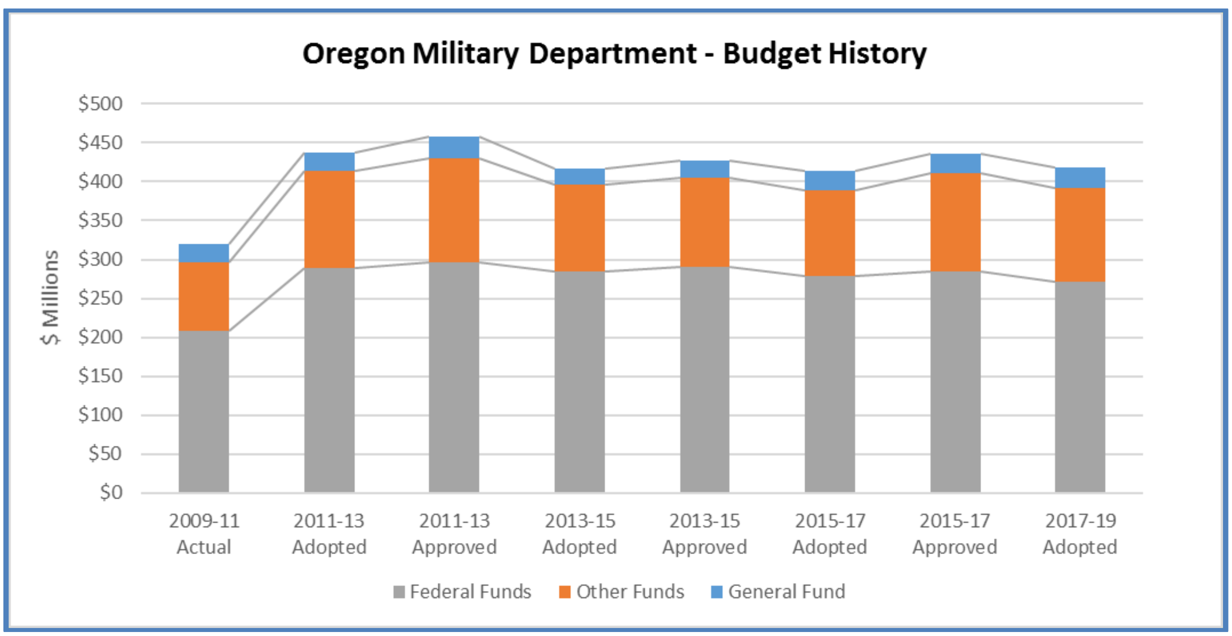
Outside of the state budget, the Department receives direct federal support ($677.2 million in 2017-19) through the National Guard Bureau for funding federal employees (2,011 FTE), guard member salaries and wages, and equipment.

The level of federal support in the state budget varies by program, type of facility, and type of construction project. For example, troop training sites are entirely supported by Federal Funds, as are base security and the STARBASE program. Approximately 75% of the costs associated with logistical sites and between 75% and 85% of utility, maintenance, and supply expenditures of the Air National Guard are federally funded. Oregon Youth Challenge Program costs are covered by federal funding at the 75% level. Federal Funds converted to Other Funds provide most of the support for the Department's administrative costs. OEM receives Federal Funds for emergency management, disaster recovery, and homeland security.

The federal and state expenditures for the National Guard in Oregon total over $1 billion over the course of a biennium. General Fund supports wages and salaries of state employees, debt service, and state matching funds for various federal/state agreements.

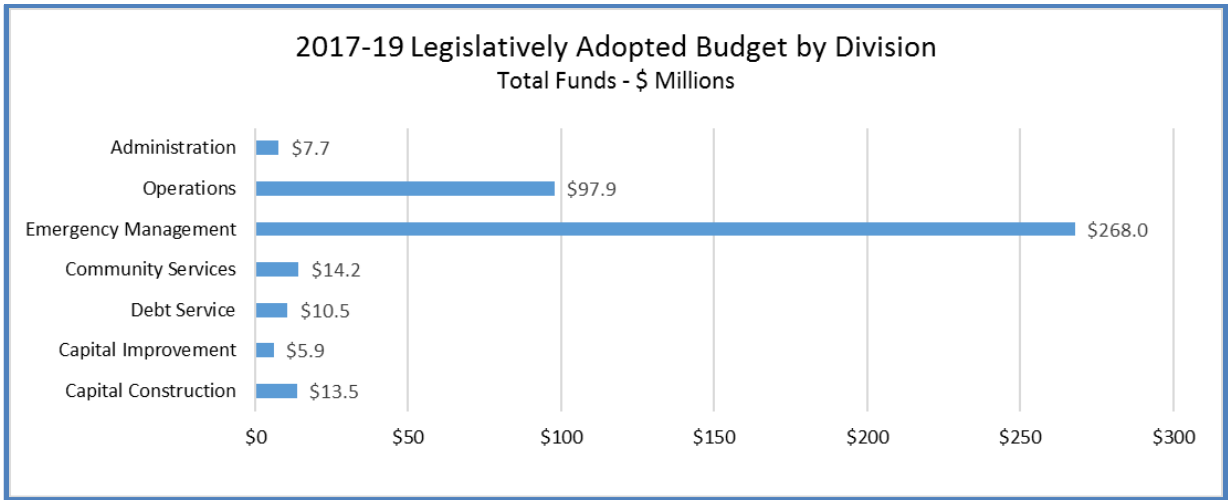
Other Funds revenue received by the Department totals $111 million. Approximately $84.1 million is related to 9-1-1 emergency telecommunications surcharge revenues. The Department also generates facility rental fees and miscellaneous sales revenue. Rental revenues earned from federally supported facilities are required by the federal government to be used in support of the facility that earned it. The Department's facility rental revenue is estimated to be approximately $3 million in 2017-19. Miscellaneous sales revenues are derived from vending machine profit, coin operated telephones, and recycling programs. Other Funds revenue includes approximately $27,000 in Oregon individual income 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 $2.1 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 2009-11 through the 2017-19 legislatively adopted budget.




Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $417.8 million is 4.2% less than the 2015-17 legislatively approved budget and includes 477 positions (426.82 FTE). The General Fund portion of the budget totals $25.6 million and is 0.1% less than the 2015-17 legislatively approved budget. Other Funds expenditure limitation is 4.3% less than the 2015-17 legislatively approved budget, and Federal Funds limitation is 4.5% lower. The following display shows the 2017-19 adopted budget by agency division.



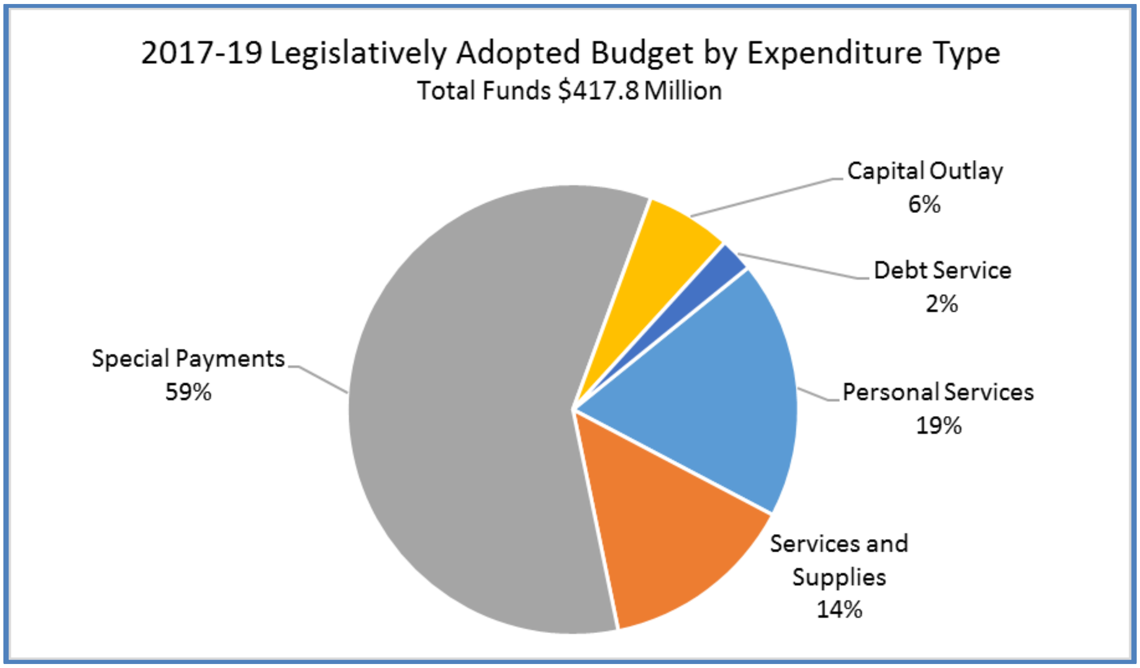

Significant changes to this budget include:

- A revenue reduction package of $500,000, to bring Other Funds expenditure limitation for armory operations and maintenance in line with estimated armory rental revenues. Armory rental revenues have fallen since early 2015, when twelve of the Military Department's 38 armories were closed to rentals following the discovery of lead contamination in and around indoor firing ranges used by National Guard soldiers. Remediation activities are expected to continue through 2017-19.
- $7.4 million Federal Funds and 21 permanent full-time positions (21.00 FTE) to operate a 7,500-acre National Guard training site on the former Umatilla Chemical Depot. Transfer of the property from the U.S. Army to the Oregon Military Department will be finalized in the second quarter of the 2017-19 biennium.
- $224,000 General Fund and $896,000 Federal Funds expenditure limitation to pay an annual storm water fee assessed by the City of Portland at the Portland Air National Guard Base.
- A reduction of $1.5 million General Fund from the fire protection programs operated at the two Air National Guard bases in Oregon. The National Guard Bureau has determined that fire protection programs at such bases are 100% federally funded.
- $181,178 General Fund, $181,178 Federal Funds, $5.1 million Other Funds, and two positions (2.00 FTE) for the Resiliency Grant Program created in HB 2687. The Resiliency grant fund will be capitalized with $5 million of Article XI-Q bond funds, authorized in SB 5505.
- An increase of $256,000 Other Funds and $518,000 Federal Funds for the Youth Challenge program, following updated revenue estimates from the National Guard Bureau.
- An additional increase of $477,113 Other Funds, $600,322 Federal Funds, and 13 positions (4.94 FTE) for the Youth Challenge program to accommodate additional cadets expected in January, 2019.
- An increase of $726,331 Federal Funds and the conversion of twelve limited duration positions to permanent full-time positions in the STARBASE program.
- Bond funding for the following projects:
  - Grants Pass Armory Service Life Extension: $3,270,356 Other Funds (Article XI-Q Bonds) was approved for a service life extension project to renovate the facility.
  - Regional Armory Emergency Enhancement Project: $8,534,400 Other Funds (Article XI-Q Bonds) was approved for making structural improvements to bring the following three facilities to essential facility standards for seismic events: Coos Bay Armory, Newport Armory, and the Anderson Readiness Center in Salem.
  - Future Readiness Center Sites: $1,730,000 Other Funds (Capital Construction Account) was approved for the purchase of two parcels of land necessary to construct two new Readiness Centers as replacements for the Hillsboro and Redmond Armories.
- The Legislature provided $1 million General Fund for construction or repair of the military museum at Camp Withycombe in Clackamas.
- A net agency-wide reduction of $2.3 million total funds for statewide adjustments to personnel and services and supplies expenditures, and to state government service charges and Attorney General rates.

These and other budget changes are described further in the individual divisions' sections.

The Department's budget is composed of $77.5 million personal services, $58.7 million services and supplies, $25.6 million capital outlay, $245.9 million special payments, and $10.1 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 2017-19 legislatively adopted budget by expenditure type.




## Administration

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 4,328,682 | 4,068,297 | 5,277,981 | 5,354,977 |
| Other Funds | 1,857,884 | 2,181,614 | 2,410,428 | 2,364,950 |
| **Total Funds** | **$6,186,566** | **$6,249,911** | **$7,688,409** | **$7,719,927** |
| Positions | 26 | 24 | 25 | 25 |
| FTE | 24.88 | 22.88 | 23.88 | 23.88 |

Program Description

The Administration program consists of the office of the Adjutant General, the Command Group, Financial Administration, Personnel, and Public Affairs. The program supports almost 2,500 state and federal Oregon Military Department and Oregon National Guard employees, commands over 8,100 soldiers and air personnel, and provides oversight for more than $4 billion worth of facilities and equipment. Additionally, this program administers the Emergency Financial Assistance Program, which provides hardship grants and loans to National Guard members and their families. This program is funded with charitable check-off revenues from Oregon person income tax returns and occasional General Fund appropriations from the Legislature. Since its inception in the 2005-07 biennium, the fund has provided financial assistance to more than 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 $27,000 in Oregon individual tax check-off deduction revenue associated with the Emergency Financial Assistance Program.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $7.7 million is 23.5% greater than the 2015-17 legislatively approved budget and includes 25 positions (23.88 FTE). The considerable increase is due to price list adjustments of $1.2 million, which cover State Government Service Charge and Attorney General charge increases agency-wide.

**Operations**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 7,163,378 | 9,416,881 | 8,613,376 | 6,901,560 |
| Other Funds | 4,302,460 | 4,892,841 | 4,985,935 | 4,413,963 |
| Federal Funds | 78,228,668 | 83,998,181 | 79,532,712 | 86,560,079 |
| **Total Funds** | **$89,694,506** | **$98,307,903** | **$93,132,023** | **$97,875,602** |
| Positions | 407 | 339 | 316 | 337 |
| FTE | 363.80 | 296.51 | 274.38 | 295.38 |

Program Description
The Operations program supports Oregon National Guard facilities operations and maintenance. There are fourteen programs within Operations, including the Army National Guard Facilities Operations and Maintenance, Construction Operations, Environmental, Electronic Security, and Wildland Fire Management programs; and the Air National Guard Administration, Civil Engineering, Security, Fire Protection, Environmental, Distributed Learning, and Counterdrug programs. These programs and their component sub-programs are almost entirely federally funded, some with state matching requirements from 10-25%, depending on the program.

Revenue Sources and Relationships
The program is funded primarily with Federal Funds. General Fund provides state matching payments for those programs with cooperative agreements requiring matching funds. The source of the Other Funds is primarily facility rental fees (approximately $3 million), but includes some Federal as Other Funds. Federal Funds are received through Federal/State Cooperative agreements to support the programs for which they are received.

Budget Environment
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 38 armories.

Major Oregon National Guard facilities include:
- 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 the 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 28.9% of its facilities are in compliance with National Guard Bureau/Department of Army standards and are in the best condition, 5.3% do not fully meet standards, and the remaining 65.8% are substandard and/or in very poor condition. Facility compliance with these standards has declined in recent biennia as resources have not been available for repairs, maintenance, and improvements. Twelve of the Department's 38 armories were closed in 2015 to remediate lead contamination from indoor firing ranges. Two armories have been remediated, remodeled, and reopened for public and National Guard use, and ten remain to be completed in 2017-19.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $97.9 million is 0.4% less than the 2015-17 legislatively approved budget and includes 337 positions (295.38 FTE).

The legislatively adopted budget includes the following changes:

- A revenue reduction package of $500,000, to bring Other Funds expenditure limitation for armory operations and maintenance in line with estimated armory rental revenues. Armory rental revenues have fallen since early 2015, when twelve of the Military Department's 38 armories were closed to rentals following the discovery of lead contamination in and around indoor firing ranges used by National Guard soldiers. Remediation activities are expected to continue throughout 2017-19.
- $7.4 million Federal Funds and 21 permanent full-time positions (21.00 FTE) to operate a 7,500-acre National Guard training site on the former Umatilla Chemical Depot.
- $224,000 General Fund and $896,000 Federal Funds to pay an annual storm water fee assessed by the City of Portland at the Portland Air National Guard Base.
- A reduction of $1.5 million General Fund from the fire protection programs operated at the two Air National Guard bases in Oregon. The National Guard Bureau has determined that fire protection programs at air national guard bases are 100% federally funded.
- A reduction of $1.8 million total funds for statewide adjustments to personnel and services and supplies expenditures, and to state government service charges and Attorney General rates.

**Oregon Emergency Management**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 1,848,191 | 2,013,808 | 2,033,450 | 2,156,544 |
| Other Funds | 82,370,859 | 89,295,918 | 91,226,589 | 96,511,997 |
| Federal Funds | 56,358,897 | 162,077,091 | 168,157,586 | 169,347,449 |
| **Total Funds** | **$140,577,947** | **$253,386,817** | **$261,417,625** | **$268,015,990** |
| Positions | 45 | 42 | 42 | 44 |
| FTE | 43.41 | 42.62 | 42.62 | 44.62 |

Program Description

The 2007 Legislature (HB 2370) expanded the Department's statutory mission to include the responsibility for state emergency management. The Office of Emergency Management (OEM) coordinates statewide emergency services and maintains emergency communications systems used for public warnings, emergency notifications, and emergency support. OEM also provides cities, counties, and tribes throughout Oregon with planning, training, exercise and technical assistance for disaster preparedness, emergency response, recovery services, and hazard mitigation.

In addition to OEM Administration, the program has three primary responsibilities:

- Executing planning, training, and exercise programs to raise awareness and preparedness for all hazard incidents. This section is responsible for Homeland Security grant programs, Emergency Operations Plans, the Geological Hazard Program, the National Incident Management System, and the State Emergency Coordination Center.

- Operating the statewide Enhanced 9-1-1 system, including managing the network that delivers 9-1-1 emergency calls to Oregon's 43 Public Safety Answering Points throughout the state. This section also oversees the state Search and Rescue program and the Oregon Emergency Response System.
- Coordinating the development, planning, and adoption of local community hazard mitigation plans.

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 emergency management programs. Some of the funds require a 50% 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 were taxed at $0.75 per month, per customer until October 1, 2015, when the tax changed to $0.75 per retail transaction.

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 911 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.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $268 million is 5.8% higher than the 2015-17 legislatively approved budget and includes 44 positions (44.62 FTE). This budget includes the following changes:
- $200,000 Other Funds expenditure limitation for a special payment to the Department of Public Safety Standards and Training for two additional telecommunicators training classes in 2017-19.
- $1 million Federal Funds expenditure limitation to pass FEMA Pre-Disaster Mitigation and Hazard Mitigation grant funds through to the Department of Land Conservation and Development.
- $181,178 General Fund, $181,178 Federal Funds, $5.1 million Other Funds expenditure limitation, and two positions (2.00 FTE) for the Resiliency Grant Program created in HB 2687. The Resiliency grant fund will be capitalized with $5 million of Article XI-Q bond funds, authorized in SB 5505.
- A net reduction of $118,000 total funds for statewide adjustments to personnel and services and supplies expenditures, and to state government service charges and Attorney General rates.

**Community Support**

| | **2013-15 Actual** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---|---|---|---|
| General Fund | 206,062 | 197,383 | 205,448 | 197,358 |
| Other Funds | 4,328,920 | 4,893,349 | 2,296,660 | 3,010,201 |
| Federal Funds | 8,085,920 | 9,480,396 | 9,071,605 | 10,960,535 |
| **Total Funds** | **$12,620,902** | **$14,571,128** | **$11,573,713** | **$14,168,094** |
| Positions | 52 | 46 | 46 | 71 |
| FTE | 46.46 | 46.00 | 46.00 | 62.94 |

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 accredited statewide alternative high school and its only public military school for at-risk students. It offers high school-aged youth, at risk of dropping out of school, 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. OYCP graduates approximately 250 students per year.
- Science and Technology Academy Reinforcing Basic Aviation and Space Exploration (STARBASE) – STARBASE is designed to increase third through eighth grade students' awareness of the importance of math and science. National Guard members demonstrate the applicability of math and science to flight operations, weather reporting and forecasting, electronics maintenance, and firefighting facilities. The STARBASE program operates at the Portland Air National Guard air base and at Kingsley Field air base in Klamath Falls.
- Emergency Operations – In the event of a state emergency, the Governor can call upon the National Guard to provide personnel and equipment to help with the state's response. For example, in August 2017, the Governor ordered 946 soldiers and air personnel to assist the Oregon Department of Forestry and the State Fire Marshal's Office with wildland fire suppression efforts. The Office of Emergency Management is the coordinating entity for Department resources used for statewide emergencies.

The Emergency Operations budget structure is a "placeholder," used only in the event of reimbursable emergency operations having taken place. The Department's legislatively adopted budget does not include funding for Emergency Operation expenses, as they are difficult to predict. Therefore, the Department has, historically, requested expenditure limitation increases for amounts it is unable to absorb within its normal operating budget, as well as General Fund reimbursement of expenditures. Revenues for Emergency Operations come as Other Funds from state agencies the National Guard is supporting, most commonly the Department of Forestry.

Revenue Sources and Relationships

The program is funded almost entirely with Other Funds and Federal Funds. The STARBASE program is 100% federally funded through the National Guard Bureau. The Oregon Youth Challenge program is federally funded, with the required 25% state match funded through Average Daily Membership (ADM) revenues through the Bend-La Pine School District. A small amount of General Fund is available for budgeted expenditures not covered by Federal or Other Funds.

Budget Environment

In 2015, the Legislature approved $5 million of Article XI-Q bond funding to enlarge the OYCP facility to house 24 additional female cadets and 60 additional male cadets per 22-week residential class. Construction and program expansion is occurring in phases, with the additional female cadets first expected in the class starting in January, 2019, and the additional male cadets in the class starting in January, 2020.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $14.2 million is 2.8% less than the 2015-17 legislatively approved budget and includes 71 positions (62.94 FTE). The reduction is due to phasing out one-time Emergency Operations Other Funds expenditure limitation approved in February, 2016, for the cost of National Guard troops and flight crews deployed to fight wildfires in 2015.

The legislatively adopted budget incorporates the following changes:

- An increase of $256,000 Other Funds and $518,000 Federal Funds for the Youth Challenge program, following updated revenue estimates from the National Guard Bureau.
- An increase of $477,113 Other Funds, $600,322 Federal Funds, and 13 positions (4.94 FTE) for the Youth Challenge program, to accommodate additional cadets expected in January, 2019.

- An increase of $726,331 Federal Funds and the conversion of twelve limited duration positions to permanent full-time positions in the STARBASE program.
- A net increase of $16,615 total funds for statewide adjustments to personnel and services and supplies expenditures, and to state government service charges and Attorney General rates.

### Debt Service

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 8,275,623 | 9,611,645 | 10,800,440 | 9,997,675 |
| Other Funds | 114,591 | 445,750 | 102,541 | 550,790 |
| Other Funds (NL) | 75,953 | 60,624 | -- | -- |
| **Total Funds** | **$8,466,167** | **$10,118,019** | **$10,902,981** | **$10,548,465** |

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 relies on bond proceeds 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 debt service is funded primarily with General Fund.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $10.5 million is 4.5% more than the 2015-17 legislatively approved budget. General Fund for debt service is reduced by $802,765 as a result of both revised debt service estimates for new debt and reduced debt service requirements after refunding existing bonds. Other Funds expenditure limitation in the amount of $448,249 is added for the cost of issuance required for bonds to be issued in 2017-19.

### Capital Improvements

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | 250,000 | -- | 1,000,000 |
| Other Funds | 385,000 | 194,377 | -- | -- |
| Federal Funds | 1,866,025 | 4,770,599 | 4,946,572 | 4,946,561 |
| **Total Funds** | **$2,251,025** | **$5,214,976** | **$4,946,572** | **$5,946,561** |

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. The Department's capital improvement projects are overseen and coordinated by agency construction staff budgeted in the Operations Program.

The Capital Improvement Program's primary purpose is to address the Department's backlog of deferred maintenance projects, currently estimated at approximately $134 million on 3.4 million square feet of facility space. Capital improvement expenditures delay, where possible, facility replacement. This is important for certain installations, especially armories, where the replacement schedule is dependent upon the National Guard Bureau's Long-Range Construction Plan and Congressional funding of that plan.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $5.9 million is 14% higher than the 2015-17 legislatively approved budget. Changes to the budget include an additional $1 million General Fund (one-time only) for construction or repair of the military museum at Camp Withycombe in Clackamas.

## Capital Construction

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 9,095,100 | 24,039,244 | -- | 13,534,756 |
| Federal Funds | 6,871,998 | 24,289,251 | -- | -- |
| **Total Funds** | **$15,967,098** | **$48,328,495** | **--** | **$13,534,756** |

Program Description
The Capital Construction program plans, designs, and constructs facilities projects with a cost of more than $1 million. Since 1986, the Department has undertaken 47 major construction projects totaling over $318 million with a federal/state funding ratio of 7:1. The Department currently has 18 projects identified in the National Guard Bureau's Long-Range Construction Plan, which will bring additional federal construction dollars into the state through 2040.

Revenue Sources and Relationships
Typically, Federal Funds provide the majority of construction funding. In general, Other Funds and General Fund are used only for required matching funds for projects. State funds also 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.

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. The Capital Construction Account generally has an insufficient balance to meet matching fund requirements on major construction projects.

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.

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 agency and the influence federal funding has over its budget. It also underscores the need for OMD to frequently communicate short- and long-term Capital Construction priorities to the Legislature.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $13.5 million is 72% less than the 2015-17 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:

- Grants Pass Armory Service Life Extension: $3,270,356 Other Funds (Article XI-Q Bonds) was approved for a service life extension project to renovate the facility. The project is for design and construction of additions and alterations to the Grants Pass Armory to bring the building into conformance with current building code. The project will upgrade mechanical, electrical, and plumbing systems; remodel the existing classrooms, administrative space, latrines and showers, equipment storage areas, kitchen, and assembly hall areas; replace failed paving areas; and replace existing site lighting, landscaping, and fencing.
- Regional Armory Emergency Enhancement Project: $8,534,400 Other Funds (Article XI-Q Bonds) was approved for making structural improvements to bring the following three facilities to essential facility standards for seismic events: Coos Bay Armory, Newport Armory, and the Anderson Readiness Center in Salem. The project includes seismic structural upgrades, backup power and water systems, and emergency equipment and fuel storage for the three facilities.
- Future Readiness Center Sites: $1,730,000 Other Funds (Capital Construction Account) was approved for the purchase of two parcels of land necessary to construct two new Readiness Centers as replacements for the Hillsboro and Redmond Armories. One property is located in Washington County and the other is located in Deschutes County.

The Legislature approved the extension of the project expiration date and expenditure limitation for The Dalles Readiness Center (Other Funds) to June 30, 2018 and The Dalles Readiness Center (Federal Funds) to June 30, 2018; and approved the proposal from the Oregon Military Department, as required by ORS 396.515 (4), for the sale of the Burns Armory and 40 acres of land in La Grande.

## BOARD OF PAROLE AND POST-PRISON SUPERVISION

Analyst: Walker

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 4,452,256 | 8,044,741 | 8,691,974 | 9,209,630 |
| Other Funds | 835 | 10,852 | 11,254 | 11,254 |
| **Total Funds** | **$4,453,091** | **$8,055,593** | **$9,22,884** | **$9,220,884** |
| Positions | 16 | 28 | 28 | 28 |
| FTE | 15.66 | 26.00 | 28.00 | 28.00 |

Overview
The five 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
SB 767 (2017) extended the deadline for completion of Static 99R reviews four years to 2023 and makes certain provisions applicable to offenders reporting to the system prior to January 1, 2014, clarifies that offenders reporting before January 1, 2014 can petition for reclassification to a lower level, and allows the Board to classify offenders that refuse to cooperate with the Board as level three. 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 99R" 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 added 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 2017-19 legislatively adopted budget for the Board of $9.2 million total funds is a 14.5% increase from the 2015-17 legislatively approved level. The budget includes an increase of $517,656 General Fund and continuation of three limited duration positions (3.00 FTE) to conduct Static 99R assessments. The Board was directed to report back to the Legislature during the 2018 session on strategies for reducing the backlog and cost of the Static 99R assessments.

## DEPARTMENT OF STATE POLICE

Analyst: Neburka

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 240,373,065 | 282,360,406 | 302,306,358 | 269,292,257 |
| Lottery Funds | 6,734,971 | 8,018,000 | 8,320,015 | 8,069,250 |
| Other Funds | 91,342,128 | 110,242,484 | 100,425,032 | 136,707,491 |
| Federal Funds | 5,456,068 | 9,781,945 | 10,198,867 | 12,249,830 |
| **Total Funds** | **$343,906,232** | **$410,402,835** | **$421,250,272** | **$426,318,828** |
| Positions | 1,279 | 1,311 | 1,311 | 1,345 |
| FTE | 1,263.63 | 1,267.87 | 1,289.62 | 1,321.62 |

Overview

The Department of State Police (OSP) protects the people, property, and natural resources of the state. The agency enforces traffic laws on state highways, investigates and solves crimes, conducts forensic analysis and post-mortem investigations, and provides background checks and law enforcement data. Key programs include patrol, criminal investigations, fish and wildlife law enforcement, and enforcement of tribal gaming laws and the Lottery. OSP is the only provider of certain specialized public safety and criminal justice system services in Oregon, including forensic lab services, the State Medical Examiner, criminal justice information systems, and the State Fire Marshal.

Legislatively Adopted Budget

The legislatively adopted total funds budget for OSP is $426.3 million, with $269.3 million General Fund, $136.7 million Other Funds, $8.1 million Lottery Funds, and $12.2 million Federal Funds. The budget includes 1,345 positions (1,321.62 FTE). The total funds budget is 3.9% higher than the legislatively approved 2015-17 budget. General Fund decreased by 4.6%, in large part due to a fund shift of $23 million from General Fund to Other Funds (marijuana tax revenues).

Other General Fund changes include:

- A fund shift of $1.6 million of General Fund to Other Funds – fee revenues in the Identification Services section.
- A fund shift of $126,000 of General Fund to Other Funds – Emergency Communications tax revenues in the Oregon Emergency Response section.
- A reduction of $1 million General Fund across all divisions, to remove funding for relocation of the Springfield patrol office and forensics laboratory. No relocations are planned for 2017-19.
- An addition of $6.2 million General Fund and twenty positions to increase sworn patrol and drug enforcement staffing statewide.
- An increase of $780,000 General Fund and $750,000 Other Funds expenditure limitation to implement HB 2355.

Other marijuana tax-funded changes include:

- $1 million to move the Pendleton forensics lab into more suitable quarters.
- $2 million to purchase 33 additional patrol vehicles.

Additionally, Other Funds budgets are increased by:

- $3.6 million to continue the LEDS 20/20 criminal history repository database replacement project (formerly known as the CrimeVue project).

- $2.5 million and seven positions in the Capitol Mall Security unit, supported by a revenue transfer from the Legislative Administration Committee.
- $504,000 of OSU contract payments to provide two additional troopers to Oregon State University.
- $100,000 of Oregon Department of Fish and Wildlife contract payments to pay for overtime coverage by Fish and Wildlife troopers.
- $568,000 of fee revenues to establish two positions to perform National Fire Protection Association plan reviews and site visits to health care facilities during construction or remodeling projects.

A budget-neutral reclassification of $508,000 total funds rent expense to principal and interest payments and facilities maintenance expense affects all divisions. This change was required when the Department of Administrative Services transferred ownership of the Central Point patrol facility to OSP.

An additional $11.8 million total funds in statewide reductions was taken across all divisions to implement a statewide hiring slowdown, reductions in services and supplies accounts, reductions to state government service charges, and adjustments to debt service requirements. These and other budget issues are discussed in more detail in subsequent sections.

**Patrol Services**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 118,351,993 | 133,576,348 | 148,722,130 | 145,415,680 |
| Other Funds | 10,295,763 | 14,494,793 | 13,554,110 | 18,234,861 |
| Federal Funds | 115,211 | 212,395 | 393,654 | 383,263 |
| **Total Funds** | **$128,762,967** | **$148,283,536** | **$162,669,894** | **$164,033,804** |
| Positions | 502 | 520 | 520 | 541 |
| FTE | 493.00 | 500.50 | 510.25 | 530.17 |

Program Description

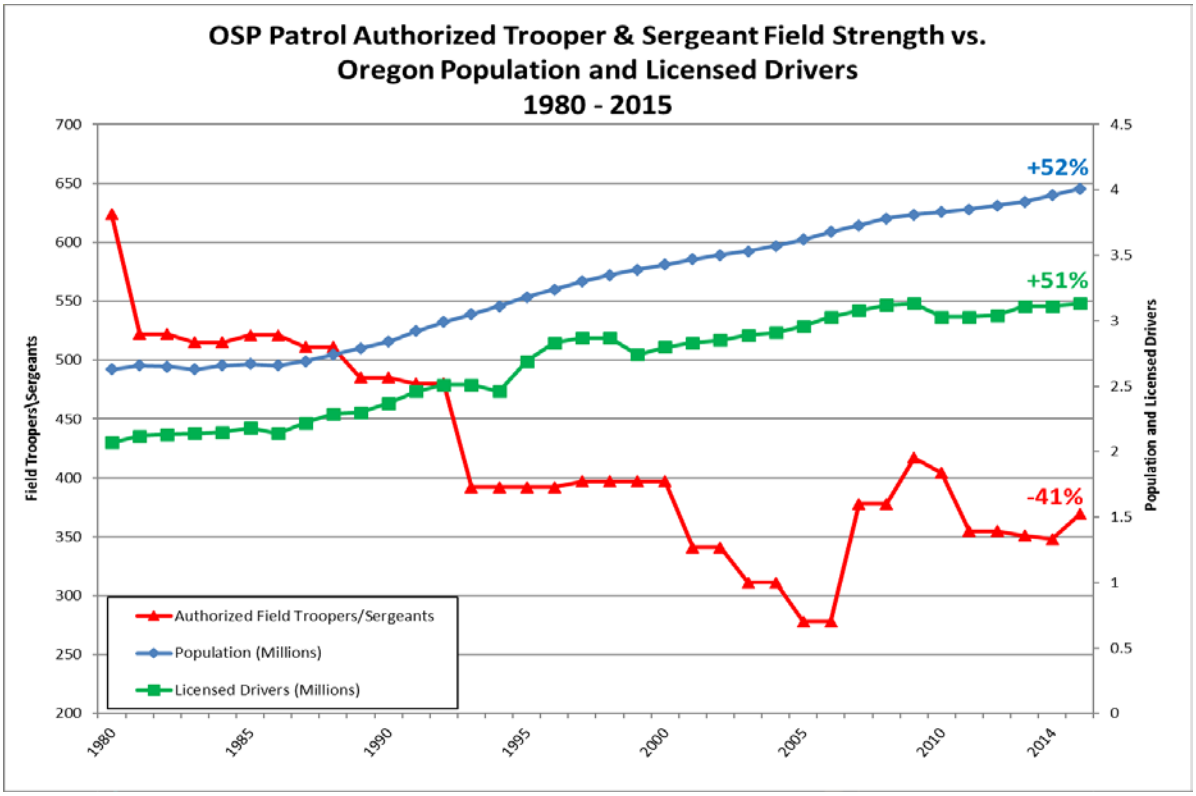
The Patrol Services Division provides uniformed police presence and law enforcement services throughout the state with primary responsibility for traffic safety and response to emergency calls on Oregon's state highways and interstates. This Division includes the field command and support staff as well 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. The Division also works 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

The majority (89%) of the Patrol Division budget is funded by the General Fund. Other Funds revenues of $3.9 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 revenue received from the following entities: Oregon State University campus security ($4.3 million, which includes the 2017-19 addition of $504,000 for two trooper positions), the Parks and Recreation Department ($300,000), and the State Fair ($167,000). Also included in the Other Funds for this Division is the Capitol Mall Security unit ($8.5 million, which includes the 2017-19 addition of $2.5 million and seven trooper positions). This unit 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 49th 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, 62% of the 12,162 calls for service the Patrol Division received in Josephine County from January, 2012 through December, 2016 were referred to OSP by the Josephine County Sheriff's Office.




Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the Patrol Division of $164 million total funds is 10.6% greater than the 2015-17 legislatively approved budget. This budget includes a General Fund increase of $3.7 million and twelve positions (10.92 FTE) to increase sworn patrol and drug enforcement staffing statewide, and a General Fund decrease of $5.2 million for statewide budget adjustments. Other Funds changes include an increase of $504,000 and two trooper positions in the Oregon State University Security unit, a fund shift of $2 million from General Fund to marijuana tax revenues for 33 new patrol vehicles, and $2.5 million and seven trooper positions (7.00 FTE) in the Capitol Mall Security unit.

## Fish and Wildlife

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 3,368,004 | 7,186,844 | 9,433,012 | 9,113,817 |
| Lottery Funds | 6,734,971 | 8,018,000 | 8,320,015 | 8,069,250 |
| Other Funds | 24,658,392 | 24,888,309 | 24,203,850 | 23,691,912 |
| Federal Funds | 1,649,352 | 2,193,741 | 2,533,536 | 2,486,732 |
| **Total Funds** | **$36,410,719** | **$42,286,894** | **$44,490,413** | **$43,361,711** |
| Positions | 135 | 135 | 135 | 135 |
| FTE | 133.67 | 125.12 | 125.62 | 125.62 |

Program Description

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 stationed throughout the state. These officers are often the only law enforcement presence available in some of Oregon's 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 (Measures 76 and 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 ($24.8 million), smaller service contracts with the Marine Board ($2 million) for enforcement of boating laws, the Parks and Recreation Department ($567,000) for activities on the Deschutes River and for ATV enforcement, and the Department of Environmental Quality ($313,000) for environmental investigations. Federal Funds are primarily received through National Oceanic Atmospheric Administration Joint Enforcement Agreements ($2.7 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.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the Fish and Wildlife Division of $43.4 million total funds is 2.5% greater than the 2015-17 legislatively approved budget. The budget adds $100,000 from the Oregon Department of Fish and Wildlife to fund overtime patrols of winter range areas to protect big game from illegal harvest and harassment, and reduces $1.1 million total funds for statewide budget adjustments.

## Criminal Investigations

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 32,612,673 | 36,287,687 | 35,249,070 | 11,007,146 |
| Other Funds | 5,517,892 | 7,747,868 | 7,229,536 | 32,844,559 |
| Federal Funds | 644,103 | 2,166,344 | 1,510,968 | 1,713,376 |
| **Total Funds** | **$38,774,668** | **$46,201,899** | **$43,989,574** | **$45,565,081** |
| Positions | 121 | 122 | 122 | 131 |
| FTE | 117.50 | 122.00 | 122.00 | 130.40 |

Program Description

The Criminal Investigation Division provides investigative services that support 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 from polygraph examiners and crime analysts. The Division has jurisdiction over 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, and fire and explosives investigative teams.

Revenue Sources and Relationships

Prior to 2017-19, this program area was largely funded with General Fund. Increased marijuana tax collections allowed for a fund shift of $23 million of General Fund expenditures to marijuana tax revenues in the 2017-19 biennium, a 67.2% reduction in General Fund support from the 2015-17 legislatively approved budget. Other revenues include sex offender registration fees ($418,000 Other Funds); arson/bomb investigation funding ($4.1 million Other Funds) from the State Fire Marshal in Fire Insurance Premium Tax revenue; fees from records requests, civil penalties, and state seizures ($1.4 million Other Funds); and federal funds for drug enforcement ($1 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, including drug enforcement, major/violent crimes, sex abuse crimes, polygraph, and public official corruption cases. During 2014-15, the Division conducted over 16,000 investigations, including 2,909 investigations related to drug enforcement, 561 related to explosives, and 375 related to fires; 8,057 child abuse investigations; and 104 computer forensics investigations. In the 2015-17 biennium, detectives participated in the child abuse multi-disciplinary teams in every county; 24 interagency major crime teams; 16 interagency drug task forces; and one drug/fugitive task force.

Like 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, in 2015, OSP investigated 2,076 child abuse cases; 1,716 of those were reported in the Southwest region, with 976 cases in Josephine County alone. Overall Major Crime Team call-outs increased by 35% in the Southwest Region from 2011 through 2014.

Legislatively Adopted Budget
The 2015-17 legislatively adopted budget of $45.6 million total funds is 1.4% less than the 2015-17 legislatively approved budget. This budget includes a fund shift of $26.1 million of General Fund expenditures to marijuana tax revenues, $215,000 of federal grant funds and one position (1.00 FTE) for inventorying sexual assault forensic evidence kits, and a reduction of $1.5 million total funds for statewide budget adjustments.

## Forensic Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 34,412,599 | 39,052,449 | 43,978,102 | 41,784,304 |
| Other Funds | 905,543 | 1,090,793 | 564,563 | 1,557,365 |
| Federal Funds | 1,234,289 | 1,831,381 | 2,140,575 | 2,587,802 |
| **Total Funds** | **$36,552,431** | **$41,974,623** | **$46,683,240** | **$45,929,471** |
| Positions | 126 | 136 | 136 | 136 |
| FTE | 125.46 | 130.75 | 136.00 | 136.00 |

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 are funded primarily with General Fund. 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 analyses on 50,908 and 55,872 evidentiary submissions (an approximately 10% increase) in the 2011-13 and 2013-15 biennia, respectively. Based on current trends, the Division anticipates an additional 5% increase, or more than 61,500 evidentiary submissions, during the 2017-19 biennium. The Division completes analytical requests within its 30-day turnaround time goal only 28% of the time, due to increasing numbers of requests, staffing shortages, changes in technology and in the forensic sciences, and emerging drug trends. The DNA Unit alone has experienced an average yearly increase in submissions of 12% over the past five years, a good example of improved scientific technologies driving demand for their products. 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 2017-19 legislatively adopted budget of $45.9 million total funds is 9.4% greater than the 2015-17 legislatively approved budget. This budget includes $1 million Other Funds (marijuana tax revenues) for relocating the

forensics lab in Pendleton, $478,000 federal grant funds for inventorying sexual assault forensic evidence kits, and a reduction of $1.4 million for statewide budget adjustments.

**Office of the State Medical Examiner**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 4,558,231 | 4,661,346 | 4,989,612 | 4,746,867 |
| Other Funds | 255,790 | 323,932 | 286,808 | 283,214 |
| **Total Funds** | **$4,814,021** | **$4,985,278** | **$5,185,420** | **$5,030,081** |
| Positions | 9 | 9 | 9 | 9 |
| FTE | 9.00 | 9.00 | 9.00 | 9.00 |

Program Description

The Office of the State Medical Examiner is located in Clackamas and provides direction and support to the state death investigation program. The Office is Oregon's sole source provider of forensic pathology services, and 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 Chief 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 oversees 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 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 2017-19 legislatively adopted budget of $5 million total funds is 0.9% greater than the 2015-17 legislatively approved budget. A total funds reduction of $148,000 for statewide budget adjustments leaves Medical Examiner services funded at 3.1% less than the current service level.

### Agency Support Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | 36,623,443 | 37,362,183 | 36,258,713 |
| Other Funds | -- | 4,357,191 | 3,570,140 | 3,390,368 |
| Federal Funds | -- | 161,573 | 151,502 | 145,438 |
| **Total Funds** | **--** | **$41,142,207** | **$41,083,825** | **$39,794,519** |
| Positions | | 123 | 123 | 123 |
| FTE | | 121.53 | 123.07 | 123.07 |

This division is new as of the 2015-17 biennium, with programs transferred from the Administrative Services Division, below.

Program Description

Agency Support Services was a new budget structure in the 2015-17 biennium that was previously part of the Administration Division. Agency Support was created 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 2017-19 legislatively adopted budget for Agency Support Services is $39.8 million total funds, which is 3.3% less than the 2015-17 legislatively approved budget. A total funds reduction of $1.2 million for statewide budget adjustments leaves this program funded at 3% less than the current service level.

### Administrative Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 41,574,627 | 14,977,153 | 14,173,781 | 14,544,146 |
| Other Funds | 7,385,747 | 5,887,906 | 5,292,041 | 6,073,044 |
| Federal Funds | 191,905 | 318,680 | 460,096 | 460,096 |
| **Total Funds** | **$49,152,279** | **$21,183,739** | **$19,925,918** | **$21,077,286** |
| Positions | 76 | 76 | 76 | 78 |
| FTE | 70.71 | 70.71 | 70.21 | 71.89 |

This Division was re-organized for the 2015-17 biennium, with programs transferred to Agency Support Services, above.

Program Description

The Administrative Services Program consists of the administrative support functions of the Department. It includes budget and financial reporting, accounting, payroll, grants 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, Gaming Enforcement, Patrol, 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 2017-19 legislatively adopted budget for Administrative Services of $21 million total funds is 0.5% less than the 2015-17 legislatively approved budget and 5.8% greater than the current service level. This budget includes $780,000 General Fund, $750,000 of Other Funds expenditure limitation, and three positions (2.68 FTE) to develop and implement a data collection system for collecting data related to traffic and pedestrian stops (HB 2355). It reduces $307,000 General Fund and abolishes one position (1.00 FTE) to transfer an information technology security position to the Department of Administrative Services per Governor's Executive Order #16-13, and further reduces the budget by $580,000 total funds for statewide adjustments.

## Criminal Justice Information Systems

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 4,575,838 | 7,286,403 | 8,079,005 | 6,027,935 |
| Other Funds | 9,875,053 | 12,265,142 | 11,984,122 | 17,062,081 |
| Federal Funds | 1,204,800 | 2,387,615 | 2,478,837 | 3,948,533 |
| **Total Funds** | **$15,655,691** | **$21,939,160** | **$22,541,964** | **$27,038,549** |
| Positions | 88 | 89 | 89 | 89 |
| FTE | 92.00 | 87.04 | 92.21 | 92.21 |

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 major source of Other Funds revenue comes from fees for Identification Services including open records checks of criminal histories, firearms, concealed gun, and employment and licensing background checks ($13.3 million). The Division also receives federal grant funds from the NICS Act Record Improvement Program through the U.S. Department of Justice ($821,000).

Budget Environment

Oregon Revised Statute (ORS) 181A.280 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* was the moniker used to describe a series of interrelated systems deployed to enable OSP LEDS to fulfill that statutory obligation. As of 2017, the project and system name has changed to *LEDS 20/20*. 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. *LEDS 20/20* 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. A project to replace the system (LEDS 20/20) was approved by the Legislature in 2015. As of Spring 2017, the agency had a vendor under contract, an integrated project plan in development, and an estimated project completion date of Fall, 2020. The total project cost is currently estimated to be $10.3 million.

The Division continues to experience significant increases in requests for firearm background checks. Firearm background checks increased by 53% between 2011 and 2016. In 2016, the Legislature approved twelve additional positions and added $1 million General Fund to the agency's budget to reduce wait times and backlogs in the Firearm Instant Check System program.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget for the Criminal Justice Information Systems Division of $27 million total funds is 23.2% more than the 2015-17 legislatively approved budget. This budget includes $3.6 million Other Funds and $1.5 million Federal Funds expenditure limitation to continue the LEDS 20/20 replacement project, two fund shifts totaling $1.7 million of General Fund to Other Funds fee revenues, and $603,000 total funds reduction for statewide budget adjustments.

### Gaming Enforcement Division

| | **2013-15 Actual** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---|---|---|---|
| General Fund | 919,100 | 1,075,0000 | -- | -- |
| Other Funds | 9,245,735 | 10,505,685 | 10,990,030 | 10,724,813 |
| **Total Funds** | **$10,164,835** | **$11,580,685** | **$10,990,030** | **$10,724,813** |
| Positions | 37 | 35 | 35 | 35 |
| FTE | 37.26 | 35.26 | 35.26 | 35.26 |

Program Description
The Gaming Division provides regulatory, investigatory, and security services for the Oregon State Lottery, Oregon tribal gaming centers, 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 ($7.8 million). Native American Gaming Tribes fund the Tribal Gaming Section activities ($3.4 million). The Vendor Investigation Section is funded by both the Oregon Lottery and vendors conducting business with Oregon's Gaming Tribes ($0.8 million). License fees and a gross receipts tax (6%) fund the Oregon Athletic Commission regulatory activities ($267,000). Three-fourths of

any ending balance for the Oregon Athletic Commission is sent to the Children's Trust Fund; however, there has not been 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 45 scratch-it games per year, and has about 2,300 lottery retailers with nearly 12,000 video lottery terminals throughout the state. The Lottery Security Section conducts background investigations on all prospective Lottery employees, game retailers, vendors, and contractors. The number of retailer background investigations has approximately doubled since 2000. The Lottery Security Section also conducts compliance inspections on Lottery retailers with a goal of inspecting 75% of retailers 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 2017-19 legislatively adopted budget for the Gaming Division of $10.7 million total funds is 7.4% less than the 2015-17 legislatively approved budget. This budget includes a $251,000 Other Funds reduction for statewide budget adjustments.

### State Fire Marshal

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | 1,633,733 | 410,463 | 393,649 |
| Other Funds | 23,202,213 | 28,680,865 | 22,749,832 | 22,845,274 |
| Federal Funds | 416,408 | 510,216 | 529,699 | 524,590 |
| **Total Funds** | **$23,618,621** | **$30,824,814** | **$23,689,994** | **$23,763,513** |
| Positions | 65 | 66 | 66 | 68 |
| FTE | 65.00 | 65.96 | 66.00 | 68.00 |

Program Description

The State Fire Marshal (SFM) is charged with protecting life and property from fire and hazardous materials. It has the following four major program areas:

- State Fire Marshal Leadership branch – 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.
- Fire and Life Safety Education Services – Provides fire education and training resources for adults and youth, conducts fire data analytics, and tracks hazardous substance response by emergency personnel. Educational resources focus on structural and wildland-urban interface fire prevention and safety and fire prevention and intervention with youth. Fire data analytics are provided to fire organizations, consumer interest groups, and regulatory agencies, and are used to develop education programs and to target fire and building code enforcement.

- Emergency Response Services – Protects people and the environment from hazardous materials spills and leaks. This unit equips, trains, and administers 13 Regional Hazardous Materials Response Teams statewide, serves as the State Emergency Response Commission, as required by federal regulations, and facilitates the activities of Local Emergency Planning Committees. The Regulatory Services unit regulates the storage and use of explosives, fireworks, and liquid petroleum. This unit also administers regulations governing non-retail fuel dispensing.
- Fire and Life Safety Service – Provides fire investigation, fire inspection services, and training in communities that do not have full-service fire departments. This unit develops and maintains the Oregon Fire Code, conducts plan reviews for above-ground flammable and combustible liquid storage tanks, and conducts inspections for state buildings, prisons, and health care facilities. There are 15 Deputy Fire Marshals and supervising Deputy Fire Marshals who serve Oregon communities that choose to not provide their own full-service fire prevention programs.

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 ($15.7 million) is used for State Fire Marshal programs.

Additional Other Funds revenues are generated through the hazardous substance user fees ($3.9 million) for the Community Right to Know program, and petroleum load fees ($4.1 million) for the Hazardous Response Teams, non-retail fuel dispensing fees ($812,000) for card lock enforcement, licenses and permits (relating to liquefied petroleum gas and fireworks) totaling $931,000, and from an interagency agreement with the Department of Human Services for fire and life safety inspections of Medicare and Medicaid funded facilities ($568,000). Federal Funds revenue of $530,000 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 6 conflagrations in 2014, 6 conflagrations in 2015, 3 conflagrations in 2016, and 3 as of August, 2017. Under the Emergency Conflagration Act (ORS 476.510 et seq.), the State Fire Marshal is responsible for directing 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 2015 and 2016 total $8.9 million; final 2017 expenses are not yet available, but are preliminarily estimated at about $16 million. Fires that are fought on both state and federal or tribal lands are eligible for partial reimbursement of expenses from the federal government, a situation that creates fiscal complexity 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 2008 to 2016, shipment of crude oil by rail increased by nearly 5,100% nationally (*Association of American Railroads*, May 2017). According to the Oregon Department of Transportation's Rail Division, the number of carloads shipped through Oregon between 2006-2011 was 12,711. Between 2011-2016, the number of carloads shipped totaled 68, 031.

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).

HB 3225 (2015) allocated $365,000 General Fund for hazmat rail coordination, planning, training, and equipment inventory activities. In 2016, the OSFM's hazmat rail coordinator began to connect representatives from the rail industry with emergency responders to share information, develop plans, and facilitate training. Eight firefighting foam trailers have been deployed throughout Oregon, housed with fire agencies near major rail lines, and in some cases, the same agencies that staff Oregon's Regional Hazmat Emergency Response Teams. These assets, along with other resources available to respond to hazmat transportation by rail incidents, have been added to the Western Regional Resource List, an online emergency planning and resource coordination tool.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the Office of the State Fire Marshal of $23.8 million total funds is 22.9% less than the 2015-17 legislatively approved budget. This reduction is due in large part to the phase-out of one-time federal funds for 2015 fire season costs. The budget includes an increase of $568,000 Other Funds expenditure limitation and two positions to perform plan reviews and conduct site visits during the construction or remodeling of health care facilities, and a reduction of $482,000 total funds for statewide budget adjustments.

# DEPARTMENT OF PUBLIC SAFETY STANDARDS AND TRAINING

Analyst: Neburka

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 9,778,922 | 10,146,476 | 9,795,963 | 9,795,963 |
| Other Funds | 33,587,100 | 44,986,840 | 44,545,374 | 43,523,261 |
| Other Funds (NL) | 415,460 | -- | -- | -- |
| Federal Funds | 331,601 | 7,056,759 | 6,793,065 | 8,007,963 |
| **Total Funds** | **$44,113,083** | **$62,190,075** | **$61,134,402** | **$61,327,187** |
| Positions | 135 | 154 | 151 | 152 |
| FTE | 132.72 | 146.91 | 149.21 | 150.05 |

The 2013-15 Actuals Other Funds (NL) 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 41,000 public safety professionals 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, emergency medical dispatchers, liquor enforcement inspectors, and Criminal justice instructors. 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 first training class for the certification of liquor enforcement inspectors was in 2016, mandated by SB 1528 (2012). The Department of Corrections (DOC) continues to train its correctional officers and DPSST audits DOC's training program. DPSST maintains basic, intermediate, advanced, supervisory, management, and executive level certifications for approximately 14,000 state and local criminal justice professionals.
- Fire Training and Certification Program – Provides training across the state to over 11,000 career and volunteer firefighters through hundreds of classes annually. This program also certifies firefighters based on national standards, maintains approximately 49,300 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 1,200 private security firms and over 20,000 licensed private security providers statewide. There are approximately 737 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. This program provides accounting support for Oregon's federal High Intensity Drug Trafficking Area (HIDTA) grant program.
- Public Safety Memorial Fund – Provides financial assistance to family members of public safety officers who are killed or permanently and totally disabled in the line of duty.

Additionally, DPSST serves as the fiduciary agent for the Oregon-Idaho High Intensity Drug Trafficking Area program, a cooperative effort to disrupt and dismantle drug trafficking and money-laundering organizations and to reduce the availability of and demand for illegal drugs. This program is federally funded through the Office of National Drug Control Policy, which will provide $7.1 million in the 2017-19 biennium to support the twenty initiatives operated by the Oregon-Idaho HIDTA program.

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**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Criminal Justice | 16,935,882 | 24,914,462 | 23,524,854 | 22,431,016 |
| Fire Training | 4,310,442 | 5,082,784 | 4,821,648 | 6,026,513 |
| Private Security | 1,898,907 | 2,179,037 | 2,401,578 | 2,354,720 |
| Admin and Support | 11,026,040 | 13,328,072 | 13,590,761 | 13,364,400 |
| Debt Service | 9,778,922 | 10,146,476 | 9,795,963 | 9,795,963 |
| PS Memorial Fund | 162,890 | 259,824 | 269,438 | 269,438 |
| Oregon HIDTA | -- | 6,279,420 | 6,730,160 | 7,085,137 |
| **Total Funds** | **$44,113,083** | **$62,190,075** | **$61,134,402** | **$61,327,187** |

Revenue Sources and Relationships

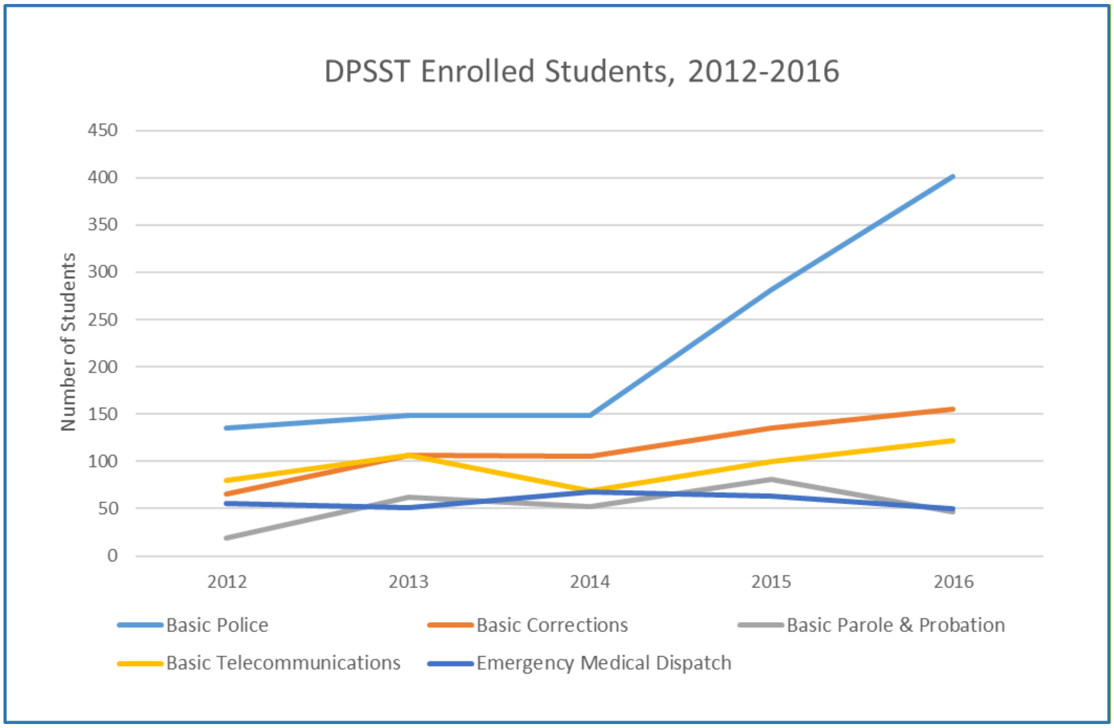
General Fund resources support only debt service payments for the training facility in Salem. The agency's primary source of funding is an allocation from the Criminal Fine Account (CFA) totaling $32.8 million, which supports the Criminal Justice Training and Certification, Administration, and Support Services Programs, and the Public Safety Memorial Fund. The second largest source of Other Funds is a transfer of $5.3 million of Fire Insurance Premium Tax (FIPT) 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 ($0.7 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 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 most 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 continues to increase, and during the 2017-19 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, which develops and operates leadership training courses for public safety supervisors and managers. During 2015-17, 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, supported by funding from the federal Edward Byrne Memorial Justice Assistance Grant through the Oregon Criminal Justice Commission.

HB 2355 (2017) requires that data on traffic and pedestrian stops by law enforcement in Oregon be recorded, analyzed, and used to reduce the incidence of racial profiling. The bill requires DPSST to develop and provide training and procedures to law enforcement agencies in order to begin collecting data by July 1, 2018, and provides $431,330 of Other Funds expenditure limitation and two positions (1.84 FTE) to develop procedures and begin work on an educational program to reduce profiling.

As of 2015, fiduciary responsibility for Oregon's federal High Intensity Drug Trafficking Area (HIDTA) grant program transferred from the Department of Justice to DPSST. DPSST now serves as the fiscal agent through which federal HIDTA grant funds flow to initiatives to reduce drug trafficking in the state. This role requires DPSST to submit requests to the federal government for funding, ensure that the federal fiscal rules are followed, and distribute funds to the various initiatives. Total HIDTA grant revenues for the 2017-19 biennium are projected at $7,085,000. Of this amount, $2,589,973 will be transferred to DOJ for its HIDTA initiative; $4,060,169 will be granted to Oregon cities, counties, or multi-jurisdictional entities for drug trafficking reduction initiatives; and $435,276 will be used by DPSST for grant accounting and administrative support.

The Oregon Public Safety Academy campus is twelve years old, and though the buildings are comparatively new and well-maintained, emergency repairs to fire and life-safety systems were required in 2017. Additional 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 2017-19 legislatively adopted budget for this agency is $61.3 million total funds, which is 2.6% higher than the 2015-17 legislatively approved budget and 0.3% more than the current service level. Several budgetary actions net to this modest change in funding:

- The legislatively adopted budget reduced two Basic Police training classes and four positions (4.00 FTE), for a Criminal Fines Account revenue savings of $1.4 million.
- Statewide reductions to agency services and supplies, travel and training, and personnel budgets reduced DPSST's budget by $1.2 million Other Funds.
- A total of $0.8 million in federal Assistance to Firefighters grant funds was carried over into 2017-19 to purchase fire training equipment and props.
- Two additional Telecommunicators training classes were added, $0.2 million Other Funds.
- $0.7 million of federal Edward Byrne Memorial Justice Assistance grant funds were added to support the Center for Policing Excellence.
- HB 2355 added $0.4 million and two positions (1.84 FTE).
- Pass-through payments in the Oregon HIDTA program increased by $0.4 million.

# OREGON YOUTH AUTHORITY

Analyst: Neburka

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 267,119,142 | 297,695,975 | 329,961,808 | 307,443,048 |
| Other Funds | 12,165,807 | 63,399,605 | 14,321,252 | 60,916,760 |
| Federal Funds | 27,977,990 | 36,324,177 | 49,935,912 | 37,166,220 |
| Federal Funds (NL) | -- | 1 | -- | -- |
| **Total Funds** | **$307,262,939** | **$397,419,758** | **$394,218,972** | **$405,526,028** |
| Positions | 1,018 | 1,022 | 1,016 | 1,023 |
| FTE | 985.67 | 985.88 | 984.88 | 950.68 |

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, Tillamook, and Woodburn; transition programs are in Florence, La Grande, Albany, 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 616 close-custody beds. Approximately half of the close custody capacity, 311 beds, is for youth adjudicated in juvenile court. The remaining 305 beds are for youth convicted in adult court or waived on Measure 11 offenses.

Revenue Sources and Relationships

General Fund supports the majority 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.

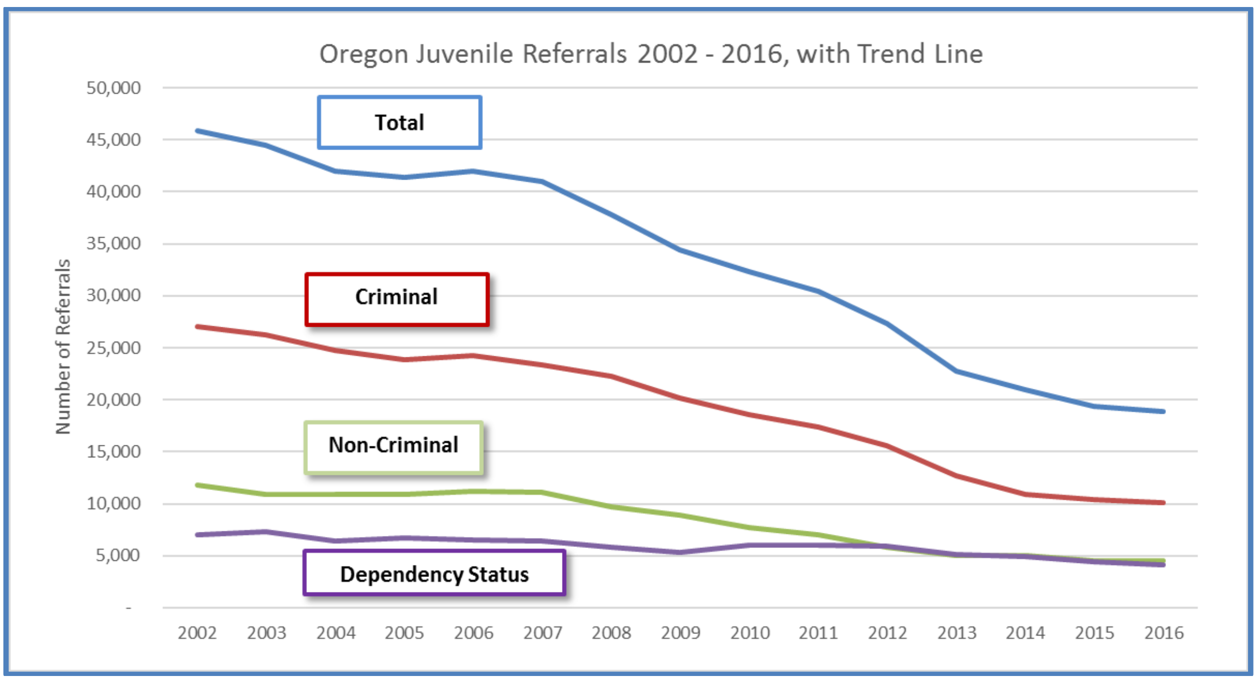
Federal Medicaid reimbursements partially pay for the cost of community residential treatment programs and targeted case management services provided by OYA juvenile parole and probation staff. The budget anticipates continuing revenue from this federal source, which provides about 39% of the funding for residential treatment and about 17% of parole and probation staff personnel costs. Overall, federal fund reimbursements will cover over 27% of the Community Services program costs in the 2017-19 biennium. Residential treatment room and board costs are supported with General Fund.

Other Funds for institution operations are $2.9 million for the USDA school nutrition program.

The largest Other Funds sources of operating revenues are child support recovery and youth trust fund reimbursements. The budget includes $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 and OYA close custody.

Budget Environment

Youth enter Oregon's juvenile justice system through referrals to county juvenile departments. Oregon has experienced a substantial decline in referrals to county juvenile departments over the past 15 years. A simple comparison between 2002 and 2016 shows total referrals have declined by 59%. Furthermore, while not evident in the graph below, referrals in the two major crime types posted large decreases during the 2002–2016 period: felony (-63%) and misdemeanor (-62%). Also notable is that referral trends do not track the size of Oregon's at-risk population—youth age 10 to 17—which has remained relatively flat (1% decrease as of 2015). Of the 12,312 youth who received a disposition on a referral in 2016, 22% were adjudicated delinquent. 19% of those adjudicated youth (4% of all youth dispositions) were placed on OYA supervision or committed to OYA close custody.




While juvenile referrals are dropping, there remains a 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.

In 2013, to address the declining youth population and the agency's increasing deferred maintenance requirements, 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 so 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 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.

In 2015, the Legislature authorized $49 million in bond proceeds to fund the first half of the plan's implementation. The 2017-19 legislatively adopted budget includes $39.3 million in new Article XI-Q bond proceeds and capital construction 6-year limitation of $49.3 million to continue construction on improvements throughout the system as laid out in the 10-Year Strategic Plan.

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 (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 based on estimated demand and is indifferent to available budget, available close-custody capacity, or whether the demand is met.

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 91% compliance, as reported in the September 2016 progress report to the Interim Judiciary Committee.

The use of isolation in corrections facilities continues to be of concern both nationally and in Oregon. In January, 2016, the Oregon Youth Authority reported on the recommendations made by its Isolation and Reintegration Project. Recommendations included:

- 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.

The report also addressed the ways in which the agency's Youth Reformation System, Positive Human Development, and 10-Year Strategic Plan for Facilities address culture, practice, and facility design issues to reduce the use of isolation and to influence positive outcomes for youth. OYA's 2017-19 budget includes $1 million General Fund and six new Skill Development Coordinator positions to further reduce the use of isolation as a primary behavior modification tool in OYA's close-custody facilities.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget makes significant changes to the agency that reflect both declining referrals to OYA and the agency's implementation of the Youth Reformation System (YRS). The total funds budget is just 1.8% more than the 2015-17 legislatively approved budget; the General Fund budget is 3% higher than 2015-17 and 6.8% less than current service level. The Legislature kept direct county funding assistance at the current service level in county Juvenile Crime Prevention Basic Services, Diversion funding, and Multnomah County's gang intervention services. Close-custody beds were reduced by 41, the net change from:

- Closing the 50-bed North Coast Youth Correctional Facility for a General Fund savings of $8.1 million and a reduction of 41.57 FTE.
- Funding twenty beds on an ongoing basis for the Young Women's Transition Center, $1.9 million General Fund and nine positions.
- Reducing ten beds from the Oak Creek Youth Correctional Facility and reducing one bed as a result of combining the populations of Hillcrest and MacLaren.

Other investments in the YRS in close custody facilities include establishing six Skill Development Coordinator positions ($1 million General Fund) to reduce the use of isolation as a primary behavior modification tool, and establishing ten research analyst and YRS implementation positions by eliminating twelve Facility Services positions.

Funding for community placement and residential treatment beds was steeply reduced, by $19.2 million General Fund, $1.4 million Other Funds, and $15.5 million Federal Funds, bringing the number of budgeted beds from 740 in 2015-17 to about 500 for the 2017-19 biennium. This number is more in line with actual usage in fiscal year 2016. Behavioral Rehabilitation Services rates for treatment providers were stabilized with the addition of $5.8 million General Fund, $0.5 million Other Funds, and $8.9 million Federal Funds.

Other agency-wide changes include:

- $1.6 million General Fund and 8 permanent positions to resolve double-filled positions that provide administrative, management, and Information Technology services across the agency.
- Elimination of 15 long-term position vacancies, reducing Other Funds expenditure limitation by $2.1 million.
- Net statewide reductions totaling $5.8 million, including reductions in State Government Service Charges, Attorney General rate changes, personnel cost reductions to reflect a statewide hiring slowdown, and updated debt service payments.

**Facility Programs**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 151,820,015 | 158,256,098 | 167,787,912 | 157,289,379 |
| Other Funds | 4,035,267 | 10,265,359 | 9,492,017 | 7,930,382 |
| Federal Funds | 39,164 | 1,155 | 7,932 | 7,932 |
| **Total Funds** | **$155,894,446** | **$168,522,612** | **$177,287,861** | **$165,227,693** |
| Positions | 775 | 769 | 759 | 753 |
| FTE | 743.92 | 734.75 | 728.63 | 681.43 |

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) and the Young Women Transition Program (YWTP) 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
- Camp Tillamook YTF and Tillamook YCF in Tillamook
- MacLaren YCF in Woodburn

The following two facilities closed in the first quarter of the 2017-19 biennium:

- Hillcrest YCF in Salem
- North Coast YCF in Warrenton

The total of 616 beds budgeted for 2017-19 includes 521 beds in five youth correctional facilities for youth adjudicated for more serious offenses, and 95 beds in four formal transition facilities to help youth move successfully back into the community. The agency continues to implement its Ten-Year Plan for Facilities, and as of September 1, 2017, closed the Hillcrest YCF and moved all youth, staff, and programs to MacLaren. MacLaren will continue to serve a variety of populations, as well as providing statewide male intake and parole violator intake assessment activities. Other facilities range in size from 20 to 100 beds, and serve targeted populations such as male sex offenders, male youth receiving substance abuse services, and female youth.

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. 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.

Budget Environment

Referrals for juvenile delinquency have gone down consistently for the past fifteen years, and sharply since 2007, to just 41% of the number of referrals in 2002. The acuity of youth in close-custody facilities with mental health and substance abuse disorders remains high, however, so 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 services. 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 2016 Biopsychosocial Summary that 63% of male and 73% of female offenders in its custody have been assessed as substance-abusive or -dependent. Further, about 75% of the males and 88% of the females meet the psychiatric requirements for a mental health disorder.

OYA has taken significant steps toward providing services tailored for young women. Female youth in the juvenile justice system tend to have more acute physical and mental health needs, respond to untreated trauma differently than male youth, and commit different offenses than do male youth. A 2016 audit found that young women in OYA custody did not have equitable transition services, which help youth to develop skills they need to successfully return to the community. In 2015-17, the agency operated the young women’s transition project on a pilot basis; the 2017-19 budget makes the program ongoing with a $1.9 million investment and the addition of nine positions.

Legislatively Adopted Budget
The legislatively adopted total funds Facilities budget of $164.6 million is 2% less than the 2015-17 legislatively approved budget, and is 6.8% less than the current service level budget. In addition to the closure of Hillcrest, described in the 10-Year Strategic Plan for Facilities, the 2017-19 budget is reduced by the closure of the 50-bed North Coast YCF

The 2017-19 budget includes $1.9 million General Fund and nine positions for the Young Women's Transition Program, located on the campus of the Oak Creek Youth Correctional Facility in Albany. An additional $1 million supports six positions to further reduce the use of isolation as a primary behavior modification tool in close-custody facilities across the state, and a net-zero conversion of General Fund services and supplies dollars to personnel services establishes five positions to strengthen the Vocational Education Services for Older Youth (VESOY) program. Finally, twelve positions are eliminated in the Facility Division and the savings are moved to the Program Support Division to fund ten newly-established research and analyst positions to support implementation of the Youth Reformation System.

## Community Programs

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 78,053,356 | 97,140,390 | 110,893,175 | 94,271,484 |
| Other Funds | 2,538,454 | 4,020,508 | 4,731,443 | 3,590,925 |
| Federal Funds | 26,301,148 | 35,181,652 | 48,697,721 | 35,860,854 |
| **Total Funds** | **$106,892,958** | **$136,342,550** | **$164,322,339** | **$133,723,263** |
| Positions | 142 | 143 | 144 | 140 |
| FTE | 141.25 | 141.25 | 143.25 | 139.25 |

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 2017, OYA had 458 youth in the community on probation and 366 youth on parole. OYA staff provide 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 were updated only for small inflationary increases during the following decade. Providers have faced steadily increasing operating costs, such as liability insurance and utility costs, and are serving more youth with greater needs. In September, 2011, the Alliance of Children's Programs filed a lawsuit against the state alleging, among other things, that BRS service providers were not being reimbursed adequately for children's room and board, as required by federal rules. In late June, 2014, state agencies and the Alliance of Children's Programs signed a settlement agreement in which the affected state agencies – DHS, OHA, and OYA – agreed to undertake a comprehensive review of all BRS programs, the rate methodology used to develop the rates, and to seek to implement recommended reforms or rate increases. The Legislature approved BRS rate increases for the three agencies in the 2015-17 biennium and again for the 2017-19 biennium. Funding approved to support BRS rate increases for OYA total $5.8 million General Fund, $0.5 million Other Funds, and $8.9 million Federal Funds in 2017-19.

Legislatively Adopted Budget

The Community Programs 2017-19 legislatively adopted total funds budget is 1.9% less than the 2015-17 legislatively approved budget and 18.6% below the current service level. This funding level covers about 500 community treatment, foster care, and residential beds, reduced from a funded bed level of 658 in the 2015-17 biennium.

The match rate on federal Medicaid dollars is adjusted to align with the latest federal estimate.

The 2017-19 payments to counties for juvenile crime prevention and diversion are set at $18.5 million General Fund. State support for gang prevention, intervention, and enforcement activities in Multnomah County is budgeted at $5.5 million General Fund, which is a 3.5% increase from 2015-17 service levels. The amount includes $1.9 million General Fund specifically designated for the East Metro Gang Enforcement Team and $3.6 million for Multnomah County gang intervention.

## Program Support

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 34,983,061 | 36,213,487 | 41,139,529 | 43,052,236 |
| Other Funds | 132,269 | 94,303 | 97,792 | 76,539 |
| Federal Funds | 1,637,678 | 1,141,370 | 1,230,259 | 1,297,434 |
| **Total Funds** | **$36,753,008** | **$37,449,160** | **$42,467,580** | **$44,426,209** |
| Positions | 101 | 110 | 113 | 130 |
| FTE | 100.50 | 109.88 | 113.00 | 130.00 |

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. A primary responsibility of this division is developing and managing implementation 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 2017-19 Program Support total funds budget is 18.6% higher than the 2015-17 legislatively approved budget and 4.6% above current service level. The budget includes $1.4 million General Fund and seven new positions to resolve double-filled positions currently providing administrative, management, and Information technology services within the agency. An additional ten research and analyst positions are established to support implementation of the Youth Reformation System, funded by the abolition of twelve positions in the Facility Division

Statewide budget action, including personal services and services and supplies reductions and Department of Administrative Services and Attorney General rate reductions, drive a decrease of $1.6 million total funds.

## Debt Service

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 1,632,429 | 6,266,509 | 9,368,467 | 11,294,254 |
| Other Funds | 384,876 | -- | -- | -- |
| **Total Funds** | **$2,017,305** | **$6,266,509** | **$9,368,467** | **$11,294,254** |

Program Description

OYA pays debt service on certificates of participation (COPs) and Article XI-Q bonds issued through the Department of Administrative Services.

Debt service in 2017-19 includes $9.3 million for previously funded infrastructure and deferred maintenance needs in OYA's facilities. Since 2009, projects have included control room and HVAC renovations at Burns, Albany, La Grande, and Warrenton, as well as 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. The Legislature approved $49 million in new debt obligations in 2015-17, and another $49.3 million was approved for 2017-19. Bond sales planned for October, 2017, and May, 2018, will require an additional $1.6 million General Fund for debt service in 2017-19.

Legislatively Adopted Budget

The 2017-19 legislatively approved budget is set at a level to cover existing and new debt. The new debt service in the amount of $1.9 million General Fund is associated with project work described in the following Capital Construction section. Other Funds limitation is provided at $0.8 million for the cost of issuing $39.3 million in Article XI-Q bonds. Cost of issuance is budgeted in the Facility Program.

## Capital Improvements and Capital Construction

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 630,281 | 745,131 | 772,725 | 1,535,695 |
| Other Funds | -- | 49,019,435 | -- | 49,318,914 |
| **Total Funds** | **$630,281** | **$49,764,566** | **$772,725** | **$50,854,609** |

Program Description

The capital budgets reflect spending on OYA's 79 buildings at 8 locations, which have an estimated $160 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. Current remodeling and construction projects in close-custody facilities are intended to bring facilities into alignment with the Youth Reformation System.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget includes $39.3 million in new Article XI-Q bond proceeds and capital construction 6-year limitation of $49.3 million for significant changes and improvements throughout the system, as laid out in the 10-Year Strategic Plan for Facilities. Bond proceeds will fund:

- Phase 1 of the West 7 Cottages renovation project at the MacLaren Youth Corrections Facility (YCF) in Woodburn.
- Phase 1 of the project to renovate four living units at the Rogue Valley YCF (Grants Pass).
- Completing electronic security improvements in all OYA close-custody facilities.
- Deferred Maintenance and Capital Improvements across all facilities.

The total 10-Year Plan cost is currently estimated at just under $100 million through 17-19; the first two years' worth of projects both in progress and completed have cost $47.9 million. Electronic security improvements are funded with $762,970 of one-time General Fund resources in 2017-19.

# JUDICIAL BRANCH

# JUDICIAL DEPARTMENT

Analyst: Bender

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 399,796,975 | 435,813,157 | 462,795,769 | 443,103,853 |
| Other Funds | 62,635,761 | 147,988,947 | 42,763,179 | 262,570,281 |
| Federal Funds | 1,067,674 | 1,606,769 | 1,339,352 | 1,339,352 |
| **Total Funds** | **$463,500,410** | **$585,408,873** | **$506,898,300** | **$707,013,486** |
| Positions | 1,879 | 1,921 | 1,862 | 1,900 |
| FTE | 1,763.28 | 1,783.83 | 1,749.25 | 1,776.58 |

<u>Overview</u>

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, and providing fiscal oversight of state-supported county courthouse capital construction projects.

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 1,900 positions (1,776.58 FTE) are organized into the following program areas:

- Judicial Compensation – ($78.3 million, 194.50 FTE). Funds the personal service costs of the state's 196 statutory judgeships.
- Appellate and Tax Courts – ($25 million, 100.80 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 – ($226.9 million, 1,272.72 FTE). Includes the operating costs of the 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 – ($81 million, 181.95 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) through the 2015-17 biennium. A new program area is established for these expenditures, however, beginning with the 2017-19 legislative adopted budget.

- Mandated Payments – ($16.6 million, 22.61 FTE). Includes the costs 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 – ($6.4 million, 4.00 FTE). Provides funding for security improvements, emergency preparedness, business continuity, and facility upgrades for Oregon's courts.

Revenue Sources and Relationships

The Judicial Department budget consists of 62.7% General Fund, 37.1% Other Funds, and 0.2% Federal Funds. Excluding the bond proceeds and county matching funds that are passed through to counties for county courthouse capital construction projects, General Fund supports approximately 87% of the remaining budget.

In the 2017-19 biennium, OJD is projected to generate an estimated $262 million in revenue from a variety of sources, including fines and forfeitures ($115.2 million), state court fees ($135.4 million), and individuals' contributions toward their public defense ($3.9 million). Compensatory fines and restitution, which are expected to total $21.5 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 ($715,000); fees charged for public access to Oregon eCourt and the Oregon Judicial Information Network ($5.5 million); State Law Library assessment revenues ($2.5 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 ($119.1 million, or 45.5%), the Criminal Fine Account ($83.3 million, or 31.8%), cities and counties ($31.9 million, or 12.2%), or to the Oregon State Bar Association for Legal Aid Services ($11.9 million, or 4.5%). OJD will retain approximately $16.4 million (or 6.3%) of its court-generated revenues, primarily for the State Court Technology Fund, which retains 8.85% of most major court filing fee collections. Another $3.9 million Other Funds (or 1.5%) in the 2017-19 biennium, from the Application/Contribution Program (ACP), are transferred to the Public Defense Services Commission to finance costs 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 (2.80 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 2016, the Judicial Department reported that $1.63 billion is owed the state. Since 2002, the amount of debt has increased $1.31 billion, and is now five times the 2002 level. 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, this 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.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $707 million total funds is 20.8% greater than the 2015-17 legislatively approved budget. The budget supports 1,900 positions (1,776.58 FTE), a 0.4% reduction in FTE from the prior biennium. The Department's operating costs are primarily supported by the General Fund. The $433.1 million of General Fund support is 1.7% higher than the prior biennium level. The agency is also projected to carry forward approximately $3 million of General Fund from 2015-17, which will be added to its 2017-19 biennium budget without additional legislative action. Details on the enhancements and reductions in the legislatively adopted budget are provided in the program area summaries below, but budget highlights include:

- A $13.1 million General Fund reduction and a $337,524 Other Funds reduction in Criminal Fine Account expenditures were taken, to help balance the statewide General Fund budget. These reductions are equivalent to approximately 4% of the Department's operations budget. The Judicial Department is given flexibility in implementing the reductions, to minimize their impact on judicial operations.
- A $1.5 million General Fund reduction, associated with the permanent elimination of 11 vacant positions (10.94 FTE), was also taken. This action also helped to balance the statewide General Fund budget.
- A $9 million General Fund reduction and a $463,210 Other Funds reduction, for OJD's portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice. These reductions, along with the others, may negatively impact judicial operations.
- $195.2 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 Lane counties. Article XI-Q bond proceeds authorized in the 2017-19 biennium budget for OCCCIF projects total $97.6 million, and include $92.6 million for the Multnomah County Central Courthouse project, and $5 million for the Lane County Courthouse project. This funding increases the total three-biennium bond support for the Multnomah County courthouse to $125 million, and will allow completion of the new facility. Lane County may request additional OCCCIF support for its courthouse project in the future, but the funding provided in the 2017-19 budget establishes no obligation for the state to provide any additional support for this project.
- $14.9 million of Article XI-Q bond proceeds for two capital construction projects, including $8.9 million for state-owned equipment and furnishing for the new Multnomah County Courthouse, and $6 million to renovate and provide seismic updates for the Oregon Supreme Court Building. The Oregon Supreme Court Building restoration is forecast to total up to $33 million in cost, and to require up to $27 million of additional Article XI-Q bond proceeds in the 2019-21 biennium.
- $10.7 million of Other Funds expenditures were added to the Judicial Department budget for eCourt system support staff, and for system maintenance charges and vendor charges for electronic processing. The expenditures are financed from existing State Court Technology Fund revenues, criminal fine increases authorized in HB 2797, court filing fee increases that the Department will retain in the State Court Technology Fund as authorized in HB 2795, and increased eCourt user fees approved by the Chief Justice. A portion of the funds are used to continue and make permanent seven full-time positions that support the eCourt system but that were approved on a limited duration basis in the prior-biennium budget.

- $2.56 million General Fund was added to the current service level to provide funding for projected third-party debt collection costs.
- $2.1 million General Fund, and 15 positions (9.79 FTE), were added for implementation of SB 505, which mandates recordation of grand jury proceedings. The funding and positions will support the program in the circuit courts of the three roll-out counties: Deschutes, Jackson, and Multnomah. The budget additionally includes a $7.9 million special purpose appropriation to the Emergency Board for SB 505 implementation costs. The Department (and other affected entities as well) may request additional funding from this appropriation, for costs incurred by both the roll-out county circuit courts, and the remaining county circuit courts.
- $1.2 million General Fund for planning of a replacement courthouse for Clackamas County. The funding was provided on a one-time basis, and establishes no obligation for the state to provide any additional support for this project.
- $617,468 General Fund and eight positions (2.48 FTE) were added to establish two new circuit court judgeships: one in Washington County and one in Josephine County. The new judgeships are established on January 7, 2019.

### Judicial Compensation

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 68,584,824 | 72,957,556 | 78,105,091 | 78,304,753 |
| **Total Funds** | **$68,584,824** | **$72,957,556** | **$78,105,091** | **$78,304,753** |
| Positions | 194 | 194 | 194 | 196 |
| FTE | 193.64 | 194.00 | 194.00 | 194.50 |

<u>Program Description</u>

The Judicial Compensation program contains the personal service costs (salary plus other payroll expenses) of the 196 statutory judgeships authorized in Oregon. These include 175 circuit court judges (upon increase from the current 173, in January 2019), one tax court judge, thirteen Court of Appeals justices, 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. 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. Prior to the passage of SB 501 in the 2015 legislative session, any change, including a cost-of-living-allowance, required legislative action. SB 501, however, established cost-of-living adjustments for judicial salaries. Since the passage of that bill, judicial salaries are adjusted on an ongoing basis to match the cost-of-living adjustments awarded to management service employees in the executive branch.

In 2016, the Legislature approved an additional $5,000 salary increase, effective on January 1, 2017. The salary rates established by the 2013, 2015, and 2016 legislative session actions are shown in the table below.

| Statutory Judge Salaries | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| Chief Justice | $133,556 | $138,556 | $141,672 | $150,572 |
| Supreme Court Justices | $130,688 | $135,688 | $138,744 | $147,560 |
| Court of Appeals Chief Judge | $130,688 | $135,688 | $138,744 | $147,560 |
| Court of Appeals Judges | $127,820 | $132,820 | $135,804 | $144,536 |
| Tax Court Judge | $123,164 | $128,164 | $131,052 | $139,652 |
| Circuit Court Judges | $119,468 | $124,468 | $127,272 | $135,776 |

In addition to annual salaries, the Judicial Compensation program also finances judges' other payroll expenses (OPE), which are equal to approximately 47% 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 2015-17 biennium contribution rate for this plan is 25.06% of salary, compared to a 19.09% 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 $78.3 million is $5.3 million (or 7.3%) above the prior biennium level, and is 0.3% above the current service level. The only legislative budget adjustment adds $199,662 General Fund, and two positions (0.50 FTE), for two new circuit court judgeships established in HB 2605: one in Washington County and one in Josephine County. The new judgeships are established on January 7, 2019. Funding in this program area pays for the compensation for the new judges. Funding for support staff, and for other associated expenses of the courts relating to the new judgeships, is included in the Trial Courts program.

Since the 2015-17 biennium, salaries of judges are 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 under this provision during the biennium, either from funds appropriated to the Emergency Board or from funds otherwise available to the General Fund.

### Appellate and Tax Courts

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 20,592,725 | 22,854,908 | 23,696,837 | 22,222,278 |
| Other Funds | 3,430,799 | 2,702,010 | 2,801,960 | 2,801,960 |
| **Total Funds** | **$24,023,524** | **$25,556,918** | **$26,498,797** | **$25,024,238** |
| Positions | 103 | 103 | 103 | 102 |
| FTE | 101.43 | 101.80 | 101.80 | 100.80 |

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. 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, marijuana 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 ($2.5 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 2015, the number of case filings for the Supreme Court and the Court of Appeals have continued to decline to twelve-year lows. Case declines have also occurred in both divisions of the Tax Court, however, 2015 caseloads were not the minimums observed over this period.

**Appellate and Tax Court Historic Case Filings by Calendar Year**

| Court-Type | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Supreme Court | 999 | 1,062 | 1,347 | 1,274 | 1,321 | 1,368 | 1,001 | 925 | 923 | 952 | 977 | 882 |
| Court of Appeals | 3,677 | 3,801 | 3,517 | 3,312 | 3,220 | 3,416 | 3,089 | 2,936 | 2,909 | 2,652 | 2,565 | 2,598 |
| Tax Court Regular Division | 39 | 43 | 27 | 26 | 73 | 50 | 53 | 73 | 97 | 43 | 37 | 27 |
| Tax Court Magistrate Division | 1,184 | 1,021 | 827 | 915 | 1,237 | 1,641 | 1,370 | 1,310 | 885 | 580 | 470 | 575 |

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $25 million is $0.5 million (or 2.1%) below the prior biennium level, and is 5.6% below the current service level. One vacant position was eliminated. The $1.5 million of General Fund reductions from current service level include $1.05 million in OJD-specific reductions, equal to 4.4% of the current service level. Except for a directive to eliminate one vacant position, this reduction is otherwise unspecified, to allow the Judicial Department flexibility to implement it in a manner to minimize its impact on judicial operations.

The budget also subtracts $425,852 General Fund, the program's portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

**Trial Courts**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 195,945,953 | 217,021,303 | 230,609,265 | 217,812,755 |
| Other Funds | 6,135,750 | 7,952,905 | 4,989,915 | 9,099,771 |
| Federal Funds | 67,275 | 340,000 | -- | -- |
| **Total Funds** | **$202,148,978** | **$225,314,208** | **$235,599,180** | **$226,912,526** |
| Positions | 1,352 | 1,373 | 1,359 | 1,390 |
| FTE | 1,242.77 | 1,261.90 | 1,250.89 | 1,272.72 |

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 ($3.9 million), and grant funds supporting specialty court operations ($4.1 million).

Budget Environment

In calendar year 2015, caseloads totaled 503,244 cases across nine major case-categories. This is less than the 555,141 cases in 1994 (which was the lowest caseload count over the period prior to 2011), and represents a 23.2% decline from the high of 655,574 cases in 2003. The types of cases filed in circuit courts have changed since the 1990 to 2010 average, with all case types declining, except for civil commitments, probate, and small claims cases.

| Case-Type by Calendar Year | 1990 to 2010 Average | 2000 to 2010 Average | 2005 to 2010 Average | 2011 Caseload | 2013 Caseload | 2015 Caseload |
|---|---|---|---|---|---|---|
| Civil | 76,060 | 84,686 | 93,874 | 92,449 | 95,191 | 74,070 |
| Small Claims | 64,683 | 71,232 | 76,118 | 73,673 | 70,259 | 67,932 |
| Domestic Relations | 51,501 | 47,699 | 46,088 | 47,919 | 43,898 | 41,735 |
| Felony | 33,481 | 35,304 | 32,364 | 31,086 | 32,464 | 32,407 |
| Misdemeanor | 65,254 | 64,156 | 62,960 | 59,589 | 53,029 | 50,335 |
| Violations | 285,795 | 276,816 | 249,869 | 214,654 | 215,080 | 205,511 |
| Juvenile | 18,971 | 17,853 | 16,845 | 14,013 | 11,783 | 11,430 |
| Civil Commitments | 6,974 | 8,236 | 8,674 | 8,871 | 9,582 | 8,512 |
| Probate | 10,136 | 10,029 | 10,006 | 10,347 | 10,642 | 11,312 |
| **Total** | **612,809** | **615,982** | **596,797** | **552,601** | **541,928** | **503,244** |

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. The 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 2017-19 legislatively adopted budget of $226.9 million is $1.6 million (or 0.7%) above the prior biennium level, but is $8.7 million (or 3.7%) below the current service level. Seventeen positions (10.82 FTE) were added. General Fund support is reduced $12.8 million (or 5.5%) from current service level. The net General Fund funding level represents the combination of $15.1 million reductions to existing program support, partially offset by $2.3 million of supplemental funding to implement new programs. Reductions to the budget include:

- OJD-specific reductions – Includes $12.2 million General Fund in OJD-specific reductions, equal to 4.4% of the current service level. Except for a directive to eliminate eight vacant positions (8.44 FTE), this reduction is otherwise unspecified, to allow the Judicial Department flexibility to implement it in a manner to minimize its impact on judicial operations.
- Standard statewide adjustments – $4.9 million General Fund for the Trial Courts portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

Funding enhancements in the budget include:

- Grand Jury Recording (SB 505) – $1.86 million General Fund, and fourteen positions (9.29 FTE), for implementation of SB 505, which mandates recordation of grand jury proceedings. The funding and positions will support the program in the circuit courts of the three roll-out counties: Deschutes, Jackson, and Multnomah. The state budget additionally includes a $7.9 million special purpose appropriation to the Emergency Board for SB 505 implementation costs. The Department (and other affected entities) may request additional funding from this appropriation for costs incurred by both the roll-out county circuit courts, and the remaining county circuit courts.
- New Judgeships (HB 2605) – $417,806 General Fund, and six positions (1.98 FTE) to fund establishment of two new circuit court judgeships established in HB 2605: one in Washington County and one in Josephine County. The new judgeships are established on January 7, 2019. The costs and positions in the Trial Courts program exclude compensation for the new judges. Those are included in the Judicial Compensation program. Funding in the Trial Courts program supports compensation for support staff, and other related expenses of the courts.
- Treatment/Specialty Courts Grant Funding – $4.1 million Other Funds, and nineteen limited duration positions (19.00 FTE), for specialty (treatment court) grants. The expenditure limitation will accommodate previously-awarded grants supporting treatment courts that extend into the 2017-19 biennium, and grants that are likely to be renewed in the 2017-19 biennium. In the prior biennium, grant funds supported fourteen limited duration positions. The budget, therefore, expands the grant-funded employee count by five positions.

## Administration and Central Support

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 54,128,455 | 55,686,722 | 62,955,768 | 58,071,769 |
| Other Funds | 7,869,282 | 95,815,752 | 15,658,160 | 21,592,930 |
| Federal Funds | 1,000,399 | 1,266,769 | 1,339,352 | 1,339,352 |
| **Total Funds** | **$62,998,136** | **$152,769,243** | **$79,953,280** | **$81,004,051** |
| Positions | 163 | 186 | 179 | 185 |
| FTE | 160.87 | 177.28 | 175.95 | 181.95 |

Program Description
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:

- Juvenile and Family Court Programs 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 and county matching funds for courthouse replacement projects funded through the Oregon Courthouse Capital Construction and Improvement Fund (OCCCIF) are included through the 2015-17 biennium. Beginning in 2017-19, however, these revenues and expenditures are not included here, but are transferred to the new OCCCIF program area below.
- Revenue from a 10% filing fee increase transferred to the State Court Technology Fund ($8 million).
- Fees charged for public access to eCourt ($5.5 million).
- Monies allocated from the Criminal Fine Account for the State Court Technology Fund ($3.1 million).
- Department of Human Services moneys for the Citizen Review Board ($2.1 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 ($1.34 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 now fully implemented in all courts and represents a significant upgrade to the technology infrastructure. The eCourt system has increased the Department's ongoing operating costs, however.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $81 million is $71.8 million (or 47%) below the prior biennium level, but this is largely an artifact of transferring the OCCCIF program out of this budget, into a new program area. A more accurate comparison is that the budget is a 1.3% increase over the current service level. Even the current service level is affected, however, by the transfer of personnel remaining from the eCourt implementation project to support system operations. A list of program reductions and enhancements includes the following actions:

- OJD-specific reductions – Includes $2.8 million General Fund in OJD-specific reductions, equal to 4.4% of the current service level. Except for a directive to eliminate two vacant positions (1.50 FTE), this reduction is otherwise unspecified, to allow the Judicial Department flexibility to implement it in a manner to minimize its impact on judicial operations.
- Standard statewide adjustments – $2.3 million General Fund and $463,210 Other Funds are reduced for the Administration and Central Support program's portion of standard statewide adjustments made as cost

containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

- Technology Fund (eCourt ongoing operations and business processes) – $10.7 million Other Funds, and seven positions (7.00 FTE), were added. The budget retains the seven limited duration positions established during the 2015-17 biennium, as permanent, full-time positions for the 2017-19 biennium and beyond. The expenditures provide support to cover eCourt system staff, payments for system maintenance and vendor charges, and charges for electronic filing of court documents. Other Funds revenue increases from three sources will generate a total of $7.8 million to help support these expenditures (the remaining costs are covered from existing revenue sources). The additional revenues include:
  - $4 million from filing fee increases approved in HB 2795. That bill increases most court filing fees by approximately 5% on October 1, 2017. The bill also increases the portion of filing fee revenues that accrue to the State Court Technology Fund from 4.75% to 8.85%. The combination of the fee increases with the increased transfer rate directs the additional fee revenues to the State Court Technology Fund, without reducing the amount of filing fee revenue transferred to the General Fund.
  - $3.1 million from the Criminal Fine Account. The 2017-19 biennium budget allocates CFA monies to the State Court Technology Fund for the first time. The allocation amount is equal to the revenue obtained from the $5 increase in fines for violations approved in HB 2797. The increase in fines apply to offenses committed on or after January 1, 2018.
  - $0.7 million from an increase in eCourt user fees. The Chief Justice is administratively increasing user charges. Revenues from the charges are deposited into the State Court Technology Fund.
- Grand Jury Recording (SB 505) – $235,308 General Fund, and one limited duration position (0.50 FTE), is added for implementation of SB 505, which mandates recordation of grand jury proceedings. The funding and position will support centralized activities to implement the recording requirements at the circuit courts.
- Bond costs – $1.2 million Other Funds was added for the costs of issuing Article XI-Q bonds for approved OCCCIF and capital construction projects. The costs and paid from bond proceeds. The 2017-19 budget authorizes issuance of $113.7 million of Article XI-Q bonds to provide $112.5 million of net proceeds, with the difference funding the cost of issuing the bonds. Expenditures of the bond proceeds are budgeted in the OCCCIF and Capital Construction areas of the OJD budget.

## Mandated Payments

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 15,292,854 | 15,963,869 | 16,216,686 | 15,892,653 |
| Other Funds | 634,515 | 662,740 | 662,667 | 662,667 |
| **Total Funds** | **$15,927,369** | **$16,626,609** | **$16,879,353** | **$16,555,320** |
| Positions | 23 | 23 | 23 | 23 |
| FTE | 22.61 | 22.61 | 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 (4.2%) 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 both the 2013-15 and 2015-17 legislatively adopted budgets. The Legislature transferred $400,000 of General Fund appropriation from the Third-Party Debt Collection program to Mandated Payments during the 2015 legislative session, and $300,000 from Judicial Compensation to Mandated Payments during the 2017 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 2017-19 legislatively adopted budget of $15.6 million is $71,216 General Fund (or 0.4%) below the prior biennium level. Funding is $324,033 General Fund below the current service level, which is the program's portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

## 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 that pays for Third-Party debt collection costs back to the General Fund to simplify the budget process in the trial courts.

Revenue Sources and Relationships
During the 2017-19 biennium, OJD will generate an estimated $262 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 8.85% of certain filing fees dedicated to the State Court Technology Fund (totaling approximately $7.5 million in the 2017-19 biennium). Other entities that had historically received court revenue transfers now receive their funding through the budget process from 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, and for bank credit card charges. 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 $14.8 million in 2017-19, a 1.5% increase over the prior biennium level. The budget added $2.56 million General Fund above the current service level, to meet projected 2017-19 biennium third-party collection costs, but also reduced $451,097 General Fund as the program's portion of standard statewide adjustments made as cost containment measures. The reduction removed the standard inflation adjustment. The net impact of the two adjustments results in a $2.1 million increase over current service level. The collections on delinquent debt by the third-party debt collectors are forecast to total approximately $92.4 million during the 2017-19 biennium.

**State Court Facilities and Security Account**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 9,703,960 | 11,094,924 | 6,750,477 | 6,412,953 |
| **Total Funds** | **$9,703,960** | **$11,094,924** | **$6,750,477** | **$6,412,953** |
| 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 (OSCA). 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 distribution of support to County Local Court Security Accounts (HB 2712). Counties fund security of their court facilities from a combination of monies in those accounts, and from other county revenue sources.

Revenue Sources and Relationships

Thee SCFSA is funded with 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). The CFA allocation to the SCFSA increased to $9.4 million in the 2013-15 biennium, and to $11.1 million in the 2015-17 biennium.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $6.4 million is $4.7 million (or 42%) below the prior biennium level, and is 5% below the current service level. Expenditures are entirely supported by monies from two CFA allocations that total to this same amount. The approved budget retains a zero ending balance in the SCFSA.

There are two general categories of SCFSA expenditures included in the funding: 1) OJD Security and Emergency Preparedness Office – $3,588,745; and 2) Distributions to County Local Court Security Accounts – $2,824,208.

Unlike in the prior two biennia, funding was not provided for capital improvements for courthouses. This was funded twice, on a one-time basis each time, in the 2013-15 and 2015-17 biennium budgets. Although $3.5 million was included in the 2015-17 biennium budget for courthouse capital improvement projects, funding was phased out in the current service level, and not included in the 2017-19 biennium budget.

The budget reduces support for county local court security accounts by $337,524 (or 10.7%). Because the 2015-17 biennium included a one-time supplement of $1.1 million for local court security accounts that was phased-out in the current service level, 2017-19 biennium support for these accounts is reduced by 31.9% from the prior biennium level. This reduction in state support will reduce the ability of counties to make equipment and security upgrades.

**External Pass-Throughs**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 14,530,829 | 16,042,390 | 15,806,359 | 15,840,390 |
| Other Funds | 11,900,000 | 11,900,000 | 11,900,000 | 11,900,000 |
| **Total Funds** | **$26,430,829** | **$27,942,390** | **$27,706,359** | **$27,740,390** |

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 appropriations 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). For 2017-19, the Legislature also added a one-time pass-through to Clackamas County for a county courthouse construction project.

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 10% 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 2017-19 legislatively adopted budget of $27.7 million is $0.2 million (or 0.7%) below the prior biennium level, and is $34,031 General Fund above the current service level. The net change to the current service level, however, is the combined effect of reducing existing program funding by $1.17 million General Fund, while funding one new program with $1.2 million General Fund.

This budget includes two budget reductions. The first is $602,000 General Fund in OJD-specific reductions, equal to 3.8% of the current service level for each of the four General Fund-supported programs. The budget also subtracts $563,969 General Fund, the program’s portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

The budget includes one budget enhancement. It provides $1.2 million General Fund for a one-time grant to Clackamas County for planning costs associated with a project to replace the county's courthouse. The county must spend at least an equal amount of matching funds for planning costs. The provision of this support does not establish a commitment or expectation for any additional state support for the capital project.

**eCourt Program**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 1,891,319 | 2,246,076 | 2,336,363 | 2,336,363 |
| Other Funds | 18,561,455 | 17,567,716 | -- | -- |
| **Total Funds** | **$20,452,774** | **$19,813,792** | **$2,336,363** | **$2,336,363** |
| Positions | 40 | 38 | 0 | 0 |
| FTE | 37.96 | 22.24 | 0.00 | 0.00 |

Program Description

The Oregon eCourt Program supports the multi-biennium project to modernize Oregon court business practices. The Oregon Judicial Information Network (OJIN), which was the Department's prior electronic case management system, had been in operation for over 25 years. OJIN contained 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 replaced OJIN, but involved far more than information technology, and required a 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 eCourt Program implementation was completed in June 2016 at a cost of $91 million in bond proceeds. The estimated development cost had totaled $97 million, so program costs came in under projection.

Revenue Sources and Relationships

The eCourt Program has been funded with a combination of General Fund, certificates of participation, and Article XI-Q general obligation bond proceeds.

OJD has imposed fees to pay for maintenance, upgrades, development, and system replacement. The Legislature provided this authority in the 2013 legislative session. Expenditures of those revenues are included in the Administration and Central Support section of the budget.

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 began operating under the eCourt system. All remaining circuit courts and the Tax Court were transitioned to eCourt during the first year of the 2015-17 biennium.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget discontinues Other Funds bond expenditures for the project, as it has now been fully implemented. The program area included positions working on the implementation project. These positions have phased-out. Positions maintained and established to support the continuing operations of the eCourt system are included in the Administration and Central Services area of the budget. The General Fund remaining in the eCourt program helps support vendor maintenance contacts, and other costs.

### Debt Service

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 18,133,375 | 18,508,525 | 20,426,495 | 17,871,084 |
| Other Funds | -- | 292,900 | -- | -- |
| **Total Funds** | **$18,133,375** | **$18,801,425** | **$20,426,495** | **$17,871,084** |

Program Description
The 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. COPs are tax-exempt government securities previously issued for the Judicial Department, 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 costs of issuing the COPs or bonds is paid from their proceeds as Other Funds, and are recorded in the Administration and Central Support program area.

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 funded through the Oregon Courthouse Capital Construction and Improvement Fund, is also included in the Debt Service budget.

Revenue Sources and Relationships
The Department's debt service is currently funded with General Fund, although interest earnings on bond proceeds may be used, if available.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget includes $17.9 million General Fund to pay debt service on debt previously issued to finance implementation of eCourt, a Supreme Court Building renovation project, and the Multnomah, Jefferson, and Lane County Courthouse replacement projects. This represents a 4.9% reduction from the prior biennium level.

Although $113.7 million of new Article XI-Q bonds are authorized in the 2017-19 biennium budget for OJD capital construction and county courthouse projects, because these bonds will not be issued until the spring of 2019, there are no debt service costs that need to be paid on them this biennium. Debt service costs on the new bonds are projected to total $16.1 million General Fund in the 2019-21 biennium, however, when they begin to become due.

**Oregon Courthouse Capital Construction and Improvement Fund**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | -- | -- | -- | 195,200,000 |
| **Total Funds** | **--** | **--** | **--** | **$195,200,000** |

Program Description

A separate program area was established in the 2017-19 biennium budget for the Oregon Courthouse Capital Construction and Improvement Fund (OCCCIF). OCCCIF expenditures in the two prior biennia are included in the Administration and Central Support program. The Legislature established the OCCCIF in the 2013 session to allow general obligation Article XI-Q bond proceeds to be used to construct and make improvements to county-owned courthouse facilities housing the state's circuit courts. The OCCCIF receives a combination of both the state bond proceeds and required county matching funds. The OCCCIF is available to replace courthouses that have significant structural defects that present threats to health and safety. Bond proceeds may pay up to one-half of allowable project costs if the facility provides space to other state agencies; otherwise, state funding cannot exceed one-quarter of allowable project costs. To date, all funded projects have qualified to receive one-half of allowable costs from bond proceeds.

As of the 2015-17 biennium, the OCCCIF has provided $32.4 million of Article XI-Q bond proceeds for the Multnomah County Courthouse replacement project, $6.5 million for a new Jefferson County Courthouse, and $1.4 million for the Lane County Courthouse replacement project. An equal amount of county matching funds was also authorized for each project. The support provided allowed completion of the Jefferson County project. The support provided for the Multnomah and Lane courthouses has not been sufficient to complete those projects. The Multnomah County Courthouse is expected to require a total of $125 million of bond proceeds, and the Lane County Courthouse is expected to require $51.4 million of bond support.

Revenue Sources and Relationships

Other Funds are provided by proceeds of the sale of Article XI-Q general obligation bonds and required county matching funds. One half of expenditures are financed by Article XI-Q bond proceeds, and the other half is financed by county funds deposited into the Fund, that are then available with the bond proceeds to pay project expenses.

Legislatively Adopted Budget

The 2017-19 biennium legislatively adopted budget totals $195.2 million Other Funds for the OCCCIF, including $97.6 million of Article XI-Q bond proceeds, and $97.6 million of county matching funds. Bonds are approved for the following projects, in the following amounts:

- Multnomah County Courthouse – $92.6 million of bond proceeds. This brings the total amount of state bond proceeds provided for this project to $125 million. This support will allow Multnomah County to complete the project. If project costs ultimately exceed current forecast, the County will utilize additional local fund sources to ensure project completion.
- Lane County Courthouse – $5 million of bond proceeds. This brings the total amount of state bond proceeds provided for this project to $6.4 million. This is not sufficient to complete the courthouse replacement project. An additional $50 million is expected to be requested in subsequent biennia to complete the courthouse, however, the funding provided so far establishes no obligation or expectation for the state to provide any additional support for this project.

The bonds will not be issued until the spring of 2019, and debt service costs will not be incurred in the 2017-19 biennium. Beginning in the 2019-21 biennium, however, debt service on the bonds is expected to total approximately $15.1 million General Fund per biennium.

## Capital Construction

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 4,400,000 | -- | -- | 14,900,000 |
| **Total Funds** | **$4,400,000** | **--** | **--** | **$14,900,000** |

Program Description
This program provides for capital construction to existing state-owned facilities, or for state-owned furnishings and fixtures in county-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 [prior to the 2017-19 biennium], and Oregon Courthouse Capital Construction and Improvement Fund [beginning with the 2017-19 biennium] 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. The 2015-17 biennium budget did not include any capital construction projects.

Legislatively Adopted Budget
The 2017-19 biennium budget includes $14.9 million of Article XI-Q bond proceeds (Other Funds) for two capital construction projects. These include $8.9 million for state-owned equipment and furnishings in the new Multnomah County Courthouse, and $6 million to renovate and provide seismic updates for the Oregon Supreme Court Building. The Oregon Supreme Court Building restoration project is now forecast to total up to $33 million in cost, and to require up to an additional $27 million of Article XI-Q bond proceeds in the 2019-21 biennium to complete. There are no debt service costs due on the Article XI-Q bonds issued for these projects during the 2017-19 biennium, but debt service costs are projected to total approximately $973,000 General Fund per biennium, beginning in 2019-21.

## COMMISSION ON JUDICIAL FITNESS AND DISABILITY

Analyst: Bender

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 196,415 | 440,898 | 254,889 | 245,362 |
| **Total Funds** | **$196,415** | **$440,898** | **$254,889** | **$245,362** |
| 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, increased to 175 in 2019), 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 current 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 105 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. 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

The Commission's budget is supported by General Fund. The Commission's statutory authority does not allow for the imposition of civil penalties or the recovery of 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 agency spent approximately $11,000 for extraordinary expenses in the 2011-13 biennium, and approximately $22,000 in the 2013-15 biennium. The Legislature supplemented General Fund twice in the 2015-17 biennium, to a total of $224,752, however, to fund extraordinary expenses related to two cases.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $245,362 General Fund is $195,536 (or 44.3%) below the prior biennium level and is $9,527 (or 3.7%) below the current service level. Of the total, $227,136 is appropriated for administration (i.e., normal expenses), and $18,226 is appropriated for extraordinary expenses.

The large reduction from the prior biennium reflects the phase-out of the supplemental funding added last biennium for extraordinary expenses related to two cases. The Commission is not expected to incur additional expenses for these cases in 2017-19, so this supplemental funding was not continued. The budget instead funds extraordinary expenses at the current service level.

The budget includes one position (0.50 FTE). Services and supplies funding was reduced by $8,950 from the current service level, to help balance the statewide General Fund budget.

## PUBLIC DEFENSE SERVICES COMMISSION

Analyst: Bender

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 250,508,919 | 288,528,938 | 301,366,459 | 299,983,918 |
| Other Funds | 3,564,624 | 3,846,904 | 4,109,950 | 4,954,313 |
| **Total Funds** | **$254,073,543** | **$292,375,842** | **$305,476,409** | **$304,938,231** |
| Positions | 76 | 77 | 77 | 77 |
| FTE | 75.11 | 76.11 | 76.23 | 76.23 |

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 – ($18.1 million, 57.23 FTE) Consists of public defense attorneys who represent eligible persons at the appellate court level, and support staff. 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 – ($281.8 million, 0.00 FTE) Contains the funding for contract defense services, including attorneys, investigators, and expert witnesses, primarily at the trial court level.
- Contract and Business Services Division – ($5.1 million, 19.00 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 persons are entitled to adequate legal representation in court, at state expense, under provisions of the Oregon and federal constitutions and Oregon statutes. Public defense representation is not limited to criminal cases. Other statutory and constitutional provisions include: the right to appointed counsel in court proceedings involving life, 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 approximately 98 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 which are for primarily investigators, but also for forensic and medical services or experts, are 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.

<u>Budget Environment</u>

- 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 affected 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 2015-16 caseload count of 173,890 was up less than 2% over 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% |
| Fiscal Year 2014-15 | 170,957 | 0.3% |
| Fiscal Year 2015-16 | 173,890 | 1.7% |

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 $429 for a misdemeanor charge to $4,705 for a Measure 11 felony. Death penalty cases are particularly costly and require expenditures over multiple years. Costs related to death penalty cases were estimated to total $29.3 million in the 2015-17 biennium, and are forecast to total $30.6 million in 2017-19 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 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.

  Payment rates remain lower than for professionals in private practice or for prosecuting attorneys. According to a 2012 report from the Oregon State Bar, attorneys in public defense organizations are, on average, paid approximately 27% 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 Commission's operations, as more experienced defenders are able to move to higher paying jobs within the legal community.

Revenue Sources and Relationships

General Fund finances 98.4% of the PDSC budget, with the remaining 1.6% financed by Other Funds. The sole source of Other Funds to the agency is 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 is projected to total $3.9 million in the 2017-19 biennium. These revenues are dedicated to support of the public defense system.

PDSC will transfer $3.3 million of ACP revenues back to the Judicial Department to support program Verification Specialist positions in the courts. PDSC, however, supports compensation of 2.80 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. In the 2017-19 biennium budget, $0.7 million of ACP funds are used for Professional Services Account expenditures in the PDSC budget.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $304.9 million is $12.6 million (or 4.3%) above the prior biennium level, but is 0.2% below the current service level. Position and FTE counts are unchanged.

## Appellate Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 13,910,346 | 16,399,105 | 18,544,890 | 18,079,912 |
| **Total Funds** | **$13,910,346** | **$16,399,105** | **$18,544,890** | **$18,079,912** |
| Positions | 58 | 58 | 58 | 58 |
| FTE | 57.11 | 57.11 | 57.23 | 57.23 |

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 3,649 cases in 2013-15. 2015-17 biennium caseloads are projected to total 3,700. At this rate, the average caseload level for the Commission's appellate attorneys is approximately 48 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 are paid 2% to 32% less than their Department of Justice counterparts. This disparity affects attorney recruitment and retention and can affect timeliness and effectiveness of services. PDSC, which establishes the compensation plan for agency employees, increased Appellate Division attorney salaries effective January 1, 2015, and again on January 1, 2017. The agency did not request additional General Fund to pay 2015-17 biennium costs associated with the salary increases, estimated to total approximately $198,000. Costs of the 2017 salary increases will total approximately $792,000 in the 2017-19 biennium, when they are fully phased in.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $18.1 million is $1.7 million (or 10.2%) above the prior biennium level, but is 2.5% below the current service level. Two budget reductions were included in the budget:

- Appellate Division Reductions – $350,000 General Fund was removed from the budget to help balance the statewide General Fund budget within available resources. This amount is part of a total $484,600 reduction in resources that the agency was holding to address agency space needs. Although PDSC's current office space is limited and results in crowding, the agency has adopted measures to enable it to continue operating in the space through the 2017-19 biennium.
- Standard Statewide Adjustments – $114,978 General Fund was removed for the program's portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

## Professional Services Account

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 233,511,853 | 267,731,707 | 278,118,798 | 277,512,162 |
| Other Funds | 3,072,500 | 3,291,980 | 3,544,845 | 4,244,845 |
| **Total Funds** | **$236,584,353** | **$271,023,687** | **$281,663,643** | **$281,757,007** |

Program Description

The Professional Services Account (PSA) 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 2015-16 caseload count of 173,890 was up less than 2% over the 2003-04 count.

The largest category of case type is Dependency and Juvenile Delinquency, which represents 35% of total trial-level non-death penalty caseload. This is followed by Felonies and Felony Probation Violations, at 31%; Misdemeanors and Misdemeanor Probation Violations, at 30%; 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 only 12% of total trial-level non-death penalty costs; Felonies and Felony Probation Violations, 57% of total costs; Misdemeanors and Misdemeanor Probation Violations, 28% of total costs; and all other, 3% of total costs.

Revenue Sources and Relationships

The General Fund has historically supported almost all of the program. Other Funds are from the Application/Contribution Program and are used to help support the public defense expenditures. Most of the

Other Funds expenditures in the program are transfers to the Judicial Department to support public defense eligibility verification services in the courts.

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. More recently, caseload counts for the more expensive case types have been growing, putting additional strain on the budget.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $281.8 million is $10.7 million (or 4%) above the prior biennium level, but is essentially equal to the current service level. The current service level calculation, however, understates the actual cost of maintaining public defense contracts, because funds that were provided late in the 2015-17 biennium, to balance that biennium's budget, were not included in the current service level, even though the supplemental funds were provided for ongoing costs.

The agency was directed to maintain operation of the Parent Child Representation Program in the three counties where the program currently operates.

Funding enhancements and reductions include:

- Current Service Level Adjustment – $4.7 million General Fund was added to address an ongoing shortfall in the funding level included in the current service level calculation for the costs of contracted public defense services. In recent biennia, the Legislature has supplemented funding for the Professional Services Account with additional appropriations late in the biennium. Under budget rules, these later appropriations are not included in the current service level calculation, even though the appropriations are made to cover ongoing costs. The additional appropriation in the budget is intended to fully fund projected biennium costs, and eliminate the need for a supplemental appropriation later in the biennium. The full funding cost will then be included in future current service level calculations as well, to provide the Legislature with more accurate information on public defense system costs.
- Professional Services Account Funding Reductions – $4.7 million General Fund was removed from the budget to help balance the statewide General Fund budget within available resources. The reduction was partially offset with a $700,000 Other Funds expenditure limitation increase, to allow additional ACP revenues to support projected costs. This resulted in a $4 million net reduction in support. This reduction eliminates most of the funding typically included in the budget for services and supplies inflation, and for support to increase PDSC contractors' personal services funding above the standard rate increase for other state contractors. The agency is expected to have a $200,000 balance of ACP revenues at the end of the 2017-19 biennium. There are not, therefore, expected to be sufficient ACP revenues to continue this level of Other Funds expenditures in the 2019-21 biennium. The availability of Other Funds will need to be reevaluated at that time.
- Standard Statewide Adjustments – $0.6 million General Fund was removed for the program's portion of standard statewide adjustments made as cost containment measures. Funding is reduced based on the same expectations regarding hiring practices and the filling of vacant positions that were applied to state employee positions.

**Contract and Business Services Division**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 3,086,720 | 4,398,126 | 4,702,771 | 4,391,844 |
| Other Funds | 492,124 | 554,924 | 565,105 | 709,468 |
| **Total Funds** | **$3,578,844** | **$4,953,050** | **$5,267,876** | **$5,101,312** |
| Positions | 18 | 19 | 19 | 19 |
| FTE | 18.00 | 19.00 | 19.00 | 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, Linn, and Columbia counties to expand representation services in juvenile dependency cases.

Revenue Sources and Relationships

The General Fund and Other Funds support the majority of the program. The agency is budgeted to receive approximately $3.9 million Other Funds during the 2017-19 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 (2.80 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 2017-19 biennium is $200,000, which is approximately one month of reserves.

Budget Environment

This program administers approximately 98 contracts in all 36 counties, and receives and verifies invoices for payment on contractual services. The program also reviews over 19,000 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 $281.8 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 2017-19 legislatively adopted budget of $5.1 million is $0.1 million (or 3%) above the prior biennium level, but is 3.2% below the current service level. Two budget reductions were included in the budget:

- Consumer and Business Services Division Reductions – $278,963 General Fund was removed from the budget, and Other Funds were increased $144,363, to help balance the statewide General Fund budget within available resources. A portion of the General Fund reduction, $134,600, is part of a total $484,600 reduction in resources that the agency was holding to address agency space needs. The remaining $144,363 of the General Fund reduction is offset by an equal Other Funds increase. The budget replaces General Fund support for a Contract Manager position with Other Funds. This position is currently funded from a combination of General Fund and Other Funds revenue from the Application Contribution program. This position is eligible to be fully funded from ACP revenues, however, and sufficient ACP revenue exists to support the position 100% from Other Funds.

- Standard Statewide Adjustments – $31,964 General Fund was removed for the program's portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

# ECONOMIC DEVELOPMENT

# PROGRAM AREA

# BUSINESS DEVELOPMENT DEPARTMENT

Analyst: Bender

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 8,247,488 | 15,796,523 | 48,336,099 | 55,096,211 |
| Lottery Funds | 111,766,523 | 110,444,853 | 117,298,708 | 115,975,469 |
| Other Funds | 34,855,259 | 301,349,232 | 225,742,435 | 378,417,137 |
| Other Funds (NL) | 121,639,577 | 237,893,149 | 207,886,281 | 237,886,281 |
| Federal Funds | 29,226,631 | 40,523,014 | 40,730,835 | 40,717,603 |
| **Total Funds** | **$305,735,478** | **$706,006,771** | **$639,994,358** | **$828,092,701** |
| Positions | 134 | 140 | 138 | 136 |
| FTE | 130.88 | 136.32 | 136.00 | 134.50 |

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:

- Operations – Includes central agency administrative services that support both the business development (Business, Innovation, Trade) and the community development (Infrastructure) 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, to promote trade and innovation, and incentivize the production of solar power. 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 41% 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, General Fund is for the Solar Incentivization Program.
- Infrastructure – 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 Infrastructure program. Infrastructure also houses the Brownfields, Industrial Lands, and Broadband programs. The program area now houses 28% 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 and excess bond proceeds are sometimes applied to pay debt service, and 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. Most 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 and loans. State support for debt service totals $88.9 million in the 2017-19 biennium budget, equal to approximately 52% of the total state support provided to the agency.

Legislatively Adopted Budget

The legislatively adopted budget for the agency totals $828.1 million, a $122.1 million (or 17.3%) 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. Because most of the bonds approved for the 2015-17 biennium were not issued until spring 2017, many of the expenditures financed by those bonds need to be included in the 2017-19 budget. New bond authorization is added to this carryforward, increasing expenditures even though the amount of newly-authorized bonds is actually lower than in the prior biennium.

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 Operations program area. The Infrastructure (community development) program area is financed with Other Funds and Federal Funds, and beginning with the 2015-17 biennium budget, Lottery Funds to support the Broadband, Industrial Lands, and Seismic Rehabilitation Grant program administration. General Fund is typically restricted to the Arts Commission, which does not expend Lottery Funds, to Business, Innovation, Trade for the Solar Incentivization Program, and to pay debt service on general obligation bonds.

## Operations

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Lottery Funds | 8,175,398 | 7,231,153 | 7,384,471 | 7,094,443 |
| Other Funds | 1,218,114 | 1,832,764 | 1,912,085 | 1,848,508 |
| Federal Funds | -- | 201,917 | 199,620 | 199,438 |
| **Total Funds** | **$9,393,512** | **$9,265,834** | **$9,496,176** | **$9,142,389** |
| Positions | 37 | 33 | 32 | 32 |
| FTE | 36.75 | 33.00 | 32.00 | 32.00 |

Program Description

The Operations program area was established with the reorganization of the Department in 2009. The Operations program area includes agency administrative services that support both the business development (Business, Innovation, Trade) and the community development (Infrastructure Finance Authority), and Arts Division 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 includes the Office of the Director, Employee Services, Fiscal and Budget Services, the Technology Project Office (Information Services), and Facilities.

Revenue Sources and Relationships

Revenues for the 2017-19 biennium include $1.6 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 Infrastructure program area) and loan repayments on infrastructure loans. Federal Funds are received from the Community Development Block Grant program.

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 2017-19 biennium legislatively adopted budget reduces support for Operations. The $7 million of Lottery Funds is a 1.9% reduction from the prior biennium level, and is 3.9% below the current service level. The all fund budget is similarly a 3.7% reduction from the current service level.

There are two reductions included in the Operations program budget:

- An $81,570 Lottery Funds reduction, in funding for personal services and services and supplies, to help balance the statewide General Fund/Lottery Funds budget within the level of available resources. The personal services portion of the Lottery Funds reduction is realized from the reclassification of one Principal Executive/Manager D position to an Information Systems Specialist 6.
- $208,458 Lottery Funds, $63,577 Other Funds, and $182 Federal Funds reductions, for the Operations Division portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

**Business, Innovation, Trade**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | 951,561 | 3,336,634 | 8,549,655 |
| Lottery Funds | 54,448,023 | 55,991,778 | 55,671,350 | 56,363,565 |
| Other Funds | 8,743,235 | 14,338,849 | 10,670,068 | 18,183,883 |
| Other Funds (NL) | 8,554,191 | 12,483,982 | 12,483,098 | 12,483,098 |
| Federal Funds | 4,614,477 | 5,929,425 | 4,861,653 | 4,861,653 |
| **Total Funds** | **$76,359,926** | **$89,695,595** | **$87,022,803** | **$100,441,854** |
| Positions | 58 | 58 | 57 | 56 |
| FTE | 55.13 | 55.32 | 55.00 | 55.00 |

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, the direct business support programs including the Small Business Development Centers and the Certification Office for Business Inclusion and Diversity (COBID), and the Solar Incentivization Program.

Revenue Sources and Relationships

Revenues for the 2017-19 biennium include General Fund, 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.

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 program 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. Budget expansion has continued, with the program budget now exceeding $100 million for the first time.

Legislatively Adopted Budget

The $64.9 million of General Fund and Lottery Funds in the legislatively adopted budget is an $8 million (or 14%) increase over the prior biennium level, and is 10% above the current service level. The budget expands program support, but reductions in administrative support eliminate a net two positions (0.32 FTE).

Enhancements approved in the budget include:

- Oregon Manufacturing Innovation Center – ($2 million Lottery Funds and $6,450,979 Other Funds). $5 million of combined Lottery Funds and Other Funds support was added to the budget for the operating and research expenses of the Oregon Manufacturing Innovation Center (OMIC), a collaboration between business, academic, and government partners in Columbia County to enhance innovation and competitiveness in the metals manufacturing and advanced manufacturing sectors. Ongoing support is provided at the $3.6 million level, with another $3 million provided in one-time supplemental support. Additionally, the budget includes $3.39 million of one-time lottery bond proceeds for construction of access roads to the OMIC facility and $60,979 of lottery bond proceeds for the cost of issuing the bonds. Including the $1.6 million Lottery Funds of OMIC support in the base budget, support provided to OMIC through the 2017-19 biennium OBDD budget totals $10,050,979.
- Eastern Oregon Border Economic Development Board – ($5 million in General Fund). The funding provides one-time support of the Eastern Oregon Border Economic Development Board, established by HB 2012. The funds will finance up to $4,960,000 of loans and grants to support economic development in the Eastern Oregon border region.
- Oregon Small Business Development Center (SBDC) Network – ($1.6 million Lottery Funds) was provided in additional support to the Oregon SBDC Network. The additional funding increases total Lottery Funds support for SBDC's to $4.26 million.
- Regional Accelerator and Innovation Network (RAIN) – ($1 million Lottery Funds). The funding supports entrepreneurship and development of start-up businesses in the South Willamette Valley and Mid-Coast regions. This is a 50% reduction from the $2 million provided RAIN in the prior biennium.
- Rural Opportunities Initiative – ($750,000 of Lottery Funds) are added for a new grant program for rural communities to improve access to training and technical assistance resources for entrepreneurs. The funding will be used to establish a grant program providing 2- to 4-year funding for rural centers for entrepreneurship.
- Certification Office of Business Inclusion and Diversity (COBID) – ($441,097 Other Funds) adds two permanent, full-time positions at COBID, focusing on fraud reduction and on implementing the Service-Disabled Veteran Certification program.
- Solar Incentivization Program – ($219,995 General Fund) was added to continue the position administering the new Solar Incentivization Program that was established by the Legislature in the 2016 session. The position was initially established as limited duration, so the budget also adds one position and (1.00 FTE) to continue it.

There are also four reductions included in the program budget:

- Strategic Reserve Fund – ($10 million Lottery Funds and Other Funds) is provided for new Strategic Reserve Fund awards. This is equal to a 16.9% reduction from the current service level. Net support for the Strategic Reserve Fund was reduced $2,039,630, obtained by a $2,839,630 Lottery Funds reduction partially offset by an $800,000 increase in Other Funds expenditure limitation. The Other Funds revenue source consists of Other Funds balances, including loan repayments, in the Strategic Reserve Fund's Other Funds beginning balance.
- Oregon InC – ($18.2 million Lottery Funds) is provided for Oregon Innovation Council (Oregon InC) initiatives. This amount is essentially unchanged from the $18.1 million provided in the prior biennium. The approved funding level is $400,000 below current service level, however. Support for Oregon InC was included in the agency's current service level budget for the first time in the 2017-19 biennium.
- $933,478 in Lottery Funds reductions were obtained from position eliminations and services and supplies reductions, to help balance the statewide General Fund/Lottery Funds budget within the level of available resources. The reductions eliminated four positions [3.00 FTE], including three vacant positions.
- $6,974 General Fund, $484,677 Lottery Funds, and $178,261 Other Funds reductions, for the BITD portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

### Infrastructure

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | -- | -- | 2,000,000 |
| Lottery Funds | -- | 3,806,133 | 1,863,477 | 1,548,664 |
| Other Funds | 13,495,967 | 267,392,424 | 203,001,120 | 345,421,660 |
| Other Funds (NL) | 94,842,745 | 225,409,167 | 195,403,183 | 225,403,183 |
| Federal Funds | 22,805,048 | 32,500,354 | 33,708,202 | 33,699,399 |
| **Total Funds** | **$131,143,760** | **$529,108,078** | **$433,975,982** | **$608,072,906** |
| Positions | 30 | 38 | 38 | 37 |
| FTE | 30.00 | 37.00 | 38.00 | 37.00 |

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.

The program was renamed to simply the "Infrastructure" program, to reflect the addition of infrastructure programs that are not under the governance of the Infrastructure Finance Authority.

Revenue Sources and Relationships

Prior to the 2015-17 biennium, Infrastructure program expenditures were not supported by Lottery Funds, although the state issued lottery revenue bonds to finance a portion of these programs' costs. In those instances, lottery revenue bond proceeds ($12 million in 2015-17) are deposited into revolving loan funds and made available for infrastructure loans and grants, and for payment of administrative costs relating to Infrastructure 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 Other Funds Nonlimited (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 into revolving loan funds, but are instead transferred directly to recipients. Expenditures of these proceeds are included as Other Funds and not as Other Funds Nonlimited. Additional lottery bond proceeds, as well as general obligation bond proceeds issued for the Seismic Rehabilitation Grant Program, are also not deposited into revolving loan funds, and are also expended as Other Funds and not as Other Funds Nonlimited.

Debt service costs on the lottery revenue bonds issued to provide these funds are paid with Lottery Funds, and debt service on general obligation bonds issued for Seismic Rehabilitation Grants are paid with General Fund, but those payments are shown in the Lottery and General Obligation Bond Debt Service program area, and not in the Infrastructure budget.

Infrastructure program area revenues include fees and service charges, interest earnings, loan repayments, federal grant funds, and Other Funds Nonlimited from the sale of program specific revenue bonds and lottery-backed bonds.

Budget Environment

The 2011-13 biennium budget included $10 million of lottery revenue bonds for 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. Bond support increased dramatically in the 2015-17 biennium, particularly with the large increase in the Seismic Rehabilitation Grant Program. The Infrastructure program received $205 million of general obligation bond proceeds for Seismic Rehabilitation Grants, and a total of $38.6 million of lottery revenue bond proceeds for recapitalizing revolving loan funds, and for Regional Solutions and other projects.

Bond proceeds are always approved in the budget on a one-time basis, and are phased out in the calculation of the current service level.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is 14.9% above the prior biennium level. The increase in the limited funds Infrastructure budget, however, is 26% above the prior biennium level. This, however, is largely an artifact of carrying forward significant expenditures of bond proceeds from bonds issued late in the prior biennium. Because most of the bonds approved for the 2015-17 biennium were not issued until spring 2017, many of the expenditures financed by those bonds need to be included in the 2017-19 budget. The 2017-19 budget, however, provides significantly less new bond authorizations than the prior biennium budget. The new general obligation and lottery revenue bond proceeds authorized in the 2017-19 budget for Infrastructure programs and projects total $174.6 million, down 28.3% from the $243.6 million total of new bonds authorized in 2015-17.

All bond proceeds in the budget are enhancements above current service level, even when the amount of bond funding is below the prior biennium level. Given this, the budget includes the following enhancements to the Infrastructure budget:

- Seismic Rehabilitation Grant Program – ($121.6 million Other Funds). Funding was added for the Seismic Rehabilitation Grant Program**.** The amount includes $120 million for grants plus $1.6 million to pay the costs of issuing the General Obligation bonds that fund the grants. Funding includes $120 million for public education building grants and $20 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 2018 ($35 million) and spring of 2019 ($85 million). Funding in the prior biennium totaled $175 million for public education building projects and $30 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.

  Debt service costs on the bonds issued to provide these funds will be paid by General Fund, and are projected to total approximately $2.8 million in the 2017-19 biennium, and $18.2 million per biennium, beginning in the 2019-21 biennium, when costs fully phase in.

- Special Public Works Fund (SPWF) – ($30 million Other Funds Nonlimited and $517,975 Other Funds). Funding from lottery revenue bond proceeds was provided to add capital to Special Public Works Fund (SPWF). The budget includes $30 million for this purpose. To supply these funds, the state will issue a projected $33.4 million of lottery revenue bonds in the spring of 2019. Approximately $2.9 million of these bond proceeds will be held in reserves, and $517,975 will be allocated to the Department to pay costs of issuance (Other Funds). The remaining $30 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 $30 million in total support includes $10 million specifically dedicated to levee inspection and repair projects. The remaining $20 million of bond proceeds may be applied to any eligible Special Public Works Fund projects. Debt service costs for the Lottery bonds are expected to total $5.8 million Lottery Funds, per biennium, when the costs fully phase in beginning in the 2019-21 biennium.

- Regional Solutions – ($1 of Other Funds). Expenditure limitation of $1 for lottery revenue bond proceeds was included for capital construction priority projects identified by Regional Solutions Advisory Committees**.** The budget, however, authorized $4.5 million of Lottery bonds to provide $4 million for Regional Solutions projects. The Legislature or Emergency Board will increase the Other Funds expenditure limitation after approving a funding request from the Department with identified Regional Solutions projects.

- Coos Bay Channel Deepening – ($15,259,002 Other Funds). The budget includes $15 million of lottery revenue bond proceeds to be distributed to the Oregon International Port of Coos Bay for a project to deepen the lower Coos Bay deep draft navigation channel, plus $259,002 for the cost of issuing the bonds. Debt service costs for the Lottery bonds are expected to total $2.5 million Lottery Funds, per biennium, when the costs fully phase in beginning in the 2019-21 biennium.

- Crescent Sanitary District Wastewater Treatment Facility – ($5,058,514 total funds). The budget includes $5 million to be distributed to the Crescent Sanitary District for a wastewater treatment facility, plus $58,514 Other Funds for the cost of issuing bonds to help fund a portion of the grant to the district. The grant is funded by a combination of $2 million General Fund and $3 million of lottery revenue bond proceeds (Other Funds). Debt service costs for the Lottery bonds are expected to total $511,000 Lottery Funds, per biennium, when the costs fully phase in beginning in the 2019-21 biennium.

- City of Sweet Home Wastewater Treatment Plant Upgrade – ($2,050,587 Other Funds). The budget includes $2 million of lottery revenue bond proceeds to be distributed to the City of Sweet Home to upgrade its wastewater treatment plant, plus $50,587 for the cost of issuing the bonds. Debt service costs for the Lottery bonds are expected to total $344,000 Lottery Funds, per biennium, when the costs fully phase in beginning in the 2019-21 biennium.

- Port of Brookings Harbor – $600,000 of net Lottery bond proceeds for repairs and upgrades to the Port of Brookings Harbor dock were authorized, but erroneously excluded from the Department's budget. A technical correction to the budget will be presented at the 2018 session, to add the required expenditure limitation authority for project funding and costs of issuing the bonds. The error will not delay the timing of the bonds, which were approved to be issued in the spring of 2019. Debt service costs for the Lottery bonds are expected to total $112,000 Lottery Funds, per biennium, when the costs fully phase in beginning in the 2019-21 biennium.

There are also two reductions included in the Infrastructure program budget:

- A $260,014 Lottery Funds reduction, reducing one position [1.00 FTE], to help balance the statewide General Fund/Lottery Funds budget within the level of available resources. The Lottery Funds reduction is realized by eliminating an Operation and Policy Analyst position in the Industrial Lands Program.
- $54,799 Lottery Funds, $142,756 Other Funds, and $8,803 Federal Funds reductions, for the Infrastructure Division portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

## Film and Video Office

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Lottery Funds | 1,130,544 | 1,164,460 | 1,207,545 | 1,207,545 |
| **Total Funds** | **$1,130,544** | **$1,164,460** | **$1,207,545** | **$1,207,545** |

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 3.7% over the prior biennium level and is equal to the current service level amount.

The budget also increases support for 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% on 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. The total tax credits that can be awarded was increased in the 2016 session. Total credits are limited to $28 million per biennium beginning in 2017-19, up from $22 million in 2015-17 biennium.

## Arts Commission

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 4,496,531 | 4,155,062 | 4,373,905 | 5,402,041 |
| Other Funds | 6,397,943 | 13,191,818 | 10,159,162 | 12,963,086 |
| Federal Funds | 1,807,106 | 1,891,318 | 1,961,360 | 1,957,113 |
| **Total Funds** | **$12,701,580** | **$19,238,198** | **$16,494,427** | **$20,322,240** |
| Positions | 9 | 11 | 11 | 11 |
| FTE | 9.00 | 11.00 | 11.00 | 10.50 |

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. 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 supported by General Fund. 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 2015-17, the budget included $4.5 million of Lottery bond proceeds for cultural organization capital projects. This represented a substantial increase over the prior biennium. Bond support is approved on a one-time basis, and is phased out in the development of the current service level budget.

The budget has not accurately reflected actual Arts Division expenditures. Grant expenditures have been lower than budgeted, and services and supplies expenditures have been higher.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the Arts Division is a $1.1 million (or 5.6%) increase over the prior biennium level, and is 23.2% above the current service level. The increases are attributable to an increase in legislatively-designated grant awards. Fund for grants awarded by the Arts Commission, and administrative expenses of the Arts Division, were reduced.

Funding enhancements include:

- $1,650,000 General Fund was provided on a one-time basis to support the following cultural projects:
  - APANO Cultural Center – $300,000
  - Benton County Historical Society and Museum – Corvallis Museum – $500,000
  - Cottage Theatre Expansion – $125,000
  - High Desert Museum – By Hand Through Memory Exhibit – $125,000
  - Liberty Theatre Foundation – Theatre Restoration in La Grande – $200,000
  - Oregon Coast Council for the Arts – Newport Performing Arts Center – $300,000
  - Portland Institute of Contemporary Art – Capital Campaign NE Hancock – $100,000

- $2.8 million of Lottery revenue bonds were approved to provide $2,450,000 of Lottery bond proceeds (Other Funds) to support the following cultural organization capital projects:
  - Portland Art Museum – Connection Campaign – $1,000,000
  - Eugene Ballet Company – Midtown Arts Center – $700,000
  - Friends of the Oregon Caves and Chateau – Balcony Restoration Project – $750,000

Funding reductions include:

- Arts Commission Grants – General Fund support for grants was reduced by $524,869. This represents a 10% reduction in total funding for Arts Commission grants, and a 19% reduction in General Fund support for grants, in the budget. The budget was not aligned to actual expenditure patterns, however, and General Fund services and supplies were increased by $259,282. The combined impact of the reduction/realignment adjustments is a $265,587 net General Fund reduction.
- An Executive Assistant position was reduced from full-time to half-time for a reduction of $82,434 General Fund and (0.50 FTE).
- Funding for the Arts Division Director and Assistant Director positions was shifted from 100% General Fund to 50% General Fund/50% Other Funds, reducing General Fund and increasing Other Funds by $259,282.
- $14,561 General Fund, $27,334 Other Funds, and $4,247 Federal Funds reductions, for the Arts Division portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

### Lottery and General Obligation Bond Debt Service

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 3,750,957 | 10,689,900 | 40,625,560 | 39,144,515 |
| Lottery Funds | 48,012,558 | 42,251,329 | 51,171,865 | 49,761,252 |
| Other Funds | 5,000,000 | 4,593,377 | -- | -- |
| Other Funds (NL) | 18,242,641 | -- | -- | -- |
| **Total Funds** | **$75,006,156** | **$57,534,606** | **$91,797,425** | **$88,905,767** |

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. Other Funds Nonlimited represent expenditures to refinance outstanding lottery revenue bonds. Proceeds of new bonds are used to 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 2017-19 biennium budget authorizes a total of $121,610,000 of general obligation bonds (a 41% reduction from the prior biennium), to provide $120 million of bond proceeds to the Department for the Seismic Rehabilitation Grant Program. This total includes:

- $101.2 million of Article XI-M bonds to finance $100 million of seismic rehabilitation projects for public education buildings. This bond authorization is approximately 57% of the level of Article XI-M bonds issued in the 2015-17 biennium. Only $25.4 million of these bonds will be issued before the spring of 2019, thereby limiting 2017-19 biennium debt service costs to $2 million General Fund. Debt service costs will increase to $15 million in the 2019-21 biennium.

- $20.4 million of Article XI-N bonds to finance $20 million of seismic rehabilitation projects for emergency services buildings. This bond authorization is approximately 67% of the level of Article XI-N bonds issued in the 2015-17 biennium. Only $10.2 million of these bonds will be issued before the spring of 2019, thereby limiting 2017-19 biennium debt service costs to $814,000 General Fund. Debt service costs will increase to $3.2 million in the 2019-21 biennium.

The 2017-19 legislatively approved budget also authorizes $67,215,000 of lottery revenue bonds (a 39% increase over the prior biennium level) for the Department, including:
- $33.45 million of lottery revenue bonds to increase the corpus of the primary infrastructure revolving loan fund – the Special Public Works Fund – with $11.2 million of the total specifically dedicated to levee projects.
- $22.77 million of lottery revenue bonds for legislatively-designated infrastructure projects.
- $4.46 million of lottery revenue bonds for Regional Solutions capital projects.
- $3.74 million of lottery revenue bonds for road improvements at the Oregon Manufacturing Innovation Center.
- $2.79 million of lottery revenue bonds for legislatively-designated cultural institution capital projects.

Because the lottery revenue bonds will not be issued until spring of 2019, there are no debt services payments due in the 2017-19 biennium. The $49.8 million of Lottery Funds in the budget are entirely to pay debt service on lottery revenue bonds issued prior to the 2017-19 biennium. Debt service costs on the newly-approved lottery bonds are projected to equal $11.1 million in the 2019-21 biennium, when the first debt service payments become due.

Debt service on revenue bonds issued for the Oregon Bond Bank is included in Other Funds Nonlimited in the Infrastructure Finance Authority program area.

<u>Budget Environment</u>
Debt service on general obligation bonds is paid with General Fund. Debt service on lottery revenue bonds is paid with Lottery Funds allocations. To minimize the size of the required Lottery Funds allocation, however, interest earnings on lottery bond reserves and excess bond proceeds are also applied to pay debt service. Interest earnings are spent as Other Funds. Other Funds Nonlimited expenditures in the 2013-15 biennium represent the refunding of previously-issued bonds.

The state received favorable terms on its spring 2017 lottery revenue bond and general obligation bond sales, and the restructuring and refinancing of previously-issued OBDD bonds reduced debt service costs even further. 2017-19 biennium debt service costs are, therefore, now $1.5 million General Fund and $1.4 million Lottery Funds below the current service level calculation.

<u>Legislatively Adopted Budget</u>
The legislatively adopted budget includes $49.8 million Lottery Funds for debt service payments on outstanding lottery bonds. All payments are for bonds authorized and issued prior to the 2017-19 biennium. The Lottery Funds amount is a 17.8% increase over the prior biennium level. The magnitude of the increase, however, was increased by the availability of $4.9 million of one-time Other Funds (excess bond proceeds and interest earnings), that reduced the Lottery Funds needed in the prior biennium. These Other Funds resources are not available in 2017-19, requiring Lottery Funds to pay 100% of debt service costs in 2017-19.

The $67.2 million of new lottery bonds approved in the 2017-19 budget support the projects identified in the Program Description section above. No debt services costs are paid for these bonds in the 2017-19 biennium budget. Debt service for the bonds are projected to equal $11.1 million per biennium, when payments begin in 2019-21.

The budget includes $39.1 million General Fund to pay debt service on general obligation bonds. The General Fund amount is a 266% increase over the prior biennium level. The expenditures support $36.3 million of debt service costs for previously-authorized bonds for Seismic Rehabilitation Grants and other projects, plus $2.8 million of debt service costs for $35.6 million of Article XI-M and Article XI-N bonds that will be issued to support Seismic Rehabilitation Grants for public education and emergency services facilities in the spring of 2018.

The remaining $75.8 million of Article XI-M bonds and $10.2 million of Article XI-N bonds authorized in the budget will not be issued until the spring of 2019, and thus impose no debt service costs on the 2017-19 biennium budget. Debt service costs for the $121.6 million of new bonds authorized for Seismic Rehabilitation Grants are projected to total $18.2 million per biennium when fully phased in beginning in 2019-21.

## EMPLOYMENT DEPARTMENT

Analyst: Deister

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | 6,133,655 | 6,252,676 | -- |
| Other Funds | 109,710,655 | 146,303,204 | 146,868,691 | 144,544,337 |
| Other Funds (NL) | 1,192,147,204 | 1,520,105,053 | 1,424,000,000 | 1,424,000,000 |
| Federal Funds | 155,199,849 | 162,865,912 | 156,502,819 | 155,927,081 |
| Federal Funds (NL) | 241,841,739 | 94,832,000 | 70,000,000 | 70,000,000 |
| **Total Funds** | **$1,698,899,447** | **$1,930,239,824** | **$1,803,624,186** | **$1,794,471,418** |
| Positions | 1,395 | 1,272 | 1,260 | 1,298 |
| FTE | 1,280.46 | 1,237.76 | 1,204.84 | 1,239.78 |

Overview

The Oregon Employment Department (OED) offers services in four program areas:

- Unemployment Insurance (UI) provides wage replacement income to workers who are unemployed through no fault of their own.
- Workforce Operations 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.

Shared Services represents a new budget structure created for the 2017-19 biennium. It was created to add transparency to agency administrative services expenditures. Shared Services encompasses the following: Office of the Director of the Employment Department; information technology services; administrative business services such as budgeting, accounting, procurement, and facilities; legislative affairs and communications; and human resources functions.

A Modernization Initiative budget structure was also created beginning in 2017-19 to better enable the monitoring of multi-year information technology planning and execution costs related to modernizing the Employment Department's aging information technology infrastructure. Modernizing these systems is expected to be a multi-year endeavor, and separate reporting should enable this project to track more closely with legislative budget and position authority authorized during various phases of review and development.

The 2017 Legislative Assembly voted to transfer the administration of the Oregon Talent Council – which was renamed the State Workforce and Talent Development Board in HB 3437 – to the Higher Education Coordinating Commission, with the goal of better coordinating various state workforce goals and plans. With this change, the Employment Department is entirely an Other and Federal Funds agency for 2017-19.

Revenue Sources and Relationships

The Employment Department revenue sources include both Federal and Other Fund sources, and several of these sources are expended across multiple divisions in the Employment Department. What immediately follows is a summary of total amounts of revenue, by source, expected to be received by OED in the 2017-19 biennium; the amounts expended will be discussed in the detail of each respective OED division later in this document.

Sources of Other Funds revenues include:

- Oregon UI Trust Fund – Balance totaled $3.6 billion in June of 2017, up from $3.1 billion in June 2016. 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. As of June 30, 2017, remaining Reed Act funds available for expenditure were $3.2 million.
- Special Administrative Fund – Also called "Penalty and Interest Revenue", these are 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 2017-19 biennium, the Employment Department expects to have $28.4 million available, based on $9.6 million of estimated new revenue and $18.8 million of estimated carryover from 2015-17.
- 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 2017-19 legislatively adopted budget assumes that the diversion will generate $80 million, which supplements $13.2 million in carryover from 2015-17. All SEDAF monies are appropriated continuously to the Department for the payment of administrative expenses for which federal funding has been reduced, eliminated, or is otherwise not available due to federal restrictions on its use.
- 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 2017-19, the Department projects $8.5 million in interest collections, which supplements $21.3 million in carryover from 2015-17.
- Unemployment Insurance Modernization Funds are one-time revenue in the amount of $85.6 million 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 expended as Other Funds. As of June 30, 2017, the balance of these funds was $83.7 million.
- Supplemental Nutritional Assistance Program (SNAP) Employment and Training funds are passed to OED from the Department of Human Services, which receives a grant from U.S. Department of Health and Human Services. OED is one of several partners that are reimbursed – in whole or in part depending on the specific programs the clients are served by – for employment and training services provided to SNAP recipients. The legislatively adopted budget includes $3 million in revenue related to SNAP services.

OED also receives Other Funds revenues from other state agencies as reimbursement for providing job placement services, for conducting contested case hearings, and for custom research services.

Sources of Federal Funds revenue include:

- Unemployment Insurance Administrative Grant – Employer payroll taxes are collected by the Internal Revenue Service under authority of the Federal Unemployment Tax Act (FUTA) and used to finance the bulk of the administration of the UI program. Distribution to states is based on a complex cost formula incorporating economic data and forecasts, UI workload and spending history, and federal appropriation levels. UI Administration Grant funds may only be used to pay for administration of the UI program. Based on its May 2017 revenue forecast, the Employment Department anticipates $100.6 million will be distributed by the U.S. Department of Labor for the 2017-19 biennium.
- Reemployment Services and Eligibility Assessment Program – The U.S. Department of Labor provides funding specifically for the review of UI claimant eligibility, for the provision of their reemployment plans, and for the distribution of labor market information to UI claimants. The amount of funding expected to be received by the agency in 2017-19 is $8.5 million.

- Wagner-Peyser – $27 million is expected for Business and Employment Services provided by the Workforce Operations and Research division under the Wagner-Peyser Act.
- The Trade Adjustment Act funds training and case management services for displaced workers. In 2017-19, $9.7 million is anticipated from this source.
- Veterans' placement services are assumed to amount to $5.2 million in 2017-19.
- Estimates of funding for federal unemployment insurance benefits – payments to federal workers and trade impacted workers – are expected to amount to $70 million in 2017-19.
- Bureau of Labor Statistics funding for workforce and economic research is anticipated to be $2.6 million in 2017-19.
- Workforce Information Grant funds are provided for investing in research and distributing labor market information. An estimated $1 million is anticipated for 2017-19.
- The U.S. Department of Labor provides a federal tax credit – known as the Work Opportunity Tax Credit – to employers that hire employees from certain target populations. The Employment Department expects to receive $480,000 from the U.S. Department of Labor to administer this program in 2017-19.
- Foreign Labor Certification Grant funds are anticipated at $184,000.

<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 as of July, 2017 was a seasonally adjusted 3.8%, down from 5.1% the previous year, while the U.S. unemployment rate for the same period was 4.3% and 4.9%, respectively.

The rate of growth in Oregon's economy showed signs of slowing, per the Oregon Office of Economic Analysis in August, 2017. An aging Oregon workforce is a particularly pressing challenge to the State's economy. As a fairly large portion of the workforce ages and retires, gaps are created that employers struggle to fill, as they are looking for employees with a similar combination of skills and experience. The jobs often remained unfilled, and the Employment Department is focused on matching qualified workers to job opportunities, and helping to connect potential workers to training opportunities so that they can fill specific skilled labor positions. Key to this effort is partnerships with other state agencies, including the Higher Education Coordinating Commission (which administered several federally funded workforce and education programs) and the Bureau of Labor and Industries' Apprenticeship and Training Division. An example of one such partnership is the cooperative effort among these agencies to educate employers about the benefits of apprenticeship, and potentially help them create an apprenticeship program that meets their training needs in a non-traditional/non-building trade field.

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 to 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.

<u>Legislatively Adopted Budget</u>

The 2017-19 legislatively adopted budget is a 7.03% total funds reduction from the 2015-17 legislatively approved budget. This decrease is primarily due to reductions in unemployment insurance benefit payments (budgeted as Nonlimited) and due to decreasing levels of Other and Federal fund administrative revenue owing to the counter-cyclical administrative funds granted by the U.S. Department of Labor for agency operations during periods of economic growth.

The Joint Committee on Ways and Means approved multiple changes to the Employment Department's key performance measures. Those changes were for the purpose of aligning measures with data reported to the U.S. Department of Labor; to replace 'static' targets with those that reflect inflation, changes in policy, or sustained improved performance; to measure administrative costs based on the total number of UI claims evaluated, rather than just those approved; to recognize varying degrees of complexity in cases considered by the Office of Administrative Hearings; and to include a new measure for the Workforce and Economic Research division.

The Joint Committee on Ways and Means also approved the following budget note: "The Employment Department is directed to report to the Joint Committee on Ways and Means or to a meeting of the Emergency Board after release of the Legislative Fiscal Office's annual Report on Liquidated and Delinquent Accounts Receivable, scheduled for December 2017. The Employment Department's report will include: ;ow much of the total ending balance of reported liquidated and delinquent accounts are attributable to uncollected; unemployment Insurance benefit overpayments, uncollected Unemployment Insurance Taxes and other causes; what actions and circumstances are defined as write-offs, adjustments and reversals for purposes of the Liquidated and Delinquent Accounts Receivable report; the efforts made to reduce the agency's delinquent debt as reported, progress made to reduce the ending balance of the liquidated and delinquent accounts receivable as compared to the previous year's report by 10%, and how its debt collection efforts relate to federal performance metrics; and an action plan for continued progress toward reducing delinquent debt as reported, including additional resources that may be necessary to improve performance."

In each agency program, the 2017-19 budget includes state government personal services reductions based on vacancies, service charge reductions and rate adjustments that were approved in most agency budgets.

Specific spending changes in each division are discussed below.

### Unemployment Insurance

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 21,150,537 | 27,912,373 | 33,222,239 | 31,278,349 |
| Federal Funds | 115,884,311 | 123,791,412 | 92,729,485 | 88,851,212 |
| **Total Funds** | **$137,034,848** | **$151,703,785** | **$125,951,724** | **$120,129,561** |
| Positions | 728 | 631 | 577 | 563 |
| FTE | 631.46 | 602.02 | 527.16 | 513.49 |

Program Description
The Unemployment Insurance (UI) 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.

Revenue Sources and Relationships
The 2017-19 legislatively adopted budget projects expenditures of Federal Funds to support the UI program in the following amounts:
- UI Administration Grant: $81.9 million
- Reemployment Services and Eligibility Assessment: $7 million

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget is a 20.8% decrease from the 2015-17 legislatively approved level. This is due to reductions in Federal and Other Funds allocations distributed to OED via funding formulas that consider economic data and UI workload factors. A total of 79 positions (77.91 FTE) and $24.6 million in attendant funding was transferred from the UI program to the newly established Shared Services program. Adjustments were approved to balance expenditures with available sources of revenue, and to move five positions that were located in the UI division in prior biennia to the newly created Shared Services division.

## Shared Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | -- | -- | 17,620,657 | 14,945,040 |
| Federal Funds | -- | -- | 27,948,796 | 26,333,642 |
| **Total Funds** | **--** | **--** | **$45,569,453** | **$41,278,682** |
| Positions | -- | -- | 136 | 138 |
| FTE | -- | -- | 134.91 | 136.91 |

Program Description
New for the 2017-19 biennium, the Shared Services division was created in response to requests by the Department of Administrative Services Chief Financial Office and Legislative Fiscal Office to facilitate transparency and understanding of agency administrative costs, which here-to-fore had been allocated across other agency divisions for budget purposes. The division includes the offices of the Director and Deputy Director (4 positions/ 4.00 FTE); Internal audit 1 position/1.00 FTE); agency Information and Technology services (74 positions/73.56 FTE); Administrative and Business Support (budgeting, accounting, payroll, safety/risk, facilities, and procurement) (40 positions/39.42 FTE); Legislative Affairs and Communications (5 positions/5.00 FTE); and Human Resources (14 positions/14.00 FTE).

Revenue Sources and Relationships
This program is funded primarily with Federal Funds (61%) with actual expenditures charged directly to benefitting program funding sources and indirect expenditures allocated pursuant to an approved U.S. Department of Labor cost allocation plan. Federal Funds supporting this program are as follows:

- UI State Administration Grant: $18.8 million
- Reemployment Services and Eligibility Assessment Grant: $1.5 million
- Trade Act Administration: $1,000,000
- Veteran's Employment Services: $860,000
- Wagner-Peyser Funds: $3.5 million
- Work Opportunity Tax Credit: $70,000
- Bureau of Labor Statistics: $450,000
- Foreign Labor Certification: $40,000
- Workforce Information Grant: $114,000

Other Funds utilized in the program come primarily from SEDAF ($9 million). Penalty and Interest ($3 million) and Charges for Services for Office of Administrative Hearings ($2 million) are also used for Shared Services.

Legislatively Adopted Budget
The legislatively adopted budget reduced Other Funds expenditures from the 2017-19 current service level to balance expenditures with expected available revenue. The reduction was necessary to reflect that Reed Act funds, utilized to supplemental central administration in previous biennia, are largely spent, and can no longer be utilized to support operations at previous levels. Policy option packages were approved to reflect approval of permanent finance plans that reclassified positions, and to move five positions into the program which had

previously resided in the UI program. Three information technology positions dedicated to security were moved to the Office of the State Chief Information Officer at the Department of Administrative Services, aiding in the consolidation and consistency of IT security efforts across the Executive branch.

### Workforce Operations

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 55,028,638 | 74,995,188 | 60,671,158 | 60,062,761 |
| Federal Funds | 32,090,108 | 35,585,121 | 28,223,420 | 33,286,474 |
| **Total Funds** | **$87,118,746** | **$110,580,309** | **$88,894,578** | **$93,349,235** |
| Positions | 484 | 461 | 382 | 421 |
| FTE | 471.80 | 459.05 | 380.05 | 419.05 |

Program Description

The Workforce Operations 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. The division operates 36 regional WorkSource Oregon centers, often co-locating with other partners, including the Department of Human Services, Veterans Administration, and local Workforce Investment and training entities.

Revenue Sources and Relationships

64% of the Workforce Operation's program is funded with Other Funds. The primary source of Other Funds is $52 million from SEDAF. Reed Act Funds comprise $3.2 million and SNAP Employment and Training Funds support $3 million of total Other Funds expenditures. The primary source of Federal Funds supporting the Workforce Operations program is $18.7 million of Wagner-Peyser funds, followed by $9.6 million of Trade Act funds and $4 million of funds for Veterans programs.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is an 18.5% decrease from the 2015-17 legislatively approved budget. Over $6 million in one-time 2015-17 expenditures were phased out, and 49.00 FTE were transferred from this division to the newly established Shared Services program. The Legislature approved $4.8 million in Federal Funds expenditure limitation, 19.00 permanent FTE and 11.00 limited duration FTE to support additional services funded by the federal Trade Act, reflecting the increase in the number of petitions being filed and approved for assistance to workers that have lost their jobs due to foreign competition. Three positions and $497,050 in additional Federal Funds expenditure limitation was approved to enable OED to market and assist employers in utilizing the federal Workforce Opportunity Tax Credit. Other Funds expenditure limitation was increased by nearly $800,000 and five limited duration positions were approved to provide employment services contracted to OED from the Department of Human Services. The budget was also adjusted to reclassify several positions, an action which was funded through the elimination of a vacant management position.

### Office of Administrative Hearings

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 26,032,266 | 29,439,316 | 28,131,439 | 26,858,403 |
| **Total Funds** | **$26,032,266** | **$29,439,316** | **$28,131,439** | **$26,858,403** |
| Positions | 115 | 114 | 107 | 104 |
| FTE | 111.02 | 112.29 | 105.88 | 102.88 |

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. Costs for the program are driven by the volume of hearings referred by agencies and the complexity of the issues involved.

Revenue Sources and Relationships
The Office of Administrative Hearings (OAH) is funded by the agencies which refer cases for hearing. The OAH charges fees in an amount calculated to recover the cost of providing an administrative law judge, the cost of conducting the hearing, and all associated administrative costs. The amount charged to each agency, board or commission is based on the actual use of OAH services.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget is a 8.8% decrease from the 2015-17 legislatively approved budget, due to one-time IT expenditures not budgeted to continue in 2017-19, and due to the transfer of three positions and attendant funding to the Shared Services program. Three permanent positions in this program which had been vacant for more than six months were also eliminated.

### Workforce and Economic Research

| | **2013-15 Actual** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---|---|---|---|
| Other Funds | 7,685,289 | 13,956,327 | 7,223,198 | 6,717,471 |
| Federal Funds | 7,225,430 | 3,489,379 | 7,601,118 | 7,455,753 |
| **Total Funds** | **$14,190,719** | **$17,445,706** | **$14,824,316** | **$14,173,224** |
| Positions | 68 | 64 | 56 | 54 |
| FTE | 66.18 | 62.75 | 55.17 | 53.50 |

Program Description
This division 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 Innovation and Opportunity 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 mandated by the U.S. Bureau of Labor Statistics, and requests from local workforce investment boards, private businesses, and industry consortiums.

Revenue Sources and Relationships
The Workforce and Economic Research division is funded with a mix of Federal and Other Funds. Revenue sources include Federal Funds from the United States Department of Labor ($7.5 million); Other Funds from SEDAF funds ($6.3 million); contracts for customized analysis ($1.1 million); and competitive grants ($22,000).

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget is an 18.8% reduction from the 2015-17 legislatively approved budget. One-time costs related to 2015-17 information technology projects were eliminated, and five positions and $2 million were transferred to the newly created Shared Services division. Two permanent positions were eliminated to finance the reclassification of other positions in the division, to maximize the utilization of existing staff.

## Modernization Initiative

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | -- | -- | -- | 4,682,313 |
| **Total Funds** | **--** | **--** | **--** | **$4,682,313** |
| Positions | -- | -- | -- | 18 |
| FTE | -- | -- | -- | 13.95 |

Program Description

The Employment Department began tentative steps to modernize its information systems in 2015-17. Existing systems were designed in the 1990s and did not incorporate web-based applications. The age of systems, modifications overtime, and complex interdependencies between OED divisions and other agencies have contributed to an unstable computing environment, compatibility problems, manual processes, and increasing costs of maintenance as vendor support phases out and employees retire. OED must also take steps to increase its IT security and protect its information from cyber attacks.

The 2017-19 budget created a new, separate reporting structure for personnel and expenditures dedicated to the modernization of OED core business and information technology systems. This effort is anticipated to take several biennia, as the project will require planning, procurement, testing, and deployment. Authorization to begin planning for the project and $4 million in associated expenditure limitation was first approved by the 2015 Legislature. However, by April of 2017, the Employment Department had utilized only $1.4 million in actual and projected expenditures associated with the project. New leadership within the agency prompted a careful look at 2015-17 project plans and what could be reasonably and successfully accomplished during the 2015-17 biennium and would get completed during the 2017-19 biennium.

Revenue Sources and Relationships

Core business and systems modernization efforts are supported by one-time revenue in the amount of $85.6 million that OED received during June and July of 2009, and refers to as UI Modernization Funds. These dollars can be used for agency administration. Rather than expending them on ongoing day-to-day operating expenses, OED has earmarked these dollars for efforts associated with upgrading and modernizing its business systems, in lieu of requesting a General Fund appropriation. Assuming the project remains on schedule, there is an anticipated $78.4 million ending balance at the close of the 2017-19 biennium.

Legislatively Adopted Budget

The budget authorizes 18 permanent positions and $4.7 million Other Funds. A report to the 2018 Legislature on project status will be made, and favorable recommendations must be secured by the State Chief Information Officer, the Chief Financial Office, and the Legislative Fiscal Office before all funds are fully allocated for the Department's use. These resources are expected to enable OED to complete a feasibility study, which will include a strategic plan for modernization that will incorporate business needs; identify business solutions requirement through process mapping; identify what market solutions exist; and perform a readiness assessment to identify the Department's level of readiness to initiate the project. OED aspires to complete the feasibility study in January, 2018. After completion of the Feasibility Study, the Employment Department will work with the State CIO and the Legislative Fiscal Office to secure endorsement of further work on the project (a.k.a. Stage Gate II approval) which entails the development of a more detailed business case, statements of work and other procurement documents.

Expenditure limitation is included for vendors associated with quality assurance, systems engineering, and training. Seven of the positions are continued from the 2015-17 biennium, as follows: a program manager; three Operations and Policy Analyst positions that serve a business analytic function; an Operations and Policy Analyst position serving as a subject matter expert from the Workforce Operations division; an Information Systems Specialist project manager; an executive assistant; a public affairs specialist to keep agency personnel apprised of date needs and project milestones; and an Operations and Policy Analyst to manage and prepare personnel for changes the agency will need to make to successfully implement new systems. An additional eight subject matter experts will assist with mapping data and processes for compliance, quality assurance, tax collection, administrative, and accounting functions in specific divisions of the agency as the project progresses. These positions will be phased into the new division over the course of the 2017-19 biennium. Employment will be transferring existing employees from various divisions to serve as the subject matter experts, and then temporarily "hire behind" them to ensure regular duties continue to be carried out.

In addition, the budget provides for an Operations and Policy Analyst to help develop and manage quality assurance and a contract specialist to manage other vendor contracts, and to help draft request for proposals in anticipation of a completed feasibility study.

## Nonlimited

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds (NL) | 1,191,961,129 | 1,520,105,053 | 1,424,000,000 | 1,424,000,000 |
| Federal Funds (NL) | 241,841,739 | 94,832,000 | 70,000,000 | 70,000,000 |
| **Total Funds** | **$1,433,802,868** | **$1,614,937,053** | **$1,494,000,000** | **$1,494,000,000** |

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 2017-19 legislatively adopted budget estimates nearly $1.5 billion in UI and Trade Act benefit payments, a 7.5% decrease from the 2015-17 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 between 2013-15 actuals and the 2015-17 legislatively approved budget was 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

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 20,355,205 | 28,591,263 | 20,099,493 | 54,438,010 |
| Lottery Funds | 9,413,639 | 11,676,469 | 16,232,416 | 16,357,282 |
| Other Funds | 116,634,380 | 224,757,497 | 166,273,550 | 289,274,996 |
| Other Funds (NL) | 689,623,347 | 784,502,128 | 631,849,381 | 631,849,381 |
| Federal Funds | 112,299,287 | 120,118,294 | 122,847,675 | 122,692,797 |
| Federal Funds (NL) | 110,118,920 | 119,320,000 | 121,165,609 | 121,165,609 |
| **Total Funds** | **$1,058,444,778** | **$1,288,965,651** | **$1,078,468,124** | **$1,235,778,075** |
| Positions | 168 | 149 | 122 | 164 |
| FTE | 150.98 | 135.15 | 120.75 | 152.65 |

Overview

The Housing and Community Services Department (HCSD) provides financing and program support for the development and preservation of affordable housing to low and very low income Oregonians, and administers federal and state antipoverty, homeless, and energy assistance programs. The Oregon Housing Stability Council, a nine-member panel appointed by the Governor, advises the Governor, Legislature, HCSD, and local governments on affordable housing issues.

Revenue Sources and Relationships

The Housing and Community Services Department is supported by a variety of revenue sources. General Fund is a significant source of support for the agency's safety net and anti-poverty programs, and helps to fund administrative costs that cannot be borne by interest earnings or proceeds of bond sales. General Fund support is provided to the following safety net programs:

- Statewide Homeless Assistance Program – $12.2 million for emergency shelter programs and associated services. Of this amount, $8.8 million is a one-time investment for the 2017-19 biennium, not anticipated as part of current service level in future biennia.
- Emergency Housing Assistance Program – $27.9 million (of which $21.2 million is a one-time investment, not anticipated as part of current service level in future biennia) for supportive services, emergency mortgage, rent, or utility payments to those who are homeless or at risk of becoming homeless.
- Low-Income Rental Assistance Program – $514,144 for rental assistance payments and refundable security deposits paid directly to property owners on the tenant's behalf.
- Oregon Wildfire Damage Relief Account which aids low-income Oregonians whose homes are damaged due to a wildfire – $150,000 in one-time support.
- Housing Choice Landlord Guarantee Program – $299,538 for reimbursement of up to $5,000 for damages caused by renters receiving federal tenant-based assistance payments.
- Rent Guarantee Program – $223,247 in one-time funding for the program which was established by the passage of HB 2724 (2017). The funds serve as a guarantee to landlords who rent to graduates of an approved tenant readiness program, in the event the tenant defaults on a rent payment.
- Elderly Rental Assistance Program – $1,410,000 for payment assistance and homelessness prevention for low-income seniors.

Multi-Family Housing development programs which receive General Fund include the Local Innovation and Fast Track (LIFT) Housing Program; $700,000 is included for underwriting, management and ongoing monitoring of affordable housing projects that will be constructed with the $120 million in approved-to-date Article XI-Q bonds.

Staffing costs of $500,000 related to development of an affordable housing inventory and preservation program pursuant to HB 2002 (2017) are also funded with General Fund.

The Oregon Foreclosure Avoidance Program is the only recipient of General Fund support in the Department's Single Family housing section. For 2017-19, $1.3 million is included in the budget for mortgage resolution services and foreclosure prevention counseling for homeowners who are at risk of foreclosure. The Joint Committee on Ways and Means indicated it would discontinue funding for this program following the 2017-19 biennium.

Budgeted debt service payments on Article XI-Q bonds account for $9 million of HCSD's General Fund appropriation.

Lottery Funds in the amount of $16,007,282 are provided for debt service payments on bonds issued for the following purposes:

- The Community Incentive Program ($1.7 million)
- The Housing PLUS program which provides low income housing with on-site personal support ($2.1 million)
- Housing for people with mental health and addiction issues ($4.1 million)
- Debt service payments on bonds to preserve affordable housing and manufactured home parks ($8.1 million)

The passage of Measure 96 enabled $350,000 in Lottery Fund support specifically for Emergency Housing Assistance for veterans.

HCSD has numerous sources of Other Funds that include the following: proceeds from the sale of bonds ($240.7 million); mortgage and down payment assistance repayments ($227.8 million); Federal HUD contract administration fees for service ($4.7 million); Homeownership Stabilization Initiative fees for service ($3.9 million); loan, tax credit, and other fees for service ($8.6 million); the energy bill payment assistance charge ($38.4 million); a portion of the public purpose charge ($30.9 million); and special assessments on manufactured dwellings ($1 million). The passage of HB 2436 in 2009 add $30.9 million from fees for recording certain documents, including $7.7 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, and the 2017-19 legislatively approved budget includes bond proceeds that built on similar investments in previous biennia, as follows: approved $25.4 million in bond proceeds for affordable housing preservation for 2017-19 biennium and $15 million in carryforward from $20 million in bond proceeds approved and issued in 2015-17 for affordable housing for people with mental health and addictions issues. The 2017 Legislatively Assembly doubled the 2015-17 investment for the LIFT program, approving $80 million in Article XI-Q bonds as a means of financing affordable housing projects.

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 Housing Choice Landlord Guarantee program is also transferred and expended as Other Funds.

Federal Funds are received primarily as formula grants for weatherization and anti-poverty programs. The 2017-19 legislatively adopted budget assumes Federal Funds revenues as follows:

- Community Services Block Grant: $10.7 million
- Homeless Assistance Grants: $3.6 million, plus another $1 million transferred from the Oregon Department of Human Services
- HOME tenant-based rental assistance: $2.4million
- Low Income Energy Assistance Program: $62.8 million
- Federal weatherization funding: $17.3 million
- HOME funds for housing development from Housing and Urban Development: $14.5 million
- National Trust Fund for housing development: $6 million

- Section 8 rent subsidy (Federal Funds Nonlimited): $121.2 million
- HUD 811 Project Rental Assistance Program grant: $1.1 million

Budget Environment

While there has been improvement in the national and Oregon economy, housing affordability in Oregon continues to be a significant challenge. 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; families displaced by foreclosure turned to renting, leading to low rental vacancy rates that have driven up rental costs in several urban areas. In addition, Oregon was the 10th fastest growing state from 2014-2015. The rate of new construction has yet to meet demand, and market rents remain high; U.S. News and World Report ranked Oregon as 47th of 50 states for housing affordability in 2017. HCSD reports that there are 143,500 renter households in Oregon that could be considered extremely low income (earning less than half of area median income); however, only 38,000 rental units are considered affordable (meaning they spend no more than 30% of their income on housing) to those households.

Years of extremely low-interest rates – while good news for individuals able to refinance or access credit for a single-family mortgage on the open market – had all but eliminated the Department's interest rate advantage for their single-family loan program. For years, fewer bonds were issued, resulting in less income-generating loan activity, and new market standards and federal regulations increased the cost of bond issuance while decreasing earnings on this investment option. As interest rates slowly inch upward, HCSD will attempt to generate additional loan volume and generate new loan products.

HCSD also faces some uncertainty related to the federal budget and the funding levels eventually approved.

Legislatively Adopted Budget

For the 2017-19 biennium, the Legislature again increased its investment in affordable housing to historic levels in an effort to address the need for affordable housing.

The 2017-19 legislatively adopted budget for HCSD is $1,235,778,075, a 4.1% decrease from the 2015-17 legislatively approved budget. The decrease is attributable to expenditures in the Other Funds Nonlimited category, related to reduced volume and corresponding reductions in debt service from the agency's bond programs.

The 2017 Legislative Assembly divested HCSD of the Oregon Volunteers program (transferred to the Office of the Governor) and the Court Appointed Special Advocates program (transferred to the Department of Administrative Services per HB 2600), and transferred in the State Home Oil Weatherization Program previously administered by the Department of Energy. The transition of the Elderly Rental Assistance Program from the Department of Revenue (per SB 296 in 2015) was completed during the 2017-19 biennium. Historic investment levels in the Emergency Housing Assistance, State Homeless Assistance Programs, housing preservation activities, and affordable housing development through the LIFT program have the Department staffing up, reviewing accountability measures internally and with partners, and ensuring that policies and procedures are in place to maximize and report on outcomes.

### Housing Stabilization

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 12,829,373 | 21,227,712 | 10,989,497 | 42,717,155 |
| Lottery Funds | -- | -- | -- | 350,000 |
| Other Funds | 9,618,173 | 198,080,601 | 67,771,309 | 82,388,426 |
| Federal Funds | 19,815,126 | 17,511,161 | 97,843,238 | 98,755,981 |
| Federal Funds (NL) | -- | -- | 121,165,609 | 121,165,609 |
| **Total Funds** | **$42,262,672** | **$57,819,474** | **$297,769,653** | **$345,377,171** |
| Positions | 9 | 8 | 26 | 31 |
| FTE | 9.00 | 8.00 | 26.00 | 29.50 |

Program Description

Formerly called the Self-Sufficiency/Emergency Assistance program, the Housing Stabilization division of HCSD provides services to very low-income Oregonians to help meet short-term, daily needs of vulnerable populations. 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, the Rent Guarantee program which provide for payments to landlords, and federal rent subsidy payments are 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 directed to not-for-profits for housing, mental health, and other services to holistically address homelessness in rural counties.
- 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.
- 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.
- Energy Assistance programs – State and Federal funding for utility bill payment assistance include the Oregon Energy Assistance Program (funded through a meter charge on customers of investor owned electrical utilities) and the Low-Income Home Energy Assistance Program (Federal Funds). Weatherization services receive funding from the U.S. Department of Energy, the Bonneville Power Administration, public purpose charges to rate payers of investor owned utilities (for the Energy Conservation Helping Oregonians program), and federal funds associated with the Low-Income Heating Assistance Program for weatherization services.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget incorporated weatherization and energy assistance programs – formerly budgeted separately – into the same division that administers other forms of low-income assistance, resulting in the addition of 10.00 FTE and $134.8 million in Total Funds to this program. Staffing and payments related to federal Section 8 rent subsidy were also added to the division, transferred from the Multi-Family division of the agency, adding $121 million in Federal Funds Nonlimited to this program area. Given the organizational changes, comparing the 2017-19 legislatively adopted budget against the 2015-17 legislatively approved budget for this program is not particularly useful. 2017-19 General Fund support for various housing stabilization programs consists of a mix of permanent and one-time investments, as shown in the following table:

| Program Name | Ongoing/Base Funding | One-Time Investment | Total 2017-19 Leg. Adopted |
|---|---|---|---|
| Emergency Housing Assistance (EHA) | 6,696,832 | 21,200,000 | 27,896,832 |
| State Homeless Assistance Program (SHAP) | 3,423,394 | 8,800,000 | 12,223,394 |
| Low Income Rental Housing | 514,144 | - | 514,144 |
| Housing Choice Landlord Guarantee | 299,538 | - | 299,538 |
| Wildfire Damage Housing Relief | - | 150,000 | 150,000 |
| Rent Guarantee HB 2724 | - | 223,247 | 223,247 |
| Elderly Rental Assistance Program | 1,410,000 | - | 1,410,000 |

As discussed above, substantial investments were made in the EHA and SHAP programs, in an effort to provide immediate assistance to Oregonians in danger of becoming homeless due to historically high market-rate rents. The passage of HB 2724 created a rent guarantee program where by incentives or financial assistance could be paid to landlords if they experienced financial losses after renting to graduates of a qualifying tenant education program. A one-time investment of $223,247 in General Fund was appropriated for implementation of the measure: $125,000 to seed the fund for payments; and $98,247 for a 0.50 FTE Program Analyst 1 position to create administrative rules and procedures. The $1.4 million of General Fund for the Elderly Rental Assistance Program reflects a full biennium's worth of administration and payments related to the program. At the Department of Revenue, the program consisted of an annual refund to elderly households of a portion of rent paid, with the average payment made to applicants of $359. Since the transfer of the program, HCSD has modified it to assist very low-income seniors who are homeless, housed unstably, or at risk of becoming homeless. The funds are flexible such that they can be used for rental assistance, homelessness prevention and rapid rehousing. At the end of the 2017 regular session, Lottery Funds in the amount of $350,000 were also allocated to the agency, for the Emergency Housing Assistance Program; these dollars are designated for the benefit of veterans, pursuant to Measure 96.

**Multifamily Rental Housing Programs**

| | **2013-15 Actual** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---|---|---|---|
| General Fund | -- | 159,385 | -- | 1,013,126 |
| Other Funds | 21,110,547 | 78,123,581 | 75,561,011 | 101,153,783 |
| Other Funds (NL) | 1,758,160 | 1,005,000 | 1,850,000 | 1,850,000 |
| Federal Funds | 5,331,095 | 14,666,817 | 14,521,869 | 20,625,255 |
| Federal Funds (NL) | 110,118,920 | 112,320,000 | -- | -- |
| **Total Funds** | **$138,318,722** | **$206,274,783** | **$91,932,880** | **$124,642,164** |
| Positions | 26 | 28 | 37 | 48 |
| FTE | 26.00 | 26.42 | 37.00 | 43.05 |

<u>Program Description</u>

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, providing inspection and monitoring to ensure these projects meet federal affordability requirements. Federal Rent subsidy payments, budgeted as Federal Funds Nonlimited, were transferred to the Housing Stabilization division of the agency in 2017.

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 Adopted Budget

The 2017-19 legislatively adopted budget is a 39.6 % total funds decrease from the 2015-17 legislatively approved budget. This change is owing to the transfer of more than $100 million in federal Section 8 rent subsidy payments and associated staffing to the Housing Stabilization division.

General Fund in the amount of $1 million was allocated to support the staffing resources needed for underwriting associated with affordable housing units developed through the LIFT housing program. This augments the 2015-17 legislatively approved amount, due to timing of the 2017 bond sale, and due to the additional $80 million approved for the 2017-19 biennium.

Federal Funds expenditure limitation increased by $6 million over the 2015-17 legislatively approved level due to a new state allocation for the National Housing Trust Fund, which is a new affordable housing production program that will complement existing federal, state and local efforts to increase and preserve the supply of affordable housing units.

Other Funds expenditure limitation increased 29.5% compared to the 2015-17 legislatively approved budget in the Multifamily Rental Housing division. $25 million in one-time Other Funds expenditure limitation was associated with the approval of $25 million in lottery bond proceeds for preservation of affordable housing that is at risk of converting to market rate rents due to expiring affordability contracts or pending sale to new owners. About $300,000 of the Other Funds expenditure limitation is attributable to new compliance specialist positions associated with the LIFT program, which are funded with bond proceeds. A position was also added to augment capacity for the high-demand Low Income Housing Tax Credit 4% program, supported by charges to projects that use the program. Expenditure limitation of $568,250 associated with the State Home Oil Weatherization program transfered from the Oregon Department of Energy is also included in this division; the program is funded with assessments on petroleum dealers, and provides incentives to weatherize homes heated with heating oil.

Expenditure limitation and position authority is also included for the following policy bills which passed during the 2017 legislative session:

- HB 2912 utilized an existing but undersubscribed pre-development program for the purpose of creating a land acquisition fund, available for organizations to purchase land that will be developed into affordable housing or to support low-income home ownership programs. Two limited duration positions (1.00 FTE) were approved to support the creation of this program, and all program funds are anticipated to be subscribed in the 2017-19 biennium.
- HB 2002 requires qualifying affordable housing properties to provide notice to HCSD in advance of affordability contract expiration or sale of the property, so that the property may be offered for sale to local governments or a designee in an effort to maintain the property as affordable housing. General Fund of $310,726 and one position (0.92 FTE) is included in this division for this program.

### Single Family Housing

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 5,142,882 | 4,167,660 | -- | 1,300,000 |
| Other Funds | 3,339,101 | 4,369,044 | 3,959,411 | 4,348,245 |
| Federal Funds | 2,194,632 | 2,575,245 | 721,221 | 720,794 |
| **Total Funds** | **$10,676,615** | **$11,111,949** | **$4,680,632** | **$6,369,039** |
| Positions | 9 | 7 | 5 | 7 |
| FTE | 7.88 | 6.50 | 4.50 | 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 during 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.

Legislatively Approved Budget

The 2017-19 legislatively adopted budget is a 42.7% decrease from the 2015-17 legislatively approved budget. The decrease is due to a decline in Federal Funds because of the wind down of the federal Neighborhood Stabilization Program and the Oregon Foreclosure Avoidance program.

As the state's economy has improved, the rates of foreclosure have declined, along with the average number of monthly counseling and mediation sessions utilized through the Oregon Foreclosure Avoidance program. As such, the budget decreases funding for that program by $2.8 million General Fund, compared with the 2015-17 legislatively approved budget. The Legislature indicated that additional funding would not be allocated for the program, and expects HCSD to cease administration and payment reimbursement by June 30, 2019 or the time at which funds are fully expended, whichever comes first. rather than operating the program for a full 24 months.

Other Funds expenditure limitation of $0.4 million was added to support two permanent positions in the Single Family loan program. These positions will develop new loan products and enhancements, in an effort to increase loan volume to $100 million annually.

### Homeownership Stabilization Initiative

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 12,551,111 | 1,842,752 | -- | 3,888,243 |
| **Total Funds** | **$12,551,111** | **$1,842,752** | **--** | **$3,888,243** |
| Positions | 35 | 10 | -- | 25 |
| FTE | 22.59 | 7.92 | -- | 21.43 |

Program Description

The Homeownership Stabilization Program is a program that was set up to administer an initial disbursement of $220 million in federal Troubled Asset Relief Program dollars. Oregon was one of 18 states to receive "Hardest

Hit" funding due to 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. HCSD administers the Hardest Hit funds under contract with the Oregon Affordable Housing Assistance Corporation, a not-for-profit corporation formed at the direction of the U.S. Treasury. Only costs associated with this contract are included in HCSD's budget, and are classified as Other Funds expenditure limitation. The Oregon Affordable Housing Assistance Corporation administers direct assistance payments to homeowners, and these payments do not show up in HCSD's Budget. As of the last quarter of 2016, the program had provided $206.4 million in direct assistance to 15,834 Oregon applicants.

Legislatively Approved Budget

Oregon had expended nearly all of the $220 million initially allocated for this program in 2015, when it was announced in late 2015 that Congress had committed additional funding to the program, and that Oregon would receive another $95.4 million. This announcement required HCSD to ramp the program back up. The 2017-19 legislatively adopted budget authorizes Other Funds expenditure limitation of $3.9 million, along with 25 limited duration positions (21.43 FTE). Funding is required to be fully expended by December, 2021.

## Central Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 2,382,950 | 3,036,361 | 2,683,734 | 341,208 |
| Other Funds | 17,065,273 | 18,661,694 | 14,485,724 | 11,587,606 |
| Federal Funds | 8,242,922 | 9,041,535 | 9,761,347 | 2,590,767 |
| **Total Funds** | **$27,691,145** | **$30,739,590** | **$26,930,805** | **$14,519,581** |
| Positions | 81 | 71 | 48 | 47 |
| FTE | 77.51 | 70.06 | 47.25 | 46.17 |

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, 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.
- Public Affairs Division – includes the Assistant Director of Public Affairs, Government Relations and Communications, policy staff and Housing Integrators.
- Chief Financial Office – Comprises several administrative support sections. Budget development and implementation, accounting, contract and grant awards, compliance and monitoring, and research analysis are among the activities performed by personnel in this unit.
- Facilities management and human resources services are also included in this division.

Legislatively Adopted Budget

The 2017 Legislature divested HCSD of two programs not central to the agency's mission. Administration of the *Oregon Volunteers!* program was transferred to the Office of the Governor, and the Court Appointed Special Advocates program was transferred to the Department of Administrative Services pursuant to HB 2600, along with associated funding. General Fund in the amount of $341,208 remains to support positions with the following responsibilities:

- A new data analyst position will strengthen data driven decisions by developing and maintaining an affordable housing inventory, and by compiling and assessing other data needed to develop and execute the State Housing Plan.

- A position related to development of a notification process and data infrastructure to track the sale of affordable housing properties, as required by HB 2002.
- A quarter of one finance position associated with administration of the LIFT program is also supported with General Fund.

Other Funds and Federal Funds are derived from each program contributing a share pursuant to a federally approved cost allocation plan.

The following budget note was also approved in the budgets of both HCSD and the Oregon Department of Veterans' Affairs: "The Housing and Community Services Department and the Oregon Department of Veterans' Affairs are directed to work in concert to develop a plan to advise the Legislature on strategic investments of federal, state (including Measure 96 Lottery dollars) and local funds for veterans' homelessness and housing issues, that will result long term housing stability for veterans. The Oregon Department of Veterans' Affairs and the Housing and Community Services Department will report back to the Joint Committee on Ways and Means in February 2018 with a proposal that includes a key performance measure to quantify progress toward this goal. The report shall include but need not be limited to: information on best practices and programs in other states that have shown efficacy; the amount and source of resources intended to be utilized for each option presented; other partners or cooperation necessary from state or local entities; the number of veterans that can be assisted with each proposal at the suggested level of support; and necessary changes to statute to implement the plan."

Lottery Funds pursuant to Measure 96 are allocated to agencies on a biennial basis. The requested report and the outcomes associated with resulting expenditures are anticipated to help guide legislative policy regarding strategic investment of Measure 96 funding in the future.

### Bond Activities and Debt Service

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | -- | 6,426,262 | 9,066,521 |
| Lottery Funds | 9,413,639 | 11,676,469 | 16,232,416 | 16,007,282 |
| Other Funds | 1,691,083 | 3,435,829 | 4,496,095 | 5,908,693 |
| Other Funds (NL) | 687,865,187 | 551,448,780 | 629,999,381 | 629,999,381 |
| **Total Funds** | **$698,969,909** | **$566,561,078** | **$657,154,154** | **$660,981,877** |
| Positions | -- | -- | 6 | 6 |
| FTE | -- | -- | 6.00 | 6.00 |

Program Description

The Bond Activities and Debt Service program combines reporting for "Bond-Related Activities" and "Bond Debt Service" that were budgeted separately in the 2015-17 biennium. Costs captured here are those related to staffing, bond counsel, debt service, refinancing, and cost of issuance associated with issuing and monitoring bond sales payments over time.

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: 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 2017-19 Legislature again approved bonds for preservation of affordable housing and for the LIFT program, but in larger amounts than in previous biennia. At the same time, debt service for previous issuances is accumulating.

Lottery Funds and General Fund in this division are related to debt service for the following projects/amounts:

| Project/Year Authorized | Approved Issuance | Debt Service |
|---|---|---|
| Preservation – Previous biennia | $36.6 million | $8.1 million (LF) |
| Preservation 2017-19 | $25.0 million | $0 in 2017-19 |
| Mental Health Housing 2015-17 | $20.0 million | $4.1 million (LF) |
| Community Incentive Fund 2001-03 | $22.8 million | $1.7 million (LF) |
| LIFT 2015-17 | $40.0 million | $5.7 million (GF) |
| LIFT 2017-19 | $80.0 million | $3.4 million (GF) |
| Total | | $16 million LF<br>$ 9.1 million GF |

Other Funds Nonlimited expenditures are largely related to loan purchases, debt service, and other expenses required to issue and manage the Department's outstanding debt.

## Capital Construction

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | -- | 40,000,000 | -- | 80,000,000 |
| **Total Funds** | **--** | **$40,000,000** | **--** | **$80,000,000** |

Legislatively Adopted Budget

This program provides expenditure limitation for a period of six years (expires June 30, 2023) 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. HCSD reports that despite doubling the investment of dollars in the LIFT program, 1,200 – 1,500 units are estimated to be developed with the $80 million in bond proceeds; this compares with the estimated 965 units of new affordable housing units developed with the $40 million in LIFT bonds approved in 2015. While HCSD will be providing incentives to maximize unit production, rising construction and development costs and program design changes – such as a proposed new single family affordable housing component for the 2017-19 approved bonds – are anticipated to increase the per-unit cost. As with the previous iteration, a state ownership interest in the affordable housing that is developed with Article XI-Q bonds must be maintained, which HCSD will meet through maintaining a first position in the loan agreement, appointing property managers, setting of rents, and establishing requirements related to leases, use of reserves, and terms of loan satisfaction. The bonds are anticipated to be issued in two portions, in the spring of both 2018 and 2019, with housing units anticipated to be developed and ready for lease within three years of award.

# DEPARTMENT OF VETERANS' AFFAIRS

Analyst: Beitel

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 9,678,902 | 13,007,966 | 11,066,613 | 8,380,599 |
| Lottery Funds | -- | -- | -- | 14,856,025 |
| Other Funds | 45,304,442 | 85,405,620 | 86,784,284 | 113,266,941 |
| Other Funds (NL) | 186,154,228 | 373,333,710 | 387,546,159 | 387,546,159 |
| Federal Funds | 40,000 | 4,452,891 | -- | 500,000 |
| **Total Funds** | **$241,177,572** | **$476,200,187** | **$485,397,056** | **$524,549,724** |
| Positions | 84 | 88 | 88 | 96 |
| FTE | 82.63 | 87.76 | 88.00 | 95.84 |

Overview

The mission of the Oregon Department of Veteran's Affairs (ODVA) is to serve and honor veterans through leadership, advocacy, and strong partnerships. ODVA has three primary program areas that are supported by the agency's core operations: the Veterans' Loan Program, the Veterans' Services Program, and the Oregon Veterans' Home Program. The Veterans' Loan Program, funded entirely with Other Funds, provides home loans to qualified veterans. Loan origination and servicing functions, as well as the agency's administration costs, are included in the Loan Program budget. 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 primarily funded through a combination of General Fund and Lottery Funds. The Oregon 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 from resident-related income.

Revenue Sources and Relationships

Other Funds revenues for the Veterans' Loan Program are derived from the proceeds of general obligation bond sales ($240 million), veteran loan and contract-related repayments ($86 million), and interest earnings ($53 million). The balance of revenue comes from service charges, rent, licenses, fees, and miscellaneous revenues totaling approximately $4.3 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 Veterans' Services Program has historically been funded with General Fund and Other Funds primarily generated from conservatorship fees. Beginning in the 2017-19 biennium, the Veterans' Services Program funding includes Lottery Funds available through the passage of Measure 96, which dedicated 1.5% of state lottery net proceeds towards veterans' services. Total lottery revenue dedicated to veterans' services is projected to be $19.1 million for the 2017-19 biennium based on the Office of Economic Analysis' May 2017 revenue forecast with adjustments for administrative actions. Lottery revenues will be allocated to the Department for the Lottery Funds expenditure limitation included in the Department's budget, with the balance being retained in the constitutionally dedicated Veterans' Services Fund. Collectively, General Fund and Lottery Funds support ODVA's statewide veteran services, including Veteran Service Officer positions, a small emergency assistance program, and service delivery partnership programs, where funding is passed through as special payments to counties and national service organizations. Lottery Funds directly support a veterans' crisis support and suicide prevention telephone hotline, veteran volunteer program, veterans' services grant fund, and grants to public universities and community colleges for campus veteran resource centers. In addition to General Fund and Lottery Funds support, the Conservatorship program receives Other Funds revenue from fees charged to manage the finances of conservatorship clients (7% of the protected person's income). Conservatorship fee income in the 2017-19 biennium is estimated to total approximately $920,000.

The Oregon 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 U.S. Department of Veterans Affairs (VA). 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. Home Program charges for services are estimated to total $85.4 million in the 2017-19 biennium. The total amount of revenue is based, in part, on occupancy projections from the Homes' contractor. Other Funds revenue is also received from the sale of veterans' license plates through the Department of Motor Vehicles and the Charitable Check Off program. ODVA projects a 2017-19 beginning balance of $11.5 million in the Veterans' Home Program. Cash reserves will be used during the biennium for working capital, capital improvements, match for The Dalles Veterans' Home federal renovation grant, and held for contingencies.

Budget Environment

An estimated 310,333 veterans live in Oregon who have served over the following five eras: World War II (5.5%), Korea (8.1%), Vietnam (37.5%), Gulf/Post 9-11 (25.6%), and during times of peace (23.3%). ODVA continues to focus on serving more veterans and reaching the seven out of ten veterans who are not accessing their federal benefits for education, health care, disability, or retirement. Additionally, over 50% of veterans are 65 or older, placing an emphasis on the need for aging veteran services.

The Veterans' Home Loan program is funded through the issuance of tax-exempt Qualified Veteran Mortgage Bonds (QVMBs). Federal law limits the use of QVMBs, requiring that borrowers must apply for a loan within 25 years of discharge from military service and that proceeds may not be used to refinance homes. In 2010, Oregon voters passed Measure 70, making the Home Loan Program a state lifetime benefit for veterans. Loans for this eligible group must 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. While more veterans are eligible, and the product to serve them is restricted, reserves from the loan program have subsidized costs of the veterans' services and administrative functions of the Department. In response to a General Fund shortfall in the 1991-93 biennium, Veterans' Home Loan Program revenues were used to supplement veterans' services funding. This practice was a contributing factor to losses and a decrease in the overall net position of the Home Loan Program over the last six years. A portion of the subsidy was eliminated in the 2013-15 biennium when the cost of Veteran Service Officer positions performing non-loan program work was shifted back to General Fund. The remaining $4.1 million of veterans' services and administration costs being supported by home loan revenues are shifted to Lottery Funds in the 2017-19 budget. Eliminating the subsidization of veterans' services program activities will help to strengthen, stabilize, and sustain the Home Loan Program for future generations of veterans.

The recession and bursting of the real estate bubble, low conventional mortgage rates, and the inability to refinance significantly decreased ODVA's home loan originations and outstanding portfolio. Over the past two biennia, as the economy has recovered, the demand for veteran home loans has continued to increase. However, this growth is limited by low housing inventory and rising prices. As of June 30, 2017, the loan portfolio was approximately 1,870 loans totaling $296 million.

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 (Linn County) in the fall of 2014. Construction of a third home in Roseburg was reauthorized in 2017, with Article XI-Q general obligation bond proceeds set aside to fund a portion of the non-federal match obligation.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget for the Department of Veterans' Affairs is $524.5 million total funds and 96 positions (95.84 FTE), which is a 10.2% increase over the 2015-17 legislatively approved budget. Other Funds Nonlimited of $387.5 million for the Veterans' Loan program bond-related activities, debt service, and loans to borrowers make up 74% of the total budget. Excluding Nonlimited funds, the 2017-19 legislatively adopted budget is a 33.2% increase over the 2015-17 legislatively approved budget. Lottery Funds expenditure limitation of $14.9 million, available to the Department beginning in the 2017-19 biennium through the passage of Measure 96, is included in the budget. The budget also includes a $8.4 million of General Fund, which consists of $7.4 million for veterans' services and $1 million for debt service on outstanding bonds.

## Loan Program

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 11,214,580 | 15,899,349 | 17,131,485 | 16,417,830 |
| Other Funds (NL) | 186,154,228 | 373,333,710 | 387,546,159 | 387,546,159 |
| **Total Funds** | **$197,368,808** | **$389,233,059** | **$404,677,644** | **$403,963,989** |
| Positions | 50 | 51 | 51 | 46 |
| FTE | 50.10 | 51.10 | 51.10 | 46.00 |

Program Description
The Veterans' Home Loan Program was created in 1945 to provide a benefit to World War II veterans returning home. The Loan Program provides qualified veterans low-interest rate mortgages on single-family owner-occupied homes through the issuance of general obligation bonds authorized under Article XI-A of the Oregon Constitution. Since the Loan Program's inception, the Department has made over 335,000 home and farm loans with a principal amount of over $7.9 billion. The program budget 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 budgeting, accounting, cashiering, and financial management.
- Support Services – human resource services, information services, and facility services.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $404 million Other Funds is a 3.8% increase from the 2015-17 legislatively approved budget. Other Funds Nonlimited of $387.5 million for loans to veterans ($155 million), expenditures related to making loans and issuing bonds ($13 million), and debt service ($219.5 million) make up 96% of the program budget. Limited Other Funds of $16.4 million for loan services and ODVA operations is a 3.3% increase from the 2015-17 legislatively approved budget. This increase is net of a reduction of $1.7 million to shift funding for six veterans' services positions (6.10 FTE) and associated services and supplies from Other Funds supported by home loan revenues to Lottery Funds in the Veterans' Services Program. Shifting the costs of veterans' services activities to Lottery Funds is expected to strengthen and stabilize the Home Loan Program. The following Other Funds increases were also approved:
- $933,333 on a one-time basis to refresh the Department of Veterans' Affairs' office building, including replacing the carpet, painting the walls, and updating exterior and interior signage.
- $250,000 to purchase and install a home loan system that combines loan origination and servicing into one application, creating efficiencies and reducing errors. The new software system will also allow veterans to review home loan information online.
- $201,359 to establish a quality assurance and compliance coordinator (QA/CC) position (1.00 FTE) and reclassify two existing Loan Specialist positions. The QA/CC position will maintain oversight and compliance with federal and state regulations, including new Consumer Financial Protection Bureau (CFPB) rules.

Reclassification of the Loan Specialists supports the increased responsibilities of these positions to comply with the new Dodd-Frank and CFPB regulations for loan origination.

### Veterans' Services Program

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 9,180,431 | 10,389,026 | 10,049,290 | 7,363,276 |
| Lottery Funds | -- | -- | -- | 14,856,025 |
| Other Funds | 716,041 | 930,312 | 1,028,087 | 107,623 |
| Federal Funds | 40,000 | 1,150,000 | -- | 500,000 |
| **Total Funds** | **$9,936,472** | **$12,469,338** | **$11,077,377** | **$22,826,924** |
| Positions | 30 | 32 | 32 | 45 |
| FTE | 29.40 | 31.66 | 31.90 | 44.84 |

Program Description

The Veterans' Services Program provides advocacy and benefits to veterans, their dependents, and survivors through the following activities:

- Statewide Veteran Services – Assists veterans, their dependents, and survivors to obtain service-connected and non-service related benefits from the U.S. Department of Veterans Affairs. Federally accredited and state certified veteran service officers (VSOs) provide claims and appellate representation through ODVA's power of attorney. In 2016, ODVA received 11,842 new powers of attorney, and currently holds power of attorney for nearly 101,000 veterans. Over 79,000 active claims were filed in fiscal years 2015 and 2016. This program also provides training, certification, and accreditation for county and state VSOs.
- County Veteran Service Officers Program (CVSOs) – Pass-through funding to counties that supports a network of trained county veteran service officers. This partnership began in 1947 to aid counties in promoting veteran services at the local level. Prior to the 2017-19 biennium, CVSOs have existed in 34 of the 36 counties and ODVA provided services for Marion and Polk counties. However, a Polk County Veteran Service Office was established in January 2017 and ODVA expects Marion County to open a Veteran Service Office in 2018.
- National Service Organizations (NSOs) – Pass-through funding supports national veteran service officers that provide benefit and claims representation. ODVA's partnership with national veteran service organizations in Oregon was established in 1949. Currently, the Disabled American Veterans, Military Order of the Purple Heart, National Association of Black Veterans, American Legion, and Veterans of Foreign Wars participate in this funding.
- Veterans' Emergency Financial Assistance Program – Provides emergency aid to Oregon veterans and their immediate families through an emergency assistance program established by the Legislature in 2005. One-time grants are provided to help with health and welfare emergencies.
- Partnerships – Leverage existing state programs and partner with federal, state, and non-profit organizations to expand services in the key areas of health, education, and economic opportunity. In the 2017 session, two new grant programs were established to expand ODVA's partnerships. HB 2891 established a Veterans' Services Grant fund to provide non-profits and other veterans' organizations grants to expand services and programs that benefit veterans. SB 143 created a grant program to expand and enhance existing veteran programs on college campuses that help veterans successfully transition from military service to college life.
- Aging Veteran Services – Provides conservatorship and representative payee 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 and the agency is appointed as fiduciary. 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. Representative payee services are more limited in scope, with staff paying bills and advocating on behalf of veterans. As of June 30, 2017, ODVA had 136 Conservatorship clients and 144 Representative Payee clients.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $22.8 million total funds represents an 83.1% increase from the 2015-17 legislatively approved budget. The increase is attributable to the addition of $14.9 million Lottery Funds, available through the passage of Measure 96. General Fund support for veterans' services is a 29.1% decrease from the prior biennium, primarily due to the shift of $2.5 million of current service level expenditures from General Fund to Lottery Funds. Additionally, $850,000 General Fund was also phased-out during development of the 2017-19 budget to remove one-time funding provided in the 2015-17 budget for a crisis and suicide prevention hotline ($350,000) and an increase to support CVSOs ($500,000).

The legislatively adopted budget makes key investments with the lottery dollars dedicated by Measure 96 to expand services to veterans, while retaining a projected $2.8 million in the constitutionally dedicated Veterans' Services Fund to allow for fluctuations in revenue projections and provide a working capital balance. Specific investments include:

- $4.5 million to double the current service level pass-through funding to County Veteran Service Officers and National Service Organizations. 2017-19 combined General Fund and Lottery funds support for CVSOs totals $8.7 million and support for NSOs totals $236,312. Increased funding is intended to enhance exiting state and county funding, helping to serve more veterans, increase the number of claims filed, and bring more federal dollars to the state.
- $4.1 million to shift the funding for veterans' services from Other Funds supported by home loan revenues to Lottery Funds. Veterans' services activities ($2.9 million) and the program's share of support service costs ($1.2 million) previously funded with Loan Program revenues will be supported through Lottery Funds. Corresponding Other Funds decreases are reflected in the Veterans' Services Program ($920,464), Loan Program ($1.7 million), and Veterans' Home Program ($319,794).
- $1.2 million to develop and implement one or more grant programs to expand and enhance existing veteran programs on college campuses that help veterans successfully transition from military service to college life, succeed in college and complete educational goals, and transition from college to the workforce (SB 143, 2017). Funding of $187,194 is provided for a Student Veterans' Coordinator position (0.92 FTE) to administer the program and $1 million is provided on a one-biennium basis for grants to public universities and community colleges.
- $600,000 to replace the conservatorship system, which will enable the Department to effectively and efficiently deliver conservatorship and representative payee services. Funding is provided for one-time development, implementation, and training costs ($400,000) and ongoing software licensing and maintenance costs ($200,000).
- $555,000 to establish a grant fund for purposes that benefit veterans, including expanding outreach and services, promoting mental and physical health care, housing security, employment opportunities, education, and transportation accessibility (HB 2891, 2017).
- $390,256 to establish two positions (2.00 FTE) to accommodate the increased statewide support services workload anticipated with the additional funding to CVSOs. A trainer position in the Salem Office is established to provide essential training and certification for county veteran service officers. An administrative position is established to process the increased number of claims and appeals that will be filed through the Portland ODVA office.
- $380,548 to establish two positions (2.00 FTE) within the Aging Services Program. A Representative Payee position is added to accommodate the representative payee caseload and an Aging Veterans' Outreach Specialist position is added to serve as a veteran service officer with expertise in veterans' benefits and complex aging health care issues.
- $350,000 to support a veterans' crisis and suicide prevention hotline that offers free, anonymous assistance, 24-hours a day, to active-duty service members, veterans, and their families.
- $245,509 to establish a Veteran Volunteer Coordinator position (0.92 FTE) responsible for developing and establishing a statewide veterans volunteer program that will expand outreach to veterans in their communities (HB 2908, 2017).

The 2017-19 veterans' services budget also includes $500,000 Federal Funds in anticipation of the Transportation of Veterans in Highly Rural Areas 2017 renewal grant. ODVA has applied for and received the annual grant since the grant program was established in 2014. Grant funding is available to highly rural counties, as defined by the U.S. Department of Veterans Affairs, for transportation of veterans to medical appointments. Expenditure imitation for federal grants received during the 2015-17 biennium was phased-out during development of the 2017-19 budget and ODVA will request limitation during the 2017-19 biennium for any additional grants received.

In summary, the 2017-19 legislatively adopted budget funds ongoing veterans' services programs at the following levels:

- Statewide Veteran Services: $4,610,421 General Fund, $3,188,534 Lottery Funds, 31.55 FTE
- Aging Veteran Services: $725,428 General Fund, $2,552,990 Lottery Funds, $107,623 Other Funds, 12.37 FTE
- County Veterans' Service Officers: $1,805,571 General Fund, $6,904,151 Lottery Funds
- National Service Organizations: $118,156 General Fund, $118,156 Lottery Funds
- Emergency Assistance funding: $103,700 General Fund
- Partnerships:
  - Campus Veteran Resource Centers grant program: $1,187,194 Lottery Funds, 0.92 FTE
  - Veterans' Services Grant Fund: $555,000 Lottery Funds
  - Suicide Prevention Hotline: $350,000 Lottery Funds
  - Highly Rural Transportation Grant: $500,000 Federal Funds

A lottery allocation of $1.5 million was also approved to address veterans' homelessness and housing issues. Expenditure limitation of $350,000 was provided to the Housing and Community Services Department (HCSD) for emergency housing assistance to veterans through the Emergency Housing Account program. The remaining $1.15 million is reserved pursuant to a budget note that requires ODVA and HCSD to report back to the Joint Committee on Ways and Means in February 2018 with a proposal that includes strategic investments that will result in long-term housing stability for veterans.

### Oregon Veterans' Home Program

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 498,471 | 2,618,940 | 1,017,323 | 1,017,323 |
| Other Funds | 33,373,821 | 66,099,983 | 68,624,712 | 83,791,488 |
| **Total Funds** | **$33,872,292** | **$68,718,923** | **$69,642,035** | **$84,808,811** |
| Positions | 4 | 5 | 5 | 5 |
| FTE | 3.13 | 5.00 | 5.00 | 5.00 |

Program Description

The Oregon Veterans' Home Program provides skilled nursing, Alzheimer's and memory-related, and rehabilitative care to Oregon veterans and their spouses, and to parents who have lost a child to war-time service, through two Veterans' Homes in Oregon. The Dalles Veterans' 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 with a 35% state obligation contributed by Wasco County. As of June 30, 2016, The Dalles Veterans' Home had an occupancy rate of 90%. As The Dalles Veterans' Home enters its 20th year of operation, repairs, maintenance, and capital renewal are needed to keep the facility in good operating condition. Health and safety improvements were completed in 2011-13, and the home will undergo a renovation in the 2017-19 biennium through a federal grant approved in 2015-17.

A second Veteran's Home in Lebanon (Linn County) opened in the autumn of 2014. The Edward C. Allworth Veterans' Home has capacity for 154 residents who need long-term care. Skilled nursing, including inpatient rehabilitative care, is provided using a small house model, providing a home-like setting with "neighborhoods" that include landscaped courtyards and a community center. While census levels were lower as the facility began operations, as of June 30, 2016, the Lebanon Veterans' Home was at 94% capacity.

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. Home operations are funded entirely by Other Funds, consisting primarily of resident-related income, including federal VA 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 donations from the charitable checkoff income tax program. ODVA contracts with Veterans Care Centers of Oregon (VCCO), a non-profit organization, for the day-to-day operation of the facilities, utilizing the state's competitive procurement process.

Legislatively Adopted Budget
The legislatively adopted budget of $84.8 million is a 23.4% increase over the 2015-17 legislatively approved budget. General Fund of $1 million is appropriated for debt service on Article XI-Q bonds issued in 2013 to fund a shortfall in the state/local share of Lebanon home construction costs that were driven by federal design requirements. Increases in Other Funds expenditure limitation for the Veterans' Home Program include:

- $14.9 million to address the Lebanon Veterans' Home operating at a higher census and occupancy level sooner than originally anticipated, in addition to a higher census at The Dalles Veterans' Home. The increase also includes updated projections for minimum wage costs.
- $310,000 for costs of issuance on Article XI-Q general obligation bonds approved for capital construction projects.
- $249,080 to establish an Aging Services Assistant Director (1.00 FTE) within the Veterans' Home Program to help direct and manage the day-to-day operations of the division, including the two Oregon Veterans' Home program directors and contractors who manage the homes.

Other Funds expenditure limitation was also decreased by $319,794 to reflect the transfer of the Aging Services Director position (1.00 FTE) to the Veterans' Services Program. A corresponding Lottery Funds increase and position is included in the Veterans' Services Program. The Aging Services Director is responsible for coordinating the statewide effort related to aging veterans' services.

## Capital Construction

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | -- | 2,475,976 | -- | 12,950,000 |
| Federal Funds | -- | 3,302,891 | -- | -- |
| **Total Funds** | **--** | **$5,778,867** | **--** | **$12,950,000** |

Legislatively Adopted Budget
Capital construction expenditure limitation of $13 million was approved for the following three projects funded with the proceeds of Article XI-Q general obligation bonds:

- $10.5 million to build a new veterans' home in Roseburg.
- $1.3 million to build a new parking lot at the Lebanon Veterans' Home.
- $1.2 million for capital improvements to The Dalles Veterans' Home, including construction of new educational and daycare buildings, upgrades to wireless and security infrastructure, and phone system replacement.

Bonds are scheduled to be sold in spring 2019, with debt service of $2.2 million General Fund beginning in the 2019-21 biennium. Capital construction expenditure limitation for the approved projects will expire on June 30, 2023.

The 2015-17 legislatively approved budget included $3.3 million Federal Funds capital construction limitation for a U.S. Department of Veterans Affairs construction grant for major renovations to The Dalles Veterans' Home. The federal construction grant requires a 35% state and local match ($2.5 million Other Funds approved in 2015-17), which will come from the Veterans' Home Program cash reserves. 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. Capital construction expenditure limitation for this project is authorized through June 30, 2021.

$10.5 million of lottery bonds were authorized in the 2011-13 biennium and reauthorized in each subsequent biennium for a third veterans' home in Roseburg. A U.S. Department of Veterans Affairs construction grant was not received in prior biennia to provide the remaining funding for the home. Additionally, analysis by the Department has not supported the facility maintaining necessary occupancy levels to operate at a sustainable level. Capital construction limitation established in 2011-13 for the Roseburg Veterans' Home (HB 5006, 2011) expired on June 30, 2017. Limitation was re-established for a new six-year period in the 2017-19 budget and general obligation bonds were authorized to support funding for the home. ODVA continues to evaluate the need for skilled nursing care in the Roseburg area, as well as explore a new veterans' home model that would include assisted living and secure memory care. Additionally, due to the shortage of nurses and medical technicians in the City of Roseburg and Douglas County that would be required to staff the Roseburg Veterans' Home, ODVA was directed though a budget note to convene a rural medical training facilities workgroup. The workgroup will investigate issues related to alleviating the shortage and include representatives from the City of Roseburg, Douglas County, local hospital or medical facilities, including the Roseburg VA Medical Center, and local medical practitioners with experience in training nursing and medical technician students. ODVA will report the results of the workgroup and recommendations to the Legislature by September 18, 2018.

# CONSUMER AND BUSINESS SERVICES

# PROGRAM AREA

# BOARD OF ACCOUNTANCY

Analyst: To

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 2,296,152 | 2,508,591 | 2,642,281 | 2,583,982 |
| **Total Funds** | **$2,296,152** | **$2,508,591** | **$2,642,281** | **$2,583,982** |
| Positions | 8 | 8 | 8 | 8 |
| FTE | 8.00 | 8.00 | 8.00 | 7.50 |

Overview

The Board of Accountancy is a seven-member citizen board that licenses and regulates approximately 9,500 public accountants, municipal auditors, and public accounting firms registered to practice in Oregon. The mission of the Board is to protect Oregon consumers by ensuring only qualified licensees practice public accountancy in accordance with established professional standards and promulgated rules. The Board assures that individual Certified Public Accountants (CPAs) and Public Accountants (PAs), and their firms, demonstrate and maintain professional competency to serve the needs of their clients and other users of their services by ensuring qualifications for issuance and renewal of licenses, monitoring the continuing education of its licensees, and investigating complaints against licensees and firms. A staff of eight 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. 94% of the Board's funding is from licensing fees paid by Certified Public Accountants, Public Accountants, and registered firms. As of January 2017, the Board had 8,500 individual and 1,000 firm licensees. Individual licensees pay their renewal every other year based on the last digit of their license. CPA firms pay their renewal in December of every odd numbered year. The Board projects $3,746,548 of total available revenues for the 2017-19 biennium, which includes a beginning balance of $1,023,748 Other Funds. At the end of the 2017-19 biennium, the Board is expected to have an ending balance of $1,162,566 Other Funds, which represents about 10 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.

Budget Environment

Examination applications and membership have stabilized, and the Board operating costs are more predictable than they have been in the past. 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. Challenges for the Board reflect three major changes for the accounting profession: (1) evolving smart and digital technology; (2) continued globalization of reporting/disclosure standards; and (3) new state, federal, and international regulations. For example, recent changes in federal and state regulations have already increased the Board's obligation 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. As the accounting profession continues to use increasingly sophisticated technologies in order to respond to global trends such as mobility of skilled workers, outsourcing of services, data sharing and disclosure, and alternative reporting, the Board will need to keep pace with the expertise and technologies necessary to serve and regulate this rapidly changing professional environment.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $2,583,982 represents a 3% increase from the 2015-17 legislatively approved budget and a 2.2% decrease from the 2017-19 current service level budget. The legislatively adopted budget includes a nominal reduction of expenditure limitation reflecting the reclassification of the Financial Investigator position to allow the Board to recruit candidates who hold a CPA certificate. The agency funded this reclassification by reducing the Office Specialist 1 position from 1.00 FTE to 0.50 FTE to reflect the reduced workload of that position. These staffing changes reduces the agency's budget by ($2,253) Other Funds and (0.50) FTE. The Board did not propose any fee increase for the 2017-19 budget cycle.

# BOARD OF CHIROPRACTIC EXAMINERS

Analyst: Dauenhauer

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 1,459,441 | 1,932,928 | 2,065,164 | 2,014,079 |
| **Total Funds** | **$1,459,441** | **$1,932,928** | **$2,065,164** | **$2,014,079** |
| Positions | 6 | 6 | 6 | 6 |
| FTE | 4.88 | 5.10 | 5.10 | 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 beginning balance for the agency was increased to $464,696 based on updated revenue and expenditure projections for the remainder of the 2015-17 budget cycle.

Budget Environment
The Board of Chiropractic Examiners has a history of higher than average costs associated with legal and investigative work. Addressing complaints, including sexual misconduct and billing fraud, often require significant investigative resources and may result in weighty legal costs. The frequency of these complaints and the aggressiveness by which the Board pursues resolution, places continuing importance on the Attorney General service charges as well as the Professional Services account, from which expert third-party witnesses that are called to testify during administrative hearings are funded. While the agency significantly underspent the Professional Services account in the 2015-17 biennium, costs could very easily resume at any time given the existing cases that will require these services. Therefore, this funding was maintained based on historically budgeted levels.

Legislatively Adopted Budget
The total legislatively adopted budget for the Board of Chiropractic Examiners is 4.2% higher than the 2015-17 legislatively approved budget. The budget had no non-essential Policy Option Packages (POP). Statewide adjustments for reduced travel expenses and state government service charges, including Attorney General and Department of Administrative Services assessments, were reduced in the amount of $51,085 Other Funds resulting in a total budget of $2,014,079 for the Board of Chiropractic Examiners.

# CONSTRUCTION CONTRACTORS BOARD

Analyst: Dauenhauer

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 12,949,609 | 15,069,970 | 16,327,641 | 15,859,876 |
| **Total Funds** | **$12,949,609** | **$15,069,970** | **$16,327,641** | **$15,859,876** |
| Positions | 69 | 62 | 62 | 61 |
| FTE | 69.00 | 62.00 | 62.00 | 61.00 |

Overview

The Construction Contractors Board (CCB) provides consumer protection and regulates the profession of construction contracting by licensing construction contractors, subcontractors, and construction flaggers. The CCB investigates complaints, provides dispute resolution services, 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 the majority of its revenues from contractor licensing fees and a small percentage 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 budget accounts for revenue reductions resulting from a temporary 25% fee reduction for contractor licenses and the discontinuation of fees related to continuing education. The temporary fee reduction, which is anticipated to be effective throughout the 2017-19 biennium, is a direct result of agency cost cutting measures which began to be implemented in the 2013-15 biennium.

Budget Environment

Since the 2013-15 biennium, CCB has 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 and develop efficiencies related to enforcement and information technology services. The two agencies are currently undergoing a joint effort to rollout a single online licensing system for contractors. This new workload for the agencies requires additional contracting costs and enhanced planning, data migration, testing, and training on behalf of existing staff.

Legislatively Adopted Budget

The total legislatively adopted budget for the Construction Contractors Board is 5.2% higher than the 2015-17 legislatively approved budget. Two vacant positions (2.00 FTE) were abolished for a total savings of $352,730. One limited duration Operations and Policy Analyst 4 position (1.00 FTE) was added, for a cost of $346,840, to assist with the rollout of the online licensing system and other technology initiatives. Statewide adjustments for reduced travel expenses, employee hiring restrictions, and state government service charges, including Attorney General and Department of Administrative Services assessments, were reduced in the amount of $461,875 Other Funds resulting in a total budget of $15,859,876 for the Construction Contractors Board.

## DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

Analyst: Stayner

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | 1,823,000 | -- | -- |
| Other Funds | 192,183,248 | 249,320,936 | 258,879,476 | 246,276,380 |
| Other Funds (NL) | 188,939,459 | 197,991,474 | 202,096,657 | 202,096,657 |
| Federal Funds | 3,063,362 | 17,420,257 | 14,941,294 | 14,466,034 |
| **Total Funds** | **$384,186,069** | **$466,555,667** | **$475,917,427** | **$462,839,071** |
| Positions | 923 | 960 | 950 | 965 |
| FTE | 913.68 | 952.76 | 944.54 | 957.36 |

Overview

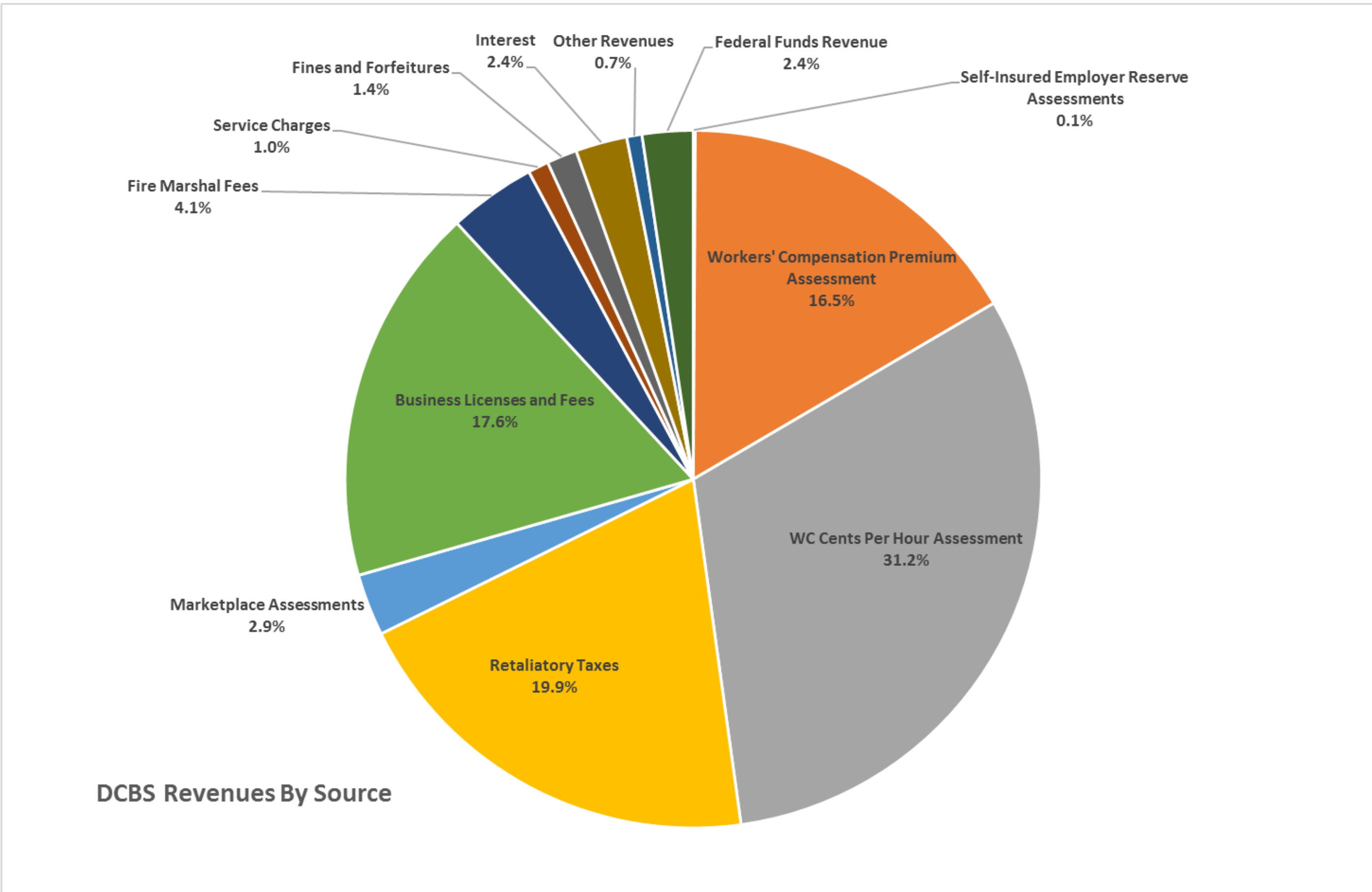
The Department of Consumer and Business Services (DCBS) provides a broad range of consumer protection, health insurance access, and commercial regulatory services for the state. DCBS is organized into five program areas plus central services and administration:

- Workers' Compensation System (WCS) – Includes the Workers' Compensation Board, the Workers' Compensation Division, and the Oregon Occupational Safety and Health Administration (OR-OSHA). Approximately 49% 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, for benefit increases to permanently- and totally-disabled workers, for benefits for the survivors of workers killed in workplace injuries, and also 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 Other Funds Nonlimited.
- Division of Financial Regulation – The 2017-19 legislatively adopted budget for DCBS combined the budgets of the Insurance and Financial and Corporate Securities Divisions, creating a single Division of Financial Regulation (DFR). The 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, and assists consumers in resolving complaints against agents and companies. Additionally, DFR 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 18.3% 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 14.1% 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 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. The Senior Health Insurance Benefit Assistance (SHIBA) program that was housed in the Insurance Division prior to the

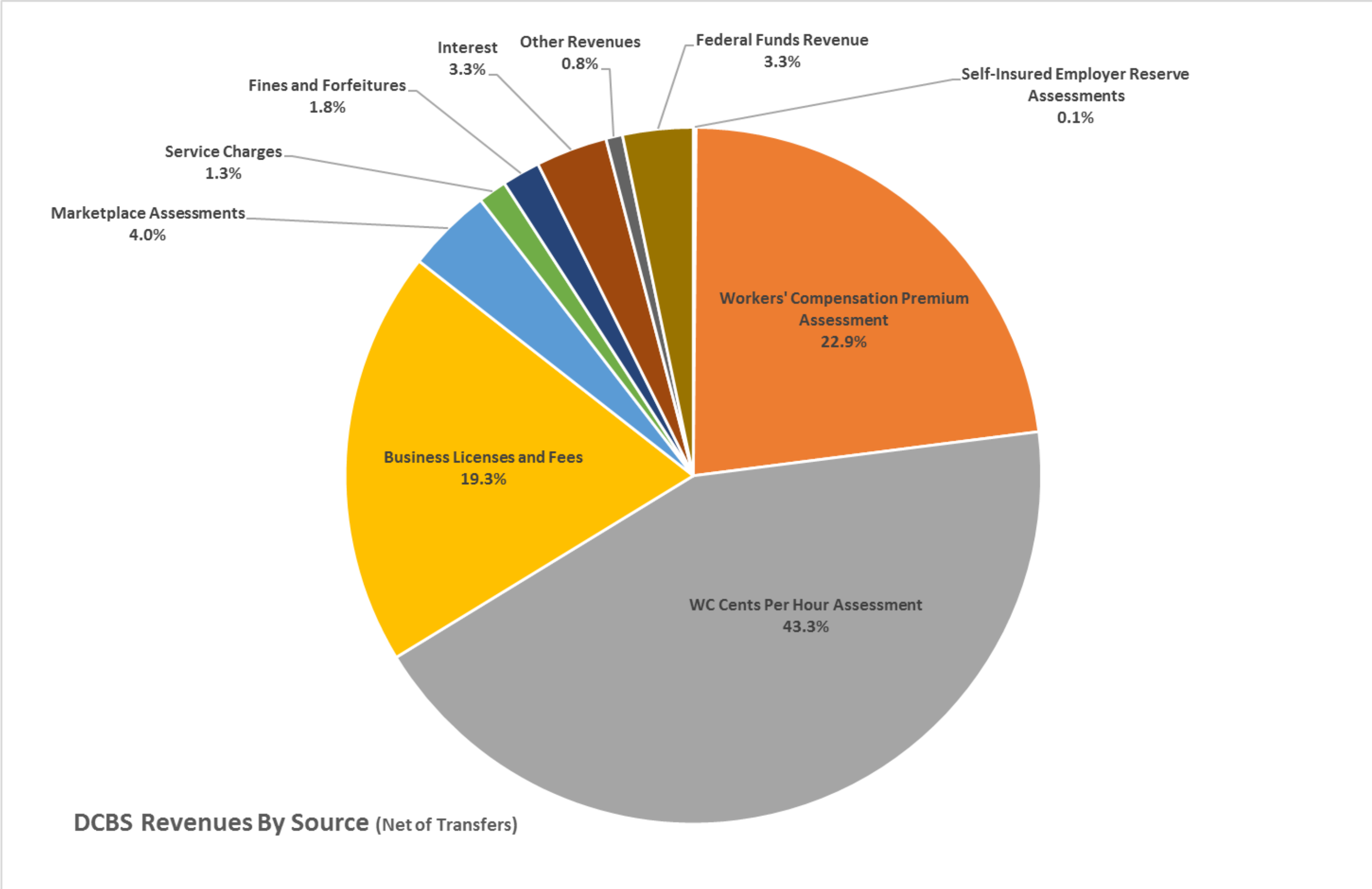
consolidation of that division with the Financial and Corporate Securities Division is also managed within the Oregon Health Insurance Marketplace Division as of this biennium.

Revenue Sources and Relationships

The agency is primarily funded by Other Funds. Over 500 dedicated fees, assessments, and charges support the operation of DCBS. Total revenues in the 2017-19 legislatively adopted budget are projected to total $634.1 million.




Approximately 23.5% of these revenues ($151.4 million) will be transferred to the General Fund. During the 2017-19 biennium, the agency is forecasted to transfer $126.1 million of retaliatory insurance tax revenue and $24.9 million of revenues from licenses, fees, and fines to the General Fund, and $25.7 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 as of January 1, 2017, is 6.8% for non-self-insured employers, 7% for self-insured employers and public self-insured employer groups, and 7.8% 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 6.8% 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 2017 rate is 2.8 cents per hour split evenly between employers and employees. A portion (1/16th of one cent) of the 2.8 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 and the Division of Financial Regulation. Interest earnings, fines, assessments, and other revenues support various Department programs, some of which are transferred to other agencies.

The Oregon OSHA program receives $13 million in Federal Funds to support the federal OSHA program in Oregon. The Health Insurance Marketplace Division anticipates federal grant funding for the Senior Health Insurance Benefits Assistance program ($1.4 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. A growing economy generally increases the revenues and workload of the agency, with the exception of certain financial regulatory issues that increase due to downticks in the economy, such as payday lenders, foreclosures, and bank solvency. The Oregon Health Insurance Marketplace also expands the agency's budgetary and operational exposure to federal regulatory changes.

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, Financial Regulation, and Workers' Compensation System programs. Oregon OSHA, the Senior Health Insurance Benefit Assistance program, and the Building Codes Division all receive federal grant funding.

Legislatively Adopted Budget

The 2017-19 biennium total funds budget for the Department of Consumer and Business Services totals $462,839,071 and includes 965 positions (957.36 FTE). The budget includes $202.1 million in Other Funds Nonlimited primarily for Workers' Compensation and Insurance programs. This budget is a 0.72% decrease from the 2015-17 legislatively approved budget.

The DCBS budget includes a $9.9 million Other Funds expenditure limitation reduction to align the 2017-19 budget for the Health Insurance Marketplace with anticipated expenditures following the settlement of the ORACLE litigation in the 2015-17 biennium. This adjustment accounts for contracts that were needed for the transition of the marketplace from Cover Oregon that are now expired; reduced ongoing information technology professional service costs; reduced telecommunications contracts; and a reduction in Attorney General fees to reflect the resolution of the Cover Oregon litigation.

Other Funds expenditure authority is re-established in the budget in the amount of $1.4 million from the Compact of Free Association (COFA) Islander Fund. The funding is used to provide insurance premium and out of pocket expense assistance to qualified COFA islanders residing in Oregon. The limited duration position that was established in the prior biennium to provide administrative support to the program has been extended through the 2017-19 biennium.

Five long-term vacant positions were eliminated; three in the Central Services Division, one in the Workers' Compensation Program, and one in the Division of Financial Regulation. Additionally, a single position and Other Funds expenditure limitation (1.50 FTE) were removed from the Central Services Division to account for the transfer of the position and the centralization of all information systems security functions with the Department of Administrative Services per Executive Order 16-13.

The budget also provides increased personnel capacity for workload increases in the Oregon Occupational Safety and Health Administration (OSHA) and Building Codes Divisions. The OSHA program includes an additional $1.9 million in Other Funds expenditure limitation to fund nine positions (six enforcement positions and three workplace consultation positions) that will provide a greater enforcement presence and more consulting services around workplace safety in Oregon with the goal of maintaining or reducing the rate of workplace injuries and illnesses, which have recently leveled off after a long period of decline.

The Building Codes Division was provided an additional $1.8 million Other Funds expenditure limitation for the establishment of 10 positions; three positions for code development, two administrative support positions, two plans examiners in the Pendleton and Coos Bay field offices, one structural and mechanical inspector, a plumbing Inspector, and one electrical inspector.

**Workers' Compensation System**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 95,013,543 | 103,016,244 | 108,765,309 | 107,286,957 |
| Other Funds (NL) | 3,361,198 | 3,726,165 | 3,462,034 | 3,462,034 |
| Federal Funds | -- | 12,160,322 | 12,990,316 | 12,541,618 |
| **Total Funds** | **$98,374,741** | **$118,902,731** | **$125,217,659** | **$123,290,609** |
| Positions | 461 | 464 | 463 | 471 |
| FTE | 458.00 | 460.64 | 460.00 | 467.88 |

Program Overview

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 – ($41,540,967 Other Funds, $3,462,034 Other Funds Nonlimited, 185 Positions, 183.5 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) – ($41,697,481 Other Funds, $12,541,618 Federal Funds, 204 positions, 202.38 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 – ($24,048,509 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 6.8% for non-self-insured employers, 7% for self-insured employers and public self-insured employer groups, and 7.8% 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 6.8% is dedicated to funding adjustment reserve accounts for self-insured employers and employer groups.

The Workers' Compensation program also receives $2.3 million in interest income, as well as $3.1 million in other revenue, of which $3 million is from OR-OSHA fines and forfeitures. In addition, the OR-OSHA Division receives $11.4 million of Federal Funds to support the federal OSHA program in Oregon. The program transfers $500,000 Other Funds to the Bureau of Labor and Industries (BOLI) to support workers' compensation-related investigations by that agency. This represents twice the amount that was transferred to BOLI during the previous biennium. BOLI reports that the increase is due to underbilling in previous biennia.

A portion (1/16$^{th}$ of one cent) of the 2.8 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 Other Funds Nonlimited to Oregon Health and Sciences University, Oregon Institute of Occupational Health Sciences for research on occupational illness and disease.

Roughly $26.1 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 2017-19 legislatively adopted total funds budget of $123,290,609 for the Workers' Compensation System is $4.4 million (or 3.7%) higher than the legislatively approved budget for the 2015-17 biennium. Changes include:

- Workers' Compensation Board – The budget eliminates a long-term vacant position in the agency's budget. This reduction includes a single Office Specialist 2 position that has been held open due to lack of workload.
- Oregon OSHA – The budget includes $1,883,900 in Other Funds expenditure limitation to fund nine positions (8.88 FTE) that will provide a greater enforcement presence and more consulting services around workplace safety in Oregon. Specifically, the Department proposes to hire six enforcement positions and three workplace consultation positions. The goal of the additional positions is to increase the workplace presence of OSHA within the state to maintain or reduce the rate of workplace injuries and illnesses, which have recently levelled off after a long period of decline. The Oregon OSHA program had a reduction of 14 occupational safety specialists and one industrial hygienist position in the 2011-13 budget due to reduced revenues related to a waning economy. No adjustments were made in the 2013-15 budget, but an additional three positions were added in 2015 as commercial activity started to recover. This adjustment brings the program staffing to just slightly less than the 2009-11 biennium level.

**Workers' Compensation Nonlimited Accounts**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Self-Insured Employers: Other Funds (NL) | 2,215,240 | 1,478,048 | -- | -- |
| Workers' Benefit Fund: Other Funds (NL) | 182,728,537 | 191,286,861 | 197,089,211 | 197,089,211 |
| **Total Funds** | **$184,943,777** | **$192,760,909** | **$197,089,211** | **$197,089,211** |
| Positions | 11 | 0 | 0 | 0 |
| FTE | 10.04 | 0.00 | 0.00 | 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 2017 rate is 2.8 cents-per-hour split evenly between employers and employees. A portion (1/16th of one cent) of the 2.8 cents-per-hour assessment supports a special payment in the amount of $3.84 million Other Funds Nonlimited 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 6.8%. Self-insured employers and self-insured employer groups are charged an additional premium of 0.2% and 1%, respectively. These funds are used to pay the claims of injured workers when they cannot obtain payment due to employer insolvency.

Budget Environment

Each year, the Department reviews the rates for both the Workers' Compensation Premium Assessment and the cents-per-hour assessment for the Workers' Benefit Fund. On April 1, 2013, DCBS raised the Workers' Benefit Fund assessment from 2.8 cents-per-hour to 3.3 cents-per-hour, reduced the Employer-at Injury wage subsidy from 50% to 45% of wages, and reduced agency administrative costs attributable to the Workers' Benefit Fund to stabilize what was at that time a declining fund balance. Since that time the fund's balance has stabilized and has seen continued fund growth. As of January 1, 2017, DCBS lowered the assessment rate from 3.3 cents-per-hour to 2.8 cents-per-hour with a projected future equilibrium rate of 2.7 cents-per-hour for the foreseeable future.

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 $131 million represents 15.9 months of projected expenditures. The reduction in the rate from 3.3 cents-per-hour to 2.8 cents-per-hour is an attempt to reduce the growth of the fund balance.

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 2017-19 legislatively adopted total funds budget of $197,089,211 for the Workers' Compensation Nonlimited accounts is $4.33 million (or 2.2%) higher than the legislatively approved budget for the 2015-17 biennium. The budget for the self-insured employers Nonlimited funds was adjusted to zero at the request of the agency. Should Nonlimited expenditure authority be required during the biennium, it will be established administratively.

**Financial Regulation**

| | 2013-15 Actual* | 2015-17 Legislatively Approved* | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 39,821,057 | 43,206,235 | 46,377,010 | 45,733,813 |
| Other Funds (NL) | 30,306 | 650,000 | 669,500 | 669,500 |
| Federal Funds | 3,063,362 | 4,784,430 | -- | -- |
| **Total Funds** | **$42,914,725** | **$48,640,666** | **$47,046,510** | **$46,403,313** |
| Positions | 181 | 182 | 174 | 176 |
| FTE | 179.38 | 180.39 | 174 | 175.64 |

*The 2013-15 actual expenditure amounts and the 2015-17 legislatively approved budget amounts presented are the sum of the amounts of the former Insurance and Finance and Corporate Securities Divisions.

Program Overview
The 2017-19 legislatively adopted budget for DCBS combined the budgets of the Insurance and Financial and Corporate Securities Divisions, creating a single Division of Financial Regulation. This substantive change was first presented to the Legislative Fiscal Office in November of 2015. At that time, DCBS stated that it intended to implement the operational changes beginning January 1, 2016, but that the budgetary and accounting functions of the program would remain as approved by the Legislature in the 2015 session. It was acknowledged by the agency at that time that any budgetary or organizational changes would have to be approved by the Legislature. The agency presented the idea of a combined Insurance/Finance Division at an informational hearing of the Joint Committee on Ways and Means on February 2, 2016 where the need to allocate and account for funding sources and maintain the statutory framework of funding and program responsibility was noted. The agency also noted that 2017-19 budget structure changes would have to be brought before the Legislature. The standard process for this type of budgetary change is to combine the existing Divisions using an essential package for technical adjustments; delineating the reductions to the existing programs and the increases to the proposed combined program. DCBS, however, combined the majority of the program's elements as a single budgetary unit during the base budget formation process, leaving only a small portion of the original Divisions' budgets to be moved via technical adjustment packages, which were approved. As a component of the consolidation, the federally funded Senior Health Insurance Benefit Assistance (SHIBA) program that was formerly managed under the Insurance Division was moved to the Health Insurance Marketplace Division. The combined 2015-17 legislatively approved budget for the Insurance and Financial and Corporate Securities Divisions totaled $44.1 million (excluding $1.4 million Federal Funds for the SHIBA program and $3.3 million Federal Funds for insurance program grants). The 2017-19 legislatively approved budget for the Division of Financial Regulation is $46.4 million, an increase of $2.3 million, or 5.2%.

The ***Insurance Program*** serves as the regulatory and consumer protection agency of the state for insurance products. The program 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 program evaluates the financial soundness of insurance companies, the availability and cost of insurance, and the equitable treatment of the insured and claimants. The program 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.

Additionally, the Insurance program operates the following sub-programs:

- The Financial and Producer Regulation (FPR) 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 ***Finance and Corporate Securities*** (DFCS) program 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.

The Finance and Corporate Securities program operates the following five sub-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.

<u>Revenue Sources and Relationships</u>
There are three primary revenue streams for the Insurance program: 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 program 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 2017-19 biennium is just over $126 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 2017-19 is $25.6 million.

The Finance and Corporate Securities program is funded almost entirely with Other Funds from assessments on financial institutions, licensing fees charged to securities dealers and entities, fees charged for the registration of securities, examination fees, and investment income. Excess revenues from these fees are transferred to the General Fund. The program anticipates transferring $23.1 million to the General Fund in the 2017-19 biennium.

A small amount of Other Funds Nonlimited 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 $9.8 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 insurance program 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 program must review and approve premium rates, forms, and market conduct. 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.

The workload of the Finance and Corporate Securities program varies somewhat with the economy. Declining economic conditions generally increase the workload of the program related to the regulation and the financial condition of financial entities. As the economy continues to stabilize and slowly improve, the internal workload of the program may shift, but is not expected to significantly increase.

As the Division continues to integrate, it is anticipated that a number of the overlapping functions, including financial stability audits, licensing, and consumer complaint handling will be combined to increase the capacity and efficiency of the Division that may slow the budgetary growth had the two previous Divisions remained as stand-alone entities.

Legislatively Adopted Budget

The 2015-17 legislatively approved total funds budgets for the Insurance and Financial and Corporate Securities Divisions totaled $44.1 million (excluding $1.4 million Federal Funds for the SHIBA program and $3.3 million Federal Funds for insurance rate review grants). The 2017-19 legislatively adopted budget for the Division of Financial Regulation is $46.4 million, an increase of $2.3 million, or 5.2%.

As noted in the program overview above, the federally-funded Senior Health Insurance Benefit Assistance (SHIBA) program that was formerly managed under the Insurance Division was moved to the Health Insurance Marketplace Division; a reduction in the Insurance program of $1.4 million Federal Funds. In addition, roughly $3.3 million Federal Funds expenditure authority for insurance program grants were phased-out of the agency's budget for 2017-19. DCBS will be requesting the re-establishment of federal grant expenditure authority during the 2018 legislative session.

An expenditure limitation reduction of $163,017 Other Funds was included in the program's budget to account for the elimination of long-term vacant positions. This reduction includes a single Investigator 3 position that had been held open due to lack of workload.

An increase in the Other Funds expenditure limitation of $154,056 was established for the Division of Financial Regulation and the Legislature authorized the establishment of a limited duration Operation and Policy Analyst 3 position (0.88 FTE). The position is established to support work required by the passage of HB 2391. The measure requires DCBS to establish a reinsurance program for individual and group health insurance policies. The position will assist existing staff at the agency with the additional rulemaking process required to establish the reinsurance program and assist with the application to the federal Department of Health and Human Services for a 1332 waiver to implement the Oregon Reinsurance Program.

## Building Codes

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 26,380,178 | 35,213,720 | 36,125,080 | 36,687,740 |
| Other Funds (NL) | 578,696 | 592,444 | 610,217 | 610,217 |
| Federal Funds | -- | 243,092 | 253,610 | 249,759 |
| **Total Funds** | **$26,958,874** | **$36,049,256** | **$36,988,907** | **$37,547,716** |
| Positions | 122 | 127 | 127 | 137 |
| FTE | 118.76 | 125.52 | 126.00 | 134.80 |

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 Other Funds Nonlimited 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 $6.9 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 2017-19 biennium. With the passage of SB 582 (2013,) BCD is now the local building codes and permit 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 2017-19 legislatively adopted total funds budget of $37,547,716 for the Division is $1.5 million (or 4.2%) higher than the legislatively approved budget for the 2015-17 biennium.

In addition to standard inflationary adjustments, the budget includes an increase in the Other Funds expenditure limitation established for the Building Codes Division of $1,748,149 and the establishment of 10 positions (8.80 FTE). Three of the positions, two Operations and Policy Analyst 3s and a Professional Engineer 2 are for code development. These positions will provide policy and technical research, analysis, and subject matter expertise related to developing statewide standards, and provide support on special projects related to statewide consistency and uniformity within the building code. Two Administrative Specialist 2 positions will provide program support to analysts, engineers, and subject matter experts in the process of statewide code development, and facilitate and coordinate on special projects, permit services, and project tracking. Two Plans Examiner 2 positions will provide technical expertise and support to special projects, providing review of plans and specifications for those projects and provide additional support to operational programs in the Pendleton and Coos Bay field offices. One Structural and Mechanical Inspector, a Plumbing Inspector, and one Electrical Inspector will provide field support for site-built construction in the Pendleton and Coos Bay field offices.

**Oregon Health Insurance Marketplace**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | 1,823,000 | -- | -- |
| Other Funds | -- | 28,422,769 | 25,016,644 | 16,141,763 |
| Federal Funds | -- | -- | 1,400,186 | 1,387,316 |
| **Total Funds** | **--** | **$30,245,769** | **$26,416,830** | **$17,529,079** |
| Positions | 0 | 17 | 21 | 24 |
| FTE | 0.00 | 20.50 | 21.00 | 24.00 |

Program Overview

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 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 the Oregon Health Authority (OHA) and DCBS are ex-officio members.

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.

HB 4071 (2016) created a health insurance premium assistance program for certain pacific islanders residing in Oregon under a Compact of Free Association. The program is housed within the Insurance Marketplace Division; however, the program is separate from the exchange program.

Revenue Sources and Relationships

The ongoing functions of the Marketplace are 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 $6.00 for medical plans and $0.57 for dental plans.

Projected 2017-19 assessment revenue for the Marketplace program totals just under $18.2 million. The beginning fund balance as of July 1, 2017, for the Health Insurance Exchange Fund is estimated to be $11.9 million for a total of available resources of $30.1 million during the 2017-19 biennium. The combined expenditure limitation authorized from the fund for the Marketplace program and the Central Services Division (including direct cost allocations and intra-agency transfers for centralized administrative functions) is $16.9 million leaving a projected ending balance for the 2017-19 biennium of $13.2 million. HB 2391 (2017) transfers $7 million of this amount to the Health System Fund as a part of the Oregon Reinsurance Program. The remaining $6.2 million balance provides for 8.8 months of operating reserves for the program.

The COFA Islander fund received no additional revenue from the General Fund or other sources for the 2017-19 biennium. The estimated residual fund balance at the beginning of the biennium is $1.4 million.

Federal Funds grant revenue supporting the Senior Health Insurance Benefit Assistance program is forecasted to be $1.4 million in the 2017-19 biennium.

Roughly $1.15 million in program revenues are transferred to the Central Services Division to support the administrative functions of the agency.

Budget Environment

The Oregon Health Insurance Marketplace continues to use the federal healthcare exchange platform (Healthcare.gov) for participant enrollment. The final rule released by the U.S. Department of Health and Human Services (HHS) established a user fee of 1.5% assessed against the premium cost of policies purchased through the federal exchange beginning with the 2017 benefit year. The user fee is paid directly to HHS by participating insurers, so there is no direct budgetary impact to the Marketplace program. Currently proposed rates for 2018 are 2% and 3% for 2019 onward.

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.

Legislatively Adopted Budget

The legislatively adopted budget for the Oregon Health Insurance Marketplace program is $17,529,079 and includes 22 positions (22.00 FTE). After removing the SHIBA and COFA sub-programs, the Marketplace program budget is $14,758,473. This amount is $11.84 million, or 44.5%, less than the legislatively approved budget for the Marketplace program in the 2015-17 biennium.

The legislatively adopted budget makes several reductions to the program's Other Funds expenditure limitation to align the 2017-19 budget for the Health Insurance Marketplace with anticipated expenditures following the settlement of the ORACLE litigation in the 2015-17 biennium. The budget eliminates $6 million Other Funds expenditure limitation in Information Technology professional services for contracts that were needed for the transition of the marketplace from Cover Oregon that are now expired; ongoing IT professional service costs are estimated at $3 million. The budget also eliminates $1.5 million Other Funds expenditure limitation for telecommunications contracts that are no longer needed. Ongoing telecommunications expenditures are estimated at $0.3 million for the 2017-19 biennium. Finally, a reduction of $2.4 million in Other Funds expenditure limitation was included for Attorney General fees to reflect the resolution of the Cover Oregon litigation. These reductions account for roughly $9.9 million of the total Other Funds expenditure limitation reduction for the Marketplace program. The remaining reduction amounts are due to adjustments for positions that were abolished during the 2016 legislative session and the phase out of certain one-time costs that were authorized in the 2015-17 biennium.

Although budgeted in the Central Services Division, $1,012,108 Other Funds from the Health Insurance Exchange fund are used for the direct costs of the Health Insurance Marketplace that includes support for permanent positions (4.00 FTE) providing ongoing fiscal and administrative support to the Health Insurance Exchange.

The budget includes $1.4 million Other Funds expenditure authority from the Compact of Free Association (COFA) Islander Fund. This amount is the residual funding projected to be remaining in the account at the beginning of the 2017-19 biennium. These monies were transferred to the fund from the General Fund during 2016 to provide insurance premium and out of pocket expense assistance to qualified COFA islanders residing in Oregon. The budget also includes the continuation of one limited duration full-time Operations Policy Analyst 4 to administer the program. Based on cost estimates provided by DCBS, the annual cost per program enrollee is $1,215. The current number of program participants is roughly 300, equating to an annual estimated cost of $364,500, or a biennial cost of $729,000 plus program administration.

The federally funded Senior Health Insurance Benefit Assistance (SHIBA) program that was formerly managed under the Insurance Division was moved to the Health Insurance Marketplace Division. The Legislature approved a Federal Funds expenditure limitation of $1.39 million and the transfer of 0.50 FTE to the Marketplace Division.

## Central Services

| | **2013-15 Actual** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---|---|---|---|
| Other Funds | 30,968,470 | 39,461,967 | 42,595,443 | 40,426,107 |
| Other Funds (NL) | 25,482 | 257,956 | 265,695 | 265,695 |
| Federal Funds | -- | 232,413 | 297,182 | 287,341 |
| **Total Funds** | **$30,993,952** | **$39,952,336** | **$43,158,310** | **$40,979,143** |
| Positions | 148 | 170 | 165 | 159 |
| FTE | 147.5 | 165.71 | 163.54 | 157.04 |

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 $41.8 million from the Department’s dedicated funds. In addition, $1.15 million Other Funds is transferred from the Health Insurance Marketplace Fund to cover direct costs of certain administrative functions of the Marketplace program.

Federal funds of $313,490 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 2017-19 legislatively adopted total funds budget of $40,979,143 for the Central Services Division is $1.02 million (or 2.5%) higher than the legislatively approved budget for the 2015-17 biennium. In addition to statewide inflationary costs, the legislatively adopted budget for the program includes a number of position eliminations including:

- The elimination of two permanent, full-time Accounting Technician positions (2.00 FTE) from the Shared Services Unit, reducing $256,054 in Other Funds expenditure limitation, to account for the transfer of payroll services from DCBS to the Department of Administrative Services during the 2015-17 biennium.
- Three long-term vacant positions (3.00 FTE) were eliminated. The positions have been held open due to lack of workload. The positions include: one Office Specialist; one Accounting Technician; and one Human Resources Analyst. The reduction totals $503,526 Other Funds.
- The elimination of an Information Systems Specialist position (1.00 FTE) and the reduction of expenditure and position authority (0.50 FTE) for an Operations Policy Analyst 4 to account for the transfer of the positions and the centralization of all information systems security functions with the Department of Administrative Services due to an executive order consolidating IT security staff in the Office of the State Chief Information Officer. The reduction totals $410,070 Other Funds.

# BOARD OF DENTISTRY

Analyst: Terpening

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 2,650,838 | 3,045,511 | 3,302,643 | 3,277,010 |
| **Total Funds** | **$2,650,838** | **$3,045,511** | **$3,302,643** | **$3,277,010** |
| Positions | 7 | 8 | 8 | 8 |
| FTE | 7.00 | 8.00 | 8.00 | 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, anticipated to generate $586,260 Other Funds revenue. The biennial licensure fees for dentists and dental hygienists were increased by $75. For dentists, the increase was from $315 to $390 and for dental hygienists the increase was from $155 to $230. With the previous biennium's fee increase, the Board is projected to maintain an estimated ending balance of approximately $758,549, or 5.6 months of operating expenses.

Budget Environment

The Board has seen moderate increases to both new and renewal of licenses annually since 2003. Currently, the Board has approximately 3,875 licensed dentists and 4,303 licensed dental hygienists. In 2017-19, the Board is projecting 1,050 new licenses to be issued, a slight increase over 2015-17. The projected regulatory workload 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 12 months. With the additional Dental Investigator position approved in 2015, the average time spent on investigations has subsequently been reduced to 8 months, and virtually eliminated the need for contract investigators.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget increases the agency's budget by 7.6% over the 2015-17 legislatively approved budget. The budget includes expenditure limitation increases for management decisions related to board meetings including: providing security at public meetings, purchasing tablets for board member usage, and holding three additional board meetings to review certain industry safety initiatives.

The budget also includes a reduction of limitation related to contract investigators now that the permanent, full-time Dental Health Care Investigator position approved in HB 5014 (2015) is fully implemented. Finally, the budget includes an increase in limitation for board member per diem compensation. Per diem rates are established annually using the allowable rate from the Internal Revenue Service. Rates are increasing from $140 per day to $152 per day.

# HEALTH-RELATED LICENSING BOARDS

Analyst: Terpening

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 4,420,522 | 5,880,651 | 6,049,622 | 5,910,978 |
| **Total Funds** | **$4,420,522** | **$5,880,651** | **$6,049,622** | **$5,910,978** |
| Positions | 19 | 22 | 22 | 21 |
| FTE | 17.21 | 20.00 | 20.00 | 20.25 |

Overview
The Health-Related Licensing Boards (HRLB) are currently comprised of six independent licensing boards combined into one agency for the ease of budgetary reporting and sharing of resources. These boards license and regulate mortuary and cemetery services, naturopathic physicians, occupational therapists, medical imaging technicians, speech-language pathologists and audiologists, and veterinary medical service providers. Each board retains independent statutory authority and has a separate expenditure limitation within the budget bill that is approved by the Legislature.

The six boards share or collaborate on many infrastructure services, including information technology, such as servers, email, and licensing software. Additionally, most of the boards share a common office suite in the Portland State Office Building, a conference room, printers and fax machines, and related expenses. HB 5023 (2015) provided the HRLB with a shared accountant position, that is housed in the Mortuary and Cemetery Board, to provide budget and accounting functions for the boards in lieu of utilizing the Department of Administrative Services Shared Financial Services. The costs of this shared position are allocated to each board based on transaction use.

Revenue Sources and Relationships
The six boards are 100% supported with Other Funds revenues from application, examination, licensing, registration, and certification fees, civil penalties, and other smaller sources of revenue. Each board has its own independent revenues and expenditures, and do not share funds. The estimated ending balances for the boards generally fall within a reasonable operational need based on cash flows.

Budget Environment
Generally, the boards' main activities are licensing, regulatory compliance, investigation, education, and administration. Two of the boards, the Mortuary and Cemetery Board and the Veterinary Medical Examining Board, have facility licensing and inspection as part of their regulatory activities. Generally, the boards have experienced increases in applications and licensing numbers and all of the boards have implemented either fingerprint background checks at time of application or LEDS background checks at time of renewal for licensees.

Staffing levels for the boards vary based on the number of licensees and associated workload regarding complaints and investigations. Three of the boards currently have their own investigator position, and three currently use contract investigators. Generally, each of the boards are experiencing increases in complaints and investigations, in part due to the growth of these industries, implementation of background checks, and more consumer awareness.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget totals $5,910,978 Other Funds and 21 positions, totaling 20.25 FTE. The total budget is a 0.5% increase from the 2015-17 legislatively approved budget.

The budget includes a budget note directing the Health-Related Licensing Boards to work with the Office of the State Chief Information Officer and other licensing boards, as appropriate, to assess the information technology needs and requirements for licensing databases, as well as support for desktop, hardware and software, and any other IT systems. A report on this assessment, including any request for additional resources, is to be presented to the Joint Committee on Ways and Means during the 2018 legislative session.

More detail follows for each individual board.

**Board of Medical Imaging**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 765,176 | 943,917 | 972,343 | 886,265 |
| **Total Funds** | **$765,176** | **$943,917** | **$972,343** | **$886,265** |
| Positions | 3 | 3 | 3 | 3 |
| FTE | 3.00 | 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. Oregon has the most comprehensive medical imaging licensure law in the nation, and 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 $120, including for individuals with multiple licenses combined into one, are prorated based on birth month, and are on a biennial renewal basis. The Board's projected ending cash balance of $206,306 equals approximately 5.6 months of operating costs.

Budget Environment
The agency has identified four main activities: licensing; regulatory compliance; education; and governance and administration. Staffing levels for the Board have remained constant despite increases in licensees. Disciplinary cases have averaged about 70 per year over the past biennium. Of that amount, a little over half result in disciplinary action. Most of the cases are initiated by Board staff conducting audits at time of application or renewal, most often a result of failure to report criminal history found through fingerprint background checks approved in 2015. About 20% of opened cases are initiated via complaint filed with the Board, for which the Board will utilize contract investigators. Three-quarters of all cases are resolved within three months, by the time the next Board meeting convenes.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $886,265 represents a 6.1% decrease from the 2015-17 legislatively approved budget level. The budget includes a transfer out to the Oregon Health Authority for the workforce

database fee, adjustments to reflect the Board's prorated cost of sharing an Accountant 2 position established under the Mortuary and Cemetery Board to provide budget and accounting services, and reductions in limitation to better reflect actual expenditures.

### Mortuary and Cemetery Board

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 1,417,530 | 2,118,785 | 2,133,838 | 2,152,200 |
| **Total Funds** | **$1,417,530** | **$2,118,785** | **$2,133,838** | **$2,152,200** |
| Positions | 6 | 7 | 7 | 7 |
| FTE | 5.71 | 7.00 | 7.00 | 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. HB 3242 (2015) transferred the Indigent Disposition Program from the Oregon Health Authority to the board, however, the board's revenues had not been updated to reflect this change. 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 2017-19 budget has increased revenue by $1,376,107 Other Funds to reflect the program's transfer. The revenue has also been adjusted to include revenue transfers from the other Health-Related Licensing Boards for the costs of the shared accountant position. The projected ending cash balance of $924,087 equals approximately 10.3 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 and performs approximately 800 facility physical inspections each biennium. Additionally, the board investigates approximately 250 complaints each biennium that are typically resolved within six months.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $2,152,200 represents a 1.6% increase from the 2015-17 legislatively approved budget level. The budget includes the adjustments to revenue mentioned above, and includes adjustments to reflect the board's prorated cost of sharing an Accountant 2 position with the other health-related licensing boards. While the position authority and direct supervision lies with the Mortuary Board, the cost of the position is distributed among the other HRLB agencies, in proportion to their transaction usage.

## Board of Naturopathic Examiners

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 641,218 | 733,930 | 751,080 | 799,923 |
| **Total Funds** | **$641,218** | **$733,930** | **$751,080** | **$799,923** |
| Positions | 3 | 3 | 3 | 3 |
| FTE | 2.50 | 2.50 | 2.50 | 3.00 |

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 1,400 active licensees renewed on an annual 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 2017-19 projected ending cash balance of $284,224 equals approximately 8.5 months of operating costs.

Budget Environment

The number of licensees has virtually doubled over the last decade 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. The Board anticipates continued growth in the number of applications and licensees in 2017-19. The number of investigations and complaints have also increased, with the Board currently averaging about 40 per year. A portion of these have resulted from the Board's decision to implement LEDS checks on licensees at the time of renewal, while other complaints come from patients, pharmacists, or other health professionals. The Board has noted that the complexity of these cases has also increased and it has become more difficult to close cases in a timely manner.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $799,923 represents a 9% increase from the 2015-17 legislatively approved budget level. The budget includes a transfer out to the Oregon Health Authority for the workforce database fee and adjustments to reflect the Board's prorated cost of sharing an Accountant 2 position, established under the Mortuary and Cemetery Board for the purpose of providing budget and accounting services. The budget also includes increasing the existing Investigator 2 position from part-time to full-time in order to address the increasing investigative caseload.

## Occupational Therapy Licensing Board

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 366,776 | 474,187 | 509,134 | 483,425 |
| **Total Funds** | **$366,776** | **$474,187** | **$509,134** | **$483,425** |
| Positions | 2 | 2 | 2 | 2 |
| FTE | 1.25 | 1.50 | 1.50 | 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 about 2,000 licensed occupational therapists (OT) and 500 occupational therapy assistants (OTA) renewed on a biennial basis. The biennial fees are $150 for OT's and $100 for OTA's. The fees have not been increased since 2006.

The Board's projected ending cash balance for the 2017-19 biennium is anticipated to be $214,876, equaling approximately 10.7 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 2019 legislative session if expenditures begin to reduce the available ending balance.

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, following the U.S. Bureau of Labor Statistics projection of a 27% increase in occupational therapists in the industry between 2017 and 2024. Over the past two biennia, the Board has averaged 15 complaint cases per year. The Board anticipates increases in investigations as licensing numbers continue to increase, and the Board conducts LEDS background checks at time of renewal.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $483,425 represents a 1.9% increase from the 2015-17 legislatively approved budget level. The budget includes a reduction to personal services costs to better reflect actuals and adjustments to reflect the Board's prorated cost of sharing an Accountant 2 position, established under the Mortuary and Cemetery Board, for the purpose of providing budget and accounting services.

## Board of Examiners for Speech-Language Pathology and Audiology

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 543,636 | 680,390 | 717,500 | 615,945 |
| **Total Funds** | **$543,636** | **$680,390** | **$717,500** | **$615,945** |
| Positions | 2 | 3 | 3 | 2 |
| FTE | 2.00 | 2.50 | 2.50 | 2.00 |

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 is 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 2,800 active licensees, a 15% growth from 2015, 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 $265,411 equals approximately 10.3 months of operating costs.

Budget Environment
The agency has identified three main activities of 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 to the number of active licenses over that period and implementation of fingerprint background checks. Additionally, investigations are becoming more complex, often requiring review by clinical experts.

The number of complaints and investigations is expected to increase as license exemptions for speech-language pathologists working in schools is no longer allowed by the Teacher Standards and Practices Commission. These individuals must now hold a professional license issued by the Board and adhere to Board requirements for maintaining that license. The Board continues to try and educate school districts on the licensure requirements of the speech-pathologists and pathology assistants.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $615,945 represents a 9.5% decrease from the 2015-17 legislatively approved budget level. The decrease is a result of the phase-out of a limited duration part-time Investigator 2 position (0.50 FTE) approved in 2015. This position had been requested to address the increased investigative caseload, however, the position had not been filled when a new executive director was hired by the Board eight months into the biennia. The new director chose to leave the position vacant while attempting to assess the administrative and investigative workload requirements of the Board, and the position was not requested to continue in a Policy Option Package. A budget note was included directing the Board to conduct a review of its complaint and investigation process and workload, and report to the Joint Committee on Ways and Means during the 2018 legislative session.

The budget also includes a transfer out to the Oregon Health Authority for the workforce database fee, and adjustments to reflect the Board's prorated cost of sharing an Accountant 2 position, established under the Mortuary and Cemetery Board, for the purpose of providing budget and accounting services.

### Veterinary Medical Examining Board

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 686,186 | 929,442 | 965,727 | 973,220 |
| **Total Funds** | **$686,186** | **$929,442** | **$965,727** | **$973,220** |
| Positions | 3 | 4 | 4 | 4 |
| FTE | 2.75 | 3.50 | 3.50 | 3.75 |

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; registers and inspects veterinary facilities; 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, and veterinary facility registrations. The agency has over 2,200 licensed veterinarians, and 1,200 certified veterinary technicians on a biennial renewal basis. HB 2474 (2015) was approved by the Legislature requiring the registration of veterinary facilities. The board originally anticipated 500 facilities across Oregon, but as of 2017 there were 779 facilities registered for the $150 annual fee. As a result, the 2017-19 projected ending cash balance of $645,027 equals approximately 15.9 months of operating costs.

Budget Environment

The agency has identified three main activities: licensing, investigations, and facility inspection. The number of licensees has grown approximately 3% from the previous biennium, following an 8% increase the previous biennium. The number of complaints reviewed by the board has also increased, with the most common consumer complaint concern veterinary fees or the veterinarian's communication. The board staff reviews the complaints to determine if they fall within the board's jurisdiction for disciplinary review. Most complaints that result in disciplinary review are resolved through stipulated agreement that may or may not involve civil penalties.

The board began collecting facility registration fees and initially provided veterinary facilities with a self-certification opportunity for compliance with minimum facility standards established by rule. Now that registration fees have provided sufficient cash flow, the board has hired an inspector position and initiated facility inspections to ensure compliance with the facility standards. The board intends to conduct random annual inspections of the registered facilities. The board anticipates an increase in investigations and disciplinary actions, and a corresponding increase in Attorney General costs and is expected to return to the Legislature in 2018 for additional expenditure limitation to cover these anticipated costs.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $973,220 represents a 4.7% increase from the 2015-17 legislatively approved budget level. The budget includes an adjustment to the expenditure limitation to reflect the board's prorated cost of sharing an Accountant 2 position, established under the Mortuary and Cemetery Board, for the purpose of providing budget and accounting services.

## BUREAU OF LABOR AND INDUSTRIES

Analyst: Deister

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 11,279,003 | 12,908,494 | 13,660,976 | 13,119,229 |
| Other Funds | 9,331,143 | 11,628,973 | 12,885,753 | 12,162,061 |
| Other Funds (NL) | 975,996 | 1,236,000 | 1,281,732 | 1,281,732 |
| Federal Funds | 1,462,377 | 1,541,210 | 1,258,596 | 1,258,596 |
| **Total Funds** | **$23,048,519** | **$27,314,677** | **$29,088,017** | **$27,821,618** |
| Positions | 99 | 107 | 105 | 107 |
| FTE | 97.30 | 103.31 | 103.88 | 104.88 |

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 based on: 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; determination and enforcement of prevailing wage rates for public works projects; licensing and regulation of farm, forest, and construction labor contractors and janitorial firms; and enforcement of newly-enacted sick leave requirements.
- Apprenticeship and Training – Regulation of apprenticeship programs that promote the development of a highly skilled workforce.
- Commissioner's Office – Provides policy direction, distributes information to the public, interprets labor and civil rights law, issues proposed and final orders in contested cases regarding civil rights and wage and hour cases, provides information and training to employers, and provides central administrative services for the agency.

Revenue Sources and Relationships

At 47.2%, General Fund comprises nearly half of the Bureau's support. The Bureau's Other Funds come primarily from a portion (equal to 0.03 of 1%) of unemployment insurance taxes paid by employers in one calendar quarter each biennium. This revenue, which is assumed at $4,580,000 in the 2017-19 biennium, is deposited into the Wage Security Fund to pay final wages to employees whose employers cease operations and default on wages owed. The agency is also projected to receive approximately $350,000 from interest earnings and recovery of payments from defaulting employers. Expenditures from the Wage Security Fund are Nonlimited when used to pay final wages to employers. Such payments are projected to total $1,281,732 during the 2017-19 biennium. The Wage Security Fund is also used for administrative expenses, which are budgeted as Other Funds. Of the $12.2 million in Other Funds expenditure limitation for the 2017-19 budget, $2.8 million is from Wage Security Fund revenue spent on agency administration.

The Prevailing Wage Rate program is funded through assessments on public works construction contracts, in the amount of $3,330,000 for 2017-19. Fees for publications, seminars, and presentations on employment law generate $1,240,000 for the Technical Assistance for Employers program in the Commissioner's Office. 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 result in $1.3 million and an increase of $300,000 over 2015-17 levels, due to a renegotiated contract that better recognizes the cost of investigations. The Wage and Hour Division's licensing of farm, forest, and construction labor contractors and janitorial firms is expected to yield $459,600 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. The Division conducts supportive services and outreach efforts aimed at preparing and increasing the number of women and minorities in heavy highway construction jobs. Federal Funds are received from a contract with the Equal Employment Opportunity Commission (EEOC), and BOLI receives $965,000 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. Two former sources of federal funding not available in 2017-19 are as follows:

- Federal funding from the U.S. Department of Veterans' Affairs (VA) in the amount of $120,000 to the Apprenticeship and Training Division was not renewed, as the VA opted to consolidate on-the-job training support for qualified veterans with the Higher Education Coordinating Commission.
- A federal contract with U.S. Housing and Urban Development (HUD) was rescinded because of the passage of SB 380 in 2015. That bill granted the Labor Commissioner discretion over the issuance of formal charges and pursuit of litigation when a violation of fair housing laws was found. As a result, Oregon was determined to no longer be substantially equivalent to the federal Fair Housing act. Housing complaints filed with BOLI are no longer dually filed with HUD, which had formerly contributed funds toward the investigation of the case (but did not contribute to the cost of subsequent litigation if the case was removed from BOLI's administrative process and pursued in court by the filer). Sunset provisions were extended via SB 298 in 2017, allowing director's discretion through 2020.

Budget Environment

Workload for BOLI is primarily complaint driven. Complaints and claims investigated by BOLI include unpaid wages, working conditions, and violations of civil rights and fair housing protections. Prevailing wage rate and Wage Security Fund claims fluctuate with changes in the Oregon economy. Apprenticeship registration generally reflects trends in the labor market, including the amount of construction occurring in Oregon. New laws (such as new provisions related to paid sick leave or providing predictable schedules) may impact the number of inquiries to the Wage and Hour Division or the Technical Assistance for Employers program, as workers and employers seek information about rights, applicability, and compliance. The following table illustrates how division workload, as measured by inquiries, investigations, and new registrations, has increased since 2014.

| Division/Activity | 2014 | 2015 | 2016 |
|---|---|---|---|
| Wage and Hour - Inquiries | 30,000 | 35,000 | 35,000 |
| Wage and Hour - Claims Filed | 1,650 | 1,294 | 1,649 |
| Wage and Hour - Investigations | 1,691 | 1,486 | 1,527 |
| Civil Rights - Inquiries | 38,699 | 41,566 | 45,644 |
| Civil Rights - Cases Filed | 1,700 | 1,836 | 1,700 |
| Apprenticeship - New Registration | 2,851 | 2,507 | 2,997 |
| Tech. Assistance for Employers - Inquiries | 15,750 | 16,916 | 25,097 |
| Tech. Assistance for Employers - Trainings | 167 | 185 | 249 |

BOLI met most of its performance measures in 2016, falling short of targets in the following areas:
- Customer service (91% of customers rated it as “good” or “excellent” compared to a target of 100%)
- The number of apprentices receiving journey level certificates (973 vs. a target of 1,200)

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget includes reductions to the agency’s current service level, eliminating two positions in the Wage and Hour Division and one position in the Civil Rights Division. The passage of SB 828 added back positions and funding to the agency. SB 828 requires employers in certain industries to provide estimated work schedules to employees. To accommodate new agency training and investigatory responsibilities under the bill, General Fund support in the amount of $413,787 was included for two permanent positions, along with one limited duration position.

A 4.5% increase in Other Funds expenditure limitation is attributable to inflation and a renegotiated contract with the Department of Consumer and Business Services for civil rights investigations related to injured workers, and additional Other Funds expenditures related to BOLI responsibilities under HB 3279, requiring the licensing of property service contractors and training of their staff. Decreases in Federal Funds reflect the loss of federal contracts for veterans’ services and HUD housing discrimination cases.

### Commissioner’s Office and Program Support Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 3,540,692 | 4,097,539 | 4,167,732 | 4,116,445 |
| Other Funds | 2,673,594 | 3,321,203 | 3,494,105 | 3,413,478 |
| Federal Funds | 216,956 | 245,643 | 269,260 | 269,220 |
| **Total Funds** | **$6,431,956** | **$7,664,385** | **$7,931,097** | **$7,799,143** |
| Positions | 25 | 27 | 26 | 27 |
| FTE | 24.17 | 25.92 | 25.38 | 26.38 |

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 – The Commissioner’s office provides strategic planning, legal policy, public information, and intergovernmental relations for the agency. Eight positions, comprised of the Labor Commissioner; Deputy Commissioner; Legal Policy Advisor; two Administrative Law Judges; Legislative Director; Communications Director; and an executive assistant comprise the Commissioner’s Office.
- Business Services – Four positions provide centralized fiscal services including accounting, purchasing, payroll, budget development, and contract administration. Information Services also reside here, consisting of three employees that implement and maintain computer information systems and user support functions.
- Administrative Prosecution Unit – Provides adjudication (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. The Chief Prosecutor, and a staff of two administrative prosecutors (Compliance Specialist 3) and a case coordinator (for a total of 4.00 FTE) make up the personnel in this unit.
- Technical Assistance for Employers Unit – A total of eight BOLI employees assist employers by providing online information and tailored employment law handbooks, a telephone technical assistance 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/Support Services Unit receives 52.8% of its support from General Fund resources. Other Funds revenues include $1.24 million in fee and services revenue collected by the Technical Assistance for Employers Unit from participating employers for seminars and on-site presentations of Civil Rights and Wage and Hour laws; lawful employment practices; and the sale of compiled employer reference handbooks and composite workplace postings. Additional Other Funds are received from miscellaneous fees, and from portions of the Wage Security Fund revenue amounting to $308,680 and from Prevailing Wage Rate fees that are allocated to the Commissioner's Office to support central administrative costs ($244,621) and the costs of conducting administrative law hearings ($288,122). Federal Funds are from an Equal Employment Opportunity Commission (EEOC) contract and are used to cover costs associated with the investigation of complaints dually filed with BOLI and the EEOC.

Budget Environment

The 2017 Legislative Assembly passed several laws that could have an impact on the number of inquiries and requests for seminars and trainings made of the Technical Assistance for Employers program. For example, HB 2005, promotes pay equity among employees of various classes, and makes it unlawful to screen applicants based on current or previous compensation. SB 3279 requires property services contractors (cleaning and janitorial services) to be licensed and to train employees on how to avoid, report, and respond to workplace harassment, discrimination, and assault, and legal protections available. SB 828 specifies requirements for certain large employers in specific industries regarding employee scheduling and associated compensation. It is reasonable to assume that these new laws will result in additional complaints and inquiries from employers who seek to know whether they are subject to these provisions, what they must do to comply, and the timelines associated with compliance. BOLI will be adding to and updating its employer resources, such as on-line fact sheets, frequently asked questions, employer handbooks, and employer seminars related to these new laws.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget added General Fund support in the amount of $174,549 and position authority for one (1.00 FTE) limited duration Training and Development Specialist 2 position to accommodate the anticipated initial influx of employer inquiries and requests for information related to the passage of SB 828. The budget for the Division also includes standard state government service charge and rate adjustments that were approved in most agency budgets. In total, the legislatively adopted budget for the Commissioner's Office represents a 4.1% increase from the 2015-17 legislatively approved budget.

## Civil Rights Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 2,926,583 | 3,076,228 | 3,390,716 | 3,276,419 |
| Other Funds | 939,443 | 1,117,805 | 1,461,564 | 1,431,929 |
| Federal Funds | 1,168,883 | 1,200,569 | 972,105 | 972,005 |
| **Total Funds** | **$5,034,909** | **$5,394,602** | **$5,824,385** | **$5,680,353** |
| Positions | 29 | 30 | 30 | 30 |
| FTE | 28.50 | 29.25 | 29.50 | 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 based on: 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 (DCBS). The Civil

Rights Division also evaluates complaints regarding housing discrimination and access to public facilities such as retail establishments, transportation, or career schools. 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.

Revenue Sources and Relationships

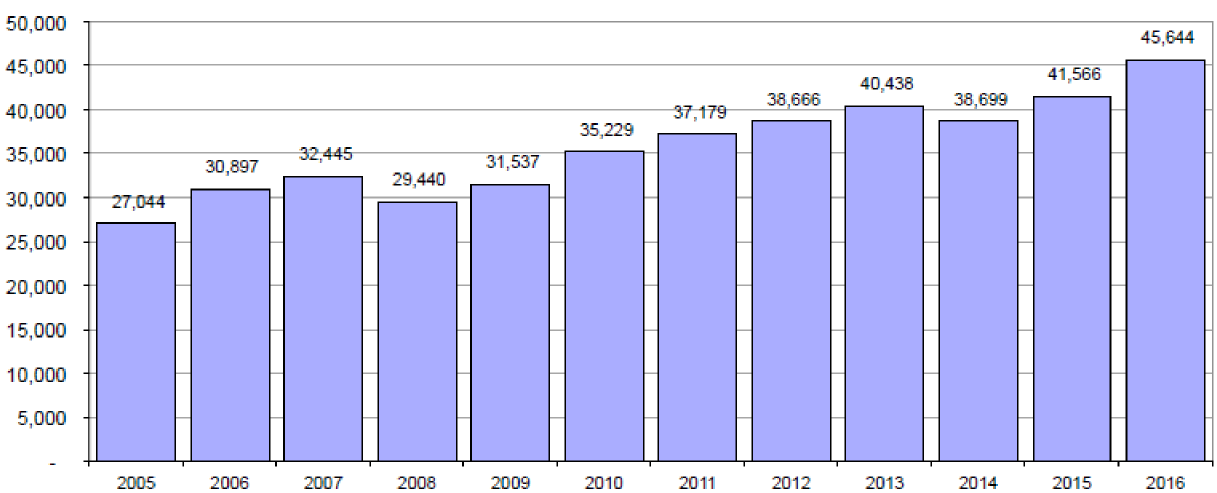
The Civil Rights Division expects to receive approximately $500,000 from OR-OSHA and an estimated $1,200,000 from the Worker's Benefit Fund in DCBS. These funds are used to investigate allegations of discrimination against injured workers. Interagency agreements between these two entities have recently been renegotiated to cover more of the agency's average cost per investigation than in previous biennia. Case copy fees from requests generate approximately $130,000 in miscellaneous receipts that are also a source of Other Funds for this Division. The EEOC provides $965,000 Federal Funds to the Division's budget in the form of reimbursement on a per-case basis. The average cost of the Division's investigations is approximately $2,700; costs related to any post-investigation administrative or legal action are not included in this figure. Reimbursements from the Equal Employment Opportunity Commission, the Injured Worker Fund, and the Occupational Safety and Health Administration also help to support investigative costs. The remaining cost per case is subsidized primarily by General Fund.

Budget Environment

In 2016, approximately 90% of the inquiries handled by the Civil Rights Division centered on complaints regarding employment. Of the remaining 10%, issues related to accommodation for disability comprised 34% of complaints, sex discrimination accounted for 36% of volume, injured worker status represented 17%, and issues of race comprised the remaining 16% (amounting to 103% because some complaints alleged concerns in multiple areas). The 45,644 inquiries in 2016 resulted in approximately 1,700 investigations associated with formal complaints, approximately two-thirds of which were investigated.

The table below illustrates the volume of inquiries to which the Civil Rights Division has responded over time.

**Civil Rights Division Inquiries**




To effectively respond to inquiries and complaints within existing resources, BOLI employs a triage system, intended to focus resources on the most egregious violations or significant harm, and to expedite the closure of cases unlikely to result in a finding of unlawful discrimination, as follows:

- "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 no additional evidence is presented after review, the cases are usually dismissed.

Legislatively Adopted Budget

The legislatively adopted budget reduced the current service level by eliminating General Fund in the amount of $139,781 and a Civil Rights Field Representative 1 position (1.00 FTE). The passage of SB 828 added back $115,653 General Fund, and a 0.75 FTE (due to the effective date of the bill) Civil Rights Field Representative 2 to the Division to accommodate workload associated with inquiries and investigations related to SB 828, requiring that certain employers provide predictable scheduling for employees. This position is permanent and anticipated to be full-time in the 2019-21 biennium. The budget for the Division also includes standard state government service charge and rate adjustments that were approved in most agency budgets. The 2017-19 legislatively adopted budget for the Civil Rights Division is a 7.6% increase from the 2015-17 legislatively approved budget, and a 0.5% decrease from the 2017-19 current service level.

## Wage and Hour Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 2,372,277 | 2,862,539 | 3,156,523 | 2,911,699 |
| Other Funds | 3,153,210 | 4,614,945 | 5,228,948 | 5,227,352 |
| Other Funds (NL) | 975,996 | 1,236,000 | 1,281,732 | 1,281,732 |
| **Total Funds** | **$6,501,483** | **$8,713,484** | **$9,667,203** | **$9,420,783** |
| Positions | 29 | 34 | 33 | 34 |
| FTE | 29.00 | 32.14 | 33.50 | 33.75 |

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 through enforcement of the state Child Labor Law. The Division also enforces regulations pertaining to private employment agencies, conducts wage surveys, publishes prevailing wage rates for public works projects and enforces the Prevailing Wage Rate Law, and licenses and regulates farm, forest, construction, and – with the passage of HB 3279 in 2017 – property service (janitorial) labor contractors.

Revenue Sources and Relationships

The Wage and Hour Division expects to receive about $3.3 million from assessments on public construction contracts for the Prevailing Wage Rate (PWR) program, and $459,600 in licensing fees for 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 $4,585,000 for the Fund in the 2017-19 biennium from a portion (equal to 0.03%) of the unemployment insurance taxes paid by employers in the last calendar quarter of the prior biennium. Out of the total in Wage Security Fund revenues, the Division is projected to spend $1,281,732 for actual wage claims as Other Funds Nonlimited. Approximately $1.8 million of Wage Security Fund revenues are spent on administration as Other Funds, including approximately $521,532 resulting from the passage of SB 1587 (2016), which enabled expenditures of the Wage Security Fund specifically for enforcement of wage and hour laws.

Budget Environment

The Wage and Hour Division reports receiving about 35,000 inquiries per year, and conducting 1,300 investigations related to reported wage and hour irregularities in 2016. Approximately 400 claims are filed each year for final unpaid wages against the Wage Security Fund. About 200 investigations are conducted each biennium related to non-payment of prevailing wage on public works projects. The Division issues licenses to about 400 farm, forest, and construction labor contractors, and anticipates issuing about 500 licenses to property services contractors when HB 3279 becomes effective. The Wage and Hour Division's investigations are primarily complaint driven.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget represents an 8.2% total funds increase from the 2015-17 legislatively approved budget, and a 2.5% decrease from the 2017-19 current service level. The legislatively adopted budget eliminated a Public Service Representative 3 position associated with a live entertainment telephone line established by HB 3059 in 2015, which was receiving approximately one phone call per month, and a Compliance Specialist 2 position, to effect General Fund savings of $274,057. Policy bills and attendant support for implementation were approved during the 2017 legislative session, as follows:

- $123,585 General Fund and 1 permanent Compliance Specialist position (0.75 FTE) was added to the Wage and Hour Division for work inquiries and investigations related to requirements that certain employers provide predictable schedules for their employees.
- $156,267 Other Funds expenditure limitation and 2 positions (1.50 FTE) were added to the Wage and Hour Division to accommodate the requirement that property services contractors be licensed and staff be provided training as required in HB 3279. The positions added include a full-time Administrative Specialist 1 position and a part-time Compliance Specialist 2 position. These positions will be supported by licensing fees charged to property service contractors.

The budget for the Division also includes standard state government service charge and rate adjustments that were approved in most agency budgets.

### Apprenticeship and Training Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 2,439,451 | 2,872,188 | 2,946,005 | 2,841,666 |
| Other Funds | 2,564,896 | 2,575,020 | 2,701,136 | 2,089,302 |
| Federal Funds | 76,538 | 94,998 | 18,191 | 17,371 |
| **Total Funds** | **$5,080,885** | **$5,542,206** | **$5,665,332** | **$4,921,339** |
| Positions | 16 | 16 | 16 | 16 |
| FTE | 15.63 | 16.00 | 15.50 | 15.50 |

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 also 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 $2.1 million per biennium of federal transportation dollars that BOLI expends as Other Funds. The Division also expects to receive additional funds under contract with the Higher Education Coordinating Commission, related to efforts to expand apprenticeship as a viable workforce training option for employers outside traditional building trade industries, but any such contract had not been executed by the close of the 2017 legislative session.

Budget Environment

According to 2016 data, 4,346 Oregon employers utilized registered apprenticeship in 2016, and there were 8,026 active apprentices for the same year. Apprenticeship program registrations fluctuate with the economy. The Division registered 3,388 new apprentices during the 2016 fiscal year, an 18.8% increase from the number of newly registered apprentices in 2014, and a 228% 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 973 apprenticeship completions were recorded in 2016, representing 168 more than the prior year, but below the agency's target of 1,200 completions. Because of the cyclical nature of the job market and the timetable for completion, lower new registrations in previous years may have a bearing on the total number completions.

The Division works with educators and employers to develop youth apprenticeship and apprenticeship preparation 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. More recently, BOLI has begun to increase its emphasis on direct outreach to employers, youth, and prospective apprentices to promote apprenticeship as a cost-effective way to develop necessary skills and meet Oregon's workforce needs. These efforts include collaboration with the Higher Education Coordinating Commission, Employment Department, and local workforce investment boards to educate employers outside the building trades about apprenticeship, and work with them to develop apprenticeship training programs and a pipeline of registrants that meet the skilled industry needs in their regions.

Legislatively Adopted Budget

The legislatively adopted budget represents a 9.4% total funds decrease from the 2015-17 legislatively approved budget, owing primarily to removal of accumulated inflation calculations from a fixed contract amount associated with the Heavy Highway Supportive Services program. The legislatively adopted budget also eliminated 0.50 FTE from the Apprenticeship and Training Division to align expenditures with available revenue, due to the loss of the federal VA contract for veterans' training services. The budget for the Division also includes standard state government service charge and rate adjustments that were approved in most agency budgets.

# MEDICAL BOARD

Analyst: Jolivette

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 9,777,175 | 11,614,923 | 12,534,486 | 12,595,547 |
| **Total Funds** | **$9,777,175** | **$11,614,923** | **$12,534,486** | **$12,595,547** |
| Positions | 38 | 39 | 39 | 40 |
| FTE | 37.79 | 38.79 | 38.79 | 40.00 |

Overview
The Oregon Medical Board (OMB) is a thirteen-member board with members appointed by the Governor and confirmed by the Senate. Membership is composed of seven medical doctors, two doctors of osteopathic medicine, one podiatric physician, one physician assistant, 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 Osteopathic Medicine, 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 $2 imposed on each license 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 2017-19 is projected to be $12.4 million net of pass-through revenue transfers, which is a 10.6% increase from the revenue assumed in the 2015-17 legislatively approved budget.

Budget Environment
OMB is charged with regulating an industry that is critical to the welfare of the public in Oregon. Continual changes in the medical profession, technology, and society 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 2017-19 legislatively adopted budget for the Oregon Medical Board totals $12,595,547 Other Funds supporting 40.00 FTE in 40 positions. The budget is an 8.4% increase from the 2015-17 legislatively approved

budget. The adopted budget is projected to leave an ending balance of $5.9 million Other Funds, roughly equal to eleven months of operating expenses. The budget provides additional ongoing expenditure limitation to establish an investigative staff position, increase an Administrative Specialist 1 position from part-time to full-time, and to begin compensating members of the Board for their time spent preparing for Board and investigative committee meetings. The Investigations Unit has continued to experience increased caseloads. In the last year, the average caseload per investigator has grown by 14%. In addition, limitation was provided on a one-time basis to support a coalition effort to develop and implement local physician wellness programs.

# MENTAL HEALTH REGULATORY AGENCY

Analyst: To

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 2,041,873 | 2,950,769 | 2,741,358 | 3,462,553 |
| **Total Funds** | **$2,041,873** | **$2,950,769** | **$2,741,358** | **$3,462,553** |
| Positions | 8 | 12 | 8 | 11 |
| FTE | 7.00 | 9.00 | 7.00 | 11.00 |

Overview

The mission of the Mental Health Regulatory Agency 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, marriage and family therapists, and individuals who practice psychology. HB 2319 (2017) created the Oregon Mental Health Regulatory Agency by merging the administration, regulatory oversight, and centralized services of two boards: [1] the Board of Licensed Professional Counselors and Therapists with [2] the Board of Psychology (previously known as the Board of Psychologist Examiners). These two Boards will continue to maintain independent authority over consumer protection and determining the qualifications of their respective regulated professions. The two Boards will jointly appoint the director for the Oregon Mental Health Regulatory Agency and share resources. However, each Board will maintain separate revenues and expenses through separate expenditure limitations under one budget appropriation bill to ensure that the licensing fees of one Board do not subsidize the expenses of the other.

## Board of Licensed Professional Counselors and Therapists

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 1,007,274 | 1,541,759 | 1,496,994 | 2,039,137 |
| **Total Funds** | **$1,007,274** | **$1,541,759** | **$1,496,994** | **$2,039,137** |
| Positions | 4 | 6 | 4 | 7 |
| FTE | 3.50 | 4.50 | 3.50 | 7.00 |

Board Overview

The Board of Licensed Professional Counselors and Therapists 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; 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 licensing fees. Other miscellaneous sources include fines and the sale of mailing lists and copies of public records. The 2017-19 legislatively adopted budget includes an increase in the renewal fees for counselors and therapists as well as internship licensure by $40. This increase is anticipated to raise revenue by $320,600 for the 2017-19 biennium. At the end of the 2017-19 biennium, the Board is expected to have an ending balance of $568,563 Other Funds, which represents just about 6.7 months of operating expense.

Budget Environment

Over the last ten years, the number of new licensed professional counselor and licensed marriage and family therapist licenses issued by the Board has increased by an average of 12.6% annually; the number of new registered interns has increased by an average of 16.7% annually. Correspondingly, the number of investigations conducted by the Board has increased by an average of 12.7% annually. The Board expects this upward trend in licensing to continue for three main reasons: 1) increasing public awareness of mental health issues along with increasing acceptance of mental health treatment has resulted in increasing demand for mental health services; 2) because of the demand for services, retiring licensees are choosing to keep their licenses in case they want to return to practice; and 3) with the Affordable Care Act, most individual and small group health insurance plans are required to cover mental health services; and although the licensure program is voluntary, insurance companies do not reimburse unlicensed clinicians for their services. As the population embraces mental health care, and as clients are able to depend on insurance, more counselors and therapists will choose to seek licensure. With continued growth in licensees, the Board expects an increase in investigator and legal costs due to an increase in complaints and contested cases.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $2,039,137 Other Funds is an increase of $497,378 Other Funds (32.3%) above the 2015-17 legislatively approved budget. The budget is an increase of $542,143 Other Funds (36.2%) above the 2017-19 current service level. The legislatively adopted budget includes:

- $512,350 Other Funds, 3 positions, and 3.50 FTE to make permanent three licensing and investigation limited duration positions, and to redistribute staffing and expenditures equitable between the two boards.
- $54,664 Other Funds to cover the Board of Licensed Counselors and Therapists' share of integrating and upgrading the agency's online database.

## Board of Psychology

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 1,034,599 | 1,409,010 | 1,244,364 | 1,423,416 |
| **Total Funds** | **$1,034,599** | **$1,409,010** | **$1,244,364** | **$1,423,416** |
| Positions | 4 | 6 | 4 | 4 |
| FTE | 3.50 | 4.50 | 3.50 | 4.00 |

Board Overview

The Board of Psychology (formerly known as the Board of Psychologist Examiners) 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. HB 2328 (2017) renamed the Board of Psychologist Examiners to the Board of Psychology after the Board determined that the agency name reflected an antiquated idea of the Board's function, and can be confusing to the public because the mission of the Board is broader than simply the examination of psychologists.

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. At the end of the 2017-19 biennium, the Board is expected to have an ending balance of $310,940 Other Funds, which represents just about 5.2 months of operating expense.

Budget Environment

The debate over the desirability and feasibility of psychopharmacology prescription privileges for psychologists continues to cause uncertainty for the Board. 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.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $1,423,416 Other Funds is a $14,406 increase (1%) from the 2015-17 legislatively approved budget. The budget is a $179,052 increase (14.4%) from the 2017-19 current service level. The legislatively adopted budget includes:

- Position authority for 0.50 FTE reflecting the redistribution of positions and expenditures equitable between the two boards.
- $49,664 to cover the Board of Psychology's share of integrating and upgrading the agency's online database.
- $103,022 for administrative hearings costs.
- $38,604 for Attorney General costs.
- $14,351 for background checks.

## BOARD OF NURSING

Analyst: Jolivette

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 13,507,035 | 15,829,482 | 16,504,867 | 16,595,386 |
| **Total Funds** | **$13,507,035** | **$15,829,482** | **$16,504,867** | **$16,595,386** |
| Positions | 48 | 48 | 47 | 49 |
| FTE | 47.80 | 47.80 | 46.90 | 48.90 |

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: $9 collected by the Board for each new license or renewal, the proceeds of which are transferred to the Oregon Center for Nursing; $25 per year for each person licensed by the board who is authorized to prescribe or dispense controlled substances to support a prescription monitoring program administered by the Oregon Health Authority; 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.

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 59,491 nurses, with 4,890 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 47,000 per year. In addition, fingerprint checks are done on all new applications.

In 2016, OSBN dealt with 1,333 complaints, 734 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 many 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 92 of the OSBN licensees; 83 of these are due to referral by the board due to a disciplinary action, the remaining 9 are self-referred. The total estimated biennial cost of the HPSP for all participating licensing boards is $2,196,120. The current OSBN biennial budget for the HPSP is $1,643,453 or roughly 53% of the cost of the entire program and about 10% of the OSBN budget. The HPSP is a statewide monitoring program for licensed health professionals who are unable to practice with professional skill and safety due to a substance use disorder, a mental health disorder, or both type of disorders.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the Oregon Board of Nursing totals $16,595,386 Other Funds supporting 48.90 FTE in 49 positions. The budget is a 4.8% increase from the 2015-17 legislatively approved budget and is projected to leave an ending fund balance of $4 million Other Funds, an amount roughly equal to six months of operating expenses. The board's budget includes $541,123 Other Funds expenditure limitation to reclassify several positions, and to permanently establish two full-time positions to address workload in licensing and investigations.

## BOARD OF PHARMACY

Analyst: To

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 5,599,379 | 7,061,708 | 7,163,478 | 7,335,399 |
| **Total Funds** | **$5,599,379** | **$7,061,708** | **$7,163,478** | **$7,335,399** |
| Positions | 19 | 20 | 20 | 20 |
| FTE | 19.00 | 20.00 | 20.00 | 20.00 |

Overview

The Board of Pharmacy regulates the practice of pharmacy as well as the quality, commerce, and distribution of drugs within and into Oregon. The mission of the Board 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 are civil penalties, fines, and interest earnings. With the exception of one pass-through fee for the Oregon Health Authority Workforce Data Collection Survey that was reduced from $5.00 to $4.00 per biennium effective 1/1/2016, the Board's 2017-19 legislatively adopted budget fees remain at the 2015-17 legislatively adopted budget level. At the end of the 2017-19 biennium, the Board is expected to have an ending balance of $1.6 million Other Funds, which represents approximately 5.4 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 2017-19 legislatively adopted budget of $7,335,399 Other Funds represents a 3.9% increase from the 2015-17 legislatively approved budget and a 2.4% increase from the 2017-19 current service level budget. The budget includes:

- $351,989 carry over from the 2015-17 biennium to complete the implementation of the agency's licensing and compliance database upgrade.

- $69,260 to establish a partnership with Pacific University School of Pharmacy to offer a one-year fellowship designed to transition the fellow from a general practitioner to a regulatory pharmaceutical specialist and clinical educator. At present in the United States, there are few programs combining academic pharmaceutical training with expertise in legal and regulatory affairs. Only three post-graduate programs [Food and Drug Administration (FDA)/Purdue University, GlaxoSmithKline/University of North Carolina Chapel Hill, Virginia Commonwealth University/American College of Clinical Pharmacy] provide training on federal level regulations. This innovative partnership focuses on state level interface to help build a prepared workforce.
- $11,819 to cover per diem for new board members and to increase daily per diem from $30 to $100 to allow for diversity of board members who may not be employer supported.

## PUBLIC UTILITY COMMISSION

Analyst: Jolivette

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 37,395,874 | 45,634,617 | 48,094,159 | 45,128,415 |
| Other Funds (NL) | 80,665,904 | 69,279,866 | 56,290,822 | 56,290,822 |
| Federal Funds | 2,345,176 | 727,796 | 721,958 | 715,100 |
| **Total Funds** | **$120,406,954** | **$115,642,279** | **$105,106,939** | **$102,134,337** |
| Positions | 126 | 129 | 126 | 127 |
| FTE | 125.13 | 126.60 | 125.13 | 125.76 |

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. There are approximately 2.65 million customers of utilities regulated by the Commission.

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.

The PUC's 2017-19 legislatively adopted budget is $102.1 million total funds and 127 positions (125.76 FTE). The board is organized into the following four programs:

- Utility Regulation Program ($75.2 million, 66.26 FTE) 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 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.
- Residential Service Protection Fund (RSPF) Program ($9.65 million, 8.00 FTE) provides accessible and affordable telecommunications services for disabled persons, including the hearing- and speech-impaired, and low-income individuals. The Oregon Telephone Assistance Program subsidizes local telephone service rates to about 42,000 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). 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. RSPF reports to the Central Services Administrator.

- Policy and Administration ($16.4 million, 49.50 FTE) includes the Commission Chair, who serves as the agency's administrative head, two Commissioners, and their direct staff support; the Administrative Hearings Division, which conducts rulemaking and contested case hearings involving major industry changes, rate proposals, and consumer complaints; and the Chief Operating Officer. Reporting to the Chief Operating Officer is the Central Services Division, which provides budget, accounting, information technology, and support services to the agency; Human Resources; Consumer Services, which responds to questions from consumers about the utility industry and assists in resolving consumer complaints; and Public Affairs, which provides and coordinates all media and communications functions. The Board of Maritime Pilots full-time staff report administratively to the Chief Operating Officer.
- Board of Maritime Pilots ($802,415, 2.00 FTE) 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. 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.

Revenue Sources and Relationships

The Commission is funded with $45.1 million Other Funds, $56.3 million Other Funds Nonlimited, and $715,100 Federal Funds.

Other Funds are derived primarily from fees assessed on regulated utilities. Natural gas, water, and wastewater utilities are assessed up to 0.30% on gross operating revenues. Telecommunications providers are assessed up to 0.30% on gross intrastate retail sales excluding wholesale revenues. Telecommunication carriers and subscribers are assessed an additional amount to support the Oregon Universal Service Fund (OUSF) and the Residential Service Protection Fund (RSPF). Electric utilities are assessed a gross revenue fee of no more than 0.30%.

Retail electric consumers of Portland General Electric and PacifiCorp pay additional charges for public purpose expenditures (3%) and low-income bill assistance ($20 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 49%.

The Board of Maritime Pilots is a self-supporting entity funded by two sources: pilotage fees and (pilot) license fees. A pilotage fee of up to $100 is assessed on either outgoing or incoming vessels requiring pilotage service at the four pilot-required areas. 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 $3,149 per year for 2017 and 2018.

Budget Environment

The Commission assesses annual fees on regulated electric, natural gas, water utilities, and telecommunications providers that fund most 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 2017 and 2019 resulting in a revenue loss of 7.5% per year. Commission revenue from the energy industry will increase by an estimated 1.5% 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.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $102.1 million total funds is 11.7% less than the 2015-17 legislatively approved budget and includes 127 positions (125.76 FTE). This decrease reflects anticipated reduced payments to eligible telecommunications carriers resulting from a continued decline in telecommunications revenues as customers move from traditional wire line to wireless service. The budget provides $400,000 Other Funds expenditure limitation to begin implementation of a new e-filing/e-discovery system to replace the existing filing and docketing system. The project, which is still in the planning stage, will provide a means to electronically transfer large files and provide a secure means to electronically transfer protected information.

## REAL ESTATE AGENCY

Analyst: Deister

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 6,587,706 | 7,166,423 | 7,898,615 | 7,621,789 |
| **Total Funds** | **$6,587,706** | **$7,166,423** | **$7,898,615** | **$7,621,789** |
| Positions | 30 | 29 | 29 | 29 |
| FTE | 29.15 | 29.00 | 29.00 | 29.00 |

Overview
The Real Estate Agency is responsible for the education, licensing, 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
The agency is funded entirely with fees paid for by professional real estate agents, brokers, principal brokers, and property managers, for licensing and registration fees and renewals; charges for examinations; and other services. All civil penalties assessed by the agency are transferred to the General Fund in accordance with statute.

The run-up of the real estate market in the early 2000s contributed to a record number of licensees, fees from which provided an ending balance that helped support the agency through the recession and into the 2015-17 biennium, despite a drop in the number of licensees since 2008. While the real estate market has since normalized, the spend down of ending balance during a period of fewer licensees, with simultaneous agency personal services cost increases necessitated a fee increase for the agency to maintain its current service level. The Legislature approved SB 68, which provided for changes to existing fees. The new fee structure was devised and vetted throughout the 2015-17 interim, in consultation and cooperation with industry stakeholders. The new fees are anticipated to generate $1.67 million in additional revenue during the 2017-19 biennium, and provide for an ending balance equivalent to approximately 3.5 months of operating expenditures. The last time fees on real estate licensees were increased was during the 1997-99 biennium.

Budget Environment
Several factors are influencing the real estate industry. Mortgage rates have been low since the 2008 recession (though interest rates have been slowly climbing). Oregon continues to gain population as a result of in-migration. Housing starts slowed dramatically during the 2008 recession, and have not kept up with demand, resulting in higher housing prices and fewer days on the market when advertised for sale, and multiple offers for purchase. As home prices continue to rise, more owners who had negative equity will perhaps engage in selling and buying homes.

At the peak of the real estate market in 2007, the agency had more than 24,000 licensees. Currently, there are approximately 22,000 real estate licensees in Oregon, a figure which the agency deems a reflection of a normalized real estate market. As mentioned previously, the combination of fewer licensees since the 2008-11 recession and rising personal services costs resulted in a 2015-17 estimated ending balance of 1.6 months of operating expenditures. The Real Estate Agency took steps to actively manage ongoing expenditures by moving to less expensive office space and reducing services and supplies expenditures by approximately $200,000 through utilizing electronic communication with licensees.

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 licensing examinations and continuing education topics that prepare licensees and protect the public, and certification of pre-license courses and instructors.
- The Administrative Services Division, 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.

The agency will continue to emphasize compliance among licensees, working to audit additional client trust accounts and contribute to the development of an updated national broker exam. The agency is likely to continue to miss its performance target of 95% for Key Performance Measure #3, which measures the percentage of contested case actions that are resolved through informal settlement resolution and prior to a formal hearing before the Office of Administrative Hearings. In testimony before the Joint Committee on Ways and Means, the Real Estate Commissioner testified that this was because very few agency investigations move to the contested case phase, and several of those that do are egregious cases of misconduct, and unfit candidates for settlement.

<u>Legislatively Adopted Budget</u>

The 2017-19 legislatively adopted budget of $7,621,789 Other Funds represents a 6.5% increase from the 2015-17 legislatively approved budget, and a 3.5% decrease from the 2017-19 current service level (the latter due to standard adjustments to general government assessments, changes to Attorney General rates, and assumed vacancy savings).

# BOARD OF LICENSED SOCIAL WORKERS

Analyst: Walker

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 1,248,245 | 1,502,105 | 1,667,617 | 1,697,440 |
| **Total Funds** | **$1,248,425** | **$1,502,105** | **$1,667,617** | **$1,697,440** |
| Positions | 6 | 6 | 6 | 6 |
| FTE | 6.00 | 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 2017-19 of $1.6 million is projected to be 9.3% greater than 2015-17 due to an expansion in the number of licensees covered under the Board's licensing authority.

The 2017-19 projected ending balance of $269,345 equals approximately 3.75 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 $195,335 Other Funds (13%) over the 2015-17 legislatively approved budget.

## BOARD OF TAX PRACTITIONERS

Analyst: Dauenhauer

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 1,088,661 | 1,261,884 | 1,329,314 | 1,042,020 |
| **Total Funds** | **$1,088,661** | **$1,261,884** | **$1,329,314** | **$1,042,020** |
| Positions | 4 | 4 | 4 | 3 |
| FTE | 4.00 | 4.00 | 4.00 | 2.50 |

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 conservatively projects revenues at 3% less than 2015-17 projected actuals and the beginning balance was increase by $64,435 to account for cost savings activities implemented during the 2015-17 biennium.

Budget Environment

Given the agency's declining licensee base and rising costs of conducting regular business, the agency has undergone changes in agency operations in an effort to reduce costs and increase workload efficiencies. These changes include relocating the office to a less expensive space, and decreasing staffing as a result of implementing new IT initiatives.

Legislatively Adopted Budget

The total legislatively adopted budget for the Board of Tax Practitioners is 17.4% less than the 2015-17 legislatively approved budget. The budget abolishes a vacant Compliance Specialist 2 (1.00 FTE) position and one permanent full-time Administrative Specialist 1 is reduced to a permanent part-time (0.50 FTE) position for a total savings of $268,459 Other Funds. Statewide adjustments for reduced travel expenses and state government service charges, including Attorney General and Department of Administrative Services assessments, were reduced in the amount of $18,835 Other Funds resulting in a total budget of $1,042,020 for the Board of Tax Practitioners.

Furthermore, the budget includes a budget note titled 'Report on Agency Operations and Finances' which directed the Board of Tax Practitioners to provide a general update on agency operations, as well as, the current status of revenues, expenditures, and licensee counts, to the Joint Committee on Ways and Means during the 2018 legislative session.

# NATURAL RESOURCES

# PROGRAM AREA

# DEPARTMENT OF AGRICULTURE

Analyst: Siebert

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 19,433,285 | 24,630,128 | 25,777,408 | 22,307,042 |
| Lottery Funds | 6,368,044 | 7,599,344 | 7,072,247 | 8,103,745 |
| Other Funds | 49,871,107 | 62,541,500 | 65,835,111 | 66,605,463 |
| Federal Funds | 10,334,960 | 17,630,167 | 15,958,792 | 17,452,844 |
| **Total Funds** | **$86,007,396** | **$112,401,139** | **$114,643,558** | **$114,469,094** |
| Positions | 479 | 527 | 523 | 489 |
| FTE | 350.54 | 378.84 | 375.94 | 370.46 |

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, Development, Certification/Inspection 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 invasive 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 in from other federally funded programs which are spent as Other Funds. 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, implementing new federal food safety standards, 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 about 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 $114.5 million. The budget includes $22.3 million General Fund, $8.1 million Measure 76 Lottery Funds, $66.6 million Other Funds, and $17.5 million Federal Funds. The total funds budget is 1.8% higher than the 2015-17 legislatively approved budget level. The budget includes 489 positions (370.46 FTE), which is a 38 position decrease from 2015-17. This decrease in positions is caused by the elimination of 48 vacant positions. The net reduction in positions is lower due to the addition of positions in a number of programs including food safety, weights and measures, and plants.

The General Fund budget is 9.4% lower than 2015-17 levels due to program reductions and fund shifts in a number of programs that moved program support from General Fund on to Other Funds. General Fund adjustments include:

- $1,378,946 fund shift in the food safety inspection program that reduced General Fund support and replaced it with Other Funds from fees to reduce the program's General Fund subsidy. The program's Other Funds fee balance is sufficient to allow this fund shift without a projected increase in fees during 2017-19.
- $356,685 to support Pesticide Analytical Response Center operations was moved from General Fund to Other Funds on a one-time basis due to General Fund constraints.
- $300,000 decrease in state support for administrative activities that was replaced with Other Funds. This partially reverses a 2015-17 action to cover the share of administrative costs that should be paid by Ballot Measure (BM) 76 Lottery Funds which support a number of agency programs; M76 funds are ineligible for use to pay general administrative functions due to constitutional restrictions on using these dedicated Lottery Funds.
- $250,000 reduction due to elimination of an agricultural marketing position.
- $172,000 that supports a position in Insect Pest Prevention and Management was moved from General Fund to Federal Funds expenditure limitation on a one-time basis.
- $816,655 cut to reflect reductions in Department of Administrative Services assessments and charges for service, Attorney General rates, elimination of the inflation allowance on certain services and supplies, and additional vacancy savings expected as a result of a statewide hiring slowdown.

Lottery Funds, which are all constitutionally dedicated Ballot Measure 76 funds, increased by 15% over the 2017-19 current service level due largely to the addition of $1,263,115 in one-time BM 76 Lottery Funds to continue Japanese Beetle and Apple Moth eradication activities to protect watershed health. Eradication efforts started in the spring of 2017. Eradication efforts for the Apple Moth are scheduled to be completed during 2017-19, but efforts to control the Japanese Beetle are not scheduled to be completed until the 2019-21 biennium. A record number of Japanese Beetles were found in the Department's traps in 2017. ODA estimates the economic impact of allowing the pests to become established in Oregon to be over $45 million in damages.

Other Funds are $4.1 million, or 6.5% higher, than 2015-17 levels due largely to the shifting of program funding from General Fund to Other Funds detailed above ($2 million), lab equipment purchases ($562,000), additional staffing in the Food Safety ($470,034) and Weights and Measures programs ($457,065), and the addition of a Human Resources position in Administrative Services ($263,675). Offsetting Other Funds expenditure limitation reductions included savings from statewide adjustments and elimination of vacant positions.

Federal Funds increased by 1% over 2015-17 budget levels, primarily due to the one-time addition of $2 million for on-going activities related to a U.S. Food and Drug Administration grant for implementation of new Manufactured Food Regulatory Program Standards. This increase was offset by a $486,416 reduction from the elimination of long-term vacant positions and reductions in Department of Administrative Services assessments and charges for service, Attorney General rates, certain services and supplies, and additional vacancy savings expected as a result of a statewide hiring slowdown.

## COLUMBIA RIVER GORGE COMMISSION

Analyst: Rocco

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 884,527 | 920,291 | 962,919 | 992,000 |
| **Total Funds** | **$884,527** | **$920,291** | **$962,919** | **$992,000** |

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 statutes 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 had been included in the Commission's Oregon legislatively adopted budgets to allow the agency to spend any moneys received from donations. This practice was reversed during the 2015-17 biennium. The agency generally receives no money from donations and when it does the funds are spent under the State of Washington budget authority. No Other Funds expenditure limitation is included in the 2017-19 Oregon legislatively adopted budget.

Budget Environment

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 propose funding at different levels. 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. Oregon now, like Washington, has two budget sessions during each biennium with the even numbered year session limited in time, but with the ability to adjust agency budgets.

While the public increasingly expects to obtain rapid and efficient responses for information, the Commission's staffing has not increased in recent biennia to meet these demands. The bi-state approved budget supports seven positions for the 2017-19 biennium, including an executive director, legal counsel, two planners, an administrative analyst, GIS/planner, and an administrative secretary. All of these positions are considered to be State of Washington employees.

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). During the 2015-17 biennium, Oregon adjusted the Commission's budget twice in order to stay matched with the Washington appropriation. In the 2016 session, Oregon increased its appropriation by $11,308 General Fund for Commission operational expenses; $6,000 of this increase was to fund Oregon's share of an audit required every five years. The other $5,000 was to replace Other Funds expenditure limitation which has erroneously been included as part of the Oregon matching operational expenses; this had actually been limitation with no revenue to support it in case donations were received by the Commission. In May 2016, following the end of both states' annual sessions, Oregon's Emergency Board allocated an additional $5,000 to the Commission. There had been some uncertainty about adjustments that Washington was going to make during its 2016 session. Since Oregon's 2016 session ended prior to Washington's, a decision was made to make any final adjustments using Oregon's Emergency Board process. The $5,000 requested and approved was the amount needed to match the post-2016 session Washington budget for joint operational expenses of the Commission.

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 and at what level. 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.

Legislatively Adopted Budget

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 Columbia River Gorge Commission's legislatively adopted Oregon budget for the 2017-19 biennium totals $992,000 General Fund. The budget is a 7.8% increase from the 2015-17 legislatively approved budget and is 3% above the 2017-19 current service level. The Oregon adopted budget includes $960,000 for joint operational expenses and $32,000 for Oregon commissioner expenses. Due to the length of the Washington legislative session in 2017, Oregon passed its budget for the Commission first and then made final adjustments in HB 5006 at the end of the Oregon legislative session to match the amount budgeted for joint operational costs by Washington. There are no Oregon positions or FTE associated with the Commission; all Commission staff are counted as State of Washington employees.

## DEPARTMENT OF ENERGY

Analyst: Beitel

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Lottery Funds | 2,166,048 | 2,980,496 | 3,023,630 | 3,023,630 |
| Other Funds | 33,214,314 | 35,104,816 | 35,412,377 | 35,206,624 |
| Other Funds (NL) | 83,385,513 | 212,753,963 | 119,282,861 | 119,282,861 |
| Federal Funds | 2,553,392 | 3,187,299 | 3,153,122 | 2,412,636 |
| Federal Funds (NL) | -- | 104,000 | 104,000 | 104,000 |
| **Total Funds** | **$121,319,267** | **$254,130,574** | **$160,975,990** | **$160,029,751** |
| Positions | 113 | 105 | 102 | 97 |
| FTE | 111.92 | 104.50 | 96.91 | 93.87 |

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.

ODOE staffs the following statutory boards:

- The Energy Facility Siting Council, a seven-member citizen board appointed by the Governor, 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 Oregon Hanford Cleanup Board, a 20-member board, 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 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.

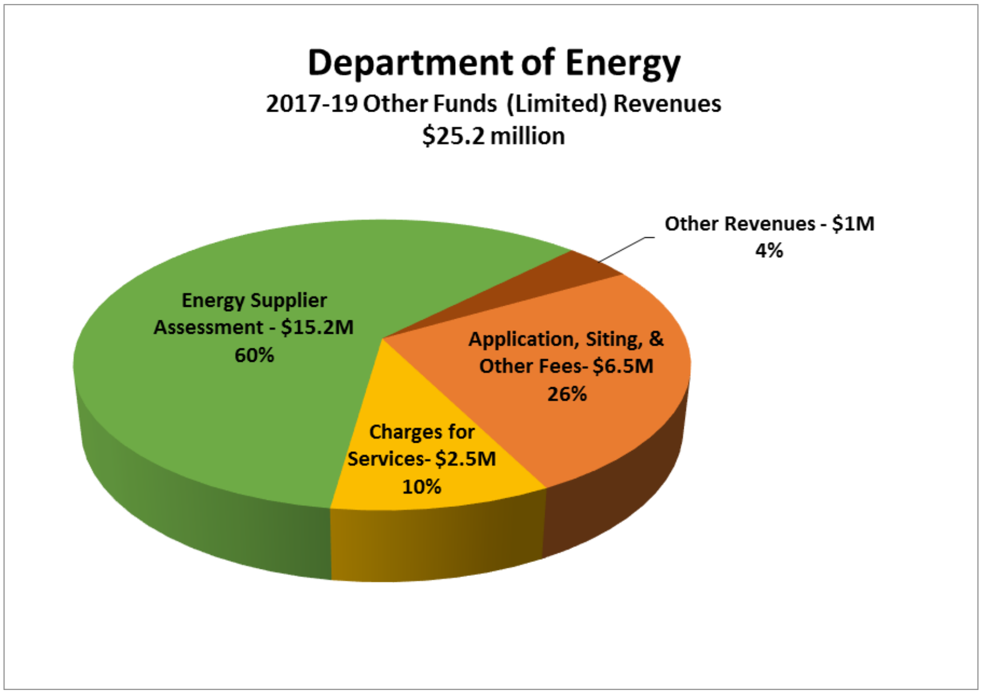
The Department also heads or lends expertise to a number of workgroups and advisory committees, including the following:

- The Northwest Power and Conservation Council (NWPCC) 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. The Bonneville Power Administration reimburses the Department for the costs associated with Oregon's NWPCC office and its two members.
- The Small Scale Local Energy Project Advisory Committee, composed of nine members appointed by ODOE, reviews applications made under the Small Scale Energy Loan Program (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. Loans can be made 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

Other Funds revenues support 96% of the Department of Energy's 2017-19 legislatively adopted budget. Other Funds Nonlimited revenues associated with the Small Scale Energy Loan Program, including loan repayments ($37.2 million) and interest and investment earnings ($21.1 million), are the largest source of revenue for the Department. Historically, the proceeds of general obligation bonds issued to capitalize SELP have also supported the program; however, no bonding was authorized during the 2017-19 biennium. Other Funds Limited revenues are generated through fees and assessments that fund most programs and services provided by the Department.




Fees support the agency's energy incentive and tax credit programs, energy facilities siting program, and radioactive waste transportation. Charges for services includes revenues received through the public purpose charge to provide administrative and technical support to schools, the State Energy Efficient Design (SEED) Program, and specific projects or organizations, such as the Jordan Cove Energy Project and the Northwest Power and Conservation Council. Other revenues include proceeds from the sale of tax credits used to fund the renewable energy development (RED) grant program, interest income, and miscellaneous revenues from smaller sources. ODOE's projected revenues do not include any new revenue from the petroleum supplier assessment that funds the State Home Oil Weatherization (SHOW) program. SB 100 (2017) transferred the SHOW program from ODOE to the Housing and Community Services Department (HCSD) effective January 1, 2018. The SHOW program beginning balance is sufficient to cover the first year of costs and HCSD will determine if an assessment will be required in the second year of the biennium after the program has transferred.

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 $15.2 million in the 2017-19 biennium at a rate of about 0.134%. A budget note from the 2015 session instructed the Department to limit the energy supplier assessment to a total of $13.1 million in its 2017-19 agency request budget. ODOE included revenue shortfall packages to decrease expenditures supported by ESA; however, the adopted budget includes additional expenditures supported with ESA, increasing the total biennial assessment over the $13.1 million level.

Lottery Funds pay for debt service, and Federal Funds support nuclear safety programs and clean energy activities through the federal State Energy Program.

Budget Environment

The Department of Energy has experienced a great deal of change and attention in recent years. In December 2015, the Governor requested that the Department of Administrative Services lead an internal review team to examine ODOE. Upon completion of that review, she recommended that the Department of Energy be preserved to focus on leading the state to a safe, clean, and sustainable energy future through the energy planning and innovation, nuclear safety, and energy facility siting divisions. The Legislature appointed the Joint Interim Committee on Department of Energy Oversight during the 2015-17 biennium to conduct a thorough review of the Department of Energy. The Committee completed its work in December 2016, and provided draft recommendations for the 2017 session. Multiple measures were introduced during the 2017 session by members of the Committee and several recommendations were passed, including the requirement that the ODOE director be confirmed by the Senate and the transfer of the SHOW program to HCSD. The Energy Incentive Program, Residential Energy Tax Credit (RETC), and Biomass Producer and Collector Tax Credit Programs were not extended and will sunset on January 1, 2018.

ODOE 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. In 2017, the Department of Energy was sued by a group representing ten publicly owned utilities in Oregon over the energy supplier assessment, asserting that the ESA is a tax, ODOE's budget bill is subject to the constitutional requirements for bills that raise revenue, and that ODOE did not follow the statutory procedures to provide a full accounting of the ESA revenue required to fund the agency's programs to energy resource suppliers. While the court did not find that the agency's budget bills raise revenue, it did rule that the ESA is a tax and that ODOE did not meet the statutory procedures required to include ESA in the 2015-17 agency request budget. Pending an appeal by the Department, the 2016 ESA will be refunded to the petitioners. ODOE estimates the settlement payment to be approximately $830,000 and would be covered through increases in future assessments.

While the future of the Department of Energy is still be shaped, the agency continues to focus on the renewable energy portfolio standard to which Oregon's public and investor-owned utilities are expected to adhere; the state's responsibility to take on the challenges of climate change; providing a fair and comprehensive energy facility siting review process; and ensuring that Oregon is safe from nuclear contamination.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for this agency is $160 million total funds, including 97 positions (93.87 FTE). Expenditures are 37% less than the 2015-17 legislatively approved budget. A significant portion of the decrease is attributable to the phase out of $71.9 million Other Funds Nonlimited associated with a refunding of outstanding SELP bonds and the removal of an additional $21.6 million of limitation to reflect limited activity in the SELP program. Excluding Nonlimited funds, the budget is a 1.5% decrease from the 2015-17 legislatively approved budget. Reductions approved in the 2017-19 budget include:

- $2.5 million and nine positions (6.66 FTE) to limit the amount assessed under the ESA and eliminate long-term vacant positions.
- $1.4 million and one position (5.25 FTE) to phase-out the energy incentive programs scheduled to sunset January 1, 2018.
- $745,867 to align the budget with anticipated federal awards.
- $568,250 to reflect the January 1, 2018 transfer of the SHOW program to HCSD.

Other Funds increases totaling $1.3 million, supported by ESA revenues, were approved to continue the limited duration Governor's Energy Policy Advisor position; implement an industry standard Customer Relationship Management (CRM) system that will allow the Department to manage and analyze customer interactions and data across divisions; and support increased Attorney General costs due to anticipated and ongoing litigation. In addition, $202,097 Other Funds was approved to make the Fiscal Analyst 2 responsible for the Energy Facility Siting Division's financial process controls a permanent position.

**Energy Planning and Innovation**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 4,917,252 | 5,900,410 | 6,474,154 | 5,372,058 |
| Federal Funds | 682,415 | 1,073,704 | 1,184,952 | 671,331 |
| **Total Funds** | **$5,599,667** | **$6,974,114** | **$7,659,106** | **$6,043,389** |
| Positions | 26 | 23 | 25 | 23 |
| FTE | 26.00 | 23.00 | 24.00 | 22.50 |

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 State Energy Efficiency Design (SEED) program and the Energy Efficient Schools program, and works to improve energy efficiency in buildings and vehicles. The program staffs the Global Warming Commission and assists with the Commission's biennial report to the Legislature.

Revenue Sources and Relationships

The EPI Division is primarily funded with Other Fund revenues generated from a 3% public purpose charge from Portland General Electric and PacifiCorp customers to support the Energy Efficient Schools program; charges for certification of industrial energy efficiency projects; charges collected from state agencies for the SEED program; service charges from the Northwest Energy Efficiency Alliance (NEEA) for codes training; and the energy supplier assessment.

Federal Funds are received through the U.S. Department of Energy's State Energy Program formula grant and competitive grant awards.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is 13.3% less than the 2015-17 legislatively approved budget. Other Funds were reduced by $912,559 and two positions (1.50 FTE) to eliminate expenditures supported by the ESA, limiting the amount assessed. Reductions include two Operations and Policy Analyst positions, associated services and supplies expenditures, professional services, and special payments. Federal Funds were reduced by $573,076 to align the budget with anticipated federal awards. An increase of $186,584 Other Funds is included to reflect the transfer of an Operations and Policy Analyst position (1.00 FTE) from the Energy Development Services Division to the Energy Planning and Innovation Division to align workload with the appropriate division. The EPI Division budget also includes the shift of $77,393 from Other Funds to Federal Funds. Federal funds will be used to support 30% of a Facilities Engineer position that had been previously used to partially fund the RETC program, which is scheduled to sunset with the 2017 tax year.

## Energy Development Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Lottery Funds | 2,166,048 | 2,980,496 | 3,023,630 | 3,023,630 |
| Other Funds | 14,325,066 | 11,715,519 | 9,877,660 | 10,414,315 |
| Other Funds (NL) | 83,385,513 | 212,753,963 | 119,282,861 | 119,282,861 |
| Federal Funds | 487,198 | 358,352 | 322,760 | 278,440 |
| Federal Funds (NL) | -- | 104,000 | 104,000 | 104,000 |
| **Total Funds** | **$100,363,825** | **$227,912,330** | **$132,610,911** | **$133,103,246** |
| Positions | 27 | 26 | 23 | 17 |
| FTE | 27.00 | 26.00 | 18.41 | 14.25 |

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 (EIP) – Provides transportation tax credits for alternative fuel vehicle infrastructure projects; conservation tax credits for conservation projects; and renewable energy development (RED) grants. Funding for RED 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. EIP 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 were 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. In 2016, the sunset for animal manure and rendering offal was extended through the 2021 tax year. However, during the 2017 session, the extension was reversed and a new Bovine Manure Tax Credit Program will be administered by the Department of Agriculture beginning with the 2018 tax year.
- 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. SHOW was transferred to HCSD, effective January 1, 2018, through the passage of SB 100 (2017).
- 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, ODOE has made 903 loans totaling approximately $612 million. The loans are funded through the sale of general obligation bonds issued under Article XI-J of the Oregon Constitution. Due to $30.5 million in losses on loans originated between 2007 and 2010, the fund is in a deficit position and not forecasted to be self-sustaining. Absent other mitigating strategies, SELP will require a General Fund appropriation to cover debt service on outstanding bonds. ODOE currently estimates a potential shortfall of approximately $8 million beginning in the 2021-23 biennium. The projected shortfall was decreased substantially by a 2017 bond refunding that reduced future debt service obligations through interest rate savings. Although no bond authority was provided in the 2017-19 biennium to issue new loans, ODOE continues to administer the existing loan portfolio.
- Energy Efficiency Financing – Oversees the Energy Efficiency and Sustainable Technology Act (EEAST); the grant to Clean Energy Works; and the Alternative Fuel Vehicle Revolving Fund Program. The EEAST program is not currently active and the Alternative Fuel Vehicle Revolving Fund Program was abolished during the 2017 session. The $3 million balance in the Alternative Fuel Vehicle Revolving Fund was transferred to the General Fund for general governmental purposes.

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.

Revenue Sources and Relationships

Other Fund Nonlimited revenues generated through SELP, including loan principal and interest repayments and investment earnings, support 90% of the Division's budget. SELP earnings are used to make debt service payments on outstanding general obligation bonds issued to capitalize the program and support administration of the program. No bonding authority was provided by the Legislature to issue new loans in the 2017-19 biennium. ODOE receives other revenues through the collection of application fees for the EIP, Biomass, and RETC programs; proceeds from the sale of tax credits for the RED grant program; and interest earnings on beginning fund balances.

Lottery Funds are allocated to support debt service on outstanding lottery revenue bonds and Federal Funds support the RETC and Energy Efficient Financing activities.

Legislatively Adopted Budget

The Energy Development Services Division 2017-19 legislatively adopted budget is 41.6% less than the 2015-17 legislatively approved budget. A significant portion of the decrease is attributable to the phase out of $71.9 million of Other Funds Nonlimited associated with the refunding of outstanding SELP bonds. An additional $21.6 million of Other Funds Nonlimited was removed to reflect the limited activity in the SELP program.

Excluding Nonlimited Funds, the Division's 2017-19 budget is 8.9% less than the 2015-17 legislatively approved budget. The decrease in the Division's budget is attributable to the following reductions:

- $1.4 million Other Funds, $58,379 Federal Funds, and one position (5.25 FTE) to phase-out costs related to administration of the energy incentive programs scheduled to sunset on January 1, 2018. The remaining positions and limitation will be phased-out during the development of the 2019-21 budget.
- $640,386 Other Funds to transfer two positions (2.00 FTE) to the Energy Planning and Innovation and Administration Divisions to align workload with the appropriate divisions.
- $236,440 Other Funds and one manager position (1.00 FTE) to address a revenue shortfall related to decreased activity in the EIP and SELP programs.
- $544,291 Other Funds to eliminate five long-term vacant positions (3.16 FTE) in the EIP and SELP programs.
- $568,250 Other Funds to transfer the SHOW program from ODOE to HCSD, effective January 1, 2018. The remaining program limitation will be phased-out during development of the 2019-21 budget.

Other Funds expenditure limitation was increased by $2 million to accommodate disbursement of RED grants that were awarded in prior biennia, but will be disbursed during 2017-19. RED grants are disbursed upon project completion and grantees have three years after award of the grant to complete projects.

### Nuclear Safety and Energy Emergency Preparedness

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 701,790 | 627,139 | 779,699 | 776,827 |
| Federal Funds | 1,364,154 | 1,683,340 | 1,592,251 | 1,448,040 |
| **Total Funds** | **$2,065,944** | **$2,310,479** | **$2,371,950** | **$2,224,867** |
| 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.

Revenue Sources and Relationships
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 2017-19 legislatively adopted total funds budget for the Nuclear Safety program is 3.7% less than the 2015-17 legislatively approved budget. The decrease is primarily due to a Federal Funds reduction of $135,000 to align expenditures with anticipated federal awards. The budget also includes a shift of $118,300 from Federal Funds to Other Funds to transfer a portion of funding for three positions to Other Funds to align expenditures with expected revenues.

## Energy Facility Siting

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 3,494,459 | 4,576,120 | 4,748,187 | 4,677,251 |
| Federal Funds | 5,559 | -- | -- | -- |
| **Total Funds** | **$3,500,018** | **$4,576,120** | **$4,748,187** | **$4,677,251** |
| Positions | 14 | 12 | 11 | 11 |
| FTE | 14.00 | 12.00 | 11.00 | 11.00 |

Program Description
The Energy Facility Siting Division 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.

Revenue Sources and Relationships
The Siting Division is funded with cost recovery fees paid by facility siting applicants or site certificate holders (Other Funds). Energy supplier assessment supports EFSC and facility siting activities not attributable to a specific applicant or certificate holder.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget is 2.2% greater than the 2015-17 legislatively approved budget. Other Funds adjustments in the Siting Division's budget include:

- $202,097 increase to make a Fiscal Analyst 2 position (1.00 FTE) in the siting division permanent. The position was first established as limited duration in 2013-15, and continued in 2015-17, to create more efficiency and controls in the financial processes of the Siting Division, reducing financial risk and ensuring timely cost recovery for ODOE and its state and local partners.

- $173,431 reduction to eliminate a Utility and Energy Analyst 2 positon (1.00 FTE) that had been vacant longer than 12 months.

**Administrative Services**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 9,775,747 | 12,285,628 | 13,532,677 | 13,966,173 |
| Federal Funds | 14,066 | 71,903 | 53,159 | 14,825 |
| **Total Funds** | **$9,789,813** | **$12,357,531** | **$13,585,836** | **$13,980,998** |
| Positions | 40 | 38 | 37 | 40 |
| FTE | 38.92 | 37.50 | 37.50 | 40.12 |

Program Description

The Administrative Services Division includes the Director's Office, Central Services Division, Governor's Energy Policy Advisor, and Northwest Power and Conservation Council staff. The Director's Office provides operational and policy leadership and direction for the agency. Other Director's Office functions include internal audits, communications, human resources, and legislative coordination. Central Services provides shared support services, including budgeting, accounting, contracting, information technology, facilities, records management, and office reception.

Revenue Sources and Relationships

The Administrative Services Division budget is primarily funded with Other Funds revenues generated from the energy supplier assessment and funds transferred from the Department's other divisions through a federally-approved indirect cost recovery model. Revenues also include reimbursements received from Bonneville Power Administration for costs of the Northwest Power and Conservation Council.

Legislatively Adopted Budget

The 2017-19 legislatively adopted total funds budget is 13.1% more than the 2015-17 legislatively approved budget. While reductions of $617,961 Other Funds and $37,791 Federal Funds were included in the budget to eliminate expenditure that no longer have associated activities, the following Other Funds increases contributed to the Division's budget growth:

- $343,395 to reauthorize the limited duration Governor's Energy Policy Advisor position (1.00 FTE). The Policy Advisor works with the Governor's Office staff, energy stakeholders, and the Department to define and advance Oregon's energy priorities.
- $667,641 and two positions (1.62 FTE) to implement an industry standard Customer Relationship Management (CRM) system. A CRM will allow the agency to manage and analyze customer interactions and data across divisions through business automation, standardized data collection, and consolidation of unsupported tools, resulting in improved data quality, business processes, and service delivery.
- $250,000 for extraordinary Attorney General costs due to anticipated and ongoing litigation related to the energy supplier assessment and Business Energy Tax Credit program.

A technical adjustment to move a position (1.00 FTE) from the Energy Development Services Division to the Administrative Services Division to align workload with the appropriate division and centralize the rent expenditures increased the division budget by $513,677 Other Funds.

## DEPARTMENT OF ENVIRONMENTAL QUALITY

Analyst: Siebert

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 30,960,731 | 38,164,101 | 39,963,680 | 44,629,011 |
| Lottery Funds | 3,873,253 | 4,084,177 | 4,187,950 | 4,610,577 |
| Other Funds | 120,390,027 | 153,167,568 | 160,645,627 | 169,639,110 |
| Other Funds (NL) | 104,790,547 | 131,264,767 | 91,216,687 | 131,686,687 |
| Federal Funds | 24,266,508 | 29,567,515 | 31,043,806 | 28,593,914 |
| **Total Funds** | **$284,281,066** | **$356,248,128** | **$327,057,750** | **$379,159,299** |
| Positions | 728 | 753 | 749 | 745 |
| FTE | 710.09 | 730.31 | 735.93 | 723.89 |

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 five major program units: Air Quality, Water Quality, Land Quality, Agency Management, and Pollution Control Bonds.

- 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 storm water 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 Bonds – The sale of pollution control bonds is used by the Department to finance the Clean Water State Revolving Fund (CWSRF), 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. CWSRF makes loans to local governments for construction of eligible waste water treatment facilities and is funded primarily with Other Funds Nonlimited.

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 metropolitan 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 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 for cities in Lane County like Eugene, Springfield, and Oakridge.

During the 2016 session, the Department received $2.5 million General Fund to expand DEQ's current Oregon Air Toxics Program through an initiative called Cleaner Air Oregon. This funding allowed increased air toxics monitoring for cadmium, arsenic, and chromium hotspots in Portland, as well as, expanding air toxics monitoring across the state. The increased funding was also used to develop a risk-based approach to air permitting for industrial sources through rulemaking. Over time this will allow DEQ to modify existing air permits to be risk-based.

- 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 a challenge. 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. The 2017-19 adopted budget includes authorization to sell $10 million in state-paid bonds to fund Orphan Site maintenance and remediation. This program is also involved in planning for the clean-up of the Portland Harbor Superfund site.

- Agency Management – All funding for Agency Management is generated through its indirect rate charge and is spent as Other Funds. 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 Bonds – 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 $44.6 million General Fund, $4.6 million Measure 76 Lottery Funds, $169.6 million Other Funds, $28.6 million Federal Funds, and 745 positions (723.89 FTE). The budget total also includes $132 million of Other Funds Nonlimited for Clean Water State Revolving Fund loan activities and debt service. The total funds budget is $22.9 million, or 6.4%, higher than the 2015-17 legislatively approved budget level.

The General Fund budget is $6.5 million, or 17%, higher than 2015-17. General Fund changes included:

- $2.5 million added to significantly improve DEQ's capacity to monitor the quality of air around specific sites of potential concern and across entire air sheds; $875,000 of the General Fund added is for the purchase of equipment and was therefore added on a one-time basis.
- An increase of $1.5 million in the onsite septic loan program. This funding includes $1.3 million General Fund for low cost loans to repair or replace failing septic systems and $200,000 for administrative costs. SB 1563 (2016) established this program. DEQ will use an outside contractor to run the program. If the full $200,000 is not needed for administration, the remaining funds are to be used to fund additional loans.
- Added $750,000 General Fund, $351,685 Other Funds expenditure limitation, and seven limited duration positions (3.63 FTE) to conduct planning and development through March 2018, of an environmental data management system (EDMS) that will provide interactive service to the public and stakeholders, while also standardizing and streamlining DEQ's internal business practices. DEQ will develop a funding request for the 2018 legislative session to continue the EDMS project through the remainder of the 2017-19 biennium. This funding was added on a one-time basis.
- $521,250 General Fund was added to pay debt service on the early sale of $10 million in state-paid bonds to fund Orphan Site maintenance and remediation costs.
- Increased General Fund by $500,000 on a one-time basis to complete an inventory of non-road diesel engines with the expectation that the Department would use a third-party contractor to conduct the statewide, multi-sector inventory of non-road diesel engines currently in use that will be used to inform and refine existing air quality models.
- A one-time increase of $250,000 to support the wood smoke reduction program, which works with local communities to reduce wood smoke emission through woodstove change outs, education and outreach, and woodstove use curtailment.
- Eliminated $350,000 General Fund associated with the cut of an eastern Oregon basin water quality position and additional services and supplies.
- $852,190 cut to reflect reductions in Department of Administrative Services assessments and charges for service, Attorney General rates, certain services and supplies, and additional vacancy savings expected as a result of a statewide hiring slowdown.

Other Funds Limited are $16.5 million (or 10.6%) higher than 2015-17 totals due largely to the inclusion of $10.7 million for expenditure of Volkswagen diesel settlement funds, which were earmarked by the Legislature to replace school bus engines, a $2.5 million addition to solid waste disposal programs, and expenditure of $3.7 million of the $10 million in bond proceeds sold to support the orphan site program. Other Funds Nonlimited, which are attributed to the CWSRF program, are estimated to be down. 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 expenditure limitation is down $570,000, or 2%, from the prior biennium due to the statewide reductions and revenue shortfalls.

## DEPARTMENT OF FISH AND WILDLIFE

Analyst: Siebert

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 17,165,916 | 31,162,079 | 30,974,904 | 28,408,880 |
| Lottery Funds | 4,921,717 | 4,917,581 | 5,189,892 | 5,212,514 |
| Other Funds | 157,781,817 | 180,436,355 | 181,617,419 | 191,354,898 |
| Federal Funds | 110,892,069 | 142,766,627 | 144,836,135 | 133,139,592 |
| **Total Funds** | **$290,761,519** | **$359,282,642** | **$362,618,350** | **$358,115,884** |
| Positions | 1,541 | 1,474 | 1,456 | 1,375 |
| FTE | | 1,199.26 | 1,187.56 | 1,154.05 |

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.

Revenue Sources and Relationships

The Department relies heavily on Other Funds revenue from hunting and fishing license and tag sales. The Marine Resources program receives the majority of its 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.

Budget Environment

The agency is facing a number of major issues including declining fish populations, listings and potential listings of native 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 Legislature to approve a fee increase during the 2015 legislative session that was phased-in over three years.

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 most often using Other Funds revenue from the sale of hunting and fishing licenses and tags. These shifts increase the burden to support programs with revenues from hunters and fishers and caused the 2015 fee increases to be coupled with increases in General Fund support to reduce the needed increases in license and tag revenues.

Legislatively Adopted Budget
The Department of Fish and Wildlife 2017-19 budget totals $358.1 million, which includes $28.4 million General Fund, $5.2 million Measure 76 Lottery Funds, $191.4 million Other Funds, $133.1 million Federal Funds, and 1,375 positions (1,154.05 FTE). The Department's total funds budget is slightly lower than 2015-17 levels, but the total number of positions is 7.2% lower than the 2015-17 legislatively approved budget level due to the elimination of 82 long-term vacant positions.

General Fund support is 8.8% lower than approved 2015-17 budget levels. General Fund adjustments include:
- A $498,751 reduction from eliminating two of the five positions remaining in the Western Oregon Stream Restoration program. Reductions to this program were also made during the 2015 session.
- $425,717 in unspecified reductions to services and supplies across multiple programs.
- $381,557 savings from eliminating three fish monitoring positions.
- Eliminated the final $500,000 General Fund payment to the Columbia River Fisheries Transition Fund, which has never been accessed since its creation in the 2013-15 biennium. This action leaves $500,000 in the fund for commercial fishers adversely affected by the Columbia River fisheries reforms implemented during the 2013-15 biennium.
- $1,142,354 cut to reflect reductions in Department of Administrative Services assessments and charges for service, Attorney General rates, certain services and supplies, and additional vacancy savings expected as a result of a statewide hiring slowdown.
- Added $425,000 General Fund to continue a Sage Grouse Coordinator position working on sage grouse conservation efforts in eastern Oregon.
- Added $250,000 to restore and make permanent two positions working on water flow issues that ensure flows are of a necessary level to maintain fish habitats, as well as to work on reviews of in-stream water rights applications.

Other Funds expenditure limitation in the 2017-19 legislatively adopted budget is $10.9 million, or 6%, higher than 2015-17 due largely to the inclusion of $10 million in capital construction expenditure limitation from Article XI-Q bonds to be sold in Spring 2019, along with $215,000 cost of issuance expenditures. The bond proceeds will be used to complete deferred maintenance projects at agency facilities across the state. Additional Other Funds expenditure increases like $950,000 for tide gate replacements for agency land in the Coquilles Valley were offset by statewide reductions. Federal Funds expenditure limitation is 6.7% lower than 2015-17 due to elimination of vacant positions and reductions in unused federal funds expenditure limitation to better align the 2017-19 budget with historical patterns of federally supported expenditures.

# DEPARTMENT OF FORESTRY

Analyst: Stayner

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 118,966,690 | 102,150,421 | 69,716,672 | 68,242,727 |
| Lottery Funds | 5,130,718 | 7,554,096 | 2,606,595 | 2,601,001 |
| Other Funds | 282,455,808 | 297,854,801 | 242,283,417 | 340,602,781 |
| Other Funds (NL) | 10,473,812 | 1,731,484 | -- | -- |
| Federal Funds | 14,096,634 | 35,066,180 | 33,515,674 | 33,657,195 |
| **Total Funds** | **$431,123,662** | **$444,356,982** | **$348,122,358** | **$445,103,704** |
| Positions | 1,196 | 1,201 | 1,182 | 1,181 |
| FTE | 871.38 | 878.04 | 864.13 | 867.30 |

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.

Following significant, prolonged fire seasons in 2013 and 2014 that totaled over $240 million in addition to the base fire protection budget, the 2015 fire season became the third significantly destructive fire season in a row for Oregon, with the number of fires and losses in the number of acres burned exceeding the ten-year average with over a thousand fires covering nearly 100,000 acres of Department of Forestry (ODF) protected lands. Gross large fire costs in excess of base fire protection budget were just under $86.4 million. After deducting those amounts that are billed to federal landowners or other entities for firefighting activities performed by ODF that are not on ODF protected lands, anticipated cost reimbursements from the Federal Emergency Management Agency (FEMA) for a portion of the firefighting costs when there is significant danger of structures or homes being damaged, and for the landowner portion of district deductibles, the net impact to the General Fund was just over $25 million. The 2016 fire season moderated slightly, with total large fire costs at $26.14 million and a net General Fund cost of $12.9 million that included $500,000 for the training of Oregon National Guard troops.

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. Due to the increased retention amount, no claim was filed for the 2015 or 2016 fire seasons and the policy was renewed for the 2017 fire season at a cost of $3.38 million.

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. Sudden Oak Death is an invasive, non-native pathogen that spreads its spores by air, but can also be spread by transporting infected plant material to uninfected areas. Swiss Needle Cast, a foliage disease of Douglas-fir, is affecting a significant portion of state forestlands in 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 withholding of certain federal funding under the Coastal Zone Management Act. The reduced grant funding for the Department of Land Conservation and Development and the Oregon Department of Environmental Quality in the upcoming federal fiscal years beginning October 1, 2017, is due, in part, to concerns about the efficacy of the riparian rules developed by the Oregon Board of Forestry.

The Department of Forestry is currently defending a class action lawsuit – brought by the counties and local taxing districts that receive revenue from the harvest of timber from state forest lands – regarding the management of state forests for multiple values. The counties allege that the current Board of Forestry management plan does not maximize revenues due to reduced harvest rates compared to what allegedly might be possible if the board was not also managing the forests for purposes other than revenue production. The Department denies these allegations and asserts that the court lacks jurisdiction. It is unknown if this action will be resolved during the 2017-19 biennium; however, the trial is expected to occur late in 2018.

The economy continues to grow and is anticipated to do so through the 2017-19 biennium. 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.

Legislatively Adopted Budget

The 2017-19 total funds budget for the Department of Forestry equals $445,103,704 and supports 1,181 positions (867.3 FTE). This amount is 0.17% higher than the 2015-17 legislatively approved budget, however, $100 million of Other Funds expenditure authority included in the 2017-19 budget is for the expenditure of certificate of participation bond proceeds related to the Elliot State Forest and another $3.9 million for capital construction costs. The 2015-17 legislatively approved budget included $112.5 million in emergency fire costs. After removing the extraordinary items, the net operational budget change between the 2015-17 and the 2017-19 biennium is an increase of roughly $9.3 million, or 2.8%.

The legislatively adopted budget includes the conversion of the funding for an existing rangeland protection association support position from Federal Funds to General Fund ($76,482) and the addition of $200,000 General Fund to support Rangeland Fire Protection Association activities including subsidizing the cost of liability insurance for the associations.

The establishment of a position to act as an Aviation Coordinator was approved at a cost of $67,000 General Fund and $133,824 Other Funds. The position will primarily be managing severity resources aviation contracts.

General Fund totaling $1.5 million was appropriated to the agency to subsidize the cost of fire patrol assessments for low-productivity private woodlands east of the crest of the Cascades. This amount is a reduction of $500,000 from the $2 million General Fund appropriated in the prior biennium. A General Fund appropriation of $450,000 was added to the existing budget for work to contain or eliminate Sudden Oak Death. The additional funding is prioritized for the treatment of the European clonal lineage. Although not included in the total budget amounts above, the agency's budget bill also includes an appropriation of $6 million General Fund to the Emergency Board for allocation to the Department of Forestry for fire severity resources ($4 million) and anticipated catastrophic fire insurance premium costs ($2 million).

General Fund reductions of $1.38 million in the Fire Protection Division and $296,632 in the Private Forests Division for the support of agency administrative functions is included in the budget along with a corresponding reduction in Other Funds expenditure limitation for the Agency Administration Division.

Additional Other Funds expenditure limitation of $1,115,249 was provided to the agency and reductions from current service level were made to the General Fund budgets in the Fire Protection and Private Forests Divisions to reconcile the agency's budget to the projected cost of implementation of an electronic procurement and payment system that includes the establishment of a statewide instance of the software, the cost of which is shared by ODF and nine other agencies. Most this amount ($1.09 million Other Funds) is for one-time costs of program implementation, the majority of that amount funded from payments to ODF by participating agencies.

A reduction in Other Funds expenditure limitation of $3.46 million was made to the State Forests Division and includes the elimination of eleven positions (11.00 FTE) to account for reductions in revenues resulting from the reduction in the amount of Department of State Lands forest land under contract with ODF resulting from the Elliot State Forest being withdrawn from the management contract.

The legislatively approved budget provides ongoing funding for the Federal Forest Health Program that had previously been funded with one-time-only monies in prior biennia. A General Fund appropriation of $3 million is provided to the agency for the program along with $692,070 Other Funds and $510,798 Federal Funds expenditure limitation. The total funding of $4.2 million is split between collaborative group support, state and federal partnerships, and program administration. Five new positions (4.83 FTE) are established in the program. Prior biennium funding included $5 million Lottery Funds in the 2015-17 biennium, and $2.885 million Lottery Funds in the 2013-15 biennium.

**Agency Administration and Centralized Business Services**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 2,987,870 | 5,023,448 | 3,260,821 | 5,329,152 |
| Lottery Funds | 5,130,718 | 7,554,096 | 2,606,595 | 2,601,001 |
| Other Funds | 43,436,660 | 59,680,076 | 62,529,379 | 166,346,495 |
| Other Funds (NL) | 10,473,812 | 1,731,483 | -- | -- |
| Federal Funds | 1,297,514 | 1,942,314 | 2,125,072 | 2,589,404 |
| **Total Funds** | **$63,326,574** | **$75,931,417** | **$70,521,867** | **$176,866,052** |
| Positions | 125 | 134 | 127 | 132 |
| FTE | 126.04 | 137.25 | 127.88 | 137.55 |

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 – (103 positions, 107.82 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, and land use planning coordination.
- 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 – Includes payments of principal and interest on certificates of participation (COPs) issued for the construction of the Salem Headquarters Office Complex and a portion of capital construction relocation projects in John Day and Sisters. General Obligation bond payments of principal and interest are included for a portion of the capital construction relocation projects in John Day and Sisters, Toledo facility replacement, and Gilchrist Forest land acquisition. Additionally, there is also debt service for lottery-backed bonds to purchase Gilchrist State Forest parcels.

Revenue Sources and Relationships

The centralized services programs are funded by revenue transfers from, or fees charged to, the operating divisions. This revenue appears as Other Funds in the centralized services programs, but the underlying funding source depends on the funding structure of the operating program. Where an 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 Agency Administration 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 among 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 53.395%, Private Forests 16.211%, State Forests 25.473%, and Equipment Pool, 4.921%. 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 50.04% of the pro-rata revenue agency-wide 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 (40.8%), Other Funds (13.6%), and Lottery Funds (45.6%). 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. 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.

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 1930s, 40s, and 50s. 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 2017-19 total funds budget is $176,866,052 and includes 132 positions (137.55 FTE). However, $100 million of Other Funds expenditure authority included in the 2017-19 budget is for the expenditure of lottery bond proceeds related to the Elliot State Forest and another $3.9 million for capital construction costs. After removing the extraordinary items, the net operational budget change between the 2015-17 and the 2017-19 biennium is an increase of roughly $2.4 million, or 3.5%. The General Fund budget for the program totals $5,329,152, which is a $2.07 million, or 63.4%, increase from the 2015-17 legislatively approved budget, but includes $3 million for the federal forest health program. The remaining General Fund is exclusively for debt service.

The legislatively approved budget continues the federal forest health program at ODF that directly support activities intended to increase the pace, scale, and quality of active forest management on federal lands. The Lottery Funds that were provided on a one-time basis in previous biennia have been replaced by an ongoing $3 million General Fund appropriation along with $692,070 Other Funds expenditure limitation and $510,798 Federal Funds expenditure limitation; for total program funding of $4,202,868 split between collaborative group support, state/federal partnership, and program management and administration. Federal Fund and Other Fund expenditure limitation is provided for the Department to implement projects using the Good Neighbor Authority. The Other Funds revenue is from anticipated sales of federal timber; the Federal Funds revenue from cooperative agreements with the U.S. Forest Service (USFS). Up to $500,000 General Fund will be used to provide grants to collaborative groups that will be administered by the Oregon Watershed Enhancement Board. Five new, permanent positions are established in the program (4.83 FTE); an Operations and Policy Analyst 4 position to function as the Program Manager and four Natural Resource Specialist 2 positions to coordinate program activities at the field level. Twelve existing seasonal positions are to be extended by eight months each (4.84 FTE).

Following the abandonment by the State Land Board of a proposed sale of the Elliott State Forest, the Legislature authorized the sale of certificates of participation (COPs) to provide net proceeds of $100 million related to the Elliott. In addition to a $985,000 Other Funds expenditure limitation for the cost of issuance of the COPs, the Legislature also approved the establishment of an Other Funds expenditure limitation for ODF of $100,000,000 for the payment of monies to finance the release of all or a portion of the Elliott forest from restrictions resulting from ownership of that forest by the Common School Fund, or to compensate the Common School Fund for the preservation of non-economic benefits of the forest through the imposition, transfer, or sale of restrictions such as easements, use requirements or restrictions, or other methods that preserve non-economic benefits of the forest for the public. These non-economic benefits include recreation, aesthetics, wildlife or habitat preservation, or other environmental and quality of life considerations. The sale of the COPs is not anticipated until the spring of 2019 and, therefore, no additional related debt service is included in the 2017-19 budget for the Agency Administration program.

Capital Construction Other Fund expenditure limitation covering six years in the amount of $3,832,965 was provided to the agency for the replacement of a facility in Toledo that houses both Fire Protection and Private Forests programs. The building is shared with the Oregon Department of Transportation. Other Fund expenditure limitation was also provided for bond issuance costs ($50,000) and a portion of the debt service ($79,991). The remaining debt service of $57,568 is General Fund.

The Other Funds expenditure limitation in the Agency Administration program also includes an increase of $1,115,249 to provide a total Other Funds expenditure limitation of $1,928,843 ($813,594 is already included in the base budget) to pay the anticipated costs of the initial statewide implementation of the e-procurement system. ODF is anticipated to receive $1,228,843 of this amount from the other participating agencies for their portion of the one-time costs of the statewide implementation and the 2017-19 biennium maintenance costs. Of the total amount, at least $1,090,827 is anticipated to be one-time expenditures. Additional adjustments are likely to be included in the next biennium budget once ongoing costs are finalized.

A reduction in Other Funds expenditure authority of $1,320,395 is also included to facilitate the reduction in General Fund support for Agency Administration in the Private Forests and Fire Protection Divisions.

### Fire Protection

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 101,694,755 | 79,481,430 | 48,631,655 | 46,357,900 |
| Other Funds | 156,126,354 | 134,465,753 | 72,439,209 | 71,676,758 |
| Federal Funds | 9,222,812 | 16,388,367 | 17,111,072 | 16,701,315 |
| **Total Funds** | **$267,043,921** | **$230,335,550** | **$138,181,936** | **$134,735,973** |
| Positions | 689 | 694 | 688 | 689 |
| FTE | 393.89 | 395.28 | 393.66 | 394.66 |

Program Overview

Forest wildfire protection in Oregon is provided through a coordinated effort among local, state, and federal resources. The Department's 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, 10.7 million is privately owned, 2.3 million is state and local government land, and 2.9 million is federal, mostly Bureau of Land Management (BLM) western Oregon lands protected under contract. 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 46% 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 1990s, 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 $1.5 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 2017-19 biennium are $127.8 million. Of this amount, public landowners through forest protection taxes ($7.16 million) and contracts ($30.89 million) account for $38.05 million (29.8%); General Fund accounts for $48.63 million (38.1%); private landowners through forest protection taxes account for $23.97 million (18.8%); and Federal Funds support $17.11 million (13.3%).

- 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.

- 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 $22.7 million in 2017-19. 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) ($1.56 million, 6.9%).
  - Assessment of $3.75 per lot (out of the $18.75 minimum assessed for forest patrol) ($1.48 million, 6.5%).
  - Surcharge of $47.50 for each improved tax lot ($14.69 million, 64.7%).

The OFLPF expenditures are capped at $13.5 million annually 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 shifted 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 shared 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 fire season catastrophic fire insurance policy, from the General Fund. In 2017-19, the General Fund and OFLPF share the first $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 $17.1 million in federal revenues to support fire protection activities. 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 on 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 fire prevention equipping, training, and organizing 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), weather (drought and lightning storms), and human behavior 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 2017 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 2017 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 was 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. Although the 2015 fire season was significant with respect to total costs, a large portion of the costs were covered by FEMA and other agencies. The General Fund paid $9.6 million in excess of the first $20 million in net costs shared between the OFLPF and the General Fund, but costs did not exceed the retention threshold of the insurance policy and, therefore, no claim was made for the 2015 fire season. The 2016 fire season insurance premium was slightly less ($3.53 million) than the 2015 premium, but since the policy had to be secured prior to the end of the fiscal year, the OFLPF had reached its statutory cap and was only able to provide $392,831 towards the total, with the General Fund paying $3.14 million (88.8%). For the 2017 fire season the quoted premium declined slightly once again to $3.37 million with no claims made against the 2016 fire season policy. 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 at $1.69 million each. Although the 2017 fire season is unlikely to produce net costs in excess of the $50 million policy retention, costs will once again exceed the $20 million shared cost obligation of the OFLPF.

## Legislatively Adopted Budget

The Fire Protection Division 2017-19 total funds budget is $134,735,973 and includes 689 positions (394.66 FTE). This amount is 41.5% lower than the 2015-17 budget due primarily to the phase-out of $36.2 million General Fund and $74.6 million Other Funds for emergency fire costs related to the 2015 and 2016 fire seasons. The General Fund budget for the agency totals $46,357,900, a 7.18% increase from the 2015-17 legislatively approved budget net of large fire costs.

The legislatively adopted budget expands the Rangeland Fire Protection program providing project management and support to the Rangeland Protection Associations. The package converts half of the funding for one of the permanent full-time positons from Federal Funds to General Fund, reducing Federal Funds by $92,923 and increasing General Fund by $76,482. This change is to stabilize the funding support for the position since the Federal Funds have historically been received via competitive grants. Additionally, $66,000 of Federal Funds for services and supplies is supplanted with General Fund and an additional $200,000 General Fund is added to subsidize the liability insurance costs of the Rangeland Protection Associations.

The program supports rangeland owners in forming Rangeland Protection Associations, providing mapping support, Basic and Annual Refresher firefighter training, fire equipment acquisition through the Federal Excess Property Program and Department of Defense Fire Fighter Program, acquiring funding through various grants, reimbursement of insurance and administrative costs, technical support for the operation of the Rangeland Protection Associations, administrative support and coordination of association budgets, coordination with federal partners, and technical support and liaison during large fire operations.

An aviation coordinator position (1.00 FTE) was approved by the Legislature to provide full-time support of the contracting and management of aviation resources by the agency. The total position cost of $200,824 is shared between the General Fund and landowner assessments.

The Legislature included General Fund reductions to align the agency's budget with currently available resources. General Fund support for agency administration from the Fire Protection Division is reduced by $1,084,910. A reduction in current service level funding for implementation and ongoing costs of the agency's procurement and payment system of $290,882 General Fund is also included. The final adjustment includes a 25% reduction in the General Fund subsidy of forest patrol assessments for east-side, low-productivity woodlands. This includes a $500,000 General Fund reduction and a corresponding increase of $500,000 in Other Funds expenditure limitation.

The budget also includes a reduction in the Other Funds revenue transfer from the State Forests Division to the Fire Protection Division of $347,016 for Forest Patrol assessments related to the Common School Lands due to the reduced number of acres of Common School Lands under contract subsequent to the expiration of the management contract for the Elliott State Forest.

### State Forests

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 74,658,171 | 92,451,937 | 96,396,881 | 92,019,698 |
| Federal Funds | 40,560 | 3,874,672 | 896,874 | 876,165 |
| **Total Funds** | **$74,698,731** | **$96,326,609** | **$97,293,755** | **$92,895,863** |
| Positions | 268 | 258 | 255 | 248 |
| FTE | 241.73 | 233.08 | 232.27 | 224.77 |

Program Overview

The State Forests program manages 760,828 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 95.9% (729,860) 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 4.1%, or 30,968 acres, are the Common School Lands, which are managed by ODF under contract with the State Land Board. 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 2017-19 biennium from forest product sales on ODF forestland is $190.36 million, of which $69 million is estimated to be the state's share. The table to the right presents the revenue transfers to counties in FY 2016 from timber harvests on Board of Forestry Lands.

| FY 2016 County Share of Revenue from Harvests on BOF Lands | |
|---|---|
| County | Amount |
| Benton | $312,326 |
| Clackamas | $64 |
| Clatsop | $24,742,787 |
| Columbia | $1,695,005 |
| Coos | $0 |
| Douglas | $632,281 |
| Josephine | $2,315 |
| Klamath | $1,004,754 |
| Lane | $348,971 |
| Lincoln | $1,692,088 |
| Linn | $2,231,016 |
| Marion | $647,555 |
| Polk | $63 |
| Tillamook | $17,728,557 |
| Washington | $9,069,513 |
| Total | $60,107,295 |
| Council of Forest Trust Land Counties Annual Report for Fiscal Year 2016 | |

A management fee is charged to the State Land Board for the operation and management of the Common School Trust forestlands. Beginning in fiscal year 2017, the State Land Board has elected to terminate the ODF management of the Elliott State Forest. This change results in a $6.659 million reduction in the contract for the management of the remaining Common School Fund forestlands after the removal of the Elliott forest from management. After making reductions in the amount of funding transferred to fire protection for forest patrol assessments, and shifting a portion of the administrative pro-rate to Board of Forestry lands program, the total net revenue reduction in the State Forests program is $5.4 million. The anticipated residual revenue from management fees charged to the Department of State Lands is $3.27 million in the 2017-19 biennium.

The Department of Parks and Recreation transfers roughly $1.25 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 a strain 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.

The Department of Forestry is currently defending a class action lawsuit – brought by the counties and local taxing districts that receive revenue from the harvest of timber from state forest lands – regarding the management of state forests for multiple values. The counties allege that the current Board of Forestry management plan does not maximize revenues due to reduced harvest rates compared to what allegedly might be possible if the Board was not also managing the forests for purposes other than revenue production. The Department denies these allegations and asserts that the court lacks jurisdiction. It is unknown if this action will be resolved during the 2017-19 biennium; however, the trial is expected to occur late in 2018.

Beginning in fiscal year 2017 the State Land Board has elected to terminate the ODF management of the Elliott State Forest. This change results in a $6.659 million reduction in the contract for the management of the remaining Common School Fund forestlands. The reduction in revenues present some budgetary challenges for the program since a number of positons are shared positions split between Board of Forestry and Common School Fund revenues. As noted in the section on the legislatively approved budget, a number of positions were consolidated or eliminated and additional costs were shifted to the Board of Forestry revenues to maintain program capacity.

Swiss Needle Cast, a foliage disease of Douglas-fir, is significantly affecting a portion of state forestlands in the Tillamook State Forest. Symptoms of this disease are also becoming evident in the Elliott State Forest. Federally listed species have 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 2017-19 total funds budget is $92,895,863 and includes 248 positions (224.77 FTE). This is a $3.43 million (or 3.6%) decrease from the 2015-17 legislatively approved budget. The decrease is entirely due to the discontinuation of the management agreement between the Department of State Lands and ODF for the Elliott State Forest.

The legislatively adopted budget makes revenue and expenditure adjustments in the State Forests program to align the program's budget with anticipated revenues due to a reduction in the total number of acres of Common School forest lands managed by ODF.

The budget eliminates a total of 11 positions (11.00 FTE) funded from the Common School Lands program ($1,494,194 Other Funds) and the Board of Forestry Lands program ($641,193 Other Funds). An additional $917,089 Other Funds for 27 fractional positions (3.94 FTE) is shifted to the Board of Forestry Lands program from the Common School Lands program. An additional unspecified personal services reduction of $1,143,770 is included in the Common School Lands program for a total personal services reduction of $3,555,053 in that program. Services and supplies expenditures in the amount of $1,920,002 are also eliminated from the Common School Lands program for a total reduction in Other Funds expenditure authority for the Common School Lands program of $5.475 million.

The Other Funds revenue transfer from the State Forests Division to the Fire Protection Division for Forest Patrol assessment related to the Common School Lands is also reduced by $347,016 due to the reduced number of acres under contract.

An increase in services and supplies Other Funds expenditure authority of $1,739,948 is included in the budget of the Board of Forestry lands program for the purpose of managing log sort sale contracts. The program is increasing its capacity for log sort sales in order to increase overall revenues by maximizing the value received by marketing specific timber types and grades to specific buyers rather than allowing this value to be captured by a whole lot bidder that resells to specialized buyers. The increase expenditure authority assumes that additional revenues are resultant from these types of sales.

The Legislature included an increase in the Other Funds expenditure limitation established for the State Forests program of $300,000 for the initial work required for the development of a federal Habitat Conservation Plan (HCP) for the Elliott Forest. These monies are anticipated pursuant to a potential agreement with the Department of State Lands for the development of the HCP. DSL is under no obligation to enter into a contract for these services, but if funded, the Department of Forestry will use this funding to establish four limited duration positions (3.50 FTE) including a project leader (DFM), HCP coordinator (OPA3), threatened and endangered species coordinator (NRS4), and a data manager/analyst (NRS4) to work with federal agencies to develop a Request for Proposal (RFP) to complete all the technical work needed for completing the HCP. ODF is also anticipated to make a federal grant application for the cost of developing the Environmental Impact Statement (EIS) required for completion of the HCP. It is anticipated that ODF will seek additional expenditure limitation once the remaining project costs are better known.

**Private Forests**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 14,284,065 | 17,645,543 | 17,824,196 | 16,555,675 |
| Other Funds | 8,234,623 | 11,257,035 | 10,917,948 | 10,559,830 |
| Federal Funds | 3,535,748 | 12,860,827 | 13,382,656 | 13,490,311 |
| **Total Funds** | **$26,054,436** | **$41,763,405** | **$42,124,800** | **$40,605,816** |
| Positions | 114 | 115 | 112 | 112 |
| FTE | 109.72 | 112.43 | 110.32 | 110.32 |

Program Overview

Oregon contains 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 77% 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 in conducting 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 | 8.2933 | $9,143,915 |
| 2015-17 | 7.3369 | $7,737,610 |
| 2017-19 | 7.8599* | $11,034,389* |
| *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 growing in the past biennium and is expected to continue to expand slowly throughout the 2017-19 biennium. As the economy continues to grow 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 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 2017-19 total funds budget is $40,605,816 and includes 112 positions (110.32 FTE). This amount is a 2.8% decrease from the 2015-17 legislatively approved budget.
The General Fund budget for the agency totals $16,555,675, a 6.2% decrease from the 2015-17 budget. This incudes reductions to align the agency's budget with currently available General Fund resources:

- A 40% reduction in the funding for the Oregon Plan for Salmon and Watersheds Administration that totals $325,000 General Fund.
- Reduction of funding for Forest Practices Act compliance audits. This reduction of $150,000 General Fund and $100,000 Other Funds will allow the compliance audit to be completed every two years.
- Reduction of support for the Watershed Research Cooperative, Trask Watershed Study that includes a reduction of pass-through funding for cooperative partners totaling $309,000 General Fund.
- Reduction in General Fund support for agency administration of $235,485 from the Private Forests Division.

The budget also included a reduction in funding for implementation and ongoing costs of the agency's procurement and payment system of $61,138 General Fund. Funding for two positions, an aerial survey coordinator and a stewardship forester, is shifted to 100% Federal Funds ($285,017) from General Fund ($244,240) and Other Funds ($40,777).

The budget for the Private Forests program includes funding specifically for the management and eradication of Sudden Oak Death (Phytophthora Ramorum) in Oregon. Along with the base budget support for personal services costs totaling $193,050 and funding for eradication treatments of $156,047 for a total of $349,457 split between General Fund and Federal Funds on a roughly 80/20 basis, the legislatively adopted budget includes an additional General Fund appropriation of $450,000 for Sudden Oak Death eradication treatments. The additional funding is to be prioritized for the treatment of the European clonal lineage (EU1) sites on both state and private lands.

## DEPARTMENT OF GEOLOGY AND MINERAL INDUSTRIES

Analyst: Terpening

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 4,040,945 | 4,806,968 | 3,665,822 | 4,631,168 |
| Other Funds | 7,732,500 | 6,278,059 | 6,447,304 | 6,787,859 |
| Federal Funds | 4,370,000 | 6,947,079 | 5,047,592 | 5,937,915 |
| **Total Funds** | **$16,143,445** | **$18,032,106** | **$15,160,718** | **$17,356,942** |
| Positions | 50 | 45 | 36 | 44 |
| FTE | 49.16 | 42.54 | 35.92 | 43.05 |

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 in Portland, with the Mineral Land Reclamation Program 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 (GS&S) 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 GS&S program also provides publication, outreach, and library functions and the agency's administrative functions, including budgeting, accounting, and human resource services.

The Mineral Land Regulation and Reclamation (MLRR) 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 MLRR program regulates oil, natural gas, geothermal exploration, and extraction. No General Fund or Lottery Funds support the program and a separate Other Funds expenditure limitation is provided in order to more efficiently track the revenues and expenditures of the program.

Revenue Sources and Relationships

The GS&S 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 MLRR program is financed primarily from Other Funds derived from aggregate mine, oil and gas, and geothermal permit and production fees. 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 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 GS&S program.

The Department is currently undertaking a comprehensive assessment of the MLRR program, including cash flow analysis of the current fee structure, to ensure that it is sufficient to support program expenses. The revenue from the 2015 fee increase has provided an operational ending balance. However, it should be noted that during the 2015-17 biennium, the MLRR program was not fully staffed due to turnover. Additionally, the MLRR program has not been charged a standard indirect rate to cover its share of central administrative services that are housed in the GS&S program, such as the Agency Director or Chief Financial Officer.

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. The Department has been able to more effectively evaluate potential projects and identify costs involved, while reducing cost overruns for added project deliverables, which had been a problem in the past.

Legislatively Adopted Budget

The legislatively adopted budget for 2017-19 is $17.4 million total funds and is composed of $4.6 million General Fund, $6.8 million Other Funds, and $5.9 million Federal Funds. This is a 3.7% reduction in total funds from the 2015-17 legislatively approved budget. The General Fund portion of the 2017-19 legislatively adopted budget is 3.7% lower than 2015-17, and the Federal Fund portion is 14.5% lower based on the known Federal Fund grant opportunities identified by the Department. The total Other Funds portion of the 2017-19 legislatively adopted budget is up 8.1% from the 2015-17 budget; Other Funds approved for the MLRR program represent a 4.4% increase related to its share of the approved IT positions. The MLRR program is anticipated to have an ending balance of $460,742, which is approximately four months of operating expenses.

The 2017-19 budget for the Geologic Survey and Services Program includes making five full-time positions within the LIDAR and Hazards Assessment program permanent, after being limited duration for at least three biennia, in order to retain experienced highly technical subject matter experts. The budget includes the reclassification of four positions from an IT classification to a more appropriate Natural Resource Specialist (NRS) classification, and adds a supervisory designation to an existing NRS 5 to build leadership capacity within the Department. Additionally, the budget includes a full-time limited duration NRS 2 position associated with the USGS 3DEP grant approved by the Legislature at the September 2016 Emergency Board meeting. Finally, the GS&S program budget includes the elimination of a vacant permanent full-time Principal Executive Manager E position.

The 2015-17 legislatively approved budget included two budget notes requiring the Department to report back to the 2016 Legislature. The first report was to provide an update on the progress the Department made in reviewing the agency's business and organizational infrastructure, core operations, funding sources, cash flows, and the indirect rates that fund some administrative functions. DOGAMI has made significant progress in addressing these areas and has determined that the current operational model for the Geologic Survey and Services Program is the best fit, given statewide constraints on availability of General Fund, provided there is rigorous administrative oversight of the grant and project processes that ties into clear tracking and reporting of cash flows and fund sources. As mentioned above, the Department is continuing with a comprehensive assessment of the MLRR program and will provide an update at the 2018 legislative session.

The second report was to conduct an assessment with the Office of the State Chief Information Officer (OSCIO) of the agency's information technology operations and to follow-up with an IT remediation plan based on that assessment. The Department and OSCIO conducted the assessment, presented an IT remediation plan, and the Department received resources at the May 2016 Emergency Board meeting to implement that plan. Some of these resources carried forward, including a permanent full-time Information System Specialist (ISS) 5 position and funds for hardware lifecycle replacement and IT hosted services through the State Data Center. The 2017-19 budget includes additional resources for the IT remediation plan, including making permanent a full-time ISS 8 position established by the Emergency Board as limited duration.

## DEPARTMENT OF LAND CONSERVATION AND DEVELOPMENT

Analyst: Stayner

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 12,198,336 | 13,593,528 | 13,507,085 | 12,951,689 |
| Other Funds | 561,866 | 725,419 | 561,874 | 1,734,829 |
| Federal Funds | 5,247,072 | 6,396,794 | 6,629,806 | 6,421,857 |
| **Total Funds** | **$18,007,274** | **$20,715,741** | **$20,698,765** | **$21,108,375** |
| Positions | 61 | 58 | 56 | 58 |
| FTE | 57.55 | 56.57 | 54.90 | 56.90 |

<u>Overview</u>

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 the Department of Transportation (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 primarily supported by Federal Funds.

Revenue Sources and Relationships

General Fund comprises roughly 61.4% of the budget for DLCD. Discounting the $1.58 million dedicated to local grants, General Fund supports 58.2% of the agency's operational budget.

Federal Funds account for 30.4% 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.

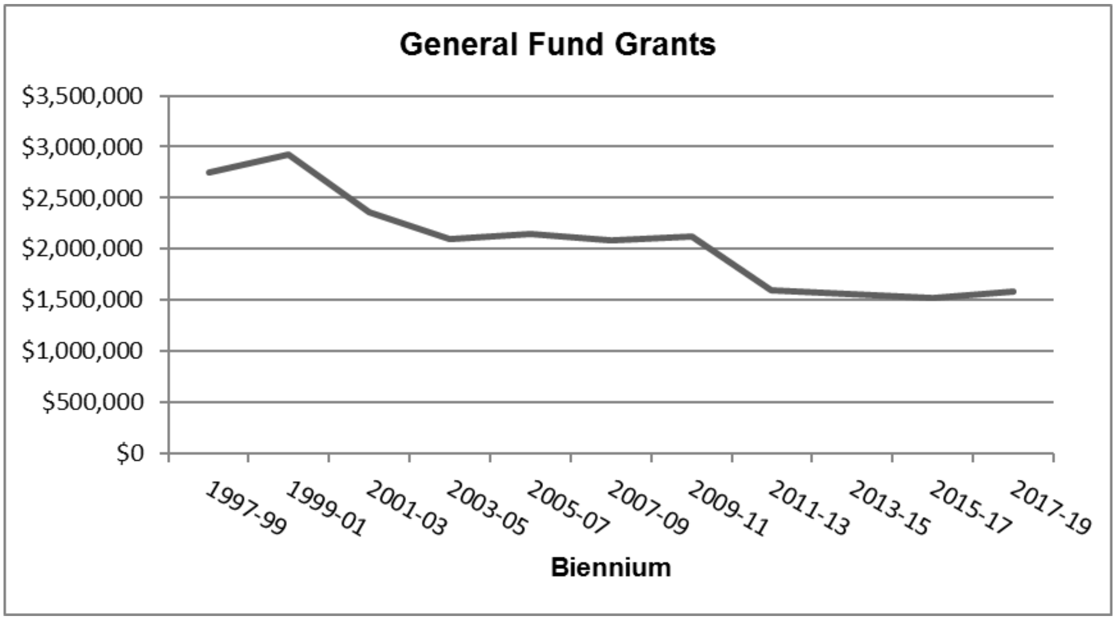
DLCD also receives Federal Funds from FEMA for natural hazards planning, specifically for addressing risks by mapping, analysis and planning, and for floodplain management activities. DLCD is the state coordinating agency for the National Flood Insurance Program.

Other Funds make up the smallest portion of the DLCD budget, accounting for just over 8.2% of the total funds budget. For the 2017-19 biennium Other Funds revenue increases by $1.08 million due to one-time funding to support hazard mitigation planning by local governments and to update the statewide natural hazard mitigation plan that is transferred to DLCD from the Office of Emergency Management. Most of the remaining Other Funds revenue is from a transfer of Federal Highway Administration funds from 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. A small amount of 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.

Budget Environment

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 slight uptick in the 2017-19 biennium is due to standard inflationary adjustments in the budget.




The legislatively adopted budget for 2017-19 biennium includes $1,578,835 of General Fund for local assistance grants. 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.

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 reduction of certain Federal Funds under the Coastal Zone Management Act. The state agencies involved with the plan, including the Department of Environmental Quality, Department of Forestry, Department of Agriculture, and DLCD are continuing to work with the federal government to resolve the issue.

Legislatively Adopted Budget
The Department of Land Conservation and Development's 2017-19 total funds budget is $21,108,375 and includes 58 positions (56.90 FTE). This amount is 1.9% higher than the 2015-17 legislatively approved budget. General Fund, which makes up roughly 61.4% of the agency's budget, totals $12,951,689, a 4.7% decrease from the 2015-17 legislatively approved budget as $888,000 in one-time General Fund appropriations that were included in the 2015-17 budget are phased-out. Additional General Fund reductions for increased vacancy savings, reduced use of temporary employees, and unspecified reductions in services and supplies totaling $148,938 were included as well.

Two long-term, federally-funded positions were eliminated from the agency's budget due to the ongoing reduction in federal grant funding for the Ocean and Coastal Planning program as a result of deficiencies in the state's nonpoint pollution control program as determined by the National Oceanic and Atmospheric Administration (NOAA).

Additional Other Funds expenditure limitation of $1.08 million is included in the agency's budget along with the establishment of three limited duration positions (3.00 FTE) to support hazard mitigation planning by local governments and to update the statewide natural hazard mitigation plan which is due for re-approval in 2020. The funding for this work is from a transfer of federal Pre-Disaster Mitigation (PDM) grant funding from the Office of Emergency Management (OEM), which is the designated agency to receive federal PDM grant funds. This funding is received by DLCD as Other Funds.

HB 2743 (2017) provided a $90,660 Other Funds expenditure limitation increase to the Department of Land Conservation and Development to pay for the expenses of the City Economic Development Pilot Program. The revenue is anticipated to come from the nominating city in the Pilot Program.

Federal Funds expenditure limitation of $329,804 was added to the budget for RiskMAP work and for assistance to local governments in compliance with the Endangered Species Act in local floodplain regulations. This federal funding is from anticipated FEMA grants and supports a single limited duration position (1.00 FTE) to support the local planning work.

## LAND USE BOARD OF APPEALS

Analyst: Jolivette

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 1,573,758 | 1,846,330 | 1,926,784 | 1,927,050 |
| Other Funds | 30,252 | 28,641 | 29,700 | 33,700 |
| **Total Funds** | **$1,604,010** | **$1,874,971** | **$1,956,484** | **$1,960,750** |
| Positions | 6 | 6 | 6 | 6 |
| FTE | 5.75 | 6.00 | 6.00 | 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 can bring issues to LUBA for review. The Board consists of three members appointed by the Governor and confirmed by the Senate. In addition to the Board, the agency employs an administrative and support staff of three.

Revenue Sources and Relationships

Over 98.3% of LUBA’s 2017-19 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 2017-19 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 2017-19, which is consistent with handling about 187 appeals and 140 intervening parties annually. This amount represents a 77% increase over the 2015-17 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 185 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 2017-19 total funds budget is $1,960,750 and includes 6 positions (6.00 FTE). This amount is 4.6% higher than the 2015-17 budget. The General Fund budget for the agency totals $1,927,050, a 4.4% increase from the 2015-17 legislatively approved budget and includes $11,650 to reclassify a position from an Executive Support Specialist I to an Executive Support Specialist II. The budget also includes $4,000 Other Funds expenditure limitation to cover the annual cost of continuing legal education for the agency’s attorneys.

# DEPARTMENT OF STATE LANDS

Analyst: Stayner

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | 346,082 | -- | 5,000,000 |
| Other Funds | 28,187,651 | 41,925,846 | 29,340,595 | 47,925,059 |
| Other Funds (NL) | 11,594,220 | 13,334,249 | 10,234,249 | 10,234,249 |
| Federal Funds | 2,475,172 | 2,396,484 | 1,723,318 | 2,261,458 |
| **Total Funds** | **$42,257,043** | **$58,002,661** | **$41,298,162** | **$65,420,766** |
| Positions | 103 | 112 | 103 | 111 |
| FTE | 103.00 | 111.00 | 103.00 | 109.33 |

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 – (95 positions, 92.83 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 $10.6 million in 2017-19.

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 remain flat during the 2017-19 biennium.

Common School Fund revenues also include receipts from timber harvests on Common School forest land. The Department of Forestry (ODF) manages forest land for DSL and projects 15 million board feet in harvest in 2017-19 from all Common School forests. This is significantly less than usual, due to the withdrawal of the Elliott State Forest from the ODF management contract.

The State Land Board has elected to terminate the ODF management of the Elliott State Forest as of June 30, 2017. ODF will continue to manage 30,968 acres of forestlands for DSL throughout the state. This change results in a $4.9 million reduction in the anticipated revenue transfer from ODF, however, it also produces a $6.7 million reduction in the ODF contract for the management of the Common School Fund forestlands; a net savings for DSL of $1.8 million. DSL has entered into a custodial management agreement with a private forest management company to manage the Elliott for the 2017-19 biennium at a cost of $1.6 million. The custodial management will not involve new timber sales, only the continued activities required under the Oregon Forest Practices Act, maintenance of roads, and public access.

Common School Fund revenue distributions to the Department of Education are forecast to be $110.2 million in 2017-19. 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 $3.93 million for the 2017-19 biennium. 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.

Budget Environment

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 remains a looming issue for the agency. The 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.

Currently the agency is engaged in a strategy of building a legal argument that limits the state's liability for the cost of the Portland harbor clean-up. 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. A draft record of decision was issued by the U.S. Environmental

Protection Agency that outlines a thirteen-year clean-up period with a total non-discounted cost of roughly $1.7 billion. The portion of these costs attributed to the State of Oregon has not yet been determined. DSL has been using payments received from insurance companies on policies purchased by former owners and lessees of state lands to pay a portion of the Attorney General costs for the legal defense, but those funds are not anticipated to cover ongoing costs. Funding or expenditure limitation has been approved from 2009 forward. Total costs for DSL through March 2017 are $19.2 million, $11.3 million of which has been reimbursed to DSL from insurance claims. The final EPA Record of Decision is expected in 2018. After that, cleanup is expected to begin in 2020.

SB 847 (2017) establishes a process by which the Department of State Lands (DSL) and the Legislative Assembly may identify tracts of trust lands that have limited performance potential as assets of the Common School Fund, and submit proposals to the Legislative Assembly for the transfer of those lands to another state agency, federal agency, or tribe.

The process of identifying and valuing underperforming tracts of trust lands can be absorbed within the existing resources of DSL, and is expected to have a minimal impact to the Department. However, the potential future transfer of large tracts of trust lands to another state agency may pose a significant fiscal impact to both DSL and the receiving agency. It is assumed that the receiving state agency would be responsible for the expenses related to operating the transferred land.

It is important to note that DSL is mandated by the Oregon Constitution to manage trust lands for the primary purpose of generating revenues for K-12 public education. The management of these lands under a different state agency would be done so in a different manner and under the guidance of an alternate mission, which would likely alter the amount of funds required to manage the land.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the Department of State Lands is $65,420,766 total funds supporting 111 positions (109.33 FTE). This is $7.42 million, or 12.8%, higher than the 2015-17 legislatively approved budget.

The budget includes a General Fund appropriation of $5,000,000 to the Department of State Lands for deposit into the Portland Harbor Cleanup Fund established in SB 5530. The funding is for the coordination of, and participation in, any contracts or agreements relating to or arising out of the Portland Harbor Superfund Site that may include investigation of baseline conditions, investigation of key sediment sites, potential infrastructure needs related to contaminated sediments, development and administration of a comprehensive data management system for the site, satisfaction of obligations under any settlement or administrative order, work required by the U.S. EPA in connection with the site, and other activities directly related to minimizing the state's liability for costs related to the Portland Harbor Superfund Site. An additional $3 million of net proceeds from lottery bonds are also budgeted for deposit in the fund.

The budget includes the establishment of an $8,000,000 Other Funds expenditure limitation from the Portland Harbor Cleanup Fund. The limitation is provided so that the Department can expend monies deposited in the account, including the $5 million General Fund and the $3 million net lottery bond proceeds allocated to the account as noted above.

In addition to the $8 million expenditure limitation for direct costs from the Portland Harbor Cleanup Fund, an Other Funds expenditure limitation of $6.33 million from the Common School Fund is included in the budget for legal expertise related to the Portland Harbor Superfund site. This is the third consecutive biennium that additional expenditure authority has been established for the agency for this purpose. The funding includes the establishment of a limited duration Natural Resource Specialist 4 position (1.00 FTE), $3.6 million for professional (legal) services, and $2.5 million for Attorney General expenses. Related budget packages were approved in the 2011-13, 2013-15 and 2015-17 biennia. The cost allocation process and legal questions are expected to continue through the 2017-19 biennium. The position classification is the same as the 2015-17 position.

As a result of the State Land Board's decision to retain public ownership of the Elliott State Forest, and the discontinuance of the Elliott Forest management contract with the State Department of Forestry, the Legislature approved an increase in Other Funds expenditure limitation totaling $3,985,377 and the establishment of a Project Manger 3 position (1.00 FTE) for work related to the Elliott State Forest. Specifically:

- $1,608,930 of the total amount is for the payment of costs associated with a custodial forest management contract. Under the contract, the manager will be responsible for three primary tasks including: (1) maintaining road systems for safe public access and for fire protection activities, and ensuring compliance with all applicable laws; (2) reforestation activities to comply with Oregon's Forest Practices Act; and (3) providing general forest management and oversight, including being the first point of contact for any questions, as well as identifying problems specific to the property and coordinating with local officials and DSL as necessary, to manage access to the property and to coordinate proper disposal of trash and abandoned property removal.
- $608,000 is for the estimated cost of fire patrol assessments to be paid to the Department of Forestry for wildfire protection.
- $268,447 is for the costs associated with the establishment of a Project Manager 3 position that will provide general coordination for the Elliott Forest, as well as providing project management for the Portland Harbor Superfund Site and Goble cleanup site.
- $1.5 million of the total is for the development of a federal Habitat Conservation Plan (HCP) and an Environmental Impact Statement (EIS) related to the HCP for the Elliott Forest. The HCP development will be via an agreement with the Oregon Department of Forestry (ODF). ODF will lead the collaborative work with other state, federal, and private entities. The initial work at ODF is anticipated to cost $300,000, the remaining $1.2 million is to be administratively unscheduled until a better estimate of the total cost to develop the HCP and EIS can be established. ODF anticipates that it will apply for federal grant funding for at least a portion of the cost to develop the EIS.

Other Funds expenditure limitation of $574,321 for the continuation of work on historical filled lands that began in the prior biennium due to SB 912 (2015) is included in the budget along with the addition of four limited duration positions (2.83 FTE); two of which (0.83 FTE) are extended from the prior biennium. The other two positions (2.00 FTE) will begin notifications to affected land owners and perform the actions necessary to begin the appropriate divestment of these lands. SB 912 requires DSL to research whether the state of Oregon has remaining interests in historically filled lands in tidally-influenced waterways and legally navigable waterways. This requirement also applies to lands where state-asserted ownership occurred prior to September 9, 1995. The measure further allows DSL to sell, lease, or trade historically filled lands owned by the state.

Other Funds expenditure limitation is included in the budget for the addition of a Natural Resource Specialist 3 position (1.00 FTE) to work on transactions including real property. Currently there is only one property manager for about 60,000 acres of land. The new position will allow the agency to address project backlogs. The agency has three agricultural development projects in progress and has 90 transactions pending; some of the pending projects are in the initial stages while others are in the final stages. A seasonal Natural Resource Specialist 1 position (0.50 FTE) was also established in the budget to monitor compliance with the Candidate Conservation Agreement with Assurances for the Greater Sage Grouse and to help install conservation measures such as fence markers and water tank escape ramps.

Other Funds expenditure limitation of $280,576 is provided to replace five agency-owned vehicles with leased vehicles from the Department of Administrative Services (DAS) motor pool. Of this amount, $54,576 is ongoing funding for those lease costs, $26,000 is one-time funding for the outright purchase of a standard ATV and a Side-by-side ATV in addition to the leased vehicles, and $200,000 is for additional capital improvement expenditure limitation to upgrade the lighting in the underground parking garage and replace and repair the structure on the roof that protects the HVAC system from the elements.

The budget re-established the $329,000 Federal Funds expenditure limitation for the South Slough National Estuarian Reserve (SSNER) lab remodel at the Oregon Institute of Marine Biology. This was approved by the

Emergency Board at its September 2016 meeting, but the agency was not able to complete the work in the 2015-17 biennium. The project includes expansion of existing laboratory facilities, additional office spaces, reorientation of the garage to expand storage capacity, and additional parking.

Federal Funds expenditure limitation of $212,313 was included for Wetland Program development grants from EPA. DSL has consistently received grant funds through this program for over 15 years, but has typically phased-out the expenditure limitation for federal grant funds from the common school program when developing its budget. The limitation will allow the agency to expend anticipated funding through the current grant period ending December 31, 2017.

# MARINE BOARD

Analyst: Walker

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 24,438,979 | 26,508,351 | 27,578,318 | 26,923,945 |
| Federal Funds | 5,711,179 | 7,467,774 | 6,632,414 | 6,631,041 |
| **Total Funds** | **$30,150,158** | **$33,976,125** | **$34,210,732** | **$33,554,986** |
| Positions | 40 | 38 | 38 | 39 |
| FTE | 39.50 | 38.00 | 38.00 | 39.00 |

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. OSMB provides 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.

Revenue Sources and Relationships

OSMB programs and services are funded with Other Funds (80.2% of total funds) and Federal Funds (19.8% of total funds). The agency receives no General Fund or Lottery Funds support. Other Funds revenues for the 2017-19 biennium are projected to total $32.3 million and Federal Funds are projected to equal the amount of budgeted federal fund limitation ($6,631,041).

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. The amount, less refunds for commercially used motor boats, is transferred to the Marine Board's Boating Safety, Law Enforcement, and Facility Account. The estimated amount of revenue 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 then 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 Legislature last adjusted these fees in 2015; the fees are based on a flat fee of $4.50 per foot for a two-year registration and one-time title fees of $50.
- Invasive species fees – The fees for invasive species permits are $5 for motor boats and manually propelled boats over ten feet in length, and $20 for nonresidents and annual fees for operators of boat liveries. These fees were instituted during the 2009 legislative session and are deposited into a dedicated account.

The sources of the agency's Federal Funds are:

- U.S. Coast Guard's Recreation Boating Safety (RBS) grant program, which requires a 50% state match.
- Boating Infrastructure Grant program, which includes both a base grant and competitive grants.
- Clean Vessel Act program grant funds for vessel waste pump out facilities and dump stations to reduce the effects of untreated sewage from boats.

Matching funds, when needed, come from local government funds, local in-kind support, and OSMB Other Funds sources.

Budget Environment

Over the last several biennia, the average number of boats registered by OSMB declined from a peak of 197,591 in 2003. The Board notes that the trend has started to stabilize and is currently titling and registering approximately 157,000 recreational boats; only a minimal increase in registrations is anticipated to occur in 2017-19. The agency has noted that even though the number of registered boats has declined, there is an increased utilization of waterways by non-registered water craft, such as canoes, kayaks, rafts, and inner tubes. A measure was introduced to institute user fees for such water craft, but was not approved. Overall, the Board's programs serve over 170,000 registered users, as well as approximately 190,000 users that are not registered. This demand results in increased needs for parking, restrooms, law enforcement patrol resources, and more launch ramps, and comes at the same time that local matching funds for these purposes are shrinking.

It should be noted that the Board prepares and maintains the Statewide Boating Access and Improvement Plan. This plan includes projects identified by users and boating facility managers at 770 public boating access sites in Oregon. The current plan lists $179 million in such projects. In addition to such projects, the agency is also responsible for the removal of abandoned or derelict vessels from state waterways. During 2015-17, the agency removed 31 such vessels, the most in any biennium.

Other cost drivers include increases in demand for services and associated staffing costs, general personnel costs, and construction costs for boating facilities. Current revenue projections in federal funds, the number of anticipated registrations, and a drop in the amount of fuel usage per boat are challenges to the OSMB budget. Current revenue sources may be insufficient in future biennia to continue all services and programs currently provided by OSMB.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $33.6 million total funds is a slight decrease (1.2%) from the 2015-17 legislatively approved budget. This decrease is largely due to statewide reductions taken to balance the 2017-19 budget. The budget includes 39 positions and FTE, which includes one newly authorized position for the Outfitters and Guides program, making permanent a limited duration position.

The agency budget is divided into four program areas, as described below:

Administration and Education – This 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 a liaison with other government entities, conducts boating analysis and boater surveys, coordinates the Adopt-a-River program, provides numerous educational activities, and is responsible for the agency's central business functions. This program was granted an increase in Other Funds expenditure limitation in the amount of $125,323 and one permanent position (1.00 FTE) for the guide and outfitter program. While only 21.7% of the agency's budget is dedicated to this area, the majority of the agency's staff (25 positions and 25.10 FTE) are in this program unit.

Law Enforcement – 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 county sheriffs and the Department of State Police. 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. This program area receives the largest portion (43.4%) of the agency total budget, but most of the funds are spent on county and State Police contracts rather than direct agency expenses. The budget does provide for 5 staff positions (4.55 FTE).

Facilities – This program provides for the maintenance and improvement of boating facilities throughout the state. The Board provides technical and financial assistance to local government and state agencies to acquire, develop, improve, and rehabilitate public boating facilities. Projects eligible for Board funding include boat launch ramps, parking areas, 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, donations, and other local and state funds. Priorities for funding are established in the Board's Statewide Boating Access and Improvement Plan. Federal funds for the Clean Vessel Act program target water quality protection through the provision of facilities for boat pump out and dumping of waste. In addition, the Board's Maintenance Assistance program provides financial support to local governments and the Oregon Parks and Recreation Department for the maintenance and operation of boating facilities in park areas. This includes providing engineering services for local governments and state and federal agencies lacking the specialized skills needed to design and build boat facilities. This is the second largest component of the budget (30.1%) and includes 8 positions and FTE.

Aquatic and Invasive Species – The purpose of this program is to mitigate the effects of invasive species on native waters through the inspection and decontamination of watercraft. The program was established during the 2009-11 biennium and is operated in coordination with the Oregon Department of Fish and Wildlife (ODFW), the Department of Agriculture (ODA), and the Department of State Police. Boat inspections are conducted through mobile check stations operated by ODFW, ODA, and the Marine Board. This is the smallest program area in the agency, accounting for 4.7% of the budget **a**nd including 1 position (1.35 FTE).

## PARKS AND RECREATION DEPARTMENT

Analyst: Stayner

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 979,999 | -- | -- | 218,894 |
| Lottery Funds | 79,666,375 | 83,259,675 | 99,719,970 | 100,597,217 |
| Other Funds | 99,602,710 | 111,939,526 | 91,628,295 | 99,889,179 |
| Federal Funds | 9,358,198 | 12,874,261 | 9,871,343 | 16,389,923 |
| **Total Funds** | **$189,607,282** | **$208,073,462** | **$201,219,608** | **$217,095,213** |
| Positions | 864 | 847 | 845 | 867 |
| FTE | 593.33 | 576.20 | 575.20 | 596.05 |

Overview

The State Parks and Recreation Department (OPRD) operates under the direction of a seven-member Commission. The Department operates the state's system of more than 250 recreational properties, managing various programs 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 OPRD director is also designated as the State Historic Preservation Officer 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, 256 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:

- Director's Office – (5 positions, 4.88 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 program review, internal audits, and coordinates rulemaking in its efforts to improve agency performance.
- Central Services – (78 positions, 76.85 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 – (742 positions, 472.32 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) grant 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.

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 primarily 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 2017-19. 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 | 2017-19* |
|---|---|---|---|---|---|
| $ Millions | $ 81.5 | $ 81.0 | $ 79.6 | $ 92.7 | $ 93.5 |
| Percent Change from 2009-11 Biennium | | -0.6% | -2.4% | 13.7% | 14.7% |
| 12% for Local Grant Program | $ 6.5 | $ 9.7 | $ 9.6 | $ 11.1 | $ 11.2 |

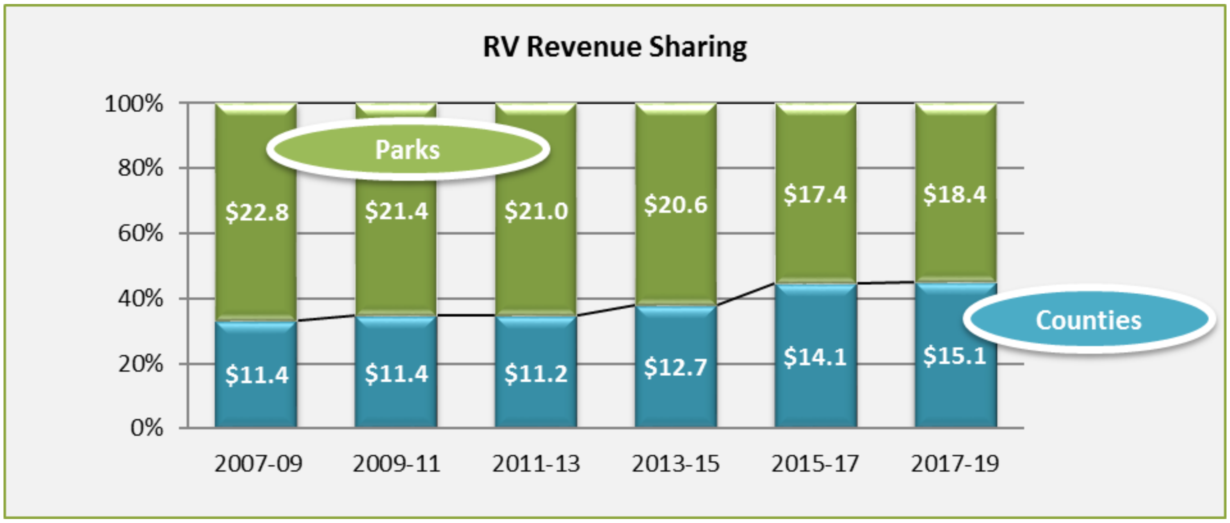
*May 2017 Forecast

The 2017-19 legislatively adopted budget assumes $93.5 million Lottery Funds revenue will be generated for the State Parks and Recreation Department sub-account, as of the May 2017 forecast. Of that amount, $11.2 million is required to be appropriated by the Legislature to local park grant programs. The remaining amount, $82.3 million, is projected to be available for the Department's operating programs. The legislatively adopted budget includes distributions:

| | |
|---|---|
| To Cities | $3,996,816 |
| To Counties | $4,639,948 |
| To Other Local Governmental Units | $2,574,179 |

Park user fees represent 22.4% of total revenues and 44.5% of Other Funds revenues. User fees are expected to generate $50.7 million in 2017-19.

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 2017-19, the RV revenue is expected to total $33.5 million, $18.4 million for the state parks system and $15.1 million for transfer to counties, including $1.5 million for county opportunity grants. The current estimate of RV registration fees reflects an increase of approximately $1.9 million from 2015-17. The increase in RV registrations and trip permit fees contained in HB 2017 will have a nominal impact on the RV revenues transferred to OPRD from the Department of Transportation (ODOT).

HB 2017, passed in the 2017 session, phases in a number of changes that will impact the revenues of OPRD over the 2017-19 biennium. At the end of each fiscal year, OPRD receives a transfer from ODOT for the estimated amount of unrefunded fuel tax associated with purchase and use of fuel by valid all-terrain vehicles (ATV) permit holders. OPRD uses this revenue to provide safety outreach and support through community grants to maintain ATV riding areas throughout the state. Valid ATV permits are counted for a two-year time period; from May through June. Fuel tax is calculated by multiplying the number of valid permits by the estimated number of gallons of fuel used in a year for each ATV class, which is determined by a survey conducted by Oregon State University every four years. The total estimated number of gallons is multiplied by the current fuel tax rate of $0.30 per gallon. The gradual increase in fuel taxes contained in the bill beginning in January of 2018 will increase the amount of ATV revenues from the $10.4 million that is assumed in the legislatively approved budget by an estimated $578,596 in the 2017-19 biennium. ATV funds are used for payments to the Department of State Police for troopers and to the Department of Forestry for ATV trails operations and maintenance in addition to ATV parks and trails developed by OPRD. OPRD refunds a portion of fuel tax attributable to Class 1 ATVs back to ODOT for the development and maintenance of snowmobile facilities. Historically, this has been approximately 5.2% of the total fuel tax transfer.

The measure also directs the Oregon Travel Information Council (TIC) to manage three of the OPRD properties serving as safety rest areas in Oregon along interstate and state highways. The properties that TIC will be managing are: Van Duzer, Ellmaker, and Peter Skene Ogden. OPRD would maintain ownership these properties, but the responsibility to manage, maintain, and improve the properties as rest areas would transition to TIC. Since OPRD would still own the properties, and these properties can be used by visitors for recreation beyond a rest area function, OPRD would presumably still have some level of maintenance and operations responsibilities for these properties. Currently, OPRD receives $2,554,706 per biennium of funding from ODOT to help with the costs of maintaining and operating all of the OPRD safety rest areas. With the transfer of rest area management responsibilities for the three properties indicated in the bill to TIC, OPRD would likely see a decrease in that funding from ODOT; the estimated reduction in the transfer is $512,000 per biennium.

The Legislature also created a "salmon" license plate that has a premium surcharge above the standard license plate fees. OPRD anticipates receiving $438,303 in the 2017-19 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 $1.2 million from ODOT for the maintenance of state highways in state parks, and $400,000 from the Marine Board for boater facility maintenance and rehabilitation. 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 $16.4 million in Federal Funds. This figure includes $1.05 million in carryover revenues that were not able to be used by grant recipients in the 2015-17 biennium.
Federal revenues fund a number of ongoing programs including: land and water protection and enhancements, heritage preservation, recreational trails, and natural heritage preservation.

Budget Environment

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 2017-19 budget includes $2.2 million Lottery Funds and $770,020 Other Funds for acquisition.

In the 1999-01 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 were 43% and Other Funds were 50% of available revenues. For the 2017-19 biennium, Lottery Funds increase to 46.5% of available revenues as a result of lower than anticipated expenditures and increasing forecasted Lottery Fund revenues in the 2015-17 biennium creating a surplus beginning fund balance for the 2017-19 biennium.

Legislatively Adopted Budget

The total funds budget for the Department equals $217,095,213 for the 2017-19 biennium and supports 867 positions (596.05 FTE). The agency's budget is 4.3% higher than the 2015-17 legislatively approved budget. The budget recognizes revenue estimates from anticipated fees, transfers, and Lottery Funds as projected in the May 2017 forecast; corresponding adjustments to revenue distributions to counties and local governments are included.

A General Fund appropriation to the Department of $218,894 was included in HB 3350 for the establishment of an Associate Director of Outdoor Recreation to oversee the State Office of Outdoor Recreation, providing among other things, the coordination of outdoor recreation policy; assisting in the development or updating the outdoor recreation management strategies of the Department; coordinating with the Oregon Tourism Commission and Travel Information Council; and serving as a clearing house and information center for outdoor recreation stakeholders.

The adopted budget recognizes additional revenue resulting from an increase in most camping rates by $2.00 per night. The change would primarily affect hookup rates and standard yurt rates. The $1.23 million additional Other Funds revenue will be used to support additional park staff and park maintenance work. Additional expenditure limitation from the parks preventive maintenance account of $42,910 Other Funds was approved in conjunction with the additional revenue to accommodate for the 3.5% of anticipated additional revenues transferred to that account. In addition to the specific increase in camping fees, HB 2318 was adopted by the Legislature allowing for the State Parks and Recreation Commission to establish a schedule that sets forth a range of charges within which the State Parks and Recreation Director may set, adjust, and assess fees for use of areas established and maintained by the Department up to four times each year. Although the bill exempts the fees set or adjusted by the OPRD Director from the requirements of ORS 291.055, relating to the ratification of fees set during the biennium, the range of fees established by the State Parks and Recreation Commission will still be subject to legislative approval, or ratification, if established during the interim. The OPRD budget anticipates an overall increase of $800,840 Other Funds in fee revenues resulting from the measure in the 2017-19 biennium.

The budget makes a substantial investment ($3.5 million total funds) in additional staffing (21 net positions, 19.97 FTE) for predominately front-line positions to address the increase in park use and the increase in the number of park properties. The number of net positions is a result of the establishment of 27 permanent positions (23.13 FTE) and additional associated services and supplies expenditures in the Direct Services program including 21 Park Ranger 1 positions (18.38 FTE), four Park Ranger Supervisors (3.25 FTE), and two Natural Resource Specialist 4 positions (1.50 FTE) offset by the elimination of six long-term vacant positions (3.16 FTE). All of the new positions are full-time, permanent positions, phased-in during the biennium. The Other Funds component of the increase is funded from the increase in camping fees and flexible fee schedule revenues.

Three individual increases in expenditure limitation for somewhat technical budget adjustments were included in the budget; for costs that exceed the standard rate of inflation; for aligning Preventive Maintenance Account revenues and expenditures; and for additional use of the Park Stewardship Dedicated Account. Individual adjustments are:

- $153,861 Lottery Funds and $161,557 Other Funds for projected costs of utilities at parks and for seasonal fleet vehicles. Both of these expenditure items are regularly above the standard allowable inflation factors.
- $800,000 Other Funds – additional authority to expend preventive maintenance funds. The Preventive Maintenance Account receives a percentage of park user fees; when fee revenue increases, so do the amounts transferred to the account. The increased limitation aligns expenditures with anticipated fund revenues.
- $100,000 Other Funds – additional authority to expend funds from the Parks Stewardship Dedicated Account. These funds are from lease of park property plus percentage of revenue from forestry management and ocean shores permits. The increase in expenditure limitation is in conjunction with anticipated additional revenues and will allow for additional work on natural resource protection, forest health management, and ocean shores.

With a shift away from telephone reservations and towards on-line booking of reservations, the Department moved eight call center positions from the Director's Office to the Central Services program where they will continue their work on customer service and outreach, but with more of a marketing and relationship management focus rather than simply responding to inbound customer service and reservation calls. No expenditure adjustments were required for this organizational change.

The budget carries forward unexpended $1.05 million federal grant funding and limitation from the 2015-17 biennium to the 2017-19 biennium that was authorized at the December 2016 meeting of the Emergency Board related to storm damage in Oregon caused in December of 2015. In addition, additional limitation is provided for an expanded number of projects that have subsequently been approved for federal cost reimbursement. The federal funding is received at the state level and distributed by the Oregon Office of Emergency Management and therefore budgeted at OPRD as Other Funds. An additional $349,409 Lottery Funds expenditure limitation is also included for the required 25% state matching funds for the federal grant funding.

The budget includes $7.5 million in Other Funds expenditure limitation for lottery bond proceeds funding the Oregon Main Street Revitalization program, for preservation-based community revitalization and economic development. This amount includes a carry-forward limitation of $2.5 million associated with bonds issued in the 2015-17 biennium and $5 million for bonds anticipated to be issued in the current biennium. An additional $6.5 million of increased Federal Funds expenditure limitation is authorized in the budget for maritime grants, land and water conservation grants, and the recreational trails grant program.

The budgeted expenditures approved by the Legislature are commensurate with the anticipated available revenues. Expenditures are apportioned to Lottery Funds (46.3%), Other Funds (46%), and Federal Funds (7.6%) leaving sufficient ending balances for operational needs, local grant reimbursements, salary and benefit reserve, and other dedicated cash flow needs.

## WATER RESOURCES DEPARTMENT

Analyst: Stayner

**Agency Totals**

| | 2011-13 Actual | 2013-15 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 27,202,391 | 31,220,037 | 32,932,622 | 31,483,809 |
| Lottery Funds | 571,605 | 2,511,482 | 6.032,844 | 3,953,969 |
| Other Funds | 7,700,475 | 74,257,142 | 41,237,275 | 61,306,369 |
| Other Funds (NL) | 2,296,497 | -- | -- | -- |
| Federal Funds | 641,182 | 1,312,338 | 1,323,257 | 1,879,534 |
| **Total Funds** | **$38,412,150** | **$109,300,999** | **$81,525,998** | **$98,623,681** |
| Positions | 157 | 165 | 163 | 170 |
| FTE | 153.81 | 163.25 | 160.59 | 167.59 |

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 – (14 positions, 12.75 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 in-stream and out-of-stream uses.
- Field Services – (62 positions, 61.42 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 – (46 positions, 46.00 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 – (38 positions, 37.42 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 – (10 positions, 10.00 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 – 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 includes expenditure limitation of $48.6 million Other Funds for lottery revenue bond proceeds including bond issuance costs. An additional $3.95 million Other Funds expenditure limitation is also included for debt service on bonds issued in the 2013-15 and 2015-17 biennia. 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 2017-19 budget.

Exclusive of the additional Other Funds expenditure limitation for bond proceeds, the Department's operating budget is primarily General Fund, representing 57% 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 29% 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 $11 million of fee revenue for the 2017-19 biennium.

Certain water right fees that were established in 2013 were scheduled to sunset at the end of the prior biennium, reverting to 2009 rate levels. HB 2295 (2017) eliminated the sunset and increased those fees an average of 15.88%. Additionally, HB 2296 included an increase in landowner-dug well permit fees. Together, these fee changes are anticipated to generate just over $500,000 in Other Funds revenue during the 2017-19 biennium.

Lottery Funds are used exclusively to pay debt service on lottery revenue bonds 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 3.3% of the agency's operating 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. The effects of climate change 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

The Department's 2017-19 total funds budget is $98,623,681 supporting 170 positions (167.59 FTE). This amount is 9.8% below the 2015-17 legislatively approved budget. That reduction is entirely attributable to the phase-out of $33.4 million Other Funds expenditure limitation related to the Water Development Administration and Bond Sinking Fund. The General Fund budget for the agency totals $31,483,809, an 0.84% increase from the 2015-17 legislatively approved budget.

The budget includes the authorization to establish a permanent, full-time dam safety engineer position that had been a limited duration position in the prior biennium, to support the existing inspection workload and the additional inspection workload anticipated from the passage of HB 3427. The $245,222 total cost of the position is funded from dam inspection fees and monies from the Federal Emergency Management Agency.

The budget includes $203,870 General Fund and the authorization to establish a limited duration, Natural Resource Specialist 4 position (1.00 FTE) supporting place-based planning pilot programs in several locations throughout the state. The Water Resources Department was allocated $750,000 in lottery bond proceeds during the 2015-17 biennium to make grants and provide technical assistance to local governments to establish place-based water resource planning pilot programs. The legislatively approved budget for the Department carries forward $600,000 of this funding into the 2017-19 biennium, $56,000 of that amount remains unobligated. The position authorized by the Legislature is a continuation of the limited duration position that was established in the prior biennium to assist in the administration of the program and the distribution of the grant funding.

The Legislature approved an increase in the agency's General Fund appropriation of $333,677 to provide funding for two Assistant Watermaster positions and an Office Specialist position in Umatilla County; in the Pendleton and Milton-Freewater offices. These former Umatilla County positions were authorized to be established at the Water Resources Department in the agency's budget bill (SB 5542), but the funding in that bill assumed the total position cost of $433,677 would be paid by Umatilla County. Instead, due to limited available county funding, only a portion ($100,000) will be paid to the Water Resources Department by Umatilla County via contract for the cost of the positions.

Lottery bond issuance was approved to fund various programs within the Department. The budget for the agency includes an additional $22,622,536 Other Funds expenditure limitation for the proceeds of lottery bonds anticipated to be issued in the 2017-19 biennium, including $422,536 for bond issuance costs. No debt service expenditures are included in this biennium's budget for these bonds since the bonds are not anticipated to be issued until the end of the biennium. However, Lottery Funds for debt service of $3.95 million is included in the budget for bonds issued in prior biennia. The bond proceeds net of issuance costs are allocated as follows:

- $1.5 million for feasibility studies and initial implementation of water conservation, reuse, and storage projects.
- $15 million additional capitalization of the Water Supply Development Fund.
- $4.5 million for water supply and storage projects at the City of Carlton.
- $1.2 million for water supply projects at the Santiam Water Control District.

In addition, the budget includes another $26 million of Other Funds expenditure limitation for bond proceeds from bonds that were issued in the 2013-15 and 2015-17 biennia, but had not been expended prior to the end of the prior biennium. The following table details the original bond authorization biennium, the original net bond proceeds, and the remaining unexpended funding.

| Purpose | Originally Authorized | Original Amount | 2017-19 Remaining Unspent Funds |
|---|---|---|---|
| Cooperative costs of the comprehensive study of the Willamette River basin in conjunction with the U.S. Army Corps of Engineers | 2013-15 | $1,500,000 | $400,000 |
| Cooperative costs of the comprehensive study of the Deschutes River basin in conjunction with the U.S. Army Corps of Engineers | 2013-15 | $750,000 | $100,000 |
| Water Supply Development (SB 839) Grants and Loans | 2013-15 | $7,750,000 | $5,150,000 |
| Water Supply Development (SB 839) Grants and Loans | 2015-17 | $6,250,000 | $6,250,000 |
| For the purpose of making grants and paying the direct service costs of planning studies performed to evaluate the feasibility of developing a water conservation, reuse, or storage project (SB 1069) | 2015-17 | $2,000,000 | $1,500,000 |
| To facilitate the preparation of place-based integrated water resources strategies by providing grants and technical assistance | 2015-17 | $750,000 | $600,000 |
| For the purpose of making grants or entering into contracts to facilitate water supply projects in the Umatilla Basin | 2015-17 | $11,000,000 | $11,000,000 |
| 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 | 2015-17 | $1,000,000 | $1,000,000 |
| **Total** | | $31,000,000 | $26,000,000 |

General Fund expenditure reductions were included in all of the agency's operating programs to meet General Fund expenditure reduction targets set forth by the Joint Committee on Ways and Means. These reductions include: a $400,000 reduction in ongoing funding for water supply development feasibility studies; a $100,000 reduction in funding for observation wells; a reduction of $50,000 for gauging stations; and a $100,000 reduction in personal services funding.

Additional statewide adjustments were included to reconcile the agency's budget with anticipated statewide administrative service fees, Attorney General charges, and personal services contracts.

# OREGON WATERSHED ENHANCEMENT BOARD

Analyst: Siebert

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | -- | -- | 190,000 |
| Lottery Funds | 57,997,623 | 62,490,496 | 66,920,000 | 74,415,091 |
| Other Funds | 1,075,106 | 3,618,093 | 1,609,486 | 3,009,486 |
| Federal Funds | 23,075,625 | 37,274,113 | 25,924,237 | 41,671,381 |
| **Total Funds** | **$82,148,354** | **$103,382,702** | **$94,453,723** | **$119,285,958** |
| Positions | 32 | 35 | 29 | 33 |
| FTE | 32.00 | 34.25 | 28.99 | 33.00 |

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 seven additional non-voting members, including the director of Oregon State University's agricultural extension service and representatives from six 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

Total Lottery revenues are forecasted to increase slightly in the 2017-19 biennium. Original assumptions that the opening of a new casino in southern Washington would reduce Lottery revenues appears to have overstated the effect on reducing Oregon's Lottery revenues, meaning some additional resources may be available above initial 2017-19 forecasts. While Lottery revenues are forecasted to increase, cost increases experienced by the programs that rely on constitutionally dedicated Lottery Funds for support, such as employee compensation, mean that almost all the 35% of Ballot Measure 76 Lottery Funds allowable for operations expenditures revenues must be used to support existing programs. Due to higher than forecasted 2015-17 Lottery receipts, $2.1 million dedicated to operations and $5.7 million dedicated to grants were carried over into the 2017-19 biennium. Much of the additional operating funds were transferred to the Department of Agriculture to combat invasive pest outbreaks in Washington and Polk counties.

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 $37 million from PCSRF would be available for expenditure in 2015-17. This amount includes one year of federal funding and $13 million of carry-forward funds. OWEB is hopeful it will receive a second similar grant amount in the second half of the 2017-19 biennium, which would bring PCSRF funding slightly above historical levels. Over $10 million of the PCSRF grant funds total is transferred to the Oregon Department of Fish and Wildlife to support programs that protect and enhance native fish species. 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 requirements. Solutions included simply cutting agency programs that rely on dedicated Lottery Funds, moving eligible activities from the 35% Operations Fund to the 65% Grant Fund, and moving program support on to other revenues sources, including the General Fund.

Legislatively Adopted Budget

The adopted budget for OWEB is divided into two program areas, Grants and Operations. The 2017-19 legislatively adopted budget for Operations included a total of $6.8 million in Operations Lottery Funds, $50,000 Other Funds, $2.3 million Federal Funds, and 33 positions (a decrease from 35 positions in 2015-17) to support administration of the grant program. The Operations budget also includes $190,000 General Fund, on a one-time basis, to implement HB 3249 (2017), which establishes the Oregon Agricultural Heritage Commission with 12 members appointed by OWEB. Under the bill, OWEB is to establish programs providing grants to owners of working land for succession planning, conservation management plans, covenants, and easements. It is important to note that the Legislature provided no identified funding for grants for this new program.

The 2017-19 legislatively adopted budget for the Grant program establishes a $67.6 million Lottery Funds grant fund for 2017-19, which is $12 million, or 22% more than the adopted grant fund for the 2015-17 biennium. Higher than forecasted 2015-17 revenues being carried forward into the 2017-19 biennium for expenditure accounts for $5.7 million of the increase. The Grant program budget also includes $3 million Other Funds and $39.3 million Federal Funds. The Other Funds expenditure limitation includes $1.5 million carry-over to accommodate grants awarded in 2015-17 that will continue into 2017-19. Likewise, the Federal Funds total includes $15 million of carry-forward expenditure limitation for projects approved last biennium that will continue into 2017-19.

The following table shows the legislatively adopted budget's 2017-19 expenditure limitation of all Measure 76 Lottery Funds.

**2017-19 Measure 76 Lottery Fund Expenditures**

| | **M-76 LF 35% Operations** | **M-76 LF 65% Grants** |
|---|---|---|
| Department of Fish and Wildlife | $5,212,514 | |
| OSP/ Fish and Wildlife Enforcement | $8,069,250 | |
| Department of Agriculture | $8,103,745 | |
| Department of Environmental Quality | $4,610,577 | |
| Oregon Watershed Enhancement Board | $6,820,790 | $67,594,301 |

# TRANSPORTATION

# PROGRAM AREA

## DEPARTMENT OF AVIATION

Analyst: Jolivette

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 6,079,744 | 12,426,644 | 11,822,955 | 12,723,305 |
| Federal Funds | 4,938,736 | 8,988,918 | 1,266,499 | 9,307,461 |
| **Total Funds** | **$11,018,480** | **$21,415,562** | **$13,089,454** | **$22,030,766** |
| Positions | 13 | 15 | 15 | 15 |
| FTE | 12.25 | 13.75 | 14.25 | 14.25 |

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 Department 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.

Key responsibilities include:

- Develop and implement the Oregon Aviation Plan and related policies
- Provide technical assistance on airport planning and development
- Administer the federal General Aviation Entitlement Grant and Pavement Maintenance Program
- Register aircraft
- Conduct safety inspections on state-owned and other Oregon public airports
- Maintain 28 state-owned airports to federal and state safety

Revenue Sources and Relationships

The Department is supported entirely by Other and Federal Funds. Other Funds revenue is comprised of system user taxes and fees, notably taxes on jet fuel and aviation gasoline (avgas), aircraft registration fees, and aircraft dealer license fees. Federal Funds are received from the Federal Aviation Administration for state system-wide planning, safety inspections, and planning and construction for state-owned airports.

Total estimated revenue for the 2017-19 biennium is $22.3 million, with 58% coming from taxes and fees, and 42% from federal funds. This 10% increase from the 2015-17 level reflects the full implementation of tax and fee hikes enacted during the 2015 legislative session. Specifically, HB 2075 (2015) increased aircraft fuel taxes by 2 cents per gallon until January 1, 2022, and required the new money be used to support grants for aviation projects (50%), commercial air service links to rural communities (25%), and infrastructure projects at state airports (25%). SB 269 (2015) increased license and registration fees by varying amounts.

Effective July 1, 2017, SB 27 (2017) abolished pilot registration and the related pilot registration fee, which supported the Search and Rescue program administered by the Office of Emergency Management. Beginning in 2017-19, the Search and Rescue program will be supported by aircraft registration fees.

Budget Environment

The Department of Aviation has emerged after a difficult period during the 2008 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 SB 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 commonly referred to as drones, via HB 2710 (2013).

Congress' FAA Reauthorization Act of 2012 directed the FAA to establish 6 Unmanned Aerial Systems (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, even though both federal and state regulatory agencies have yet to fully integrate this emerging industry into the national air space. HB 2710 requires the Department to register public use unmanned aerial systems in Oregon beginning on January 1, 2016.

In 2014, Crescent Lake Airport was closed because of failed pavement. It has since reopened with temporary repairs and planning underway to do more extensive repairs soon. This is the first impact of a lack of revenue to maintain and repair non-National Plan of Integrated Airport Systems 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 2017-19 legislatively adopted budget of $22 million total funds reflects an increase of $615,204 (or 2.9%) compared to the 2015-17 legislatively approved budget. The budget provides a one-time expenditure limitation increase of $500,000 ($450,000 Federal Funds, $50,000 Other Funds) to complete Phase II of the Oregon Aviation Plan. It also provides $5.3 million total funds for capital construction projects at four state-owned airports: Bandon, Chiloquin, Lebanon, and McDermitt state airports.

## DEPARTMENT OF TRANSPORTATION

Analyst: Jolivette

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 12,710,074 | 22,056,357 | 54,291,838 | 23,456,104 |
| Lottery Funds | 92,643,018 | 107,484,140 | 120,644,222 | 114,604,964 |
| Other Funds | 2,975,213,118 | 3,387,766,797 | 3,362,591,825 | 3,654,291,921 |
| Other Funds (NL) | 1,440,960,350 | 532,100,569 | 18,158,214 | 18,158,214 |
| Federal Funds | 93,204,038 | 118,275,491 | 99,748,065 | 105,699,330 |
| Federal Funds (NL) | 20,053,968 | 21,621,529 | 21,575,775 | 21,575,775 |
| **Total Funds** | **$4,634,784,566** | **$4,189,304,883** | **$3,677,009,939** | **$3,937,786,308** |
| Positions | 4,569 | 4,510 | 4,504 | 4,536 |
| FTE | 4,462.48 | 4,400.89 | 4,403.11 | 4,425.34 |

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

For 2017-19, total revenue from all sources is estimated to be $5.3 billion. Of this amount, $1.1 billion is projected to transfer out to other state agencies and local governments, leaving $4.2 billion available for expenditure on state transportation and programs.

Other Funds revenue is ODOT's primary source of support. This category includes revenue from motor fuel taxes, weight-mile taxes, and driver license and vehicle registration fees, most of which is constitutionally dedicated to the State Highway Fund and shared between ODOT, counties, and cities.

Federal Funds come to Oregon as both formula-based and competitive grants from several agencies, including the Federal Highway Administration, the National Highway Traffic Administration, the Federal Railroad Administration, and the Federal Transit Administration. For accounting purposes, most of the federal funds -- about $1.1 billion in 2017-19 -- are budgeted as Other Funds.

Lottery Funds are used to make debt service payments on rail and transportation infrastructure projects funded with lottery-backed bonds. This financing method is used for projects that are ineligible for funding through the constitutionally dedicated State Highway Fund. Nonlimited funds -- both Other Funds-NL and Federal Funds-NL-- are used for debt service payments and loans from the Oregon Transportation Infrastructure Bank. The Department's General Fund appropriation is to be used for operating Amtrak *Cascades* passenger rail service, making grants to local entities in support of transportation services to elderly and disabled Oregonians, and for paying debt service on highway safety projects authorized in the 2015-17 budget.

During the 2017 legislative session, HB 2017 was enacted to begin to address the structural gap between the state's transportation needs and funding. Estimated to boost revenue by $481 million in 2017-19, and by $5.2 billion over 10 years, the measure increases existing taxes and fees which are dedicated to the State Highway Fund, and establishes new taxes to support multimodal transportation. Key revenue features of HB 2017 include:

- Increases the motor fuel tax from 30 cents per gallon to 34 cents per gallon effective January 1, 2018, and has the potential to increase the tax again by 2 cents per gallon in 2020, 2022 and 2024, if ODOT meets the 'trigger' requirements. Makes commensurate increases in weight mile taxes, although these are not subject to trigger requirements.
- Creates additional registration fee and title fee surcharges of $13 and $16 respectively, effective January 1, 2018; and establishes a system of tiered registration and title fees based on vehicle fuel efficiency effective January 1, 2020.
- Establishes a privilege tax of 0.5% of the retail sales price of new taxable motor vehicles with a gross vehicle weight of 26,000 or fewer pounds sold in Oregon; and, establishes a use tax of 0.5% of the retail price of a new taxable motor vehicle purchased from any seller outside of Oregon and brought into the state.
- Imposes a 0.1% payroll tax effective July 1, 2018, and deposits the revenue into a newly-established Statewide Transportation Improvement Fund to be used mostly for competitive and formula-based grants to local public transit agencies.
- Imposes an excise tax of $15 on the sale of adult-size bicycles valued at $200 or more effective January 1, 2018, and deposits the proceeds into the Connect Oregon Fund.

Approximately 71% of the new revenue is estimated to accrue to the State Highway Fund, while the smaller share for non-highway projects is divided between the Connect Oregon Fund, and the newly established Zero-Emission Incentive Fund and Statewide Transportation Improvement Fund. It should be noted there is some risk to the revenue forecast, as certain stakeholders may pursue a court challenge on the legality of the proposed use of the enacted privilege tax.

<u>Budget Environment</u>

Oregon's population growth rate, vehicle fuel efficiency, and E-commerce continue to influence traffic congestion and demands for maintenance, pavement preservation, Driver and Motor Vehicle (DMV) services, and Motor Carrier Transportation activities. While HB 2017 may not be sufficient to keep program funding ahead of the escalating costs of highway and street construction, it takes some steps toward addressing important transportation funding issues. Unlike past funding packages, which mostly provided a one-time bump in resources, HB 2017 provides multi-year tax and fee increases for a longer-term infusion of funds, as well as makes some important policy changes. For example, by indexing fees to vehicle fuel efficiency, the measure begins to address the erosion in motor fuel tax revenue brought about by increased vehicle fuel efficiency. HB 2017 also improves the transportation budget environment by creating dedicated funding sources for public transportation options Oregonians increasingly demand, such as public transit, and bicycle and pedestrian paths.

<u>Legislatively Adopted Budget</u>

The 2017-19 legislatively adopted budget of $3,937.8 million is $251.5 million (or 6 %) less than the 2015-17 legislatively approved budget; however, this comparison is misleading because of unusually high Nonlimited funds in the 2015-17 budget associated with the refunding of previously issued bonds. Excluding Nonlimited funds, ODOT's 2017-19 budget is $262.5 million (or 7.2%) higher than the 2015-17 approved budget. The budget supports 4,536 positions (4,425.34 FTE), an increase of 24.45 FTE compared to the 2015-17 legislatively approved budget.

Details of expenditures are in the following Division analyses.

## Highway Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 1,996,085,466 | 2,138,784,713 | 2,221,721,571 | 2,384,283,814 |
| **Total Funds** | **$1,996,085,466** | **$2,138,784,713** | **$2,221,721,571** | **$2,384,283,814** |
| Positions | 2,631 | 2,532 | 2,536 | 2,564 |
| FTE | 2,561.26 | 2,469.38 | 2,464.81 | 2,487.44 |

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 – (1,353 positions and 1,297.5 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 – (119 positions and 118.00 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 – (129 positions and 125.75 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 considered priceless assets and ODOT has chosen functional obsolescence and high maintenance costs as a fair trade-off for preserving them.
- Highway Safety and Operations – (180 positions and 178.79 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 – (179 positions and 176.00 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.
- Special Programs – (549 positions and 536.40 FTE) Provides construction support for 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 – (55 positions and 55.00 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.

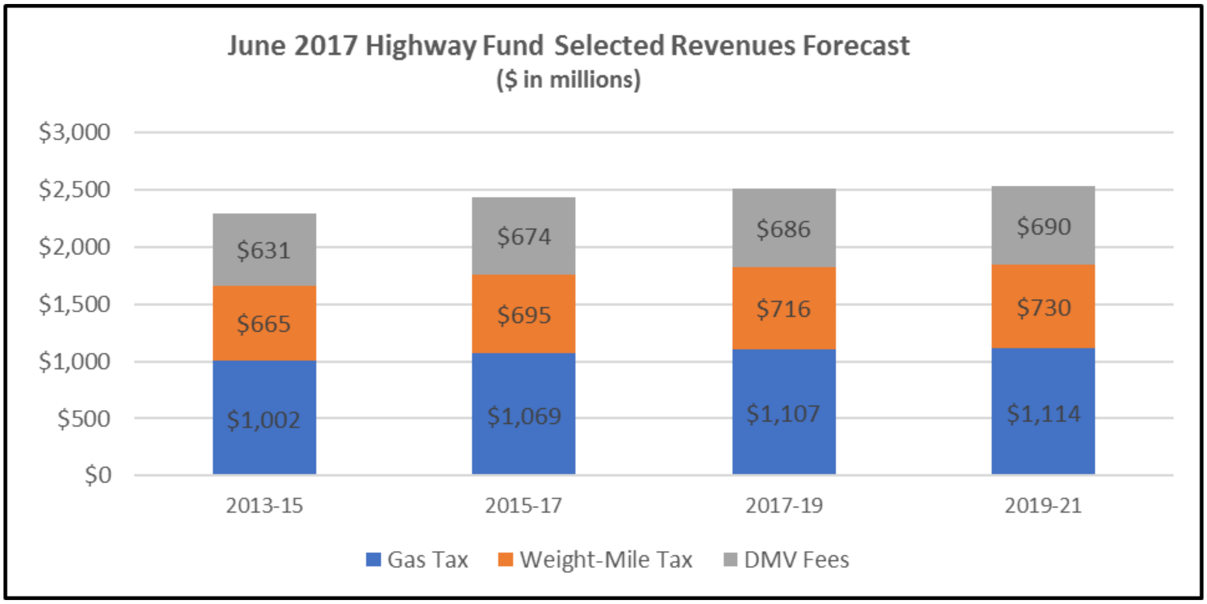
**Highway Division Programs**

| | **2013-15 Actual** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---|---|---|---|
| Maintenance | 437,682,724 | 513,845,779 | 517,543,681 | 510,708,410 |
| Preservation | 234,800,179 | 321,666,888 | 255,506,413 | 257,512,019 |
| Bridge | 248,543,009 | 160,101,610 | 211,982,702 | 278,065,749 |
| Highway Operations | 133,844,375 | 179,209,098 | 224,187,683 | 233,990,305 |
| Modernization | 404,269,772 | 411,159,509 | 326,749,992 | 338,502,416 |
| Special Programs | 225,919,667 | 266,900,895 | 292,447,658 | 363,577,697 |
| Local Government | 311,025,740 | 285,900,934 | 393,303,442 | 401,927,218 |
| **Total Highway Division** | **$1,996,085,466** | **$2,138,784,713** | **$2,221,721,571** | **$2,384,283,814** |

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 approved budget included 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 last biennium for six priority highway safety projects throughout the state.

The following displays show the major Highway Fund revenue source. (June 2017 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 be sufficient to 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. 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 2016 federal transportation funding act, Fixing America's Surface transportation Act (FAST Act). 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 like 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; JTA authorized ODOT to complete $960 million in projects specified in the bill. 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.

The Division has completed a series reduction exercises to reduce the footprint of the division and gain efficiencies. These reductions included eliminating more than 200 positions, 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. Other streamlining efforts are being made on the environmental front by working with federal, state and local partners to gain efficiencies, and by partnering with cities and counties through Cooperative Agreements to address on-going road maintenance efforts.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $2.38 billion Other Funds is $245.5 million, or 11.5%, more than the 2015-17 legislatively approved budget level, and includes 2,564 positions (2,487.44 FTE). The increase largely reflects inflation and the schedule for projects included in the STIP. The Highway Division budget for 2017-19 also includes $54.7 million Other Funds and 28.5 FTE to begin implementation of HB 2017.

## Driver and Motor Vehicles Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 70,074 | 3,878 | -- | -- |
| Other Funds | 159,880,488 | 210,760,643 | 205,338,678 | 228,482,076 |
| Federal Funds | 1,014,650 | 3,598,632 | 2,023,588 | 2,023,588 |
| **Total Funds** | **$160,965,212** | **$214,363,153** | **$207,362,266** | **$230,505,664** |
| Positions | 848 | 890 | 871 | 870 |
| FTE | 825.75 | 857.16 | 854.25 | 850.00 |

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. In addition, a smaller amount of revenue comes from various other sources. Together these revenues are expected to total $865 million in 2017-19. Revenue in excess of amounts needed to cover DMV operating costs and debt costs is subject to city, county, and state distribution. Approximately 34.7% of the revenues collected are projected to be transferred to the State Highway Fund, cities, and counties. In addition, just over 15.5% or $134.3 million of the revenues collected are projected to be transferred to other state agencies and other divisions within ODOT. For example, Recreational Vehicle (RV) related fees of $33.9 million are transferred to the Oregon Parks and Recreation Department.

Budget Environment
The DMV program is population driven. With recent growth in Oregon's population, DMV has seen a steady increase in demand for its services. At the same time, while using outdated computer systems and business processes, DMV has been required to implement more rigorous standards for the issuance of driver licenses or identification cards. In 2015, ODOT launched the DMV Service Transformation Project (STP) to re-design business processes and modernize the information systems used by DMV. This ten-year project is projected to cost $90 million.

The adoption of SB 374 (2017) authorized the Department to issue driver licenses, driver permits, and identification cards that meet the requirements of the federal Real ID Act of 2005. The Department intends to implement SB 374 concurrently with STP. The replacement system being purchased as part of the STP is already Real ID Act compliant, though it is expected to require some customization. DMV anticipates issuing Real ID compliant cards by July 1, 2020.

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 2017-19 legislatively adopted budget of $230.5 million is $16.1 million, or 7.5%, higher than the 2015-17 legislatively approved budget level and includes 870 positions (850.00 FTE). The Legislature approved $27 million Other Funds to continue the DMV Service Transformation Project. The Legislature also approved $450,014 Other Funds expenditure limitation and five positions for the implementation of changes to various title and registration fees and taxes as required by HB 2017.

### Motor Carrier Transportation Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 55,903,667 | 62,014,940 | 65,127,369 | 63,438,745 |
| Federal Funds | 4,691,351 | 5,399,653 | -- | -- |
| **Total Funds** | **$60,595,018** | **$67,414,593** | **$65,127,369** | **$63,438,745** |
| Positions | 283 | 283 | 283 | 282 |
| FTE | 283.00 | 283.00 | 283.00 | 282.00 |

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 88 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 August 2017, the Green Light program weighed in-motion and pre-cleared trucks more than 24 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 92% of revenue collected, is transferred to the State Highway Fund, cities, and counties, and is used to cover debt service.

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 in Oregon. 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.

Online business was up in 2016 as Trucking Online handled 17.1% more transactions and 13.3% 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 2016, 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 2016. 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 2017-19 legislatively adopted budget of $63.4 million total funds is $3.97 million, or 5.9%, less than the 2015-17 legislatively approved budget level and includes 282 positions (282.00 FTE). This reduction is the result of the phase out of federal funds, as the division no longer receives federal grants for enforcement activities.

## Transportation Development Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 148,310,158 | 179,731,211 | 143,787,496 | 172,503,348 |
| Federal Funds | 144,453 | 202,218 | 197,347 | 189,725 |
| **Total Funds** | **$148,454,611** | **$179,933,429** | **$143,984,843** | **$172,693,073** |
| Positions | 235 | 229 | 231 | 233 |
| FTE | 225.43 | 219.85 | 222.01 | 223.43 |

Program Description
The Transportation Development Division has a diverse portfolio, providing support and services ranging from shared technical assistance to cities, counties, and metropolitan planning organizations (MPO), to financial support of planning and infrastructure projects needed for the agency as well as support to local government projects. These initiatives and projects require a diversity of working partnerships, collaboration and involvement, including representation from the public, advisory committees, metropolitan planning organizations, and Tribal Governments. There are also funding opportunities in the form of grants to local governments to assist in planning a viable multimodal transportation system (such as the Transportation and Growth Management program – TGM), and infrastructure grants that support the building of this system (*Connect*Oregon).

The four program areas of the Transportation Development Division are Statewide and Regional Planning; Data, Analysis, and Research; Statewide Transportation Improvement Program (STIP) Development and Program Oversight; and Transportation System Projects.

- Statewide and Regional Planning—Federal and state law requires ODOT to prepare and maintain a long-range transportation vision and policy direction. These policy plans then help assure the broad needs and issues for each mode is considered in order to provide a safe and efficient transportation system across Oregon. These statewide policy plans in turn guide ODOT and local jurisdictions in completing local and regional transportation system plans that inform investment priorities and decisions for Oregon. Without funding and other support from ODOT, most local jurisdictions would not have the resources to complete this important planning and identify priority projects.
- Data, Analysis, and Research — Oversees Oregon's transportation asset management system development, data collection and reporting, mapping, forecasting and modeling systems, transportation system analysis, and conducts research to develop and test innovations to enhance the transportation system. By fulfilling these responsibilities, ODOT is able to keep a record of the state of the system, meet federal reporting requirements, plan for anticipated revenue, turn data into information, and adapt to changing technological, economic, and social demands of the transportation system.
- Statewide Transportation Improvement Program (STIP) Development and Program Oversight—Develops the STIP, Oregon's four-year transportation capital improvement program, which identifies the scheduling of and funding for transportation projects and programs within the state. Administration of these federal and state funds is required and ensuring program requirements are met is critical to successful outcomes. This is achieved through financial controls, program performance monitoring, and compliance reviews.
- Transportation System Projects (TSP)—The Oregon Legislature previously approved $427 million for the ConnectOregon program (I – VI). Together, the six current phases of the ConnectOregon program are improving connections between the highway system and other modes of transportation, better integrating the components of the transportation system, improving the flow of commerce and reducing delays. To make sure projects are completed, TSP monitors the schedules and expenditures on approved ConnectOregon grants and loans.

<u>Revenue Sources and Relationships</u>
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 *Connect*Oregon program has provided $427 million in Lottery bond proceeds in the past six biennia and is continued in 2017-19 with an additional $30 million.

HB 2017 established new dedicated funding sources for the *Connect*Oregon program. Specifically, it imposes a vehicle dealer privilege tax of 0.5% of the retail sales price of the taxable vehicle. All revenues from this tax, except an annual $12 million transfer to the Zero-Emission Incentive Fund, will be deposited into the Connect Oregon Fund. The measure also established a bicycle excise tax of $15 on adult size bikes costing $200 or more. All revenue from the bicycle tax will be deposited into the Connect Oregon Fund for bicycle and pedestrian projects. HB 2017 bifurcates the *Connect*Oregon program into Part One and Part Two as described below:
- ConnectOregon Part One will continue to support projects that involve air, marine, rail, and bicycle and pedestrian projects. It will not provide grants in support of public transit projects, as public transit now has its own dedicated funding source.
- ConnectOregon Part Two will provide grant funds to support projects of statewide significance involving air, marine, and rail modes of transportation. Statewide significance is defined as a project that benefits the regional and statewide economy, and sustains employment within the community and region in which the project is located beyond the jobs created by the project.

If the balance in the Connect Oregon Fund exceeds $75 million on July 1 of an odd-numbered year, 55% of total available funding is to be allocated to Part One (including 7% dedicated to bicycle and pedestrian projects), and 45% is allocated to Part Two. If the balance is less than $75 million, 100% is to be allocated to *Connect*Oregon Part One.

HB 2017 directed the Oregon Transportation Commission to first distribute *Connect*Oregon funds to four specific projects: Mid-Willamette Valley Intermodal Facility ($25 million), Treasure Valley Intermodal Facility ($26 million), East Beach Industrial Park Rail Expansion ($6.55 million), and Brooks rail siding extension ($2.6 million). As such, funding likely will not be available in the 2017-19 biennium for a competitive program as in the previous six versions of the program.

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 which requires the agency to identify a system of transportation facilities and services adequate to meet identified state transportation needs. Additionally, current federal legislation (*Fixing America's Surface Transportation Act*, or FAST Act) places an emphasis on performance measures, and, in some cases, ties federal funding to the outcome of performance measures, especially in the areas of freight, safety, congestion, bridges, and pavement.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $172.7 million is $7.2 million, or 4%, less than the 2015-17 legislatively approved budget and includes 233 positions (223.43 FTE). This net reduction in funding reflects both the phase out of completed *Connect*Oregon VI projects, and an increase of $30 million Lottery bond proceeds to fund *Connect*Oregon VII.

**Public Transit Division**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 12,640,000 | 9,400,000 | 9,747,800 | 9,747,800 |
| Other Funds | 25,198,250 | 30,516,006 | 28,233,927 | 84,700,633 |
| Federal Funds | 54,014,158 | 63,922,735 | 61,376,752 | 67,550,353 |
| **Total Funds** | **$91,852,408** | **$103,838,741** | **$99,358,479** | **$161,998,786** |
| Positions | 19 | 19 | 18 | 18 |
| FTE | 19.00 | 19.00 | 18.00 | 18.00 |

Program Description
The Public Transit Section of the Rail and Public Transit Division supports the state's goals for citizens to have transportation choices to live independently and participate in the economy by providing grants, policy leadership, training, and technical assistance to communities and local transportation providers who offer public transportation. The Transit Section operates four program areas:

- General Public Transit – Oregonians take over 130 million rides on public transportation every year. General public transit providers operate the primary transit service delivery system in Oregon and includes transit districts, tribal governments, city, and county services, in coordination with private not for profit and for profit services. Some options for public transportation exists throughout Oregon in more than 200 cities and towns, all 36 counties, and nine federally recognized Indian tribal areas. The General Public Transit program funds transit services benefitting the general public in rural areas as well as bus and bus facilities to providers across the state while ensuring compliance with various fiscal and legal requirements. Since 2000, general public transportation ridership in Oregon has grown steadily at about 6% per year, in both urban and rural areas.
- Intercity Passenger Program – While public transportation often serves people within communities, links between communities are often missing. Closing these gaps through a combination of passenger rail and bus service benefits many Oregonians who must travel long distances for their jobs, or for seniors who wish to age in place and who rely on regional and intercity transit connections as critical lifelines to medial services, groceries and other essential services. 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 investments 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 Enhanced Mobility/Special Transportation program removes barriers, coordinates services and expands options for seniors and individuals with special transportation needs in every area of the state. Public transit services for seniors and persons with disabilities are frequently provided thorough paratransit and dial-a-ride services that pick people up and drop them off door-to-door. More than 18 million trips on fixed route or demand response service are taken each year by seniors and individuals with disabilities.
- Public Transit Planning and Research – The Planning program supports public transportation-related planning at statewide, regional, local and corridor levels. Transit Program staff assists in the development of policies resulting in long-range plans and short-range programs based on transportation investment priorities. Activities also include research and development of enhanced trip-making information to improve customer service and to provide information for system analysis and program improvements.

Revenue Sources and Relationships

The sources of funding for Public Transit are Federal Funds, Other Funds, and the General Fund. Historically most Public Transit funding has been from Federal Funds grants funded by the Federal Transit Administration and the Federal Highway Administration. However, effective July 1, 2018, HB 2017 establishes a 0.1% payroll tax and deposits the revenue into a newly-established Statewide Transportation Improvement Fund to be used mostly for competitive and formula-based grants to local public transit agencies. Net of collection costs, the new payroll tax is estimated to generate $105.7 million in the 2017-19 biennium. This new revenue source marks a significant change for Oregon, as most Public Transit funding will be from Other Funds in the 2017-19 biennium and the future. Additional Other Funds resources are derived from transfers from the ODOT Transportation Operating Fund, Cigarette Tax, Oregon ID card revenue and interest income.

Public Transit also receives General Fund monies to provide financial support for transportation services benefiting older adults and people with disabilities. The funds sustain and enhance the established Special Transportation Funds program to address mobility needs for the growing population of older adults, and are distributed on a population-based formula and are often used to leverage additional federal program dollars.

Budget Environment

Challenges for the section 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.

HB 2017, through the establishment of a dedicated funding source (the 0.1% payroll tax), will provide a significant ongoing increase in funding for the public transit program, most of which will support grants to local transit providers to expand the availability of transit services.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $161.9 million is $58.2 million, or 56%, more than the 2015-17 legislatively approved budget and includes 18 positions (18.00 FTE). The Legislature approved $51.5 million Other Funds expenditure limitation for grants to transit providers to increase the frequency, reliability and reach of services, enhance service for low income communities and individuals, and augment connections between and within services in both urban and rural areas. The Department of Administrative Services was requested to unschedule this amount until revenue from the new statewide payroll tax is sufficient to cover the grants. Transit's budget also includes $5.1 million in bond authority for the Lane Transit District's expansion of the EmX Bus Rapid Transit network.

## Rail Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | 10,408,710 | 10,000,000 | 9,610,058 |
| Other Funds | 35,130,058 | 41,745,667 | 44,684,798 | 44,662,432 |
| Federal Funds | 16,285,550 | 26,146,367 | 16,394,354 | 16,293,328 |
| **Total Funds** | **$51,415,608** | **$78,300,744** | **$71,079,152** | **$70,565,818** |
| Positions | 30 | 30 | 33 | 33 |
| FTE | 30.00 | 30.00 | 33.00 | 33.00 |

Program Description

The Rail Section of the Rail and Public Transit Division ensures compliance with federal and state regulations related to passenger and freight rail. The Section operates in the following areas:

- Administration Unit – 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 Rail Section. As of 2012, the Rail and Public Transit Division Administrator also manages the Public Transit Section.
- Railroad Safety Unit – Ensures compliance with federal and state safety regulations for track, locomotives, rail cars, hazardous material transport, signal and train control 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 unit inspects railroad sidings, yards, and loading docks to ensure the safety of railroad workers. The unit has responsibility for the safety oversight of light rail, streetcars, and trolleys. Staff participates in incident and accident investigations and make recommendations for improvement, if necessary. The unit also inspects crossings of rail fixed guideway operations to ensure compliance with federal and state regulations.
- Crossing Safety Unit – 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 unit authorizes construction, alteration, or elimination of public highway-rail grade crossings within the state. The unit 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 12.9 annually since 2007. In addition to its regulatory role, unit staff work with railroad companies, public agencies, and the public to address crossing safety concerns.
- Operations Unit – Works with advisory groups, the rail industry, private sector transportation partners and the federal, state and local agencies to help develop freight and passenger rail plans design and other documents. Operations administers both federal and state rail rehabilitation funds to help retain quality rail service to Oregon communities and businesses. The unit manages railroad improvement projects for both passenger and freight rail operations and manages state owned right of way. Operations manages and markets intercity passenger rail operations and coordinates Oregon's partnership in the Pacific Northwest High Speed Rail Corridor. The related Point Bus service is currently managed by the Transit Section. 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 unit also participates in federal proceedings related to railroad mergers, line abandonments, and rail service.

Revenue Sources and Relationships

Programs operate with dedicated federal ($16.3 million) and state ($44.7 million) revenue. For the 2017-19 biennium budget, the Legislature appropriated $9.6 million General Fund in partial support of Amtrak *Cascades* passenger rail service.

Federal revenues include:

- Federal Railroad Administration (FRA) and Federal Transit Administration (FTA), $16.3 million. Includes both freight and High Speed Rail Corridor projects as made available by Congress. These project specific funds are used for engineering, design, construction, equipment purchases, and contracts. Of the $16.3 million, $1.2 million will be used to install Positive Train Control (PTC) for the Passenger Rail program.
- Federal Highway-Railroad Grade Crossing Hazard Elimination Funds, $13.3 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, $4.2 million. Helps fund two round trips between Eugene and Portland.
- Rail Gross Revenue Fee, $5.6 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 $4.1 million carried forward in the Transportation Operating Fund; $6.8 million Passenger Rail Fund carried forward, and $5.6 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 (CMAQ), Transportation Operating Fund, $9.6 million in General Fund, and strategic reductions in program expenses makes up the difference for the 2017-19 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 section estimates the all-inclusive passenger rail subsidy in Oregon for 2017-19 at $123.62 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 $77.16 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 section 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 Section 2017-19 legislatively adopted budget of $70.6 million is $7.7 million, or 9.9%, less than the 2015-17 legislatively approved budget and includes 33 positions (30.00 FTE). The budget includes a $9.6 million General Fund appropriation in partial support of Amtrak *Cascades* passenger rail service.

### Transportation Safety Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 11,406,030 | 174,739,397 | 18,503,103 | 18,771,428 |
| Federal Funds | 14,174,479 | 18,727,565 | 19,466,373 | 19,354,001 |
| **Total Funds** | **$25,580,509** | **$36,466,962** | **$37,969,476** | **$38,125,429** |
| Positions | 28 | 28 | 27 | 30 |
| FTE | 28.00 | 28.00 | 27.00 | 30.00 |

Program Description
The Transportation Safety Division advocates transportation safety through statewide education, enforcement, emergency medical services, and engineering. Major efforts focus on occupant protection, intoxicated driving, speeding, distracted driving, youthful drivers, pedestrians, bicyclists, motorcyclists, and employee safety. 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. State and federal funds provide for statewide public education and information programs, and reimburse driver education providers that provide Division-approved driver education programs and training for public safety professionals.

Revenue Sources and Relationships
Approximately 51% of the Safety Division program funds are Federal Funds for work zone enforcement, programs related to DUII, safety belt use, distracted driving, motorcycle safety, traffic data, and safe routes to schools. The remaining 49% are state Other 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 2015-2016 show an increase in fatalities over the prior decade. 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 2017-19 legislatively adopted budget of $38.1 million is $1.7 million, or 4.6%, more than the 2015-17 legislatively approved budget and includes 30 positions (30.00 FTE).

**Central Services**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 184,359,385 | 211,925,232 | 243,837,246 | 230,383,559 |
| Federal Funds | 226,573 | 278,321 | 289,651 | 288,335 |
| **Total Funds** | **$184,585,958** | **$212,203,553** | **$244,126,897** | **$230,671,894** |
| Positions | 495 | 499 | 505 | 507 |
| FTE | 490.04 | 494.50 | 501.04 | 501.47 |

Program Description

Central Services provides the core administrative functions that support each of the programs and the Department. This program includes two large divisions: ODOT Headquarters and Agency Support.

ODOT Headquarters Division – (69.25 FTE) 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. The Office of Innovation 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.

The Agency Support Division provides the following services Department-wide:

- Financial Services – (70.00 FTE) Provides the Department with financial services including accounting, collections, payroll, fuels tax revenue, debt, and financial analysis.
- Human Resources – (51.04 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 – (18.00 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 – (214.68 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) Manages the internal audit program ensuring that effective management controls are in place and functioning properly to help management achieve its objectives. 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 – (51.50 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.

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. 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 2017-19 legislatively adopted budget of $230.7 million is $18.5 million, or 8.7%, more than the 2015-17 legislatively approved budget and includes 507 positions (501.47 FTE).

### Nonlimited Loan Fund

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds (NL) | 11,280,128 | 25,158,214 | 18,158,214 | 18,158,214 |
| **Total Funds** | **$11,280,128** | **$25,158,214** | **$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 2017-19 legislatively adopted budget is $18.2 million to reflect estimated loan disbursements anticipated during the biennium.

### Debt Service

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | 2,243,769 | 34,544,038 | 4,098,246 |
| Lottery Funds | 92,643,018 | 107,484,140 | 120,644,222 | 114,604,964 |
| Other Funds | 355,337,434 | 442,110,823 | 385,718,261 | 415,126,510 |
| Other Funds (NL) | 1,429,680,222 | 506,942,355 | -- | -- |
| Federal Funds (NL) | 20,053,968 | 21,621,529 | 21,575,775 | 21,575,775 |
| **Total Funds** | **$1,897,714,642** | **$1,080,402,616** | **$562,482,296** | **$555,405,495** |

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 2017-19 biennium, the Department expects to receive $21.6 million which will be used to offset debt service payments.

Legislatively Adopted Budget

At $555.4 million total funds, the 2017-19 legislatively adopted budget is $525 million, or 48.6%, less than the 2015-17 legislatively approved budget. The large reduction is due to the one-time Nonlimited Other Funds expenditure of $506.9 million for re-financing activities in 2015-17. This budget is $7.1 million (1.3%) less than the current service level.

The Legislature approved the issuance of $30 million Lottery-backed bonds to continue the multi-modal *Connect*Oregon 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 2019-21 biennium. The 2019-21 estimated cost for debt repayments for this new issuance is $2.1 million Lottery Funds.

### Capital Improvements

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 3,228,858 | 5,438,164 | 5,639,376 | 5,639,376 |
| **Total Funds** | **$3,228,858** | **$5,438,164** | **$5,639,376** | **$5,639,376** |

### Capital Construction

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 278,841 | 47,000,001 | -- | 6,300,000 |
| Federal Funds | 1,827,307 | -- | -- | -- |
| **Total Funds** | **$2,106,148** | **$47,000,001** | **--** | **$6,300,000** |

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 2017-19 legislatively adopted budget of $6.3 million for Capital Construction provides funds to replace the Ona Beach maintenance station, which is in the tsunami zone. The Department anticipates the replacement maintenance facility to be located near Toledo, above the tsunami zone.

The Capital Improvements expenditure limitation of $5.6 million Other Funds will fund 48 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.

# ADMINISTRATION

# PROGRAM AREA

# DEPARTMENT OF ADMINISTRATIVE SERVICES

Analyst: Siebert

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 10,669,908 | 15,830,796 | 7,593,943 | 17,445,957 |
| Lottery Funds | 8,022,261 | 10,553,686 | 15,238,900 | 14,361,900 |
| Other Funds | 900,683,866 | 947,062,328 | 880,536,765 | 983,881,355 |
| Other Funds (NL) | 151,359,848 | 300,378,254 | 129,986,751 | 129,986,751 |
| **Total Funds** | **$1,070,735,883** | **1,273,825,064** | **1,033,356,359** | **1,145,675,963** |
| Positions | 822 | 864 | 810 | 908 |
| FTE | 802.94 | 840.32 | 809.50 | 903.3 |

Totals are different from those in Executive Branch documents due to separate treatment by the Legislative Fiscal Office of: Lottery Funds for County Fairs, Oregon Public Broadcasting, and Oregon Historical Society debt service and General Fund support for the State Fair, OPB, and OHS.

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. Over 40% of DAS revenues received through assessments and charges originate in sending 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. State agencies can be 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 2017-19 legislatively adopted budget continued the trend of making a few adjustments to the previous reorganization, but the split between policy and service operations is mostly continued.

### Chief Operating Office

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 390,983 | 285,482 | 299,054 | 3,433,540 |
| Other Funds | 6,748,165 | 20,240,202 | 20,645,220 | 21,410,970 |
| **Total Funds** | **$7,139,148** | **$20,525,684** | **$20,645,220** | **$24,844,510** |
| Positions | 24 | 62 | 57 | 59 |
| FTE | 23.63 | 60.84 | 57.00 | 59.00 |

Program Description
The DAS Director is responsible for managing and coordinating the policies, programs, and services of the divisions within the Department. 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 the Governor’s budget and executing the legislatively adopted and approved budgets. The Chief Operating Office (COO) has five primary functions:

- Agency Administration – Provides management oversight and policy direction to DAS divisions.
- Office of Economic Analysis – OEA 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.
- DAS Information Technology – Application Service Delivery and the agency Technology Support Center maintain the DAS technology environment. These internal IT functions were transferred to the COO during the 2015-17 biennium as part a reorganization of DAS IT resources in response to HB 3099 (2015).

Revenue Sources and Relationships
General Fund supports prison population forecasting. Otherwise, most COO functions are funded through an assessment of state agencies. The Department of Transportation pays for the cost of the Highway Cost Allocation Study conducted by OEA. DAS Information Technology receives funding from DAS Divisions through internal overhead charges and from client agencies that pay DAS for desktop computing support.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget is $4,318,826, or 21% higher, than the 2015-17 legislatively approved budget levels.

Changes to the budget for the Chief Operating Office included:

- Added $2,501,299 General Fund, $2,231,252 Other Funds expenditure limitation, and one full-time position due to passage of HB 2600, which transfers administration of the Court Appointed Special Advocates (CASA) program from the Housing and Community Services Department (HCSD) to DAS on a temporary basis. A budget note directs DAS to work with HCSD, the Oregon CASA Network, and stakeholders to develop or find an appropriate agency to house CASA programs after the 2017-19 biennium.

- Added $633,187 General Fund and two positions to implement SB 106 (2017), which creates the Public Records Advocate and the Public Records Advisory Council to help resolve disputes between requesters of public records and public bodies. The Advocate will also provide training and guidance on public records request requirements and best practices to state agencies and local governments.
- Added $420,155 Other Funds expenditure limitation to continue two full-time positions as permanent, originally established in the 2016 legislative session to assist agencies with requests of public records stored in electronic form.
- Increased Other Funds expenditure limitation by $413,151 to fund two positions in DAS Information Technology to provide IT support to DAS staff.
- Other Funds expenditure limitation reductions included: $240,033 to eliminate most standard inflation on services and supplies and remove funding for out-of-state travel; $395,213 to reflect holding vacant positions for a longer than normal period of time, in order to generate additional savings from the planned hiring slowdown to be conducted during the 2017-19 biennium, as a means of achieving statewide cost containment in salaries and wages; and $590,411 from the elimination of three permanent, full-time positions (two project managers and an economist) that were vacant more than 12 months.
- Reduced Other Funds expenditure limitation by $323,289 from the transfer of one permanent, full-time Information Systems Specialist 8 position from DAS IT to the Office of the State Chief Information Officer (OSCIO) as part of the centralization of information technology security functions, responsibilities, and executive branch positions into the Office of the State Chief Information Officer.

### Chief Financial Office

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 13,152,616 | 16,515,160 | 14,539,175 | 13,971,976 |
| **Total Funds** | **$13,152,616** | **$16,515,160** | **$14,539,175** | **$13,971,976** |
| Positions | 42 | 45 | 44 | 44 |
| FTE | 41.75 | 43.77 | 44.00 | 44.00 |

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 2017-19 legislatively adopted budget for the Chief Financial Office is 18% lower than the 2015-17 legislatively approved budget. This decrease is due largely to the phasing-out of $2 million Other Funds added in 2013-15 and 2015-17 to conduct assessments of state-owned capital facilities. Other reductions included $250,000 Other Funds from eliminating most standard inflation on services and supplies, removing funding for out-of-state travel, and making additional unspecified reductions to services and supplies. In addition, $214,606 Other Funds expenditure limitation was removed to reflect holding vacant positions for a longer than normal period of time, in order to generate additional savings during the 2017-19 biennium, as a means of achieving statewide cost containment in salaries and wages.

### Office of the State Chief Information Officer

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | -- | -- | 261,854 |
| Other Funds | 10,150,983 | 63,557,113 | 55,760,317 | 61,022,307 |
| **Total Funds** | **$10,150,983** | **$63,557,113** | **$55,760,317** | **$61,022,307** |
| Positions | 25 | 71 | 67 | 105 |
| FTE | 22.08 | 68.06 | 67.00 | 104.38 |

Program Description
The Office of the State Chief Information Officer (OSCIO) maintains policy and statewide information technology oversight functions. HB 3099 (2015) removed the State Chief Information Officer (SCIO) from under the authority of the DAS Director and made SCIO report directly to the Governor, much like an agency head. HB 3099 directed the SCIO to: oversee operations of the State Data Center; implement an IT governance structure, provide oversight on IT projects over $1 million, oversee quality assurance contracts, and oversee the Stage Gate review process for proposed agency IT projects. With the passage of SB 90 (2017), IT security was added to this list of oversight functions.

There are a number of program units within OSCIO. The Enterprise Security Office identifies the state's information security needs and is responsible for statewide information security policies and practices. IT Governance 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. Enterprise Shared Services supports statewide functions including the Transparency Website and E-Government program. 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 Office of the State Chief Information Officer is funded primarily through assessment of state agencies based on FTE counts.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget for the Oregon State Chief Information Officer (OSCIO) is $2.4 million, or 4%, lower than 2015-17 legislatively approved budget levels, while the number of positions increased by 34 over 2015-17 authorized levels. HB 3361 included $261,854 General Fund to hire a Chief Data Officer to maintain a central web portal for the publication of publishable data. The Chief Data Officer will establish an enterprise-wide data standard and publish a technical standards manual for state agencies. The costs for the program are expected to roll up to $458,967 Other Funds in the 2019-21 biennium, when the cost of the program will be included in the OSCIO assessment rather than supported by the General Fund.

Major Other Funds expenditure limitation adjustments include:
- Added $9,459,247 for the transfer of 30 permanent, full-time IT security positions from 12 different state agencies into the OSCIO, and created five new permanent positions as part of the centralization of information technology security functions and responsibilities in the OSCIO to ensure greater oversight of executive branch technology security functions. This process was begun during the 2015-17 biennium thru an Executive Order issued by the Governor, which was codified during the session as SB 90 (2017).
- $449,678 was added to hire two limited duration positions to implement the BaseCamp model of information technology procurement, which intends to simplify IT procurement by negotiating standard agreements with

vendors statewide to address specific business needs and save money. As envisioned, both local and state entities could make purchases under these agreements.
- Eliminated six Strategic Technology Officers established in the 2015-17 biennium to act as coordinators between OSCIO and executive branch agencies, which resulted in a $2,087,694 reduction.
- Cut $1,234,515 due to elimination of most standard inflation on services and supplies and capital outlay and removal of funding for out-of-state travel.
- $957,232 Other Funds expenditure limitation was removed to reflect holding positions vacant for a longer than normal period of time to achieve statewide cost containment in salaries and wages.
- Reduced the estimated cost to complete Project MUSIC (Mobilizing Unified Systems and Integrated Communications) by $522,492, while continuing six limited duration positions to complete the project. Project MUSIC is the project name for converting the state's phone system to a voice over internet protocol operated by IBM.
- $218,064 was removed due to the elimination of a long-term vacant position.

**Chief Human Resource Office**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 9,723,490 | 17,560,317 | 15,226,560 | 34,017,642 |
| **Total Funds** | **$9,723,490** | **$17,560,317** | **$15,226,560** | **$34,017,642** |
| Positions | 28 | 58 | 46 | 76 |
| FTE | 27.00 | 43.93 | 46.00 | 72.50 |

Program Description

The Chief Human Resource Office (CHRO) oversees personnel-related policies to help agencies recruit, hire, 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 2017-17 legislatively adopted budget is almost double the 2015-17 legislatively approved budget due to the inclusion of $20,162,468 Other Funds expenditure limitation, 30 limited duration positions, and three permanent, full-time positions to implement a new human resources information system (HRIS) to replace the state's legacy system. The HRIS project planning began in 2012. At the May 2016 meeting of the Emergency Board, the project received an additional $6.5 million Other Funds expenditure limitation to complete project planning through Stage Gate 3, issue a request for proposals, evaluate the proposals, issue an intent to award and complete a fit-gap analysis. The project selected Workday, a Software-as-a-Service solution. IBM will serve as the systems integrator and Gartner will provide quality assurance on the project. Ongoing costs of the project are assumed to be $5,939,974 Other Funds in 2019-21, with the remaining funding and limited duration positions phased-out during 2019-21 budget development. Additional budget changes included a $685,019 Other Funds reduction from eliminating three permanent, full-time positions, including an executive recruiter, an Administrative Specialist 1, and a Training and Development Specialist, and a $484,092 Other Funds reduction due to the statewide hiring slowdown.

## State Data Center

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 169,054,628 | 166,166,393 | 156,550,045 | 147,268,136 |
| **Total Funds** | **$169,054,628** | **$166,166,393** | **$156,550,045** | **$147,268,136** |
| Positions | 241 | 155 | 150 | 159 |
| FTE | 231.11 | 155.00 | 150.00 | 159.00 |

Program Description

The State Data Center (SDC) is overseen by the Office of the State Chief Information Officer (OSCIO) and provides centralized computing and application services by leveraging new and existing IT assets to support numerous business operations across government. The State Data Center 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 SDC.
- Service Delivery – Operates the shared SDC environment which includes computing hardware, operating systems, storage and backup solutions, production control, and enterprise and contracted applications.
- Technology Availability Management – Monitors, maintains, and supports the shared SDC 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

SDC revenues come from usage fees and charges to state agencies and other customers. Fee and charge methodology, allocation, and structure are often 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 SDC service being used. Four major service areas are provided: computing (mainframe, midrange, and distributed systems), network, storage, and voice.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the State Data Center is $18.8 million, or 11.4%, lower than the 2015-17 legislatively approved budget.

Other Funds expenditure limitation adjustments included:

- $3,943,975 was reduced due to elimination of standard inflation on services and supplies and capital outlay.
- A $3,483,642 cut was made to reflect reduced expenditures related to mainframe data processing, eliminating contracting expenditures, and reducing maintenance on end-of-life IT resources.
- Eliminated $1,209,780 for reduced Attorney General charges and lower assessments paid to other parts of DAS.
- $1,062,217 was reduced due to the statewide hiring slowdown meant to achieve additional vacancy savings.
- Added $531,652 to make permanent three positions established in 2015-17 as limited duration who will provide services to state agencies and replace work done through outside contractors.

## Enterprise Asset Management

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 1,297,148 | -- | -- | -- |
| Other Funds | 91,719,145 | 100,715,883 | 98,567,061 | 91,774,928 |
| **Total Funds** | **$93,016,293** | **$100,715,883** | **$98,567,061** | **$91,774,928** |
| Positions | 198 | 193 | 192 | 204 |
| FTE | 196.50 | 192.50 | 191.50 | 203.50 |

Program Description

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.

Revenue Sources and Relationships

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, as well as parking fees. 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 2017-19 legislatively adopted budget is nearly 9% lower than the 2015-17 legislatively approved budget due to reductions to services and supplies expenditure limitation to account for lower fuel costs ($1,384,372) and lower utilities costs ($1,973,078) in uniform rent buildings, reduced services and supplies expenditures ($397,027), and elimination of several building maintenance contracts for DAS owned buildings ($747,000). Additional Other Funds reductions included a $1,926,374 cut due to elimination of most standard inflation on services and supplies and capital outlay and removal of funding for out-of-state travel, a $721,530 cut to reflect holding vacant positions for longer than normal to generate additional savings, and a $293,113 reduction from the elimination of a vacant managerial position. There were two Other Funds expenditure limitation increases approved, $436,361 for higher assessments paid to other parts of DAS and $214,000 for the cost of issuing bonds early in the biennium to fund repairs at the state office building in Portland.

### Enterprise Goods and Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 80,181,616 | 92,783,337 | 92,468,871 | 88,023,772 |
| Other Funds (NL) | 73,884,066 | 101,513,146 | 105,270,244 | 105,270,244 |
| **Total Funds** | **$154,065,682** | **$194,296,483** | **$197,739,115** | **$193,294,016** |
| Positions | 222 | 237 | 230 | 241 |
| FTE | 222.00 | 233.82 | 230.00 | 241.00 |

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 2017-19 legislatively adopted budget for Enterprise Goods and Services total Other Funds and Other Funds Nonlimited is almost unchanged from the 2015-17 legislatively approved budget. However, limited Other Funds is $4.8 million, or 5% lower than 2015-17, while Other Funds Nonlimited increased by $3.8 million, or 3.7%, over the 2015-17 legislatively approved budget due to forecasted increases in payments from the state's Self-Insurance Fund for claims paid by Risk Management. Payments from the Risk Fund are not limited by the Legislature. The Legislature transferred $33.3 million from the Risk Fund to the General Fund for general governmental purposes to help address the statewide General Fund budget shortfall.

Other Fund Limited expenditure changes included:

- $2,125,225 reduction due to statewide adjustments made to reflect budget reductions in the Department of Administrative Services which lowered charges for services ($628,905) and reductions to Attorney General rates due to cuts in the Department of Justice budget ($1,496,320).
- $1,611,276 in total reductions from cuts to overtime and temporary employees, reductions in services and supplies limitation for lower publicity and publication costs, reductions in training, delaying software updates, and reductions in office expenses.
- $1,224,192 was cut to reflect holding vacant positions for longer than normal, in order to generate additional vacancy savings during the 2017-19 biennium.
- Reduced $755,768 Other Funds due to elimination of most standard inflation allowances for services and supplies.
- Added $868,365 Other Funds expenditure limitation to fund four limited duration, full-time positions who will work on a project to simplify Information Technology procurement by negotiating standard agreements with vendors to address specific business needs.
- $268,532 Other Funds expenditure limitation was added to pay for an additional claims consultant position in the Risk Management program to help address the workload from increased risk claims being filed.

### Enterprise Human Resource Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 6,039,722 | 7,339,836 | 2,447,686 | 2,167,782 |
| **Total Funds** | **$6,039,722** | **$7,339,836** | **$2,447,686** | **$2,167,782** |
| Positions | 25 | 25 | 8 | 7 |
| FTE | 22.95 | 24.64 | 8.00 | 7.00 |

Program Description

Enterprise Human Resource Services (EHRS) program unit was created as part of the DAS reorganization. This Entrepreneurial Management reorganization separated the human resource management services functions from the human resource policy functions. This reorganization was further modified for the 2017-19 biennium with the transfer out to the Chief Human Resources Office of all programs formerly housed in this program unit except for seven positions providing direct Human Resources (HR) support for contracting agencies.

Revenue Sources and Relationships

Charges for providing HR services to other agencies are designed to cover the full cost of providing those services and are paid by client agencies with a variety of fund types, but are spent by DAS as Other Funds.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is $5.2 million, or 70% lower than 2015-17 budget due almost entirely to the transfer of 17 positions and $5.4 million Other Funds expenditure limitation to the Chief Human Resources Office to reflect the transfer of the Training and HR Operations and Systems programs out of EHRS. Other Funds expenditure limitation reductions to this program included $228,455 from the elimination of a full-time Safety Specialist 2 position and $51,449 due to statewide adjustments.

### Business Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 6,140,058 | 7,324,806 | 13,682,519 | 12,244,798 |
| **Total Funds** | **$6,140,058** | **$7,324,806** | **$13,682,519** | **$12,244,798** |
| Positions | 17 | 18 | 16 | 13 |
| FTE | 15.92 | 17.76 | 16.00 | 13.00 |

Program Description

The DAS 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 2017-19 legislatively adopted budget is nearly $5 million higher than 2015-17 approved levels due almost entirely to the consolidation of all budgeted State Government Service Charges from other program units into DAS Business Services. This action had a net zero increase agency-wide. Other Funds expenditure reductions included $335,965 from the elimination of two positions supporting the Customer Utility Boards: a senior performance strategist and an Executive Support Specialist. DAS service divisions will assume the workload of supporting their related Customer Utility Boards. Finally, $218,543 Other Funds expenditure limitation was removed due to the elimination of a vacant Operations and Policy Analyst 4 position.

### Capital Improvements

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 3,881,908 | 4,403,176 | 4,566,094 | 4,403,176 |
| **Total Funds** | **$3,881,908** | **$4,403,176** | **$4,566,094** | **$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 2017-19 legislatively adopted budget is unchanged from the 2015-17 legislatively approved budget due to the elimination of all standard inflation allowances for Capital Outlay expenditures. 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

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 17,521,286 | 46,163,301 | -- | 58,216,430 |
| **Total Funds** | **$17,521,286** | **$46,163,301** | **--** | **$58,216,430** |

Program Description

The Capital Construction Program includes major remodeling, renovation, and new construction or acquisition projects costing more than $1 million in the aggregate. Capital Construction expenditure limitation is usable for six years after approval to allow time for projects to be completed. During each biennium's budget development capital construction expenditure limitation is removed because it does not expire for six years whereas other expenditure limitation lasts only the two years of the biennium. This phase-out is why the current service level budget is zero.

Revenue Sources and Relationships

Other Funds for capital construction can come from the Capital Projects Fund, which is funded through a portion of Uniform Rent charges, cash balances in programs, and from the sale of Article XI-Q bonds.

Legislatively Adopted Budget

The 2017-19 legislatively adopted capital construction budget funds 12 projects, all but two of these projects will be supported by Other Funds from the agency's Capital Projects Fund (no debt financing required). The approved Capital Construction projects include:

- $4,579,431 for planning for a seismically resilient facility to be located on a state parking lot (known as the Yellow Lot) in Salem to protect critical state government operations in the event of an earthquake.
- $3,743,000 to upgrade the electrical and plumbing systems, replace lights with LED's and new controls, and replace water heaters at the Department of Human Services Building.
- $6,236,000 to upgrade the electrical system, roof and restrooms, and replace the plumbing, flooring, chillers, cooling tower, and air conditioning units at the Employment Building.
- $3,890,000 to upgrade electrical panels, increase electrical capacity, and replace lights with LED's and new controls in several state buildings.
- $2,926,000 for a study of replacing the membrane on the Capitol Mall Parking Structure roof, an engineering assessment, and renovation of concrete spalling and rebar damage at the facility.
- $500,000 to contract with various architects, engineers, and other specialists to develop feasibility analyses and reliable cost information; to prepare preliminary design for small to medium-sized projects; and to evaluate options to address maintenance problems.
- $1,234,000 to replace and upgrade hot water heaters and boilers in several state buildings.
- $1,162,000 to upgrade the chiller, pumps, and cooling tower to increase the cooling HVAC systems capacity at the Crime Laboratory in Portland.
- $3,500,000 to install Electric Vehicle charging stations and perform surface replacement and upgrades in multiple state-owned parking lots.
- $6,300,000 to renovate the historic State Library building for relocation of the Office of the Governor's staff from the Oregon State Capitol. The work is scheduled to occur in three phases beginning in July 2017.
- A $1,400,000 increase to the 2015-17 capital construction limitation established for capital and tenant improvements at the 550 Building in Salem because the work exceeded the $4 million authorized for the project at the May 2016 meeting of the Emergency Board.
- $13,146,000 was approved for the Portland State Office Building Renovation Project to renovate the building exterior, including replacement of the windows and roof; upgrade security, electrical, and HVAC systems; painting; and renovating restrooms. This work is being funded through the sale of Article XI-Q Bonds.

- $11,000,000 to upgrade power and increase capacity of the state data center. This project will allow the state data center to migrate additional state agency IT hardware and storage into the data center. This project is funded using cash balances in the State Information Technology Operating Fund.

### Miscellaneous Distributions

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds (NL) | 20,672,375 | 24,716,507 | 24,716,507 | 24,716,507 |
| **Total Funds** | **$20,672,375** | **$24,716,507** | **$24,716,507** | **$24,716,507** |

Program Description
This program 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 2017-19 legislatively adopted budget supports anticipated mass transit assessment collections and distributions based on budgeted employment numbers.

### Bonds

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 359,470,496 | 359,777,776 | 390,934,927 | 390,934,927 |
| Other Funds (NL) | 23,701,903 | 152,223,098 | -- | -- |
| **Total Funds** | **$383,172,399** | **$512,000,874** | **$390,934,927** | **$390,934,927** |

Program Description
This budget structure includes expenditures for debt service and debt management costs on Pension Obligation Bonds and debt service on Appropriation Bonds. 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. Starting in 2015-17, disbursement of bonds sold for the benefit of public universities is done by Higher Education Coordinating Commission (HECC). DAS was given authority to disburse these proceeds during the transition to HECC.

Revenue Sources and Relationships
Pension Obligation Bond debt service is supported by an assessment on the PERS employer payrolls. The debt service schedule was designed to increase payments over times as the bonds are repaid under the assumption that state revenues would increases over time as well. 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.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget for Other Funds Limited is set at a level to cover bond debt service and treasury fees based on existing repayment schedules and budget projections. With the ending of the Department's duties to disburse proceeds from bonds sold to benefit public universities, all Other Funds Nonlimited were removed from this program unit for the 2017-19 legislatively adopted budget.

## DAS Debt Service

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 34,736,028 | 20,399,207 | 15,447,344 | 16,528,167 |
| **Total Funds** | **$34,736,028** | **$20,399,207** | **$15,447,344** | **$16,528,167** |

Program Description

This program unit includes only debt service payments that are specific to DAS. These payments are for debt instruments sold to pay for construction and improvements to state buildings owned by DAS. For the last few biennia Article XI Q bonds have been used as debt instruments. Previously, certificates of participation (COPs) were used to finance debt, but an amendment to the Oregon Constitution passed in 2010 authorized the use of Q bonds to be sold to finance debt. Because Q bonds are state general obligation bonds, interest rates are lower than the previously used COPs.

Revenue Sources and Relationships

Debt service payments for construction or improvements of DAS owned facilities 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 2017-19 legislatively adopted budget supports payments on previously approved debt. In addition, $1,080,823 Other Funds expenditure limitation was added to pay debt service payments on bonds that are to be issued early in the biennium to fund renovations at the Portland State Office Building.

## Special Governmental Payments

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 8,981,777 | 15,545,384 | 7,331,889 | 13,750,563 |
| Lottery Funds | 8,022,261 | 10,553,686 | 16,672,287 | 14,361,900 |
| Other Funds | 29,910,940 | 24,115,820 | -- | 42,158,192 |
| Other Funds (NL) | 33,101,504 | 21,925,503 | -- | -- |
| **Total Funds** | **$80,016,482** | **$72,140,393** | **$24,004,176** | **$70,297,655** |

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. Other Funds Nonlimited are due to the refunding of previously issued bonds, which are then reissued at a lower interest rate. Other Funds Limited are for disbursement of bond proceeds. The proceeds from the sale of bonds are always expended as Other Funds.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget adds one-time Other Funds expenditure limitation of $13,980,990 for 2015-17 approved grants funded through the issuance of Lottery Bonds not expected to be fully disbursed by the end of the 2015-17 biennium that need to be accommodated in the next biennium.

The adopted budget includes the following new legislative priorities and special projects.

A total of $6,296,000 General Fund was approved for local and special projects. Cash projects and amounts include:

- $1,836,000 for disbursement to the City of John Day to extend a fiber optic line along U.S. 395 from U.S. 20 to John Day.
- $1,000,000 for disbursement to the JPR Foundation, Inc. for the Holly Theater restoration project in Medford.
- $1,000,000 for disbursement to the Deschutes Rim Clinic Foundation for the Rim Health Clinic in Maupin to supplement capacity at the current facility.
- $500,000 for disbursement to the City of Mosier for a joint use facility, encompassing a city hall, main fire station, and multi-use community space to be built on land donated by Union Pacific Railroad.
- $500,000 for disbursement to the Oregon Wine Board for marketing and increasing the market access of Oregon produced wine.
- $420,000 for disbursement to the City of John Day for operations of a public safety answering point through the 2017-19 biennium.
- $400,000 for disbursement to the Greater Portland YWCA for the Family Preservation Project.
- $250,000 for disbursement to the Southern Oregon Veterans Benefit organization for construction of a replica of the Vietnam Memorial Traveling Wall.
- $200,000 for disbursement to the Mid-Columbia Health Foundation for a hospital modernization and expansion project involving a regional rural community hospital in The Dalles that was built in 1859.
- $50,000 for disbursement to the World of Speed organization as transition funding for the High School Automotive Career Technical Education program as the organization seeks other support for the program.
- $50,000 for disbursement to the Family YMCA of Marion and Polk Counties for the YMCA Youth and Government program.
- $50,000 for disbursement to the Bag and Baggage Productions, a professional theater located in Hillsboro, for its Cultural Innovation Project involving the purchase and installation of a 360 degree digitally immersive projection system.
- $40,000 for disbursement to the Cities of Turner, Aumsville, and Salem, for use as flood mitigation planning match.

A total of $28,177,202 Other Funds expenditure limitation was added for the one-time cost of issuance and special payments associated with the disbursement of proceeds from Lottery Bond sales for local projects. Projects and amounts are detailed below. Cost of issuance for these projects totals $707,200. There is no debt service allocated in the 2017-19 biennium, as the bonds will not be sold until the spring of 2019. Total debt service on all the projects described below is estimated at a total of $4,743,599 Lottery Funds for the 2019-21 biennium and $47,153,969 over the life of the bonds.

- $12,235,018 Other Funds for disbursement to the YMCA of Marion and Polk counties for construction of a new YMCA facility in Salem.
- $6,125,396 Other Funds for disbursement to the Eugene Civic Alliance to redevelop the site of the former Civic Stadium into a community sports and recreation complex.
- $2,050,587 Other Funds for disbursement to the Gresham Redevelopment Commission for the construction of an innovation and workforce training center in the Rockwood neighborhood in Gresham.
- $2,050,587 Other Funds for disbursement to the Family Nurturing Center (Rogue Valley Children's Relief Nursery) to purchase and rehabilitate affordable housing adjacent to the Center's campus.
- $1,042,655 Other Funds for disbursement to the Cascade AIDS Project for the acquisition and renovation of a primary care and mental health center for the lesbian, gay, bisexual, transgender, queer, and other minority gender identities and sexual orientation community.
- $1,041,303 Other Funds for disbursement to the City of Independence for the Independence Landing Revitalization Project.

- $1,041,303 Other Funds for disbursement to Klamath County for construction of the Klamath Youth Inspiration Program residential treatment center in Klamath Falls.
- $1,041,303 Other Funds for disbursement to the City of Woodburn to develop a community center in Woodburn.
- $784,922 Other Funds for disbursement to The Dalles Civic Auditorium Preservation Commission to continue reconstruction of The Dalles Civic Auditorium theater.
- $764,128 Other Funds for disbursement to the City of Spray to construct a public safety and emergency services center, which includes fire protection and emergency medical services.

### Shared Services Fund

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 62,252,785 | 1 | -- | -- |
| **Total Funds** | **$62,252,785** | **$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. The 2015 Legislative Assembly enacted a number of reforms to the Shared Services program with adoption of SB 129 (2015). 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

Legislatively Adopted Budget

With the changes in SB 129 (2015), no expenditure authority is needed for the Shared Services Fund during the 2017-19 biennium or any future biennia.

# ADVOCACY COMMISSIONS OFFICE

Analyst: Dauenhauer

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 424,918 | 627,045 | 717,195 | 697,136 |
| Other Funds | 3,342 | 42,189 | 42,189 | 9,481 |
| **Total Funds** | **$428,260** | **$ 669,234** | **$759,384** | **$706,617** |
| Positions | 2 | 3 | 3 | 3 |
| FTE | 2.00 | 2.50 | 2.50 | 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. The OACO Other Fund revenues were reduced to $9,481 in the 2017-19 legislatively adopted budget to reflect the actual donations collected by the agency based on a three-biennium historical average.

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. 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.

Legislatively Adopted Budget

The 2017-19 adopted budget for the OACO is a 5.6% increase from the 2015-17 legislatively approved budget. This funding level maintains enhanced investments in staffing levels, at three positions and 2.50 FTE, which were approved in the 2015 legislative session to increase and improve policy research and analytic support for the Commissions. Initially the OACO budget included a $17,000 reduction in service and supplies, however this reduction was restored in an end of session bill (HB 5006) for a net zero effect. Statewide adjustments for reduced travel expenses and state government service charges, including Attorney General and Department of Administrative assessments, were reduced in the amount of $6,529 General Fund, resulting in a total funds budget of $706,617 for the OACO.

## EMPLOYMENT RELATIONS BOARD

Analyst: Borden

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 2,031,615 | 2,463,085 | 2,720,476 | 2,491,749 |
| Other Funds | 1,955,487 | 2,067,604 | 2,164,482 | 2,500,764 |
| **Total Funds** | **$3,987,102** | **$4,530,689** | **$4,884,958** | **$4,992,513** |
| 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 some personnel actions regarding 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 is funded with 50% General Fund and 50% Other Funds. 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. When funding is compared to caseloads, local government represents 71% of contested and mediation cases versus 29% for state agencies, based on an average of the last 11 years.

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 2017-19 is $1.9 million, which is based on a $2.14 assessment per month, which is up from 2015-17 assessment of $1.92. 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 2017-19 biennium, the agency assumes 37,000 will be covered employees and pay the assessment. During the 2015-17 biennium, the agency identified an additional 1,000 employees that the agency previously had not assessed, but should have been assessing.

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. There is anticipated be $419,663 in such fee revenue for the 2017-19 biennium.

Prior to this past legislative session, ERB could 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. HB 2263 changes the mediation fee schedule by setting the maximum fee for the third and fourth mediation sessions at $625 each, which is an increase to the current $500 third session fee and a decrease to the current $750 fourth session fee. A mediation fee is evenly split by the participating parties. Most mediations rarely go beyond two sessions. This change is expected to be revenue neutral. HB 2264 increased the statutory application fee for inclusion on the State Conciliation Service's list of qualified arbitrators from $50 to $100 and increases the annual fee to remain on the list of qualified arbitrators from $100 to $150. These fees have remained unchanged since they were established in 2007. These fee increases are estimated to generate $8,000 in additional revenue for a total of $23,400 per biennium.

ERB expects to have $2.3 million in available Other Funds revenue to support its legislatively adopted budget of $2.5 million. This includes a beginning balance of $730,258 and an ending balance of $536,675, which represents 4.6 months of reserves.

Budget Environment

ERB has emerged from an extended tumultuous period. Beginning in the 2013-15 biennium, at the behest of the Legislature, ERB undertook a number of 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. HB 2262 is the final work product arising from this effort, which made a variety of technical changes to clarify and modernize statutes related to the agency. Additionally, over the last several biennia, the agency requested, and the Department of Administrative Services approved, compensation plan changes (increases) or reclassifications for all the agency's positions.

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 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 reduction in caseload, but the cause of fewer cases has yet to be specifically identified.

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.

Contested and representation case filings for the agency average 37 state cases, 80 local government cases, and one private sector case. For fiscal year 2017, the agency had 29 state cases, 82 local government cases, and one private sector case.

Legislatively Adopted Budget

The legislatively adopted budget for ERB is $5 million total funds, including $2.5 million General Fund and $2.5 million Other Funds. The total funds budget is $461,824 (or 10.2%) more than the 2015-17 legislatively approved budget. The budget includes 13 positions (13.00 FTE). The budget includes the following:

- $123,626 total funds for compensation changes for the three Board members, the State Conciliator, as well as a reclassification of the Board's office manager from a Principal Executive Manager B to a Principal Executive Manager D.
- $250,000 for a one-time fund shift of General Fund to fee revenue.
- $30,000 Other Funds for continued funding for a private vendor to develop electronic filing for a case management system that is under development.
- Statewide adjustments based on reductions in Department of Administrative Services assessments and charges for services, Attorney General rates, certain services and supplies, and additional vacancy savings expected as a result of a hiring slowdown.

## Administration

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 1,234,373 | 1,226,828 | 1,397,722 | 1,183,687 |
| Other Funds | 668,036 | 958,395 | 1,106,600 | 1,172,648 |
| **Total Funds** | **$1,902,409** | **$2,185,223** | **$2,504,322** | **$2,356,335** |
| 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

In most cases, the Board does not receive case filings or issue initial orders, but instead acts on recommended orders written by Administrative Law Judges (ALJ) 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. Certain representation cases, as well as expedited cases and declaratory rulings, are handled by the Board in the first instance.

The Board averages 50 case filings a fiscal year with 55 Board orders issued. For fiscal year 2017, case filings totaled 30 with 29 Board orders issued. For fiscal year 2017, three board order were appealed to the Oregon Court of Appeals, which is about 10% of the Board's 29 issued orders for that year. On average, 12% of Board's orders are appealed to the Oregon Court of Appeals and 3% are reversed or remanded back to ERB for reconsideration. Parties, rather than ERB, argue their case in front of the Court of Appeals, like 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, $1.2 million Other Funds, and 5 positions (5.00 FTE). The budget represents a $171,112 (or 7.8%) increase from the 2015-17 legislatively approved budget. The budget includes the following:

- $109,323 total funds, $61,220 General Fund and $48,103 Other Funds for the following adjustments: (a) A Department of Administrative Services compensation plan change was reported to the Emergency Board (December 2016), which changed the classifications of the agency's three board member's positions. The reclassification resulted in a compensation plan increase of $86,433 total funds, $48,403 General Fund and $38,031 Other Funds expenditure limitation; and (b) an upward reclassification to the agency's Business Operations Manager position from a Principal Executive Manager B to a Principal Executive Manager D.
- $30,000 Other Funds for the Case Management System Phase 2 (Electronic Filing) and the addition of a web-based electronic filing and electronic payment capabilities to the new electronic case management system funded in the 2015-17 biennium. The vendor will charge an annual licensing and hosting fee estimated at $60,192 total funds, $36,192 General Fund and $24,128 Other Funds, beginning July 2018.
- $250,000 General Fund decrease for a one-time General Fund to Other Funds (excess mediation fee revenue) shift in services and supplies.

**Mediation and Conciliation Services**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 355,525 | 546,102 | 625,428 | 633,438 |
| Other Funds | 583,552 | 501,247 | 495,158 | 751,451 |
| **Total Funds** | **$939,077** | **$1,047,349** | **$1,120,586** | **$1,384,889** |
| 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. The Office provides 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. 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. The program provides training in methods of alternative dispute resolution, collective bargaining, labor-management cooperation, and related issues. The contract mediation services that are provided are mandatory. Training and other mediation services are not mandatory.

The program also is responsible for 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.

Budget Environment

The Conciliation Services Office averages 99 cases for mediation services per fiscal year, of which 73 are local cases and 26 are state cases. For fiscal year 2017, there were 95 cases, of which 79 were local cases and 16 were state cases. On average, it takes 31 days for a mediator to become available after the submission of a request. For fiscal year 2017, a mediator was available to parties in 22 days. Most disputes are resolved within two mediation sessions. On average, the agency's mediation/conciliation service resolved approximately 65% of contract negotiation disputes for strike-permitted employees and 92% for non-strike-prohibited employees. For fiscal year 2017, the agency resolved 81% of contract negotiation disputes for strike-permitted employees and 100% for non-strike-prohibited employees.

Legislatively Adopted Budget
The legislatively adopted budget consists of $633,438 General Fund, $751,451 Other Funds, and 4 positions (3.50 FTE). The budget represents a $337,540 (or 32.2%) increase from the 2015-17 legislatively approved budget. The budget includes the following:

- $14,303 total funds, $8,010 General Fund and $6,293 Other Funds for the State Conciliator position salary increase.
- $250,000 Other Funds increase for a one-time General Fund to Other Funds (excess mediation fee revenue) shift in services and supplies.
- $8,000 of Other Funds revenue associated with HB 2264 and an increase in arbitrator fees.

### Hearings and Elections Program

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 441,717 | 690,155 | 697,326 | 674,624 |
| Other Funds | 703,899 | 607,962 | 562,724 | 576,685 |
| **Total Funds** | **$1,145,616** | **$1,298,117** | **$1,260,050** | **$1,251,289** |
| 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
ALJs average 144 cases per fiscal year and 140 days until an ALJ recommended order is issued. For fiscal year 2017, ALJ's received 99 cases and issued a recommended order in 89 days. The settlement or withdrawal rate of administrative hearings cases remains around its historic average of 39%. ERB averages 40 representation elections per fiscal year, which take an average 58 days to resolve, if no hearing is required. In 2017, the agency had 25 representation (election) cases. Cases that did not require a hearing were resolved within 50 days, on average.

Legislatively Adopted Budget
The legislatively adopted budget consists of $674,624 General Fund, $576,627 Other Funds, and 4 positions (4.50 FTE). The budget represents a $46,828 (or 3.6%) decrease from the 2015-17 legislatively approved budget. The decrease in the budget is due end-of-session assessment reductions.

# FAIRS – COUNTY AND STATE

Analyst: Siebert

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | 1,015,299 | 1,052,865 | 1,015,299 |
| Lottery Funds | 3,669,380 | 3,864,000 | 3,648,000 | 3,828,000 |
| **Total Funds** | **$3,669,380** | **$4,879,299** | **$4,700,865** | **$4,843,299** |

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 was 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

Just as was done in the 2015-17 budget, the 2017-19 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 $180,000 in additional Lottery Funds will increase county fair payments by $5,000 per county. The adopted budget also included $1,015,299 General Fund support for the Oregon State Fair that is transferred to the Oregon State Fair Council, the non-governmental organization currently operating the State Fairgrounds.

# GOVERNMENT ETHICS COMMISSION

Analyst: Beitel

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 1,989,415 | 2,791,303 | 2,704,274 | 2,705,247 |
| **Total Funds** | **$1,989,415** | **$2,791,303** | **$2,704,274** | **$2,705,247** |
| Positions | 8 | 9 | 9 | 9 |
| FTE | 7.88 | 8.88 | 9.00 | 9.00 |

Overview

The mission of the Government Ethics Commission is to impartially and effectively administer and enforce Oregon's government ethics laws for the benefit of Oregon's citizens. Oregon Government Ethics law, Lobbying Regulation law, and the executive session provisions of Oregon Public Meetings law are within the regulatory jurisdiction of the Commission. The Commission emphasizes education in achieving its mission and, together with its staff, provides online and in-person training to public officials and lobbyists on government ethics, lobbying regulation, and executive session provisions of public meeting laws.

The Commission consists of nine volunteer members; eight members are appointed by the Governor upon recommendation by the Democratic and Republican leaders of the Oregon House and Senate, 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. Additionally, no more than three of the members may be from the same political party. The executive director is appointed by the Commission.

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 2017-19 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 $724,000 and an estimated ending balance of $545,707, which represents slightly under five months of operating 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.

One-time special assessments were approved in the prior two biennia. The 2013-15 budget included 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. The 2015-17 budget included a one-time special assessment of $200,000 to implement an electronic case management system for the online posting of agency findings in a searchable format.

The Commission collects fines and forfeitures from the imposition of civil penalties. These revenues are transferred to the General Fund and are not used to support agency operations. The Commission collected $31,377 in actual fines and forfeitures during the 2013-15 biennium and estimates collecting $30,000 in the 2017-19 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 52 complaints in calendar year 2016, with 40 ethics (77%), eight executive session (15%), and four lobby (8%) complaints and had no contested case hearings or appeals. Complaints were for respondents from the following jurisdictions: cities (48%); counties (8%); state (15%); education (2%); and special districts (27%). Complaints received in 2016 represent a 54% decrease from the 115 average annual complaints received between 2012 and 2015. The notable decrease is attributable to a change in how the Commission tracks complaints received. Prior to 2015, the Commission included complaints received that were outside of its jurisdiction as additional information would be requested if the letter or complaint form failed to allege violations within the Commission's jurisdiction. However, when the preliminary review period was reduced from 135 days to 30 days in 2015, the Commission no longer had sufficient time to request additional information prior to making a determination. Beginning in the second half of 2015, only complaints opened as a preliminary review have been included in the total complaints received.

During the 2015 session, the Legislature enacted a series of ethics reforms in response to the alleged ethical and criminal complaints against the former Governor. HB 2019 in particular had a significant budgetary impact on the agency. The measure 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. The Commission met the January 1, 2017 statutory deadline for online posting and will continue the implementation of the case management system during the 2017-19 biennium. Training in the upcoming biennium will be focused on use of the system and access to information. The case management system will result in efficiencies that help the Commission meet reduced review timelines, and together with the electronic filing system, provides increased transparency through the availability of online information.

The ethics investigation of the former Governor was initiated in 2014, but suspended due to the state and federal criminal investigations. In June 2017, the U.S. Department of Justice closed its case without filing charges and the Commission resumed its preliminary review. The Commission voted in July 2017 to proceed with the ethics investigation.

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 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 2017-19 legislatively adopted budget is $2.7 million Other Funds and includes nine positions (9.00 FTE). The budget is $86,056 (3.1%) less than the 2015-17 legislatively approved budget. The decrease is primarily due to the removal of one-time costs association with the development and implementation of the electronic filling and case management systems.

The budget includes $1.7 million (64.2%) for personal services and $969,340 million (35.8%) for services and supplies expenditures.

The adopted budget includes the full phased-in cost ($176,400) for the electronic case management system's biennial subscription fees. An increase of $25,308 was approved to reclassify the executive director from a Principal Executive Manager D to a Principal Executive Manager E in response to the agency's growth over the last several biennia due to changes in government ethics law and an increased focus on government transparency. The budget also includes an increase of $9,566 to reclassify the staff position that supports the electronic filing system.

## OFFICE OF THE GOVERNOR

Analyst: Bender

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 11,189,877 | 12,784,089 | 13,250,527 | 12,947,791 |
| Lottery Funds | 3,032,991 | 4,211,103 | 4,434,432 | 3,689,100 |
| Other Funds | 2,323,520 | 3,250,620 | 3,387,418 | 3,322,288 |
| Federal Funds | -- | -- | -- | 6,907,780 |
| **Total Funds** | **$16,546,388** | **$20,245,812** | **$21,072,377** | **$26,866,959** |
| Positions | 56 | 63 | 61 | 59 |
| FTE | 55.50 | 61.67 | 60.50 | 58.50 |

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, Equity and Inclusion Office, a citizen's input center, an Office of Intergovernmental and Regional Solutions, the Arrest and Return program, and provides clerical support for appointing members to boards and commissions.

In the 2017 session, the Legislature transferred the Oregon Volunteers Commission for Voluntary Action and Service (Oregon Volunteers) from the Housing and Community Services Department to the Office of the Governor. 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. Since 2012, Oregon Volunteers has also provided administrative support and grant administration services to local Court Appointed Special Advocates (CASA) organizations.

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 $745,000 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 expenditures added in the 2017-19 budget are for the Oregon Volunteers program.

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. The office did not initially submit an agency reorganization request in the

2017 legislative session either. Later in the session the office did submit such a request, but the Legislature was unable to review it at that point, and it was not included in the adopted budget.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $26.9 million is $6.6 million (or 32.7%) above the prior biennium level, and is $5.8 million (or 27.5%) above the current service level. Four positions (3.17 FTE) were eliminated.

The 2017-19 budget numbers, however, are overwhelmingly influenced by the transfer of the Oregon Volunteers program to the Office. Excluding this action, and focusing solely on the combination of General Fund and Lottery Funds that provides the bulk of support for the ongoing functions of the Office, displays a $0.3 million (or 2.1%) decline from the prior biennium level, and a 5.9% reduction from the current service level.

Reductions to the budget include:

- Office of the Governor specific reductions – includes $606,885 Lottery Funds, equal to 3.4% of the total General Fund/Lottery Funds current service level budget. The reduction eliminated three vacant positions in the Regional Solutions Program. Remaining Regional Solutions program staff include eight regional coordinator positions, an intergovernmental coordinator, and the program director.
- Standard statewide adjustments – $774,313 for the Office of the Governor's portion of standard statewide adjustments made as cost containment measures; including $525,236 General Fund, $138,447 Lottery Funds, and $110,630 Other Funds. The cost containment measures include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

The primary funding enhancement approved in the budget was the transfer of the Oregon Volunteers program from the Housing and Community Services Department to the Office. The transfer moved $6.9 million of Federal Funds expenditures, and one limited duration position, to the Office of the Governor's budget. The transferred funds were supplemented with a one-time $200,000 General Fund appropriation, to assist the program transfer, fund a program review, and provide for the development of a long-term strategic plan for the Commission. A budget note requests the Office of the Governor to report, prior to the 2018 session, on the continuing funding and personnel needs of the program.

A second funding enhancement was a $68,000 Other Funds increase to purchase two transport vans to be used by counties while transporting inmates between county facilities. The purchase is supported by cash balances within the Extradition program.

## OREGON HISTORICAL SOCIETY

Analyst: Siebert

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 738,750 | 1,125,000 | 750,000 | 900,000 |
| Lottery Funds | 210,392 | 210,392 | 367,770 | 360,652 |
| **Total Funds** | **$949,142** | **$1,335,392** | **$1,117,770** | **$1,260,652** |

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 liaisons 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 over the biennia. The state grant accounts for only a small portion 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. The base operations grant amount is $750,000, which was reduced to $738,750 in 2013-15 and raised by $375,00 on a one-time basis to $1,125,000 in 2015-17. 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 2017-19 legislatively adopted budget includes $360,652 Lottery Funds to cover debt service on $2.5 million in bonds authorized in 2011-13 to pay off the mortgage on the Society's storage facility in Gresham. The adopted budget also contained $900,000 General Fund for OHS operations, which is an increase of $150,000 over the $750,000 base grant amount, but $225,000 General Fund lower than was provided in 2015-17 for operational support.

# OREGON STATE LIBRARY

Analyst: Beitel

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 3,314,924 | 3,628,773 | 4,059,622 | 3,990,257 |
| Other Funds | 5,653,370 | 6,443,435 | 6,899,420 | 6,717,774 |
| Federal Funds | 4,360,283 | 5,121,642 | 5,276,872 | 5,275,247 |
| **Total Funds** | **$13,328,577** | **$15,193,850** | **$16,235,914** | **$15,983,278** |
| Positions | 41 | 42 | 42 | 42 |
| FTE | 39.26 | 40.26 | 40.04 | 40.04 |

Overview
The Oregon State Library (OSL) provides library services to support state government operations, reading materials for Oregonians with print-disabilities, and leadership and resources to support and promote the development of local library services.

The State Library Board is composed of nine voting members and serves as the policy and rule-making body for the State Library. Seven members are appointed by the Governor, after consultation with the Oregon Library Association, and confirmed by the Senate. The Deputy Superintendent of Public Instruction and the administrator of the Commission for the Blind or their designees serve as the remaining two members. The State Librarian is appointed by the Governor, subject to Senate confirmation, and oversees the day-to-day operations of the State Library.

Revenue Sources and Relationships
OSL is funded with 25% General Fund, 42% Other Funds, and 33% Federal Funds.

OSL expects to have $7.9 million in Other Funds revenue to support its 2017-19 legislatively adopted budget, which includes a beginning balance of $1.2 million. The available Other Funds beginning balance does not include an additional $2 million held in endowment. Other Funds revenues are generated from the following four main sources: an assessment on all state agencies; 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 2017-19 is $6.1 million. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay their assessment.

Other Funds revenues received through donations and bequests are mostly attributable to the Talking Book and Braille Services (TBABS) Donation Fund and the TBABS Endowment Fund. The Donation and Endowment Funds have projected beginning balances of $195,400 and $2 million, respectively. OSL estimates receiving $450,000 in donations and earning $4,300 in interest during the 2017-19 biennium. Miscellaneous receipts are expected to total $172,050, of which $150,000 is attributable to statewide database licensing.

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 $5.3 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. Federal funds primarily support statewide services and competitive grants to libraries; though a limited amount may also be spent on administrative expenses (4%). LSTA funding for the last six federal fiscal years (FFY), beginning in FFY 2011 thru FFY 2016, has totaled $12.9 million with the average annual grant being $2.2 million.

OSL has been able to meet LSTA match and MOE in part by 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.

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 to the agency with the second-year contingent upon a reorganization. In 2013, the Legislature 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 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 restructured the mission and governance of the agency. The "Trustees of the State Library" was renamed the "State Library Board" and membership was expanded. The State Librarian position was changed from a board appointee to a gubernatorial appointee beginning in 2017. The State Reference Coordinating Council, consisting of the State Librarian, State Archivist, and State of Oregon Law Librarian was created to coordinate delivery of library services between state agencies and branches of government. OSL was also provided authority to approve selection, purchase, and maintenance of reference databases and subscriptions for state agencies to reduce duplication of state agency materials.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget totals $16 million, including 42 positions (40.04 FTE), and is $789,428 (5.2%) more than the 2015-17 legislatively approved budget. OSL's budget consists of $7.3 million (46%) personal services, $4.6 million (29%) services and supplies/capital outlay, and $4 million (25%) special payments primarily disbursed to local libraries.

## Administration

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 117,555 | 126,907 | 136,831 | 136,831 |
| Other Funds | 923,180 | 1,234,115 | 1,810,051 | 1,764,726 |
| Federal Funds | 98,217 | 134,988 | 176,295 | 176,295 |
| **Total Funds** | **$1,138,952** | **$1,496,010** | **$2,123,177** | **$2,077,852** |
| Positions | 5 | 5 | 8 | 8 |
| FTE | 4.68 | 6.18 | 7.68 | 7.68 |

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. OSL has contracted with the Department of Administrative Services for its human resource and accounting functions. The program also supports the activities of the State Library Board.

Revenue Sources and Relationships

The Administration program is funded with 7% General Fund, 85% Other Funds (state agency assessment), and 8% Federal Funds.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget totals $2.1 million, including eight positions (7.68 FTE), and is $581,842 (or 38.9%) more than the 2015-17 legislatively approved budget. The increase is due to a technical adjustment of $678,683 Other Funds and $55,886 Federal Funds that moved three information technology positions (3.00 FTE) and related expenses from the Government Research Services program to the Administration program. The adjustment aligns the budget to the agency's organizational structure and better reflects total operational costs.

## Library Development

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 1,972,331 | 2,122,887 | 2,299,126 | 2,273,851 |
| Other Funds | 10,611 | 140,286 | 145,485 | 145,361 |
| Federal Funds | 4,218,504 | 4,951,711 | 5,098,373 | 5,096,748 |
| **Total Funds** | **$6,201,446** | **$7,214,884** | **7,542,984** | **$7,515,960** |
| Positions | 7 | 8 | 8 | 8 |
| FTE | 6.50 | 7.50 | 7.50 | 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 grants are used to fund various statewide services and competitive grants to libraries and must be spent based on OSL's LSTA Five-Year plan submitted to the Institute of Museum and Library Services. OSL's 2018-22 plan includes: providing access to library services, materials, and information resources; using technology to increase capacity to provide access to library services, materials, and information resources; promoting evidence-based practice in libraries; developing information literacy skills; and fostering lifelong learning.

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 establish, develop, and improve early literacy and summer reading programs. Libraries are encouraged to use funding on three best practices in library youth service: early literacy training for caregivers, summer reading activities for youth, and outreach to underserved youth.

Revenue Sources and Relationships

The Library Development program is funded with 30% General Fund, 2% Other Funds, and 68% Federal Funds.

The budget for this program assumes federal funding from the Institute of Museum and Library Services under the Library Services and Technology Act grant in the amount of $5.1 million. As mentioned above, the LSTA grant requires a 34% match rate as well as maintenance of effort based on the average of the last three years of non-federal library expenditures relevant to the priorities of LSTA. 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 calculated using the statutory funding formula that distributes 80% of state funds based on the number of children up to 14 years of age in a given service area, and 20% based on the square miles in each library's jurisdiction. Grants are on a per-library basis with the minimum of a $1,000 fiscal year grant for each library. OSL's Ready to Read Grant program is a component of the Oregon Early Reading Program Initiative (HB 3232, 2013). OSL works with local libraries to encourage participation, 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 a policy change the agency continues to pursue; however, was not approved during 2017 legislative session. The 2017-19 budget of $1.5 million General Fund for the Ready to Read grant program is expected to provide funding of $1.015 per child based on a projected 720,391 children in 2018 and 723,299 children in 2019 in the 0-14 age group. Between 2012 and 2016, funding per child has ranged from a low of $0.80 to a high of $0.97.

Approximately 119,265 children participated in early literacy programs and 190,415 children participated in summer reading programs in 2016. Youth participation represents 43% and 28% of the respective eligible populations. Grants were distributed to the 133 eligible libraries in all 36 counties, with 53 (40%) receiving the $1,000 minimum grant. One hundred and twenty-five of the 133 libraries used grants funds to implement one or more of the three best practices in library youth service.

In April 2017, Douglas County Library was closed after a property tax increase failed to pass. The Library's 2016 Ready to Read grant was returned and redistributed to the remaining libraries. The closure of the Douglas County Library highlights the difficulty many rural counties face funding library services. OSL's LSTA Five-Year plan addresses the issue of delivering library services to Oregonians in sparsely-populated areas.

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, continuing education, technology development consulting, collection of library statistics, and its own administrative expenses. The remaining 30% of LSTA funding is used for competitive grants. Recently funded grants were provided to local libraries, as well as public and private universities. These grants funded projects included oral histories, a shared ILS system, outreach to Spanish-speaking populations, support for early childhood education, and the digitizing of collections for greater access.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget totals $7.5 million, including eight positions (7.50 FTE), and is $301,076 (or 4.2%) more than the 2015-17 legislatively approved budget.

### Talking Book and Braille Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 1,225,038 | 1,378,979 | 1,623,665 | 1,579,575 |
| Other Funds | 216,667 | 371,781 | 320,188 | 319,790 |
| **Total Funds** | **$1,441,705** | **$1,750,760** | **$1,943,853** | **$1,899,365** |
| Positions | 8 | 8 | 8 | 8 |
| FTE | 8.24 | 8.24 | 8.24 | 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 over 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 83% General Fund and 17% Other Funds.

Other Funds revenues for the TBABS program include donations and bequests to the Talking Book and Braille Services (TBABS) Donation Fund and the TBABS Endowment Fund. The Funds have projected beginning balances of $195,400 and $2 million, respectively. ORS 357.026(8) gives the State Library Board authority to "Administer the State Library 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 Board has adopted a policy of using Talking Books TBABS Donation Funds for TBABS program enhancements (not regular operating funding); however, interest earnings from the Endowment Fund and donations continue to be used by the Legislature to fund agency operating expenses. Total operating expenses supported with donation revenue was reduced in the 2015-17 and 2017-19 budgets due to the shift of a Library Specialist 1 position from Other Funds to General Fund. The position had been shifted to Other Funds supported by TBABS donations during the economic downturn. Due to concerns about the ability of donations to continue to support the position, half the position cost was moved back to General Fund in 2015-17 and the remaining half in 2017-19. The adopted budget includes $319,790 for TBABS operations and enhancements expenditures supported with donations and interest earnings, leaving a projected combined ending balance in the TBABS Donation and Endowment Funds of $2.3 million.

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 $3.4 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 5,266 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, approximately 24% 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 2009 has stemmed the decline in registered users, the program still only serves approximately 8% of the total number of Oregonians who are eligible to participate (65,000), which is down from the 2005 high of 14%. 77% of TBABS participants are over 60 years old and 40% 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 2017-19 legislatively adopted budget totals $1.9 million, including eight positions (8.24 FTE), and is $148,605 (or 8.5%) more than the 2015-17 legislatively approved budget.

**Government Research and Electronic Services**

| | **2013-15 Actual** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---|---|---|---|
| Other Funds | 4,502,912 | 4,697,253 | 4,623,696 | 4,487,897 |
| Federal Funds | 43,562 | 34,943 | 2,204 | 2,204 |
| **Total Funds** | **$4,546,474** | **$4,732,196** | **$4,625,900** | **$4,490,101** |
| Positions | 21 | 21 | 18 | 18 |
| FTE | 19.84 | 18.34 | 16.62 | 16.62 |

Program Description
Government Research and Electronic Services (GRES) provides essential library services and resources 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; 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. State Library materials and staff are available to the general public three hours per weekday.

Revenue Sources and Relationships
The program is funded with 100% Other Funds and less than 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 2017-19 is $6.1 million. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay their assessment.

The program also includes $2,204 in federal funding, which is used for information technology staff time attributable to the LSTA grant.

Budget Environment

GRES-registered users have access to over 90 research databases, reference assistance, document delivery, and interlibrary loan services. An average of 24% of state employees were registered library users in 2015-17 biennium. Over the course of the biennium, the State Employee Information Center recorded 169,938 logins for accessing library services. GRES staff also cataloged and distributed 12,032 state government publications to designated state documents depository libraries throughout Oregon in the first year of the 2015-17 biennium.

In 2016, GRES made 631,456 contacts with state employees, including 7,864 transactions for reference assistance, document delivery, and trainings, with the delivery of an average of 469 journal articles and physical library materials per month. However, only 12 agencies account for 80% of GRES usage, with one of those agencies (Oregon Health Authority) accounting for 20% of the usage.

During the 2015-17 biennium, OSL implemented an “embedded librarian” service that assigns reference librarians to groups of agencies to improve services to state government. OSL continues to assess and develop outreach and training to reach state employees and promote library resources.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget totals $4.5 million, including 18 positions (16.62 FTE), and is $242,095 (or 5.1%) less than the 2015-17 legislatively approved budget. The decrease is due to a technical adjustment of $678,683 Other Funds and $55,886 Federal Funds that moved three information technology positions (3.00 FTE) and related expenses from the Government Research Services program to the Administration program. The adjustment aligns the budget to the agency’s organizational structure and better reflects total operational costs. An Other Funds reduction of $43,775 was also approved to decrease rent expense supported with assessments to state agencies by consolidating the Government Research Services staff into one space.

## OREGON LIQUOR CONTROL COMMISSION

Analyst: Deister

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 151,299,015 | 186,681,809 | 191,327,026 | 206,250,022 |
| **Total Funds** | **$151,299,015** | **$186,681,809** | **$191,327,026** | **$206,250,022** |
| Positions | 234 | 268 | 266 | 304 |
| FTE | 226.47 | 255.33 | 266.00 | 298.82 |

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 each successive meeting of the Legislative Assembly has passed measures to further define the regulation of both recreational and medical marijuana. OLCC began accepting license applications from growers, producers, wholesalers, and retailers on January 1, 2016, and the first licenses were 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 is taxed at the point of sale and collected by the Department of Revenue. For the 2017-19 biennium, revenue will first be disbursed to the Department of Revenue for its administrative costs; up to $1.8 million to OLCC for start-up costs related to regulation of medical marijuana per SB 1057 (2017) and up to $1.25 million per quarter thereafter for ongoing regulatory costs related to medical marijuana licensees of the Oregon Health Authority; and then distributed for the following purposes per statute:

- 40% for the State School Fund
- 20% for purposes for which moneys in the Mental Health, Alcoholism and Drug Services Account may be used
- 15% for state police
- 10% to cities, based on population and number of licensees
- 10% to counties, based on total available grow canopy size and number of licensees
- 5% for alcohol and drug abuse prevention, early intervention, and treatment services

The Legislature directed that OLCC's recreational marijuana regulatory costs are to be self-supporting, through fees charged to licensees.

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 ($38.1 million for 2017-19) are first allocated for payments to the Mental Health Alcoholism and Drug Services Account ($19 million), and then $662,000 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 cities (20%), city revenue sharing (14%) and counties (10%).

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 2017-19 legislatively adopted budget is expected to result in gross "regular" liquor sales amounting to $1.35 billion, and $35.4 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, licensee 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 $326.9 million for the 2017-19 biennium. Other revenue distributions are assumed as follows: $ 104.1 million for cities, $72.9 million for city revenue sharing, and $52 million for counties.

<u>Budget Environment</u>
Since the passage of Ballot Measure 91 in November 2014, OLCC has struggled to keep up with the demand for information, statutory deadlines, and practical implementation issues needed to adequately enforce the state's marijuana laws, while trying not to run afoul of federal guidelines. The number of recreational marijuana applicants and licensees has consistently exceeded every estimate, driving higher enforcement and regulatory expenses. Ongoing legislative refinement of recreational and medical marijuana laws has required OLCC to "build the plane while it's flying," requiring OLCC to revisit administrative rules and IT applications. It is too early to see distinct patterns developing in either the production or retail environment, and OLCC is just embarking on its first recreational marijuana license renewal cycle.

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. Preventing sales to minors and over service of alcohol 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 grocery stores; demand for direct shipment; and a growing craft distillery industry. Warehouse improvements approved as part of the 2015-17 budget have increased shipping volume to help meet consumer demand, as has OLCC approval of 20 new stores since 2015. These retail expansion efforts resulted in an assumed 3% growth in revenue over the agency's base revenue projection for 2017-19. Meanwhile, OLCC must continue to do its part to help minimize the negative impacts of alcohol on local communities.

The agency has been in a near constant state of personnel recruitment, with the number of positions increasing by 30% since 2013-15. This growth in responsibility and corresponding personnel is driving major space constraints for the agency's administrative headquarters in Milwaukie, and OLCC may be forced to lease additional office space in the Portland Metro area, and may have to move regional offices as well to accommodate additional numbers of marijuana enforcement staff. Liquor regulatory staff have applied for vacancies in the Marijuana Division, creating staffing shortages on the liquor enforcement side of OLCC's responsibilities. Information Technology is becoming a critical issue for the agency as well; staff turnover coupled with the need to formulate and manage new system development contracts as well as integrate or replace aging equipment and liquor system platforms requires a level of expertise that OLCC does not currently possess; it is likely that OLCC will seek legislative approval for expenditure limitation and position authority to shore up its information technology management in the 2018 session.

Legislatively Adopted Budget
The 2017-19 legislatively approved budget assumes total expenditures of $206.3 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 10.5% increase from the 2015-17 legislatively approved budget and a 7.8% increase from the 2017-19 current service level budget. The 2017-19 legislatively adopted budget assumed additional revenue from increased sales of distilled spirits.

## Distilled Spirits

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 20,218,601 | 27,820,982 | 24,261,911 | 25,678,413 |
| **Total Funds** | **$20,218,601** | **$27,820,982** | **$24,261,911** | **$25,678,413** |
| Positions | 66 | 69 | 66 | 68 |
| FTE | 66.00 | 66.50 | 66.00 | 68.00 |

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 Oregon'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 268 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 topped $1 billion in gross sales during the 2013-15 biennium, and $1.11 billion in 2015-17. The 2017-19 legislatively adopted budget assumes gross sales of $1.35 billion, which includes $35.4 million from continuation of the bottle surcharge.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget for the Distilled Spirits program is 7.7% less than the 2015-17 legislatively approved budget. This decrease is primarily due to one-time expenditures which occurred in 2015-17 to increase shipping capacity to meet the demand for spirits. Expenditure limitation was approved for bank card fees associated with additional revenue generated from OLCC's extension of the $0.50 per bottle surcharge, and for assumed additional sales of 3% due to expansion of the number of retail outlets, from 248 in 2016 to 310 by 2018. A permanent full-time district manager and a permanent full-time business analyst were also approved to support the new stores.

**Public Safety Services**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 16,761,219 | 18,630,167 | 19,639,956 | 19,749,469 |
| **Total Funds** | **$16,761,219** | **$18,630,167** | **$19,639,956** | **$19,749,469** |
| Positions | 93 | 93 | 94 | 96 |
| FTE | 91.00 | 91.00 | 92.00 | 93.76 |

Program Description

The Public Safety Services program contains licensing, education, and public safety functions that promote the legal sale and service of alcohol and marijuana to responsible adults. The program consists of the following functional divisions:

- License Services – Investigates and processes license applications and renewals for alcohol and marijuana licensees, and issues alcohol service permits and marijuana worker permits.
- Alcohol Education Division – oversees private industry server education providers and other programs that train people to sell and serve alcohol legally, and the development and implementation of the marijuana worker permit education program.
- Public Safety Division – Staff in five regional and eight satellite field offices conduct license investigations, respond to complaints, investigate liquor and marijuana law violations, and work with licensees and local communities to ensure compliance with liquor and marijuana laws and resolve problems created by licensed businesses or their patrons. For 2017-19, OLCC estimates it will have oversight of more than 17,900 alcohol licensees, including 12,300 restaurants, bars, grocery, and convenience stores, 1,440 wineries and brewers/brew pubs, 210 distributors/wholesalers, and 3,400 out-of-state certificates, plus 8,900 special event licenses, 268 liquor stores, 98 distiller locations, and 157,000 service permittees.

Budget Environment

Liquor enforcement efforts have suffered as OLCC has worked to get its marijuana regulatory structure up and running in a timely manner. Key Performance Measures related to minor decoy compliant sales and the rate of second violation were missed in 2016, as the agency borrowed alcohol public safety management and enforcement personnel for marijuana licensing and investigation duties. OLCC has been in a near constant state of recruitment, with many marijuana enforcement positions filled internally, creating vacancies for liquor licensing and enforcement.

The number of licensees has a direct impact on the resources available to OLCC, as well as the number of investigative, licensing, and enforcement personnel needed for compliance. It remains difficult to predict the number of marijuana licensees, and when interest and application activity will level off. Back in 2015, OLCC predicted 1,100 licensees by the end of the 2015-17 biennium; as of February 2017, actual licensees numbered more than 2,000. The 2017-19 applicant for marijuana licenses estimate was revised after release of the 2017 Governor's recommended budget, from 1,500 to more than 3,000. Worker permits have also blown past initial expectations, with nearly 30,000 expected to be issued by June 2019, based on current trends.

The passage of SB 1057 further complicates these predictions by requiring, among other things, medical marijuana growers and producers to use the OLCC cannabis tracking system; as a result of this requirement, some medical-only growers and producers may elect to become OLCC licensees and shift a portion of their product to the recreational market, thereby further increasing the number of OLCC licensees. Medical Marijuana licensees must declare in December 2017 whether they wish to remain Oregon Health Authority (OHA) licensees or whether they intend to apply to become OLCC licensees; in any event, OLCC is expected to need additional limitation and position authority to accommodate new licensees formerly registered with OHA.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget is a 6% increase from the 2015-17 legislatively approved budget. Expenditure limitation was provided to reclassify existing positions for more efficient utilization of staffing resources, and to add two permanent public safety management positions – with associated training and services and supplies costs – to accommodate growth in the marijuana regulatory program that is not specifically attributable to SB 1057 (for which separate resources were approved in the Marijuana Program).

### Administration and Support Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 18,714,296 | 19,442,468 | 22,253,441 | 22,326,169 |
| **Total Funds** | **$18,714,296** | **$19,442,468** | **$22,253,441** | **$22,326,169** |
| Positions | 75 | 69 | 75 | 79 |
| FTE | 69.47 | 68.75 | 75.00 | 78.84 |

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 and Audit Services – including performance measurement, statistical analysis, RFP development, research, economic, sales, and revenue forecasting.
- Administrative Services – Handles activities such as purchasing, contracting, motor pool, facilities maintenance, and mail.
- Government Affairs and 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, external audit of liquor receipts, collection and recording of privilege taxes, and develops and monitors execution of the agency's budget.
- Information Technology – Develops and supports electronic data systems for staff ranging from desk top PCs to distribution center inventory control applications. The Division is 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 time-frames. Due to ongoing legislative refinement, the agency has remained in a constant state of growth, change, and adaptation. This requires ongoing, heavy engagement 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 is involved in everything from staffing up the marijuana program to approving procurement contracts for new equipment, monitoring licensing activity and budget for programs, and accounting for liquor funds that were borrowed and repaid for program expenses in the previous biennium.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget increased staffing levels from the 2017-19 current service level, by reclassifying positions to ensure more effective utilization of existing resources; converting two positions approved on a limited duration basis in 2015 to permanent; and adding compliance and procurement specialists to accommodate additional agency personnel and an expected increase in contested case hearings. One existing

accounting position was moved to another Division, and one Information Technology position was transferred to the office of the State Chief Information Officer, pursuant to Executive Order, to unify information technology security positions. In addition, SB 1057 increased the number of OLCC commissioners from five to seven, so additional expenditure limitation was provided for associated services and supplies costs, including travel, per diem, and costs associated with remodeling the Commission meeting space. These changes result in a legislatively adopted budget that is a 14.8% increase from the 2015-17 legislatively approved budget.

### Store Operating Expenses

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 95,391,926 | 105,770,335 | 117,092,654 | 123,927,415 |
| **Total Funds** | **$95,391,926** | **$105,770,335** | **$117,092,654** | **$123,927,415** |

<u>Program Description</u>
This program includes an expenditure limitation for liquor revenues to pay contract agents who operate the state's 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.

<u>Budget Environment</u>
ORS 471.750(3) gives the Commission authority to determine the compensation of liquor agents. Agents' compensation comprises 59.7% 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 forecast amounts. The amount of actual compensation received by an agent is influenced by the following factors: class of store, base commission, consumer sales, licensee 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 present | 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 $123,927,415 is authorized for the 2017-19 legislatively adopted budget, equivalent to an average rate of 8.93% of forecast 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 legislatively approved budget is a 17.2% increase from the 2015-17 legislatively approved budget, due to projected increases in sales related to more stores and higher demand for product. 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 makes to the Legislative Fiscal Office (LFO).

OLCC committed to working with agents during the 2017-19 biennium to develop recommendations related to changes to the agents' compensation formula, in an effort to promote clarity, consistency, and to attempt to address concerns brought forward by liquor agents.

## Marijuana Program Regulation

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | -- | 9,706,047 | 7,851,121 | 14,340,613 |
| **Total Funds** | **--** | **$9,706,047** | **$7,851,121** | **$14,340,613** |
| Positions | -- | 37 | 28 | 61 |
| FTE | -- | 29.08 | 28.00 | 58.22 |

Program Description

In November of 2014, Oregon voters approved Ballot Measure 91. OLCC was tasked with regulating the new industry, resulting in a major change to the responsibilities of OLCC and required the agency to develop a regulatory framework in a short period of time. The program will move toward a transition from creating the initial recreational marijuana regulatory framework and initial licensing to annual licensing and compliance for 2017-19, while evaluating still more applicants thanks to wider-than-anticipated interest and changes to medical marijuana regulations under SB 1057. Duties include the following:

- Adoption and enforcement of regulations relating to growers, wholesalers, processors, and retailers.
- Ensuring utilization and reporting through a product tracking system which must be used by licensees when transferring marijuana-related products.
- Processing permits for workers in marijuana businesses.
- Inspections, seizures, citation, and arrest authority for recreational marijuana facilities.
- Regulation of marijuana concentrates and extracts in products.

- Working with the Oregon Health Authority to incorporate medical marijuana growers, producers, and dispensaries into tracking technology.
- Overseeing 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 continues to be in near constant motion. Budgeted resources are predicated on an estimated number of licensees, which have so far exceeded expectations at every turn. The existence of an existing unregulated market, initial volatility stemming from entrepreneurial enthusiasm, consumer demand, proliferation of start-up businesses 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 OLCC and OHA will return to the Legislature with updated and revised licensee numbers, staffing needs, and corresponding expenditure and revenue estimates after January 1, 2018, the deadline by which medical marijuana growers, processors, and dispensaries must file an application with OLCC if they intend to become OLCC licensees.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget nearly doubled from the 2015-17 legislatively approved budget. A total of 61 positions and $14.3 million in Other Funds expenditure limitation were approved as a result of growth in the number of assumed licensees and applications. Twenty-two regulatory specialists, three administrative specialists, and two compliance specialist positions were approved, as well as a reclassification of an existing position. Services and supplies costs include equipment and vehicles for enforcement officers who will be inspecting applicant and licensee grow sites, processing facilities, and retail establishments; training at the Department of Public Safety Standards and Training; and a calculated additional lease cost per new employee due to space constraints. Moving and initial training and equipment costs are intended to be phased out when the agency builds its budget for the 2019-21 biennium. The legislatively adopted budget for this Division provides for an estimated ending balance of nearly 3 months of operating expenditures, and anticipates $19.3 million in marijuana licensing and fee revenue from 1,974 active recreational licensees and 29,000 worker permits by the end of the 2017-19 biennium.

The passage of SB 1057 requires new procedures, policies, administrative rules, and personnel to allow for the tracking and inspection of OHA medical marijuana producers, processors, and retailers, as well as the regulation of packaging and labeling for medical marijuana products. Seven positions and $1.5 million in Other Funds expenditure limitation are included in the legislatively adopted budget to begin developing the regulatory and compliance structure, with additional enforcement personnel expected to be added in February 2018. Start-up costs for hiring staff and adding additional fields to the marijuana tracking system to accommodate medical marijuana growers will be funded by a transfer of $1.8 million in marijuana tax revenues from the Department of Revenue to OLCC. Ongoing operating costs related to medical marijuana tracking and inspections will be funded by a marijuana tax transfer of up to $1.25 million per quarter, pursuant to SB 1057. The precise amount will be determined in consultation with LFO based on agency need as dictated by the number of medical growers, processors and dispensaries that enroll in the cannabis tracking system. The Legislative Fiscal Office recommends that a separate budgeting structure be set up to track revenues and expenses related to costs associated with monitoring medical marijuana producers, processors, and retailers.

## Capital Improvements and Construction

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 212,973 | 5,311,810 | 227,943 | 227,943 |
| **Total Funds** | **$212,973** | **$5,311,810** | **$227,943** | **$227,943** |

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 made improvements to both facilities.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is a 95.7% decrease over the 2015-17 legislatively approved budget, which included one-time expenditures for repair and replacement of several sections of roof over the OLCC warehouse and office buildings, remediation of water damage, and repair and replacement of certain heating and cooling system components and a portion of the fire alarm system.

The 2017-19 legislatively adopted budget assumes routine maintenance, without specific major improvements, aside from the remodeling of commission meeting space included in expenditure limitation for the Marijuana Regulation program.

# OREGON PUBLIC BROADCASTING

Analyst: Siebert

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 492,500 | 750,000 | 500,000 | 500,000 |
| Lottery Funds | 546,157 | 2,013,018 | 3,005,802 | 1,572,415 |
| **Total Funds** | **$1,038,657** | **$2,763,018** | **$3,505,802** | **$2,072,415** |

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 over 20 radio stations, plus numerous translator/repeaters throughout Oregon and provides coverage for almost all parts of the state. 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. The base grant amount is $500,000, which was reduced to $492,500 in 2013-15 and raised by $250,00 on a one-time basis to $750,000 in 2015-17.

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 2017-19 legislatively adopted budget continues to cover debt service on lottery bonds. These payments for 2017-19 were lower than previously estimated, which is why Lottery Funds are down in 2017-19. The adopted budget also returned the operational support grant to the base amount of $500,000 General Fund for 2017-19.

# PUBLIC EMPLOYEES RETIREMENT SYSTEM

Analyst: Borden

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 81,931,164 | 108,240,199 | 97,369,583 | 98,448,004 |
| Other Funds (NL) | 9,027,953,765 | 9,863,458,062 | 10,994,171,000 | 10,994,171,000 |
| **Total Funds** | **$9,109,884,929** | **$9,971,698,261** | **$11,091,567,583** | **$11,092,619,004** |
| Positions | 369 | 380 | 377 | 373 |
| FTE | 363.99 | 380.00 | 377.00 | 372.29 |

Overview

The Public Employees Retirement System (PERS) administers the retirement system covering most 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 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 the Oregon Investment Council (OIC). The 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.

Revenue Sources and Relationships

PERS revenue comes from net (of investment expenses) investment earnings, employer contributions, employee contributions, and health insurance premium payments. There is also an administrative charge on the deferred compensation program (0.20% or .0020 of participant assets held in the trust) and an administrative fee assessed on participants and employers for Social Security Administration activities (rate of 50 cents per employee per year, or $15, whichever is higher), plus nominal miscellaneous revenue. PERS' Other Funds is funded by transfers of General, Lottery, Other and Federal Funds from participating PERS employers. In total, the agency expects to receive $20 billion in biennial revenues, including investment earnings, which is $14.3 billion; contributions, which is $4.9 billion; fees from employers and public employees (members), which is $760.3 million; and miscellaneous revenues, which is $50,000.

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 $98.5 million from earnings, which equates to the agency's Other Funds Limited budget.

Budget Environment

The budget environment for PERS is complex and evolving. While structurally, past legislative reforms have been effective in reducing PERS benefits; employer costs will continue to rise to pay the legacy costs of retirees, active, and inactive members and to offset lower assumed investment assumptions. Options for further reform, while possible, are constrained by the effectiveness of prior benefit reforms, legally by Supreme Court rulings allowing only prospective benefit reform, and financially by the current investment environment (i.e., lower return environment, high equity valuations, and low interest rates) and bonding capacity. Additionally, any future reform may disproportionately impact the retirement of employees whose pension benefits have yet-to-be earned, especially those employees participating in the newest retirement plan, the Oregon Public Service Retirement Plan. Oregon's PERS system is also a mature system, with 168,177 active members supporting about 136,298 retirees and beneficiaries (1.2 active member per retiree/beneficiary). The PERS system is consistently ranked as one of the most complex retirement systems in North American and one of the most expensive to administer.

The PERS pension system funding level, as of December 31, 2015, was $54.5 billion in assets and $76.1 billion in liabilities for a deficit of $21.7 billion; however, there is $5.6 billion of pre-paid employer contributions ("side accounts") that reduce the deficit to $16 billion and a funded status of 79%. Employer side accounts assets are primarily from the proceeds of pension obligation bonds. While some local jurisdictions continue to issue POBs, no additional issuances are expected by state government. Approximately 70% of the UAL is attributable to members who are no longer in PERS-covered employment. The Legislature enacted SB 1067, in part, to encourage more employers to make side account contributions.

The PERS Board establishes employer rates for approximately 900 employers including state agencies, universities, judges, school districts, and participating cities, counties, and special districts. Approximately 95% of Oregon's public sector employees are PERS members. The rates vary by pension plan and for general service and police and fire employees. In addition to pension and healthcare rates, employee contributions, some of which are paid by employers, can add an additional 6% to the employer contribution. PERS employer contribution rates do not include debt service costs on pension obligation bonds.

System-wide, the average employer rate in the 2017-19 biennium will be 27.40%, which includes 11.8% for normal cost increases, 9.6% for the unfunded liability, and 6% for the employee contribution. Rates, however, vary significantly by employer and account for adjustments due to rate collaring and employer side account contributions. The statewide average rate has also been reduced by the application of a rate collar methodology, which limits the biennium to biennium change in employer contribution rates.

Investment income provided approximately 73.4% of PERS' revenue from 1970-2015. Employer contributions provided 21.1%. Employee contributions provided the remaining 5.5%. The PERS Board recently voted to further lower the assumed earnings rate from 7.5% to 7.2% beginning on January 1, 2018. This action will increase future employer contribution rates beginning with the 2019-21 biennium. In the Spring of 2017, the Governor appointed a taskforce charged with identifying $5 billion in assets to be sold to pay down the UAL. The taskforce recommendations are due to the Governor before the end of 2017.

Beginning around 2011, concern was raised about the risk the IAP potentially places on PERS members at retirement. Given that IAP accounts are invested long-term in the same manner as the rest of the PERS portfolio, a market downturn at an inopportune time could jeopardize a portion of a PERS member's retirement. The OIC voted to move the IAP to a target-date solution with a more conservative portfolio mix, beginning January 1, 2018. The ramifications of this change to the approximate $8.2 billion IAP balance have not been fully identified, including the implication to future reform options.

There is a continuing trend with collective bargaining agreements between represented employees and state government for the 6% mandatory employee contribution to be paid by employees in exchange for a comparatively-valued increase in compensation. This trend has expanded during the 2017-19 biennium to include other unions and may include all other non-represented employees in the various branches of government.

Finally, long-standing information technology deficiencies at PERS, including cybersecurity, business continuity, and disaster recover, are a continued subject of Executive and Legislative Branch concern, as reflected in the prioritization and funding of these initiatives and associated budget notes, discussed below.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $11.1 billion is $1.1 billion (or 11.2%) more than the 2015-17 legislatively approved budget. Of this total, retirement and health benefit payments total $11 billion and is $1.1 billion (or 11.5%) more than the 2015-17 legislatively approved budget. The PERS operation budget totals $98.5 million and is $9.8 million (or 9%) less than 2015-17 legislatively approved budget and includes 373 positions (372.29 FTE).

The budget provides for an agency requested reorganization as well as funding for the development and implementation of: a Cybersecurity Program ($1.6 million); Disaster Recovery Program ($500,000); Business Continuity Program ($250,000); a disaster recovery warm site ($1.2 million); and completion of the Individual Account Program information technology project ($1.4 million). The budget also transfers two information technology positons to the Department of Administrative Services and eliminates six vacant positions ($1.3 million). The budget report includes four information technology-related budget notes, discussed under the Information Services and Compliance, Audit and Risk Divisions.

There were also statewide adjustments based on reductions in Department of Administrative Services assessments and charges for services, Attorney General rates, certain services and supplies, and additional vacancy savings expected as a result of a hiring slowdown.

Lastly, PERS implemented a reorganization plan effective July 1, 2015. The Department of Administrative Services (DAS) submitted, on May 4, 2016, a substantive program change report to Legislative Leadership and the Legislative Fiscal Office pertaining to the PERS reorganization, as required by ORS 291.373. With the fulfillment of the reporting requirement, the PERS reorganization plan proceeded, except for the proposed change to the Deputy Director position. This position was viewed as too important to be abolished, or reclassified, and the expectation was that the position be filled. A policy package was added by the Legislative Fiscal Office during the 2017 session to effectuate the reorganization in the budget, which included: (a) combining the Benefits Payments and the Customer Service Divisions into a single Operations Division; (b) creating a new Compliance, Audit, and Risk Division; and (c) eliminating the Policy Planning and Communications Division by moving these functions into the Compliance, Audit, and Risk Division, the Operations Division, and the director’s office. The reorganization creates a new level of management under the Executive Director by elevating former division directors to: a Chief Operations Officer (COO), a Chief Administrative Officer (CAO), a Chief Technology Officer CTO), and a Chief Compliance/Audit/ Risk Officer (CCO). These positions will continue in their roles as division administrators. A permanent finance plan to effectuate these changes has yet-to-be submitted. The Legislature’s instruction to the agency is that such costs are to be self-financed using vacant positions. The Legislature then added a Chief Financial Officer position to rectify what was felt to be an oversight in the agency’s reorganization plan.

## Tiers One and Two Pension Plans

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds (NL) | 6,854,601,568 | 8,262,947,862 | 9,083,000,000 | 9,083,000,000 |
| **Total Funds** | **$6,854,601,568** | **$8,262,947,862** | **$9,083,000,000** | **$9,083,000,000** |

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 (50% salary replacement), formula plus annuity (54% salary replacement), and money match (61% salary replacement), based on calendar year 2015 data.

Revenue Sources and Relationships

Other Funds revenue is mainly from employer contributions to the retirement system ($2.3 billion) and retirement trust fund investment earnings (about $12.5 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. This program unit's administrative costs are budgeted under various operational programs and are supported by revenue transfers from this program to those programs.

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 2016 assumed earnings rate of 7.50%, which had been 7.75% the previous year. The PERS Board recently voted to reduce the assumed earnings rate to 7.20% beginning in calendar year 2018. 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 2016 as net earnings on the Oregon Public Employees Retirement Fund totaled only 7.10%.

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 7.12% in calendar year 2016.

Budget Environment

Active and inactive membership totals 45,494 for Tier One for members (hired before January 1, 1996) and 55,715 for Tier Two members (hired on or after January 1, 1996 but before August 28, 2003). There are 16,961 active and 9,439 inactive Tier One members and 13,579 active and 6,654 inactive Tier Two members eligible to retire as of December 2016.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $9.1 billion Other Funds Nonlimited is $820 million (or 9.9%), more than the 2015-17 legislatively approved budget and is set at a level expected to cover projected retirement system benefit payments. The budget was increased based on an updated agency forecast of benefit payments.

## Oregon Public Service Retirement Pension Plan

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds (NL) | 11,141,211 | 28,926,864 | 39,000,000 | 39,000,000 |
| **Total Funds** | **$11,141,211** | **$28,926,864** | **$39,000,000** | **$39,000,000** |

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. The program unit's administrative costs are budgeted under various operational programs and are supported by revenue transfers from this program to those programs. OPSRP revenue totals approximately $1.2 billion for employer contributions and $604 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 7.12% for 2016.

Budget Environment

There are 97,756 active and 12,061 inactive ORSRP members, as of December 2015, with 18,782 active and 4,920 inactive OPSRP members eligible to retire as of December 2016.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $39 million Other Funds Nonlimited is $10.1 million (or 34.8%), more than the 2015-17 legislatively approved budget and is set at a level expected to cover projected retirement system benefit payments.

### Individual Account Program

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds (NL) | 461,093,184 | 873,488,891 | 1,056,900,000 | 1,056,900,000 |
| **Total Funds** | **$461,093,184** | **$873,488,891** | **$1,056,900,000** | **$1,056,900,000** |

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 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.

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. There were over 15,600 distributions of varying amount in 2015.

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 beginning with the 2015-17 biennium have the employee paying the 6% contribution in exchange for off-setting salary and wage increases, which is a trend continuing into the 2017-19 contract negotiations for additional collective bargaining agreements and compensation plan changes. Other Funds revenue from employer contributions totals $1.1 billion with $1.1 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 7.14% for 2016.

Budget Environment
There were 262,096 active IAP accounts, as of December 31, 2016, with an average IAP account balance of $29,129. That same year there were 16,213 withdrawals and the total value of all IAP accounts was $7.6 billion.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $1.1 billion is $183.4 million (or 21%), more than the 2015-17 legislatively approved budget and is set at a level expected to cover projected retirement system benefit payments. This program is made up entirely of Other Funds Nonlimited expenditures. The increase is due to anticipated retirements. Also, please see the IAP information technology project under the Information Services Division. This project is in its third and final phase to bring the administration of the IAP in-house. Currently, a third-party administrator manages the IAP at a cost of approximately $2.2 million per year. Phase-III of the project, however, has faced scope, schedule, and budget challenges.

**Oregon Savings Growth Plan (non-budgeted program)**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds (NL) | -- | -- | -- | -- |
| **Total Funds** | **--** | **--** | **--** | **--** |

Program Description
The Legislature in 1997 established a *voluntary* deferred compensation plan for state and local governments entitled the Oregon Savings Growth Plan (OSGP). Statute established a seven-member Deferred Compensation Advisory Committee that reports to the PERS Board.

The OGSP is a federally authorized Internal Revenue Service 457(b) deferred compensation plan. Traditional 457 (pre-tax) and Roth 457 (after-tax) plans are offered as options. There is no state funding of the OSGP, state matching funds, or guarantees of underlying investments or investment returns. The plan is administered by PERS, but funds are deposited with, and invested by, a private third-party administrator. Additionally, some non-state agency entities (e.g., community colleges) may offer similar, but alternative options to the OSGP.

The OGSP is funded with voluntary member contributions and member self-direct investments from approximately 19 options with varying degrees of risk. Funds are distributed at the time of an employee's retirement, resignation from state service, death, disability, unforeseen emergency, or de minims distribution from inactive accounts valued at less than $5,000. OSGP also offers a loan program to eligible participants.

Revenue Sources and Relationships
An OGSP account earns a market rate of return based on selected investment option. 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 0.20% (.0020) of participant assets held in the trust. The cost of a third-party administrator contracts for recordkeeping and financial services are an additional cost above those of PERS.

Budget Environment
In total, the OSGP has assets of $1.9 billion and 28,124 total participants, as of March 31, 2017. An average of these two amounts equals $68,342 per participant. Of the total participants, 17,026 (or 60%) are active and contributing. The average contribution across all age groups is $433 per month. There are 1,601 participants with loans against their account balance of which 1,539 are general loans and 62 are residential. 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.

Legislatively Adopted Budget
OGSP funds and distributions are not included in the state budget as they are deposited with, and invested by, a private third-party administrator (Voya Financial). PERS costs to administer the program are budgeted under the Financial and Administrative Services Division.

### Retirement Health Insurance Programs

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds (NL) | 449,860,818 | 558,094,445 | 815,271,000 | 815,271,000 |
| **Total Funds** | **$449,860,818** | **$558,094,445** | **$815,271,000** | **$815,271,000** |

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, which including funding for any unfunded liability. These funds are held in the Public Employees Retirement Fund. 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 2015, there were 59,803 SRHIA members in one of four medical plans, of which 57,192 were Medicare and 2,611 were non-Medicare. There were 36,990 members in one of two dental plans and 2,094 members in a long-term care plan. Statutory health insurance premium subsidies are provided to 44,880 RHIA members and 1,274 RHIPA members.

The RHIA funding level, as of December 31, 2015, was $419.3 million in assets and $465.6 million in liabilities for an unfunded liability of $46.3 million. RHIPA has $11.2 million in assets and $67.8 million in liabilities for an unfunded liability of $56.6 million.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $815.3 million is $257.2 million (or 46.1%), more than the 2015-17 legislatively approved budget and is set at a level expected to cover projected retirement system benefit payments. This program is made up entirely of Other Funds Nonlimited expenditures. The increase is due to an increase in retirees and the rising cost of insurance premiums.

### Central Administration Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 2,273,544 | 3,639,324 | 3,977,901 | 3,451,379 |
| **Total Funds** | **$2,273,544** | **$3,639,324** | **$3,977,901** | **$3,451,379** |
| Positions | 9 | 10 | 10 | 14 |
| FTE | 9.00 | 10.00 | 10.00 | 14.00 |

Program Description
Central Administration, in conjunction with the PERS Board, provides the direction, planning, and leadership for PERS. The division consists of the Board, executive director, deputy director, and policy staff.

Revenue Sources and Relationships
Revenue transfers from earnings on the invested funds support the program.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $3.5 million is $187,945 (or 5.2%), less than the 2015-17 legislatively approved budget and includes 14 positions (14.00 FTE). The budget includes an adjustment related to the agency reorganization. The Legislature noted an ongoing concern that the Deputy Director position has been vacant since the departure of the former Executive Director in 2014 and directed that the agency to competitively recruit for and hire the Deputy Director position.

### Benefits Payments Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 11,233,344 | 14,767,549 | 15,187,454 | -- |
| **Total Funds** | **$11,233,344** | **$14,767,549** | **$15,187,454** | **--** |
| Positions | 79 | 80 | 80 | -- |
| FTE | 79.00 | 80.00 | 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 2017-19 legislatively adopted budget eliminates the Benefit Payments Division as a separate program and moves the funding and position authority into a newly established Operations Division as part of an agency-requested reorganization plan. Prior to this consolidation, one position (0.79 FTE) vacant for more than six months and the associated services and supplies were eliminated for a reduction of $102,134 Other Funds.

### Financial and Administrative Services Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 17,476,710 | 28,316,828 | 23,460,776 | 22,886,280 |
| **Total Funds** | **$17,476,710** | **$28,316,828** | **$23,460,776** | **$22,886,280** |
| Positions | 63 | 62 | 62 | 62 |
| FTE | 58.78 | 62.00 | 62.00 | 62.50 |

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 and health insurance programs. 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.

Revenue Sources and Relationships
Revenue transfers from earnings on the invested funds support the program.

Budget Environment
Annually, PERS contracts with a firm to benchmark the agency's benefit administrative efficiency against peer retirement systems. According to the most recent study (2015), "Oregon PERS has one of the highest plan design complexity scores among the North American Universe. High complexity impacts both productivity and back-office costs." The study further notes that "PERS pension administration cost was $128 per active member and annuitant. This was $26 above the peer average of $102." The reasons are: lower transactions per full-time equivalent and higher costs for back-office activities, primarily information technology.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $22.9 million is $5.4 million (or 19%), less than the 2015-17 legislatively approved budget and includes 62 positions (62.50 FTE). The budget includes:

- $778,524 Other Funds reduction related to the agency reorganization; and one position (0.42 FTE) vacant for more than six months and the associated services and supplies was eliminated.
- $209,443 Other Funds and provides for one permanent full-time Principal Executive Manager G (0.92 FTE) to serve as the agency's Chief Financial Officer.
- $17,732 Other Funds reduction to resolve a State Government Service Charges budgeting error at the current service level.

**Information Services Division**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 20,758,784 | 30,136,087 | 23,864,215 | 27,016,390 |
| **Total Funds** | **$20,758,784** | **$30,136,087** | **$23,864,215** | **$27,016,390** |
| Positions | 76 | 75 | 72 | 71 |
| FTE | 76.00 | 75.00 | 72.00 | 69.54 |

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 2017-19 legislatively adopted budget of $27 million is $3.1 million (or 10.4%) less than the 2015-17 legislatively approved budget and includes 71 positions (69.54 FTE). The budget includes funding for three information technology related packages:

- $1.6 million Other Funds for the developing and implementation of a Cybersecurity Program. The three information security positions requested by the agency, as part of this package, are included in the Department of Administrative Services (DAS) – Office of the Chief Financial Officer (OSCIO) budget, per SB 90 (2017) – Unifying Security in Oregon.
- $500,000 Other Funds for the development and implementation of a Disaster Recovery Program.
- $1.2 million Other Funds for the development and implementation of a disaster recovery warm site.
- $1.4 million and 3 limited duration positions (1.50 FTE) for the third and final phase of development of the Individual Account Program.
- $496,921 Other Funds reduction and two information security positions (2.00 FTE) that were transferred to the Department of Administrative Services, Office of the Chief Information Officer, per SB 90 (2017) – Unifying Cyber Security in Oregon.
- $381,097 Other Funds reduction and two positions (1.96 FTE) vacant for more than six months and the associated services and supplies were eliminated.

The budget report includes four budget notes. Two are related to the development and implementation of a cybersecurity program, Disaster Recovery Program, Business Continuity Program, and disaster recovery warm site. One is related to reporting on the Individual Account Program information technology project. The final budget note is related to the completion of a comprehensive State Data Center usage analysis. Responses to these budget notes will help inform any additional funding requests for Cybersecurity, Disaster Recovery, and the Individual Account Program projects.

**Customer Service Division**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 16,297,739 | 20,877,552 | 23,391,147 | -- |
| **Total Funds** | **$16,297,739** | **$20,877,552** | **$23,391,147** | **--** |
| Positions | 115 | 127 | 127 | -- |
| FTE | 114.75 | 127.00 | 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 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 2017-19 legislatively adopted budget eliminates the Customer Service Division as a separate program and moves the funding and position authority into a newly established Operations Division as part of an agency-requested reorganization plan. Prior to this consolidation, one position (1.00 FTE) vacant for more than six months and the associated services and supplies were eliminated for a reduction of $118,610 Other Funds.

**Policy, Planning, and Communications Division**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 5,690,924 | 6,717,315 | 7,515,090 | -- |
| **Total Funds** | **$5,690,924** | **$6,717,315** | **$7,515,090** | **--** |
| Positions | 27 | 26 | 26 | -- |
| FTE | 26.46 | 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 2017-19 legislatively adopted budget eliminates the Policy, Planning, and Communications Division as a separate program and moves the funding and position authority into other divisions within the agency as part of an agency-requested reorganization plan. Prior to this consolidation, one position (0.96 FTE) vacant for more than six months and the associated services and supplies were eliminated for a reduction of $146,659 Other Funds.

### Operations Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | -- | -- | -- | 38,293,457 |
| **Total Funds** | **--** | **--** | **--** | **$38,293,457** |
| Positions | -- | -- | -- | 209 |
| FTE | -- | -- | -- | 209.21 |

Program Description

The Operations Division is comprised of the former Benefits, Customer Service, and parts of the Policy, Planning and Communications Divisions as part of an agency-requested reorganization plan. The new Division houses the Benefit Application and Intake and Processing section, as well as the Retirement Services and Specialty Services sections. Benefit payments 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. The new Division also includes Customer Service, which provides the window for member, employer, and public interaction with PERS, including Member Information and Employer Service Centers, which directly interface with members and employers. Customer Services 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. Customer Services is also responsible for producing benefit estimates and member account statements. Additionally, Customer Services 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 2017-19 legislatively adopted budget of $38.3 million includes 209 positions (209.21 FTE). The adopted budget establishes the Operations Division as a separate program by transferring funding and positions from the former Benefits, Customer Service, and Policy, Planning and Communications Divisions.

### Compliance, Audit, and Risk Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | -- | -- | -- | 6,800,498 |
| **Total Funds** | **--** | **--** | **--** | **$6,800,498** |
| Positions | -- | -- | -- | 17 |
| FTE | -- | -- | -- | 17.04 |

Program Description

The Compliance, Audit, and Risk Division handles policy and compliance functions to insure state and federal law requirements are being met through agency policy development, administrative rules, and appeals and contested cases over agency determinations. This division also is responsible for enterprise risk management and information security, internal audit services, as well as the Social Security Program.

Revenue Sources and Relationships
Revenue transfers from earnings on the invested funds support the program. For 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 approximately $400,000.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget is $6.8 million and includes 17 positions (17.04 FTE). The adopted budget establishes the Compliance, Audit and Risk Division as a separate program by transferring funding and positions from the Central Administration and the Financial and Administrative Services Divisions as part of an agency-requested reorganization plan. Adjustments include the addition of $250,000 Other Funds for the development and implementation of a Business Continuity Program.

## Debt Service

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 3,140,326 | 1,290,750 | -- | -- |
| Other Funds (NL) | 1,286,573 | -- | -- | -- |
| **Total Funds** | **$4,4426,889** | **$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 was fully repaid by May 2017.

Revenue Sources and Relationships
Revenue transfers from earnings on the invested funds support the program.

Legislatively Adopted Budget
With the retirement of all outstanding debt, Debt Service funding is no longer required.

## RACING COMMISSION

Analyst: Deister

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 5,146,512 | 6,279,468 | 6,443,325 | 6,353,396 |
| **Total Funds** | **$5,146,512** | **$6,279,468** | **$6,443,325** | **$6,353,396** |
| Positions | 15 | 14 | 14 | 14 |
| FTE | 13.27 | 12.27 | 12.27 | 12.27 |

Overview

The Oregon Racing Commission regulates all aspects of the pari-mutuel industry in Oregon. The five-member Commission appointed by the Governor, and is charged with setting policy, approving race meet licenses and dates, and acting in a quasi-judicial capacity for appeals, referrals from stewards hearing orders, and other matters involving alleged violations of racing statutes and rules. The Commission oversees horseracing at Portland Meadows racetrack and at five county fair race meets. The Commission also regulates off-site simulcast races and Multi-Jurisdictional Simulcasting and Interactive Wagering Totalizer Hubs (Hubs), which are internet-based wagering companies. Regulatory activities include licensing, inspections, and investigations of irregularities, with the goal of ensuring the integrity of the sport, ensuring safety for the participants, animals, and the public, and promoting horse racing in Oregon.

Administration for the agency consists of the Executive Director, and staff responsible for the day-to-day operation of the agency, including budget, personnel, and finance activities. Two Racing Stewards report to the Executive Director and provide onsite supervision of live race meets (a third is steward is supplied by the racing venue); these individuals monitor races, determine winners, have the authority to overrule any other race meet official, and can impose fines based on race irregularities or violations. Two Commission Veterinarians are responsible for monitoring health, safety, and welfare of the race horses, monitoring and supervising test barn protocol (testing horses for performance enhancing drugs and ensuring the validity of samples), and making policy recommendations regarding chemical testing and authorized medications for equine athletes.

Investigations and licensing are conducted by a chief investigator and two, full-time staff investigators. Investigators conduct background investigations on all individuals applying for licenses, take samples from human race meet participants, and monitor those who test positive for substances and are participating in mandatory drug treatment and rehabilitation. Investigators also investigate alleged violations of racing statutes and rules, and provide surveillance of activities of personnel and patrons.

Multi-jurisdictional Hub operations are supervised by one position which tracks and audits financial reports, reviews applications, makes recommendations to the commission on new hub applications, researches new information technology applications, and evaluates requests made by hubs to their operating plans. Other financial related activities include evaluating simulcast contracts and auditing Pari-mutuel transactions to ensure that money wagered is properly accounted for in the totalizer system, payouts are correct, and distribution is accurate and timely.

Revenue Sources and Relationships

The Racing Commission is supported entirely by Other Funds from licensees. There are approximately 3,700 active licensed participants in Oregon, and licenses are required for all aspects of race meet participants (jockeys, trainers, agents, farriers, grooms, exercise persons, HUB employees, owners, pony riders, vendors, vets, stable/breeders, and anyone else participating in a race meet), as well as from licensed Hubs. There are currently nine licensed Hubs in Oregon, the revenue from which largely supports live racing at county fairs, and has contributed to efforts to sustain Oregon's only commercial race meet, at Portland Meadows. Revenue from Hubs consist of a per diem licensing fee of $200 per day, and a tax of .25 of 1% on the pari-mutuel handle, not to exceed $687,810 for fiscal year 2018 and $705,005 for fiscal year 2019. Hub revenue for the 2017-19 biennium is estimated at $4.5 million, of which $3.3 million will be distributed to the racing development fund, $1.1 million will be distributed to the state General Fund, and $2.5 million to Commission operations. This amount is roughly equivalent to revenue collected in the 2015-17 biennium. The racing development fund supports race meet purses and other activities that promote the racing industry in Oregon. Licensing revenue from advance deposit wagering companies (ADWs) and live racing participants is estimated at $1,456,400 for the 2017-19 biennium. Fines, forfeitures, and charges for service make up the smallest portion of agency revenue, at $310,000.

Budget Environment

Uncertainty continues in Oregon and in many other states regarding the future of smaller tracks and race meets. Revenue is largely flat, while expenses for the agency and race meet participants are rising. Public perceptions about equine health and safety may contribute to a lack of engagement with younger consumers, along with competition from state-run lotteries, video poker, online pari-mutuel wagering, and tribal casinos for gamblers. Meanwhile, the core racing demographic continues to age. Portland Meadows is the only remaining commercial meet in Oregon, and in previous years, the company has waited until the end of June before announcing whether it would conduct a race meet in the coming autumn. Opening day for Portland Meadows will be October 2, 2017 and will run through January 29, 2018.

Other states are competing with Oregon to attract new and existing Hubs. If existing Hubs relocate, Oregon will lose the daily per diem licensing fee and the tax revenue, which has been essential to supporting purses and expenses at live race meets around Oregon.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $6,353,396 represents a 1.2% increase from the 2015-17 legislatively approved budget. Standard adjustments were made to state government service charges and Attorney General rates, resulting in a budget that is roughly equivalent to the 2017-19 current service level. This budget leaves the Oregon Racing Commission with an estimated ending balance of approximately $669,612 which is equivalent to about 2.5 months of operations including special payments. Special payments make up 43% of the agency's expenditures, and include distributions to the racing development fund.

The Legislature directed the Commission to provide additional detail when reporting on its key performance measure #1, related to equine safety. The agency was directed to report on the number of catastrophic industries experienced in Oregon, as well as the rate of injuries as a percentage of total starts, to provide context and additional transparency.

## DEPARTMENT OF REVENUE

Analyst: Borden

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 160,778,293 | 192,458,207 | 210,070,974 | 188,533,904 |
| Other Funds | 49,798,657 | 138,309,985 | 115,770,126 | 124,776,501 |
| **Total Funds** | **$210,576,950** | **$330,768,192** | **$325,841,100** | **$313,310,405** |
| Positions | 1,063 | 1,087 | 1,079 | 1,007 |
| FTE | 1,009.28 | 1,020.68 | 1,020.37 | 933.85 |

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

There are two aspects of the revenue collected by DOR: statewide and internal agency funding. DOR collects personal income taxes, corporate excise and income taxes, and many other taxes and fees on behalf of other state agencies and local governments. For the 2017-19 biennium, DOR is estimated to collect $17.5 billion in personal income taxes and $1 billion in corporate excise and income taxes. DOR is also responsible for collecting a variety of other taxes such as: Other Employee-Employer Taxes, Cigarette Tax, Other Tobacco Products Tax, severance taxes, amusement taxes, privilege taxes, inheritance taxes, business license and fees, and fines and forfeitures. The Department's budget transfers this revenue to the General Fund, and other state and local governments.

The second aspect of DOR's revenue is to fund agency operations, whose primary revenue source is General Fund. DOR's administrative Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, assessments, and collections and used to pay for the cost of administering these taxes or program, which include: Other Employee-Employer Taxes, Cigarette Tax, Other Tobacco Products Tax, recreational Marijuana Tax, transportation taxes, and a host of smaller taxes.

In addition to these revenues supporting administrative work, 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, and Article XI-Q bonds (for the Core Systems Replacement project).

Budget Environment

DOR relies upon a voluntary tax compliance model. 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. 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.

Other additional statutory responsibilities include administration of new transportation taxes and the centralization of all debt collection practices across state government with DOR. Of particular note is that DOR has successfully implemented the recreational marijuana program this last biennium. There is continued interest in restructuring and reforming the state's tax structure and reforming inequities in the property tax system may place additional demands on the agency.

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 the increase in the volume of accounts receivable assigned to the agency; reducing unidentified and unpaid taxes ("tax gap"); continued implementation of the recreational marijuana tax; implementing transportation taxes; and the prevention of tax fraud. The agency has struggled in the past balancing the goal of collecting the debt owed the state with what has at times been overly aggressive collections tactics.

Another challenge includes a long-standing and systemic decline in County Assessment Function Funding Assessment account revenue in the Property Tax Division. Additionally, while 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, there can be concern that 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. 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.

Finally, the 2017-19 budget reflects legislative efforts to seek improvements to the agency's operations. The legislative recommendations focused on six core principles: safeguarding revenue generating capability and improving collections; restoring legislative budgetary control; improving financial management; improving and enhancing customer service; conducting an external organizational review; and providing for a period of stabilization until automation is fully operationalized. Budgetary actions are linked to these six core principles and include: investments in the Core Systems Replacement project; implementation and restarting a project to modernize the processing of tax returns; adding financial management staff; funding for an external audit; funding for an external management assessment; adding customer service staff; aligning the budget with forecasted activities; and eliminating 86 of 175 vacant positions. The budget report includes nine budget notes related to: a feasibility study related to the establishment of a Collections Division; a comprehensive external audit; a state accounting and budget review; an external Outcome-Based Management assessment; a review of personnel practices and legislatively authorized positions; restarting the Processing Center Modernization Project; improving delivery of taxpayer assistance; a 2018 Tax Season Readiness report; and Core Systems Replacement Project reporting.

<u>Legislatively Adopted Budget</u>

The 2017-19 legislatively adopted budget of $313.3 million is $17.5 million (or 5.3%) less than the 2015-17 legislatively approved budget and includes 1,007 positions (933.85 FTE). The reduction largely reflects the phase-out of one-time information technology expenditures from the prior biennium budget and the elimination of 86 of 175 vacant position.

The budget includes: $11.1 million Other Funds (Article XI-Q bonding; cash carryforward from previously issued bonds; marijuana tax proceeds; and transportation-related taxes) and 32 limited duration positons (8.00 FTE) for the final phase of the Core [tax] Systems Replacement project (CSR) plus $1.1 million for vendor contract maintenance costs and non-bondable expenditures. In addition, $4.6 million General Fund and $869,380 Other Funds was provided for heightened vendor support of the CSR post-implementation. The budget also includes

$1.4 million General Fund and $120,000 Other Funds to restart a project to integrate document scanners with the CSR project.

Staff were added to bolster financial management ($768,842) and customer service activities ($152,235). Funding was also provided for a comprehensive external audit ($150,000) as well as for an external performance management assessment of the agency ($350,000). The budget eliminated 86 vacant positions ($13 million) and transferred three information technology positons to the Department of Administrative Services ($856,772). There was also a $1 million General Fund decrease to the Nonprofit Housing program to align the program budget with forecasted expenditures.

The existing budgeted cost of administering the state marijuana tax was consolidated into a single program. The program budget totals $4.6 million and includes 15 positions (14.25 FTE). Additional funding was provided to complete a major remodel of the Cash Transaction Unit space in the Salem Headquarters building, which will bring the total estimated project costs to $1.33 million, of which $1 million is funding for the 2017-19 biennium. Funding was also provided for enhanced building security ($164,000) due to the volume of cash transactions managed by the agency.

New funding was provided for the administration of taxes under the transportation package and included $3.9 million Other Funds and eight positions (4.25 FTE). Additionally, SB 1067 directed the centralization of all debt collection practices across state government with DOR. The operative date of this change is July 1, 2018. The associated adjustment to the agency budget will occur during the legislative session in 2018.

There were also statewide adjustments based on reductions in Department of Administrative Services assessments and charges for services, Attorney General rates, certain services and supplies, and additional vacancy savings expected as a result of a hiring slowdown.

## Executive Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 6,852,310 | 7,626,736 | 8,250,788 | 8,527,039 |
| Other Funds | 1,087,472 | 1,092,212 | 1,103,560 | 1,101,893 |
| **Total Funds** | **$7,939,782** | **$8,718,948** | **$9,354,348** | **$9,628,932** |
| Positions | 38 | 39 | 39 | 39 |
| FTE | 37.20 | 37.58 | 38.20 | 38.20 |

Program Description

The Executive Division is responsible for overall administration of the agency and for coordinating the agency’s legislative, rulemaking, communications, human resources, facilities, and internal audit functions.
The Executive Division staff provide overall leadership and direction for the agency’s programs and divisions. They also coordinate the Department’s legislative, rule-making, and internal auditor activities. The Communications unit provides the means for the agency to educate and communicate with taxpayers, stakeholders, and external partners. This unit creates forms and publications, maintains the agency’s Web site, and handles media contacts. The Human Resources Unit provides general oversight of the agency’s relationship with its employees.

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 2017-19 legislatively adopted budget of $9.6 million is $909,984 (or 8.4%) more than the 2015-17 legislatively approved budget and includes 39 positions (38.20 FTE). The adopted budget includes:

- $138,000 General Fund and $12,000 Other Fund for a contract for a comprehensive external audit of the agency.
- $322,000 General Fund and $28,000 Other Funds for an Outcome-Based Management Assessment by a private firm.
- $12,306 Other Funds expenditure limitation reduction to consolidate marijuana-related expenditures from across the agency into a single Marijuana program.

## General Services Section

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 10,020,447 | 12,446,804 | 12,584,910 | 6,323,079 |
| Other Funds | 2,259,013 | 3,717,630 | 3,907,616 | 3,169,012 |
| **Total Funds** | **$12,279,460** | **$16,164,434** | **$16,762,526** | **9,492,091** |
| Positions | 13 | 14 | 14 | 10 |
| FTE | 13.00 | 13.25 | 13.25 | 10.00 |

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, some 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, which is 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. The revenue DOR collects from personal income taxes, corporate excise and income taxes, and many other taxes and fees on behalf of other state agencies and local governments is accounted for as revenue under this Program.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $9.5 million is $6.7 million (or 41.3%) less than the 2015-17 legislatively approved budget and includes 10 positions (10.00 FTE).

- $5.6 million General Fund and $619,888 Other Funds were reduced and transferred to operating programs in order to better reflect the actual budget and expenditures of each program.
- $702,500 in General Fund and $67,512 in Other Funds were reduced with the elimination of three positions (3.00 FTE) vacant for more than six months and the associated services and supplies.
- $38,832 Other Funds reduction and one position (0.25 FTE) to consolidate marijuana-related expenditures from across the agency into a single Marijuana program.

**Administrative Services Division**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 42,364,160 | 46,398,481 | 50,079,238 | 49,148,848 |
| Other Funds | 6,328,172 | 9,086,011 | 9,080,304 | 9,136,013 |
| **Total Funds** | **$48,692,332** | **$55,484,492** | **$59,159,304** | **$58,284,861** |
| Positions | 245 | 256 | 247 | 217 |
| FTE | 205.06 | 212.23 | 210.29 | 186.32 |

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 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 2017-19 legislatively adopted budget of $58.3 million is $2.8 million (or 5%) more than the 2015-17 legislatively approved budget and includes 217 positions (186.32 FTE). The adopted budget includes the following:

- $4.6 million General Fund and $869,380 Other Funds to fund two critical investments for the Core Systems Replacement project: $3.6 million, on a one-time basis, for post-implementation Gentax software maintenance, support, and upgrades, as well as on-site contractor personnel to fund at the highest level of support offered by the vendor (Level #3); and $1.8 million to pay for additional data center charges due to the system's need for additional server space at the State Data Center.
- $3 million General Fund and $255,499 Other Funds reduction and 28 positions (20.80 FTE) to eliminate vacant positions and the associated services and supplies.
- $1.4 million General Fund and $120,000 Other Funds, on a one-time basis, for the Processing Center Lifecycle Project to purchase the software needed to integrate the Department's document scanners with Gentax, the Department's core system.
- $979,619 Other Funds reduction and five positions (5.00 FTE) to consolidate marijuana-related expenditures from across the agency into a single program.
- $751,437 General Fund and $105,335 Other Funds reduction and three positions (3.00 FTE) to account for the move of three information security positions to the Department of Administrative Services – Office of the State Chief Information Officer, in accordance with Executive Order 16-13 and SB 90.
- $601,479 General Fund $19,868 Other Funds reduction with $250,000 coming from lower postage costs and $177,160 General Fund reduction to information technology contract services.
- $430,429 General Fund $37,428 Other Funds and two positions (2.00 FTE) for a permanent full-time Accounting Manager and a permanent, full-time Fiscal Analyst 2 position to address ongoing financial management issues within the agency.
- $276,906 General Fund and $24,079 Other Funds and one position (1.00 FTE) to restore the agency's Finance Manager.
- $187,277 Other Funds reduction to services and supplies.

## Property Tax Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 11,851,535 | 14,067,777 | 14,593,676 | 14,555,929 |
| Other Funds | 7,629,901 | 43,550,600 | 41,493,192 | 42,782,014 |
| **Total Funds** | **$19,481,439** | **$57,618,377** | **56,086,868** | **$57,337,943** |
| Positions | 94 | 87 | 88 | 81 |
| FTE | 93.03 | 83.96 | 83.92 | 77.87 |

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 manages the Oregon Map Project (ORMAP), and the Cadastral Information Systems program. 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. PTD also manages the Senior Property Deferral Program, which is discussed in greater detail under the "Senior Property Deferral Program" program area.

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. 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 2017-19 biennium is projected to total approximately $40 million (spring of 2017). 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. Long-standing and systemic funding issues with the CAFFA and the PTD remain to be resolved. Funding for ORMAP comes from a $1 addition to document recording fees. Declining contract services revenue due to lack of county participation is creating a revenue shortfall in the Cadastral program.

Budget Environment

There are approximately 850 industrial sites and 600 central assessment companies across the state.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $57.3million is $280,434 (or 0.5%) less than the 2015-17 legislatively approved budget and includes 81 positions (77.87 FTE). The budget includes:

- $2 million General Fund and $187,275 Other Funds for the Attorney General line-item based upon a transfer from the General Services Program to better reflect the actual budget and expenditure of each program.
- $350,000 General Fund reduction for Attorney General charges.
- $1.5 million Other Funds for CAFFA Special Payments to counties to reconcile to the most recent revenue forecast.
- $978,415 General Fund and $149,872 Other Funds reduction and seven positions (6.05 FTE) vacant for more than six months and the associated services and supplies.

### Personal Tax and Compliance Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 62,393,809 | 69,483,713 | 75,027,899 | 70,350,306 |
| Other Funds | 541,444 | 1,035,125 | 1,742,883 | 1,602,195 |
| **Total Funds** | **$62,935,253** | **$70,518,838** | **$76,770,782** | **$71,952,501** |
| Positions | 429 | 430 | 428 | 399 |
| FTE | 421.91 | 422.81 | 420.90 | 391.90 |

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. DOR has implemented 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. This effort has sometime had unintended consequences for legitimate tax filers, whose return may have been mistakenly suspected as being fraudulent. Lastly, the program is continuing in its effort to write-off past-due accounts receivables.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $72 million is $1.4 million (or 2%) more than the 2015-17 legislatively approved budget and includes 399 positions (391.90 FTE). The budget includes:

- $4.9 million General Fund and $99,987 Other Funds reduction and 30 positions (30.00 FTE) vacant for more than six months and the associated services and supplies.
- $2.2 million General Fund and $3,748 Other Funds for the Attorney General line-item based upon a transfer from the General Services Program to better reflect the actual budget and expenditure of each program.
- $149,190 General Fund and $3,045 Other Funds and a new permanent, full-time Public Service Representative 4 position was established to improve customer service for tax practitioners.
- $134,613 General Fund reduction associated with the remodeling of the Portland Office building.

## Business Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 18,701,867 | 20,215,617 | 22,456,654 | 20,916,721 |
| Other Funds | 12,788,093 | 17,690,732 | 18,174,583 | 17,184,834 |
| **Total Funds** | **$31,489,960** | **$37,906,349** | **$40,631,237** | **$38,101,555** |
| Positions | 212 | 217 | 217 | 205 |
| FTE | 207.41 | 211.74 | 212.41 | 198.81 |

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 are 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. Other Agency Accounts (OAA) offers two collection services for monies owed to 180 public sector agencies: refund offsets only and full collection services. 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 2017-19 legislatively adopted budget of $38.1 million is $195,206 (or 0.5%) more than the 2015-17 legislatively approved budget and includes 205 positions (198.81 FTE). The budget includes:

- $2.3 million General Fund and $106,431 Other Funds reduction and 14 positions (13.02 FTE) vacant for more than six months and the associated services and supplies.
- $1.5 million General Fund and $428,865 Other Funds for the Attorney General line-item based upon a transfer from the General Services Program to better reflect the actual budget and expenditure of each program.

- $1.4 million Other Funds reduction and three positions (3.00 FTE) to consolidate marijuana-related expenditures from across the agency into a single Marijuana program.

**Marijuana Program**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | -- | -- | -- | 4,550,943 |
| **Total Funds** | **--** | **--** | **--** | **$4,550,943** |
| Positions | -- | -- | -- | 15 |
| FTE | -- | -- | -- | 14.25 |

The 2015-17 legislatively approved budget and current service level are budgeted under the Executive, Administration, and Business Divisions. The first budget for the marijuana state tax was authorized during the 2015-17 biennium and thus there are no actual expenditures for prior biennia.

Program Description

The Marijuana Program is a new program in the Department's budget to account for the costs of administering the Marijuana Tax, including administration, accounting staff, processing staff, and contracts for services.
The 2015 Legislature passed a series of measures to implement Ballot Measure 91 (November 2014) to provide for the sale of recreational marijuana, subject to the approval of local jurisdictions. DOR was assigned responsibility to collect recreational marijuana tax receipts. During the 2016 session, DOR received the statutory authority to also collect local taxes. During the 2017 session, the statutory authority surrounding the recreational marijuana tax, tax distributions, forecasting, and revenue allocation were either added or modified.

Revenue Sources and Relationships

DOR's expenses are funded from gross marijuana tax proceeds received by the agency with the remainder to be deposited into the Oregon Marijuana Account. The funds in this account are now subject to allocation and a slightly modified statutory distribution. There is no statutory cap on the level of administrative and enforcement expense DOR may retain. Statute now assigns the Department of Administrative Services, Office of Economic Analysis with the responsibility of producing quarterly marijuana revenue forecasts.

Budget Environment

All recreational marijuana cash collection, statewide, is occurring at the agency's Salem headquarters building. Taxpayers must make appointments with DOR in order to make marijuana related tax payments. While taxes are to be paid quarterly, by administrative rule DOR has directed monthly payments. DOR anticipates a high compliance rate by marijuana retailers due to licensure requirements and other regulatory authorities of the Oregon Liquor Control Commission; therefore, no resources were added for enforcement. Additionally, no new resources were added for revenue collection activities, which the Department states can be absorbed within its current budget. DOR's processing of marijuana cash receipts is accomplished in an integrated fashion with the agency's current banking, electronic funds transfer, and miscellaneous cash receipting. The agency reports that recreational marijuana cash unit staff are being used for other activities, when not needed for recreational marijuana cash processing. The volume of cash processing has resulted in security investments in the agency, primarily contracts with the Department of State Police.

Overall questions remain about Congressional action and the federal government's enforcement of federal law related to recreational marijuana given the change in the federal administration. The ancillary impact has been to constrain recreational marijuana vendors use of the banking system thereby resulting in a substantially cash-driven economic model.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget is $4.6 million and includes 15 positions (14.25 FTE). The adopted budget establishes the Marijuana Division as a separate program by consolidating marijuana-related expenditures from across the agency into a single program. The budget includes:

- $2.4 million Other Funds and nine positions (8.25 FTE) to consolidate marijuana-related expenditures from across the agency into a single program.
- $1.2 million for one-time funding to continue the construction of space on the first floor of DOR's Salem headquarters for the processing of cash receipts, many of which come from the Marijuana Tax. Total construction costs will be $1.33 million, of which $1 million will be expended during the 2017-19 biennium.
- $873,305 Other Funds expenditure imitation and five permanent full-time Accounting Tech 2 positions (5.00 FTE) and one permanent, full-time Safety Specialist position (1.00 FTE) approved by the Emergency Board in May 2016.
- $164,000 Other Funds expenditure limitation for the agency to increase the security of the cash handling facility.

**Multistate Tax Commission**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 269,933 | 284,945 | 295,488 | 295,488 |
| **Total Funds** | **$269,933** | **$284,945** | **$295,488** | **$295,488** |

Program Description
Through DOR, Oregon is a compact member of the Multistate Tax Commission (MTC), which has 17 dues-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 2017-19 legislatively adopted budget of $295,488 is $10,543 (or 3.7%) more than the 2015-17 legislatively approved budget. There are no positions budgeted under this program.

**Non-Profit Housing Program (formerly the Elderly Rental Assistance and Nonprofit Housing)**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 4,998,682 | 5,672,000 | 4,326,364 | 3,226,364 |
| **Total Funds** | **$4,998,682** | **$5,672,000** | **$4,326,364** | **$3,226,364** |

Program Description
This property tax relief program includes the Nonprofit Housing program (NPH), which is a state funded property tax exemption. 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.

Formerly, this program area was also comprised of the Elderly Rental Assistance program (ERA); however, in 2015 the Legislature transferred the ERA program from DOR to the Housing and Community Services Department beginning with the 2017-19 biennium. This transfer was in the amount of $1.5 million General Fund. 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.

Revenue Sources and Relationships
A General Fund appropriation funds the NPH program.

Budget Environment
There are approximately 42 (2016-17) exempt NPH dwellings in 14 counties that DOR makes an average payment to the counties of $39,391 per dwelling in each property tax year.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $3.2 million is $2.5 million (or 43.1%) less than the 2015-17 legislatively approved budget. The adopted budget fully funds the NPH program, 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. The budget includes:

- $1.1 million General Fund reduction on a one-time basis. This reduction aligns the program budget with forecasted expenditures.

**Senior Citizens' and Disabled Citizens' Property Tax Deferral**

| | **2013-15 Actual*** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---|---|---|---|
| General Fund | -- | 22,460 | -- | -- |
| Other Funds | -- | 31,614,744 | 32,555,825 | 32,565,367 |
| **Total Funds** | **--** | **$31,637,204** | **$32,555,825** | **$32,565,367** |
| Positions | -- | 15 | 13 | 9 |
| FTE | -- | 10.00 | 8.40 | 8.50 |

*2013-15 actual expenditures under the Property Tax Division program, where this program was formerly budgeted.

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
The Division's budget is supported by Other Funds 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 $15 million in property tax payments each year and receives an estimated $21 million in repayments. Due to past legislative action and a recovering housing market, the liquidity of the program has improved substantially.

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 DOR was able to repay the $19 million loan on time.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget of $32.6 million is $928,163 (or 2.9%) more than the 2015-17 legislatively approved budget and includes 9 positions (8.50 FTE). The budget includes:

- $368,735 Other Funds limitation and 2.10 FTE approved by the Emergency Board in September 2016.
- $322,274 Other Funds reduction and four positions (2.00 FTE) to eliminate vacant positions and the associated services and supplies.

### Core System(s) Replacement

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 2,274,071 | 4,740,936 | -- | 1,060,000 |
| Other Funds | 18,724,630 | 29,782,956 | -- | 11,130,529 |
| **Total Funds** | **$20,998,701** | **$34,523,892** | **--** | **$12,190,529** |
| Positions | 32 | 34 | -- | 32 |
| FTE | 31.67 | 33.92 | -- | 8.00 |

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 four sources: bond proceeds that were authorized and issued in the prior biennium but remained unexpended, newly authorized Article XI-Q bond financing, recreational marijuana tax, and transportation taxes. 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 $60.4 million and is to be funded with General Fund, Article XI-Q bonds, marijuana tax, and transportation taxes. 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 in the fall of 2014 and included the corporate, cigarette, and tobacco tax programs. During the 2015-17 biennium, phase-II of the project was implemented in the fall of 2015 and included personal income tax, emergency telecommunications tax, self-employment transit tax, senior and disabled deferral program, and estate tax. Phase-III was implemented in the fall of 2016 and included the withholding taxes, transit payroll tax, Other Agency Accounts (i.e., collections), recreational marijuana tax, and various small programs. Enhanced fraud detection services were also implemented last biennium, but whose functionality and cost are enhancements to, rather than integral parts of, the GENTAX product. 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 Property Valuation System (PVS) project is also budgeted under this program. PVS 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. Continued funding for the PVS project was not approved due to issues with the project, including schedule delays, scope changes, and significant estimated cost increases.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $12.2 million is $22.3 million (or 64.7%) less than the 2015-17 legislatively approved budget and includes 32 positions (8.00 FTE). The budget includes:
- $11.2 million Other Funds (Article XI-Q bonding; cash carryforward from previously issued bonds; marijuana tax proceeds; and transportation-related taxes) and 32 limited duration positons (8.00 FTE) for the final phase of the Core [tax] Systems Replacement project.
- $1.1 million for vendor contract maintenance costs and non-bondable expenditures.

## Capital Debt Service and Related Costs

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 1,321,412 | 11,783,683 | 22,481,445 | 14,425,618 |
| Other Funds | 169,999 | 455,030 | 471,835 | 1,258,213 |
| **Total Funds** | **$1,491,411** | **$12,283,713** | **$22,953,280** | **$15,683,831** |

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 2017-19 legislatively adopted budget of $15.7 million General Fund and $1.3 million Other Funds is $3.4 million (or 3.3%) more than the 2015-17 legislatively approved budget. There are no positions budgeted under this program. The budget includes:

- A fund shift of debt service costs from General Fund to Other Funds decreasing General Fund debt service by $1.2 million and increasing Other Funds debt service limitation by $1.2 million to reflect debt service costs now being allocated via the Department's cost allocation model.
- $796,311 General Fund debt service added for the repayment of the final project cost for the Core Systems Replacement project.
- $471,835 Other Funds eliminated related to the cost of issuance of previously issued bonds.
- $73,056 Other Funds added related to the cost of issuance of newly authorized bonds.

## SECRETARY OF STATE

Analyst: Bender

### Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 8,597,817 | 10,286,479 | 10,082,165 | 10,426,561 |
| Other Funds | 46,081,409 | 56,315,860 | 57,686,035 | 56,998,482 |
| Federal Funds | 2,832,662 | 6,278,282 | 5,194,107 | 4,721,387 |
| **Total Funds** | **$57,511,888** | **$72,880,621** | **$72,962,307** | **$72,146,430** |
| Positions | 200 | 213 | 209 | 213 |
| FTE | 198.61 | 210.96 | 208.89 | 212.77 |

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; maintains a centralized voter registration system, 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; provides records management advice and assistance to state and local agencies and publishes the state's administrative rules and the Oregon Blue Book.
- 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 also includes the Executive Office which houses the Secretary and his immediate staff. The Division houses 63 positions, and is the second largest division, after the Audits Division.

Revenue Sources and Relationships

The $10.4 million of General Fund in the 2017-19 biennium legislatively adopted budget finances 14.5% 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 58% of the Elections Division budget ($7.9 million General Fund), and 13% of central administrative expenses in the Administrative Services Division ($2.5 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 $26.7 million in 2017-19, 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 is the Secretary of State's largest, it 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 $6.8 million Other Funds in the 2017-19 biennium. This amount includes approximately $6.3 million for ongoing expenditures, 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 $1.8 million in 2017-19. Charges for use of the State Records Center are projected to total $1.7 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 $82.5 million in the 2017-19 biennium. The legislatively adopted budget transfers $64.2 million of Corporation Division revenue to the General Fund. The $18.3 million remaining is retained by the agency. The retained revenues plus the use of the Division's beginning Other Funds fund balance support the Division's operations ($10 million Other Funds), and provide $9.3 million of Other Funds for the Administrative Services Division (approximately 47% of the Administrative Services Division total budget). The Corporation Division houses 36 positions (approximately 17% of agency staff), and is fully funded by these license and fee revenues.

  In 2009, the Legislature 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 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. Beginning with the 2009-11 biennium, the agency has retained all of these proceeds, absent specific legislation transferring additional amounts to the General Fund.

- 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 2017-19 biennium.

- County payments for the Oregon Centralized Voter Registration (OCVR) system. Counties support a portion of OCVR operating costs. County payments in the 2017-19 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 program will spend Federal Funds revenues already received by the state, and almost all of the agency's Federal Funds expenditures will be for this program. HAVA fund balances are sufficient to support current service level Federal Funds expenditures through the 2017-19 biennium, but are projected to be insufficient to do so after that.

The agency is also budgeted to receive Federal Funds revenues from federal grants. The 2017-19 biennium budget includes $41,559 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 $5.5 million of Federal Funds from previous appropriations of HAVA funds, no further support from the federal government for HAVA-required activities is anticipated.

Legislatively Adopted Budget

The Secretary of State's total funds budget of $72.1 million is a $0.7 million (or 1%) decrease from the 2015-17 legislatively approved budget, and is 1.1% below the current service level. This reduction largely reflects the phase-out of one-time expenditures included in the prior-biennium budget. Although a portion of these phase-outs were restored in approved policy option packages, the phase-outs initially totaled over $3.7 million. The budget includes 213 positions (212.71 FTE), a 0.9% increase over the 2015-17 biennium level. General Fund support of $10.4 million represents a 1.4% increase over the prior biennium.

The budget includes four agency-specific adjustments affecting General Fund support levels:

- $706,000 General Fund for county costs associated with expanded voter registration rolls generated by the Motor Voter program. Funding is essentially unchanged from the prior-biennium level.
- $500,000 General Fund and continuation of two full-time positions (2.00 FTE) in the agency's Information Systems Division, to support IT infrastructure security and application development and enhancements for the Elections Division. The positions were approved on a limited duration basis in the prior biennium. The

budget restores these positions and makes them permanent. This action reflects a decision to retain operation of the agency's major Elections Division systems in-house.

- $83,000 General Fund, for ongoing costs of the new Election Night Reporting system installed in 2016.
- A $250,000 General Fund reduction, in support for services and supplies, to help balance the statewide General Fund budget within the level of available resources.

Principal Other Funds adjustments in the Secretary of State budget include:

- $250,000 Other Funds for three new IT security systems and a security assessment of the agency's IT infrastructure and applications.
- $240,000 Other Funds for increased credit card merchant fees.
- $201,429 Other Funds and one position (1.00 FTE), to establish a new position in the Executive Office for policy development and analysis.
- $157,718 Other Funds and one position (0.88 FTE), for implementation of HB 2191, which authorizes enforcement of corporation registration laws.
- $90,000 Other Funds for acquisition and implementation of the OregonBuys eProcurement System.
- $50,000 Other Funds to continue publication of a printed version of the Oregon Blue Book.

Finally, in the 2015-17 biennium, the budget transferred $6.2 million of Corporation Division revenues to the General Fund, in addition to revenues that are already transferred by statute. That increased total Corporation Division revenue transfers to the General Fund to a total of $61.6 million in 2015-17. No such additional transfer is included in the 2017-19 biennium budget, nonetheless, Corporate Division transfers to the General Fund are projected to total $64.2 million in 2017-19.

## Administrative Services Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 1,968,306 | 1,834,002 | 2,427,469 | 2,536,161 |
| Other Funds | 14,556,213 | 17,107,567 | 17,725,903 | 17,336,799 |
| **Total Funds** | **$16,524,519** | **$18,941,569** | **$20,153,372** | **$19,872,960** |
| Positions | 54 | 62 | 60 | 63 |
| FTE | 53.61 | 61.37 | 59.89 | 62.89 |

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 63 positions funded in the 2017-19 legislatively adopted budget are apportioned to the four areas as follows: Executive Office – 7 positions; Business Services Division – 15 positions; Information Systems Division – 38 positions; Human Resources Division – 3 positions.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is a $931,391 (or 4.9%) increase over the prior biennium level, but is 1.4% below the current service level (CSL). General Fund is increased by 38.3% over the prior biennium and is 4.5% above the current service level. The magnitude of the increase is affected by the reversal of a one-time fund shift that was included in the prior biennium budget, and that does not therefore increase total expenditures. Three full-time positions were added, including the continuation of two positions that were established as limited duration in the 2015-17 budget but that are now continued with permanent status, plus the addition of one new full-time policy development and analysis position in the Executive Office.

Enhancements and reductions to the Administrative Services Division budget include:

- $500,000 General Fund and continuation of two full-time positions (2.00 FTE) in the agency's Information Systems Division, to support IT infrastructure security and application development and enhancements for the Elections Division. The positions were approved on a limited duration basis in the prior biennium. The budget restores these positions and makes them permanent, reflecting the decision to retain operation of the agency's major Elections Division systems in-house.
- $83,000 General Fund, for ongoing costs of the new Election Night Reporting system installed in 2016.
- $250,000 Other Funds for three new IT security systems and a security assessment of the agency's IT infrastructure and applications.
- $201,429 Other Funds and one position (1.00 FTE), to establish a new position in the Executive Office for policy development and analysis.
- $90,000 Other Funds for acquisition and implementation of the OregonBuys eProcurement System.
- $19,621 Other Funds to fund the reclassification of six positions in the Division.
- $347,900 General Fund and $624,000 Other Funds reductions, to correct errors in the current service level budget that had erroneously continued funding for prior-biennium projects that had been completed. These projects were the installation of the Election Night Reporting system, and Oregon Business Registry enhancements, respectively.
- $126,408 General Fund and $326,154 Other Funds reductions, for the Administrative Services Division portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

## Elections Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 6,629,511 | 8,452,477 | 7,654,696 | 7,890,400 |
| Other Funds | 103,104 | 1,145,922 | 1,178,167 | 1,136,554 |
| Federal Funds | 2,698,979 | 6,238,282 | 5,152,548 | 4,679,828 |
| **Total Funds** | **$9,431,594** | **$15,836,681** | **$13,985,411** | **$13,706,782** |
| Positions | 20 | 22 | 20 | 20 |
| FTE | 20.00 | 20.75 | 20.00 | 20.00 |

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 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 2017-19 legislatively adopted budget for the Elections Division is a 13.4% decrease from the prior biennium level, and is 2% below the current service level. Most of the decrease reflects the phase-out of funding provided in the prior biennium for payments to counties and the Elections Division to offset its costs of the Motor Voter program, and the phase-outs of a one-time upgrade for the Oregon Election System for Tracking and Reporting (ORESTAR) system and of the Federal Voting Assistance Program. ORESTAR is an in-house system maintained by the Secretary of State.

General Fund in the budget is reduced 6.6% from the prior biennium level, but is 3.1% above the current service level. Enhancements and reductions to the Elections Division budget include:

- $706,000 General Fund was added for county costs associated with expanded voter registration rolls generated by the Motor Voter program. Funding is essentially unchanged from the prior-biennium level.
- A $250,000 General Fund reduction, in funding for services and supplies, to help balance the statewide General Fund budget within the level of available resources.
- $220,296 General Fund, $39 Other Funds, and $472,720 Federal Funds reductions, for the Election Division portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

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 $5.5 million of Federal Funds from prior-biennia appropriations of HAVA funds, no additional funding from the federal government is anticipated for these programs. HAVA fund balances are sufficient to support current service level Federal Funds expenditures through the 2017-19 biennium, but are projected to be insufficient to do so after that.

## Audits Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 16,632,212 | 20,744,494 | 21,468,989 | 21,019,632 |
| **Total Funds** | **$16,632,212** | **$20,744,494** | **$21,468,989** | **$21,019,632** |
| Positions | 70 | 72 | 72 | 72 |
| FTE | 70.00 | 71.84 | 72.00 | 72.00 |

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 $26.7 million in the 2017-19 biennium, a 6% increase over the prior biennium level. The Division will transfer $5.9 million of these revenues to the Administrative Services Division to support central administrative functions, and retain $20.8 million to operate the Audits Division.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the Audits Division is a 1.3% increase over the prior biennium level, but is 2.1% below the current service level. The budget includes one reduction:

- $449,357 Other Funds, for the Audits Division portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

**Archives Division**

| | **2013-15 Actual** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---|---|---|---|
| Other Funds | 6,696,576 | 7,779,890 | 7,534,077 | 7,480,428 |
| Federal Funds | 133,683 | 40,000 | 41,559 | 41,559 |
| **Total Funds** | **$6,830,259** | **$7,819,890** | **$7,575,636** | **$7,521,987** |
| 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 2017-19 legislatively adopted budget for the Archives Division is a 3.8% reduction from the prior biennium level, and is 0.7% below 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 is based on full-time equivalent positions and will generate $6.8 million Other Funds in the 2017-19 biennium. This amount includes approximately $6.3 million for ongoing expenditures, plus $500,000 in one-time assessments initially extended to finance new shelving in the Archives Building. The shelving project was not approved, but assessments were not reduced. The Archives Division will therefore collect and hold the $500,000 it receives. Of this total, $50,000 is redirected to pay for printed copies of the Oregon Blue Book. The remaining $450,000 will then be on hand to address the shelving project, if that project is still needed. The project could then be funded with only a minimal assessment levied in 2019-21.

Enhancements and reductions to the Archives Division budget include:

- $50,000 Other Funds to continue publication of a printed version of the Oregon Blue Book.
- $103,649 Other Funds reduction, for the Archives Division portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on

expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

### Corporation Division

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 8,093,304 | 9,537,987 | 9,778,899 | 10,025,069 |
| **Total Funds** | **$8,093,304** | **$9,537,987** | **$9,778,899** | **$10,025,069** |
| Positions | 34 | 35 | 35 | 36 |
| FTE | 33.00 | 35.00 | 35.00 | 35.88 |

<u>Program Description</u>
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.

<u>Legislatively Adopted Budget</u>
The 2017-19 legislatively adopted budget for the Corporation Division is a 5.1% increase over the prior biennium level, and represents a 2.5% increase over the current service level. The budget establishes one new position, resulting in a 2.5% 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. Revenues from these sources are projected to total $82.5 million in the 2017-19 biennium. The legislatively adopted budget transfers $64.2 million of Corporation Division revenue to the General Fund.

The remaining $18.3 million of Other Funds revenues are retained by the agency. The retained revenues plus the use of the Division's beginning Other Funds fund balance support the transfer of $9.3 million of Other Funds to the Administrative Services Division (funding approximately 47% of the Administrative Services Division total budget), plus the Corporation Division's own $10 million Other Funds operating budget.

The budget for the Division includes the following enhancements and reductions:
- $240,000 Other Funds is added for increased credit card merchant fees. This doubles expenditures in the budget for credit card merchant fees to $480,000.
- $157,718 Other Funds, and one position (0.88 FTE), are added for implementation of HB 2191. This bill authorizes the Secretary of State to order a corporation or limited liability company to submit specified information, and to share this information with law enforcement. It provides other authorities to the Secretary of State and the Department of Revenue regarding businesses failing to comply with specified laws and orders. It specifies liability for damages in certain circumstances and establishes prohibitions and requirements to prevent fraud.
- $103,649 Other Funds reduction, for the Corporation Division portion of standard statewide adjustments made as cost containment measures. These include reductions to standard inflation adjustments, reductions based on expectations regarding hiring practices and the filling of vacant positions, and reductions in the assessments and charges of the Department of Administrative Services and the Department of Justice.

# STATE TREASURER

Analyst: Borden

## Agency Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | 1,167,988 | 2,043,089 | 3,490,552 |
| Other Funds | 44,521,998 | 62,192,111 | 65,851,074 | 80,418,025 |
| **Total Funds** | **$44,521,998** | **$63,880,099** | **$67,894,163** | **$83,908,577** |
| Positions | 95 | 123 | 121 | 160 |
| FTE | 90.33 | 117.45 | 119.60 | 150.09 |

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 statutorily-designated investment officer of the state and for the Oregon Investment Council (OIC), which is responsible for establishing the state’s investment policy. Statute also 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. By legislative decision, 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 $81 million. The agency’s 2017-19 beginning cash balance is $11 million and its estimated ending cash balance is equal to $12 million, which equates to four 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.

Budget Environment

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 approximately $70 billion Oregon Public Employees Retirement Fund (OPERF). 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 7.2% 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 included 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. In response, the Legislature has significantly increased the staffing and resources devoted to the investment program in order to address 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.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget is $83.9 million total funds, which includes $3.5 million General Fund and $80.4 million Other Funds. The budget is a $20 million (or 31%) increase from the 2015-17 legislatively approved budget. The adopted budget includes 160 positions and 150.09 FTE, which is an increase of 37 positions (or 30%).

The Legislature continued, for the second consecutive biennium, an investment in the level of resources dedicated to the Investment Division, which for this budget is an increase of $11.2 million and 35 positions. A budget note directs the Treasurer to report to the Legislature in 2019 with a feasibility study supporting continued investment in this Division.

The Legislature also approved additional funding for the continued modernization of the state's cash management infrastructure ($2.3 million Other Funds) and provided enhanced funding for information security ($2 million Other Funds). In addition, for the second biennium in a row, General Fund was appropriated to fund start-up costs associated with the Oregon 529 Savings Network – Achieving a Better Life program (ABLE) and the Oregon Retirement Savings Board (ORSB). These are loans from the General Fund to be repaid with future program fees. ABLE received an additional $409,247 for a total General Fund budget of $1.3 million and the ORSB received an additional $1 million for a total budget of $2.2 million General Fund. The ABLE program also received $700,000 Other Funds expenditure limitation to provide marketing and outreach activities for a contract with the State of Washington ABLE program.

There were also statewide adjustments based on reductions in Department of Administrative Services assessments and charges for services, Attorney General rates, certain services and supplies, and additional vacancy savings expected as a result of a hiring slowdown.

**Treasury Services**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| Other Funds | 40,092,275 | 56,831,497 | 60,172,614 | 74,049,584 |
| **Total Funds** | **$40,092,275** | **$56,831,497** | **$60,172,614** | **$74,049,584** |
| Positions | 92 | 116 | 114 | 151 |
| FTE | 87.91 | 112.30 | 113.10 | 114.25 |

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 to 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.
- A measure in 2015 (HB 2748) to transfer 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 this activity.
- 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 $553.7 million, or $1.1 billion on a biennial basis, based on fiscal year 2016.

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 $75.6 million in the 2017-19 biennium.

Investment Management fees are estimated to generate $44.2 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 $20.4 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 $15.5 billion, as of June 30, 2017. 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 0.435 of a basis point (0.00435%).

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 $111.9 million as of June 30, 2017. The Pool began on June 30, 2010. OST may deduct monthly 0.435 of a 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 its behalf. Local government investment pool participants are also charged for LGIP banking services in a similar manner. Banking fee revenues are estimated to be $5.4 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 $582,601 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. The Legislature has continued investing in the upgrading and modernization of the agency's cash management applications.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $74.1 million is $17.1 million (or 30.3%) more than the 2015-17 legislatively approved budget and includes 151 positions (114.25 FTE). The budget includes select employee performance-based compensation. The budget includes the following:

- $10 million Other Funds for 32 permanent, full-time positions (23.81 FTE) to continue to address deficiencies within the Investment Division and general administration of the agency.
- $1.2 million Other Funds and one permanent full-time Fiscal Analyst 3 (1.00 FTE) to serve as the agency's Budget Officer; one permanent, full-time Principal Executive Manager I (0.92 FTE) to serve as the agency's Chief Operating Officer; and one permanent full-time Investment Officer 2 for unspecified Investment Management Program purposes (0.92 FTE).
- $2 million Other Funds and one permanent full-time Information Systems Specialist 7 for Security Operations (0.50 FTE) and one permanent, full-time Information Systems Specialist 8 for a Senior Security Analyst (1.00 FTE) for additional resources for the agency's Information Security Program and Cyber Security resources.
- $1.3 million Other Funds for the Local Government Investment Pool Business Systems Renewal project, which seeks to modernize how local governments transact and make account inquiries on short-term investments
- $600,000 Other Funds for the Automated Clearing House Business Systems Renewal (ACH BSR) project, which seeks to modernize how state agencies transact ACH payments.
- $375,000 Other Funds for the Core BSR project, which seeks to modernize the systems and applications at the heart of OST's cash management technological infrastructure.

## Oregon 529 Savings Network

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | 675,491 | 893,531 | 1,302,778 |
| Other Funds | 4,429,723 | 5,360,614 | 5,678,460 | 6,368,441 |
| **Total Funds** | **$4,429,723** | **$6,036,105** | **$5,678,460** | **$7,671,219** |
| Positions | 3 | 5 | 5 | 5 |
| FTE | 2.42 | 3.75 | 5.00 | 5.00 |

Program Description
The Legislature enacted SB 777 (2015), 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 $5.6 million.

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 179,708 accounts, 174,249 unique beneficiaries, with a total value of $2.8 billion, of which $992.5 million (or 35%) is held for out-of-state participants. The state plan (direct-sold) had 97,986 accounts (total assets of $1.6 billion), and the plan sold through private financial advisors had 81,722, accounts (total assets of $1.3 billion), as June 30, 2017. The participation rate of Oregon residents 25 years and younger is 9.5%, as of June 30, 2016.

Legislatively Adopted Budget

The legislatively adopted budget totals $7.7 million and includes $1.3 million General Fund, $6.4 million Other Funds, and five positions (5.00 FTE). This is $1.6 million (or 27.1%) more than the 2015-17 legislatively approved budget. The budget includes the following:

- $433,966 General Fund to restore the program to current service level and to fully fund the program's operations. This was approved as a one-time adjustment with the loan from the General Fund to be repaid by the program.
- $700,000 Other Funds for the Oregon ABLE program to provide marketing and outreach activities for a contract with the State of Washington for the establishment of that state's ABLE program.

## Oregon Retirement Savings Board

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | 1,012,497 | 1,149,558 | 2,187,774 |
| **Total Funds** | **--** | **$1,012,497** | **$1,149,558** | **$2,187,774** |
| Positions | -- | 2 | 2 | 4 |
| FTE | -- | 1.50 | 1.50 | 3.84 |

Program Description

The Oregon Retirement Savings Board (ORSB) is a new program created by HB 2960 during the 2015 session. (The program is in the process of rebranding itself as the "OregonSaves" program.) 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 had to 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.

The ORSB has determined that employee contributions will be to ROTH individual retirement accounts on a post-tax basis. 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 State of Oregon will not be responsible for transferring or holding in trust any employee's contribution or account. The revenue impact of ROTH accounts (i.e., tax expenditure) is at this time indeterminate.

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. The program officially launched on July 1, 2017 with the first of two pilot programs. A phased implementation plan, based on the number of employees an employer has, will roll-out the program through May 2020. Employers with 100 or more employees are scheduled to go first in the implementation schedule and employers with four or fewer employees will go last. The federal legal environment surrounding the program remains uncertain.

Legislatively Adopted Budget

The legislatively adopted budget totals $2.2 million General Fund and four positions (3.84 FTE). This is $1.2 million (or 116%) more than the 2015-17 legislatively approved budget. The budget includes the following adjustments, which were approved as a one-time adjustments with loans from the General Fund to be repaid by the program:

- $696,470 General Fund to restore the current service level funding for the program.
- $1.2 million General Fund and three permanent full-time positons (2.84 FTE) for additional implementation work. The positons are: one permanent full-time Operations and Policy Analyst 4 to serve as a Public Engagement Manager (1.00 FTE); one permanent full-time Operations and Policy Analyst 3 to serve as a Compliance Manager (0.92 FTE); and one permanent full-time Executive Support Specialist 1 (0.92 FTE). Also included was the abolishment of one permanent part-time Program Analyst 1 position, a long-term vacant position (0.50 FTE).

# LEGISLATIVE BRANCH

## LEGISLATIVE BRANCH

Analyst: McHugh

### Branch Totals

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 83,704,010 | 104,292,320 | 111,627,766 | 110,315,599 |
| Other Funds | 40,321,797 | 40,808,339 | 8,423,833 | 23,170,692 |
| Other Funds (NL) | 15,053,864 | 6,144,370 | 1,061,091 | 1,061,091 |
| **Total Funds** | **$139,079,671** | **$151,245,029** | **$121,112,690** | **$134,547,382** |
| 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 five 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; 4) the Legislative Policy and Research Office; and 5) the Legislative Revenue Office.

The 2017-19 adopted budget for the Legislative Branch is $6,023,279 General Fund (or 5.8%) more than the 2015-17 legislatively approved budget. Total funds are $16,697,647 (or 11%) less than the 2015-17 legislatively approved budget. The main reason for the Other Funds decrease is the elimination of Other Funds related to capital projects for the Capitol building.

The General Fund budget for the Branch is less than the 2017-19 current service level due to reductions to each of the agencies to account for anticipated reversions totaling $13.6 million. The Legislative Branch is allowed to keep any unspent General Fund.

### Legislative Assembly

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 36,056,735 | 43,821,552 | 46,348,363 | 40,368,569 |
| Other Funds | 62,126 | 223,530 | 26,570 | 26,570 |
| Other Funds (NL) | 88,971 | 106,360 | 115,520 | 115,520 |
| **Total Funds** | **$36,207,832** | **$44,151,442** | **$46,490,453** | **$40,510,659** |
| 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 over 99% of the Legislative Assembly's activities. Other Funds revenue subject to expenditure limitation comes from reimbursements for duplicating services. The Other Funds Nonlimited 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 2017-19 adopted budget for the Legislative Assembly is $3,452,983 General Fund (or 7.9%) less than the 2015-17 legislatively approved budget level. Total funds are $3,640,783 (or 8.2%) less than the 2015-17 legislatively approved budget.

The Assembly budget was reduced by $4.7 million in General Fund reversions, which was only slightly offset by an increase of $24,600 for office and building equipment needs. Other changes were due to statewide budget reductions included in the final budget.

## Legislative Administration Committee

| | **2013-15 Actual** | **2015-17 Legislatively Approved** | **2017-19 Current Service Level** | **2017-19 Legislatively Adopted** |
|---|---|---|---|---|
| General Fund | 31,561,859 | 41,066,927 | 33,925,779 | 40,873,948 |
| Other Funds | 36,469,633 | 35,495,025 | 2,972,132 | 17,902,565 |
| Other Funds (NL) | 9,758,752 | 5,511,874 | 390,658 | 390,658 |
| **Total Funds** | **$77,790,244** | **$82,073,826** | **$37,288,569** | **$59,167,171** |
| Positions | 143 | 142 | 85 | 86 |
| FTE | 100.86 | 100.65 | 71.16 | 72.16 |

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) support services for legislators and their staff; 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 the majority of LAC's ongoing 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. The variability in the Other Funds budget over the last three biennia is largely due to changes in funding based on Capitol Building project plans and schedules.

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 legislators and 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 2017-19 adopted budget for the Legislative Administration Committee is $192,979 General Fund (or 0.5%) less than the 2015-17 legislatively approved budget. Total funds are $22,906,655 (or 27.9%) less than the 2015-17 approved budget. Most of the decrease can be attributed to a reduction in funds for Capitol building project costs, anticipated reversions of $6.65 million General Fund, and reductions due to statewide actions to balance the budget.

The LAC budget includes additional funds for the following:

- $2.5 million General Fund for additional Department of State Police trooper support.
- Carry forward of $6 million General Fund for the Capitol Accessibility, Maintenance, and Safety project.
- A total of $323,000 for Continuation of Operations Planning and to begin planning for closed captioning in the Capitol.
- $975,000 General Fund for Phase II of the Disaster Recovery project.
- $342,000 Other Funds for anticipated lease revenue.

The budget also includes some funding and authorization for several personnel actions and to make necessary technical adjustments.

## Legislative Counsel

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 9,505,417 | 11,580,183 | 12,745,700 | 12,552,965 |
| Other Funds | 1,119,499 | 1,552,105 | 1,638,291 | 1,579,137 |
| Other Funds (NL) | 5,206,141 | 526,136 | 554,913 | 554,913 |
| **Total Funds** | **$15,831,057** | **$13,658,424** | **$14,938,904** | **$14,687,015** |
| Positions | 57 | 55 | 57 | 58 |
| FTE | 45.28 | 45.60 | 47.60 | 50.84 |

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 85% 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 2017-19 adopted budget for Legislative Counsel is $972,782 General Fund (or 8.4%) more than the 2015-17 legislatively approved budget. Total funds are $1,028,591 (or 7.5%) more than the 2015-17 approved budget. The LAC budget includes additional funds for the following:

- $333,682 General Fund for two positions to work on public records.
- $306,337 General Fund for an additional support position and to make other necessary position adjustments.

The budget did account for anticipated reversions of $600,000 General Fund and reductions related to statewide actions to balance the budget.

## Legislative Fiscal Office

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 3,633,365 | 4,576,706 | 4,989,962 | 4,117,795 |
| Other Funds | 2,668,851 | 3,530,895 | 3,779,805 | 3,655,385 |
| **Total Funds** | **$6,302,216** | **$8,107,601** | **$8,769,767** | **$7,773,180** |
| Positions | 21 | 21 | 22 | 22 |
| FTE | 20.50 | 21.00 | 22.00 | 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 reports on the status of all liquidated and delinquent accounts, as well as agency efforts to collect on such accounts.

Revenue Sources and Relationships
The Legislative Fiscal Office 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 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 are the primary drivers 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 any special sessions necessary to rebalance the statewide budget; the number and complexity of requests to the interim Joint Committee on Ways and Means and to the Emergency Board; 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 2017-19 adopted budget for the Legislative Fiscal Office is $258,911 General Fund (or 10%) less than the 2015-17 legislatively approved budget and $334,421 total funds (or 4.1%) less than the 2013-15 legislatively approved budget. As mentioned above, Other Funds now account for 47% of the agency's budget.

The LFO budget includes $61,416 General Fund for necessary adjustments to existing positions.

The budget did account for anticipated reversions of $750,000 General Fund and reductions related to statewide actions to balance the budget.

## Legislative Policy and Research Office

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | -- | 9,792,462 | 8,847,088 |
| **Total Funds** | **--** | **--** | **$9,792,462** | **$8,847,088** |
| Positions | -- | -- | 61 | 61 |
| FTE | -- | -- | 41.29 | 41.29 |

Program Description
The Legislative Policy and Research Office (LPRO) was created by the Legislative Assembly in SB 1569 (2016) and provides centralized, professional, and nonpartisan research; issue analysis; and committee management services for the Legislature.

Revenue Sources and Relationships
The Legislative Policy and Research Office is completely supported by General Fund.

Budget Environment
As with other committee staffs, the number of bill introductions, amendments, and legislative hearings creates the workload for the agency during regular and special sessions. The number of committees, task forces, and workgroup meetings, as well as research and analysis projects, determines the interim workload for LPRO.

Legislatively Adopted Budget
The 2017-19 adopted budget for the Legislative Policy and Research Office is $945,374 General Fund (or 9.7%) less than the 2017-19 current service level. LPRO did not exist in prior biennia so there are no other budgetary comparisons.

The LPRO budget did not include any additional resources for the 2017-19 biennium, but did account for anticipated reversions of $900,000 General Fund and reductions related to statewide actions to balance the budget.

## Legislative Revenue Office

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 2,555,506 | 2,738,657 | 3,286,432 | 3,017,916 |
| **Total Funds** | **$2,555,506** | **$2,738,657** | **$3,286,432** | **$3,017,916** |
| 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 2017-19 adopted budget for the Legislative Revenue Office is $279,259 General Fund (or 10.2%) more than the 2015-17 legislatively approved budget.

The LRO budget includes a technical adjustment that removes $250,000 General Fund related to one-time revenue that was inadvertently left in the budget. In addition, the budget did account for reductions related to statewide actions to balance the budget.

### Commission on Indian Services

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | 391,128 | 508,295 | 539,068 | 537,318 |
| Other Funds | 1,688 | 6,784 | 7,035 | 7,035 |
| **Total Funds** | **$392,816** | **$515,079** | **$546,103** | **$544,353** |
| 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 2017-19 adopted budget for the Commission on Indian Services is $29,023 General Fund (or 5.7%) more than the 2015-17 legislatively approved budget. Total funds are $29,274 (or 5.7%) more than the 2015-17 legislatively approved budget.

The Commission's budget does include reductions related to statewide actions to balance the budget.

# EMERGENCY BOARD

## EMERGENCY BOARD

Analyst: Rocco

**Totals**

| | 2013-15 Actual | 2015-17 Legislatively Approved | 2017-19 Current Service Level | 2017-19 Legislatively Adopted |
|---|---|---|---|---|
| General Fund | -- | -- | 36,000,000 | 178,822,118 |
| **Total Funds** | **--** | **--** | **$36,000,000** | **$178,822,118** |

Overview

The Oregon Constitution authorizes the Legislature to establish a joint committee, known as the Emergency Board, to exercise certain powers during the interim between sessions of the Legislative Assembly. These powers include allocating funds appropriated by the Legislature for emergencies, increasing expenditure limitations on continuously appropriated agency funds, establishing or revising budgets for new activities, and authorizing transfers within agency budgets. The Emergency Fund consists of monies appropriated to the Emergency Board for general purposes and special purpose appropriations made to the Emergency Board for specified uses in specified agencies.

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)**

| | 2013-15 Adopted | 2013-15 End of Biennium | 2015-17 Adopted | 2015-17 End of Biennium | 2017-19 Adopted |
|---|---|---|---|---|---|
| General Purpose | 30.0 | - | 30.0 | - | 50.0 |
| Salary and Benefit Adjustment | 99.4 | - | 130.7 | - | 110.0 |
| Special Purpose Appropriations | 25.7 | - | 85.2 | - | 18.8 |
| **Total Emergency Fund** | **$155.1** | **-** | **$245.9** | **-** | **$178.8** |
| Remaining Balance | | $43.7 | | $28.3 | |

Typically, in recent history, resources have been set aside for salary and compensation changes of state employees to be distributed either in the even-year session or by the Emergency Board's first meeting following the even-year session. This has been the practice since the full effect of the collective bargaining agreements are generally not known until several months following the conclusion of the odd-year session. In addition, the Emergency Board has typically not met during the first, shorter interim and starts meeting on a quarterly basis following the even-year session.

Depending on economic conditions, during the even-year session, the Legislature has recently either supplemented the legislatively adopted general purpose Emergency Fund, distributed existing special purpose appropriations to the identified agencies, or created new special purpose appropriations for the balance of the biennial period. It is also often the case that during the odd-year session, the Legislature disappropriates any remaining funds in the previous biennium's Emergency Fund as resources used toward a rebalancing of that biennium's budget. This generally occurs in the first two months of the longer odd-year session. For example, the $28.3 million remaining in the Emergency Fund from the 2015-17 biennium was disappropriated and used to rebalance the 2015-17 budget in SB 5508 which was signed into law on March 28, 2017.

Budget Environment

The size of the general purpose Emergency Fund had not expanded over the past several biennia proportionately with the growth in the General Fund budget. Unused special purpose appropriations have augmented the general purpose Emergency Fund. In the 2017-19 legislatively adopted budget, however, due to concerns over potential higher than normal wildfire fighting costs and the uncertainty around certain federal funding streams, a larger general purpose appropriation for emergency purposes was included; the typical general purpose appropriation over the past several biennia has been $30 million, but for 2017-19 the adopted budget includes $50 million.

For historical reference, the actual cost of implemented salary and benefit increases has 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. 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. For the 2013-15, 2015-17, and 2017-19 biennial budgets, the Legislature included special purpose appropriations to cover the vast majority of the costs of compensation and benefit adjustments ($99.4 million, $130.7 million, and $110 million, respectively). Final costs for the 2017-19 collective bargaining agreements and compensation plan changes for management and unrepresented state employees have not yet been finalized.

Legislatively Adopted Budget

The 2017-19 legislatively adopted budget for the Emergency Board includes a $50 million general purpose appropriation, plus special purpose appropriations totaling $128.8 million as follows:

- $100 million for state employee compensation changes
- $10 million for non-state employee compensation changes
- $7.9 million for costs associated with grand jury recordings established by SB 505
- $6 million for the Department of Forestry for fire protection expenses
- $3.97 million for second fiscal year funding of the Chief Education Office
- $750,000 for the Department of Human Services for Foster Parent Supports
- $200,000 for the Long Term Care Ombudsman for the Public Guardian program

If the amounts in the special purpose appropriations are not allocated by the Emergency Board by December 1, 2018, the remaining amounts become available to the Board for any legal use.

Additional information on the authority of the Emergency Board is available at:
www.oregonlegislature.gov/lfo/Documents/2017-2%20Legislative%20Budget%20Authorities.pdf